**Working the board - CEO boundary**

Most CEOs want the freedom to manage the organisation that employs them to the best of their ability and with the full support of their board. Most boards want their CEO to 'get on with the job' so that the board can 'get on' with its job. This is most easily achieved when there is a clearly defined boundary drawn between the two roles that makes clear where accountability lies and 'who' is responsible for 'what'. This, however, is not always the case. Some CEOs are happy to share their management role with their board -- usually as a form of insurance policy -- and some boards, or more correctly, some directors, want to share in the management of the organisation -- usually in the form of interference. The defined boundary, if one exists, is ignored when it suits either party.

Perhaps the most basic tenet supporting the board-CEO interrelationship is that a board governs and a manager manages. Even the most incompetent managers and dysfunctional boards espouse this. While these two roles are interdependent, they are quite different, requiring different skill sets and perspectives. The separation of the two roles can go quite badly wrong when the individuals who enact them forget where they should be standing. Role or boundary overlap occurs for a number of reasons, one of which is that many directors are CEOs in their day to day lives. When sitting around the board table as directors they often forget which hat they should be wearing and slip into a management mindset with subsequent operational thinking. Others simply cannot put to one side their desire to provide management advice or instructions to their CEO. Others struggle to think at a governance level and, feeling that they must make a contribution to board dialogue, do so at an operational level.

Already mentioned are the CEOs who include their board in management decision-making as an insurance policy in the event that things might go wrong. This can only happen, however, when the board colludes in the process.

The most effective board-CEO boundary management occurs when the board has made clear where this boundary lies and has then documented this in the form of policy or as a statement of delegation to the CEO.

The concept of a 'boundary' should not be confused with the Berlin Wall. Every CEO works on the board's side of 'the line' on a regular basis, assisting the board to do its job through regular reporting, advice and guidance and as a full participant in the strategic direction setting process and ongoing strategic thinking in the boardroom. In turn directors assist the CEO to think strategically by engaging in strategic dialogue at board meetings, challenging the CEO's thinking when papers are presented to the board and by making their expertise and experience available between meetings.

Every CEO knows that he or she cannot tell the board what to do, only advise or steer. Once policy and strategic direction are established individual directors -- and hopefully also the board -- should not have to tell the CEO how to do his or her job. Again, advice and guidance are appropriate; instruction should be the exception.

Directors and CEOs alike need to know how to work the board-CEO boundary. This is an essential skill for any CEO. Directors too need to learn the finer points.

**Defining the delegation**

Board Members have a duty of care under the law. While the enactment of certain elements of this can be delegated, there are other elements that most boards determine should not be. No Chief Executive should reasonably expect that his or her board will accord an unbounded delegation.

The first step in determining where the boundary line sits is the design of the board's statement of delegation to the CEO. Most boards have one of these in one form or another. Most commonly, though, the delegations refers only to financial delegations and, not atypically, delves into the CEO's further financial delegation to management and other employees. Under normal circumstances, this should not be required. In setting a financial delegation for the CEO, by default, the board is also establishing limits of financial authority for all further staff. There are, of course exceptions that need special delegated limits. For example the Pharmaceutical Department Manager in a large hospital might require a much larger expenditure authority than the CEO similarly so too might a Chief Operating Officer working on a large construction site. In such cases and in addition to the board's delegation there will be operational-level systems that underpin a significant second-tier management financial delegation.

The financial delegation is at the heart of the board's delegated authority to the CEO but it should not be the only stated delegation.

When a board establishes a delegation it is, in effect, issuing an instruction to the CEO about how things should be done. In the case of the financial delegation, board imposed limits on the CEO's authority to spend above or beyond certain limits makes clear what financial decisions are available to the CEO. Many boards, however, when asked, quickly identify other areas of management that also require some form of governance guidance. Asset protection, high level statements about employment conditions and elements of the CEO's interrelationship with the board are all of strong interest to directors and contribute to the board's ability to do its job. It is appropriate then that the board should make clear to the CEO its expectations in these areas.

The key to this extended statement of delegation is that the board must stay at a high level, stating what must or must not be done or authorised to be done essential to the board's duty of care. For example a board might state that the CEO must not authorise salary levels that fall outside certain salary bands relevant to an employment category or class but it would not specify the salary to be paid or even where, within a band, a salary might be set. Similarly the board might make clear that particular levels of risk must not be exceeded when managing investments or establishing insurance cover. Having honoured the board's overarching instruction, the CEO would then be free to manage the investments and the relationship with the insurance company without the need for further board involvement.

**What keeps you awake?**

Any number of risks and concerns keep directors awake at night. Is the company solvent? Should we believe the CEO or should we get a second opinion? Are we getting all the information and data that we need in order to make this decision? What are the risks involved in taking the next step? The proposed actions will undoubtedly achieve the desired results but are they legally and morally acceptable? And so on. When a board has established a framework or set of expectations addressing the management of organisational risk, CEO reporting content and style, financial authorities and so on there is, at least, the basis for exercising a measure of control over the way a CEO carries out his or her role. Trust and prudential oversight then work in tandem to provide directors with the necessary assurances that things are 'as they ought to be.' The question, "What keeps you awake at night?" is a good starting point for identifying those matters that directors might want to establish some measure of control over. Once the concerns are agreed, a board might then create boundaries around the CEO's actions in respect of these issues and include these in the statement of delegation.

**Proscriptive beats prescriptive**

When a board writes its delegation as a prescription, i.e. stating what should, can or must be done it runs the risk of either creating a list that is so long as to be totally unusable or doing this and yet still not stating all the things that it wants done. A CEO working to this approach can never be completely clear about what he or she can or should do. The list of possible actions will always be incomplete. This leaves the CEO having the second guess the board's likely response to a proposed initiative, more than likely feeling the need to check it out with the board. Board meetings can become bogged down with operational dialogue necessary to give approval for management actions.

Contrast this approach to one where the board proscribes, i.e. states what cannot, must not or should not be done. Although probably also never complete, this list is much shorter and provides the CEO with superior guidance about the board's expectations. There will always be certain actions that are unacceptable to the board, regardless of the possibility that they could result in the achievement of the right outcome. These can be stated in board terms such: *"Don't do anything that is in breach of the law, that would reasonably be considered to be unethical or imprudent or would run counter to the organisation's, or commonly held values."* This would be a good starting point for a set of proscriptive delegation statements. As these statements are formed the board, in effect, provides pre-permission for the CEO to act. If the board has not prohibited an intended action or decision, then it is available to the CEO with all accompanying accountability. The board provides a set of boundaries to be worked within. The prescriptive approach can never achieve such clarity.

We have written about this approach on numerous occasions so will not expand on this. (See GG #s xxxxx) Suffice to say that this approach, when well executed, simultaneously enables the board to exercise all the control over CEO actions it deems necessary while providing the CEO with all the freedoms required to go about his or her job.

**Working the boundary**

Trust is earned, it is not a right. Most CEOs will readily report that they had to earn the trust of their board and then hold this. Directors will describe the same scenario but from their point of view. The term 'freedom' should not be interpreted by the CEO as unbounded license. As with most relationships trust results from honesty and openness. Communication is a central component in the trust building process. Just because a CEO has pre-permission arising from the delegation statement should not be interpreted as there being no need to communicate with the board about the issue, action or decision to be addressed. A smart CEO knows his or her board's strengths and weaknesses, their appetite for risk as a group and individually and has a clear sense of what is required for them to be able to 'put their heads on the pillow and sleep soundly'.

Informing the board about an intended action or decision is not the same as asking permission to carry it out. While directors might comment that they welcome pleasant surprises, boardroom surprises are more likely to be of the other kind. Keeping the board on side is something that all CEOs recognise as central to their job security and creative freedom and keeping their board on side requires regular communication and a policy of 'no surprises'. Little is to be lost and a lot gained by informing the board about intended actions. When directors know ahead of time about a proposed project or planned expenditure they are not only able to ask questions at an opportune time, but to be sure that the proposed action is within the delegated authority. A CEO unsure about his or her interpretation of the delegated authority has the chance to check this before proceeding. This all sounds like common sense but we have encountered occasions when CEOs have assumed board support for a project, have moved on an opportunity without informing the board on the basis that it is within their delegation, only to confront an angry board. In one such instance, the directors, feeling left out of the loop and unsure about the CEO's interpretation of his/her freedom to act took their CEO to task. Trust was seriously undermined and the CEO's future job continuation questioned. Whether such a strong response is reasonable or not is not really the point. Some of the directors felt 'shafted' and that was what counted.

CEOs need to learn to 'work the boundary', to know how and when to allow the board into certain of their decision-making processes and when it is okay to act without reference to the board. On the other hand, board members need to have realistic expectations about how often and in response to which issues and circumstances their CEO will include them in his or her deliberations. They too need to learn to work the boundary. Keeping questions at the governance level, using the statement of delegation as the basis for engaging with the CEO on operational matters and knowing when to 'trust' and when to 'check' are essential to honouring the director's side of the board-CEO partnership.

Boundary management requires both CEOs and directors to know firstly where the boundary lies and secondly how to use it as the basis for regular dialogue and relationship building without transgressing documented authority and accountability agreements. These come with experience and practice.