



BEYOND LEADERSHIP

21st Century Governance

Written by John Dalla Costa

Earlier this year, BlackRock's chief executive Larry Fink wrote a letter to CEOs of large corporations, including all those on the S&P 500, decrying the "short-termism afflicting corporate behavior." As the world's largest investor, Mr. Fink was using his \$4.6 trillion megaphone to demand that leaders eschew quarterly reports, and instead demonstrate the visionary proficiency needed to realize long-term growth during uncertain times.

Many of us have sympathy with Mr. Fink's critique. However, it may be that he aimed his missile at the wrong target. While CEOs have considerable power, the quandary of balancing short-term outcomes with longer-term imperatives belongs to boards. Leaders are responsible for extracting excellence from their organizations, including outstanding results, but boards have the duty to set the parameters for that excellence, so that it endures, and creates value for society as well as investors.

As a founding faculty member of The Directors College, I've had the opportunity over the last dozen years to interact with over 1,500 leaders, many of whom already sit on boards. Accomplished as they are, the distinction between leadership and governance is not one they've much considered. They understand that there are legal and technical duties to learn, without necessarily recognizing that the process of governing requires a very different orientation and mindset.

Governance is not a synonym for leadership. It is materially different because it is an institutional responsibility as well as an organizational one, aiming not simply to enhance results, but also upholding the norms of care and loyalty that represent the public good. In fact, governors don't lead *per se*. They are instead entrusted with the more important task of creating stability from perspective, insight, and purpose, within which the leader and executives of the organization can best succeed and thrive.

Since most directors are elected onto boards because of what they've accomplished as leaders, the assumption is that they will be using those same attitudes and aptitudes at a higher level of influence or authority. There is a fundamental and not always easy transition to navigate: from being *the* executive to becoming a legislator; from owning the responsibility to decide alone, to sharing responsibility for deciding together; from issuing directives, to representing different interests and negotiating with others, to get to more balanced outcomes.

Lest we forget, governance was a statutory innovation for providing assurance. As fiduciaries - literally, as trust-makers - board members are duty-bound to exercise those ethical qualities of honesty, fairness, justice, and even-handedness that fulfill expectations for integrity while overseeing the operations of the organization.

Leaders are accountable for making things happen, for as long as they are CEO or President. The accountability for boards is to make sure things happen the right way, so that the asset grows in both resilience and value, over a much longer time horizon than the tenure of a single CEO.

Part of our confusion is semantic. It used to be that persons appointed or elected to governance roles were often called "trustees." We now more commonly designate a board member as a "director," which fudges the role two ways. First, as a descriptor, director detaches the board member from the explicitly ethical nature of the trust holder's job. Second, directing implies an overriding prescience, turning the accountability of board members inside-out so that they are defined more by their decisiveness rather than by their duty.

This conflation of leadership with governance has proven hazardous to shareholders and stakeholders. One reason reformers and legislators have been insisting for the role of CEO and Chair be split on boards is to ensure that each of these crucial yet different responsibilities is exercised with the autonomy that meets due diligence.

Figure 1

LEADERSHIP	GOVERNANCE
1 Sets direction, with daily guidance for maximizing results.	Sets destination, with visionary purpose for maximizing resilience.
2 Operates vertically - from the top of a hierarchy, using planning and cultural tools to build organizational momentum.	Operates horizontally - as a democratic exercise among peers, using debate and differences to realize checks and balances.
3 Focused on delivering strategy and results.	Focused on delivering ethical assurance, including oversight of plans and values.
4 Pursue competitive advantage through efficiencies and innovation.	Earn and protect social capital (the public "charter to operate").
5 Accountability for building operational capacities as well as results.	Accountability for auditing the future with the same rigour as financial audits.

Without exhausting the growing literature on leadership and governance, we can summarize the differences on five dimensions involving:

1. Scope;
2. Process;
3. Task;
4. Core Competence; and
5. Accountability.

Of course, there are overlaps, and, while the distinctions shown in **Figure 1** above are painted with a broad brush they aim to make a point. Governance is not leadership on steroids, but rather a group mechanism for representing varied interests with the open-minded sense of discovery and discipline that earns moral authority.

Diversity is increasingly valued on boards for exactly this reason: not only for more representative composition by gender, race, ethnicity or other demographics, but to ensure that new perspectives, inputs, objections, and options, representing new issues, threats, and opportunities, are attended to via thoughtful debate.

Listening to directors and working with boards, I believe there is a growing recognition that governance is under-delivering its promise. A recent survey indicates that two-thirds of directors believe they spend too much time on current issues and have too little opportunity to engage the longer-term forces impacting the organization. Good leaders though they may be, the terms of good governance remain for many hard to discern.

Scholars have taught us that governance, in fact, changes over time. Because we seem to be at one of those inflection points when the oversight theories and structures last designed in the 1970s and 1980s are proving inadequate for 21st-century complexities, we all need to rethink our assumptions.

Any moment of renewal or reform requires both getting back to basics while applying new lessons to get ready for future demands. For governors - that is, for directors or trustees - this means retrieving the fundamental ethical nature of assurance,

while using curiosity, experimentation, and dreaming to engage today's most difficult and dangerous ambiguities.

Asking ethical questions is an art as well as discipline. While codes for boards may be a start, these documents are all too often prescriptive, based - like audits - on oversight from looking back on past performance. At The Directors College, we fashioned a living code for board members to look ahead, to in a sense destabilize the volatility of what is happening in the world by honing the skills for improvising with integrity.

Beyond technical skills, this code invites new behaviors - to grow both the personal capacities for discovery and dialogue, and the behaviors that build the high levels of trust in the boardroom needed to tackle our most difficult problems.

None of us really know what's next. Oil prices, real estate values, and interest rates are not where experts supposed them to be. Globalization is fissuring in ways neither advocates nor critics expected. Politics everywhere are more divisive, with even former bastions of free trade contemplating walls and trade barriers.

In such a milieu, the only real source of assurance and guidance comes from exercising ethical principles with such dedication and audacity as to tame the paralysis or fears from uncertainty.

Author Biography

John Dalla Costa is the Founding Director of the Toronto-based Centre for Ethical Orientation. The author of five books exploring ethics, trust, integrity and governance in business, John has worked with boards and executives all over the world. He has spoken on business ethics at the Vatican as well as on Wall Street. He is a founding faculty member of The Directors College and teaches ethics.