Grant Thornton
An instinct for growth™

AXIOM Consulting Partners

The lost art of governance

Boards and management teams must lead together to sustain momentum and drive profitable growth

Dave Wedding, Chairman, Partnership Board and Managing Partner, Mid-South Market Territory, Grant Thornton LLP, and **Mark Masson**, Principal, Axiom Consulting Partners

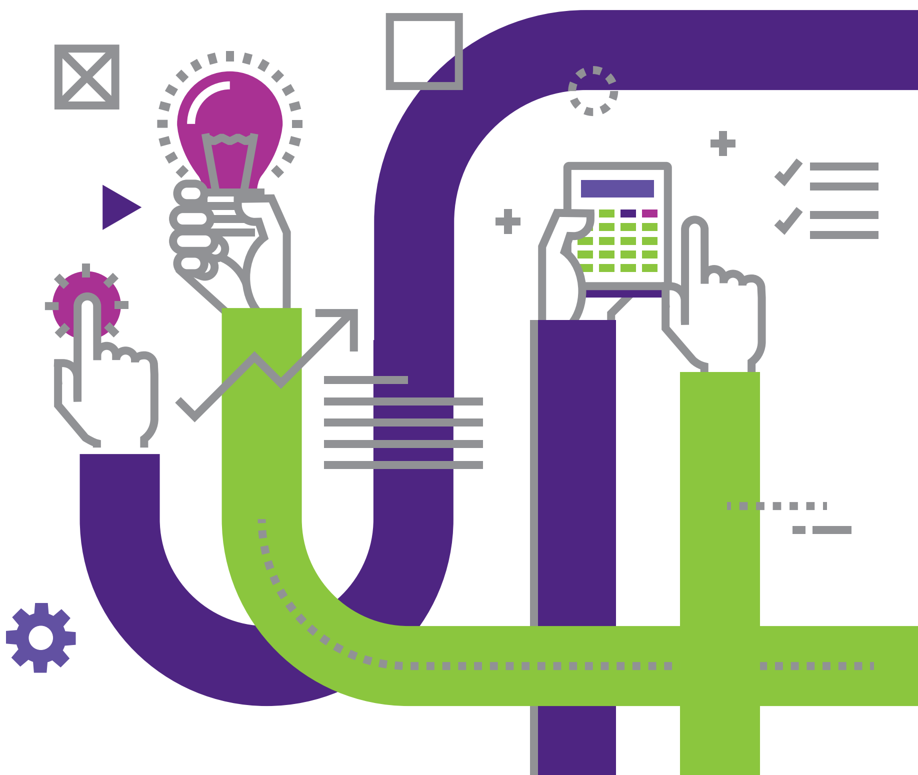
Leaders of accounting (or law or consulting) firms of any size would agree — sustaining profitable growth is incredibly difficult, perhaps near impossible, if the board and management team do not have a strong governance approach in place. Such firms also face a unique challenge in that board members are also owner/operators who must be able to distinguish their governance from their operations role.

Too often boards and management teams at firms see each other as hurdles to be cleared. Power politics and a long list of initiatives get in the way and hold down results. Here's how the board and management team can work together better to sustain growth:

1. Determine and then live by who makes what decisions, why and in what time frame.
2. Engage the broader partnership.
3. Develop a shared view of the most critical strategic priorities for both the board and management.
4. Leverage strengths and set clear expectations (of each other).
5. Speak and act with one voice.

Lead as one

Navigating an ultra-competitive marketplace requires focusing the efforts of an entire firm, getting to the right decisions quickly and compelling a skeptical audience of fellow partners to make big changes when needed. Management and the board must actually lead together from their natural areas of strength. To be certain, business operations must be owned by management, and oversight on behalf of partners must be owned by the board. But the risks of disjointed approaches and efforts, which are often hidden until there is a crisis, can lead to a litany of challenges that can erode partner trust and chip away at profitability. Leading together is critical.

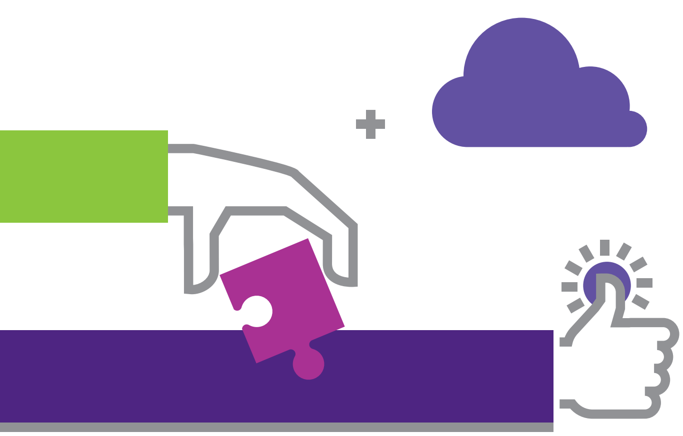


Leaders don't set out to get this equation wrong, of course, but over time the changes underfoot pull things apart just enough. Even those boards and management teams that get it mostly right need to periodically re-examine and adjust their approach. This shouldn't be a surprise; after all, the partnership composition changes over time, as does the management team, composition of the board and the strategy and market in which you are trying to execute that strategy. How could the rules of the game that a partnership set up long ago really be expected to hold up after years of change?

Three signs can indicate that the board and management are not aligned strongly enough and need to reconsider governance. If you are experiencing these or it has been five years or more since your last review, it is likely time to consider a governance review:

- Operational decisions take longer and key partners opt out of operational or cultural initiatives.
- Important management efforts end up in a cul-de-sac of great ideas that never get executed.
- Leadership teams experience a constant prodding from partners for more information and proof for various decisions, sometimes resulting in low trust in management and/or the board.

These type of issues come on slowly, but pick up speed and can truly hold back business execution on anything from pricing to client targeting.



Decision rights and the partnership agreement

All rights and obligations emanate from the partnership. It is in fact the partnership that delegates their individual and collective decision rights and authority to the board, management or both. What the partnership decides must be spelled out in the partnership agreement — the hard code of governance. The following two critical actions focus on this hard code.

1 Determine and then live by who makes what decisions, why and in what time frame.

Why this is important

The first, and most comprehensive, place to look for decision-making authority is the partnership agreement — that is the document 95% of partners look at once and only quickly before being asked to sign on the dotted line. As little attention as this document receives, it is the central nervous system of how the partnership must operate. It should serve as the constitution for any board. Despite the importance of aligning strategy and decision-making, firm leaders tend to ignore the need to evolve the partnership agreement for a variety of reasons:

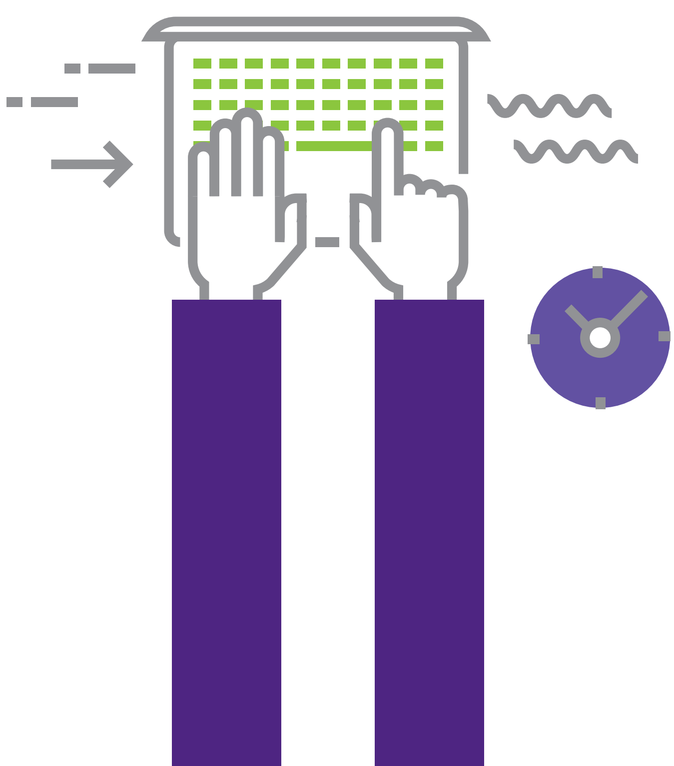
- Complexity of the agreement itself — legal language.
- High threshold required for change (supermajority partner vote).
- Uncertainty about where to focus. What should be in and out of scope?
- Perhaps, most of all, it is time-consuming to change and just seems distracting.

The problem with ignoring the partnership agreement is that the rules set out in the agreement actually determine who has the right to make various types of decisions, who has input and what the obligations of the board, management and partners are. After a period of years, the statutes start pulling against what is natural or needs to be done, and leaders begin experiencing partners opting out of change and questioning decisions. This puts a huge drag on any change of direction. The partnership ultimately has the right to determine decision rights and how the firm operates. Engaging partners on this journey is critical.

How to approach

So how does a very busy leadership evolve the partnership agreement and decision processes?

- Review the partnership agreement and its impact regularly — approximately every five years — and do so with an eye toward the future of the firm and its markets.
- Clarify and simplify at the outset of any review.
- Agree on board and management roles: Governance reviews are in a board's purview, but the management team should be consulted along the way to tap into their considerable operations experience.
- Focus on success and not expediency: Getting the critical few changes right and, as critically, supported by the partners is more important than having a quick process.
- Question up front what is in and out of scope. For example, size and structure of the board? Yes. Partner rights and obligations? Yes. Revising voting thresholds for changing the partnership agreement or benefits plans? No.
- Ask the firm's legal point person to keep a running list of technical and administrative changes that can be included in the package of changes for the partner vote (an up-or-down vote on all the major and minor changes at once is simply more efficient for everyone involved).
- Compare yourself to a broad range of peers: Understand how your firm compares to what is typical in the market but don't confine your thinking to only peers who look exactly like you; for instance, accounting firms should consider law and consulting firms, as well as ones larger and smaller, within reason. Emerging trends and governance best practices for other countries should also be considered, such as the inclusion and role of independent board members.
- Develop options, build a straw model and test the model with critical scenarios:
  - Lay out several options for each area of potential change and ask: Does it better align with how decisions and actions need to be taken? Does it make it clearer, easier or better for partners to do what will execute the strategy? How would each affect other areas? It is tempting to be concerned with whether solutions look like those of other firms, but it matters very little if it doesn't affect your firm the right way. One exception is in the case when legal precedent is critical and there is no precedent for your draft solution.
  - Build a straw model that incorporates choices among the solution options (or derivatives of the initial options) into a coherent set of recommendations. Understand that the decision rights and processes laid out in the partnership agreement are intertwined. Each decision links to another; thus a set of changes must be considered as a whole, not many individual pieces.
  - Then virtually run the most important decisions and situations through the straw model to identify unforeseen challenges and revise as needed.



2 Engage the broader partnership.

Why this is important
Identifying and making the changes necessary are two very different endeavors. To be successful in strengthening the governance and leadership model for your firm, partners need to be involved. Truly engaging the broader partnership elevates the level of understanding about how the partnership works, brings forward better collective thinking and positions partners to vote wisely for the better of the long-term firm. Engagement cannot be a sideshow. It must be a meaningful and genuine invitation to participate in the dialogue that will lead to the solutions offered for a vote.

How to approach

- Commit to the necessary change: Don't walk away without executing any real change after an exhaustive process. It will leave partners jaded and the situation worse.
- Educate: Partners are focused on their area of expertise, solving client challenges and developing talent. That's the way you want and need it. Don't expect too much of their understanding about firm governance. They have delegated this responsibility to the board for a reason. Instead, make education a core part of early engagement so that when you ask for input, what you get is reliable and informed.
- Make partners part of the process: Tell them about the process, goals and how and when they will be called on to add to the dialogue. Furthermore, show them the work product — sharing summaries of input from surveys or office-based input sessions helps partners understand the broader perspective and gives them confidence in the process and result. As owners, partners want the facts and information to make the best decisions for the firm.
- Justify and support recommendations with facts: Fully explaining the options, benefits and ultimate recommendations for change in writing as a reference for any partner vote adds rigor to the effort and ensures only the most important and value-added changes are made.
- Utilize straw polls to assess partner support for various options and changes being considered.

Collaborative board-management leadership

The hard code is important, but it won't do the whole job. There is the proverbial soft side (or soft code), and getting these dynamics right is just as important and often more difficult. Having a document that spells out the decision rights can't identify the challenges and opportunities and certainly can't execute on its own. Both the board and management team must act in concert. When they don't, governance and the partnership agreement are tested unnecessarily as the focus becomes "who has the right," instead of "where do we need to go together and how can we best get there?" These final three actions focus on the soft code of governance.

3 Develop a shared view of the most critical strategic priorities for both the board and management.

Why this is important
The board and management may start with different specific agendas based upon their respective roles, but if they are aligned on the priorities, they can work together to accomplish all. For example, the board may have CEO succession as a priority and management may have leadership succession as a priority. Together, they can bring the firm a best-in-class talent development and overall leadership succession process.

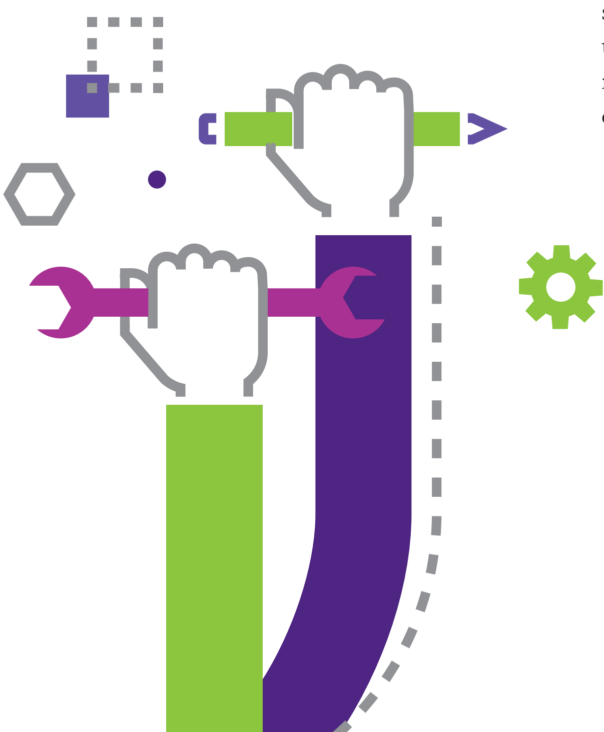
How to approach

- Schedule a joint board and management session at the beginning of each fiscal year, or after board elections, to formally discuss and decide on board and management priorities. Ensure agreement about the priorities and areas of focus and set measurable goals and milestones. Then hold each other accountable while working together on execution.
- Be rigorous about how you evaluate options together and measure results (before either is on the table). Setting criteria after one or more members of the team has offered or become committed to a particular action or solution risks bias. With the actions of many, if not hundreds or thousands, being directed by the strategic focus, the options deserve a rigorous and objective evaluation.

4 Leverage strengths and set clear expectations (of each other).

Why this is important

There is really no substitute for this in any leadership environment. Too often boards assume management should know what information and considerations to bring to them and management assumes boards know what oversight looks like versus management. When the expectations are not clear (and agreed upon), it's inevitable that there will be letdowns and the collective cannot lead together as effectively.



How to approach

- Agree to no surprises: No one likes the unexpected, particularly hearing of a board decision or management effort by way of a partner not involved with either group. Plan time to discuss and communicate intentions and progress with each other regularly.
- Respect each other's time: Determine together the objectives and cadence of meetings and the preparation required. Information can be transferred in many ways these days. Utilize the board meeting time to debate the key issues.
- Regularly assess both the board's and management's effectiveness at engaging each other. Hold yourself and each other to higher performance standards.
- Utilize and leverage the unique skills of both the board members and management to facilitate change in the organization. Management team members have great leadership skills and are on the front line of promoting organizational change, which is not always popular. Board members are elected by their peers and, as such, enjoy the respect and support of the majority who voted for them. They also have the ear of the partnership and can play a critical role in affecting positive change and helping implement management plans.
- Know who makes what decisions, why and in what time frame. Discuss this in the context of the strategic imperatives. While this can be statutorily understood directly from the partnership agreement, roles can blur as the partnership agreement cannot capture every possible nuanced situation.

5 Speak and act with one voice.

Why this is important

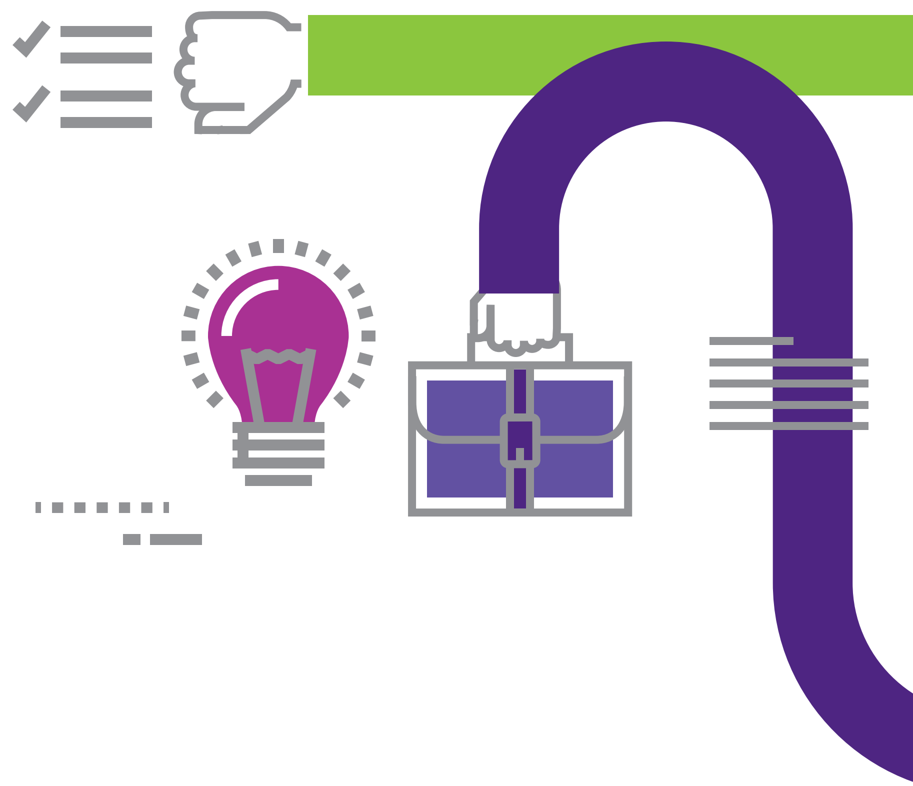
Partners will behave differently if they experience inconsistency of message and action among the board and management, particularly if there is open disagreement. Walking out of discussions with a single perspective and message on where progress stands, what decisions have been made and the potential impact at hand will go a long way toward engendering trust among the partnership and seeing them actively buying into the decisions that are ultimately made.

How to approach

- Set aside time to agree on messaging: Decisions passed should be supported by all outside of the boardroom, and a clear message should be communicated by both the board and management about the strategic and operational imperatives that require any changes. Spend focused time at the end of every board, management or joint meeting to determine what will be shared — formally or informally — by any member of the board or management team.
- Develop an integrated communication plan: Major changes are not the only things that must be communicated. Given the level of email traffic executives receive today, focus messages to be high-impact and timely, make a call to action and be part of a broader arc of dialogue across the firm. Doing so will pay dividends by ensuring the critical messages are consumed and understood sooner, lessening the burden on board and management team members and speeding the move to action.

Reaping the benefits

Governance takes more than what is on the surface to successfully lead and sustain a firm's momentum. Even the most gifted leaders often find the challenge of driving change difficult. Tuning the hard code and soft code of governance to get, and keep, the board and management team working together effectively for the partnership pays real business dividends.



Contacts

David Wedding
Chairman, Partnership Board and Managing Partner
Mid-South Market Territory
Grant Thornton LLP
T +1 704 632 6787
E dave.wedding@us.gt.com

Mark Masson
Principal
Axiom Consulting Partners
T +1 312 202 3006
E mmasson@axiomcp.com