Boards and executives: making the most of your short time together

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You are not involved in the day to day running of a business… you have been given a few days to read several hundred pages of detailed information… and now, you have to sit in a room with a group of people you don't know that well and in just a few short hours make decisions that will ensure future success. And did we mention that, should success be elusive, you are accountable; and if things really mess up you could find yourself pursued by an angry press and a regulator with the power to ruin you?

A board is really a rather strange construct. Perhaps even more so is the idea of a non-executive director – a sort of omniscient fairy godmother who is supposed to understand all aspects of the business, to be able to offer pearls of wisdom and to protect it from failure, while simultaneously not interfering or telling management how to do their jobs.

Yet despite its evident improbability, it does seem to be the case that boards can work. More than that, in fact: the UK's system of corporate governance remains the model for other nations around the world, and is a cornerstone of investor trust in UK businesses. It's not a perfect system, but the board does perform important functions, not least taking absolute power away from the CEO and ensuring that the interests of stakeholders are looked after.

At its best, a board does more than provide a check on management. It can add value by bringing new ideas, relevant industry insights, and challenging and improving the plans put on the table by the executive team. However, it's sadly all too rare that the executives walk away delighted that their hours spent in a board meeting, not to mention the days spent preparing papers, were a wholly enlightening

use of their scarce time. But it needn't be like that. Expectations should be raised – and it should be possible for every board to meet them.

The vicious circle and the virtuous circle

When it comes to board effectiveness we see two extremes.

At the worst extreme, boards experience a vicious circle. Management do not perceive that the board brings any value – it may be performing all the duties that it would be expected to, but management feel more like they are having their homework checked than engaging in a stimulating discussion which is really helping them to refine their ideas. So, the board meeting is something that they want to navigate through with the least possible hassle. They don't put much time into the board papers but use recycled management information. Nor do they seek communication with NEDs outside of formal boards. They just want to get through the meeting without being told "no".

But from the perspective of the NEDs, they are not being put into a position where they can justify trust in management, let alone being able to contribute more. They aren't getting the familiarity they need with executive plans and the business. Board information does not tell the story of performance and future plans. Further information has to be dragged out of management by detailed questioning. And management are resistant (sometimes subtly, sometimes not) to NED requests for change.

So, there's an unhealthy tension between NEDs and management. The NEDs feel like they are being kept at arm's length and so need to be digging into detail to get confidence that things are under control. Management get frustrated by the detailed, apparently negative, nature of NED questioning and perceive it to be invasive and a waste of their time.

At the other end of the spectrum is the virtuous circle. Management are enthusiastic about board meetings, because they expect them to test their thinking, stimulate ideas and provide new insights. So, they spend time preparing NED-friendly board papers and communicating with NEDs outside of meetings to keep them in the loop. The NEDs have confidence in the information they are given and comfort that everything is under control. This well-grounded trust means that NEDs do not need to worry so much about the detail – therefore, the conversation at the board table can stay at a more interesting, strategic level which is intrinsically more useful to management. The conversation is stimulating, without being confrontational. Management are open and transparent, comfortable discussing issues with the NEDs, knowing that they will get useful input in return. The NEDs are supportive, accepting that they are in it together when things go wrong and taking a constructive approach towards finding solutions rather than seeking scapegoats.

Most boards sit somewhere between these two extremes. But it should be clear that a board wanting to improve faces something of a chicken and egg situation. It is hard to make management or the NEDs change without the other one doing so first, which makes a step change unlikely. Boards improve through a series of incremental improvements, with simple tangible changes paving the way for greater progress as the NEDs and management gain confidence in each other.

Much of our work as board reviewers comes down to encouraging executives and NEDs to understand how things could be better – and to acknowledge their own responsibility for contributing to the virtuous circle. Because everyone involved needs to contribute, it's easier for us – as facilitators who are not part of the situation – to encourage both the NEDs and management to have confidence that alterations in

their respective approaches will improve the attitude of the other, and ultimately make their own job easier.

Making things go right

A lot of boards struggle to spend enough time focussing in the right areas, with strategic discussion usually losing out. There will always be items that need fitting in at late notice but the secretariat can play a big role in helping the board to plan ahead, preparing a cycle of routine events including performance reviews of various business units, and tying the board's work together with the reporting cycle, the budget, and other key annual events. At the least, this ensures meetings are held at the right time of year, that issues are raised in good time, and that time is earmarked for concentration on strategic issues.

If it feels like meetings are getting a bit stale, it might stem from the agenda looking the same each time. Try something different like rotating the focus: alternating between strategic or future-orientated meetings and those focused on governance and operations, rather than trying to cover everything every time.

Then, when planning each individual meeting, make sure the big discussions are brought forward in the agenda. It's a little-known fact that board members are mortal and can suffer from tiredness and loss of focus just like the rest of us. So, you'll get more out of them if you tackle the tricky issues while they're fresh, and leave the last hour for "the governance stuff" (assuming, that is, that "governance stuff" needs to be on the agenda at all).

Board information

Poor board papers are perhaps the biggest, and certainly the most common, hindrance faced by boards. At their worst, board papers are an information dump with no clear narrative. Management are usually oblivious to the fact that, from the NED perspective, this can betray not only ignorance of how a board works but also the author's lack of understanding of the broader strategic context.

However, few of those writing the papers can actually be expected to have much grasp of the board's role and therefore how the paper they write will be used. Furthermore, there is no reason to suppose that that all managers will be good writers. So, training on how to write good papers is often worthwhile – but it needs to be augmented by the board making clear what it wants, what works and what doesn't.

NEDs always say they want the papers to be shorter. In practice, length isn't necessarily the real problem. Most often, what's missing is clear signposting of the most important bits, a sense of the key issues or of what's keeping the author awake at night, and a broader perspective on how the paper ties in with the other big issues faced by the company.

The paper should be clear up front, stating what it is about and what the author expects the board to do with it. If there is a decision required, have the board been primed for a worthwhile discussion? Do they truly have enough information to make a good decision? If it is just for information, is there really nothing more wanted from the board? Perhaps their opinions, their insights, or even their approval for the direction of travel? If not, is there a good reason for the paper going to the board at all?

Board discussion

Boards have a very short time to discuss often complex issues, and frequently find themselves going around in circles, or down several different avenues, without getting much closer to the outcome they need to achieve. Management should not leave the meeting with a vague set of ideas to make sense of later – the board owes them something clearer.

Where the topic is complex, the chairman has a challenging job in steering the conversation. Everyone around the table will have a view on it and a different angle, but each of those angles will need to be explored properly. Without good preparation, other board members, who are keen to have their point heard, will jump in at the first opportunity. Before you know it, you've had half a dozen totally different aspects raised, none of which have been discussed to the point of any kind of consensus or resolution, and there is confusion about the overall mood of the board.

The chairman can help by reaching out to board members ahead of the meeting, once they have had time to read the papers. The idea should be to surface key concerns and issues which can help the chairman, perhaps in collaboration with the company secretary, to structure the conversation. Even half an hour is too long for a big, important issue to float freely around the board table – the conversation will need landmarks to keep it on track, to go to the right depth on each important issue then moving on while there's time to do justice to the next important issue. Periodic summing-up of the discussion's progress can be very valuable in this.

Achieving clear outcomes

By keeping more structure around the conversation, the chairman should have an easier job interpreting the key outcomes of the discussion. Consensus should be explicit, and stated clearly. In wrapping up, the chairman should be cutting through the conflicting opinions to offer an outcome or action which everyone is prepared to accept. If everyone were to walk out of the room to a post-board-meeting interview, they should all be able to say what has come out of the meeting, and how it is a useful progression from where they started that morning. The minute-taker has a valuable role to play in this: if the outcome isn't clear, he or she needs to ask then and there for it to be made clear.

Actions for management to take away should be clearly captured with dates for completion. This shouldn't wait until the minutes are finalised, unless your secretariat is quite exceptionally expeditious, but circulated without delay. This gives a quick opportunity for everyone to sense-check the actions against what they think was agreed in the meetings. It leaves management in no doubt and a good summary in the next board pack provides a clear opportunity for them to be held accountable.

A case study

We worked with a board recently who exemplified the issues described here, although they were not aware of it. They were not quite in a vicious circle, but they had a way to go to achieve the virtuous circle mentioned earlier. The Company had come from a difficult place with a controlling CEO who kept management at arm's length from the Board, and the Board at arm's length from him. The new and very highly regarded CEO, a year into her role, had made significant improvements but found herself frustrated by the amount of time she had to spend with the Board and the level of detail they were demanding from her – a feeling shared by the senior executive team.

The diagnosis was clear – the legacy of the former CEO had left the Board in a position where it was not able to feel confident in management, and where it was not able to get sufficient assurance from elsewhere that things were really under control. The Board had built up anxieties under the previous regime, and now management were bearing the brunt of the NEDs' lack of confidence. Meanwhile, management, who were trying to adapt to a changing culture which should have encouraged openness, autonomy and teamwork, were feeling worn down, undermined and under-valued by the Board.

For things to improve, the NEDs needed to understand that they had to raise themselves up out of the detail in order to focus at a more strategic level appropriate for a board. But for this to happen, something else needed to happen first. The NEDs could only be confident enough to get out of the detail if they were getting comfort from elsewhere.

It took a long conversation over dinner with the CEO to get her to really appreciate how she could make things better. It was her first CEO role, and her expectations of the Board were quite low – so of course this was reflected in the attitudes of the rest of the executive team. Because she didn't expect that the Board could do any more than give her plans their blessing, normally having checked her workings very closely, she wasn't inclined to give them any more of her time. She certainly didn't see the board as something that could add value by bringing the NEDs' expertise to a high-level strategic discussion and helping her to test ideas and refine her plans. Nor did she appreciate how her informal, hands-on management style could result in the management system not being visible to the NEDs, and how the formal systems of assurance weren't making up for that.

The executives and NEDs now have a better understanding – and better board meetings. The board agenda has changed, and the Executives are enjoying stimulating strategic discussions at the board table. The NEDs aren't routinely digging into detail, but have confidence grounded in helpful board papers, more open conversations, and more systematic assurance over the effectiveness of the management systems.

Final thoughts

There is much that has not been covered here – skills and composition, the committees, the risk and assurance framework, for example, where different boards have different needs and so where 'good' might look very different. However, most could to some degree improve by making sure that the board and management have shared expectations of the board, and that management is equipping the NEDs to give real benefit to the business.

Creating a virtuous circle, of course, requires the NEDs to play their part by responding to what they are given and making the most of the opportunities they have, to give value. But that's another story!

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