A board review that accelerates competitiveness

Most boards don't take the time to step back and rigorously review their own performance. Doing so will benefit not only the board but the organization as well.

Demands on corporate boards are more wide-ranging and urgent than ever before. As innovation and disruption redefine and reposition leaders and laggards in one industry after another, boards are charged with making sure the organization's strategy anticipates major change while also ensuring it has the operational flexibility and agility to capitalize on these shifts. At the same time, boards must comply with complex regulatory demands while meeting social and sustainability goals—which often requires working with timelines that are different from those of financial goals—and making sure strict ethical standards are adhered to. And all of this is on top of the duties still at the heart of the board's work: general oversight, CEO succession, compensation, and risk assessment, including working with executive leaders to manage fast-moving crises like the current pandemic.

Furthermore, the added breadth and depth of board responsibilities mean far less time in which to do any single thing. That's compounded by the fact that the number of board meetings has dwindled, in our experience, to perhaps a total of 30 hours a year of director face-to-face time. Additions such as virtual full board meetings in times of crisis, or one-on-one and committee meetings and conference calls, can help get specific things done but don't typically address the remit of the full board: holding key decision makers to account.[1] The traditional structure of the board calendar is only part of the problem; on many boards we're familiar with, compensation models and the varied other commitments of board members also create barriers to spending more time on board matters.

And some boards, particularly those in the newest or most disrupted industries or in countries with evolving corporate governance standards, are further pressed by not having total clarity on what, exactly, they are meant to do. Some boards are evolving from consisting solely of founders and representatives of early investors (or mostly government representatives) to including a broader mix of directors, and many are facing tough new regulations on governance, including term limits. No matter why they are evolving, boards must also evolve their own understanding of what the board should be doing compared with the chair, the committees, and the executive leadership.

1 For more on how boards can adapt to working virtually, see Bonnie W. Gwin, "Boards and the COVID-19 crisis: Preparing for the future," Heidrick & Struggles, April 13, 2020, heidrick.com.

With all this going on, it's easy to see why maintaining a high-performing board, where each director and the board as a whole add the most value to the organization, is tough.

But there's also another reason: many boards don't step back and review their own performance, and many of those that do don't do so effectively. Though executives today never go long without having their performance assessed, it's not part of most boards' traditions, and it can feel like another time sink in the already limited time boards have to work together. Yet if boards can't articulate how well they're doing or what is getting in the way of improved performance, they have no way of knowing how to fix it.

An effective board review is done at regular intervals and includes everything from current board composition to the performance of individual directors to the performance of the board as a whole. The most effective boards, in our experience, are those that examine composition, individual performance, and full board performance routinely and rigorously. Not only can such processes allow boards to understand how well they're doing against the standards they've set, they also allow boards to take a step back and, essentially, breathe a little and find ways to release tensions that, unexpressed, often undermine performance in the long term. Such benefits are well worth the time.

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Five aspects of board performance—and the questions to ask to kick-start a review

Power

- [ ] How well does the balance of power in the boardroom reflect the business's strategy, ownership structure, and key stakeholders?
- [ ] Are decision rights clear, or are decisions unduly influenced by side conversations or particular power dynamics driven by founders, investors, or activists?

Perspective

- [ ] Does the board have the right mix of diverse perspectives and expertise to guide the company in the short and long term?
- [ ] How inclusive is the board?

People, planet, profit

- [ ] Does the board make decisions not just for this quarter but for this year and to ensure a long-term sustainable future?
- [ ] Is the board ensuring the leadership pipeline is filled with the right mix of diverse talent to lead the company into the future?

Priorities

- [ ] Is the board clear on its purpose—what is the work that only this group of people can do in support of the organization's purpose?
- [ ] Is the board clear on its near- and long-term priorities and how it will work with management to meet them?

Process

- [ ] Does the board comply with all expectations of regulators, employees, and other stakeholders?
- [ ] Is there clarity on agenda setting, board succession, talent management, onboarding, and board transition?

Getting the right people in the room

The first step for many boards is figuring out whether they have the right mix of skills and backgrounds among their directors to effectively oversee the company's current and future direction. No matter how much a board is evolving, this duty is clear. Boards that provide a true competitive advantage plan well beyond merely filling individual vacancies on a one-off basis. They view board recruitment as an ongoing, evolving long-term proposition, assessing the specific skills and experience they will require today and over the next five to ten years to support the company and its strategy, and then recruiting to fill any gaps. Recruitment today must often go far beyond traditional sources and include broader networking, updated definitions of crucial experience, and a willingness to add highly qualified directors when they are available rather than when board tradition allows.[2]

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Key spots may need to be filled with directors who possess specific functional skills, such as financial, HR, or IT; have experience with digital transformations or with integrating environmental, sustainability, and governance practices in both strategy and operations[3]; or have specific industry or geographic expertise. In addition, a more expansive current view of diversity—demanded by shareholders, proxy advisory firms, and others—entails achieving better balance on the board in terms of the greater representation of women, people of various races or ethnicities, and nationality.

Progress toward such diversity has been slow for boards in every region. Heidrick & Struggles' *Board Monitor US 2019* tracked significant progress for women—40% of new directors—but racially and ethnically diverse new appointments were stalled at 23%. *Board Monitor Europe 2019* noted that countries that have mandated gender diversity on boards by law, unlike the United States, lead the way on gender diversity, with France at 43% women directors on the largest companies' boards. Other kinds of diversity are slow growing, too. For example, 31% of new US directors in 2019 had digital or social media experience, 24% in Europe, and much smaller shares in most of Asia.[4]

However, adding directors with specific expertise or backgrounds is only part of the battle. As companies are moving toward becoming more sustainable, more diverse, and more digital—among other considerations—having one or two directors representing each new area is insufficient: the board, along with the organization as a whole, must embrace new ways of working. One measure of progress is how inclusive the board is—that is, do all directors, from all backgrounds and of any tenure on the board, feel able to contribute? Indeed, inclusion is affected by process and governance, by culture, and by individual director behaviors, so it lies at the center of much of what boards review as part of their overall performance and the performance of individual directors.

2 For more on tactics boards have used particularly to recruit new female directors, see "Meeting the demand for women directors," Heidrick & Struggles, December 5, 2018, heidrick.com.

3 See Yulia Barnakova, Steven Krupp, and Scott Snyder, "Building digital dexterity in your leadership team," Heidrick & Struggles, May 15, 2019, heidrick.com; and Scott Atkinson and Jeremy Hanson, "Building momentum for sustainability in the boardroom," Heidrick & Struggles, March 17, 2020, heidrick.com.

4 See Heidrick & Struggles, *Board Monitor US 2019*, May 28, 2019; *Board Monitor Europe 2019*, September 25, 2019; *Board Monitor Australia & New Zealand 2019*, December 16, 2019; *Board Monitor Hong Kong 2019*, December 17, 2019; and *Board Monitor Singapore 2019*, December 19, 2019, all available on heidrick.com.

Gathering data on board performance

A periodic, rigorous board review can pinpoint a board's strengths and development areas, which will likely include expertise and balance but typically goes far beyond that, into process, governance, dynamics, and culture. In our experience, a robust board review framework is built around answering five crucial questions tied to our framework for accelerating organizational performance:

- **Priorities: Is the board aligned on what and who it represents?** Board members should be mobilized, as a team, by a common view of what they stand for as a socially responsible organization that delivers value to customers and shareholders.
- **Process: Can the board execute its duties effectively?** A diverse board challenges itself to continuously accelerate its performance and that of the organization, with a systemic focus on capability building and succession planning across the organization and on the board.
- **Power: How transparent and fair are the board's dynamics?** Do all directors feel able to contribute fully to discussions, or do some directors feel shut out? Do newer board members have the support and know-how to change board dynamics where necessary?
- **Perspective: Is the board leading the way on the need to transform, driving systemic value on key organizational priorities?** Forward-thinking boards plan ahead to refresh their own membership, with a rigorous assessment process, while pressing the organization to maintain an awareness of change, risk, and accountability. But they remain rooted in a set of common values and ethical principles that are modeled by leaders.
- **People, planet, profit: Does the board possess the agility to ensure the required new learning and innovation the organization requires for longer-term success?** A board that is well positioned for future success keeps a steady eye on the external environment—ongoing change within its industry and the global economic picture—to ensure it and the organization possess the knowledge, skills, and agility to continue to adapt, as change requires, to remain effective.

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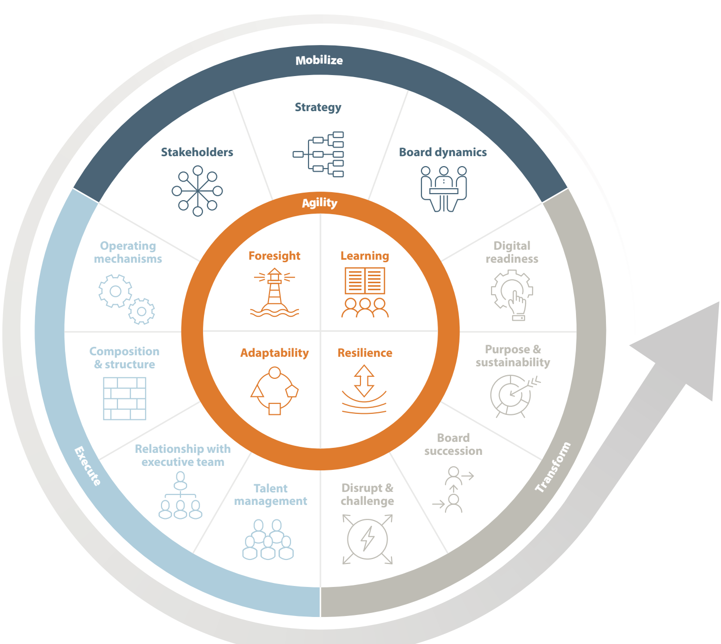
The board as a whole

How well does the board mobilize, execute, and transform with agility?



Mobilize	Stakeholders	Optimal external positioning and delivering on the expectations of shareholders and customers
	Strategy	Alignment around a strategy based on purpose and values; effective strategic review, challenge, and planning
	Board dynamics	High-quality interactions within the board; strong relationships between directors, committees, and the board as a whole
Execute	Operating mechanisms	Logistical mechanisms that enable effective operation of the board and execution of its mandate
	Composition & structure	Appropriate expertise, capabilities, and diversity within the board
	Relationship with executive team	An effective relationship between the board and the executive team
	Talent management	Active review of capabilities and talent at the executive level; systematic succession planning and organizational capability building
Transform	Disrupt & challenge	Actively challenge the board and executive team to embrace disruption and encourage innovation
	Board succession	Commitment to continual renewal and refreshment of the board via feedback, onboarding, and succession planning of board members
	Purpose & sustainability	Affects the organization in a responsible way, with awareness of internal and external risks and accountabilities
	Digital readiness	Encourages integration of digital innovation in the organization's strategy, talent, and transformation
Agility	Foresight	Longer-term and externally focused to support creating an innovative and future-proof organization
	Learning	Stays current on emerging trends and invests in its own development
	Adaptability	Adaptive and actively responds to change
	Resilience	Ensures the organization overcomes and persists through setbacks and failures

An accurate picture of the board's current state synthesizes information from varied perspectives and helps boards understand how their dynamics, the organization's goals, risks and opportunities, people requirements, and performance can best intersect in the boardroom. In structured confidential interviews and online surveys designed to elucidate the strengths and development areas for the board, the focus is on board dynamics, composition, and trust as well as the role and effectiveness of board committees.

Since board performance can't adequately be understood in a vacuum, results should be benchmarked relative to other boards against metrics such as role, geography, or industry sector. This helps to illuminate, with greater precision, development areas for existing board members as well as gaps in the current board and the skills and experience required in new board members. In the world of public companies, simple mark-to-market peer performance is hard to hide from. But since companies are now expected to be market leaders in so many other areas, assessing how a company compares to its peers in sustainability, for example, is important, particularly for consumer goods companies or others with mass markets. For infrastructure and construction companies, their health and safety performance is central.

A recent board review at a leading financial services group focused on unifying the board and management on common working principles, including foundational shared goals and values. The board established operational definitions of personal ownership and accountability for the board's work and delivering on commitments; collaboration geared to the common good, including a willingness to both help and learn; the courage to do what's right; and the passion to serve and create value for customers.

The board of a bank facing significant strategic and competitive challenges found a crucial vulnerability that limited the board's agility and overall effectiveness. Rather than recruiting directors based on skill set, experience, and knowledge base, directors had been selected based on ties with specific shareholder groups. This had led to deep divisions on the board. Following its review, the board added several independent directors with skills relevant to the strategy and also implemented a professional, ongoing board succession process.

A thorough review of agendas and documents from both board and committee meetings, and potentially having outside observers at board meetings, can offer even more insight into a board's process, dynamics, and work. For example, once they take a look, boards often find that their agenda—as traditionally structured—squeezes out regular strategy discussion in favor of more pressing issues they need to address as a full group. Reordering the agenda so that at least a strategy check-in, if not a broader discussion, is built into the list can be a straightforward, if not always simple, remedy. At other times, deeper culture change may be required, particularly to build inclusive working norms if much of the board is accustomed to a more homogeneous group.

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Gathering data on individual director performance

In the traditionally collegial board environment, looking at the performance of individual directors can be awkward and thus are often avoided. However, by using a rigorous, data-driven process to review the contributions of each board member, the process and results become easier for the board to undertake, understand, and implement—and board members are able to operate at their best. For individual directors, the objective is a multidimensional view of performance, homing in on their specific skills and their ability to contribute as a member of the board team, looking at the same areas as those the board as a whole is examining.

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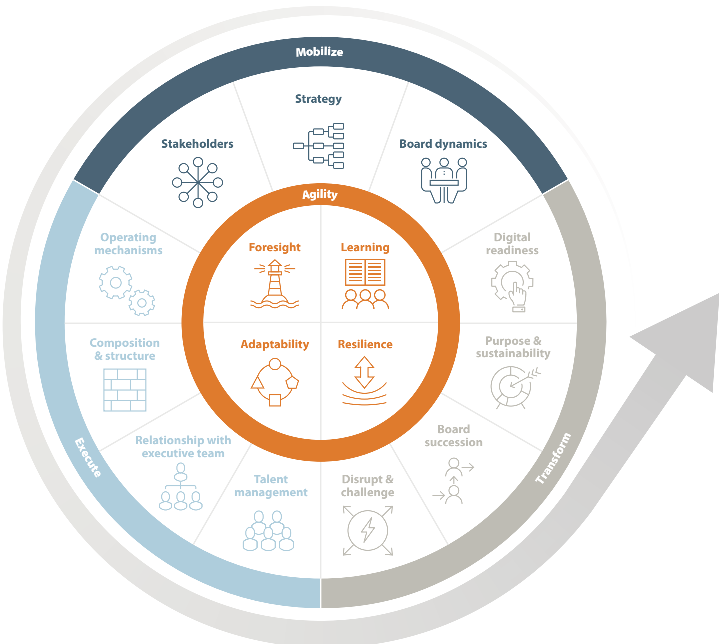
Online surveys followed by qualitative discussions and feedback between the chair and individual directors are usually the best process. Often, a report to the full board on aggregate trends—without singling out individual directors—is also useful. Board members and their chair can discuss one-on-one what each individual director contributes in terms of skills and diverse thinking; what the director can do to increase his or her impact on discussions and decision making; and any behaviors that are thwarting a director's ability to contribute and how they can be ameliorated. In the longer term, as with the financial services board mentioned earlier, boards often need to focus explicitly on what constitutes productive behavior, including such essential basics as ensuring mutual respect, even while challenging others' views; openness to new ideas; and balancing airtime in the boardroom so there is equal opportunity to share opinions.

Individual board members

How well do board members mobilize, execute, and transform with agility?



Mobilize sample questions:

Mobilize	**Stakeholders**	Optimal external positioning and delivering on the expectations of shareholders and customers 1. Contributes to delivering on the expectations of shareholders 2. Brings in customer perspective to board conversations
	Strategy	Alignment around a strategy based on purpose and values; effective strategic review, challenge, and planning 1. Contributes to ongoing strategic reviews of the company 2. Evokes the organization's purpose and values in strategic discussions
	Board dynamics	High-quality interactions within the board; strong relationships between directors, committees, and the board as a whole 1. Has formed constructive relationships with peers 2. Contributes to positive board dynamics

Becoming a better board

With all of this information, boards can better understand their own current priorities, how well those priorities meet the needs of the business, how well the board members are—or aren't—aligned on the priorities, their degree of success in meeting related goals, and how individual directors are furthering or, in some cases, hindering the work of the team.

Most important, the board review, at its best, results in concrete, actionable insights that, once addressed, enable boards to operate more effectively. The board at the financial services group, for example, needed to coalesce as a cohesive team, guided by a common core of values and focused on the interests of shareholders and customers. That meant challenging and changing habitual, nonproductive modes of interaction in discussions and decision making and replacing them with new behaviors that would advance greater team input and cooperation. To meet its challenges, the bank needed to recruit new, professional, independent board leadership to facilitate a broader alignment of directors' identity with board objectives rather than the narrower objectives of various shareholder groups. To ensure existing and new board members are able to work well together, companies in such situations then typically take several additional steps. The chair must often rethink what agenda is set and how the meetings are managed—more effective onboarding or mentoring, thoughtful committee assignments, and an overt focus on building an inclusive culture can shift dynamics productively.

Broad reviews can be meaningfully undertaken annually. To support continuous improvement, real-time pulse surveys—briefly undertaken at each board meeting—can also enable boards to gain valuable information on their effectiveness. Feedback can be shared with the board by the chair, improving the board's ability to quickly identify progress and needed change, even while that change is still in process.

The best board review is, by necessity, forward looking and focused not merely on the board's current priorities but also on its future strategic needs. Since it's not likely that the speed of disruption, the need to adapt and innovate, or the increase in board responsibilities will abate any time soon, boards that make the time to undertake a regular, rigorous review, one that helps them to not only evaluate their current team and performance but also define what they will need to change to maintain oversight excellence, will find that it is time well spent. These boards will be ensuring current effectiveness while future-proofing themselves with the most valuable people, insights, and ways of working.

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