

The Debate: Oversight vs. Micromanagement

Boards of directors are easily criticised for delving too deeply into the details of organisation and operations in an enterprise. The problem is the demand for greater accountability, which requires that Boards become more involved, especially when it comes to the governance and financial well-being of the enterprise.

In Malaysia, the concept of a Board providing oversight of management while retaining responsibility for the enterprise is clearly envisaged in the 2007 amendments to the Companies Act 1965. The new Section 131(B) states:

1. *“The business and affairs of a company must be managed by, or under the direction of, the board of directors”*; and
2. *“The board of directors has all the powers necessary for managing and for directing and supervising the management of the business and affairs of the company”*.

Indeed, although there are exceptions such as a family owned and managed business, it should be obvious in most cases that a Board cannot manage an enterprise on a day-to-day basis. The Board creates the corporate mindset through its policies, and delegates to management the task of delivery. But still there is a debate, and it's a fine line which differentiates between proper oversight and micromanagement.

Let's look at defining the terms.

Oversight: the legitimate provision of direction and guidance by a Board to the management of an enterprise, concerning the financial and operating well-being of that enterprise, its principal undertakings, initiatives and projects. The objective is to ensure compliance and appropriate governance, plus the adoption of acceptable risks, leading to improved strategy and/or execution, and sustained/enhanced value for the enterprise and its stakeholders.

Micromanagement: the habitual practice by a Board of interfering with the management of an enterprise, its people, processes and administration, in a manner which imposes the will of the Board on the principal undertakings, initiatives and projects of that enterprise.

Of course, both oversight and micromanagement can slow things down (that isn't always avoidable), but micromanagement slows things dramatically and adds no value.

Many CEOs will say “Yes”, if asked whether they are micromanaged by their Board. That's natural, and there's some value in the essential dynamic of a CEO wanting to exercise his judgement and drive for results, and a Board wanting to properly question and challenge the CEO so that it can validate what the CEO proposes.

Good managers have an entrepreneurial bent; they have plans and the confidence to execute them. They'd love it if the Board would just keep out of the way. On the other hand, recent history has thrown up too many horror stories of what happens when there's a lack of oversight. Dominant CEOs and supine Boards are a real danger.

Interestingly, a common thread for what drives both management and the Board (without denying the possibility for cynical motives also) is that both *care* about what happens to the enterprise. This should be harnessed, rather than be allowed to create conflict or lead to a de-

motivated management. However, that isn't easy, as micromanagement is a disease of the doer, and we're all, directors and managers alike, more easily disposed to doing than overseeing. We also tend to feel that no-one is quite as good as we are at the doing.

There's a need to find a balance, which allows Boards to walk that fine line. It begins with creating a climate which engenders mutual trust and respect between the Board and management. That means both must understand their roles, how each add value to the enterprise. There probably isn't a substitute, in the end, for setting it all down in writing – not in a legalistic template, but in a meaningful “job description”. It should deal with respective authorities, territory and contributions. It must describe the different roles in a way which clarifies the legitimate expectations of each side, and leads to agreed deliverables.

The starting point is the Board's own description of the governance policies for the enterprise, their role and responsibilities, and how they expect management to provide support. With the delegation of day-to-day management taken care of, then job descriptions are needed for the Chairman and the CEO, which should provide a framework for how the enterprise is to be led. Knowing who does what helps minimise conflicts between the two positions.

This should be accompanied by a narration of the role of directors as a Board and job descriptions for the Board committees, complete with clear definitions of the tasks delegated to each committee, the reports required and the timelines. Finally, the roles of the senior corporate officers should also be recorded.

These useful documents form an excellent basis for performance evaluation by both Board and management, of themselves and each other. It is best coupled with a process of on-going appraisal about whether the interactions between the two are effective: “Did the Board meeting adequately deal with the issues and put us all in a position where we can move forward positively?” Such a process helps assure all concerned of their functionality, with the added ability to morph when needed to ensure continued effectiveness. This helps with the formal annual assessment of everyone's performance (Chairman, CEO, Board, Committees, senior officers and management as a whole). To be effective, the process must be an open and active, “warts and all” examination. It confirms the different roles that are played, and should expose any problems.

Successful enterprises do not have secrets that are privy only to the CEO or the Board, or a belief that a primary purpose is protecting the incumbent in any position. There is a commitment to transparency, to dealing with issues diplomatically, to Board diversity and focussed training for directors. This leads to an almost seamless blending of the respective roles of the Board and management in achieving the enterprise's objectives. Genuinely engaged directors are able to accept increased accountability and concentrate on strategic oversight while allowing management to do what management does – handle the nitty-gritty. In the best cases, it is a living process, with both Board and management conscious of the need to adapt over time to the changing circumstances of the enterprise. It takes some effort to achieve this, but the rewards are greater real efficiency, an ability to handle change, and an environment which supports creativity while holding fast to the key elements of good governance.

Without this the dysfunctional process of micromanagement can too easily set in and, once embedded, it can prove very difficult to remove. Here are a few symptoms:

- There is an absence of trust between the CEO/management and the Board, and the Board regards management as its servant rather than as a fellow team player in the direction and management of the enterprise.
- Previous errors of judgement are often mentioned, and Board members openly criticise the CEO and promote their own ideas/recommendations, especially when there are former CEOs on the Board or directors brought in to add expertise.
- Board members talk about “knocking management into shape”.
- Board papers are criticised for inadequacy, are consistently late, and the agenda is overloaded with routine progress or administrative reports.
- Decisions are often deferred and additional data is requested.
- The CEO engages frequently with Board members to argue for greater autonomy and less oversight.
- The previous CEO was terminated for performance short-comings, or there was a recent crisis which involved the Board in detailed remedial work.
- The Board is consumed with detail and wants to decide on small issues while failing to address the over-arching matters of strategy, asset allocation, financial resources, risk tolerance, governance, policy setting and performance measures.

Some of these on their own are already a worry. A combination of elements would suggest the enterprise may already be well down the slippery slope; it may even be too late.

Dysfunctional companies are a reflection of both the Board and management, and they destroy stakeholder value. It is preferable not to get to that point and face up to problems the minute they emerge. It is far better to focus on creating a well-functioning Board with a strong sense of its role and purpose, than to employ energy on correcting a dysfunctional micromanagement situation.

Does all this mean Boards should simply rely on management to fill in the spaces, and focus only on the big picture? Absolutely not. There's as wicked a devil in avoiding the detail as there is in being consumed by it. More on that in Part II.

David Berry
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David Berry is Managing Director, Governance at Columbus Circle Governance Sdn Bhd, a professional firm offering services and advice in the areas of corporate governance, risk management and internal audit, investor relations, financial communications, strategy and issues management. He is a faculty member of Bank Negara Malaysia's Financial Institution Directors Education (FIDE) programme, he is Vice President of the Malaysian Institute of Corporate Governance and a director of the Malaysian Investor Relations Association.

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