



## **When the Board Hears ‘ Things’ About the CEO**

What should the board do when it hears complaints about aspects of the CEO’s human resources management? This can be a vexed issue for directors. Should the board know about these and, if so, how should it respond?

There are examples of ‘whistle-blower’ type complaints that boards are extremely grateful to hear about. (See the Boeing example in *Good Governance* # 45, Setting Standards and Sticking to Them). The vast majority of employee complaints about executive behaviour that find their way to the board are, however, typically more in the nature of complaints about management ‘style’ than about matters that the board could or should react to.

While of considerable interest to employees, the CEO’s management ‘style’ should be of only limited interest to the board, the board’s major interest being whether or not the CEO is delivering organisation results. When, however, negative consequences of the style come to the board’s attention the board must decide whether or not these are serious enough to warrant action. For example a sudden and significant loss of staff at the senior level over a short period may be of concern to the board. When such circumstances come to the board’s notice directors may feel the need to mount an urgent investigation. But employees leave organisations for many reasons, not all of which are, or should be, of interest to the board.

There may, however, be times when directors hear about certain events or circumstances within the area of the CEO’s accountability that legitimately cause alarm or concern. In such situations directors hearing the stories must take care to be sure that they are not merely hearing gossip or ‘tittle-tattle’. Once satisfied that the ‘grapevine’ is signalling matters of substance that warrant further investigation, these should be brought to the attention of the full board. The board, after all, has a responsibility to ensure that its one direct employee is performing in an acceptable and appropriate way. It is vital, however, that when following up on matters brought to its notice, the board acts in concert. Individual directors should never take it upon themselves to become ‘detectives’ no matter how concerned they may feel and no matter how tempting it may be to follow a lead. Once alerted to serious matters and agreeing to look further, the board should adopt a structured, open and ethical inquiry process. To assist with this a board might employ an external consultant to carry out a climate survey or apply a similar systematic process. Principles of natural justice and fairness should be applied at all times.

## **Focus on the impact of the behaviour, not the behaviour itself**

Directors' real concern about their CEO's behaviour should, in the first instance, always be on the impact of the behaviour rather than the behaviour itself. For example, where there is significant employee loss, particularly at the senior level, the concern should be that the outflow has not resulted in, or is likely to result in, the loss of intellectual capital. The result of this could be that the organisation is unable to deliver its product to the acceptable standard. With this as a starting point the board might then determine whether or not there is a need to drill down more deeply or to take action.

It is not uncommon for boards to express dissatisfaction about aspects of their CEO's management style yet few are clear about what style they would be satisfied with. A senior CEO is almost certainly going to carry with him or her, a 'style' that has been developed over time and was present or evident in previous CEO engagements. At the time of engagement boards specify exactly what management 'style' they are seeking. This should then be carefully matched with the behavioural traits demonstrated by the preferred applicant. Such information might be sought from previous employers or as the result of psychometric tools used by recruitment agencies. Failure to take this step can result in the employing board being caught out when the employee exhibits all the behaviours that have got him or her to where they are now but are not the behaviours that are sought.

## **Board expectations should be made explicit**

We advocate that boards should make clear, in broad terms, how they expect their CEO to behave. For example many of our clients make clear that the CEO must not engage in behaviours or place employees in situations that are 'inequitable', 'unfair' or 'unsafe'. This then provides the board with criteria by which to seek feedback from employees about the CEO's management if desired, using, for example a 360 degree feedback process. Admittedly whether or not an employee considers that a CEO action has been 'unfair' or not will be somewhat subjective. Employee 'safety', psychological and physical, is a less subjective criterion; OH&S legislation setting the rules for workplace safety.

A CEO, knowing what actions or behaviours or circumstances are unacceptable to the board can design his or her management 'style' to fit the board's requirements. Having made its expectations explicit, the board then has the basis for determining whether or not to respond to complaints it receives.