

## **Building Trust between the Board and the CEO**

*Presentation to the Building Better Boards Conference 2004 by David Fishel, Positive Solutions*

### **The Wrong Arm of the Law**

25 years ago I started my first job, with a small theatre company which toured Southern England. With the job came low-rent accommodation, sharing an Elizabethan farmhouse in the middle of the countryside. It was the perfect start to a working life. However, a few weeks after I started work, I was subjected to a rude awakening when someone knocked loudly on my bedroom door, walked in and announced that the house 'was surrounded'. It was Detective Sergeant White from Scotland Yard, and he and his colleagues had come to arrest me. Be assured it was a case of mistaken identity. Scotland Yard had not come to arrest me, but to arrest my predecessor who, as Administrator of this small, non-profit theatre company had helped himself liberally to the funds, made commitments to an imaginative array of hire purchase agreements which he could not meet, and disappeared without trace.

The police were acting on an instruction from Interpol, as my predecessor was wanted in a couple of other countries for similar misdemeanors. Unfortunately, Scotland Yard had not consulted with the local police, who knew that my predecessor had vanished – and that I was occupying the house he'd lived in.

Embezzlement is, of course, a board's nightmare. In small organisations especially, we depend upon honesty in our colleagues. The board has limited ability to protect the organisation against a smart rogue. The best-known non-profit 'scandal' in Australia was the case of a rather larger organisation, the National Safety Council of Victoria, where deception by the CEO led to a court case and dire consequences.

In the instance of the theatre company, the board responded to its bruising experience by significantly changing the key selection criteria for the successor Administrator. Honesty and basic competence became the critical factors. I was known to employees in the company who vouched for me on both counts, and I got the job.

In this presentation and our discussion I want to explore several questions:

1. what do we mean by trust
2. what distinguishes a trusting relationship between board and CEO
3. what are the preconditions for success
4. how can trust be built

The presentation is based on personal experience as an executive member of staff reporting to boards in the arts and cultural sector, as a board member and Chair, and as a consultant working with non-profit organisations in Australia and elsewhere. However, I will also refer to the views of others, particularly a small group of Australian board

members and CEOs interviewed recently to canvass their opinions on a number of aspects of board-CEO trust in their organisation.

### **What do we mean by trust ?**

Trust comes in a number of forms.

There is the trust which exists between a baby and its mother – natural, intrinsic, it exists from the moment the baby is born. This is a form of trust which we take for granted – indeed if it did not exist we would assume there was something seriously wrong with the relationship.

Later in life there may, in extreme circumstances, be a different sort of critical dependence upon others. For example, when someone jumps from a burning building into a safety net. The trust that we will care for another person in distress. That we can be relied upon when it counts. However, this is trusting in those with whom we have no natural or personal connection. It is based on an assumption of basic human empathy – that when a human being is in danger we will seek to help them.

An evolution of this is the trust in members of a team – whether that team is a sporting team, an army platoon, or a group of hunters, stalking their prey. A less macho example might be the team that staffs an operating theatre in an hospital.

There is trust in another's professional integrity, for example in our reliance upon specialist expertise – from the doctor, the lawyer, the counselor.

In each of these examples of trust there is a common factor – confidence in and reliance upon another. Indeed, the legal concept of trust and trusteeship has its roots, I understand, in the need of absentee landowners in the middle ages (busy fighting crusades or other wars) to leave the welfare of their estates in the hands of others – to entrust them with their property.

There is another factor at work in each of these examples – vulnerability. We trust others because we need to. This leads us straight to the position in which the board members of a non-profit organisation find themselves.

The board of a non-profit is empowered by the members, the community or specific stakeholders with authority over the organisation. They are also entrusted (note that word again) with care of the vision and mission of the organisation. While those stakeholders entrust the board, the board entrusts the CEO. But the board's leverage can seem rather constrained, for two reasons. First, because of their voluntary, part-time nature, when compared with the full-time commitment of the CEO. Secondly, because board members are often drawn from other fields than the immediate discipline within which the non-profit organisation operates. This can diminish the board's confidence in its own power and authority when compared with the expertise and knowledge of the professional staff. The instability inherent in this model has often

been commented upon. Short of wholesale change in the structure of the non-profit sector, is there anything we can do about it ?

Let's consider first what is specific to the concept of trust between a board and its CEO.

### **What constitutes trust between board and CEO ?**

*The relationship between a non-profit's board and its chief staff officer is so important that it can make or break an organisation. A good working alliance can be a prime factor in success. Conversely, strong unresolved differences are probably the greatest single reason for mediocre or unsatisfactory performance*

*(Knauft, Berger and Gray)*

*No single relationship in the organisation is as important as that between the board and its CEO*

*(John Carver)*

Imagine for a moment a non-profit where no trust exists between CEO and board

- every decision, however small, has to be ratified
- no correspondence occurs without prior board approval
- no cheques are signed by the CEO
- no staff negotiations take place with external parties, no contracts are entered into
- no staff are engaged, unless the board engages them

In fact, the CEO's job effectively ceases to exist.

The parameters of the job, the CEO's freedom to act upon behalf of the organisation, are established as a matter of operational expediency. To do otherwise is unworkable other than for the smallest, local non-profit, and even here it is undesirable, because it hinders organisational development.

Many of you will be familiar with John Carver's Policy Governance model. Carver's concept of Ends and Executive Limitations is effectively a framework within which each party (the CEO and board) trusts the other to play their part: the board to determine the policy framework and monitor CEO implementation; the CEO to do as agreed with the Board and maximise their and the organisation's effectiveness within the limitations established. Many organisations which do not adopt Carver's framework still seek to define the parameters of authority and decision-taking through establishment of a clear set of delegations, most commonly in the areas of finance and personnel.

Policies and Delegations, however, are a tool, a functional convenience. They do not prove that a healthy level of trust exists in an organisation. What, then, would

persuasive evidence be ? What are the distinguishing characteristics of a trusting relationship between Board and CEO ? My list of (partly) observable behaviours would include:

1. empathy
2. co-operation
3. confidence in the respective roles each plays
4. absence of turf wars
5. the right balance between conformance and performance
6. optimising their combined power

*Both the board and the executive will be helped in their relationship with one another if each of them understands the need for the other to be capable and powerful*  
*Cyril Houle, Governing Boards*

Each of these elements contributes to the others. Empathy, being able to appreciate the perspective of the other party, is a platform on which cooperation can be built. Role clarity inherently mitigates against turf wars, as confusion over who is supposed to be doing what is a primary source of such friction. Striking the right balance between focusing on conformance (monitoring and control) and performance (achieving results) ensures that the CEO has no reason to feel the Board is micro-managing, but equally that the CEO is aware that he or she is being held accountable for delivering agreed results.

*As a board we do not tell the CEO how to do their job. We simply measure their performance*

*(Peter King, Chair, World Vision)*

*In our experience trust is diminished by boundary issues between the Board and the staff. If a Chair steps on the staff's toes or wants to take control then conflict can arise*

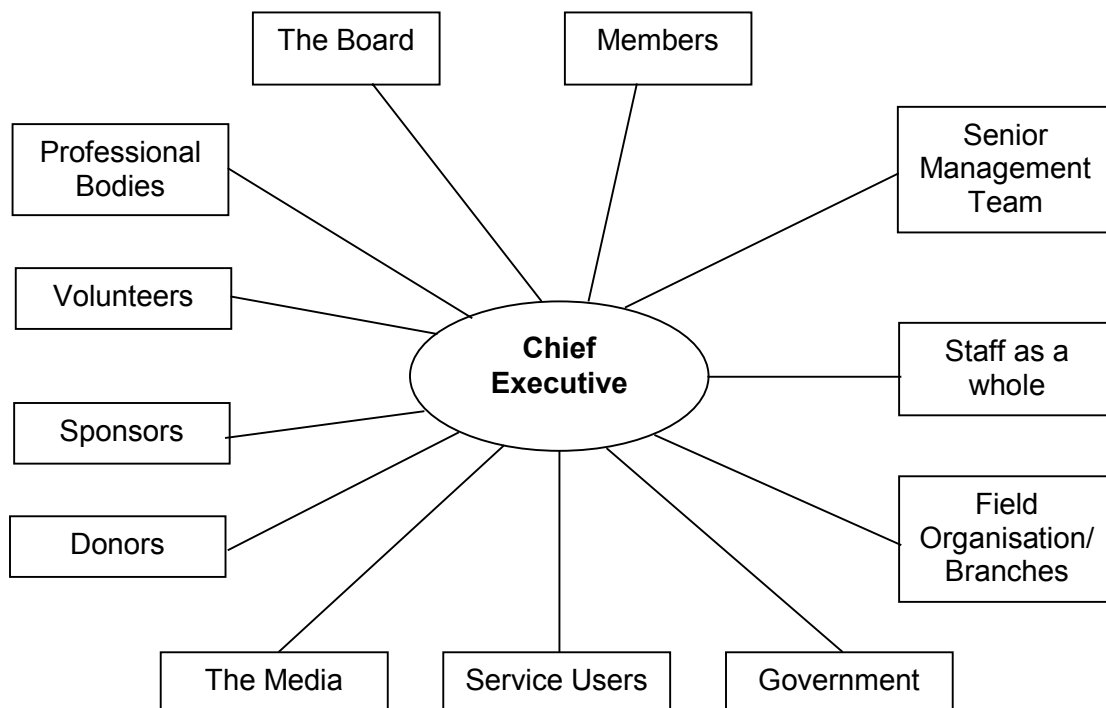
*(Dr Linda Selvey, Chair, Queensland Conservation Council)*

Optimising their combined power recognises that they are different parts of a single organism, and it is the overall strength and success of that organism which is their objective.

All six characteristics are mutual, two-way processes. So let's look at them in that light:

<b>Characteristic</b>	<b>CEO behaviours</b>	<b>Board behaviours</b>
empathy	▪ understanding the constraints of	▪ understanding that it can be lonely at the top

<b>Characteristic</b>	<b>CEO behaviours</b>	<b>Board behaviours</b>
	<p>Committee process and dynamics</p> <ul style="list-style-type: none"><li>▪ respecting the voluntary nature of the commitment</li><li>▪ assisting with induction of new board members</li></ul>	<p>for the CEO</p> <ul style="list-style-type: none"><li>▪ understanding the range of relationships the CEO has to manage</li></ul>



Characteristic	CEO behaviours	Board behaviours
co-operation	<ul style="list-style-type: none"> <li>▪ valuing the larger team</li> </ul>	<ul style="list-style-type: none"> <li>▪ seeking rational,</li> </ul>

Characteristic	CEO behaviours	Board behaviours
	<ul style="list-style-type: none"> <li>▪ harnessing the energy of allies</li> <li>▪ encouraging by example positive relationships throughout the organisation</li> </ul>	<ul style="list-style-type: none"> <li>▪ efficient linkage between board needs and daily operational processes and demands</li> <li>▪ sharing and participating in the process of strategic planning</li> </ul>
confidence in the respective roles each plays	<ul style="list-style-type: none"> <li>▪ aware of the difference between management and governance roles</li> <li>▪ valuing both for the health of the organisation</li> <li>▪ respecting the board's right to take key decisions</li> </ul>	<ul style="list-style-type: none"> <li>▪ aware of the difference between management and governance roles</li> <li>▪ valuing both for the health of the organisation</li> <li>▪ respecting the authority of the CEO</li> </ul>

*The role of the board is to appoint the CEO, set the parameters of their position and hold them accountable to the vision, mission and core values of the organisation. The CEO needs to be focussed on results while the board needs to be focussed on strategic direction. The board needs to be a sounding board for the CEO.*

*(Peter King, World Vision)*

*It is important that a board does not interfere in the day to day running of the organisation. They need to understand what their role is and the elements of good governance. They should avoid being dogmatic and should give priority to the strategic plan.*

*(Glen Rees, NED, Alzheimers Australia)*

Characteristic	CEO behaviours	Board behaviours
absence of turf wars	<ul style="list-style-type: none"> <li>▪ assertive, but avoiding defensive responses where there are confusions</li> <li>▪ negotiating the territory</li> <li>▪ CEO is the staff leader – Chair is the Board leader</li> </ul>	<ul style="list-style-type: none"> <li>▪ avoiding micro-management</li> <li>▪ respecting protocols in communications with staff</li> <li>▪ adjusting to the strengths and weaknesses of the CEO</li> </ul>

the right balance between conformance and performance	<ul style="list-style-type: none"> <li>▪ accepting the board's responsibility to monitor</li> <li>▪ providing helpful and timely information</li> <li>▪ encouraging strategic thinking</li> </ul>	<ul style="list-style-type: none"> <li>▪ understanding the different levels of monitoring and evaluation</li> <li>▪ avoiding onerous reporting requirements</li> <li>▪ enhancing individual and collective strategic thinking</li> </ul>
optimising their combined power	<ul style="list-style-type: none"> <li>▪ putting 'the company comes first' into practice</li> </ul>	<ul style="list-style-type: none"> <li>▪ putting 'the company comes first' into practice</li> </ul>

**What damages trust ?**

It is worth considering the dark side of the relationship for a moment also. What are the ways in which trust between the board and CEO can be impaired ?

On the board's part:

- hands-on role, intrusiveness (micro-managing)
- bringing volunteer working/knowledge into the boardroom (role blurring)
- conflicting instructions from the board to CEO (inconsistency)
- lack of resources allocated by the Board to achieve its objectives (i.e. unrealistic demands or targets)

On the CEO's part:

- failure to provide information (abuse of knowledge power)
- incompetence
- failure to deliver on agreed tasks

*Trust is increased when staff are open about issues and follow through on things agreed to.*

*(Dr Linda Selvey, Chair, QCC)*

*To increase trust the CEO must be both engaged and open with the Board. CEO must provide information and answers when asked while at the same time not allowing the Board to get distracted from their governance roles.*

*(Peter Mullins, CEO Greenpeace Aus and Pacific)*

On both parts:

- struggle for primacy (putting self before the company)

*Parochialism and lack of shared objectives is a sure way of decreasing trust between the CEO and the Board. A board needs to know that if they ask for something to get done it will get done. If a difficult issue comes up we have it out.*

*(Glen Rees, NED, Alzheimers Australia)*

### **Some preconditions for success**

Having suggested a number of helpful board and CEO behaviours – empathy, respect for the other’s role and so on, we can also identify a number of preconditions for these behaviours to be sustained:

- *clarity of board function*: the board must have a common understanding of its own role in the organisation
- *clarity of CEO role and responsibilities*: both board and CEO need to be clear on the purpose of the CEO’s position, based on discussion and reflected in an up-to-date duty statement
- *a mutually agreed strategic plan*, or at least a set of agreed key objectives for the organisation
- *regular communication and co-ordination* between Chair and CEO – somewhere between daily and weekly according to current demands
- *a recognition of the different frameworks* within which board and CEO operate (the behaviours described earlier)
- appropriate *observance of protocol* in board members’ dealings with staff (other than the CEO)
- fulfillment of the *mutual obligations* which bind the CEO and board in common cause

John Carver gets all this down to three succinct points:

*attend to the board’s job, the CEO’s job, and the link between them*

And he, of course, defines the Board’s job as policy setting and parameter setting. Working with many non-profits which have not adopted Carver’s model I believe a carefully produced strategic plan fulfils a similar function – it creates a key part of the contract between board and CEO, especially where the board has been active in its development. I have also drawn attention to some other foundations of the relationship, including some mutual obligations which fall outside the parameters of policy setting or strategic planning.

The board’s obligations to the CEO include:

- compensation, benefits, and a working atmosphere that make the CEO’s position attractive
- a clear duty statement and performance goals
- regular formal performance reviews

- constructive informal feedback on job performance
- recognition for tasks well done
- respect for the CEO's authority over staff
- prompt and thoughtful response to requests for guidance or assistance

The CEO's obligations to the Board include:

- commitment to the organisation's mission and policies, and sensitivity to the communities it serves
- responsible performance of fundamental organisational and administrative tasks
- an administrative structure and decision-making mechanism that promote a productive working atmosphere and effective staff relations
- thorough and timely communication with the Board on financial and administrative matters
- effective representation of the organisation in the community and commitment to enhancing its public image
- prompt and thoughtful response to Board requests for information (other than individual or maverick requests)

### **The Chair and the CEO**

The key component in the linkage between board and CEO is the relationship which is established between the Chair and CEO.

The degree to which the Chair or the CEO provide leadership in specific areas will vary in each organisation. For example, in some organisations it will be rare for the Chair to act as spokesperson, except in times of ceremonial significance or in times of crisis. In others, it may be quite usual for the Chair to front the organisation in discussion with stakeholders, or even with the media. There is no hard and fast rule as to when the Chair should be the spokesperson. But it is important for the Chair and CEO to discuss and agree between them their respective leadership and figurehead roles, to ensure the organisation provides a united and coordinated front, and to avoid potential friction.

*Poor communication and unarticulated expectations can cause problems between the CEO and the Chair. It has to be recognised that it is a relationship that needs to go beyond meetings, a relationship supported by honesty and openness.*

*(Helenka King, Manager, Queensland Conservation Council)*

More broadly, the Chair will need to agree with the CEO how they are going to work together. This will include:

1. agreeing the key things we need to achieve in the next year
2. confirming the expectations each has of the other
3. confirming how the board will interact with and assist the organisation and the CEO:
  - what support and advice does the CEO want
  - what are the protocols for board-staff communications
4. confirming how the CEO will report to the board, and how the CEO's performance will be reviewed
5. discussing how board meetings will be organised and serviced:
  - how are we going to prepare board agendas
  - what are the key areas the board needs to focus upon
  - what papers will be prepared for board meetings, and in what format
  - who will minute the meetings, and in what level of detail
6. clarifying the role the CEO has in making the board effective, including recruitment of future board members
7. clarifying what information does the Chair want, and not want

*To me, the role of the chief executive is to run the organisation; and the role of the chair is to oversee the performance of the CEO*

*(Peter Mullins, CEO Greenpeace Aus and Pacific)*

*The role of the Chairperson and the role of the CEO is very different. The CEO's job is about making sure the business of the organisation happens while the Chair provides a link with the membership and oversees the governance of the organisation*

*(Dr Linda Selvey, Chair, QCC)*

## **Techniques for building trust**

A baby's trust in a mother can be taken for granted

A client's trust in a qualified professional can be reasonably assumed

A board's trust in a CEO and a CEO's trust in a board has to be earned

Articulating a set of prescriptions and obligations provides a starting point – but we also need a practical framework, a coherent approach to building up trust so that, having engaged a capable CEO, we're not just leaving it to luck.

Allen Liff of Ronin Marketing in the US suggested in a recent article three steps for building up trust between board and CEO:

1. develop a set of ground rules to build trust – a code of conduct or statement of principles as to how we will deal with each other (e.g. "our number one purpose is to serve the community, we believe in accountability not blame, we seek to gather all the facts before entering into a discussion or making a decision")

2. develop a set of measurements (e.g. how much information we share, the clarity with which roles are defined)
3. have an annual game plan (e.g. are we following the rules, do we discuss them with new board members, are we monitoring key indicators of trust)

### **A five-point plan**

1. Invest time in confirming and clarifying the respective roles of CEO and board
2. Ensure the Chair and CEO adopt a coordination plan, and review it annually (or when one of the post-holders changes)
3. Be open, direct, honest with each other
4. Remember, the company comes first
5. Work together through thorny problems, strategic planning and big decisions

*Workshops are useful because they bring everyone along on a journey of learning together. It also helps connect the participants together as a group.*  
(Glen Rees, NED, Alzheimers Australia)

Ironically, there is nothing quite so good for building trust as a good crisis. Earlier, I mentioned the trust within teams, and pointedly referred to military and hunting examples. It is when the stakes are highest and the dangers at their most severe that we have the greatest opportunity for building trust – because if others can be relied upon in such extreme circumstances, we can surely rely on them when lesser calls are made.

*How a crisis in the organisation is managed can be used to build trust between the CEO and the Board. If a board is told about the situation and given details about how it was handled they may trust the CEO more. Confiding in the board is an opportunity to show the board how the CEO is using their skills.*  
(Peter Mullins, CEO Greenpeace Aus and Pacific)

I am not, however, advocating that you go out and foment a good crisis just to encourage group bonding – even if political leaders have been successfully doing just this for several hundred years.

### **How the Board can help the CEO**

My experience has been that the impetus for trust-building has more frequently come from the CEO rather than the board. This may be because the CEO has more to lose. It

may be because of the uncertainty or disempowerment that has too often undermined board members' confidence, and discouraged initiative. For the board member or chair who does want to take the initiative, there are some very simple things you can do to send a clear signal to the CEO that the board takes the health of the relationship seriously:

1. keep board development and appraisal on the agenda, so the CEO sees that the relationship is a two-way street
2. set targets for what the board is going to achieve, and meet them
3. talk about the difference between strategic and operational matters, and where the board sees its role and involvement
4. review the scope of board business on a regular basis, and contribute to making board meetings efficient and purposeful
5. keep reporting demands to a sensible minimum – focus on the important issues not on minor budget variances or decisions which could have been delegated
6. use board expertise to assist in reviewing organisational systems and processes
7. provide support and advice, especially when it is requested
8. avoid getting involved directly with staff issues which are the CEO's province
9. establish expectations of how the Chair and CEO will work together – if necessary, write it into their duty statement or role description
10. ask the CEO how the board can help

### **Justice will be done**

I did not quite tell you the full story of what happened to my predecessor at the theatre company in England.

Two years after the house-raid incident I described, a police detective caught sight of my predecessor at Paddington Station in London (a hundred miles away). He was arrested, brought to trial, convicted of embezzlement, and sent to jail. The chances of being seen by a police officer who could actually remember his photo were incredibly remote. Rotten luck really. But at least the police redeemed themselves.

*With regards to trust, well I must trust my CEO. Of course we have all the formal systems of audits and reporting, but fundamentally I must trust the CEO completely.*  
*(Peter King, Chair, World Vision)*

*David Fishel is Co-Director of Positive Solutions, a Brisbane-based management consulting and training firm which specialises in the non-profit sector. He is also author of The Book of the Board, published by Federation Press*

*Positive Solutions  
PO Box 765  
New Farm QLD 4005  
Phone/Fax: (07) 3358 1077  
Email: [info@positive-solutions.com.au](mailto:info@positive-solutions.com.au)  
Website: [www.positive-solutions.com.au](http://www.positive-solutions.com.au)*



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