Future-Proofing Your Board

Even before the COVID-19 pandemic, boards were facing a daunting mix of challenges that highlighted weaknesses in many traditional practices. To be fit for the future, boards must focus on their purpose, composition, and culture.
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Overview

Expectations for boards are increasing. How can they best meet them?

Boards were traditionally designed chiefly to provide investors oversight of how their money was being used and focused almost exclusively on CEO succession, executive compensation, strategy oversight, compliance, and general risk. In less volatile and rapidly shifting times, this remit was entirely appropriate and sufficient. But far more is demanded of boards today; one experienced director summed up the situation: “Boards have a huge number of items they are expected to tackle in a meeting—and the list just keeps getting longer each year.” And for a number of reasons, many boards aren’t able to meet the expectations of leadership teams, investors, and stakeholders as well as they would like, despite often diligent efforts. This dilemma has grown more stark and urgent as companies grapple with the continued repercussions of the devastating COVID-19 pandemic. The underlying reasons for not meeting these expectations run deep (see sidebar, “Under pressure from all angles”). However, one chair bluntly told us, “The performance of the board is a reflection of the performance of the company.” In our experience, high-functioning boards can help companies improve foresight and agility, anticipating risks better and being more prepared to meet them, providing a competitive edge that will be crucial to future survival and growth. And even with boards stretched so thin today, they can become more effective. Our research, experience, and discussions with a number of board chairs and directors around the world demonstrate that, by focusing on just three areas—purpose and role, board composition, and board dynamics and culture—boards can become the strategic assets their corporations deserve and that boards aspire to be.

Under pressure from all angles

Starting more than a decade ago, boards’ responsibilities began to grow in both breadth and depth. Boards now are expected to possess significant expertise in areas as specialized and diverse as digital transformation, cybersecurity, corporate reputation management, sustainability, and social media, to name just a few. Many new board members are chosen specifically for experience related to a company’s strategy or external reputation and are thus playing a more engaged, interactive role as advisers to both the board and management in areas crucial to the company’s future success. Furthermore, boards are now expected to execute their duties transparently to activist investors, regulators, customers, and employees. The added challenge of carrying out these responsibilities within the context of economic volatility (even before the COVID-19 pandemic) and a pace of change never before seen add to the pressure. And all of this with face-to-face meeting time shrinking before the COVID-19 crisis and now likely down to zero for the indefinite future. One longtime director pointed out that “even the most active boards will meet only six times a year typically; with committees, there might be a maximum of 20 interactions with a company.”

1 For more on changes in how boards are spending their time, see Jamie Page, Board of the Future: Moving toward a more diverse, more in tune European board, Heidrick & Struggles, March 2, 2020, heidrick.com.
Purpose and role

Why does this board of directors exist?

“What is the purpose of the board?” is the most important question a board of directors must ask itself. One longtime director noted a “lack of aligned vision” as a key challenge to maintaining a high-functioning board.

The generally accepted answer to the purpose of a board stayed notably consistent from the time of the first boards of joint stock companies, in the early 1600s, through the 1960s, when Milton Friedman, the economist and Nobel laureate, posited that “there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game.” And boards were the ones making sure companies played by the rules.

Today, one director told us, “There are different views on what a board is for: the stock exchange thinks it is to enforce the listing rules, others to control management from forgetting the shareholders’ interests are paramount, and academics that the board should consider strategy.” Corporations generally recognize the critical importance of serving a larger community of stakeholders whose interests must be represented, including employees, customers, and local communities, as well as an overall need to act sustainably, for the long term, and nurture corporate reputation.

And the board’s purpose isn’t static. Fast-growing start-ups often find that the expertise they need from their board changes far more quickly than they can anticipate. In some countries, the situation is further complicated by governments either stepping out of a guidance role, leaving newly independent directors to chart a new course, or creating new regulatory environments that require the boards to be more active than before.

These shifting expectations mean that today, to be properly mobilized to perform its work, a board must first be clear on what it stands for as an entity and whom it represents. Another longtime director noted the importance of directors being “empathetic to the business and its objectives,” and added, “I do believe it is crucial for a strong board to have a personality and not simply be a faceless bureaucracy or shareholder representative body.”

Another aspect of a board’s role is the allocation of work and responsibilities between the board and the executive leadership team. This has become a gray area in many companies as expectations have changed. In determining their purpose, boards must be aligned with the executive leaders on what each will do. One experienced director observed that, in today’s boardroom, “there is often weak engagement between management and the board, a lack of trust, second-guessing.” Another added, “A director needs to know the dividing line between what the board does and what management does. I see examples of some board members going into such levels of detail before deciding to accept a management recommendation that they are reperforming management’s role. Knowing when and how far to probe and when to accept are critical skills.”

Shared purpose helps ensure that even the most heated discussions—which can and should occur when hashing out complex issues—will be resolved in the context of goals that are bigger than the interests of a small group and that solutions will benefit the majority of stakeholders and the business as a whole.” One longtime director pointed to “a willingness to come and work together” as a crucial characteristic of effective board directors, adding that they should be “bringing out the best of each other” and feeling that they are “in it together.”


2 Furthermore, other work from Heidrick & Struggles links clear, common organizational purpose—including on boards—to significantly better performance; see Alice Breeden, Becky Hogan, and TA Mitchell, “Bringing your organization up to speed;” Heidrick & Struggles, September 12, 2019, heidrick.com.
Developing a shared purpose

Breaking down barriers that may prevent the board from pulling together takes work, starting with aligning on the board’s overarching purpose, and is founded on a culture of trust and transparency. This requires directors spending time with and investing in each other as individuals; directors openly sharing views without hidden agendas; and, often, directors seeking reliable feedback from outsiders on how the board can continually improve in key areas for the benefit of its performance and of those it serves.

For example, the board of a European financial services group recently stepped back from its regular work to spend time 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 its 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.

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Future-Proofing Your Board

Board composition

Who will best prepare us for the future?

Assembling a strong board of directors that represents a valuable asset requires far more than just anticipating and filling vacancies when they occur. It is a strategic process, one that board chairs should be sure is closely aligned with the company’s strategy. A longtime director said she now expects “boards to get serious about their skills matrix—it’s important that board refreshment be forward looking.”

Another said the single change that would most improve his board is ensuring “adequate diversity present during board discussions with respect to age and the operational understanding of the business.” A chair added a widely held view that “as you go into difficult times, it is increasingly important to have people with plenty of scars on their back,” those who can bring both hindsight and foresight into critical boardroom decisions.

Yet, in our experience, too few boards follow a rigorous approach to board composition, neither carefully reviewing their strategy when determining what skills and experience they require, nor thinking about the right mix to meet their full remit, nor considering the right blend of familiarity with the company versus fresh eyes. One director particularly highlighted the last point, saying, “Directors can get stale after a while, yet they are rarely asked to leave a board if they have been faithfully showing up at board meetings well prepared and contributing from time to time. A regular flow of fresh ideas is very useful in continuing to look at problems and opportunities from different angles.”

There is no standard, as one chair noted: “Every company is different and needs its own balance of experience, age, geographic experience, industry experience, people who know where disruption is coming from and the position of the consumer.”

In the absence of any guidelines, many boards might default to relying on their traditional sources and criteria for directors and thus miss the opportunity for bringing in a different profile to broaden the collective boardroom perspective. A lack of broader knowledge makes a board less able to anticipate and adapt to major change, which can have a devastating impact, even on industry leaders. Yet there has to be a balance between breadth of experience and depth of experience. Another director said the one change that would help the board he’s on perform better is who sits on it. He noted, “I find that sometimes a board can be full of good generalists but be very lacking in industry expertise. There is a structural reason for this: obvious conflicts of interest, since industry stars often work for a competitor. But this means that it is often hard for boards to find directors with strong industry expertise.”

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Heidrick & Struggles’ most recent Board Monitor reports also show that traditional criteria for new directors are only slowly making way for newer skills, as well as overall diversity. Board Monitor US 2019, for example, recorded an all-time high of 60% of new directors with CEO experience and relatively few executives with relevant experience being added to boards: 12% of new US seats were filled by appointees with digital or social media experience, and 24% by appointees with critical cybersecurity experience. Indeed, one chair said that “in terms of talent deficit, where most boards are exposed is cybersecurity and technology.”

Likewise, boards have been under pressure to add women and other underrepresented groups, who in many cases constitute a large majority of companies’ customer base, and although there has been some progress, the numbers are still far from true representation around the world. International diversity, which should be particularly natural for boards in Europe, is also still lagging: only 36% of new seats on European boards went to people from countries other than the country where the company’s headquarters are located.

**Determining needs**

A robust approach to board composition starts with a company’s strategic objectives, analyzes the current directors’ capabilities against those objectives, determines what the board is lacking, and establishes a process to identify and recruit directors who fit the desired profile. For example, it may be important to add a director from, or with experience in, an international market where the company plans to expand, or perhaps a director with digital retail expertise if that is an area where the company's headquarters are located.

Another key step, a different longtime director said, is “rigorous evaluation at the end of each three-year term before extending, rather than assuming that each director should serve the traditional three by three years.”

While it is important to find directors whose personal style will jibe with current directors, boards should be wary of rejecting potential directors who are considered “not like us.” A third experienced director offered this perspective: “I do not think you need to have a similar cultural fit, as that will encourage groupthink. Instead, skills such as good listening and being self-aware are more important personal traits.”


**Finding the right people**

One core principle to modern board building is, if you are seeking “different,” look “differently.” That is, a board seeking those beyond the traditional director profile need to cast a wider net. Boards in industries with shifting structures—moving away from government ownership, for example—will also need to look in very different places than they traditionally have for new members. Another reason for boards to search widely is that executives are taking on fewer board commitments to avoid the conflict of interlocking directorships. So boards should be sure to test their recruitment criteria for current relevance. For example, while CEOs are still highly valued, similar broad operating experience can be found in people with other backgrounds, including leaders of large business units and military leaders.

Forging relationships with skilled potential directors will be crucial to successful recruiting, especially if they are not immediately available.

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5 For more on individual director evaluations, see Alice Breeden and David Hui, “A board review that accelerates competitiveness,” Heidrick & Struggles, April 16, 2020, heidrick.com.
Board dynamics and culture

How can we work best together?

Boards may look great on paper. But we have seen too many get tripped up by how directors interact with one another and manage discussions and decision making, keeping them from fulfilling their promise. One chair stated, “The tone starts from the board, and while the CEO is the key driver of culture, setting the right culture at the board level is crucial.”

The solution is inclusion at its broadest. Many boards think of inclusion particularly in relation to their significant efforts to add diversity—of gender, ethnicity, age, function, industry, and other areas. But boards will benefit most from ensuring that every board member is able to contribute fully and authentically, regardless of the individual director’s background or area of expertise or the board’s traditional norms or habits, varying personalities, inherent bias—or for any other reason. This means not only an inclusive culture but also inclusive processes and leadership.

A critical first step for many boards is instituting a regular, rigorous board review; indeed, one director said changing how boards conduct evaluations would be the single step her board could take to become more effective. A constructive board review guided by careful analysis, not a checklist, includes quantitative and qualitative reviews of alignment on purpose, culture, processes, learning, and agility.6

Creating an inclusive board culture

We have found, through our work and research over the years, that thriving organizational cultures are those that are purpose-driven and characterized by vitality and a growth mindset, in which every employee has a voice and is actively engaged in living the organization’s values. At every level, including the board, inclusion—trusting others and feeling trusted and being able to collaborate freely—is central to a productive culture.7

For boards, there are two sides to creating an inclusive culture. Chairs and committee leaders have to make sure new directors representing a variety of new backgrounds and experiences are, first of all, equipped to contribute. If they have not served on a board previously, what information and skills do they require to be able to effectively engage in discussions, and quickly? One director told us that “it can take three to five years for a new non-executive director to become effective.” Companies can no longer wait that long.

Solutions for getting directors assimilated quickly may range from a new director program where recruits can learn the basics of corporate governance to a primer on the company and board history to mentoring by an experienced director. Or, sometimes, all of the above. Another director particularly noted that “arranging ad hoc meetings (not for all directors) to go into depth on some topics has helped certain directors get up to speed on areas outside their immediate skill sets.”

On the other hand, longer-serving directors may well also need support in changing how they function as part of the board, which can lead to fundamental changes in board culture, a realization that may emerge from a board review. Taking stock of habits that may have once seemed innocuous—such as the same few directors doing most of the talking at meetings—can lead to clear recommendations for change. For some boards, a focus on “honesty and transparency, breaking bread so the trust is there when the really challenging questions are asked,” is enough, as one director put it.

Sometimes more expansive changes are needed, as with a European bank, in which a board review pointed to a lack of board leadership, which created separate factions with conflicting objectives, impeding the ability of the board to work as a team toward common goals. Solutions that led to a productive board dynamic included strengthening and refreshing board leadership, starting with the board chair, and implementing an ongoing board succession process that would prevent stasis.

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6 For a detailed description of effective board reviews, see Alice Breeden and David Hu, “A board review that accelerates competitiveness,” Heidrick & Struggles, April 16, 2020, heidrick.com.

Rebuilding processes
Most boards that take a step back to review their performance will uncover myriad changes they can make in mechanics and organization that will yield big improvements in their effectiveness. One straightforward, if often tradition-defying, change is reordering the agenda. Board agendas may not have been rethought in years, leaving all the new topics to be unsystematically tackled on to the end. As a director said: “It is often easy to spend all of the available time reviewing the many different matters that boards are expected to cover, from financial reviews and senior staff performance appraisals to planned capital expenditure plans and dividend policy to cybersecurity reviews and ESG positioning—and much, much more. A high-functioning board, in my opinion, is one that efficiently deals with many of these ‘must deal with’ topics—often by delegating them to board committees—thereby leaving plenty of time to deal with the true strategic challenges facing the company.”

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Another director told us that the biggest obstacle to maintaining a high-functioning board is “spending sufficient, appropriate, and regular time on strategy—both short-term tactics and long-term direction.” A third director focused less on overall strategy but noted that what’s crucial is “monitoring progress to the true strategic challenges facing the company.”

Well-functioning boards should generally interact regularly outside of board meetings with senior managers who head various functions, so that directors maintain current knowledge on the day-to-day business and also get to know senior leaders who may be potential CEO candidates.

Optimizing the role of the board chair
During all the changes boards have undergone in the past decade, the role of the independent board chair—or lead director when the CEO is also still chair—has taken on far greater importance. One director told us that “the change in lead director” was the single most important step her board had taken to improve its performance, calling the lead director the “linchpin.” But boards have only begun to be more thoughtful about moving beyond simply appointing the most senior director as leader. This is despite one director’s concise summation up of the biggest obstacle to creating a high-functioning board: “a chairman who does not believe the board’s opinion is important.” Another described an opposing, but equally unproductive, obstacle: when the “chairman of the board or of a committee is weak in leadership and/or only sees oneself as the spokesperson of the collective.”

Indeed, there are specific requirements for success as a board leader that current boards benefit from when they include them in the selection process. Experience and accumulated wisdom are important, but equally important—if not even more critical to success—is effectively managing relationships. One director noted, “On one of my boards, the chair spends time outside the board with each director one-on-one at least twice a year, and that helps communication and can bring out the best from individual directors.” In countries where the roles of CEO and chair are typically separated, and on boards with directors from many different countries (with varying cultural and governance norms), the role of the chair as the linchpin can be even more important to maintaining a high-functioning board and require even greater attention to relationship management.

A recent Heidrick & Struggles analysis of the behaviors of more than 2,200 organizational leaders shows that inclusive leaders—those who seek out and value individuality to gain different perspectives, create a sense of belonging for all team members, and build deep alignment on a clear purpose—are also seen as meaningfully improving both their colleagues’ work and their overall impact.8 This is as true for board chairs as for executives.

The best board chairs will have the utmost respect of the CEO and directors alike and will be able to expertly and sensitively manage board culture. He or she may also serve as a confidant to the CEO and as a mentor to new directors.

Future-Proofing Your Board

Future-proofing your board

Are we prepared for the future?

While many boards intuitively understand that they need to adapt to provide effective oversight for their companies in a very different future, and may even be nibbling around the edges by making small changes intended to amp up board performance, a step change in board effectiveness demands a comprehensive inventory of everything from what the board is really meant to do to individual director selection to how board meetings are carried out.

The highest-functioning boards are able to go above and beyond basic governance requirements, finding a way to fold individual perspectives into a consensus representing the entire board; taking a clear-eyed, informed view of the company’s strategic situation and multiple stakeholders; and balancing more immediate profits—or crisis management—with longer-term investment and sustainability. They know when to hold fast to the organization’s purpose, even under fire.

It is our belief, then, that, for these boards, when “the performance of the board is a reflection of the performance of the company,” that is when performance is as good as it can be.

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