

Relationship between the board and management

Governance relations

A productive and harmonious relationship between the board and management is critical for good governance and organisational effectiveness. However sometimes this can be difficult to achieve in reality.

The board and management should be trying to achieve the same vision and objectives so a team approach based on trust and respect is more appropriate than a boss/subordinate relationship. Central to this relationship is a clear mutual understanding of roles, delegations and boundaries which allows each party to respect the other's responsibilities, contributions and expectations. The relationship depends on the open flow of relevant and timely information in both directions.

The formalities of the nature of the relationship and the responsibilities and expectations of each of the board and management is often set out in the organisation's board or governance charter. However it is the translation of these principles in practice as part of the culture of the organisation and the relationship between board and management which is vital. The chair has a primary responsibility to foster and maintain a constructive and effective culture in the best interests of the organisation.

The board expects management to accept that the board's role is to monitor and question, probe issues, seek clarification, offer insight and share its knowledge and experience. With management much more deeply involved in the detail and operations of the organisation, board members rely on management to share in a timely manner all material information needed for decision making to allow them to effectively fulfil their obligations as directors. The board also expects management to ask advice and make use of the directors' wealth of experience as and when appropriate.

Similarly, management has expectations of the board. Primarily, they expect that the board will trust them to implement strategy and deliver outcomes without undue interference. The CEO specifically expects from the board clearly stated performance objectives and defined boundaries of authority. Without this direction, the CEO is left to speculate on what the board wants him/her to achieve. The CEO should also expect regular and honest performance feedback. Recognition for achievement, honesty and openness, wisdom and advice, and the ability to use directors as a sounding board are also desirable.

For optimal performance, boards and management must work together cohesively as a team with respect and candour. Responsibilities and expectations of the board include:

- making quality informed decisions based on relevant and material information being available to the board, especially from management;
- overseeing, managing and holding management accountable;
- satisfying itself of the competence, capability and capacity of management;
- being accountable to shareholders/members and regulators of the organisation's performance.

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Board directors have high expectations (based on legislation) and demands of management to ensure timely and relevant information flow and reporting to it so that there are “no surprises”. As such, boards should signal the high standards of discipline and rigour expected of management by challenging and asking the hard questions concerning management reports in order to:

- test validity of assumptions made;
- stress test opportunity/risk analysis;
- test depth and breadth of management’s knowledge, understanding and analysis;
- help foster trust and confidence in management;
- stimulate innovative and creative thought.

Board directors must courteously and respectfully listen to management with an open but constructively challenging mind to allow management to make its contribution with confidence and clarity of viewpoint, and without undue interference, constraint or trepidation. In this sense, leadership by the chair is critical in managing the relationship to meet the reasonable needs and expectations of both board and management.

Conversely, through its displayed actions and performance, management must assure the board of management’s competence, capability, capacity, integrity, effectiveness and efficiency. In this sense, management has a critical role in effective board decision making by:

- reporting relevant material information to board;
- stimulating board discussion on emerging issues;
- assisting board in analysing and considering issues;
- responding to issues raised by board.

When reporting or presenting to boards management must:

- be clear as to the purpose to the report or presentation and what the board is being asked to do arising from it (i.e. for noting information purposes only, for discussion and to gain the board’s wisdom and input, or for decision making and resolution);
- know their audience;
- be responsive to audience’s needs;
- understand board politics and personalities;
- maintain focus on key issues;
- be patient, polite and respectful.

Management expects the board not to unduly meddle in operational matters although being respectful of the need for the board to delve deeply from time to time, especially if problematic trends are emerging and are not being resolved by management.

Relationship between the chair and CEO

The relationship between the chair and CEO is critical. Primarily it should be an engaged business relationship where professional and personal trust and respect are paramount in an environment of construction challenge.

This is a vital relationship as the primary source of communication between the board and management between board meetings is through the chair and the CEO.

The relationship needs to primarily be a “business relationship” where professional and personal trust and respect is paramount and where the chair can act as a mentor/sounding board to the CEO. At the same time it should be a relationship of frankness and candour (behind the scenes) and unity and mutual support (in public).

It is to be expected that the chair and CEO meet from time to time between board meetings to help set board agendas, to debrief following board meetings and to exchange updates and give guidance on material issues impacting the organisation.

Relationship between individual board members and executive management

Individual board members have no inherent authority or executive power. Enquiries by board members of management and by management of individual board members should primarily be channelled via the chair and CEO.

Where there is any direct material contract between individual board members and executive management, the chair and CEO should be kept informed by way of courtesy. Where there is strength of mutual respect and confidence that the chair’s and CEO’s authority will not be undermined, communications between executive management and board members may be freer. There may also be expectations of freer communication between the chairs of the audit and risk committees and the relevant executives responsible for those functions, on matters within the scope of those functions.

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