BOARDS IN CHALLENGING TIMES

THE CHIEF EXECUTIVE'S PERSPECTIVE

A Research Report by

ALVAREZ & MARSAL

When reading Alvarez & Marsal's previous publication: *What Makes an Exceptional Chairman?* the quality and value of their research was immediately evident. As a result, I was pleased to participate in this second publication in their Board Leadership series.

With persisting turbulence and uncertainty in the global economy, the role of leaders in business is more important than ever before, and there is no place for complacency or uncertainty at the board level. The frequency with which leading companies are encountering challenging situations makes it essential that all executive and non-executive board members have a clear picture of how they can add value in these situations and how they can best contribute to the long-term success of their company.

Alvarez & Marsal's research has once again revealed several thought-provoking topics, which I am sure will encourage chief executives, chairmen and board directors to reflect on their own roles and relationships and the way in which their senior management and board interact.

Most strikingly, many of those interviewed identified the relationships at board level, rather than the operational capabilities of board members, as the crucial determinant of "success." Perhaps because of the relative difficulty of quantifying interpersonal skills, they are somewhat neglected when guidelines are drawn up, boards are put together, and executives and non-executives alike are evaluated. In particular, successful relationships are best put in place before the challenging situation arises.

Secondly, there is a very wide spectrum of relationships between chief executives and chairmen. In some cases, the chairman was seen as a trusted colleague, steering decision making for the better. In others it appeared that he had developed a blind faith in his chief executive and removed himself from decision making and, worse still, some chief executives had disdain for the whole board process, regarding the chairman as a barrier to progress rather than adding real value.

Finally, the findings on how governance dynamics of some companies changed when faced with a high pressure situation, with some board members coming to the fore and others taking a less active role compared to their usual responsibilities, are a powerful reminder of the importance of building boards which are effective under stress as well as 'business as usual' conditions.

This report provides an in-depth analysis of the chief executive perspective on the value they gain from their board in challenging times, and how this can be enhanced. Its careful consideration of the evidence gathered from a range of interviewees provides insight into aspects that are often undervalued. For this reason, I believe that it will prove valuable to business leaders in all sectors as they continue to navigate their businesses through these turbulent times.

Sir Peter Gershon
Chairman
National Grid plc

INTRODUCTION

Steering companies through the economic turbulence of the past five years has placed extraordinary pressure on chief executives. Many have taken their organisations to higher levels of performance while others have been replaced by those better equipped for these times. Uncertainty persists in the UK, Eurozone, and the global financial markets which suggests there are many more challenges and opportunities to come.

Chief executives must take ultimate responsibility for responding to particular challenges such as market disruption, transformational change and reputational risk. They must increasingly do so under the glare of media, regulatory and shareholder scrutiny and often with the reputation of the company at stake.

Alvarez & Marsal's own experience of helping companies address complex performance challenges highlights the importance of clear leadership, quick and decisive action, early results and a good fact base. In times of stress, effective relationships and behaviours in the board become critical to success. We wanted to test this perspective with leading chief executives to explore what helped and what hindered them in achieving their aims when working with the board.

This is the second research report in our Board Leadership series. Our 2012 report examined the characteristics of exceptional chairmen in challenging times. This report is focussed on the chief executive's perspective. We interviewed over 30 chief executives to discover how the men and women who lead FTSE 100 and 250 businesses draw value from their board at the times when it should be most needed. They were candid about situations where they felt the board did, and did not, add value, gave us hints on what they find works, and where else they looked to for support.

Through a series of in-depth, one-to-one interviews, our chief executives identified:

- The critical incidents that had tested them and their boards **(section one)**;
- How the board added value or hindered responses to these situations **(section two)**; and finally
- Their practical advice on how to consistently raise the value added by the board **(section three).**

I would like to thank the participating chief executives who have been most generous with their time and in sharing their experiences frankly and openly. We are also grateful for the research and analysis skills of Dr. Henry Marsden and Derek Klyhn of Møller PSF Group based at the Møller Centre, Churchill College, Cambridge. I hope that this insiders' view will provide valuable insight for chief executives looking to enhance the effectiveness of their boards, and for all board directors in considering how their board can best contribute to the long-term success of their business.

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Exceptional chief executives identify, confront and navigate tough situations and opportunities. Sometimes these emerge over a time; others arise unexpectedly at little or no notice. Some are largely self-generated; others can arise from events largely or wholly outside the organisation's direct control. Whilst they have different characteristics, the most effective responses rely on very similar principles.

Our interviewees identified a wide range of critical incidents that tested their mettle and the ability of their board to add value. From the list of incidents cited, six types were identified, which in turn could be placed within three broad categories – Strategy and Performance, Transactions and Reputational Risk.

Most chief executives are likely to encounter one or more of such incidents within the next few years, so when reading this section chief executives are encouraged to reflect on how they think their boards might respond to each of the challenging situations described.

CATEGORY 1. STRATEGY AND PERFORMANCE

This category consists of incidents where chief executives take action in anticipation of, or in response to, fundamental shifts in market conditions or where they need to address major performance issues. Three types of incident emerged.

Fundamental changes to exploit opportunities or to address underperformance

Whether initiated by an established chief executive looking to revitalise an organisation's future or by a new chief executive brought in to effect major change, these incidents often involved significantly revising an organisation's strategy in order to increase shareholder value.

"Revising the strategy entailed making some very tough decisions – the risks for the company and for the chief executive were immense."

Disruptive market changes and events

Examples of market disruption were many and varied and included the advent of new technologies that undermined the organisation's existing business.

"The industry is undergoing huge restructuring and as a result our revenues from traditional sources are declining significantly each year."

Business critical refinancing

The recent global financial crisis posed many challenges and made refinancing immensely difficult for even the best performing companies and many chief executives found themselves in uncharted territory.

"It was a crisis for everyone and it was a very difficult situation. We didn't know what was going to happen in the world."

CATEGORY 2. TRANSACTIONS

The second category relates to transformational transactions, and the potential change an organisation faces as a result of a merger, acquisition, disposal or takeover.

Self-initiated transactions

These transactions fundamentally change a business and include transformational acquisitions, mergers or disposals that would allow chief executives, in their view, to create genuine market advantage in increasingly competitive landscapes.

"The acquisition was strategically transformational and entailed a 'bet the company' risk."

Takeover bids

As well as transactions that they initiated, a number of chief executives found themselves responding to takeover bids, whether friendly or hostile.

"The biggest test of the board was when we received the offer for the business."

CATEGORY 3. REPUTATIONAL RISK

The final category contains events that potentially create a major threat to an organisation's standing with its stakeholders or the public.

Reputational risks

These were events that often hit the headlines and attracted the active interest of shareholders, politicians, regulators and even the wider public. Examples included major accidents, threats to public services, corporate governance issues, allegations of wrongdoing, board level succession planning and executive remuneration.

"The potential damage to the company's reputation was significant."

A TAXONOMY FOR ASSESSING CHALLENGING SCENARIOS

Each of the critical challenges mentioned were characterised along six scales.

1. ORIGIN

Critical incidents were either self-initiated or originated externally.

2. PLANNED

Some were relatively predictable whilst others came out of the blue, in terms of timing, extent or severity.

3. UNIQUENESS

Many were, at the time, unique to the business whereas a large number were also affecting many others, either within their industries or in the wider economic environment.

4. OUTCOME

The objective of a number of critical incidents was to secure 'a pot of gold,' yet in other situations where the business was encountering a 'bet the house' scenario the desired outcome was simply survival.

5. SCOPE

Whilst most of the critical incidents mentioned were strategic in nature, some had their origins in operational issues.

6. VISIBILITY

Some incidents in themselves were only of interest to direct stakeholders, whereas a number were of wider public interest, either within the business world or to the public overall.

The chief executives told us what things made a difference in a board's response to critical incidents. In short, what helped and what hindered.

Their responses fell into five dimensions that can be used to assess a board's response:

1. The board's confidence and trust in the executive team
2. The relationship between chief executive and chairman
3. The chairman's leadership of the board
4. The level of capability and engagement of the non-executives
5. The board environment and culture

Chief executives can use these five dimensions to assess their boards' likely responses to any future challenges.

DIMENSION 1 – THE BOARD'S CONFIDENCE AND TRUST IN THE EXECUTIVE TEAM

High trust and confidence
Where trust is in place critical situations are met with active support from the non-executive directors, even when stakeholders or external commentators are at their most critical. At best, the non-executives will step up to provide whatever practical help may be needed and appropriate, which gives the executives the breathing space required to deal with operational issues.

"The board came together as a team and showed unwavering support, both moral and practical, for the executives during a very difficult period."

The confidence boost given to the chief executive and executive team sends a positive ripple throughout the organisation and sets the tone for the whole organisation as it embraces the new challenge.

"An engaged board not only improves the quality of decisions by being a vital sounding board for the chief executive; their involvement in the company also gives executives a confidence that sustains their enthusiasm."

Low trust and confidence
Where trust and confidence in the executive is poor however, the board can feel very different. Occasionally it was demonstrated through outbursts or strongly qualified agreement but more often it was described as silence. The lack of trust and transparency leaves the executive team feeling undermined and isolated. Communication breaks down and endangers any effort to steer the company safely through the situation at hand. The chief executive is likely to be left carrying all of the risk of the decision.

"Having spent hours and hours on the deal, it came out that some of the non-executive directors thought the executives had a different agenda – how come this point never came out until then? It left a lot of bruised people."

As well as damaging the response to the incident at hand, the consequences can also be far reaching. If not successfully redressed by the chief executive and chairman it can result in their replacement (and sometimes that of other directors) due to the damage it creates to the organisation's performance.

Does the board have trust and confidence in the executive team?

To help consider the relationship with their chairman, chief executives can consider a critical incident they may face and reflect on the following statements. Each of the following statements, and those that follow in the blue and red boxes throughout the report, have been derived directly from the individual and collective views of chief executives from the events they personally experienced.

Optimal impact

- The board members explicitly support the executives in both words and actions
- The board demonstrate empathy with the executives' position
- The board members are prepared to publicly support the decision made

Detrimental impact

- The board members ask for too much data or too many updates from the executive team
- The board is critical or sceptical about the executives' ability to deliver the plan
- The board members remain silent
- The board members question the self-interest or motives of the executive team

DIMENSION 2 – THE RELATIONSHIP BETWEEN CHIEF EXECUTIVE AND CHAIRMAN

A great relationship
Those chief executives reporting a positive experience described their relationship with the chairman as fundamental. They all described a strong working alliance between themselves and their chairman.

"My relationship with the chairman was the lynchpin."

Based on mutual trust and respect, there was absolute clarity about their respective roles and a clear understanding of how they could respond to the situation at hand. The best chairmen made themselves available well beyond the role expected. They willingly gave their point of view and brought the perspective of other stakeholders in the company. Those chief executives who kept their chairman informed experienced board discussions and decisions that were based primarily on hard facts, not opinion.

"This relationship was very important, it was open and straightforward."

"My honest and transparent relationship with the chairman was critical. If I didn't have that I might as well have given up."

"My chairman wasn't keen, but they backed me in this, and it later proved very valuable."

A good relationship meant decisions were significantly improved by the board and there was confidence in the organisation to meet the challenge. The speed of decision making was significantly improved as was the implementation of the decisions reached.

"I still go to my first chairman for advice; it was a relationship formed at such a critical time for him, me and the company."

A strained relationship

Where the relationship with the chairman was strained, however, chief executives often discovered a de-stabilised board that found it difficult to engage with or respond at speed to the situation at hand. At worst, there was open disrespect for each other and they found it hard to be in the same room.

"I had a dreadful relationship with my chairman who was judgemental and controlling."

They clashed over the right strategic approach to take and this resulted in the chairman becoming overly controlling or, conversely, increasingly disengaged.

Other examples identified a relationship that had become too cosy, where the chairman had unquestioning confidence in the chief executive. At the time the chief executives did not complain but later missed the benefit of a challenging dialogue with the board.

The consequences of a poor relationship with the chairman meant that the executive team felt increasingly isolated on big decisions, undermining their confidence to act. In nearly all instances this ultimately led to the removal of the chief executive or the chairman and in some examples both.

How good is the relationship between the chief executive and the chairman?

Optimal impact

- There is an open dialogue on anything with the chairman
- The chairman understands the challenges I am facing
- The chairman openly shares their point of view with me
- The chairman is available to talk about the issue at any time
- The chairman explores ways in which the board can add value

Detrimental impact

- The chairman undermines my authority
- The chairman has too much trust [blind faith] in me and my executive team
- The chairman makes no effort to help
- The chairman does not share their perspective with me
- I do not respect the chairman
- I question the value the board can add

DIMENSION 3 – THE CHAIRMAN'S LEADERSHIP OF THE BOARD

A great leader of the board

As we found in our previous research, according to the chief executives a great chairman is calm and measured under pressure. While they have a clear outcome in mind, at the board they are never blinkered or inflexible. Rather they are able to draw out the strengths of all board members, giving the executives the opportunity to present their ideas and inviting scrutiny from the non-executives. By creating a high-quality debate, exceptional chairmen ensure that decisions are robust.

ESTABLISHING A BOARD'S LIKELY RESPONSE TO A CHALLENGING SITUATION

NEGATIVE IMPACT		POSITIVE IMPACT
Sceptical • Doubting Undermining • Quiet	**Does the board have trust and confidence in the executive team?**	Transparent • Challenging Backing up CEO
Dysfunctional Impersonal • Combative	**How good is the relationship between Chief Executive and Chairman?**	Productive • Effective Challenging • Supportive
Surprised • Unprepared	**How good is the Chairman's leadership of the board?**	Leads Debate • Offers Perspective Outcome-orientated
Irrelevant • Impractical Questioning	**How capable and engaged are the non-executives?**	NEDs Buy Into Strategy Company Comes First • Confident
NEDs Let Loose Moody NEDs	**How effective is the board environment and culture?**	Proactive • Open Productive

"The best chairman I worked with was able to create a climate where everyone had a voice and used it. It was an incredible ability and extraordinarily helpful in tricky situations."

This significantly improves the quality, speed and the implementation of decisions brought by the executive. Many chief executives reported a positive ripple effect throughout the whole organisation as everyone sees how well things were being handled at the board.

"The chairman was excellent – he quickly grounded the egos."

A bad day for the chairman

Unfortunately, poor chairmanship of the board was a common experience in challenging situations. Even great chairmen were sometimes caught out by a situation. Suboptimal experiences included a lack of preparation by the chairman of themselves or by the non-executives to meet the issue. Other situations highlighted the chairman's lack of sufficient engagement with the business to get under the skin of the challenge. At its worst, the chief executives felt the chairman lacked the skill and self-confidence to deal with conflict that arose from the situation.

"The chairman didn't want to address the conflict between the non-executive and the executive so it festered away in the background. It felt like a running sore that just got worse."

These chairmen lose the trust and control of the board. This fragments the decision-making process, leaving the chief executive to make decisions unchecked. Alternatively it can hand undue influence regarding the issue to outspoken non-executives. Over time, poor leadership of the board by the chairman can make it increasingly difficult to bring difficult problems to the attention of the board at a time when they should, and can, add the greatest value.

How good is the leadership of the board by the chairman?

Optimal impact

The chairman:

- Is really engaged with the business and the issue
- Is confident of their view
- Is prepared to lead the debate
- Is prepared to offer their point of view
- Is open to challenge from the non-executive directors
- Has prepared the non-executive directors for the discussion

Detrimental impact

The chairman:

- Is looking to avoid conflict
- Is disengaged from the business
- Has a fixed view on the issue
- Lacks the confidence to decide
- Has not prepared the non-executive directors for the discussion
- Lets non-executive directors over-influence the discussion

DIMENSION 4 – THE LEVEL OF ENGAGEMENT AND CAPABILITY OF THE NON-EXECUTIVE DIRECTORS

A capable and engaged board

The chief executives felt the best boards in challenging situations had a range of non-executive directors. They benefited from highly competent non-executive directors who explored the risks of the situations at hand and those who could add tremendous value from their wealth of commercial or strategic experience. Getting the right people in place was also insufficient: the best boards in challenging times had non-executives who were highly engaged, fully informed about the business, and understood the organisation's strategy.

"The best NEDs invest on their side to create a great board."

"Having complete alignment between the board and the executives was critical to get to the right result. It meant that we could have constructive discussions and debates, more input and refine the outcome."

From this well informed base, they were prepared to support and to fundamentally challenge the proposals brought by the executive team by asking relevant, probing questions. Determined to ensure the best outcome for the organisation, the engaged non-executive director instigated vigorous debate, picking up on potential scenarios or risks not covered by the executives.

"This was a time when the board came together and provided support to the executive team who were under the cosh. I was hugely impressed by the fact that the non-executive directors came together as a team, without being asked, and showed unwavering support for the executive in a very difficult period."

Many of the chief executives found that a capable and engaged board added value to the decisions made at critical points in time. They reported walking away with better answers than they had come in with. It left the executive team energised to implement the plans and enjoying the board experience, significantly boosting the reputation of the company and its performance.

"You only get out what you put in – building relationships is a long-term game."

A narrow or disengaged board

Where the capability of the board was too narrow there was little value that could be added to the discussion. Often chief executives felt board meetings were simple box ticking exercises where risk was assessed and compliance issues were considered; little was offered by way of commercial or strategic insight. Ultimately it could lead to frustrations in the level of investment needed to get the non-executive directors up to speed before they could ask relevant questions on the issue at hand.

Even where the right people were in place, engagement could still be lacking. In times of crisis the chief executives felt strongly that some non-executive directors put their personal reputations before that of the company. As a result they were overly cautious or withdrew support without clear reasons. This often thwarted ideas or led to an isolated executive.

"When the board was under stress the non-executive directors split into two groups – one where they rolled their sleeves up and asked 'what do we need to do?' and the others who were worried and nervous about their personal reputation, career and exposure – and went into their shells and became defensive. We ended up with a divisive situation."

This outcome was hugely detrimental to a company addressing a difficult situation, either delaying action when it was most needed or setting off on the wrong course. In extreme situations the survival of the company was put at risk. Ultimately it also meant a number of the non-executives were taken off the board and replaced by others with more appropriate capabilities and higher levels of engagement.

How capable and engaged are the non-executives?

The following statements will help assess the extent to which the board has the capability and level of engagement to meet the challenging situation.

Optimal impact

The non-executive directors:

- Ask probing questions about the impact on the company
- Ask questions informed by the company strategy
- Show concern for the company's reputation
- Generously offer insights and experiences relevant to the situation
- Appropriately challenge the executives' thinking
- Are realistic about what can be achieved by the business
- Are prepared to talk to the chief executive outside the boardroom

Detrimental impact

The non-executive directors:

- Hold confrontational positions with each other
- Disengage from the business
- Come from similar backgrounds
- Are overly wedded to insights and previous experience
- Say "no" from a lack of understanding or engagement
- Put their personal reputations before that of the company
- Do not openly share their perspectives
- Agitate for the sake of it
- Do not challenge the executives

DIMENSION 5 – THE BOARD ENVIRONMENT AND CULTURE

A great board environment and culture

Here the chief executives worked closely with their chairmen to create an environment where non-executive directors were willing and able to add as much value as possible. Together, they ensured that non-executive directors had an open dialogue with executives, had access to people within the organisation, and were given all the necessary information.

"The board had good chemistry and individuals did not compete against each other. The non-executive directors gave 100% support, no questions asked, and each non-executive director was prepared to volunteer his time and energy to the issue."

This created a culture of transparency, openness and trust. In short, a board that was well prepared to constructively challenge the issues facing the organisation. Ultimately the non-executive directors had the confidence to ask the pertinent questions crucial to a robust decision-making process.

"You need to get everyone to first feel comfortable that they can express their views and that those views don't become dominated by a particularly influential member."

All board members looked forward to coming to the meeting and revelled in their ability to improve the organisation's decision making. The high levels of visibility of engaged non-executive directors within the company created a positive impact on the whole organisation. This also created the conditions under which new ideas and challenges could easily be brought to the board.

A negative environment
Interestingly, poor board environments were triggered or most apparent in the critical situations when they were needed the most. Where non-executive directors felt they did not have sight of the whole picture they would become increasingly sceptical. They would forcefully demand ever more levels of detail in the boardroom or, sometimes simply silently withdraw from the debate.

As a consequence the board would be ill-prepared to work together to explore opportunities and handle threats. Instead, an atmosphere of tension, anxiety and even aggression was experienced and when these emotions took over, the board's ability to add value was severely compromised.

"The non-executive directors had nothing to offer on this issue as it was the first time they had encountered it. There was a sense of preservation from the non-executive directors who were worried about their career reputations."

Over time the executive team would be reluctant to bring the big issues to the board for discussion and would certainly not look forward to the experience. Similarly, non-executives directors question the value they bring and start to drift away or resign. This negative spiral can be picked up by all those in the organisation who can see the increasing disengagement.

How effective is our board environment and culture?

Optimal impact
At the board meetings:

- All members are engaged with the company
- They are enjoying the discussion, challenges and meetings
- There is an open, healthy debate
- Disagreements are well managed
- The members are open to taking risks

Detrimental impact
At the board meetings:

- The members make judgements with little regard for strategy
- The focus is on ticking boxes and going through the motions
- Conflict and challenge is avoided
- The non-executive directors demand much unnecessary information
- Fear is the main driver for making a decision

In section 3 we explore the advice provided by the chief executives on how they have helped to build boards that more frequently provide optimal responses to critical situations.

Chief executives can do a great deal to create the conditions where boards can add significant value to their organisation. For chief executives to ensure they have a board that will respond positively in challenging situations they should:

1. Work with the chairman to create a great board
2. Create a positive board dynamic
3. Engage the non-executive directors in the company strategy and business
4. Keep the non-executive directors fully informed
5. Lead a joined up executive team

Whilst these abilities should be displayed throughout a chief executive's tenure, they are of particular benefit in challenging times, often needing to have been built in the preceding years.

"When the board is under stress you see it operating in its true guise. When things don't go well you can learn more."

TIP 1

WORK WITH THE CHAIRMAN TO CREATE A GREAT BOARD

Work closely with the chairman to influence the composition of the board. Create an indispensable sounding board: a team capable of providing the right challenge and adding value to the executive team's decisions.

"Imagine a crisis and build the board to meet it."

"Work with the chairman to create the right board – get involved in selecting the non-execs and bringing them on board. Help shape a board so that it has industry experience and knowledge."

Influence the pool of non-executives considered by the Nominations Committee and put time into meeting a broad shortlist. Consider diversity in all its forms. You want people to bring international insights, commercial experience, technical expertise and youth to the board. They should come from diverse backgrounds. Pay close attention to the mix of personalities to build and maintain a great culture at the board.

"In order to foster openness you need two things: A chairman who runs the board well and the right people around the board table. With openness you can get everyone on the same pitch and thinking 'it's our problem' not 'it's management's problem.'"

What do chief executives look for in their non-executive directors?

"Get a range of talents on the board. They need to be people you like and who will challenge."

Whilst the chairman has the lead role, the chief executive also has a responsibility for creating a productive board environment and engaging non-executive directors with the company. From our conversations with chief executives, a picture of the type of non-executive director they should seek became clear. The non-executive directors most valued by chief executives are those who are prepared to:

- Be led by the chairman.
- Invest time in building relationships with the chairman and chief executive.
- Support the chairman and chief executive's efforts to create an engaged, open and transparent board.
- Contribute their specialist expertise, experience, knowledge and contacts.
- Question rather than judge when challenging a proposal or decision.
- Offer rather than champion their own ideas.
- Roll up their sleeves to help out in times of stress.
- Put in the necessary hours to support efforts to achieve objectives.
- Empathise with executives by drawing on their own experience of being an executive director or chief executive.
- Put the company before their personal reputation.

"Help shape a board so that it has industry experience and knowledge."

TIP 2

CREATE THE BOARD DYNAMIC

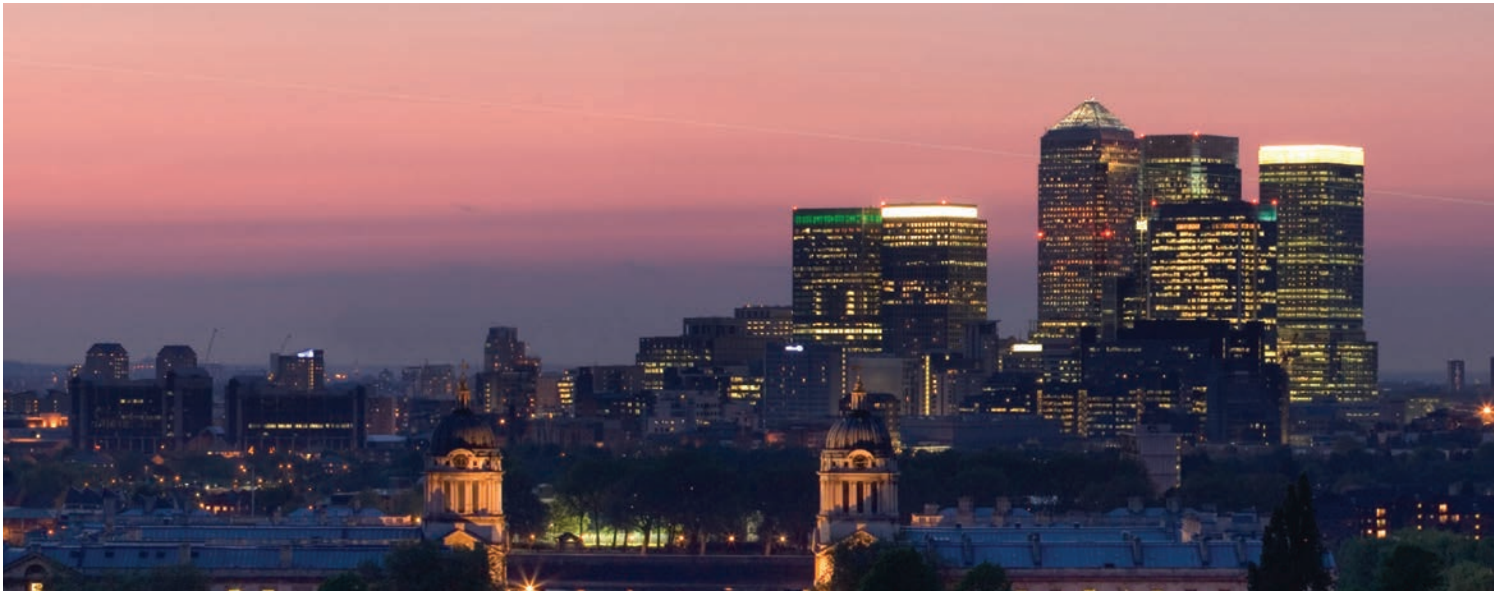
Work hard to instil a healthy dynamic between the executives and non-executive directors. Develop an effective working alliance with the chairman and go on to promote trust, openness and honesty at the board.

"The role of the chairman is to give the board the opportunity to talk and express their views. It's not just the formal expressing of views that goes on around the table but also the engagement and the dialogue between the board meetings."

Aim to benefit from an informed and engaged team of non-executive directors who are willing and able to offer constructive challenge.

"To create an effective board ensure that as you march through you have opportunities for debate and with that debate you create the conditions to ensure alignment between the board and the executive – then at least if there are dissenting views they are recognised and we agree to disagree but we have to move forward."

Make yourself available to the non-executive directors, initiate meetings with them to get their advice, role model the behaviours you expect from them and encourage your executive and senior leadership teams to do the same. Finally, work hard to make sure the board sessions are enjoyable so everyone looks forward to coming and feels they can add value.



Success strategies for creating an effective board dynamic

"Build an environment with collegiality, good humour and a sense of purpose. It is easier to diffuse the tensions on difficult decisions where this is the case."

Successful chief executives from leading FTSE companies highlighted the following key strategies for maximising board performance:

- Work with the chairman to select the right board for the company.
- Create a coherent company vision and strategy – in partnership with the whole board – and communicate this clearly.
- Be open and honest with your chairman and board, especially when operating in a difficult climate.
- Be open to challenges from the board.
- Keep the board actively involved with the company.
- Create a high-challenge, high-support culture within the board.
- Build one-to-one relationships with non-executive directors beyond the boardroom – this is easier to achieve with a small and intimate board.
- Gain non-executive experience with other companies, to obtain first-hand experience of the role of a board member and witness good practice in action.

"Ensure you have the right chemistry between the non-executives and the executives – this is especially important during times of crisis."

TIP 3

ENGAGE THE NON-EXECUTIVE DIRECTORS IN THE COMPANY STRATEGY AND BUSINESS

Involve the board in the development of the company vision and strategy.

"Bring the board along in developing the vision. We held two heavy sessions during which we took them through the strategy step-by-step – talking through the strategy and logic. You must engage the board – they must feel it is 'our strategy', not just management's strategy."

Go beyond the "board away days" to make strategy part of the everyday experience of the board and not a box ticked once a year. Take them on site visits; invite them to team building events; ask them to mentor or coach people in the organisation; to use their contact base; and in short look for any opportunity to get them involved. Look to get the level of insight high enough that when critical situations arise they know what the business does and is capable of. Do not underestimate the motivational boost in the company of people meeting the non-executive directors.

Building alignment and engagement

"By nature of the non-executive's role, they are not in the business that much and for a fast moving chief executive this can be frustrating – so as a chief executive you need to have in place mechanisms to get them up-to-date."

The chief executives we interviewed were asked to consider the most effective methods of creating an aligned and engaged board. Based on their experiences, they believe that collaborative and effective boards were created by:

- Facilitating open dialogue between executives and non-executives.
- Involving the board in the development of the company vision and strategy.
- Get each non-exec to 'own' a part of the company's strategy.

- Inviting non-executive directors to executive briefings and company events and activities.
- Exposing non-executive directors to the company's day-to-day business.
- Giving non-executive directors open and regular access to stakeholders within the organisation.
- Encouraging non-executive directors to visit company sites and operations.
- Create an expert panel from your NEDs, who can be consulted by senior managers.
- Create a regular CEO Board Blog – to keep directors informed in an informal manner.
- Appointing non-executive directors as mentors of the executive team.
- Getting to know executives and non-executives outside of business hours.

"Schedule personal time with the non-executives outside the board meetings – it leads to more effective relationships and better contributions from them. Less formal, perhaps over a meal, say two times a year. I initially saw this as a role of the chairman but have come to realise its importance for the CEO as well."

"In addition to meeting the chairman, I meet each non-exec before every board meeting. This takes time, but is well repaid in a much more focussed board discussion."

TIP 4

KEEP THE NON-EXECUTIVE DIRECTORS FULLY INFORMED

Give non-executives directors the right amount of information so you can benefit from their skills and experiences.

"Communicate with the non-executive directors to keep them informed. Manage their expectations on what is coming up. Tell them what is on the agenda."

Flag contentious issues and call them individually before they come to check the agenda – don't let them come surprised or with heavily pre-conceived opinions. Establish creative approaches to the information flow. Invest in communication technology to stop huge reports weighing things down; create buddying systems between the non-executives and specialists within the organisation; offer access and opportunities to quiz the organisation's advisors (e.g. finance, legal, accounting) so non-executives are not left behind by any decision.

"Give the board the information they need. It is better for them to have too much rather than too little. You'll only find out you have not given them enough information when it is too late."

"Don't overload the board with papers. If they are overwhelmed with material they are not prepared for the discussion or looking forward to coming."

Appropriate challenge from an informed board

"If there hasn't been a difficult debate about a proposal, then it might not be right."

Exceptional chief executives recognise the need to be challenged by the board if company performance is to benefit from robust decision-making in challenging situations. But according to our interviewees, when questioning executive decisions, the board needs to:

- Understand company operations and strategy; by being fully informed, and in a position of strength to contest proposals effectively.
- Come to the board with an open mind; focusing as much on the 'why' as the 'why not'.
- Question the thinking behind proposals; push for clarity to ensure the reasoning is sound.
- Ask questions rather than offer opinions; that way, non-executive directors can guide executives to come to robust decisions themselves.
- Base questions on specialist knowledge and experience without becoming dogmatic.
- Avoid negative body language; quizzical looks and shakes of the head are unconstructive and demoralising.

"Be open to challenge – don't be defensive. If you are open then the non-executives don't need to worry about expressing their points of views. Take on board the good constructive feedback and follow through on those suggestions. Doing so helps build positive strong relationships."

TIP 5

LEAD A JOINED UP EXECUTIVE TEAM

Debate the issues with your executive team before getting to the board. Demonstrate to the non-executive directors that you have had a robust dialogue before coming and avoid any sign of "groupthink" or enforced compliance. Ensure that the executive directors are fully engaged and aligned with the overall strategy of the business, rather than championing or defending their particular area of operational responsibility – when they enter the board they must do so as directors.

“Expose your executive managers to the board. Involve them in strategy days and for each board meeting, get one of the managers along to present his area to the board.”

Talk about where you have differed in opinion as an executive and the resulting positions. Aim for higher quality, less heated debate at the board and the confidence that the executive team are prepared and capable of implementing the proposals put forward.

“Ensure the board gets an opportunity to meet the management team as well as the executive directors.”

Start building this capability now. Ask executives directors to deliver presentations to the board to demonstrate their leadership; get senior managers from the organisation to run pre-board briefings on the issues at hand; encourage your next generation of leaders to get involved with the board.

Beyond the board

Our research reveals that chief executives value the contributions from non-board members in times of challenge. The sources of support and challenge vary and included:

- A trusted and experienced mentor who provides valuable advice.
- Networks of peers – fellow chief executives to share experiences and ideas.
- Consultants who offer specialist insights into the issues the company is facing.
- Employees in the organisation who can provide a different perspective.
- Friends who can act as trusted, independent sounding boards.
- Business coaches who ask challenging questions and prompt reflection.
- Friends, spouses and family who can sense problems instinctively and respond intuitively.
- Market experts who know the chief executive’s sector and business.

“A wise old broker who has been around 30 or 40 years. He has an excellent nose for the mood of the market and has a genuine passion for the company.”

“A few CEOs from different industries who know exactly what it is like to face the issues I face and who are empathetic.”

“I don’t use outside help very much, but I like to when I want to test an emerging view.”

TRUST AND CONFIDENCE IS FUNDAMENTAL

Of the five dimensions identified, "trust and confidence in the chief executive and the executive team" appears fundamental. Trust can be difficult to establish within a board due to the nature of the role, time pressures and the range of individuals involved. Trust cannot be prescribed it must be bestowed. There is no formula; instead it takes time and conscious effort to build a sense of confidence in the executive team, helped no doubt by the other four dimensions identified in this report. Once earned, it transforms the chief executive's experience of working with a board and adds significant value to the company.

The opposite is also true. When there is a hint of manipulation or self-interest on the part of the executive team then the chief executives experienced increasing levels of oversight, risk aversion increasing and the quality of debate declining. Well established trust is not fragile, (a number of chief executives found it could be rebuilt over time when bruised), where the damage was deep then it often spelt the end for the chief executive, chairman and other directors.

CHIEF EXECUTIVE'S BELIEF THAT THE BOARD CAN ADD VALUE

Many of the chief executives who shared their insights for this study are in no doubt that when challenges arise, they benefited from their board interactions. We heard examples of chief executives who had vehemently disagreed with their board yet had the wisdom, with hindsight, to realise that their board had prevented them from making a major error.

On the other hand, others did not expect the board to add much value. The board was tolerated and seen more as a hurdle to get over. With this mindset the chief executive is unlikely to put in the substantial effort required to create a board that will add value to challenges in the future.

CHIEF EXECUTIVES HAVE TO BE ACTIVE AT BOARD LEVEL

Whilst the chairman is traditionally considered to drive many of the dimensions identified in this report, we have come to realise how dependent they are on the executive team. Fundamental to this is the role of the chief executive in creating a working alliance with the chairman, fostering relationships between the organisation and the non-executive directors and creating a constructive board culture.

In some circumstances we picked up that the chief executives and other board members invested insufficient time and some lacked the skill to create this. In a crisis this makes it more difficult for the company and has significant consequences for the chief executive when things do not go well.

CRITICAL INCIDENTS ARE DIFFERENT FROM STEADY STATE

Board governance guidance tends to emphasise roles, processes, documentation and responsibilities. They make little distinction between times of steady state and major change. This analysis reveals that the chief executive's perspective on how boards create value is largely about relationships, behaviours, and combined leadership – the chairman for the board, the chief executive for the company.

Relationships that may appear satisfactory under benign conditions can fall apart under pressure. We found limited evidence that boards stress test how these factors will stand up under future challenging situations, and it does not seem that board evaluations investigate them adequately. Arguably, the Corporate Governance Code should consider further the changing priorities for a company under pressure, and how these can be tested ex ante in

a safe manner. But in the end, it has to be down to the chief executive to work with their chairman to ensure these factors are in place. If this does not work then other points of leverage in the board room, such as the senior independent director, are needed to resolve these issues.

BOUNDARIES BLUR IN TESTING SITUATIONS

In ancient Rome, when their city was under attack, Romans changed their two consul system for a more unitary system of command over the period of crisis. They realised that challenging times required a rebalancing of their governance system. Our previous research report, *What Makes an Exceptional Chairman*, highlighted how, when a company is under pressure, the chairman has to provide a much more active style of leadership for the board. This can put pressure on the normal company governance system, and in particular on the board and chief executive relationship.

The findings here suggests that exceptional chief executives will already have put in place the relationships, behaviours and engagements with their board to enable their own leadership of the company to be successful in these difficult circumstances. Once in crisis, it is likely to be too late.

CONTRIBUTING CHIEF EXECUTIVES

We interviewed over 30 CEOs and former CEOs with most drawn from FTSE 100 and FTSE 250 businesses, and a small number from selected smaller businesses. Companies represented included:

• AOL Europe	• National Grid
• Arriva	• Network Rail
• Balfour Beatty	• Northumbrian Water Ltd
• BBA Aviation	• Phones4u Distribution Group
• Boots	• Prudential
• Close Brothers	• Rio Tinto
• Debenhams	• Segro
• Go-Ahead Group	• Smurfit Kappa
• Hays	• Tamar Energy
• IMI	• Tate & Lyle
• Informa	• Thomas Cook
• Johnston Press	• Torotrak
• Lo-Q	• TT Electronics
• MB Aerospace	• UBM
• Mothercare	

The views of all respondents are their personal views and are neither those of their companies (past or present) nor A&M. Respondents are chief executives of the companies listed either currently or at some recent time in their careers; they may not be the current chief executive.

Research methodology

Interviews with over 30 chief executives from FTSE100 and 250 companies and other listed businesses were conducted by independent researchers using the Repertory Grid technique.

Each interviewee was asked to identify up to six situations where, as chief executive of a listed company, they had responses from the board that helped or hindered them. They were asked to identify the behaviours that their boards displayed under these testing conditions and to identify the consequences of these actions on the company. This approach enabled the research team to draw on the direct experiences of chief executives working with their boards during challenging times.

No forced questionnaire was used – the incidents, behaviours and consequences identified were raised by our chief executives drawing on their own experiences. This approach enabled each chief executive to think deeply about, and clearly articulate, their views on the attributes and behaviours that make for an effective board and an appropriate chief executive / board relationship.

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