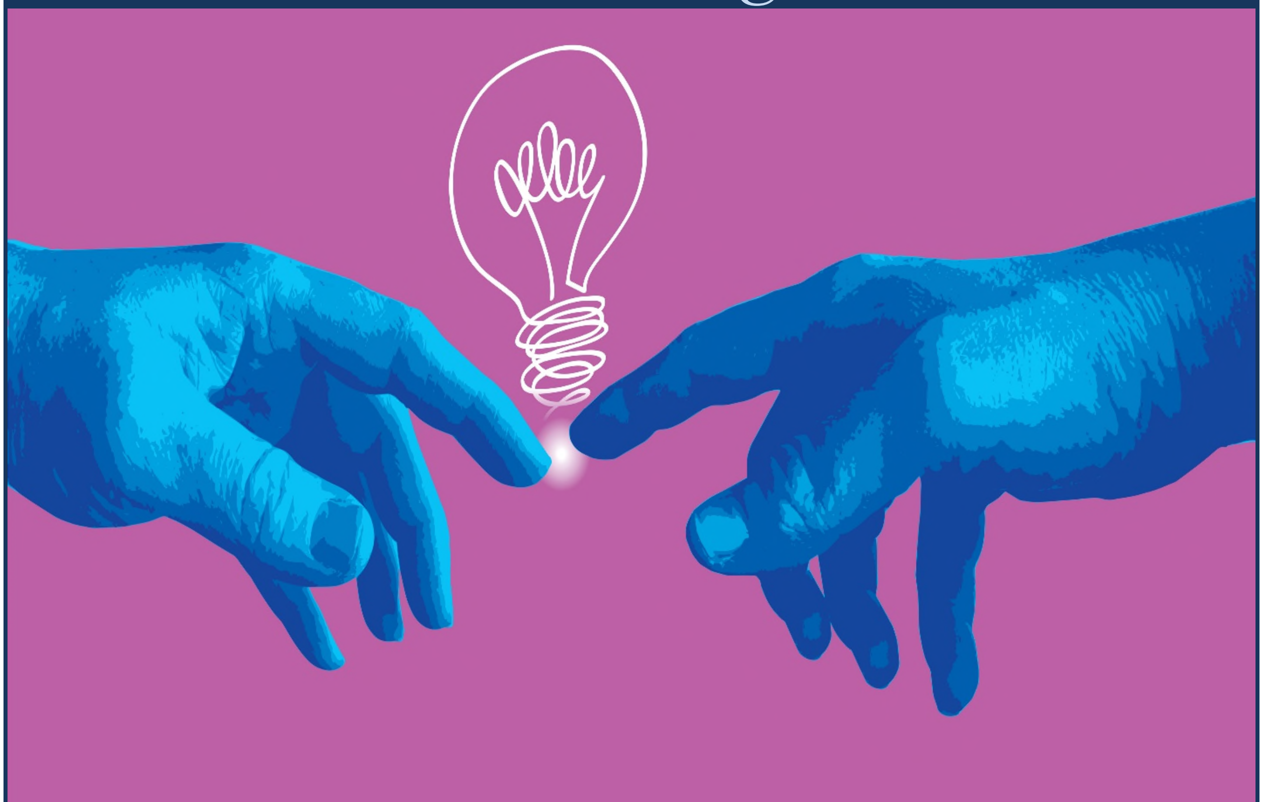
Optimizing the Board/Management



Relationship

Initially developed for New Board Chairs and/or New CEOs, this process is invaluable for any board or corporate leader who wants to make the most of their board and create a positive, productive working relationship with the senior management team. It represents the next stage in a boardroom evolution that began 20 years ago with the fall of Enron.

Board Advisor, LLC – New York

Optimizing the Board/Management Relationship

Initially developed for New Board Chairs and/or New CEOs, this process is invaluable for any board or corporate leader who wants to make the most of their board and create a positive, productive working relationship with the senior management team. It works particularly well when structured as a collaborative project between the Board Chair and the Chief Executive Officer.

Many Boards and CEOs today want to shift the board's operating mode from "Reporting Out" or even "Micro-Management" to a more productive "Collaborative Oversight" approach, the direction that boards around the world are now heading. It's an operating model that yields far more value than the old "Reporting Out" style that characterized most boards pre-pandemic and the "Micro-Management" mode than many boards adopted in navigating the challenges of COVID-19 – see the appendix for more.

But getting there won't happen organically. There are levers that both the board and the senior team need to consciously pull to both achieve and sustain this shift. That's what Optimizing the Board/Management Relationship is all about. It focuses on those factors likely to have the greatest impact in the shortest amount of time based on our work with nearly 200 boards over the past 25 years. And it's tailored to every board we work with; there's nothing cookie-cutter about this process.

We start with preliminary discussions with board and corporate leadership to understand your board – its history, issues you're currently dealing with or have focused significant attention on recently. We strive to understand what makes your board unique, because every board is a bit different. We also review two prior board agendas and pre-reading materials, any prior board evaluations and other relevant documents (roles of the CEO and Chair, etc.) From there, we create two parallel interview protocols for a series of confidential conversations with every member of the board and the company's top executives. This provides structure and focus, so that we're getting insights on the most important issues identified from our preliminary review. Engaging both board members and management in this way surfaces any differences in viewpoint, underscores areas of alignment and creates a bias for action.

We analyze all of this feedback to understand current strengths of the board/management relationship and identify areas where constructive changes can yield further improvements – and shift the board to its optimal operating mode. This culminates in a joint working session of the board and management facilitated by Board Advisor in collaboration with board and corporate leadership - and an Action Plan resulting from this working session where everyone's on the same page.

Pricing: $59,500

Includes interviews with up to 10 board members (including the Chair/Lead Director and the CEO) and 5 additional members of the senior executive team conducted via Zoom. If more interviews or in-person interviews are required/appropriate, the project can be expanded accordingly and we'll provide a quote.

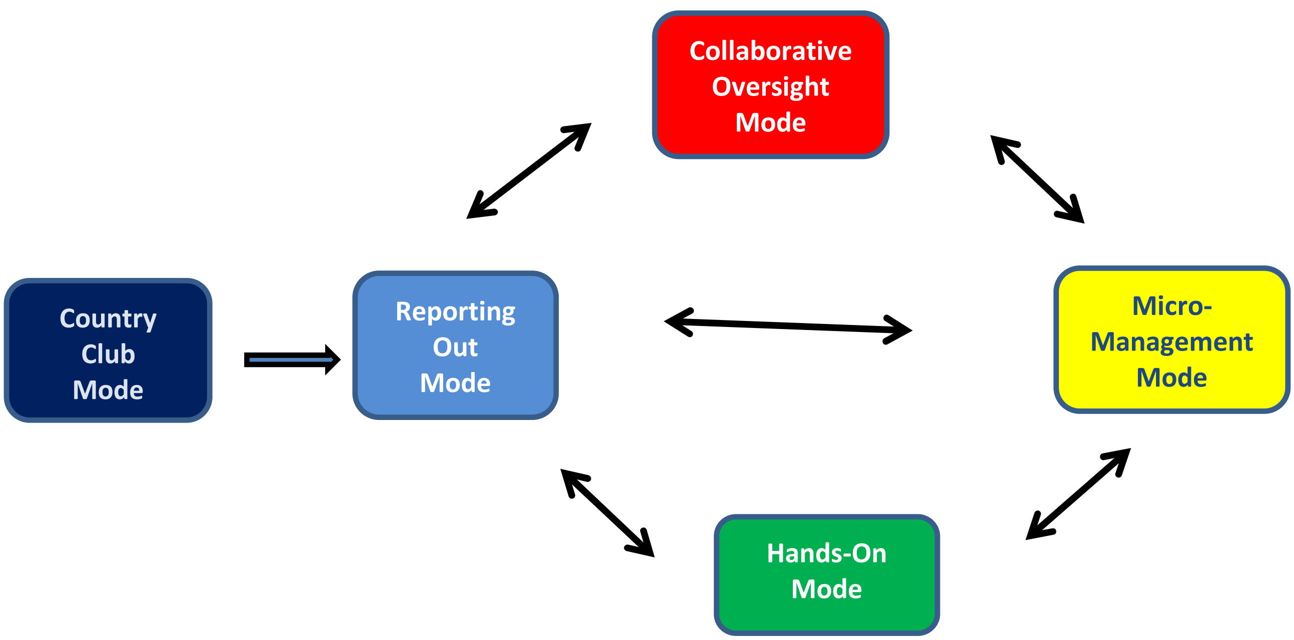
Timing

This process typically takes 2-3 months from preliminary conversations with leadership to the creation of an Action Plan following the working session of the board and management; this session is often held in conjunction with a scheduled board meeting. However, this timing can be accelerated if necessary.

Appendix I: Five Board Archetypes

Board archetypes provide a particularly useful framework for analyzing the board/management relationship, as are illustrated in Figure 1. The arrows in this graphic representing the fluidity that can exist between the different operating modes. Some boards will actually fluctuate between “Reporting Out”, “Micro-Management” and “Collaborative Oversight” in a single meeting. For example, the board might routinely operate in “Reporting Out” mode but lacks confidence in one corporate executive, causing directors to “jump the fence” into “Micro-Management” whenever this individual makes a presentation. However, most boards have a predominant operating style, which is what you might want to consider relative to your own board in reviewing Figure 1 and its descriptors.

Figure 1: Five Board Archetypes



Country Club Mode: In the 20th century, a directorship was largely considered an honorific position and most boards functioned in "Country Club" mode. Gathering multiple board seats conferred increased prestige– some directors sat on 10 boards or more. While shocking today, it was easy to manage at the time because little was expected in terms of any meaningful boardroom contributions; a director's role was largely ornamental. CEOs typically recruited their board members and most directors viewed their primary responsibility as "supporting" the CEO rather than calling the question on issues of concern and protecting the company's stakeholders. Enron changed all of that.

Reporting Out Mode: Over the past 20 years, most S&P1500 boards migrated to Reporting Out mode, where the cadence of board meetings typically involves management "reporting out" to the board, seeking approval for their proposals and initiatives, then responding to questions and challenges from directors. In this archetype, the board operates in an appropriate oversight role by making sure they have canvassed key risks, tested management's assumptions and challenged a range of issues relative to the update or proposal before giving assent – or not. Directors are far more engaged and effective in fulfilling their fiduciary duties than in the Country Club era. However, the Reporting Out mode creates somewhat of a defensive dynamic: Management presenters largely spend the Q&A portion of the meeting "defending" their recommendations against challenges from the board. Many CEOs tend to view boardroom success as simply "getting out of the meeting unscathed." Over the past five years, I've noticed a genuine interest – in boardrooms but around the world – in making a further shift to better leverage the wealth of expertise assembled around most board tables. This involves a shift to the archetype I refer to as Collaborative/ Oversight, where the board is viewed and treated as a genuine corporate asset rather than a nuisance, whose questions and challenges must simply be countered so that management can move forward with their plans.

Collaborative/Oversight Mode: In Collaborative/Oversight mode, board members fulfill all of their fiduciary duties and oversight functions, but the board/management relationship is markedly different: Efforts are made to actively engage the board around pivotal issues where directors' expertise can add real value. It's characterized by robust two-way discussions between the board and management, eliciting views from both sides on critical issues. Management comes into the meeting with a well-considered point of view - and uses the board to test their assumptions, advance or confirm their thinking. This is a very different dynamic than "OK, here's what we want to do. Any questions?" followed by a game of boardroom "dodgeball". Boards operating in Collaborative/Oversight mode play the dual role of both (i) a thought partner, sounding board and collaborator, drawing on their wealth of experience to offer insights to management; and (ii) an effective overseer and watchdog, challenging management where appropriate and holding them accountable for achieving corporate objectives.

Hands-On Mode: Many boards of early-stage companies operate in Hands-On Mode, where the board provides expertise either not yet resident on the executive team or which augments managements' capabilities. In this archetype, directors routinely make management level decisions: A board member with a legal background might function almost as the company's General Counsel; a director with brand management expertise might draw up the company's marketing plan. Although Hands-On mode would be considered anathema in the S&P1500, it often works extremely well in early-stage scenarios. Problems inevitably arise, however, when a change in corporate leadership occurs – typically replacement of the founder by a new CEO recruited to take the company through its next stage of growth. The new Chief Executive nearly always recoils at the board's constant "meddling" in management decisions, at which point deliberate efforts are made to migrate the board's operating mode to a governance/oversight level, either Reporting Out or Collaborative/Oversight.

Micro-Management Mode: In this archetype, the board of a more mature company that typically operates at a governance/oversight level, starts delving into management-level details and weighing in on decisions that are clearly within management's purview. There are two scenarios that commonly trigger a board to shift into Micro-Management Mode:

(i) **Loss of confidence in the CEO and management** – either due to performance issues or more commonly trust issues. Directors start playing "gotcha" with management, drilling down into details largely because of a concern that management is "hiding something" from the board that they're hoping to surface through astute and detailed questions;

(ii) **A crisis scenario or corporate emergency** - such as a sudden loss of the CEO, a major product failure, a hostile takeover or a public relations nightmare – which prompts directors to "roll up their sleeves" and do all they can to help management navigate the situation. During the COVID-19 pandemic, many boards operated in this way to support management in addressing the unforeseen and significant challenges presented. Tough decisions had to be made, often with incomplete and even speculative information; this was no time for most boards to be operating in Reporting Out mode.

As the pandemic wanes, rather than reverting back to Reporting Out mode, the archetype that characterized most S&P1500 boards prior to COVID - many would do well to shift to Collaborative/Oversight, a transition that is easier to achieve when a board is "dialing down" from Micro-Management mode than "ramping up" from Reporting Out mode. Collaborative Oversight represents the next stage in a boardroom evolution that began 20 years ago with the fall of Enron.

About the Author

Beverly Behan is one of the foremost global experts on board effectiveness, having advised nearly 200 boards (largely S&P1500s) on a range of board effectiveness issues dating back to 1996.

A former partner in the corporate governance practice of Mercer Delta and Managing Director of the Global Board Effectiveness Practice of the Hay Group, Bev started her own firm, Board Advisor, in New York more than a decade ago and continues to work with boards across the US and around the world.

Bev is the author of *Great Companies Deserve Great Boards* (Palgrave MacMillan, 2011) named **Governance Book of the Year in 2012**, *Becoming a Boardroom Star* (2021) which debuted as the **#1 New Release in Corporate Governance on Amazon** worldwide, *Board and Director Evaluations: Innovations for 21st Century Governance Committees* (2021) and *New CEOs and Boards: How to Build a Great Board Relationship and a Great Board* scheduled for release in June, 2022.

Note: The Five Board Archetypes formed the basis of an NACD feature cover story in the Winter 2022 issue of Directorship. This white paper largely excerpted from *Becoming a Boardroom Star* (2021) and is subject to copyright.