ISSUE 174

A Call to Action for Boards

The views of more than 1,000 directors and C-suite executives worldwide on the role and effectiveness of the board offer a call to action for directors to improve performance.

The inaugural Global Board Governance Survey conducted by Protiviti, BoardProspects and Broadridge — a study believed to be the first of its kind — provides insights regarding the board's priorities, performance and practices, as well as the differing perspectives of directors and C-suite leaders.[1] The good news is that boards and C-suite leaders are on the same page regarding the board's key priorities.

Strategic planning and execution rates as the top priority. Risk management oversight, CEO and management succession planning, digital transformation and integration of emerging technologies, and research and development (R&D) and innovation are other top priorities.

A few highlights follow:

- In today's era of nonlinear, disruptive change, threat preparedness is vitally important. But perspectives on preparedness differ between directors and C-suite executives. For every risk to company growth prospects that the survey examined, directors rate the level of preparedness to be higher than do C-suite executives. This divergence is most pronounced for risks such as talent management, organizational culture and third-party risk.

[1] *Views on Board Governance — Where Directors and C-Suite Leaders Align and Diverge*, Protiviti, BoardProspects and Broadbridge, March 2024: www.protiviti.com/us-en/survey/global-board-governance-survey.

- Organizations are best prepared to address regulatory compliance requirements and access to capital and/or liquidity. However, board members and C-suite executives are least confident about the organization's capabilities related to mitigating risks from disruptive innovation, political uncertainty, emerging technologies and geopolitical developments.
- Directors believe the topics in greatest need of board time and attention are crisis management, digital transformation, organizational culture and cybersecurity. By contrast, a higher percentage of C-suite respondents believe the board agenda should focus more on corporate culture, innovation and R&D, and talent management.
- Most director and C-suite respondents agree that directors oversee corporate strategy and major policy decisions, represent shareholders' and stakeholders' interests, place the company's interests ahead of their own, and devote sufficient time to fulfilling their fiduciary role. However, C-suite respondents are less likely to agree that board members come prepared for each meeting and are constructively engaged during meetings.
- When assessing the diversity of thought in the boardroom, respondents place the greatest value on the diversity of skills and experience, industry knowledge, understanding of technology developments and applications, and gender. While not rated as highly, diversity of board tenure, racial diversity and generational diversity were in the second tier of considerations.

Additional findings are discussed in the survey report.

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Our research reveals several important opportunities to improve board governance and performance. They include the following:

Only 58% of directors and 36% of C-suite leaders agree that board members who fall short of expectations are dealt with constructively.

Address underperforming directors. Only 58% of directors and 36% of C-suite leaders agree that board members who fall short of expectations are dealt with constructively. This suggests a need to improve how underperforming directors are evaluated or offboarded. There is no place in the boardroom for underperforming directors unable to demonstrate the capacity to improve their ability to contribute value to the board's activities.

The self-assessment process, which we discuss later, should encourage candor in identifying opportunities for individual directors to improve. Constructive engagement to improve performance is the goal, whether the issue is one of insufficient knowledge or commitment, lack of confidence, conflict of interests, failure to meet expectations, or inappropriate behavior in the boardroom. If that goal cannot be achieved, steps should be taken to offboard. Accepting underperformance or waiting until the age or term limit is reached can be detrimental to board dynamics.

Be mindful of overboarding issues or other personal commitments that can impair the effectiveness of a director's board service.

Focus on obstacles to organizational growth. The survey suggests that more time is needed to address the most important obstacles to organizational growth over the next three years: access to capital and/or liquidity; recruiting, retention and skilling talent; economic uncertainty around central bank monetary policy, inflation and rising labor costs; rapid change from disruptive innovation; and new and emerging technologies.

The survey also noted that digital transformation and organizational culture are two additional areas requiring more board time and attention.

Sharpen the focus on crisis management. The survey results indicate a need for a stronger board focus on crisis management. As the coming year unfolds, new and existing geopolitical, economic, environmental, social and cyber-related crises could arise and/or conflagrate.

In addition, the results of national elections occurring all over the world during 2024 could lead to disruptive impacts that extend beyond the voting countries' borders, with particular emphasis on the United States.

Do not overlook cybersecurity issues. Another area identified by our survey that requires additional board time and attention is cybersecurity. The ever-changing cyber-threat landscape and growing geopolitical tensions are likely the reasons for this finding.

Ensure the board is aligned with management on organizational resilience. Directors should seek to understand the concerns of senior leaders, particularly if those leaders are requesting more resources and support to meet expectations. This should involve the board requesting an adequate level of information from management.

If the board's assessment is significantly more favorable than management's with respect to preparedness for certain plausible and extreme scenarios, a disconnect in boardroom conversations may result. If a request for resources appears excessive in view of the board's assessment of the issue, directors should ask management for more information regarding the market opportunity or emerging risk and the expected value contributed to executing the strategy and preservation of the company's reputation and brand image.

Finally, directors should ensure they are receiving periodic risk updates from management so that there is clarity between both groups regarding potential risks to the organization.

Emphasize director preparedness and engagement. Our survey noted that C-suite respondents are less likely to agree that board members come prepared for each meeting and are constructively engaged during meetings. Therefore, the board's charter and/or corporate governance guidelines should establish criteria for director performance that sets forth clear expectations for meeting preparedness and engagement as well as criteria for overboarding.

If management has issues with director preparedness and engagement, the CEO should inform the board chair or lead director, and a plan should be developed to improve in these areas. If the focus is on certain directors, the board chair or lead director should counsel those directors. Finally, all directors should periodically assess their commitment to board service and, most importantly, their ability to allocate the necessary time and energy.

However, the street runs two ways. Information overload can contribute to a perceived lack of director preparedness. Management can facilitate preparedness by being more selective and timely in submitting pre-meeting materials to the board. The board should also set the tone by being clear in its expectations of management regarding the materials it receives. This can be achieved through planning board meeting agendas, encouraging concise, crisp executive summaries and providing post-meeting feedback to management on the quality of meeting materials. These activities enable an iterative process toward improving briefing materials over time.

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Engage directors in shaping the board agenda. Board members agree less frequently than C-suite leaders that they are given an opportunity to influence the agenda in advance of formal board meetings. So, when planning future meetings, the board chair or lead director should consider involving board members in setting the agenda.

Recommendations could be solicited in executive session. Such involvement would elevate the level of director engagement.

Self-assess board performance. At least annually, the board should conduct a robust self-assessment of the performance of the full board, each board committee and each individual member of the board to determine whether they are functioning effectively. The self-assessment process should be conducted on a confidential, anonymous basis and ensure that the board and each committee are staffed and appropriately led, individual board members are effective in fulfilling their fiduciary obligations, and the oversight processes in place are contributing value.

The process should encourage candor and be rooted in trust and transparency with an eye toward continuous improvement. The process should be designed to provide meaningful and actionable feedback. Informal feedback from senior executives as to how the board can best contribute value can provide useful insights to the self-assessment process.

Periodically evaluate composition and onboarding criteria. Our survey results suggest several attributes that boards are primarily looking for as they evaluate new director candidates. While this finding is not intended to suggest a one-size-fits-all approach, it nonetheless points to a need to assess whether the currency, experience and diversity of thinking in the boardroom (as discussed in the survey findings on page 2) are sufficient in view of the company's current and expected future needs.

When differing perspectives are not probed and understood in a constructive, trust-based and transparent manner, opportunities for improving board and C-suite performance can be missed.

Recommended changes should be incorporated into a board composition skills matrix (or its equivalent) summarizing the skills and expertise that the board needs to oversee the organization effectively. Changes to the board composition skills matrix (or its equivalent) should be mapped by the governance or nominating committee (or its equivalent) against the skills possessed by each board member. Any gaps should be considered when evaluating new director candidates.

In summary, directors and C-suite executives are not expected to agree on every matter. But when differing perspectives are not probed and understood in a constructive, trust-based and transparent manner, opportunities for improving board and C-suite performance can be missed.

Obstructive dissonance can impede the effectiveness of board oversight. However, when differences in perceptions about the board and its work are discussed openly within the context of shared goals, mutual understanding and respectfully candid interactions, a creative tension emerges that can lead to greater clarity regarding the board's priorities and performance.

How Protiviti Can Help

Protiviti assists boards and executive management with assessing enterprise risks and their capabilities for managing them. We help organizations identify and prioritize their risks, including emerging and disruptive risks that can impair their reputation, brand image and enterprise value. We assist companies with integrating their risk assessment process with their core business processes, including strategy-setting. We work with boards and board committees in reviewing their governance practices and facilitating board and C-suite retreats. We also help organizations improve their risk reporting to better inform the board's risk oversight process.

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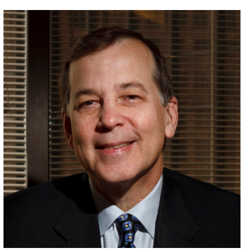

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