CREATIVE ABRASION: Ensuring that Board-Executive Relationships Enhance the Organization’s Effectiveness

Governance and executive leadership are two very different yet intimately connected leadership practices. Due to different resource availability, governance can look different in different organizations. However, almost always there is some potential abrasion between Board and CEO – and there should be, assuming both parties are doing their respective jobs properly. The challenge is to ensure this abrasion leads to creative, positive outcomes to the overall benefit of the organization. Evolving expectations and changing times are also challenging our traditional assumptions about how Boards and executives should interact. These changing expectations can cause some abrasion between a traditional view of governance, and the new realities driven by rising community expectations.

The traditional relationship between the Board (via the Chair) and the CEO is fast becoming a multi-faceted relationship between all Board members, and the various members of the organization’s senior executive team. This is necessitated by the increasing complexity of the environment around us and inside the organization, some independence of various Faculties for fund & friend-raising, plus the need to exchange knowledge and wisdom between multiple points of contact due to workload sharing and development of specialty expertise.

Expectations for improved Governance in all organizations are changing the dynamic of the Boardroom in a big way. Stakeholder expectations for organizational sustainability, community relevancy, transparency, and accountability are demanding new practices – ones that are not in the domain of the executives hired to run the organization 24/4/365; but important, often neglected leadership tasks in their own domain. These practices require more information sharing, and enhanced collaborative efforts between Board members and senior management team members. Such new, sometimes formerly taboo relationships can make or break executive careers, and they can either paralyze or mobilize the overall organization itself.

The REAL Work of Governance ↔ The Dynamic Work of Executives
Beyond policy making, Board members today must be prepared to put time and energy into the following areas of Governance work:

1. Network Scanning. Board members must understand the “business” aspects of the organization in addition to their outcomes/impact expectations, research/innovations initiatives, and industry or professional sectors in which they operate. This includes knowing the “business” model(s) at play, the target audiences for services, and the “flow” of products, programs, services, and money - related to community members, competitors, and collaborative suppliers and partners. In addition, Board members must regularly scan for insights into how their organization inter-relates to other elements of the global marketplace.

Executives can assist Board members in this understanding through presentations, comparative or educational field trips and opportunities to experience the organization’s products, programs and services. Board members also need to be regularly reading newspapers, journals, and internet sites so they can see trends, highlight issues, identify “value shifts” and more.

This is the first area for creative abrasion. Executives and Board members both need to be doing this scanning and exchanging view points, perceptions, and pattern interpretations – all of which should engage them in challenging discussion about the landscape.
If executives do this work and Board members do not, there is an immediate knowledge - and thus power - imbalance. How can Board members ask good questions of management, develop policy, and establish priorities without a personal sense of these aspects? In this scenario, Board members must rely on the CEO and his/her senior managers to summarize their views, thus becoming dependent on executive insight and analysis. This is a sure recipe for unsettled feelings.

In institutions where this Network Scanning is done only by executive team members, they are often given insufficient time to present to the Board, and then answer questions. Frequently, Board members attend without having read/understood their briefing documents. And sometimes, Board members glean their insight primarily through short conversations with friends and other outside associates with whom they are close, risking collection of little more than here-say, but believing it to be sound wisdom.

Of course, the possibility of the reverse situation exists as well: Board members who have done their due research and network analysis only to encounter executive members who have been so focused on all-consuming day-to-day operations that they have not taken the time to step back and conduct a strategic review.

The ideal is creative abrasion that results from both Board and executives doing their respective work properly. The result otherwise can be just simple abrasion.

2. Future Relevancy & Community Engagement. Sustainability and Relevancy are the two overreaching concerns for Board members serving their organization.

Different organizations handle this component in various ways. Some Boards insist on developing the Vision, Mission, and Values, themselves using a Strategic Planning Committee or Board as a whole. Others use a more corporate approach, expecting the CEO, senior managers and Department Heads to develop draft Strategic Positions, Vision, Missions, Values, guidelines for their organization – to bring to the Board for review, comment and approval. In a multi-faceted institution, there may be different strategic positioning for different Divisions, and for the Institution overall. Regardless which approach is utilized, Board members need to adequately prepare themselves for this strategic thinking process.

Engagement of the various communities the organization serves is perhaps one of the most important elements of governance work there is. Board members need to make regular face-to-face contact with various constituencies served. They need to ask how the organization and its products, programs, or services are viewed by the membership and other stakeholders. A few well-honed questions, consistently asked by all Board members in a variety of forums, should bring important, comparable insight to the Board table. These insights can then be shared with executives, ideally before they develop the strategic guideposts for the organization with the Board.

Here, discussions of sustainability and relevancy at the member and community level (governance work) meet the strategy, competitive analysis, value-building positioning work from the operational perspective. Equally empowered and informed in these areas, the governance-executive exchange can be dynamic, creative, not always in agreement, yet balanced and respectful.

3. Oversight, Perspective and Ethical Reflection. Ask 100 Board members of various institutions “what is the role of the Board?”, and likely 95 will first respond with: “financial and performance oversight”!

Of course, these are important areas of governance work; and the OECD’s Corporate Governance Guidelines, the USA’s Sarbanes-Oxley Act, and the various Securities Exchange Commissions around the world, have focused huge attention on this area in the wake of Enron, and others. However, simple oversight is not enough. Perspective from the College Board is also crucial. So you served X number of students, averaged 8.5 out of 10
on program evaluations, delivered thousands of dollars in net proceeds from research royalties or food services. What is behind these statistics? What was required to achieve them? What unintentional side-effects did we create while achieving these results? Did we act ethically – following our Values statement? Did we actually advance toward the outcomes of the organization and advance the role we have in our community?

This area of governance-executive interaction also has the potential to be relatively undefined – with many institutions operating without clear Board or CEO goals and few criteria-based measures of success established. In the absence of clear outcomes and success measures, assessment of the CEO and organizational performance becomes rather subjective.

How do you measure Ethical practices? Some organizations take a minimalist approach, creating a Conflict of Interest Policy. As long as you don’t break this policy, it is assumed all is well. Unfortunately, interpretation of the policy is often an abrasive experience! Others create a Code of Conduct, and expect every Board member, the CEO and all executives to sign it. This requires individual commitment to live by practices described in the Code. The next level of ethical pursuit is the establishment of a clear Values statement, which is well communicated and discussed with all Board members, staff and suppliers. Annual Performance Appraisals review performance against the values as much as educational outcomes/operational targets. Finally, the highest level is a public statement of transparency and accountability, and the creation of a feedback, comment, and information process accessible by staff, students, suppliers and community at large. Annual reporting of performance against outcomes and goals is then provided to the organization’s community members and public.

Enter another potential abrasive factor in this area – the special direct relationship the Institution’s CFO or Director for Finance has with the Board and/or Finance Committee and Treasurer; in parallel to his/her normal reporting line to the CEO.

Ultimately, the CEO is accountable to the Board for the achievement of results, financial reporting, and accomplishment of other critical success factors for the organization. In doing so he or she may choose to defer some elements in favour of others. The CEO may even prioritize or carefully “frame” their reporting in order to set the stage for important future projects or strategic insights they have.

Boards meanwhile are now enhancing the role of the Finance and Audit Committee to ensure integrity and transparency of their organization. Boards as a whole, Audit Committees, and/or the Board Treasurer often require direct and independent reports from, plus access to, the senior financial executive.

Of course, in strong Executive teams, the CEO and CFO are “in synch” and transparent. They have aligned interests and performance objectives. They have shared insights with each other and reached common perspective to present to the Board. In dysfunctional situations however, the CEO and CFO, may present things differently to the Board, destabilizing the Board’s trust, and ultimately leading to more hands-on micromanagement by Board members. The Treasurer and/or Audit committee may even dip down into day-to-day operations in the name of transparency.

4. Risk Management. In addition to its concerns about sustainability, the governing body must assess, balance, and prioritize the use of organizational assets to achieve its strategic goals. While the same holds true for staff, the Board must become adept at looking for indicators that the organization has both the ability and capacity to achieve its plans. They should ask good questions regarding the strengths, weaknesses, opportunities, threats with respect to:

- Financial capital
- Human/Intellectual Capital
- Relationships with clients and suppliers
- Social Capital with community and government
- Structural Capital – organizational design, infrastructure and technology
Executives must feel comfortable in raising concerns to the Board about their capacity to achieve Plan, and the potential risks they see lying ahead. Board members need to reflect on their role in finding additional capital or resources in order to achieve the institution’s goals.

One of the great mysteries of the governance-executive risk management interactions comes when a CEO or executive team member is “sacrificed” by the Board after a single situation of poor performance or failed risk initiative. Where does the Board stand accountable and accept its responsibility for appropriate risk management? Will the Board resign along with the CEO when the Board-approved initiative fails? Will the Board support publicly the CEO or executive when it authorizes unconventional actions to advance the interests of the institution?

So, while it is clearly governance work to assess risk and mitigate it through prioritization or accessing additional capital, executive team members have to be sure they can deliver on their plans, ethically, and with the given assets.

Here the Past President/Chair position can be especially useful in providing context, asking sage questions, and contributing sober second thought to the current Risk Assessment.

5. Diplomacy/Influence Leverage. Board members have a lot to offer in this governance work area. They can be extremely credible with government, industry panels, and donors. Most often they are the best ambassadors with the general community.

Clearly, the CEO and senior executives also play important roles in providing technical knowledge or on-the-ground follow-up that helps leverage the influence of Board members.

Board members can provide advocacy to politicians, speak to media, and build relationships with key influencers and/or alliance partners. Indeed, this is high value, potentially high impact governance work. It also requires carefully coordinated support of staff providing effective technical and operational leadership, day-to-day interface with government employees, and development of policy or advocacy briefs, meeting arrangements, presentation preparation, research, and analysis.

This can be high risk to executive careers and it can also provide high reward for successful performance. Interpersonal chemistry between Board chair and CEO or Board members and other senior management members is crucial to foster. Board members and executive members all need to be working from the same frame-of-reference and values-set in order to maximize their impact.

Conclusion
The demands and expectations for effective governance are rising quickly. Indeed, the community expectations may be rising faster than many Boards can respond. Boards simply must realize there is more to effective governance than policy development. Good governance now requires more time than in the past, and it means continually asking yourself “what’s the best use of my time”. Ensuring you are doing your share of the REAL Work of Governance, plus clarification of the Board’s interaction expectations for the CEO and executives can enhance both the creative contribution you make to the institution, and decrease the abrasion you cause!

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