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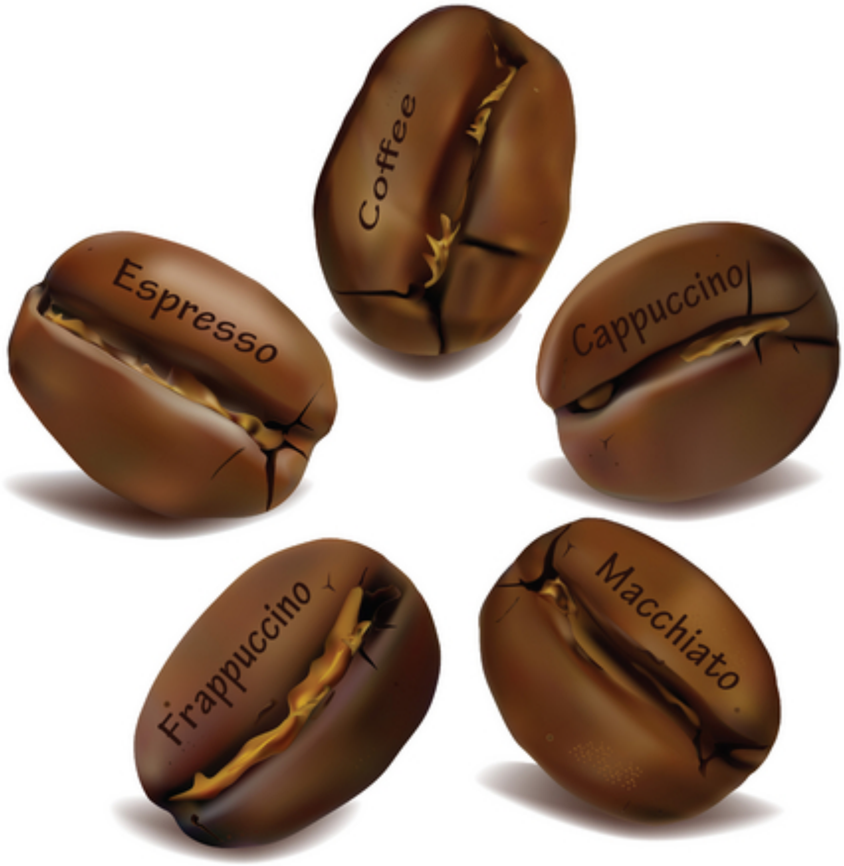


In governance, 'continual' doesn't need to mean 'endless'

by Carolyn Evans and Tanya van der Wall

For a well-functioning board of directors, a continual engagement with governance (and its best mate, planning) doesn't mean an endless grind of reading uninspiring minutiae in budgets. Instead, focus on what a board needs to achieve, in the related but distinct provinces of governance and planning, means that these should routinely receive a modicum of (more than perfunctory) attention, corralled but not unduly constrained in the attention they are given.

Our basic approach to advising boards on this is to wax lyrical about the fundamental need for clear objectives based on clear decision making, and to provide practical help to formulate those objectives. That help centres around one diagram (after all, we're consultants!) and implementing the underlying approach appropriately in that organisational context.

Going back to what it is that the 'owners' intended when the organisation was established, the foundation for governance is found in whether that intention is being realised. The headline may be fairly obvious but the answer needs to be more nuanced to be really useful: think of the debate over whether banks, as commercial enterprise, should be making money by investing in non-renewable energy sources in a era when, one way or another, climate change issues are on many agendas.

Fundamentals:

'Owners'

This group are the 'instigators' of the enterprise, and they have the collective right to decide to keep the entity alive: private investors, or trustees, or strata title owners, or members of a union, political party, sporting club, even a religious institute. Sometimes the group is said to be 'public' - public officials, for example, or shareholders in a firm which is listed on a stock exchange. The group has a collective right to decide the entity's form and purpose; the board accounts to them (again, collectively) for its decisions and outcomes.

'Board"

This is the group entitled to make 'directing' decisions for the enterprise - but that's not an unfettered right, some carte blanche to do whatever they will. The board's choices are about which mountain it would like the enterprise to climb and demonstrating to the 'owners' that climbing it will realise the enterprise's raison d'être.

'Management'

How to climb the mountain is the province of the 'doing' part of the organisation, and the senior figures in management will need to explain their achievements on this to the board.

Which mountain ...

Put another way, if the 'owners' have created an organisation to climb mountains, the board gets to make the call on which mountain to climb next year, as part of realising the mountain climbing purpose. If the 'owners' are convinced, then one hopes for full speed ahead with the governance and planning cycle.

Three decades, however, since Michael Porter[1] identified the 'lost in the middle' problem, our hearts still sink on a regular basis when one board member begins by saying 'we're a premium provider, and we've got to deliver on that', even as another is saying 'we'll fail if we don't beat the market on price'. Porter groupies would quickly explain that either a quality led strategy for premium positioning, or a price led strategy for mass market appeal, can work - but it is a rare day on which they work for a firm simultaneously, in the same market and for the same product. (Even having two product ranges - one premium, one mass market - run by the same entity calls for masterly decision making). More often, that lack of coherence in objectives leaves the organisation lost in the middle of the market, neither fish nor fowl nor good red meat, as the saying goes.

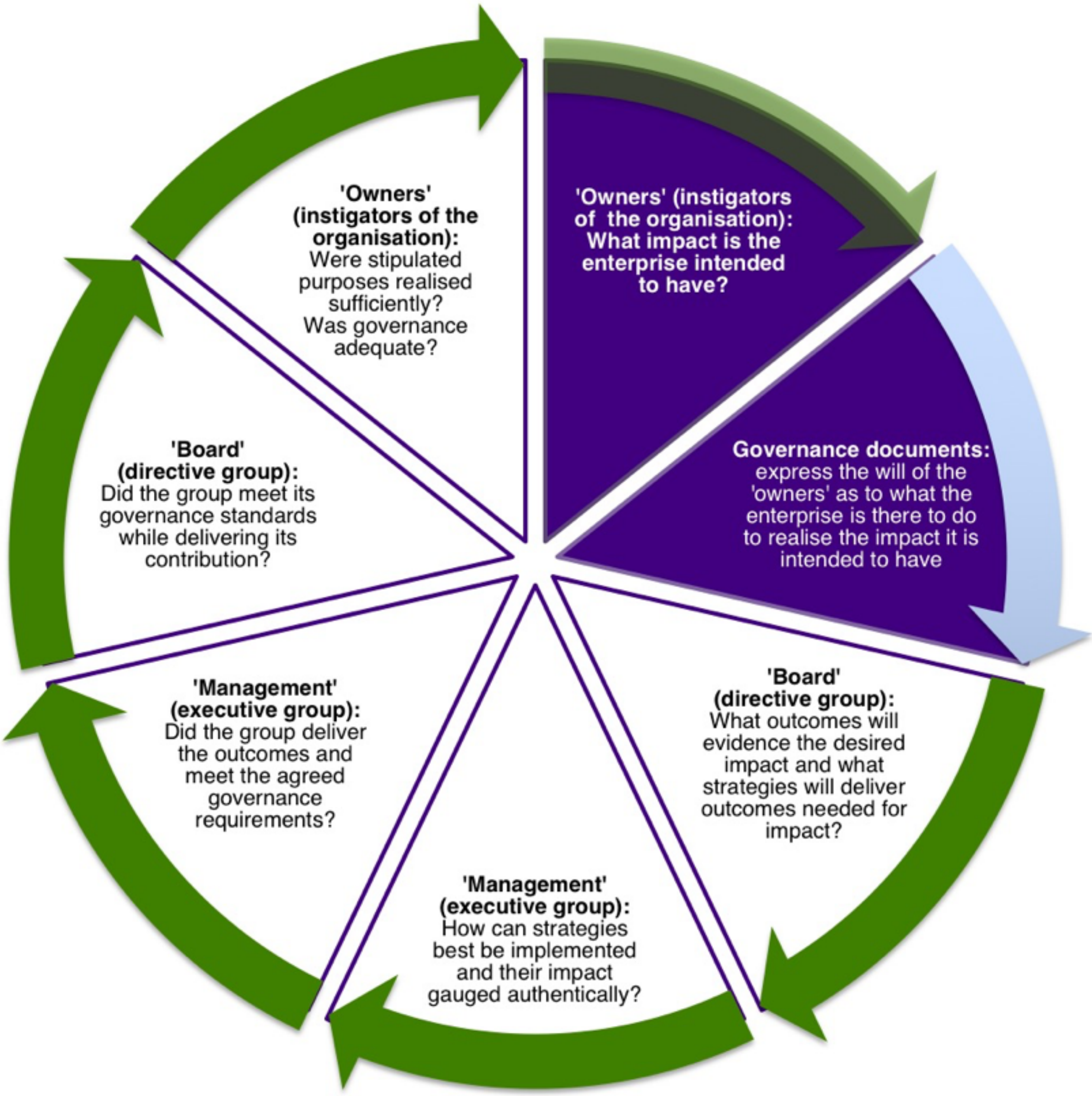
So it is sadly common to see half the board or management team pulling for increasing quality and wanting to target the upper end of the market, even while the other half are pulling for cost reduction and heading for the mass market of more price sensitive buyers. Tears before bedtime seem inevitable, whether the result looks over-the-odds for price-oriented clients (still too much price tag for what they get), or under-delivered for clients willing and able to pay for more (who get not enough outcome for the higher price tag).

This all holds true whether or not the organisation's purpose is commercial. Think about a 'not-for-profit' enterprise in terms of being 'not-for-loss' - it must live within its means and still deliver on its promises to stakeholders. Lack of focus in genuinely agreed outcomes shows in over-delivering on some promises which - given resources are always finite - unavoidably leads to under-delivering on others, and/or selling short future stakeholders as the organisation fails to put away reserves for the inevitable rainy day. (In fact this whole dialogue holds true, and we can translate anytime - but for brevity and clarity we'll keep expressing it as for commercial enterprise.)

Obviously, it is no help to anyone to have every meeting degenerate into disarray on such differences, especially since neither approach is inherently right or wrong. Within limits, most markets offer opportunities for either strategic approach when done well. But doing it well rests on a coherent story - whichever one the organisation chooses to tell - which must run from the board room to the shop floor, with all toeing the same line for the plan to be worth a cracker.

A big chunk of our approach is each participant knowing their role and sticking to the knitting for that role. With so many boards including individuals who are also executives in some other place, this is more complex and difficult than it first looks (especially for the chair!). But it's undoubtedly essential - *if one participant doesn't play their part because they are playing someone else's, then one part is left undone.*

Operating an enterprise involves making promises to those forming part of its social ecosystem: always 'owners', but also clients and others whom the organisation serves, employees, members, suppliers - even the wider community.



Sustainability means being able to keep those promises not just today and tomorrow, but next week, next month, next year.

... and how to climb it

There is a great deal more to the annual governance cycle than asking for budget approval, but, sadly, that is what the process often appears to be. If it is run in that fashion, it is a massively missed opportunity to engage what should be the leading minds of the enterprise in formulating how to do the most with what it has - which gives rise to the old adage that 'failing to plan is planning to fail'.

That said, asking the board to approve a budget (as one part of an overall governance review each year) is not an invitation to debate the calculation of line items, or (only a slight exaggeration!) the relative merits of Microsoft products versus its competitors as the IT standard for purchases. However, these are sadly common (if slightly theatrical!) examples of what responses a management team will get from the board when debating the financial papers in the annual round.

The fact is that these missteps show that many contemporary boards are another instance of our multiplexing lives - board members are very often incarnated as a senior executive in another part of their life. So it is more important than ever to leave all the other hats at the board room door and think about the role that is at hand.

From another perspective, when the board asks for options, that doesn't mean 'the option management likes plus something else that will make the first one look good'. Authentic leadership in management means having a look at alternative routes up that mountain, and presenting each case on its relative merits. This is a good spot to inject some deeper expertise that may not be present in either board or management. For example:

- Horizon-scanning reveals a government initiative to introduce or change legislation - when new regulation is in prospect, the need is pretty obvious, but in other cases, a legal appraisal may be a good starting place anyhow. If issues relating to prices or wages are involved, an economic appraisal will look at whether and to what extent it will impact how the organisation earns its keep.

- Social ecosystem evolution is hardly ever revolution - in membership, benevolent or community organisations as much as commercial, expert input on community and consumer trends is very well-advised. For example, while it may seem more relevant more to do with fads in, for example, 'joining' a gym or preferring to own one's fitness equipment, the taste a community may have for 'joining' also surfaces in whether there is an appetite for community service through 'joining' (in contrast to more occasional or transactional support that doesn't involve an ongoing membership commitment). In fact, on that point Australia has produced some revealing research about volunteerism that may give a handle on what many nonprofit organisations can expect going forward.[2]

On the whole, the question for both board and management is how different the year ahead might look after a genuine effort at collaborating to address the questions in the 'governance wheel'.

Fundamentals

'Clear objectives'

Saying 'clear objectives' does not mean 'clear' in the sense of 'everyone fall in behind and do it the one right way which I will now dictate' - the last refuge of knaves, scoundrels, decision makers who struggle to spell 'collegiate' and sundry others who are ill-equipped for collaborative governance.

Instead it means well-informed, openly debated, and recorded appropriately for later review, and accountability towards improving performance. This kind of 'clear' comes with a side order of 'admittedly still subject to risk because this is the real world, not utopia or a management text book'.

What's not 'clear'? One dead giveaway sign is when senior management meetings can never get past the first item on the agenda, or it's the same item for endless meetings.

In a board room, beware when meetings feature a regular chorus of 'I don't think that's what we decided'.

References

1. Michael Porter *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (Free Press, 1980). Still the classic text - for more advanced reading, his subsequent works are always worth a look.
2. If you don't find what you need by googling, we can help you with that one.