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Through the eyes of the Executive

Sometimes we're challenged about why we like to include the executive team in our board reviews: some seem surprised that we want to go outside the boardroom. Equally we're surprised by the question in the first place – why wouldn't you include them when a board's effectiveness is so heavily influenced by the working relationship with management?

Nonetheless, the question still gets asked, so we thought we'd spell out some good aspects of how the Board works with management – and some possible bad practices to be alert to. As with any questions around behaviours and relationships, it's a complex equation, but here are at least some of the main things to look out for.



Good practices to consider...

Be explicit about the different roles involved in the Board. There are at least four: NEDs, executive directors in their board director capacity, executive directors in their management capacity and the board as a whole. (And that's without counting the Company Secretary and the various executives and advisors who support the Board and committees.)

Make clear how the information and support needs of NEDs differ from those of executives. The nature, depth and frequency of the NEDs' engagement with the business is quite different from the executives' and it needs a different approach to information. And it works better when the NEDs spell out what they are wanting to understand rather than just requesting a specific piece of information.

Strive for a virtuous circle in which NEDs are of such value to the executives (as sounding board, friendly critic, advisor...) that the executives are motivated to do everything possible to equip the NEDs to give that value.

The Board's in a position to get a feel for how well the executive committee is working and so understand better how that affects the Board's own effectiveness.

Things to avoid...

Assuming that everyone has the same understanding about the different roles and responsibilities as you do. They probably won't, unless you make it explicit. (And it's confused further by dual roles for executive directors on a unitary board.) One of the most common root causes of a boardroom strife that we come across is misaligned ideas about roles, leading to misaligned expectations, leading to disappointment and frustration.

Executives who "kill the Board with kindness" by giving them so much information that they just have to presume the answer is in there somewhere. Usually it's unintentional, because executives didn't stop to think about the fact that NEDs aren't just ultra-hands-off members of the management team. Good management information is very rarely good board information, so don't allow the lazy habit of labelling it all "MI".

Settling for the dreary mediocrity of "doing governance". Or even worse, the vicious circle where executives' disappointment with the Board leads them to be unhelpful, causing the NEDs to become frustrated... and so on. If there are signs that's happening, it's important to have a "value" discussion to surface the problem – probably as part of the effectiveness review.

Assuming that the executive committee is working well. If the debate isn't thorough, the dynamics aren't right and the information isn't flowing, that's going to be reflected in what's brought to the Board and the quality of decision-making.

Good practices to consider...

Make sure that the whole of the top management team have a clear understanding of the role of the Board, the responsibilities of directors and the NEDs' needs for information and assurance. If the people who will actually get asked to provide that information and assurance understand why it's needed, they'll do a much better job of meeting the Board's needs.

Director induction involves a well-organised and timely programme of meetings across the executive and senior management team, covering significant locations, business lines and functions. It's a two-way street with the manager asking about the director's interests, experience, expected role etc, not just spending time on briefing the director about the business. Well used, it helps both the NED and the manager understand how they might be able to help each other in future.

The directors are conscious that management time is a scarce resource. They scope their requests to avoid unnecessary work and reduce the risk of over-delivery. They understand that cost/benefit matters, even if they have all the benefit and someone else (perhaps out of sight) has all the bother. But still they have the courage to ask for something that really is important, even if management find it a pain, and to keep on asking for it until they get it in a form that makes sense.

The NEDs are consistently conscious of their role as semi-detached critics who can stand back from detail and everyday circumstances – and management recognise this role and the value it brings. That means management not being defensive – nor dismissive, even when the question might appear a bit naive. Sometimes the unexpected question is the one that contains the most startling insight, because it challenges what everyone has been taking for granted.

Things to avoid...

Just assuming that they know what a board has to do and how it has to work. It's easy to forget that boards can be shrouded in Olympian mystery for the uninitiated, and that includes most of the management. Too often we get vague answers or comments which suggest managers think of the Board as simply a high level check and compliance body, rather than a body providing strategic leadership, and that unhelpfully influences the information they give and the way they answer questions from directors.

Seeing induction meetings solely as an opportunity for the director to be told about the business. Of course that's important. But it's also an opportunity for a new director to discuss perceptions of the role of the Board, how the executive/manager interacts with it, and how the director's experience is relevant to the manager's work. That assumes, of course, that the inductions meetings actually happen – all too often we see programmes which are half-baked, suffer from time slippage or become an information dump at the start... which is a pity since a well-thought-through induction programme – spread over a few months – can be tremendously useful all round.

NEDs get managers' backs up by what are perceived as unnecessary – or unnecessarily burdensome – information requests or other tasks. (And, possibly the worst sin, forgetting what you asked for and why.) Sometimes the requests will be justifiable – but the justification should be explained at the time of asking. At other times NEDs have to ask themselves whether the information is really needed (and whether it's a one-off or regular need) – or at least give precise guidance on what level of detail is needed, having heard from the manager what will be involved.

NEDs getting hung up on small stuff, especially if they can point out how they used to do it so much better when they were executives themselves, or weighing in too heavily by taking the role of "critic" over-enthusiastically. Or, on the other hand, attaching so much weight to being supportive of management that they no longer come up with helpful challenge. And just as unhelpfully, there's the executives who think their job is to get everything right before it comes to the Board for formal approval, so any suggestion for improvement becomes a criticism and NED challenge is – at best – an opportunity for a virtuoso display of batting away.

If you have any questions on the issues covered here, please contact Richard Sheath at richard.sheath@independentaudit.com

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BOARD REVIEW

