Board of Directors, Exploding the Mythology

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By Mark Goodall

When owners determine to operate a business, limit liability, spread risk, or add additional owners, they usually elect a corporate form for that purpose which results in the legal requirement of a Board of Directors with its own enforceable duties and responsibilities. Virtually all of these duties and responsibilities, which we might call key accountabilities, are also key accountabilities of the CEO which are not managed from Board to CEO in an up/down hierarchical fashion but instead operate as external, two-way, cross-functional working relationships which are prescriptive from Board to CEO and advisory from CEO to Board. Obviously, the CEO will want to understand Board capability with respect to such accountabilities.

In *Systems Leadership*[1], in which Stratified Systems Theory (SST)[2] is wrapped in a blanket of sociological context, managers are advised to consider the mythologies of an employment culture in order to understand and determine how to change (improve) that culture or climate. Perhaps it is time to explode[3] the mythologies of the Board of Directors as well. There is a commonly proffered mythology that the Board of Directors lifts or adds value to the organization.[4] This statement comprises two myths – that the board adds value, and that the board and the management hierarchy are parts of the same organization.

To challenge those mythologies, consider, for illustration purposes, removing the Board of Directors from the top position in a management accountability hierarchy (MAH) organizational chart.[5] Instead imagine the Board of Directors as

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[1] Macdonald, Burke & Stewart, *Systems Leadership, Creating Positive Organisations, 2nd Edition.*

[2] Jaques and Cason, *Human Capability*; Jaques, *Requisite Organization*; Lee, *The Practice of Managerial Leadership, 2nd Edition*; Macdonald, Burke & Stewart, *Systems Leadership, Creating Positive Organisations, 2nd Edition.*

[3] We could, instead, use the term explore if you like (smile).

[4] Many consultants and CEOs are well aware of this myth – and struggle.

[5] "In order to get a legally-established MAH you first have to create an **association**…All associations elect governing bodies…boards…MAHs come into being when the governing body of an association decides to get its work done by employing people…That is the fateful act which sets up the MAH." Jaques, *Requisite Organization*, Page Pair 4, (see chart – note the clear separation between the association and the MAH). "The function of the chairperson of the

an airship tethered to the CEO position with an umbilical of two-way, cross-functional working relationships (CFWRs).

Identifying the CFWRs is a matter of selecting relevant key accountabilities from a list of Board of Directors' duties and responsibilities. For example, we might pull the following as Board key accountabilities: Mission, Strategic Planning, Regulation/Compliance, Monitoring and Crisis Management.

Each of these key accountabilities flows from the Board to the CEO as a prescriptive CFWR.[6] It is important to consider that each of these Board key accountabilities also represents a CEO key accountability vis-à-vis the Board in a returning, advisory, CFWR.[7] Thus, we have external, "two-way," CFWRs, prescriptive one way, and advisory the other. It is sort of a dance in which the better dancer might lead.

Does the Board add value?

In order to limit liability and spread risk, and facilitate ownership transfer, or start a nonprofit, corporate form becomes necessary and with corporate form comes the requirement of a Board of Directors.[8] The Board is imposed by corporate law to, *inter alia*, protect stakeholders. Members of a Board are elected by the stakeholders, but do they add value? Included in such a question would be the question of whether the Board has the ability to add value. How does a CEO assess the ability of the Board? Should a CEO assess the ability of the Board?

Assessing the ability of a Board is complicated by the fact that it is not hierarchical but, instead, is elected by share or stake holders who are part of a separate

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Board…is contained within governance and not management…the chairperson must oversee the work of the appointed CEO, not as his or her manager, but acting on behalf of the governing body." Jaques, *Requisite Organization*, Page Pair 5.

[6] "Prescribing accountability and authority is the strongest of all cross-functional accountability and authority. Here a person A can require person B to do something and B must do it." Lee, *The Practice of Managerial Leadership, 2nd Edition*, at 79.

[7] "In the advisory relationship, the person giving the advice…has the accountability and authority to:

~take the initiative in approaching the advisee and presenting ideas or information that may be useful

~take the time to explain to the advisee where and why the ideas may be useful

~be kept informed about the activities and problems of the advisee." Ibid. at 76.

[8] Gevurtz, *The Historical and Political Origins of the Corporate Board of Directors*, Hofstra Law Review, 2004.

association[9] which elects a Board of Directors, which, like a collegium,[10] "governs" through voting and consensus with an elected Chair to speak for them. If we look at SST's capability assessment tools[11], we may muse about whether the complexity of information processing (CIP)[12] of the board is some composite of the separate CIP of each of its members which begs the question of whether the requirement of a consensus can limit ability.

Perhaps a more practical approach, for the CEO, is to consider ability as it relates to each of the separate two-way CFWRs. What is the ability of the Board with respect to Mission? What is the ability of the Board regarding Regulation/Compliance? A Board with members skilled and knowledgeable with respect to audit accountability and compliance can lighten the load of the CEO in such accountabilities freeing time and attention for accountabilities in which the Board shows deficit in ability. Board deficit might be dealt with by the CEO in the accountability-specific advisory CFWR, all the while recognizing the prescriptive power of the returning CFWR.

Virtually all Board key accountabilities are also key accountabilities of the CEO and understanding whether, in a given milieu, the Board is able to lift (add value to) the MAH, or whether the CEO must lift the Board, is important.

Are the Board and CEO part of the same organization as normally depicted in organizational charts?

While SST and RO acknowledge the Board as a separate organization, operating by consensus, that employs a separate management hierarchy to conduct operations,[13] the relationship has not been developed like the relationships within the MAH have been developed. Important here is that a hierarchy represents an organization of ascending/increasing ability in which we are readily aware of authority and accountability – we know where the buck stops. On the other hand, the Board, a collegium elected by the association of stakeholders, operates by

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[9] Jaques, *Requsite Organization*, Pair Page 4; Lee, *The Practice of Managerial Leadership, 2nd Edition* at 2-3; Macdonald, Burke & Stewart, *Systems Leadership, Creating Positive Organisations, 2nd Edition* at 137-143.
[10] Ref. Owen Jacobs' recollection of discussions with Elliott Jaques. Thank you, Owen.
[11] Jaques, *Requisite Organization;* Jaques and Cason, *Human Capability*.
[12] "…the complexity of mental activity a person uses in carrying out work." Id. and Lee, *The Practice of Managerial Leadership, 2nd Edition* at 312. Also referred to as MPA (Mental Processing Ability). Macdonald, Burke & Stewart, *Systems Leadership, Creating Positive Organisations, 2nd Edition* at 91.
[13] See footnote 9.

vote or consensus. There is no place for team, group or collegial "decisions" in SST or a Requisite Organization.[14]

Assessing the Board of Directors.

An MAH is a hierarchy of ascending ability levels including increasing CIP starting with hands on, line work, at Level 1 (L1). Consider a Board composed of three Level 2 (L2), two L3, one L4, and one L5 directors.[15] Can the L5 lift the board? Can the L2s tug it down? Can the ability of the Board be considered to be the ability of the most capable, highest CIP, member? Does Bill Gates lift the capability of the Berkshire Hathaway Board? Does an L8 have much to offer an L4 or L5 hierarchy? Or, are we dealing with some kind of composite score? In our example, might we have an aggregate score of low L4 capability – or high L3?

Is it likely that a high CIP board member provides more lifting ability than a low CIP board member might tend to pull down? What if there is a large number of low CIP Board members - can a high CIP member be nullified?

Board Level, CIP based, one way, cross-functional relationships.

If the Board Chair is of equal or higher CIP than the CEO, we may identify a cross-functional relationship in which the Board Chair may be in an advisory CFWR to the CEO. Because Board members must act by consensus or vote, and cannot act alone, such a relationship cannot be prescriptive on the part of the Board Chair. What if the highest CIP board member, the only member whose CIP is equal to or higher than the CEO, does not occupy the Chair? In that case, the CEO and that Board member may well establish such an advisory CFWR. Again, one-to-one CFWRs are advisory from Board member to CEO and cannot be prescriptive.

Respectfully Submitted,

Mark Goodall

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[14] Lee, *The Practice of Managerial Leadership, 2nd Edition*, at 69.

[15] This is not a labelling of the members. It is an attempt to describe the level of a role a member might handle.