That *Curious* CEO-Board COLLABORATION

CONTROL OR COOPERATION? How to best optimise the relations between board and management. A step-by-step guide to evolution.

by Iain McCormick

Chief executive Brian Smith was highly frustrated. He had spent the last four hours in a board meeting and still had no idea of what the board really expected of him. They had spent two hours discussing strategy yet made no clear decisions. They wanted him to be "more strategic" but seemed unable to translate their requirements into practical actions.

Mary Chopra, the chair of the board, was also frustrated. She had spent the last four hours trying to understand the 'big picture' but the CEO, Smith, seemed to keep dragging the board into the detail and so it was very difficult for her to really understand the exact nature of the market threats the company faced or the way it should respond to these.

Sir Adrian Cadbury in his 2002 publication *Corporate Governance and Chairmanship* put it succinctly when he wrote: "The basic governance issues are those of power and accountability." The primary concern of most CEOs and most chairs remains the CEO-board relationship. As Joseph Cady and William Soukup from CS Consulting Group in San Diego suggest, many of the problems with boards and management are not about 'best practices' rather they are about personal interactions – ill-defined roles, dominant personalities, egos, group factions, weak communications, mismatches of skills and styles, micromanagement and an absence of a sense of direction.

In their 2008 article in the *ABA Banking Journal* Cady and Soukup indicate there are four levels of relationship between boards and management: minimising, controlling, emerging and optimising.

Minimising – At this level the faction with the real control, which can be either the CEO or the board, does only the minimum required to work with the other party. The main goal of the controlling party is to minimise the degree of influence the other party has. The dominant CEO will carefully screen presentations to ensure the board deals with as few of the critical issues as possible. The comment: "This would be a great company if it was not for the board" characterises the attitude. This type of behaviour is often seen in private or start-up companies where the CEO is the founder and has a significant shareholding. In these cases there can be a fundamental difference of philosophy between the founder and board over strategy.

By contrast if the dominant party is the board – they will not appoint the CEO to the board and will deal with many major issues without the CEO being present. This type of behaviour is seen where the chair of the board is a former CEO and founder, who has not come to terms with the reality of the transition. The board can be labelled as the 'micromanaging board' and is characterised by making many operational decisions and marginalising the CEO.

Controlling – At this level of relations the aim is to maintain control over critical assets and the company direction. The controlling CEO may pay lip-service to the board but uses careful passive-aggressive techniques to control them. The CEO will agree to move the company in a particular direction advocated by the board – but repeatedly the "unique set of market conditions" or the "sudden impact of an old competitor" will ensure the direction is never followed.

By contrast, the controlling board will dominate the CEO, openly use threats and veiled intimidation to keep an unreasonable degree of control over the company.

Emerging – At this level both parties are striving to achieve collaboration but this is limited by an underlying dysfunction such as poor communication, overly dominant personalities, personal bias or prejudice. This dysfunction leads to distrust between the board and CEO and so debates on strategy lack focus and vigour. Often the CEO will see the board members as sincere and well meaning but unhelpful. The board will see the CEO as hard working and conscientious but lacking in strategic focus, real business acumen or leadership ability. Both parties often have the feeling the company is on the verge of a major breakthrough but somehow it just never achieves this and so never reaches its potential.

This level of functioning can be seen in small to medium enterprises and in

not-for-profits, where the CEO has come up through a narrow technical stream and does not have broad strategic thinking skills. Similarly it can be seen in boards that have not taken the time to develop their governance skills to the point where they can effectively challenge and deal with the underlying dysfunction.

Optimising – At this level both the parties are able to realise their potential. They have clearly defined their roles and expectations, shared a wide range of information, and debated the issues with vigour but without rancour. There is a climate of trust and openness and all the parties are fully engaged and passionate about the business. The board participates fully in the strategic development process and creates a clear and compelling direction for the company. It stays out of the day-to-day operations but is able to provide vital input and networking assistance when this is requested. Management demonstrates an enthusiasm for providing the board with the information that it needs to make critical decisions. The executive directors are able to step outside their management roles in board meetings and debate issues in a non-defensive and non self-serving manner.

Regrettably too few CEOs and boards have reached the optimised level. A recent survey by the Center for Effective Organizations in the US suggested that only 24 percent of boards regularly voice opinions which conflict with the CEOs and that just 37 percent said their boards acted with courage.

Management and the board can move towards a more optimised relationship by:

- Having a diverse range of skills and abilities on the board so that a full set of strategic, risk, audit, disclosure and interpersonal issues can be adequately addressed.
- Setting up regular informal meetings between the chair and CEO so that their level of communication and trust can be developed to a high level .
- Undertaking annual CEO, chair and director evaluations so that a culture of open debate about performance can develop.
- Ensuring sufficient time is set aside to engage the board in the strategic planning process.

Donley Townsend in a recent article in the journal *Strategy and Leadership* outlines a helpful process to engage the board in the strategy planning process.

STEP 1: MAP OUT A STRATEGY AGENDA WITH THE BOARD

The first step is for the CEO to collaboratively work out with the board a timetable for strategic discussions that is part of the annual board work plan. The process may include a one- or two-day strategic retreat but it needs to be followed up by regular reviews of strategy effectiveness because developing great strategy is an iterative process.

First meeting of the year – preparation for strategic retreat.

Second meeting of the year – two-day facilitated strategic retreat.

Third meeting of the year – review strategic investments in plant and equipment.

Fourth meeting of the year – review changing competitive environment.

Fifth meeting of the year – assess strategic progress... and so on.

STEP 2: DESCRIBE THE STRATEGIC PLANNING PROCESS

Rather than management working independently of the board to develop the strategy and then seeking approval, it is better for the CEO to map out the intersection between the two roles. This would include a discussion of management's role to collect and analyse the competitive and market segment data.

Then there is a discussion about the board's role to digest and review the data and add additional information. A joint role would be to assess the strategic implications of the data, to develop the strategic options, to select the draft strategies, debate these, and so on.

STEP 3: EMPHASISE THE EXTERNAL ENVIRONMENT AND COMPETITIVE PRESSURES

In strategy discussions with the board the CEO will often base his or her options on internal data and views. The chair should encourage management to take an outward view and include data from customer and supplier surveys, statistical trends in the industry and so on. The best way of handling this is to have one or two key executives take responsibility for data gathering in a particular strategic area and then having them present this data to the board over a series of months.

STEP 4: BE CLEAR ABOUT THE REQUIRED RESOURCES

Undertaking new strategic initiatives can be very resource intensive. It is vital that in the strategy development process management and the board carefully allocate the finance, leadership talent and technical competencies to ensure success in the initiative.

STEP 5: TELL THE BOARD OF ANY EARLY WARNING SIGNS

The very nature of strategy means that not all initiatives will succeed. Part of the contingency planning must be developing a way of detecting the early signs of trouble and clearly communicating these to the board.

An important way to ensure the board's strategy work is effective is to make sure questions in this area are included in the annual board evaluation.

Many of the problems with boards and management are not about 'best practices' but about personal interactions. There is much that the chair and CEO can do to ensure effective collaboration. **M**

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