INTERACTION

CONFORMANCE VERSUS PERFORMANCE

Interaction Opinion

Many board chairs and chief executives, see one of their greatest challenges as getting the board to add value. The first step may be a recognition that it is responsible for more than just compliance.
We at Interaction Consulting firmly believe that in an ideal world, the board and executive leadership of a private sector business play the central role in governance in their organisation. The board carries the ultimate responsibility for an organisation's performance. It makes decisions that determine performance, and the conformance of the organisation. Where through conformance and performance, positive assurance is sourced.

But the reality is somewhat different. In many organisations, performance takes the backseat as board members focus largely on conformance. Directors are usually keen to ensure that their decisions are in conformity with the rules and compliance with regulatory/legal frameworks and directives.

Enhancing the role of the boards of directors and executive management is paramount, based on our interactions over the past 28 years, the focus on conformance is to deliver sound governance, accountability and assurance strategies, whereas, performance relates directly to the value creation and resource utilisation of the business. What we offer at Interaction is the Swiss Army Knife approach, where we tailor bespoke advice, support, training and education, that supports the delivery of strategies and value creation.

Focusing excessively on conformance can give boards and owners a false sense that they are fulfilling their fiduciary functions. Of course, attention to compliance and control is often warranted. The renewed attention to risks and risk management in the wake of the 2008 financial crisis, and more recently the Covid-19 pandemic shows how important such issues can be. However, concern for a sound control environment is not the same thing as having a conformance mentality. The focus of the board and executive management should be on establishing a sound control environment, and its people, rather than a line-by-line compliance checking with budgets.

Adding value

Many board chairs and chief executives, see one of their greatest challenges as getting the board to add value. The first step may be a recognition that it is responsible for more than just compliance. Another may be for the board to go beyond the next step, which is performance monitoring. Even competent boards that are keenly aware of performance issues, may not be adept at adding value.

The characteristics of a value-adding board, are:

(i) responsiveness to the management's need for direction;
(ii) bringing skills and perspectives that the management may be lacking;
(iii) encouraging the development and examination of a range of options;
(iv) being objective;
(v) encouraging and listening to in-house expertise;
(vi) looking forward to the future, and taking the long-term view; and
(viii) thinking strategically.

Ultimately, adding value means developing more and better interaction with the management, and working in partnership with the executive.

Thinking strategically

One way Interaction believes that we can add value through our consultancy approach, is to enable organisations to think strategically. We suggest that boards and executive management should discuss and ultimately approve strategies proposed by the management and then monitor their implementation. However, in practice, management views get ignored. In many businesses, strategy development is usually an iterative process. In other cases, high-level outcomes or expectations are not clearly defined, and a strategy is developed by the board and management to achieve these undefined outcomes. In practice, strategic thinking and strategic decision making are enormous challenges.

Strategic decision making is often confused with routine, operational decisions simply because it occurs at the level of the board or the chief executive's office. We believed that a challenge for organisations and their boards is to move away from the temptation of day-to-day decisions toward a more strategic view. This is fundamental to adding value at the highest level, and efficiently using the board's talent and time.

Complicating the challenge is that business strategy is not necessarily intuitive. Board members with technical backgrounds, who are highly task oriented, or who prefer quick and consequential decision making may have little patience for reflective processes. Furthermore, there are different approaches to strategy development, and our experience and thought-provoking approach is both voluminous and not complex.

Another implementation challenge is that the management may be reticent to allow the board to get overly involved in what has traditionally been their domain of expertise. These fears merit consideration since it is precisely executive insight that is needed to develop a good strategy.

At Interaction, we believe that the board and executives need to understand that it is a key contributor, but not the main driver of strategy. Involving the board in the strategy requires a clear definition of the roles of management, the state and the board in their contribution to the strategy process.