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Board of Directors vs. Management: What is the Difference?

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While boards and management hold close ties to one another, their duties and responsibilities are distinctly different. Look to the definitions between a board and governance for the first clue as to the differences between them.

A board is an organized group of people with the collective authority to control and foster an institution that is usually administered by a qualified executive and staff. Governance is the act, process or power of governing.

If we look at it simplistically, the board makes the decisions and management carries them out. Due to the litigious nature of our society, boards are taking a stronger interest in day-to-day management activities because of the ensuing impact on its fiduciary responsibilities. Boards need to be informed of how the organization is being managed to protect its legal responsibilities, but the board role should not cross over into performing management duties. Here are some of the basic responsibilities for boards and management:

Responsibilities of Boards

The Board Chair leads the board in keeping with the organization's vision, mission, and strategic planning goals. Duties of boards include:

- Choosing the CEO
- Approving major policies
- Making major decisions
- Overseeing performance
- Serving as external advocate

Responsibilities of Management

The CEO leads the organization in keeping with the board's direction. The duties of management include:

- Making operational decisions
- Making operational policies
- Keeping the board educated and informed
- Bringing well-documented recommendations and information to the board

Benchmarks for Determining Board Functions

Even when you consider the basic principle that boards make decisions while management implements the plans, the complexity of today's business world often muddies the waters. Boards function best when they focus on higher-level, future-oriented issues; but there are times that they need to get more intrinsically involved. When the board sees negative results, it's a red flag to delve deeper into management issues to get the organization back on track in order to fulfill their duties to shareholders and stakeholders. Following are some benchmarks for boards to better understand when a situation requires taking action:

BIG DECISIONS

Boards should take a stronger role on big matters. This means matters that may have a negative impact on the organization or with regard to matters that have strong financial stakes. This doesn't mean that the board should get directly involved in management issues. It means that they should be informed about issues so that they can make appropriate decisions.

FUTURE IMPACT

Boards should focus on the long-term vision. They do this by forecasting how the organization will look up to five years in the future. Boards should limit their involvement to quality, growth, finances, and people. Future goals should be measured by initiatives and key indicators.

RELEVANCE TO THE MISSION

In determining their level of involvement, board members should assess whether an issue is relevant to the fidelity of the organization's mission. This means that the board has a responsibility to determine and direct whether activities are in keeping with the mission.

HIGH-LEVEL POLICY DECISIONS

Boards should make the high-level policy decisions and leave the low-level managing policy decisions to the management. This means boards make big decisions like whether to close or open facilities, or make major purchases in keeping with the organization's long-term strategic plans. It also means addressing legal matters and board conduct, as well as addressing conflicts of interest, community benefit, executive compensation, and CEO evaluation. Management should bring all relevant information to the board so they can make informed decisions about major issues. Management should include well-documented analyses and recommendations.

OVERSEEING TRENDS

Boards should routinely review performance reports to establish positive or negative trends and growth benchmarks. Boards should review trends from at least three consecutive reporting periods before deciding if an issue needs board attention.
Boards may need to take prompt action to address unethical or illegal activities. They may also need to get involved if a drastic drop in performance occurs.

Before taking direct action, boards should consult with management to determine how they are addressing the issues and if they have the capability to redirect the trend in a positive direction. Boards should hold management accountable for results without directly micromanaging specific matters.

LEGAL AND MEDIA MATTERS

Management has a responsibility to inform boards about major issues, particularly if they have been contacted by Congress, the IRS, the state attorney general or the media. Boards should make sure that the organization has a public communications strategy. The board should oversee appropriate administration of public and media communications, especially when major or public issues arise.

SUPPORTING THE CEO

When boards and management having a strong and open working relationship with each other, the organization benefits in notable ways. Boards should support the CEO in implementing board decisions, such as awarding or ending contracts. At times, the CEO may need to ask the board for intervention or support. CEO's may need the board to intervene with management in ways that help him raise performance. Boards may also support CEO's by using their networks within the community to support the work of the organization.

Boards that routinely infringe upon management duties and responsibilities risk upsetting a structure that is intended to help both of them. CEO's and other managers need to know that boards have confidence in them to manage things when they go awry. Boards that cross over into the management role risk turnover in the CEO and executive positions. The relationship between boards and management was strategically developed for high-efficiency organizational success. Boards address the broader, mission-focused activities, leaving the daily managerial activities to the CEO and other managers. When each entity directs its attention towards its own duties and responsibilities, the framework works like clockwork.

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