

The Governance Gift of 2020: Board & Director Reviews



We can all agree that 2020 is a defining year for businesses and organizations globally. In the early weeks, as the pervasiveness of COVID-19 became clear, leaders needed to focus upon business continuity, the safety of their employees and servicing customers in the best way possible. At the same time, critical stakeholder concerns had to be addressed with focus upon some stability in the socio-economic turmoil.

Boards, by extension, also went into a mode of just “get through the next few weeks”. In the widespread uncertainty, unless there was an acute organizational or leadership crisis, boards tried not to “get in the way” of management’s heavily operational and risk management work. For most organizations, board meetings became virtual, and in some cases, shorter. Priorities shifted.

Given the continued uncertainties many boards considered postponing or even, eliminating the annual review of board and director effectiveness for the year. However, more than ever before, Board and Governance Chairs, should not postpone or skip this critical governance practice this year. **Here are six reasons why:**

1. Shifts in environment and organizational strategy require a Board reset. As we look at the pandemic and post-pandemic period, most, if not all, organizations are looking at fundamentally reimagining the way they are organized and conduct business – whether it is through changes like remote working, ability to hire talent sitting anywhere in the world, extensive shifts to e-commerce and virtual servicing, reshaping their supplier/vendor/customer relationships or radically changing their business models. We can all agree on one simple fact - the post pandemic organization will be a different beast. These dramatic changes in strategies and priorities will require boards to reset their alignment with management, reframe board priorities and revisit the level and depth of board engagement. The extent of board engagement should be intentional and appropriately mapped to the business and organizational needs. Some boards may determine that the composition, structure, or size needs to be reconsidered.

The annual board and director review process provides an explicit vehicle for both board and management to engage and align on these critical issues.

2. Underlying Board challenges are amplified under stress. One of the primary objectives of the board and director review is to provide a systematic and focused forum to identify, articulate and address any challenges in board functioning, such as the quality of board discussions, meeting dynamics, director participation, timeliness and appropriateness of information and materials, board leadership effectiveness, committee effectiveness, relationships with senior management, board role and structure. In today’s environment, any existing board challenges that may have been managed under the surface are further amplified. And these can be compounded by virtual meetings with less in-person discussion opportunities for careful and engaged problem solving. Overlooking any dysfunctionality severely impacts board and director effectiveness, hindering the ability of the board to cohesively counsel management at the very time it is needed the most.

3. This crisis has created new requirements in Board composition. One of the best practices of annual board and director reviews is to include a director self and peer evaluation, positioned against a customized and well-articulated director profile. This director profile considers both the current and future needs of the organization. Annual assessment of directors against the profile identifies not just areas of strengths, but also gaps in board capabilities that can guide future recruitment and overall board development. With organizations rapidly shifting their strategy and business models, the requirements for skills and experiences on the board change. One of the most obvious examples is that with the shift to remote working, the importance of cyber risk management, as well as the demand for general enterprise risk management knowledge has sharply increased. Similarly, the competence of leadership agility of both executives and directors has become more prominent. These new requirements need to be reflected in an updated director profile and included in the assessment, to accurately assess and build board capabilities for the COVID and post-COVID world.

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4. **Board leadership and overall board succession planning has become more critical.**

There are rapid and unexpected changes in the board succession landscape. Some directors who are senior executives and or sit on multiple boards find themselves less available for their directorship responsibilities. While some scheduled director and Chair term endings continue as planned, other boards are nervous about shifting board leadership roles in an uncertain time and are hoping to extend these appointments. What criteria does your board use to balance these decisions of change in composition?

Additionally, the recent events in the United States, have unleashed a renewed focus on issues of racial equality and the importance of diversity and inclusion globally. Separate from regulatory and governance requirements, the composition of senior leadership teams and boards will be under increased scrutiny. On a related issue, the contribution of the Board in the oversight on an organization's ESG activities is becoming increasingly more valuable. Board reviews to address these issues is more critical than ever before.

5. **Effective board dynamics is the defining feature of high performing boards during this pandemic and beyond.**

The replacement of in-person board meetings with virtual calls has obviously changed board dynamics. And despite many jokes to the contrary, it is not about "Can you hear me?" or "Turn off your mute button!". Newer directors often confess that despite multiple board meetings, they still feel somewhat disconnected from the board. Without the informal relationship-building director integration has become more challenging. Even with intact long-standing boards, all the well-researched disadvantages of virtual meetings impact board synergy and engagement, as well as the working relationship with senior management. Now is the time for Chairs and CEOs to find creative ways to bridge the gaps of social distancing and create a cohesive team dynamic that is stronger than ever. Only then can boards make the often-difficult decisions required of them at this time. The board and director review allows an opportunity to assess changes in overall board dynamics, gather feedback from potentially disengaged directors, and help the entire board transition to a new virtual and stronger dynamic.

6. **This is the time for in-depth governance reflection, recalibration, and focus.**

As many management groups address concerns about business transition and survival, the Board itself may have more time and energy to contribute more than ever before. For example, many leaders are struggling with leadership communications :getting the right content, tone and cadence. Leaders are also having to make tough decisions on talent as their organizations pivot. Many board directors have indicated that they want to be more helpful during this time but struggle with finding the right balance of adding value and venturing into management's domain. Boards still have an important opportunity to help business leaders strategically think about the future and in doing so, refine the board's future role and focused value contribution.

The board and director review provides an opportunity to collect different perspectives and lay the framework for a recalibration discussion. Faster and shorter may not be better this year.

Typically, one of the touted criteria of a review process has always been the length of the survey– to keep it short, and less demanding on the time of an already-busy director. With the prevalence of off-the-shelf, quick, and easy surveys, reviews sometimes have sacrificed insightful findings at the altar of convenience. Many boards experience the tendency of directors to generally provide positive quantitative ratings with little variance in the data; this can result in the board evaluation process becoming a mere check-the box activity. The process however, generates, real value when the survey is custom designed to elicit rich data on the challenges and issues that are unique to each board and their organizational situations.

Recently, with one of our clients we used the 'COVID-pause' to deploy a longer than typical board survey with multiple qualitative questions designed to gather feedback on some simmering long-term issues. We observed a higher level of engagement from directors with thoughtful and comprehensive responses on the qualitative questions. We also noted that in director peer evaluation (which by its very nature is challenging both in terms of time and effort required to provide meaningful feedback to very accomplished peers), the quality and thoughtfulness of feedback was exceptionally high. Directors found this depth of feedback very constructive.

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Board and director reviews should never be treated as a dispensable exercise. If it feels that way, then it is time to change the approach. There is no question that these are unprecedented times, but good board governance is more important than ever. These reviews, when done well, (i.e., customized to organizational shifts, characterized by transparency on process and findings, guided by the full board and the senior management team) can be a vital tool to help the leadership move the organization forward.

In our next article installment, we discuss how to do these board and director reviews in the current virtual world – practical approaches and pitfalls to avoid.

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