



## BOARDWORKS *International*

### **What Should a Chief Executive Expect to Tell the Board?**

Exactly what and how much should a chief executive expect to have to tell the board about what is going on inside the organisation? This question is one that many chief executives ponder on a monthly basis. The flip side of the question, exactly what does the board need to know in order to do its job, often bothers many directors. A failure to find a suitable answer to these questions can have many unwanted consequences for both parties ranging from an ill-informed board to conflict between a board and its chief executive.

In previous articles we have emphasised the board's duty of care. This is typically defined as:

- Governing the organisation in the best interests of all the organisation as a whole, not individual stakeholders or groups of stakeholders;
- Exercising a degree of care and diligence that a reasonable person would exercise in like circumstances;
- Not making personal gain from directorship; and
- Respecting confidentiality and not making improper use of information gained from directorship.

In a nutshell, a director is expected to exercise the same level of diligence and care for the organisation as he or she would if it were their own. In other words, if this were my property, what would I expect to do to protect it?

#### **The organisation as a car**

Think of the organisation as a modern car. Controlled by computer technology, the workings of most modern cars are too complex for the average car owner to understand and work on in the home garage. Most directors are like the average car owner. They drive the car (for 'drive the car' read 'govern the organisation') in good faith, having an ear to the running noises and an eye to the dashboard. They rely, however, on a trained mechanic to look under the bonnet and provide a detailed read-out on the overall performance. Most 'reasonable' car owners apply a level of care and attention to their car so that its value is maintained at the highest level and there is trouble-free motoring. The combination of their own attention and that required from specialists ensures that these two requirements are met. For the most part, the chief executive is the board's main mechanic. There is also the external auditor and any number of specialised consultants but the board relies on the chief executive for day-to-day running diagnosis of fitness and overall performance.

#### **The board and the chief executive depend on each other**

Recognising that the board governs the organisation and the chief executive manages it and that, for the most part, neither should intrude into each other's responsibility and accountability domain, nonetheless each relies on the other for information, guidance and direction. A chief executive needs the board to make clear

its intended strategic direction and the rules within which he or she can work (policies and procedures). So too the board needs a constant supply of current information about a wide range of organisational issues so that it can govern and thus provide appropriate direction and fair and effective rules and boundaries.

### **The board should be told whatever it needs to know**

What then should the chief executive expect to tell the board? The answer is very short and very definite; anything and everything that the board asks to be told, coupled with everything that the chief executive believes that the board should be told. This must be the 'bottom line' in respect to board-chief executive communication.

Any chief executive who disputes this position should refer to corporate legislation in which it is made abundantly clear that directors have certain rights in respect to the carrying out of their role. Included in these is the right to receive all internal information concerning the company's affairs, provided that such information is to be used for proper purpose. While not spelt out in law there is, thus, the assumption that, conversely, the chief executive does not have the right to withhold information from directors when such information is required for the exercise of the directors' overall responsibilities and, in particular, their duty of care.

We offer a caveat, however. Directors should refrain from indulging in 'idle curiosity'. Purposeful inquiry is certainly one of a director's primary skills and tools, however, in exercising this, directors should ensure that the purpose of their inquiry is to better meet their governance duties rather than to merely engage in trivial dialogue. Board meeting time is too short and precious to waste on trivia or on matters that are not within the board's interests or responsibilities.

### **What should the board do with the information?**

'Telling' the board is one thing but how the board uses that information is another. There is nothing quite so frustrating for chief executives as to provide the board with information, as requested, and to see no purpose for this nor witness any appropriate board response. The preparation of material for the board is a cost to the organisation. Chief executives, charged with the responsibility to effectively manage the organisation's resources, have every right to carefully scrutinise the expenditure of staff time and other resources and to challenge waste.

We suggest 5 categories of information or reasons why a board might want information about the organisation and its working environment:

#### **Duty of care**

To meet their duty of care, directors need to have accurate and current information about the organisation's performance, e.g. its financial situation and achievement of strategic and business-planning targets.

#### **Compliance**

The board needs to know that externally imposed compliance requirements are being met.

#### **Policy implementation**

When the board has declared in policy that certain things must or must not be done within the workings of the organisation directors need to know that their policies have been implemented or honoured to a satisfactory standard.

### **Environmental intelligence**

Directors need to be informed about significant elements of the external operating environment such as changes in legislation, competitor strategies and actions, changing demand for the organisation's services and products, client expectations and requirements, and so on, so that appropriate direction can be debated and provided to the chief executive and staff.

### **Strategic thinking**

In order for the board to engage in effective strategic dialogue, directors need to be provided with background data, strategic information and all other information necessary to fuel creative and productive strategic thinking.

### **An appropriate board response**

The board's response to the information received will vary according to the nature of the data and the dialogue this requires. For example, compliance data and financial and other historical performance reporting might elicit brief comment only. When historical data indicates that 'all is as it should be', there does not necessarily need to be any formal discussion. A noting, a word of appreciation or acknowledgement of standards achieved is often all that is necessary. Having said this, however, we offer a caution. Just because the numbers look good does not mean that these necessarily represent a true and accurate picture. Recent events in the corporate world make abundantly clear the need for regular independent verification using the skills of the organisation's external auditor and thorough and diligent work by the board's audit committee and internal audit.

Other information will elicit debate and dialogue among directors and between directors and the chief executive. For example, most chief executives make recommendations to their board about a wide range of matters, some policy related, some relating to the organisation's strategic affairs. Chief executives are regularly required to present papers to the board. These typically form the basis for board dialogue and debate and serve as the background for board decision-making.

### **The board's requirements should be made explicit**

As a general principle, boards should make clear to their chief executive exactly what they want to know, in what format, at what frequency and to what standards. In addition, chief executives should provide the board with whatever additional data they believe that the board should have in support of the governance role and to provide assurance of managerial effectiveness. It is our experience that few boards make their data requirements sufficiently explicit with the consequence that chief executives either over-supply or under-supply data to their employer.

### **Chief executives should not give boards the mushroom treatment**

A client of ours, having recently taken over as the chief executive of an international company, described how her predecessor had been obsessed with keeping his board in the dark or, at least, at a very long arms-length. The result of this, she described, was a disinterested, inactive board. Desiring a positive engagement with her board she has set about involving them in the raft of matters that are the basic affairs of directors. She knows that this will entail a change in boardroom culture. But she also knows that her failure to bring about this change will perpetrate governance processes that render the board vulnerable to a failure in its duty of care and have the potential to sweep her into any consequences of this.

No chief executive should give their board the mushroom treatment and no board should allow itself to be treated in this way. The role is far too important, both legally and morally, and the risks too great for a 'slack' attitude to become the norm.

### **Exactly what information?**

While we cannot provide a checklist that relates to every board, nonetheless the following outline has sufficient universal applicability to make it useful for most boards.

### **Reporting strategic results**

Having established a strategic direction for the organisation and, likely, having formalised this in a strategic plan or statement of strategic direction, an active and attentive board will want to know whether or not the planning and direction-setting processes are bringing results. Acknowledging that strategic results are typically not achieved within short time-spans, the board might require the chief executive to formally and systematically report on a quarterly basis on the various achievements. This should not preclude specific strategic issues from being reported on and debated on a more regular basis. Indeed, we have argued on many occasions that such dialogue should be the bread and butter of every board meeting.

### **What financial information?**

Top of the board's financial data requirements is the need to know that the organisation is solvent, in other words to know that it can pay its bills as and when these fall due. Following on closely behind will be a range of other financial data, some in the form of ratios, other data presented as graphs, financial reports and analysis, e.g. a balance sheet, consolidated P& L account, cash flow situation and analysis, and so on. These provide essential data for directors to form their opinions about the financial situation and as evidence of the accuracy of the chief executive's analysis and summaries. Many boards also request an update on the management of the budget even though this does not typically provide a great deal of useful governance information. Boards commonly request financial information on a meeting-by-meeting basis.

### **What HR information?**

Knowing at what level and to what extent the board should be interested in HR or staffing matters is a challenge for many directors. This is an area of information exchange that causes many board-chief executive relationships to come to grief. Even though most boards delegate full authority to the chief executive to manage all aspects of the organisation's HR responsibilities, (indeed some have legislation that requires this, e.g. Local Government) this boundary is often highly permeable. It is not uncommon for directors, especially in the not-for-profit sector, to challenge the chief executive's management of staff and to expect to take a 'hands-on' role in staff matters.

It is, in our view, perfectly reasonable that the board should know that the organisational climate and culture are healthy and suitably aligned to the organisation's purpose and client group and that strong staff morale supports the organisation's capabilities. To this end the board might periodically commission a climate review or ask to see the evidence of the outcomes of any such chief executive initiated review. It is also in the board's interests to know that staff members are provided with a safe and fair working environment and that all appointments and terminations are dealt with according to statute (when this is applicable) and are consistent with best practice and the organisation's best interests.

Directors might, quite reasonably, want to be informed when a senior staff member is fired (or in a very small organisation, when any staff member is fired) if for no other reason than not to read about it after the event or have it come to their notice in the form of a lawyer's letter stating that the termination is in breach of the

law. The board should be concerned to know that there is a fair and user-friendly grievance process available to all staff members and that users of the system are not penalised for making use of this provision.

Effective boards recognise that the strength of the organisation is not simply in 'its people', but knows that these must be the 'right' people. To this end the board might seek from the chief executive assurance of staff capabilities, especially at the senior level.

### **Asset protection information**

Most boards seek assurance that the organisation's assets are properly protected. The chief executive may be called upon to provide evidence of systems and processes that protect against a myriad of risks and threats. It would not be unreasonable for a board to request that the chief executive present a schedule of insurance policies or describe or provide evidence of systems and mechanisms designed to protect the organisation's intellectual property or client information.

### **Exchanges between the chairman and the chief executive**

When we work with boards, we are at pains to emphasise that when the chief executive keeps the chairman informed about compliance and strategic matters, this is not the same as keeping the board informed. While we acknowledge that there may be a close working relationship between the chief executive and the chairman, this should not exist as a surrogate for a close board-chief executive relationship. Some directors we have worked with express their view that the chief executive-chairman relationship should be the vehicle for all or most reporting and monitoring. We do not agree. All directors share the same legal and moral responsibilities and liabilities. To make one person, even the chairman, the sole point of accountability for the chief executive denies the fundamental principle that the chief executive is employed by and accountable to the board as a whole, not just to the chairman.

### **Information exchange is the basis of trust**

A free and open relationship between the chief executive and the board coupled with respect for each of these two separate but interdependent roles is the basis for trust and mutual respect. With nothing to hide, a chief executive should not hesitate to respond positively to board requests for information. In turn, directors should respect such openness and ensure that they stick to their governing role. The chief executive's data is used as the basis for attaining the necessary level of comfort in all aspects of the organisation's performance and for building assurance that board-determined criteria are being met. Unless there is due cause, directors should resist the temptation to turn the chief executive reporting process into a management supervision and instruction-giving session. Such board actions will assuredly be the quickest route to the chief executive 'shutting up shop' in the reporting process as an essential means of protecting him or herself against board interference in a rightful delegation. This should be taken to mean that there might not be the opportunity taken for the experience and wisdom of directors to add value to the chief executive's decision making. Certainly, the availability of such wisdom is one of the fundamental reasons for having a board. Rather, directors should temper their enthusiasm to offer advice with a careful assessment of the chief executive's decision-making and managerial abilities.

The relationship between a board and its chief executive is in the nature of a partnership in which there is symbiosis, each feeding off the work of the other, building and growing their capability separately and in tandem.

## **Summary**

A strong chief executive will welcome the participation of a strong board and a strong board, quite simply, needs a strong chief executive. When strength meets strength and egos are subsumed into the greater interests of the organisation, its purpose and its clients' concerns and needs, there is no need for either the chief executive or the board to hide essential and relevant information from the other. Provided that each party understands and respects the other's role, then information can flow freely back and forth between the board and the chief executive.

What the board asks for, the board should get. What the chief executive needs in order to carry out his or her role should be expressed and, when possible, should be granted.

Monitoring organisational performance and ensuring compliance together with engagement around strategic dialogue and forward thinking are the backbone of the board's governance role. None of these can properly be carried out without the provision of information from the chief executive. To this end, it is essential that such information is provided to the level and standard required and that both the board and the chief executive intuitively understand this.

To revert to the car analogy we offer a final thought. While the board may be the vehicle owner with the chief executive doing most of the driving, nonetheless the board still has a set of motoring responsibilities. It must itself monitor driving conditions, know the conditions of the road, keep an eye on the weather and have ready access to the map of the journey. Board dependence on the chief executive to navigate the driving environment alone is an abrogation of basic governance duties, placing the organisation at risk. Unless the board has an informed yardstick against which to measure the chief executive's information and advice it can fall victim of intended or inadvertent misinformation with detrimental results for the organisation and its owners.