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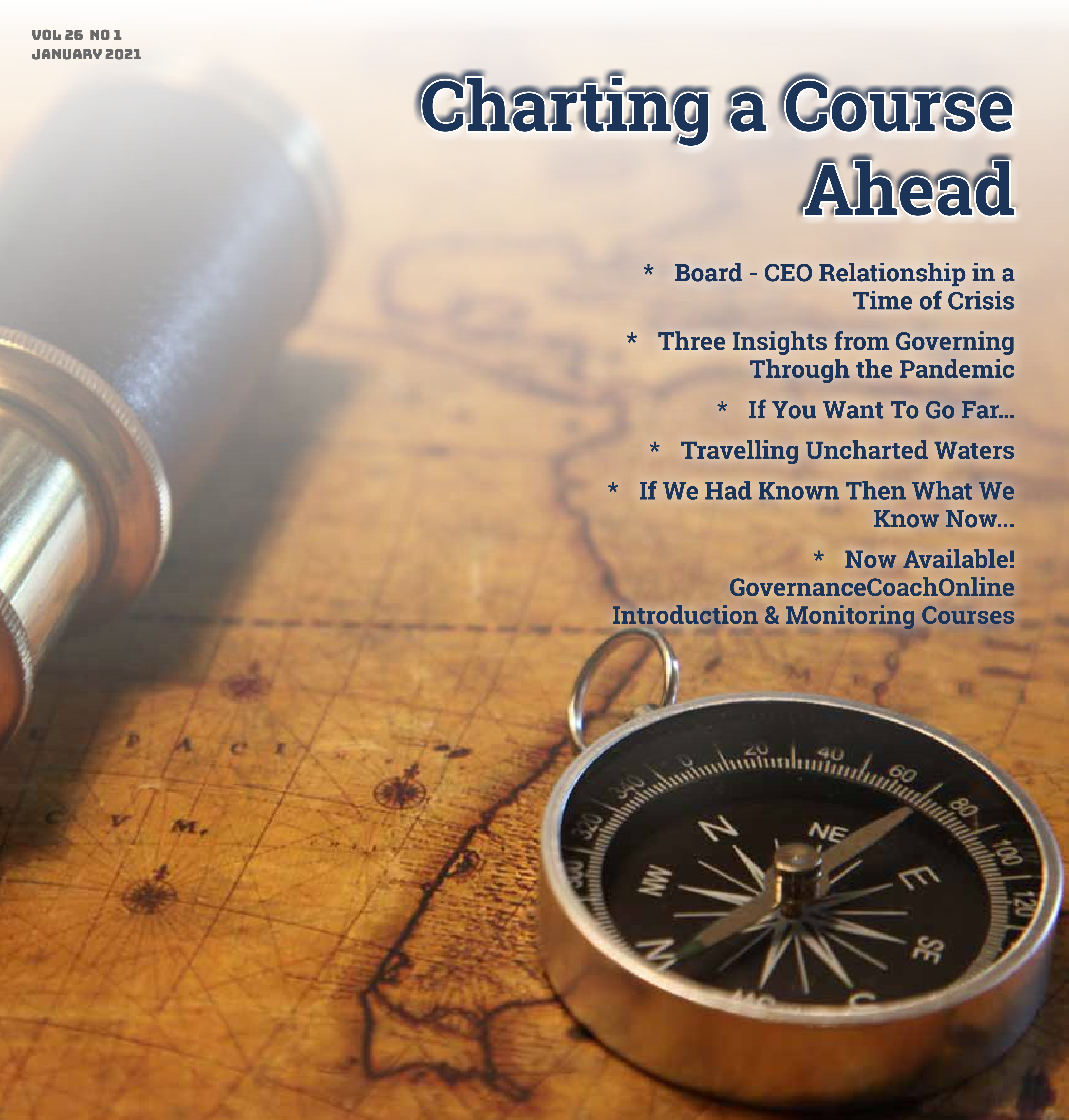

Charting a Course Ahead

* Board - CEO Relationship in a Time of Crisis
* Three Insights from Governing Through the Pandemic
* If You Want To Go Far...
* Travelling Uncharted Waters
* If We Had Known Then What We Know Now...
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JANNICE MOORE
PRESIDENT

A Navigational Challenge...

As our team brainstormed ideas for this publication, we kept coming back to a nautical theme. Perhaps it was because David lives on an island (New Zealand), Eric is an avid navigator, having spent the better part of a year on a small sailboat, and Richard also loves to sail. However, I think it was mainly because as we reflected on 2020 and what lies ahead in 2021, we recognized a parallel: navigating through the unknowns of COVID-19 and its effects on all aspects of our world has similarities to the challenges faced by early maritime explorers sailing into unknown waters, beyond the edges of the maps.

We invite you to consider what can be learned from the experience thus far, and what might be needed to face the future. How does governing in a time of crisis change? Or does it? David Gray explores these issues from the perspective of the relationship between the board and CEO. Richard Stringham reflects on insights from governing through the pandemic.

Looking to the future, Andrew Bergen invites you to consider the importance of diversity on a board to strengthen its governance ability. Rose Mercier challenges you to consider that sailing into the unknown requires excellence in governance. Finally, I discuss the value of scenario development to broaden a board's ability to exercise strategic foresight.

We trust you will find some insights here that help your board as you lead the way through the uncharted waters of the future.

Jannice Moore

Editor's Note

Boredom is one of the by-products of living during a pandemic. Many I know have taken up learning a new language or exploring their talents on a blank canvas. I've discovered the extra time I've been afforded is perfect for bite-sized learning - online, in books, or watching programs on TV. Did you know that New York City has its own indigenous species of ant called the Manhattant? Or that the largest pyramid is in Mexico, not Egypt? Bite-sized learning makes comprehension and retention easier and when content is easily and readily accessible, learners can take it at their own pace, wherever they are, and most importantly, when they are ready. Enter **GC Place™.**

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Marian

Marian Hamilton
Editor

Board - CEO Relationship in a Time of Crisis

DAVID GRAY - CONSULTANT

As a rule, blue-water sailors are a risk-averse lot. They know all too well the consequences of risk-taking in the maritime environment and will do whatever is reasonably necessary to avoid imperilling body, soul and boat.

However, the best-laid plans of mice and men—or should that be, the most conservatively-plotted course of a seasoned navigator—can be ambushed by unpredicted or unexpected events, especially by weather that is well outside the forecast range.

COVID-19 has been a bit like that for many organisations: a rogue event, not entirely unpredicted but certainly unexpected and unwelcome, calling for an emergency response while the journey is already under way. The pandemic has sorely tested most aspects of organisational life, including governance.

This article looks at the relationship between governance and management—the board and the CEO—and considers how the relationship could or should change as the result of a crisis such as the pandemic.

Governance as a system

Before examining the relationship between board and CEO in a crisis, let me first look at it in ordinary times (will there ever be such a thing again?).

I take as my starting-point the view that governance is a system, a system being a set of things working together to achieve an intended outcome. For governance to be effective—to achieve its intended outcome—it must be a system, not simply a collection of ad hoc practices and processes.

In the context of this article, I refer to governance as a system in a narrow and specific way. In my governance consulting practice, I often use the definition of a governance system contained in the *Code of practice for delivering effective governance of organisations* published by the British Standards Institution (also known as BS13500:2013). According to this document, a governance system is the—

> set of interacting and inter-dependent components [including structures, policies, processes, technologies and information] forming an integrated whole, which enables the accountability, direction and control of the organization in the long-term interests of those stakeholders who are actually, or equivalent to, the organization's shareholders.

The definition is a bit of a mouthful, but it does capture the essence of an integrated governance system. All of the components of the system are included for a purpose, and without any given component the overall system is unlikely to function effectively.

Policy Governance® is a system of governance. It's the system we at The Governance Coach™ recommend, and with which we work on a daily basis. These are the features of the Policy Governance system which are pertinent to this article (there are other features which are outside the scope of the article):

- on behalf of the organisation's owners, the board defines the purpose of the organisation and spells this out in its Ends policies;
- the board tasks the CEO with achieving

the Ends and delegates to the CEO sufficient authority to do so, while also specifying in its Executive Limitation policies the boundaries within which managerial activity must take place;
- at specified intervals, the board monitors the performance of the CEO (which, *ipso facto*, is the performance of the organisation) in achieving the Ends and complying with the Executive Limitations;
- as the body with ultimate authority over the organisation, the board routinely reviews its policies and makes appropriate adjustments to reflect changing organisational circumstances and changing environmental conditions.

In summary, the relevant components of the system for the purposes of this discussion are:
- Ends policies;
- a delegation of authority within defined boundaries;
- a periodic monitoring process; and
- a policy review mechanism.

In times of crisis, each of these components retains its essential characteristics, together with its importance to the integrity of the system, but each is also capable of being adjusted by the board to take account of changing organisational and environmental circumstances.

Systems in a time of crisis

I'm not being facetious when I say that, in one sense, the relationship between the board and the CEO in a time of crisis should be exactly the same as the relationship at any other time.

Policy Governance is designed to work as a system through good times and bad. Its principles-based approach (as opposed to a rules-based approach or a based-on-nothing approach) gives it sufficient flexibility to respond to changing times—including dramatically-changing times such as we have experienced over the past year or so as a result of the pandemic.

A board wouldn't normally abandon its governance system when crisis strikes, any more than a sailor would abandon her yacht in the face of an approaching storm and choose instead to strike out for the shore in the life raft. The system—the yacht—has been designed to get her safely back to port; therefore, provided she has kept up with her preventative maintenance and she knows the vessel is in good working order, she should rely on it to do so. She might, however, choose to keep a closer eye than normal on some key indicators, like wind strength and sail area. She will probably reef in the mainsail quite a bit and make sure everything else is lashed down, so that nothing goes flying off towards the horizon when the winds get up. And she will double-check the tension on the rigging to make sure the yacht isn't dis-masted by the extreme pressures that the storm will undoubtedly bring. But she won't abandon it.

The same is true for the relationship between a board and its CEO in a time of crisis. The fundamental structure of the relationship is determined by the governance system the board uses. This fundamental structure remains the same in a crisis, but the frequency of certain activities which form part of the relationship, such as the monitoring of key policies, might well be increased and some of the policies might be tightened by a notch or two in the face of the crisis.

Some of the key policies that the board is likely to pay greater attention to—the equivalent of the tension in the rigging—are:

- the adequacy of the CEO's adjustments related to business continuity;
- the CEO's attention to staff welfare; and
- the ongoing financial condition of the organisation.

Different kinds of organisations with different risk profiles will have different responses to crisis, but each should identify those areas which are particularly at-risk during times of crisis and respond accordingly.

Outside of its relationship with the CEO, there might well be aspects of the board's own job it chooses to fine-tune during a crisis, such as its engagement with owners/shareholders and with other stakeholders. It also has a responsibility to pay attention to the bigger picture: Is our direction of travel still relevant? Do we need to plot a new course? Decisions the board makes in answer to these and other questions will flow through to the CEO's role by way of adjustments to the board's Ends and Executive Limitation policies.

However, one thing the board won't do is abandon the very system by which it governs the organisation, which means that it won't abandon the basic structure of its relationship with the CEO.

Filter advice carefully

For the past year, the world has been awash with advice for boards of every kind about how to behave in the crisis, much of it quite poor advice. For example, one prominent global consulting firm advises boards to "ensure that the CEO and board agree on how the business will be run." Well, no: the board (whose job it is) has already determined how the business will run and has embedded that determination in its governance policies. Likewise, the consulting firm advises, "Insist that the CEO takes the lead in driving the right relationship with the board." Seriously? Who writes this stuff? The board, not the CEO, is accountable to owners, and the board has determined what the 'right relationship' with the CEO looks like and has prescribed this in its policies.

That's not to say that some aspects of the relationship between the board and the CEO won't change during a crisis. In the business press, many organisations report the benefits of the board and the CEO (and often the senior executive team as well) spending more time together, perhaps pooling their expertise and experiences to 'brainstorm' responses to the crisis. A friend of mine uses an aquatic metaphor to describe such events: she calls them 'general swim' sessions. The image is of a swimming pool that is used primarily for competitive swimming, where most of the time the pool is divided into lanes for racing purposes, but where, from time to time, the lane markings are removed and the participants interact in unstructured—but hopefully constructive—ways. That's fine; I have no objection to such practices, provided the lane markers are replaced at the end of 'general swim' sessions and the participants return to their allocated lanes. It's important to emphasize that ideas generated during 'general swim' have no instructive authority to the CEO; only policies set by the board as a whole have such authority.

Other issues to watch

Just as a board will likely want to monitor certain aspects of CEO performance more closely during times of crisis, so it should monitor the performance of its chairperson or Chief Governance Officer more closely. In my experience, there is a tendency for some chairpersons (and especially, if we're being brutally honest, chairpersons who are 'Type A' personalities) to 'muscle in' on the CEO's territory and to take a more hands-on role in the running of the organisation at such times. The board itself is the only effective barrier to this behaviour, so it should take seriously its responsibility for abiding by its own governance process policies at such times and ensure such behaviour doesn't occur.

For similar reasons, boards should be cautious about creating a crisis committee at such times. The rationale

for creating any committee remains the same whether in a crisis or not: if there is a genuine need for a subset of the board to do pre-board work in order to enhance the work of the board itself, fine—go ahead and form a committee. If, on the other hand, the real reason for creating a committee during a crisis is to encroach on the CEO's territory, or otherwise expand the role of the board in ways that are inconsistent with the board's governance system, then avoid doing so.

Final thoughts

It is often said that the Chinese word for crisis is a combination of 'danger' and 'opportunity.' There is danger aplenty for boards in times of crisis such as the present pandemic, but there are also lots of opportunities to learn and improve. Boards and their CEOs should see the unique circumstances of the pandemic as an opportunity to stress-test the structure and functioning of the relationship between the two parties and to fine-tune the organisation's governance system in this key area.

Sailing in a storm can be mighty scary. I recall vividly one trip some years ago on a friend's 40 ft. keelboat, when we were caught in exposed waters by an unexpected change in weather conditions. The wind was at the top of the vessel's design range and we were very frightened by the groaning sounds emanating from the rigging. The wind was also running against the tide, creating very steep swells, and we regularly dropped off the back of 30-ft. swells onto the sea below with structurally-threatening impact. To make matters worse, one of the spreaders on the mast had poked a hole in the mainsail and we were sure the sail was going to blow out (fortunately, it didn't). We had four teenage children in our care and we were very fearful for their—and our—safety.

But she was a solid vessel, designed for adversity, designed to get us home, and she did.

So it is for a board during times of crisis, especially for its relationship with the CEO. If the board has done the hard work of investing in its governance system and spelling out the fundamental structure of the relationship, then the system will stand the board in good stead in a crisis, no matter how frightening the circumstances might seem. The best advice to the board is, *make whatever running adjustments need to be made, keep things under constant review, but stick with the system and stay the course: there are calmer waters ahead, and the system will get you there.*

"The fundamental structure of the board-CEO relationship remains the same in a crisis, but the frequency of certain activities . . . such as monitoring, might well be increased."

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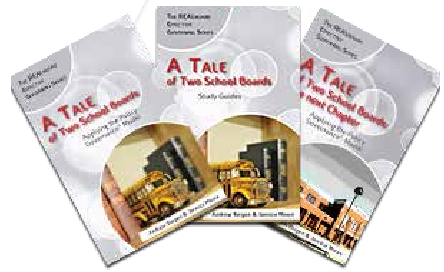

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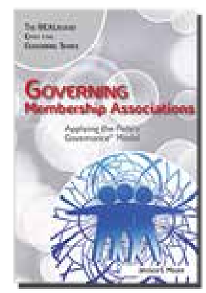

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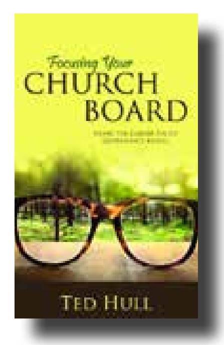

FOCUSING YOUR CHURCH BOARD

REFLECTIONS ON LEADERSHIP

Three Insights from Governing Through the Pandemic

RICHARD STRINGHAM - SENIOR CONSULTANT

Crises test the limits and durability of our systems and, without question, the COVID-19 pandemic has certainly put our systems to the test. So, what have we learned about governance during the pandemic and how do those lessons align with using Policy Governance®? Three answers quickly come to mind.

1) In many cases, plans needed revisions, sometimes frequently!

Organizations were suddenly engulfed in a myriad of changes. Strategic plans were often no longer applicable and had to be tossed out or put on pause. Similarly, for many organizations, budgets (i.e., financial plans) became nonsensical. To add fuel to the fire, revising plans at the beginning of the pandemic felt, and to some degree still feels, like an exercise in futility as the situation has changed so rapidly. When would the economy open up and would it close back down again? Uncertainty became a certainty!

Within a few months of the start of the pandemic, revenues for many organizations were down significantly from those anticipated in January of the same year, so staying with the same level of expenses would likely have been reckless. For a traditional board which governs in part by approving strategic plans and budgets, this meant there was an ongoing need to revise these approvals, perhaps several times, or to disregard the earlier approvals and react to reports as the situation progressed.

In contrast, boards using Policy Governance hadn't approved plans, but rather approved boundaries of what would be unacceptable in financial condition and planning (e.g., "…the CEO shall not expend more than has been received"). This left CEOs with room to adjust as needed to the rapidly changing conditions. If the budget the CEO had adopted in January was foreign to the situation in June, it would be imprudent for the CEO not to revise her budget to ensure that it reflected the new reality.

Nonetheless, for some organizations, the reality of the situation meant the CEO could not be compliant with all limitations policies. In spite of cutting expenses, they were still greater than the revenues produced. In such circumstances, boards had to make some temporary exceptions to their policies.

2) A comprehensive set of policies covered unexpected events

Of course, safety became a primary concern. Again, with a rapidly changing situation, operations had to be adjusted to ensure that appropriate safeguards were in place for both clients and employees. In Canada masks were not encouraged at first and then, as the science advanced regarding COVID-19 transmission, masks were viewed as far more important.

Many of the directors on boards that use Policy Governance were pleasantly surprised to learn that they already had policy in place to cover the safety concerns related to the pandemic. Yet none of these policies included a word about a pandemic! This was the result of the systems nature of the principles of the Policy Governance system.

a. Instead of prescribing means, the board puts off limits those means that would be unacceptable, even if they worked to achieve the Ends. It is easier to cover all unacceptable conditions via boundaries than trying to think of all the right things to do.
b. The unique policy structure of Policy Governance requires that policies are developed in sizes, beginning with the largest policy in each of the policy categories. The board then develops more specific interpretations in a given category until it is ready to accept any reasonable interpretation. The vast majority of boards would have limitations policies that wouldn't allow unsafe conditions for clients and employees. But even without such statements, the broadest limitation would prevent unethical or imprudent conditions, which would cover pandemic concerns even if safety concerns were not more specifically stated in policies.
c. Clear delegation of the authority to use any reasonable interpretation and the rigorous accountability for doing so gave CEOs direct authority for safety decisions knowing that they would be rigorously monitored to ensure their decisions were justifiable.

3) Rethinking ownership linkage

AGMs in which members came, heard reports, asked some questions, and perhaps had a nice meal, were less of an option in the pandemic. Instead, boards have had to adjust their ownership connections to virtual platforms. Certainly, virtual connections have their limitations; yet, they also open up new opportunities. Boards can now move past the expectation of in-person AGMs being the key source of ownership linkage given that, due to cultural changes, they have become barriers to participation. Instead, boards can use multiple methods and opportunities to connect with owners. This isn't new in Policy Governance circles; but it underlines the need for creative ownership linkage.

Even with shut-downs, the board cannot stop governing. However, a robust system of governance will enable the board to more capably weather the storm. Policy Governance provides boards with such a system.

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Boards using Policy Governance	**For Boards: Assessing Monitoring Reports at Governance Coach Online**	An in-depth 5 module course on monitoring from the board's perspective available online for your whole board, featuring virtual live interaction with a professional Policy Governance Consultant (See page 2 for more detail)
Board Members, Board Staff, anyone interested in Policy Governance®	**GC Place**	Videos, articles, tips, tools, live webinars - for a monthly subscription of only $20. Features both introductory & advanced levels of Policy Governance information
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Boards and board staff	**The Board Member's Companion e-book**	A reference collection of articles, organized by topic, addressing all aspects of Policy Governance

IF YOU WANT TO GO FAR…

ANDREW BERGEN - SENIOR CONSULTANT

There is an old proverb attributed to the continent of Africa which says, "If you want to go fast, go alone. If you want to go far, go together.".

"Companies with more culturally and ethnically diverse executive teams [the context of this article shows that by 'executive teams' the author means 'boards'] were 33% more likely to see better-than-average profits."[1] Boards don't always lead organizations whose purpose is to create profits. However, boards ALWAYS lead organizations to create the right benefits for the individuals they serve. And there is a significant amount of evidence that boards with a greater amount of diversity create more and better benefits for their owners.

A 2015 McKinsey report[2] on 366 public companies found that those in the top quartile for ethnic and racial diversity in management were 35% more likely to have financial returns above their industry mean, and those in the top quartile for gender diversity were 15% more likely to have returns above the industry mean.

In a global analysis[3] of 2,400 companies conducted by Credit Suisse, organizations with at least one female board member yielded higher return on equity and higher net income growth than those that did not have any women on the board.

Other research shows that diverse groups are smarter because they focus more on facts, they process these facts more carefully and they're also more innovative. The reason this happens is because when we are in a group of people who are like us, we tend to engage in "social loafing." We don't have to think as hard because we have an intuitive sense that someone else in the group will already be thinking it. When we are in a diverse group, we have to think harder to express ourselves – and to understand others. This deepening of thought makes the whole team smarter.

Working with a diverse group of individuals on the board can often mean slower progress – at the beginning. It takes time to create shared meaning from a wide variety of perspectives. This can often feel painful and create some sense of conflict on the board. However, including the widest possible spectrum of perspectives and taking the time to process them together as a group leads to far better decisions.

It is important to note a few pitfalls in the quest for diversity:

- Leaving the impression that one "token" representative from a particular diversity group is sufficient input from that group.
- Neglecting ownership linkage even if the board is diverse
- Failing to ensure the right mix. Some research suggests, for example, that at least 3 women on a board made a difference in performance, rather than just one (who is often discounted) or two.
- Assuming that diversity means mirroring the ownership or population served. It isn't necessary to ensure that board members are the same mix as the population – but it IS necessary to ensure those voices are heard and accounted for.

So, how can a board create a greater sense of diversity? There may be several options:

- If you have a nominations committee, ensure their Terms of Reference or Charter include finding nominees to the board who are diverse in areas such as ethnicity, gender, and age.
- If your board is less in control of the election cycle (for example, publicly elected boards such as some schools), you can still create opportunities to educate a wider swath of the public about the opportunity to run for board membership and the qualities that make a good board candidate; even if you end up with board membership that is fairly uniform in its composition, you can still invite individuals or groups to the board table to share perspectives with you.
- When you are drafting your Ends policies, take them on a "roadshow." Test them with the widest possible variety of individuals within your ownership sphere and ask them for their input and perspective.

Boards that go together, with the widest possible inclusion of the diversity of their ownership, go farther.

[1]Strauss, Karsten, "*More Evidence That Company Diversity Leads to Better Profits*", https://www.forbes.com/sites/karstenstrauss/2018/01/25/more-evidence-that-company-diversity-leads-to-better-profits/#339912941bc7.

[2]https://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters

[3]https://www.credit-suisse.com/about-us-news/en/articles/media-releases/42035-201207.html

> **"Heterogeneous boards of directors with independent thinking enforce governance, and diversity strengthens creativity."**
>
> **Pearl Zhu**

TRAVELLING UNCHARTED WATERS

ROSE MERCIER - SENIOR CONSULTANT

In preparing to write this article, I stumbled upon a fascinating article on the Britannica website[1] about the explorations of uncharted waters during the hundreds of years which led to knowledge of the continents beyond Europe and Asia and the Earth's coastline geography with which we are now familiar.

Over this past year, scientists have slowly gained an understanding of COVID-19 and charted, if you will, the metaphorical coastlines and oceans of our pandemic world. We have lived through nearly a year where organizations' current and future plans have been curtailed by the pandemic. Organizations of every size and type have had to rethink how to operate in a world very different from the one they had known. Some re-engineered their operations and produced new products, many moved their work online, and others had to rethink or reorganize how they delivered similar or modified services.

It is possible that your board has rescheduled monitoring reports, particularly in the first half of 2020. Your board may also have requested special monitoring reports addressing new or heightened risks to client and staff safety or financial conditions. Going forward, boards will need to consider if the risks their organizations face have changed or if their tolerance for risk has changed. What the board considered imprudent prior to the pandemic needs to be rethought. In the "new normal," what might be imprudent when it comes to financial conditions, treatment of staff, treatment of clients, financial planning?

As organizations find a new equilibrium, the board will need to think ahead and reflect on the "new world." What might the context in which the organization your board is governing be like? As you plan your agenda for the next year, dedicate time to explore a post-pandemic world. How might the needs of your organization's beneficiaries be different from those addressed in the current version of your Ends? Are there new beneficiaries? Different benefits? How might the priorities among the benefits your organization produces need to shift?

The direction that the board is setting cannot be based on knowledge of an old geography. Just as the explorers of the fourteenth, fifteenth and sixteenth centuries had to adjust their worldview and chart different courses because of the discoveries of those that sailed before them, boards need to be prepared to chart new waters. Spending time studying and reflecting on what has changed in the organization's environment should definitely be part of the board's 2021 agenda.

Without taking the time to plot a new course or adjust the sails, boards could be allowing their organization to sail into the unknown, an area commonly illustrated on uncharted areas of old maps with pictures of sea monsters and dragons - "here be dragons" – a place to be avoided because of the dangers that might be lurking. Excellence in governance requires boards to protect the organization from dangerous waters and unknown "dragons" and chart sound direction even in uncharted territory.

[1] https://www.britannica.com/topic/European-exploration

If we had known then what we know now . . .

JANNICE MOORE - PRESIDENT

Hindsight is wonderful. How often have we thought, "If only we had known then what we know now, we would have done things differently." I'm sure the pandemic has raised that thought for many of us, boards included.

The reality is that the future is never going to be exactly as expected. That doesn't negate the importance of boards exercising strategic foresight. Crystal balls? No. Foresight to inform actions today that will contribute to a better future? Yes. Working with scenarios can help.

The purpose of scenario work is not to accurately predict the future. Rather, the purpose is to broaden the scope of the board's thinking, to help remove some of the blinders we all wear without realizing it. Often when we think about the future, we tend to imagine it as today, only with everything the way we'd like it. We are socialized into thinking in certain ways; this makes it difficult to push beyond the boundaries of our usual patterns. The thought process involved in considering a variety of possible alternative futures, pushed to extremes, results in considering possibilities that we would normally write off as impossible or fanciful. While it is very unlikely any of these extreme possibilities will actually materialize, forcing ourselves to think beyond our normal comfort zone can help us to ask important questions. Is our organization positioned in a way that it could survive, or even thrive, in these alternative futures? Are our governance and management systems sufficiently robust to navigate in those circumstances? What might need to change? Can we be sufficiently flexible?

Over the last several years, I have had opportunity to work with a number of boards in several different fields, developing scenarios. While that work resulted in a variety of potential futures that considered a wide range of issues, not a single one envisioned a pandemic and the effects it might have. Does that mean the scenario work was faulty? I don't think so. I think it achieved its purpose of pushing the boards to think differently, so they could navigate the future that actually did occur. In fact, I was told by a board chair that the way in which the board's perspective was widened resulted in the board being sufficiently flexible to navigate the challenges of the pandemic.

As we move gradually into the "new normal" we can speculate as to what it might look like, but we don't really know. I think most would agree it will not ever be the same as it was before, but how will those changes affect the way we work and where we work? What will the impact be on the next generations who will bear the brunt of paying for the billions spent on getting through the pandemic? How will future education be affected? Will the pace of technology growth be even faster?

In moving ahead into the uncharted waters we all face as a result of the pandemic, consider the potential for your board to engage in scenario work. It will strengthen your ability to broaden your thinking to provide the best possible leadership for the future.

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"Want of foresight, unwillingness to act when action would be simple and effective ... until the emergency comes . . . these are the features which constitute the endless repetition of history."

Winston Churchill

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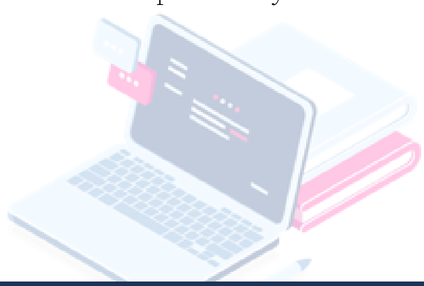

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