COMMENT: LEADERSHIP

Why the board needs to look after the executive



by RANDALL PETERSON

As boards face increasing complexity in the demands placed upon them, it will pay to consider how they interact with management.



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Boards have always had a difficult job, and it is getting tougher. Navigating the demands of multiple stakeholders while dealing with the pressures facing the business has always been a boardroom issue. What has changed, however, is the number and complexity of those demands.

In an increasingly unpredictable environment, businesses must contend with a growing number of stakeholders, larger volumes of information, and heightened expectations regarding their conduct.

This pressure is felt throughout the organisation, starting at the top. Facing more uncertainty themselves, boards are asking executives for

Leaders in some organisations spend a

more detail and reassurance. The result is that leaders in some organisations spend a disproportionate amount of their time answering questions for the board, rather than actually leading the business. This can become dysfunctional quickly.

disproportionate amount of their time answering questions for the board, rather than actually leading.

Some things, such as natural disasters and political sentiment, are often not knowable. Pressuring senior management for answers to such questions distracts them. At the same time, stakeholder demands can be contradictory. Boards want answers, information and delivery. Executives have their own needs and expectations, while customers, investors and regulators all want different things. None of their demands is necessarily unreasonable. The problem is trying to satisfy them all at the same time.

That is where the board squeeze begins.

Growing demands from a growing number of voices

Many of these tensions are as old as time. Customers have always wanted better products at lower prices, while investors have always wanted the company to make more money. Boards themselves have always had to make decisions by considering trade-offs between the two. What has changed is the number of additional interests they are now expected to take into account, ranging from direct customer action to activist shareholders.

Public sector boards have long dealt with an unwieldy number of stakeholders, but the stakeholder landscape for private businesses has become similarly complicated. Employees expect organisations to take their wellbeing seriously. In many industries, regulation has become more demanding. Boards and senior leaders are calling for more information, while businesses are simultaneously expected to consider their broader societal impact and act responsibly—without compromising their focus on growth and profitability.

Public sector boards have long dealt with an unwieldy number of stakeholders, but the stakeholder landscape for private businesses has become similarly complicated.

Listening to those different perspectives matters. Boards cannot understand a complicated environment by simply cutting through the noise and ignoring what other stakeholders are saying. But the more information a board takes in, the more questions it raises. The result is a greater cognitive load with more information to absorb, more competing interests to weigh and more decisions to make.

That tension is not new. What is new is the sheer number of things boards are now being asked to reconcile. And when the demands of one stakeholder conflict with those of another, the job becomes harder again.

The toll of the squeeze

When boards fail to properly engage the trade-offs of these competing demands, there is a human

cost. Sustained pressure takes a toll, and eventually good executives leave due to lack of clarity coming from the board.

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But organisations should not think about the board squeeze only as a wellbeing issue. There is a business cost as well, and turnover is one place where it becomes visible. There is rarely a shortage of people who want executive roles, so it can be tempting to assume that a management vacancy is easily filled. Thinking about it purely in terms of someone leaves and somebody else takes the job, however, overlooks what happens around the transition.

An exhausted executive may work below their potential for a period before eventually moving on, taking vital knowledge and relationships with them and leaving colleagues to pick up the slack. Not to mention time spent by the board and the CEO having to find and develop a replacement.

If this happens repeatedly, the important question is not whether an organisation can fill its executive roles. It is why it has to continually fill them. Turnover can tell the board a great deal about the health of an organisation and, eventually, the cost of the squeeze shows up in performance.

Making governance manageable

There is no obvious way to make the world less complicated and boards cannot simply stop listening to regulators, employees, customers or investors because responding to all of them is difficult.

What boards have the power to change, however, is what happens after they listen.

Information needs to travel in both directions. If demands move easily between the board and the executive with information about why a given decision will or will not work, the outcomes are likely to be better. Listening to the executives, who are closer to the work, does not mean doing everything they want. It means the board needs to understand the reality in which a decision will have to work before making it.

The executive also needs enough clarity to make decisions when there is no obvious answer.

The executive also needs enough clarity to make decisions when there is no obvious answer. This is where values, behaviours and organisational culture become important. They can give executives a framework for navigating competing demands, but only when the board is clear and prepared to apply them consistently to the board itself as well. The values and behaviours the board expects within the organisation will not be taken seriously if the board, including the non-executive directors, do not engage with each other in the same manner.

Many boards already recognise that there is a problem of inconsistency between the culture of the

board and of the business. The harder part is doing something about it while responding to the same short-term pressures from investors, customers, and other stakeholders that helped create the squeeze in the first place.

Boards have always had to deal with pressure from multiple stakeholders. That is part of the job. But boards cannot keep demanding more and more from their executives to support their decision making without understanding the pressures on the executive, and accepting that increasing those demands can distract management from running the business.

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