

HOW TO INCREASE THE BOARD'S IMPACT IN VOLATILE TIMES

Strategies for building a high-value board





Companies are dealing with a business environment that is likely to continue challenging strategy, growth and long-term value plans. With so many internal and external factors impacting assumptions and redefining business models, CEOs and boards must work together more and, in some cases, differently than in the past in order to drive value for the business.

Meanwhile, new stakeholder demands and higher expectations for business' role in society are changing board oversight responsibilities and forcing directors to evaluate how they can best add value to the companies they govern.

A high-value board—one that leverages its diversity of relevant expertise and experiences to offer strategic insights and provide effective challenge—can be vital to thriving through this time of volatility. But are companies fully enabling and leveraging this strategic resource? And are boards recognizing and rising to the challenges presented by this new and evolving environment?

To better understand how boards perceive, assess and enhance the strategic value they bring to organizations, Corporate Board Member worked with the EY Center for Board Matters to survey 251 public company directors in March 2022.

In many ways, the survey results reflect positive developments. Data from the survey indicates that the pandemic and its aftermath have strengthened the CEO-board relationship and helped to underscore the board's value to company leaders. Directors continue to identify actions and opportunities for further nurturing their partnership with management. Most surveyed directors think management effectively leverages input from individual board members and are satisfied with the value the board brings to the company.

In other respects, the survey shows there may be director blind spots around critical areas for improvement. For example, despite directors' high level of confidence in the value their boards bring, survey responses reveal significant opportunities for boards to build their capabilities around emerging priorities, like disruption and cybersecurity.

In addition, survey responses indicate boards are struggling to assess and address impact beyond shareholder returns in the increasingly multi-stakeholder environment. Board development in these areas is crucial for meeting the oversight demands of the current and emerging business context. Further, the survey revealed that though boards say knowledge building is a key area for improvement, relatively few are making efforts to address this through formal board education and training programs.

This report examines these findings and offers considerations for boards as they seek to enhance strategic value to the companies they serve in the face of continued macroeconomic and global uncertainty.

CHANGING DYNAMICS IN THE AFTERMATH OF THE PANDEMIC

A strong relationship between management and the board has always been critical to building the trust and relationships needed for executives, particularly the CEO, to effectively tap into board as well as individual director expertise and obtain strategic counsel as needed. What is noteworthy is the positive change brought on through the pandemic. Contrary to what some anticipated, the challenges of the past two years, and particularly the more frequent interactions and deeper engagement those challenges stimulated, have bolstered the CEO-board relationship and underscored the value of the board to their organizations. Yet, our survey results indicate there is still opportunity to go further.

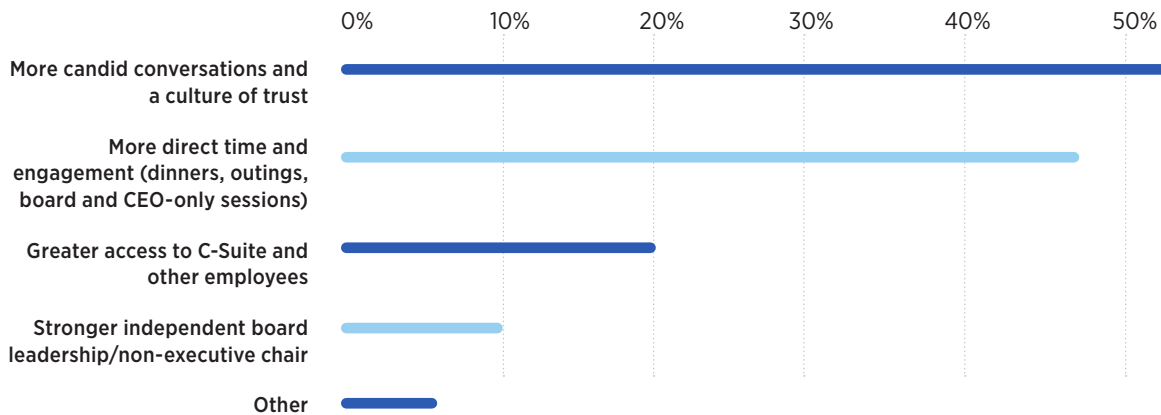
On a five-point scale, with five being the strongest, survey respondents generally rated the relationship between their board and the CEO a five, and, impressively, half (50%) said that relationship has improved over the past two years.

How has the relationship between the board and the CEO changed in the past two years?



Several directors commented that the greater number of interactions with the C-Suite and being asked for input outside of board meetings have elevated their contribution to the organization's success and inspired more active listening and engagement from some board members. Nearly 70% of directors surveyed think management effectively leverages input from the individual directors on their board.

Which of the following actions would most improve your board's relationship with the CEO? (Select only the two most important)



The survey also asked directors to share in their own words how a board can most effectively support the CEO, and how CEOs can better leverage the strategic value of the board. Directors' comments made clear that a healthy management-board relationship is a two-way street, with both sides needing to actively listen and honestly communicate, working from a foundation of mutual respect and trust.

In considering board and management relations post-pandemic, directors pointed to having the ability to act as a sounding board for management and maintaining the heightened level of listening and engagement outside of crisis situations as keys to unlocking the board's value. The path forward that emerges is one where boards are having more executive sessions with the CEO and discussions in the boardroom are more candid. For some boards, resisting the tug of returning to "business as usual" and keeping the momentum of more open, more often conversations may prove difficult.

What directors said about strengthening the board-CEO relationship

How can a board most effectively support the CEO?

- **Keep a long-term focus.** Help the CEO not lose sight of areas that are important to the future of the business, such as customer experience, innovation and funding. Help management maintain a focus on shareholders in balance with other stakeholders.
- **Build partnership and provide effective challenge.** Foster a culture of trust, transparency and credible challenge. Actively listen as much as talk and be supportive while still holding management accountable, asking tough questions and being skeptical when needed.
- **Know the business and share relevant experiences.** Know the company's business, competitive environment, customers and unique challenges to a sufficient level. Share personal experiences and proactively bring forward the board's diversity of perspectives for robust dialogue.
- **Be available.** Whether for board or committee meetings or between-meeting communications via phone and email, directors should be committed, engaged and accessible beyond the formal meetings schedule.

How can CEOs better leverage the strategic value of their board?

- **Approach the board as a trusted counsel with shared best interests.** Tap into the board as a resource that can offer consultative expertise. Be transparent and trust that the board will think more—not less—of the CEO for wanting more perspectives and asking for help with a vexing problem.
- **Solicit and value candor and challenge.** Actively seek input from the board on key issues and welcome challenging questions. Prioritize discussion over presentations, resist defensiveness, welcome brainstorming, and proactively seek and listen to different perspectives. Don't assume silence is full buy-in.
- **Build one-on-one relationships with individual directors and leverage their specific expertise.** Engage individual directors in informal discussions between board meetings to build trusting relationships and better understand and leverage each director's unique skills and perspectives. In seeking one-on-one, informal feedback, understand the difference between the voice of the board and the individual director.
- **Engage early and communicate clearly.** Discuss critical topics with the board before decisions are made, giving the board the opportunity to provide insights in early stages and vision setting. Share information expeditiously, be forthright and distinguish communication that is for information, action and reflection so the "ask" of the board is clear.

BUILDING THE BOARD'S CAPABILITIES AROUND EMERGING PRIORITIES

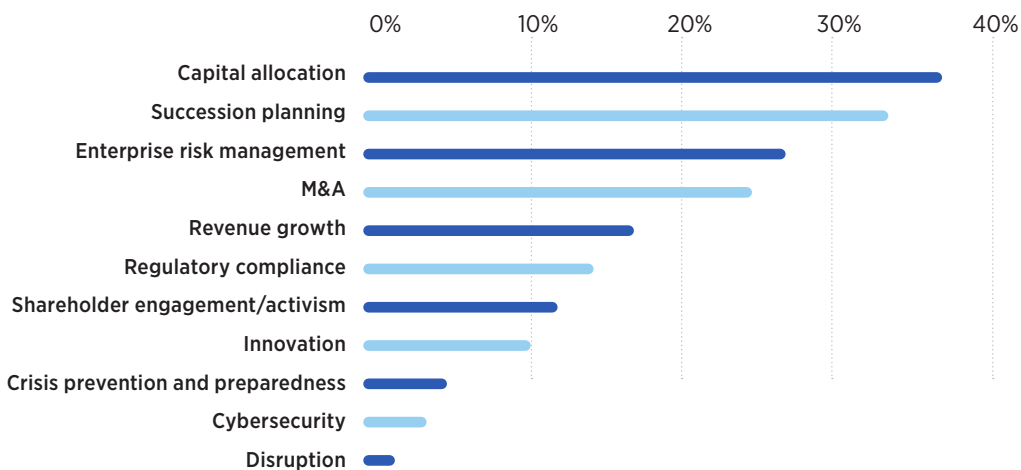
The survey found that while directors have high confidence in the value the board is providing around more traditional, process and agenda-driven areas of board oversight (e.g., capital allocation and succession planning), they are far less confident in the board's contributions around critical emerging priorities.

Increasing the board's focus on disruption, cybersecurity and crisis preparedness

The current environment is one of relentless change, volatility, escalating cybersecurity risks and ongoing corporate responses to the pandemic. Yet directors still point to traditional, process-driven areas such as capital allocation, succession planning and ERM as the areas where boards deliver greatest value to the organization. Areas such as crisis prevention and preparedness, cybersecurity and disruption were at the bottom of the list. When we consider the types of issues companies will be dealing with going forward, this suggests some level of rebalancing of board focus and efforts may be in order.

For example, our work and conversations with directors suggest that the experience and perspective the board brings during a crisis is highly valuable. Scoping the extent of the crisis, limiting overreaction, ensuring appropriate communications and even taking over the investigation in the case of questionable behavior are all activities boards tend to do well. Yet, after two years of crises, crisis prevention and preparedness was near the bottom of the list. This suggests that there is room for the board to add value in helping the management team plan ahead.

In which of the following areas do you believe your board delivers the greatest value to the organization? (Select top two)

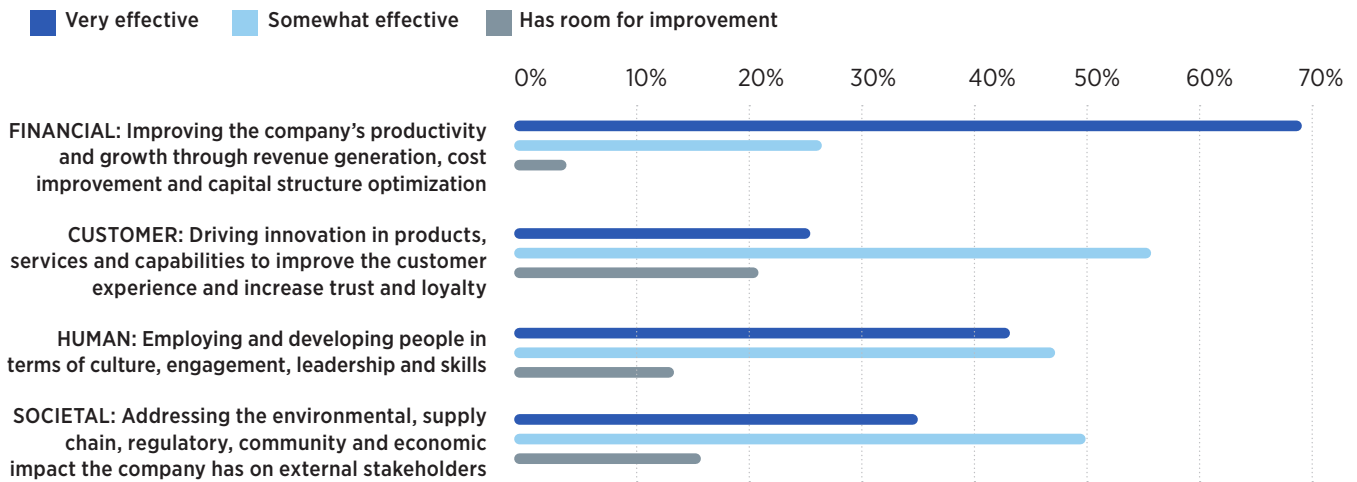


Enhancing the board's impact around key long-term value drivers

Taking a broader view of how a company generates value—including the dimensions of customer, human and societal value—is crucial to helping companies create long-term, sustainable value. Future-focused companies understand that these considerations can have a significant impact on total enterprise value, access to capital and the talent market for their organizations. However, it is striking to see the extent to which most surveyed directors are focused on the traditional areas of finance that include revenue, productivity, costs and capital.

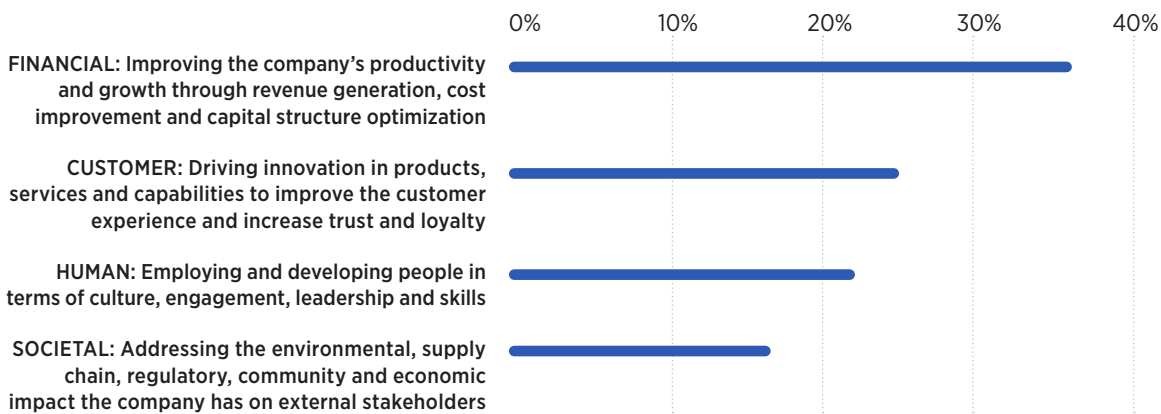
While 69% of directors rated their board's effectiveness in oversight of financial matters as very effective, only 25% said the same for board oversight of customer factors (e.g., improving the customer experience and driving innovation) and only 35% said the same for oversight of societal factors (e.g., addressing environmental and community impacts).

More specifically, how would you rate your board's effectiveness in its oversight of the following?



In addition to asking where boards are most effective, we asked how they would choose to allocate time. Directors surveyed said that if they could set their board's full agenda for the year, they would allocate 35% of their time to financial matters. That is where they also rated boards as most effective. It is also significantly more time than they would allocate to discussing the innovation strategy to improve the customer experience—an area that is key to growth in the digital era, and for which they rated the board least effective.

If you were to set your full board's agenda for the year, how much time would you allocate to the following dimensions, based on their importance to carrying out the company's strategy? Please write in the time in percentage, adding up to 100.



These survey responses indicate ample opportunity to strengthen the board's oversight capabilities around the critical dimensions of future-forward, long-term value. However, directors are not necessarily thinking about a rebalancing of focus and instead are spending the majority of time in areas that are traditional for the board. Perhaps this is not surprising considering directors have traditionally been sourced from financial and operational leadership roles.

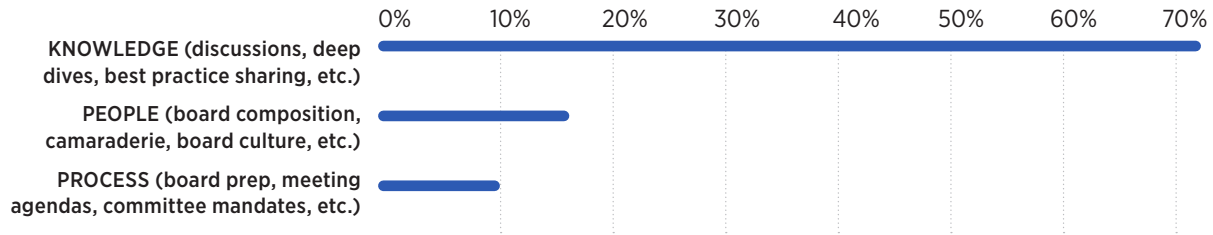
EVOLVING INPUTS AND KNOWLEDGE TO ALIGN TO COMPANY NEEDS

To expand the board’s capabilities around emerging priorities, board knowledge building and sharing are fundamental. Our survey indicates strong consensus around the view that directors need to focus on knowledge building (e.g., more strategic discussions and deep dives) more than people (e.g., board composition and culture) or processes (e.g., meeting agendas and committee mandates) to provide more value to the company.

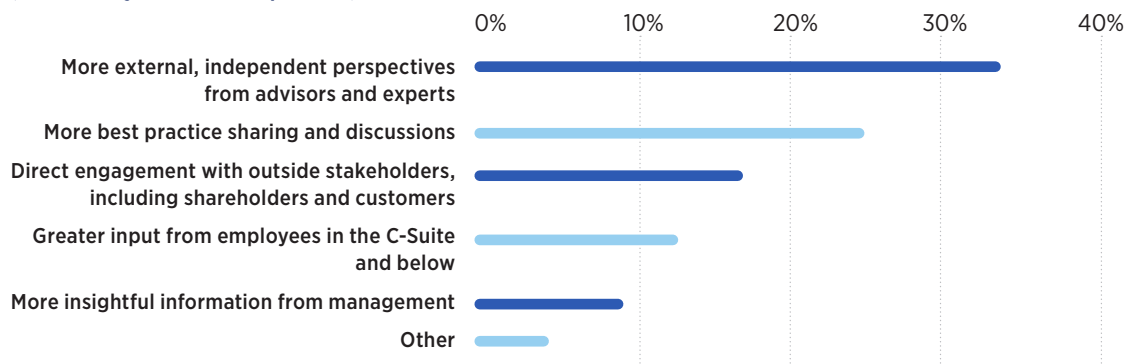
On one hand, this finding speaks to the challenge of information asymmetry, particularly given the need for boards to keep pace with the dynamism of the current business environment. On the other hand, it may also signal that directors are more inclined to embrace knowledge building—as opposed to board composition changes—as the answer to board skills gaps, which in some cases could be problematic. The survey results are also interesting in light of the active discussions in so many boardrooms about whether to bring in a cyber risk or ESG specialist.

When asked what aspects of board knowledge need the most improvement, more external, independent perspectives from advisors and experts topped the list, followed by more best practice sharing and discussions. And yet, despite this emphasis on the need for knowledge building, including the use of external experts, only a third of directors said their board has a mandatory continuing education program for its directors.

In your opinion, across which of the following three areas does your board need to improve the most to provide more value to the company? (Select only top area)



More specifically, which of the following “Knowledge” aspects needs the most improvement? (Select only the most important)



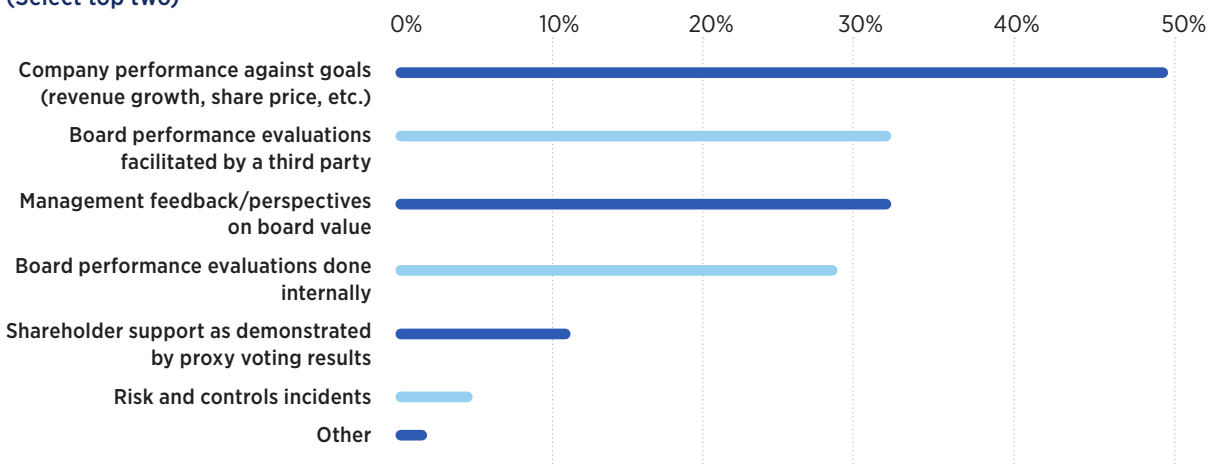
The implication of the survey is that board leadership would be well served to consider a formal and customized learning plan that has qualitative and quantitative goals and objectives to keep pace with rapidly evolving external developments and board oversight needs. Incorporating external expertise into such a plan is fundamental to addressing any company bias or blind spots and providing insight into lessons learned from other companies and industries. Further, today’s virtual business environment makes bespoke online education for the board and committees easier to schedule and conduct, and more boards are conducting these sessions outside of the board’s regular meeting cycle. (See also How to accelerate board effectiveness through insight and ongoing education | Ernst & Young LLP.)

ASSESSING THE BOARD'S EFFECTIVENESS IN MEANINGFUL WAYS

A key finding from the survey is the importance of assessing the board's effectiveness in light of company performance, which is a way to think about the return on the investment of the board. Approximately half of the directors surveyed said that company performance against goals (e.g., revenue growth, share price) is among the best ways to assess board effectiveness. Directors were careful, however, to observe the company-specific context needed in this kind of analysis. For example, if a company is in debt, directors said that part of the performance might be getting rid of that debt. If it is a growing company, the stock price may come more into play. How the company is operating and its specific challenges and goals must inform the assessment. Director commentary also highlighted that such a performance assessment must track long-term trends rather than short-term movements.

In addition, traditional board evaluations are critical to assessing and maintaining board effectiveness and to serving as a check on whether the board's confidence in its performance is well-founded.

In your opinion, which of the following is the best way to assess the effectiveness of a public company board? (Select top two)



Interestingly, while performance evaluations facilitated by a third party came in second place (tied with management feedback), 69% of directors said their board does not use a third-party facilitator in its evaluation process. Related director commentary, and our experience, indicate that often a third-party facilitator is brought in when there are specific challenges that the board is seeking to address, such as an under-performing member or an unproductive culture. Having a third-party facilitate the evaluation can provide benefits beyond addressing a particular problem. For example, third parties can bring market insights and practices that can enhance and strengthen an already high-performing board. Even the strongest board can benefit from an objective eye.

It is perhaps surprising to see shareholder proxy voting results ranking so low on the list of ways to assess the board's effectiveness. Boards may want to reconsider these signals for potentially important oversight enhancements. Rising proxy voting opposition to director elections could signal eroding shareholder support for the board and potential vulnerabilities for an activist to exploit, particularly with the new universal proxy voting rules.



GOING FORWARD

As the events of the past few years have clarified, boards can be an engaged, trusted advisor to management when given the opportunity. For the board-management partnership to work, both directors and senior executives must actively foster a healthy relationship built on honesty and respect, and boards must provide a balance of both rigorous, independent challenge and support. Directors are eager to contribute their expertise, but management must have the confidence to leverage it, and boards must have the courage and commitment to broaden that expertise through continual education, intentional turnover and refreshment. Boards can also increase their impact through ongoing, robust assessments, including those that assess board performance through the lens of company performance against long-term, relevant business goals and that use third parties to facilitate board evaluations.

Questions for the board to consider

- Did the board's relationship with management benefit from deeper commitment and more active communication in recent times? If so, how is the board working to maintain that elevated level of engagement?
- How is the board hardening its learnings from recent crisis management efforts to be better prepared for future crises?
- How is the board bringing a long-term orientation to help management focus on the future of the business? How is it keeping pace with the trends that will impact that future?
- How does the board's assessment of its own effectiveness align with the company's long-term performance?
- What opportunities does the board have to deepen its knowledge of the company's business, competitive environment, customers and unique challenges?
- How is the board building its competency around non-financial value drivers such as customer trust and loyalty, human capital and culture, and environmental performance?
- Is the board getting external, independent perspectives, and are directors going beyond the boardroom to directly connect with stakeholders and seek external information?
- In which areas of oversight is the board delivering the greatest value to the organization? Where and how could it improve?
- What metrics is the board using to assess its own effectiveness?
- How can the board improve its assessment process? Are there obstacles impeding that improvement?
- How is the board breaking out of company echo chambers to get independent data and insights?

CORPORATE BOARD MEMBER

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ED None.

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