

A CEO's RELATIONSHIP WITH THE BOARD OF DIRECTORS

by
Sharon M. Dauk

All CEOs would like to have a more productive and effective relationship with their Board of Directors, and even if viewed as a necessary evil, could benefit by better tapping into their Board's expertise. Given the current economic situation, it makes sense to access all the resources you can, especially from your Board, to grow and be more profitable.

In my 20 years as a board member, investor, and advisor, I have seen board members tend to be motivated as much by the opportunity to contribute their expertise to the growth and development of the company, as by financial gain. But, all too often the mechanisms are not in place to help the CEO and the Board realize the benefits of this contribution potential effectively.

I know from experience that the primary responsibility for designing and implementing a program for more effective use of the Board inevitably falls to the CEO. As with any development program looking for a place on the CEO priority list, the time commitment must have positive cost/benefit expectations. A targeted executive coaching program aimed at helping CEO's make more effective use of their Boards could be the answer.

Executive coaching at the CEO and Board levels has become an increasingly essential part of corporate training and development programs. According to former GE CEO Jack Welch, one of the main reasons why CEO coaching is so important is that it provides CEO's with a trusted confidant with no agenda other than the personal and professional development of the CEO. With the many pulls on CEO time and the tendency for CEO's to become isolated in the position, an executive coach provides one of the few independent, unbiased sources of commentary and feedback. CEO coaching programs, however, have tended to focus on areas such as leadership skill development and improved employee communication, but have done little to address the crucial area of CEO/Board interaction. Similarly, Board coaching programs have dealt extensively with issues such as helping Boards work together better as a team, but less so with

what is perhaps the key role of any Board, which is the hiring, monitoring and interaction with the CEO. My program is designed to bring proven coaching techniques to bear on the relationship between the CEO and the Board – to help the CEO make most effective use of the Board.

While developing the right CEO/Board coaching program is obviously impacted by the circumstances and personalities involved, it is also complicated by two external factors – the changing nature of typical Board functions as companies move from early to more mature stages; and the recent evolving legal and regulatory environment affecting the definition of the proper role of Boards at all stages and for all size companies, but most significantly for public company Boards.

In its simplest form, Boards of early stage private companies tend to be comprised of individuals who are trusted colleagues of the entrepreneur and/or have a specific operational expertise in areas important to the growth and development of the company. With funding more likely to be from friends, family and a small group of individual angels, the normal fiduciary oversight function exists, but takes less of a prominent role compared to that of providing expertise and networking on operations, technology, marketing/customers, industry trends, raising capital and other key business areas. As the company grows and looks to a broader investor base, or seeks outside professional capital from organized angel groups or venture capital firms, the fiduciary function of the Board increases in importance. To be sure, the role of the Board in providing strategic guidance and operational assistance continues, and the shareholder base typically remains comprised of sophisticated investors, but the fiduciary concerns and potential conflicts that come with expanded investor participation work their way into the equation; and the nature of the CEO and Board relationship is likely to change.

In a post Enron environment, exacerbated by the complexities of the financial downturn and the increased intervention of government in private business activities, the proper role of Boards, particularly those of larger, mature public companies, has come under far greater scrutiny and debate. A perfect example is the dueling opinions of the role Boards should have played in major financial institutions over the past year from Jack Welch and Carl Icahn in their Newsweek and Washington Post articles published in early 2009. Welch stresses that the primary role of the Board is to hire, monitor and if needed replace the CEO; and should not be held directly accountable for knowing all the details of the esoteric financial instruments that contributed to the crises at the financial institutions. Icahn, on the other hand, believes that the Boards should have known more about the risks and exposures, and blames in part the lack of rigorous oversight of management, or worse, a relationship between the Board and the CEO that is “simply too cozy”. While

the truth probably lies somewhere in the middle, the risk of taking the Icahn approach to its extremes is that it has the potential to push CEO's and Boards towards a relationship that is adversarial, at the expense of the vital Board function of working with the CEO to set the basic strategic course for the company, evaluate CEO performance effectively, and provide valuable inputs to management on major business issues. That might satisfy oversight issues, but could be counterproductive to achieving the strategic goals of the company and maximizing value for shareholders.

Executive coaching programs aimed at helping the CEO make more effective use of the Board can provide benefits regardless of size, industry or stage of the company in its life cycle. Basic objectives for the CEO and the Board include better definition of roles and expectations, improved communications, clear mechanisms for measuring performance and providing feedback, and finding the right templates to ensure proper fiduciary oversight without losing the business judgment and input that could help the company succeed. While the benefits might appear most obvious at times of transition – management change or change in the composition of the Board; change in the corporate organization through restructuring, or significant acquisition or divestiture; financing or change in the ownership structure; revisions of the related legal landscape , or other major corporate event; there can also be great benefit in simply revisiting a Board composition, and the relationship between a CEO and Board that have been in place for a long period of time.

The coaching program to assist CEO's in making more effective use of the Board draws on proven coaching techniques, customized to address the unique relationship between the CEO and the Board. Among the exercises that could be considered are would include many of the standard assessments used in coaching such as Personality Type Assessments, 360 Feedback, Emotional Intelligence assessments, etc.

But the key difference is that the coaching program proscribed here is directed first at the CEO to take the lead in developing a program to most effectively use the Board. The program would then turn to the Board to get their participation and buy in.

My background and experience allows me to see this critical issue from all sides...as a Board Member, and Investor, and a CEO. Having walked in the shoes of each, I believe it imperative to the future success of companies, especially during these unprecedented times, to get the maximum benefit from the Board; it is up to the CEO to make it happen.

Sharon Dauk is President of Sharon Dauk Coaching, LLC, a coaching firm providing solutions to companies and their management teams at times of transition and growth; and a Managing Partner in Dauk/Wagner Investments, LLC an investment and advisory firm whose target is early to mid-stage companies. Sharon is also a partner with Merryck & Co., the international firm specializing in business mentoring for CEO's and business leaders. Sharon combines her 20 years of experience as an investor, board member, financial advisor and business executive with advanced coaching skills obtained through Certification at the PCC Level from Columbia University's Coaching Certification Program. You can learn more at www.sharondauk.com or call her at 203-438-5554.