Six Ways Boards Undermine Their Chief Executives' Accountability

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Much is said about boards holding their chief executives to account. In reality boards undermine their ability to hold their chief executives accountable at every turn. Thorough investigations of supposed management 'crimes' commonly find the board's fingerprints all over the scene. Although boards are often surprised to find themselves in a position of shared if not instrumental 'guilt', here are some of the ways it happens.

By a failure to state performance expectations clearly

To many boards fail in their primary responsibility as an employer to set out their expectations clearly. The following refrain continues to echo around the governance landscape: The most important job we have is to employ a great chief executive – then to get out of their way. Wrong! A board's employment responsibility does not stop with the recruitment decision. Effective boards prescribe the outcomes or results that must be achieved. Because 'the ends don't justify the means' the board must also set boundaries within which their chief executives must operate. This twin-pronged approach empowers the chief executive but also leaves no room for either inadequate performance or inappropriate actions to hide.

Ineffective boards try to manage performance risk by telling their chief executives how to do their job. They do this through job descriptions, performance agreements, performance indicators and plans that spell out activities their chief executive should participate in and even the specific actions they should take. In this way, boards bind themselves into the operational decision-making process. They become at least jointly culpable when those 'hows' they have prescribed are ineffective or ill-conceived.

By 'shifting the goalposts'

It is surprising how often boards delegate authority to their chief executives and then cut across that delegation when they don't like how it has been used. Of course, the board's intervention is justified if there are serious compliance issues. However, few things are more frustrating to a chief executive than a board that doesn't know what it thinks about something until action has been taken. The possibility that the board will shift the goal posts in the middle of the game creates great uncertainty for the chief executive. An undesirable side effect is that chief executives become increasingly tentative.

Boards that are active and effective in their policy-making function make it safe for their chief executive to get on with the job. This point is reached when the board's policy pronouncements have stated what must be achieved and what must be avoided, and the board can confidently allow the chief executive to exercise a reasonable interpretation of its words.

By 'helping' the chief executive

Recently we noticed these words in an organisation's constitution: There shall be a management committee to support the chief executive in their role. 'Support' is a relatively neutral word, and you would like to think that any board would offer its chief executive moral support. However, in this organisation, those words were interpreted as indicating it was the board's job to help the chief executive in some of the key decisions he needed to make.

Even in major corporations, we see directors engaging directly in key management decisions, for example, the selection of senior staff. Whether board members have relevant expertise or not there is always the risk when board members participate in the selection of senior executives that their influence will result in an appointment that the chief executive would not have made without that influence and, as a consequence, may not fully own.

Drawing board members into the operational decision-making process not only makes the chief executive and other staff vulnerable to board member influence, but it encourages 'upwards delegation' when the chief executive faces tough decisions.

By sub-delegating

It is common for boards to determine delegation frameworks that extend to management levels below the chief executive. This is such a widespread practice that it is seldom questioned. Even professional organisations that should know better advocate this approach. It fails to recognise that by approving the delegation of authority to positions that report to the chief executive, boards are making management judgements. They are implicitly assessing the capabilities of staff below the chief executive and determining how much responsibility they should be granted.

By this practice, a board not only demonstrates a lack of trust and confidence in its chief executive but is on the hook for any misjudgements made by other staff members to whom it has granted authority.

By approving detailed budgets

It is surprising that any board would have the time to engage in detailed financial planning but it is not uncommon in many organisations. The budgeting process may be a comfortable substitute for higher level thinking and planning. It may also occur because the board feels it needs to be in direct control of 'every last cent'.

Whatever the reason, there are practical consequences including a reduction in organisational agility. A board that locks in a highly detailed budget forces its chief executive to come back to the board for permission to make even a minor reallocation of financial resources.

The board's principal interest should be in defining outcomes, setting priorities among those and ensuring that resources (including finance) will be sufficient. Where the board is concerned about financial risk it should address this through policy and other control mechanisms. If chief executives are held back from allocating and shifting resources as necessary, they can't be held accountable for achieving the results their boards have specified.

By a lack of discipline

Members of a governing board are jointly responsible for organisational wellbeing. Board members, collectively, are also the employer of their chief executive. Consequently, they must hew to the discipline of speaking to the chief executive with 'one voice'. Boards undermine the one voice principle in a variety of ways.

- By leaving a policy vacuum. Board policymaking creates a framework within which the chief executive must operate. It sets out what must be achieved and – on the other side of this – what must be avoided. It is a form of instruction that, when missing, leaves the chief executive with two choices – to ask the board for permission or to do it anyway - and ask for forgiveness. In the latter case, if the chief executive does something that the board doesn't like, it has no-one to blame but itself.
- By a lack of clarity and completion in decision making. When a board fails to express a decision unambiguously – or to decide at all – it leaves the chief executive

wondering about what the board actually wants and which board members' views – if any at all – to take the most notice of.

- By fragmenting the board's authority. This is an 'own goal' if ever there was one. It can occur in a variety of ways. For example:
    - when boards assign the board chair the responsibility for being (in effect) the chief executive's 'boss'
    - by setting up board committees that have the power (actual or implied) to direct the chief executive or even other staff
    - by giving individual board members 'portfolio' responsibility for the oversight of particular areas of the business; and
    - by allowing directors to instruct the chief executive individually (even strongly expressed 'advice' can seem like an instruction).

Consequently, chief executives can feel like they have as many employers as there are members of the board.

Despite the common cry for accountability, examples of these six shortcomings are surprisingly easy to find. Boards that allow these to occur had better hope they have a chief executive whose competence is up to the demands of the position, whose judgement is sound, whose appetite for risk is not greatly different from that of the board's and whose integrity is unimpeachable. If any one of these chief executive attributes is absent, the board could easily find itself in a power of trouble. When it does, who is truly 'accountable'?
