The Board-Management Relationship: How to achieve control *and* support

By
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The world expects Boards to challenge management and ensure they optimise company performance. Management, on the other hand, also expects the board to provide help and support. Both dimensions (challenge and support) are easy to overdo. How can Boards strike the right balance and avoid the traps of extremes?

Boards hire, appraise, reward and sometimes remove CEOs. That is their fundamental function.

Boards must also try to ensure that CEO performance is as high as it can be. For that they rely on two basic processes.

The board must exercise control and challenge management to ensure that it optimises decisions and performance.

At the same time, it must also support the CEO and management team. Life at the top is demanding and can be lonely. The CEO needs to have "a place to go to" for advice and support.

Support-Challenge Matrix

	Low Support	High Support
High Challenge	"Challenge Trap"	Support & Challenge
Low Challenge	Absentee Board	"Support Trap"

In this dual and contrasting roles, boards should be aiming for the "high-high" quadrant in the Support-Challenge Matrix.

Yet boards often find it difficult to operate in that space. Instead, they may emphasise one at the expense of the other, falling into either a "challenge trap", or a "support trap". Of course, those that do neither are neglecting their fundamental duties, and would be no more than an absentee board.

The Support Trap

When a board appoints a CEO, it would be because it sees him or her as suitable for the job. Once the board has labelled an individual a solid performer, it is likely to want to express support to him/her. In addition, CEOs often know more about the business than many Board members and they tend to be proud and competitive individuals who are not always the best "feedback receivers". In the absence of very obvious problems, it is hence tempting for boards to avoid conflict and keep challenge at a low enough level.

Meanwhile, the Board's favourable perception of the CEO will also lead it to perceive and interpret reality in a way that "confirms" its label. For example, it is likely to notice the CEO's successes a lot more than his or her difficulties and when forced to look at the difficulties, it will have a tendency to minimise them and/or attribute them to external causes. Research even shows that our memory can be similarly affected, leading us to remember events and situations in biased ways.

This support trap leads boards to be overly patient with the CEO and to pay insufficient attention to early warning signals.

The Challenge Trap

But sometimes the evidence pointing to problems can become sufficient to start worrying the board. The board is no longer sure that the CEO is the right individual to lead the organisation. Once this doubt becomes sufficiently strong, it quickly starts polluting the relationship between board and CEO. At that point, the board often succumbs to the challenge trap.

The board's confirmatory biases will lead it to perceive the CEO's actions and results through a negative prism, leading to much more attention to failures than to successes. It will attribute failures to the CEO's limitations, and successes to external factors.

In addition to the perceptual aspects, the board will also start acting much more vigorously towards the CEO – asking more questions, challenging responses, requiring more data and making different interpretations of it from management.

This more forceful attitude can be met by two types of responses from the CEO: An aggressive response, where the CEO stands his or her ground, pushes back on the board and "refuses to let herself or himself be bullied". Or a more passive one, where the CEO tries to avoid conflict and gradually withdraw from interaction.

In both cases, the board's concerns get reinforced, leading it to intensify its challenge, which fuels the CEO's response, triggering a vicious cycle.

Somewhere along the way the CEO starts to label negatively (some members of) the board as meddlers, unreasonable, ignorant, and antagonistic. The CEO will likely behave toward them in ways that are more likely to attract negative, rather than supportive, responses.

The CEO also starts to perceive reality and board members' behaviour through a confirmatory prism, over-emphasising challenging behaviour, attributing more negative motives and selectively remembering events and situations, all of which tend to fuel the growing tension between the board and the CEO.

Once the board and management have entered this vicious circle, interrupting it is very difficult – not impossible, but certainly very difficult – especially when the organisation (and hence its board and top management team) are under performance pressures. So even more than usual, an ounce of prevention would be much preferable to a pound of cure.

High Support and Challenge

Instead of flip-flopping between the support trap and the challenge trap, the board should aim to hit the "High Support & High Challenge" quadrant.

Achieving such balance cannot happen overnight. When the critical situation presents itself, the board must already have established good habits and goodwill with the CEO.

That way, the CEO realises that the board is pushing back, not because it senses a crisis and has lost confidence in the CEO, but because challenge is a routine aspect of their interactions. In other words, the board and the CEO have to develop capabilities for dealing with each other in a robust way.

Ideas for boards to develop the right atmosphere and capabilities to effectively challenge the CEO and management are provided in the box, "On the Control Side: Achieving Forceful Challenge".

On the Control Side: Achieving Forceful Challenge

- **Ensure optimal board composition.** For the board to be able to challenge the CEO, it must be able to see and sense the problem. If the board does not have the insights or concerns, it cannot contribute them. To that end, the board should ensure that it has the right set of capabilities (including relevant specialised knowledge) and enough diversity of points of views and experiences. Diversity is widely recognised as an antidote to groupthink, provided that the diversity is effectively managed.
- **Receive enough of the right kind of information.** To avoid relying only on management for information, board members should do sufficient homework externally (such as site visits and reviewing analysts' reports) and internally, including by meeting with managers located one or two levels below the CEO.
- **Ensure timely and relevant information flow from management.** It is so easy to overwhelm board members by sending them too much information too late. Similarly, boards must ensure that the agenda features enough time to discuss the really challenging issues.
- **Have frank discussions.** To make the most of the rich and diverse information and experience base of board members, the Chair should encourage and ensure respectful but candid and energetic discussions. Two specific mechanisms may help:
  - > **Initial dissenter.** A critical barrier to group members expressing a nagging concern is the fact that no one else has yet mentioned it. This social dynamic – called "pluralistic ignorance" – is especially powerful within boards. Directors attribute their own reticence to social inhibition, but assume that the silence of colleagues indicates agreement. As a result, the board may end up endorsing a course of action with which most of the directors privately disagree. The Chair must make it easy for an initial dissenter to speak up as a way of finding out if those reservations are more widely shared.
  - > **Devil's advocate.** Institutionalising such a role can help. The Chair can designate different directors to make the "case against" depending on the issues. This approach gives one board member a licence to investigate the issue and highlight elements that appear weak or inconsistent with the experience and knowledge of fellow directors. At the same time, it conditions the CEO to expect criticism and to accept it as part of the normal deliberation process, rather than as a personal challenge or threat.
- **Hold private sessions.** One element limiting board members' ability to challenge is the continuous presence of management during all discussions. One very helpful approach is to ensure that at every board meeting the agenda allocates some time for the non-executive directors (NEDs) to discuss without management's presence. Making this feature systematic makes it less threatening for management to accept being "excluded" from the discussion.
- **Have an effective chair.** Effective management of the board increasingly calls for someone capable of leveraging the individual insights of members – less of a "super-CEO/chief strategist" and more of a facilitator – someone capable of encouraging alternative views and drawing out misgivings, yet keeping the discussion on track. This changing role also makes the CEO a weaker candidate to chair the board – because it is much harder for him or her to facilitate patiently and to invite or encourage alternative views.

These recommendations will enhance the board's ability to challenge.

But to be effective this challenge must be accepted – ideally welcomed – by the CEO.

Research shows that executives are more likely to accept and act on tough feedback when they feel that:

- The feedback giver is reliable and well intentioned toward them.
- The feedback development process is fair – capturing all relevant information and applying consistent standards.
- The feedback communication process is fair – taking account of the receiver's opinions and explanations; showing respect for the receiver; and supporting the receiver despite their disagreements.

If the relationship with the board is strained, these conditions cannot be met and the CEO will stop listening. So it is vital for the board to try to create and preserve an open climate.

Three ideas that can help to develop the kind of relationship where the CEO feels comfortable initiating contact, reporting problems and asking for advice can be found in the box, "On the Support Side: Achieving Healthy Collaboration".

On the Support Side: Acheiving Healthy Collaboration

- **Establish and maintain a strong bond.** To enable the CEO to feel comfortable disclosing emerging problems and asking for advice, board members and CEO should spend time together up front to establish a personal connection and a sense of their respective strengths. The board then needs to ensure that these conditions are nurtured and maintained. Criticism and disagreements risk weakening the level of trust and empathy established between them. So after particularly challenging discussions directors need to make sure they re-bond with the CEO – and do not let the malaise develop.
- **Agree on the framing of the mandate and the rules of the game.** Frequent contacts early in the relationship also help the board and CEO to clarify the job and its challenges – main concerns, critical stakeholders and key success factors – as well as the terms of engagement ("how we will work together"). When these parameters are underspecified, it can lead to expectation gaps and misunderstandings that create a fertile ground for bad dynamics.
- **Watch out for snap judgements.** Human beings' categorising instinct is deep-seated, so advising board members not to categorise would be unrealistic. But they do need to be more mindful of how impressions develop in their minds and to challenge "labels" as they come up. Directors must also be aware of their propensity to look for easy explanations in line with existing perceptions – biases that are accentuated by both stress and distance. Of course, they cannot remain open minded forever – decisions must be made and perfect information is never available – but directors *can* make an effort to become more mindful of the way their mind will be tempted to label management and to perceive and interpret reality in ways that will support their impressions.

Management's role

The board's behaviour obviously has a major impact on their relationship with the CEO. But it is also not fair to say that CEOs often get the boards they deserve.

If management does not accept gentle challenge from the board, NEDs are likely to ramp up the volume. Management's openness can greatly improve the NEDs' attitude toward them.

A CEO perceived to be coachable will typically receive more support than one perceived to be defensive. The CEO should hence ensure that he or she maintains an open and productive attitude toward board members. The CEO does not have to agree with all of the board members' ideas, but he or she certainly should hear and consider them.

Towards High-High

The board plays a crucial role in alerting the CEO to developments that he or she is underestimating or may have missed altogether. But whether the CEO pays any attention to that advice depends very much on the quality of the relationship they have established.

When the relationship with the CEO grows too supportive, the board's challenge will not be forceful enough.

Paradoxically, when the board exerts too much control, it can also weaken its ability to influence the CEO – and can lead to dysfunctions and breakdowns that damage company performance just as much as lax governance.

The idea is not to tone either side down, but rather to bolster the weaker dimension. If managed effectively, each side actually strengthens the other.

When the board needs to deliver tough feedback, it is the mutual respect and the existing bond that helps the CEO accept the feedback. Similarly, it is only by maintaining its sharp critical edge that the board can deliver true support, not just emotionally, but also intellectually and cognitively, helping the CEO see things he or she had not seen or looking at things in a different way.

Striking this balance is not easy and is probably more a journey than a destination. Continuous progress on that journey requires awareness of the pitfalls, putting in place some of the practices described above and complementing them with continuous attention and significant practice over time.

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