ISSUE 161

A Director's Responsibility to the CEO

Today's unprecedented pace of disruptive innovation in the market and conflicting demands of multiple stakeholders are creating relentless pressure on the CEO. Is the board contributing to the CEO's performance and ability to function?

Economic headwinds. Inclusive capitalism with its multiple stakeholders and shareholder activists pushing competing interests and sustainability expectations. Strategic challenges spawned by new market entrants, "born digital" players, disruptive innovation and digital transformation initiatives. Operational challenges created by attrition, higher wages, persistent talent shortages in critical areas, changing customer demands, continued regulatory shifts and supply chain issues. And, of course, the uncertainty regarding whatever "unknown unknowns" that are yet to unfold.

Add it all up, and CEOs are under a lot of pressure.

Pressure stems from internal sources as well. Organisational resistance to change, strategic initiatives that aren't going well, the distraction of too many fires to fight, information overload, persistent and visible problems that sometimes seem to defy actionable solutions, and employee expectations that companies play an active role in engaging social and political issues are also potent sources of pressure facing CEOs. So, too, are personal issues that may linger below the surface.

A recent survey of 3,000 CEOs and senior executives sheds further light on the increasing complexity these business leaders face.[1] Three out of four CEOs report that their companies face significant disruption. Seven in 10 are concerned that their executive teams lack the agility to deal with this disruption. Almost all CEOs (98%) recognise they need to change their business model within the next three years in response to internal and external disruption. In short, many feel resource-deprived as they face unprecedented change.

Several findings regarding the greatest areas of concern to senior executives offer critical insights to directors:[2]

- Almost nine in 10 executives (87%) assert their company has the resources needed to invest in new technology and digital solutions; however, two-thirds (66%) point out that the board of directors often impedes the deployment of these solutions.
- Over half (56%) admit that technological advancements are happening at a rate their companies cannot keep up with. Three in four senior executives (75%) report they're concerned their companies are not adapting quickly enough.
- A strong majority of CEOs (85%) aren't sure where to begin, as it's become increasingly challenging to prioritise the executive team's agenda. This dilemma raises a critical reality: It's difficult to combat disruption if overwhelmed with distractions.
- More than half of the companies professing to be growth leaders (52%) admit they've been significantly affected by environmental and social concerns, and nearly three in four (73%) note that shifts in workforce values and preferences are driving disruption in their companies.

The above findings resonate in light of the results of a recent global survey of the most significant risks that companies face.[3] That study points to a cultural issue that has become a formidable obstacle to success: resistance to change. For 2023 and the next 10 years, this risk is the fourth-rated risk overall, compared to the previous year's survey results in which it was seventh in 2022 and sixth in 2031. Despite the disruption that lies ahead, global leaders have expressed concern regarding their organisations' agility to pivot in response to change — an incongruence for CEOs that can lead to failure as they navigate dynamic markets.

[1] *AlixPartners Disruption Index 2023*, AlixPartners, 2023: https://docs.alixpartners.com/view/397725974/.

[2] Ibid.

[3] *Executive Perspectives on Top Risks 2023 and 2032*, Protiviti and NC State University's ERM Initiative, December 2022: www.protiviti.com/us-en/survey/executive-perspectives-top-risks-2023-and-2032.

So, what should board members do to fulfill their responsibilities to shareholders as they assist the CEO in facing the business realities of today — and tomorrow? Below are seven suggestions:

Facilitate straight talk in the boardroom. Effective CEOs offer optimism and purpose to the organisation to create focus and direction. However, their message must also acknowledge the headwinds and uncertainty in the marketplace. Balancing the tension between the organisation's vision and the reality of significant challenges and the possibility of failure to achieve the desired future state requires straight talk and transparency.[4] This requires respectful relationships, trust and authenticity in the boardroom, as the board sets the tone for such strategic communications.

Help the CEO prioritise through discussions connected to the strategy. Pressure can be alleviated through effective prioritisation. One of the CEO's most important tasks is identifying mission-critical priorities and designing a strategy to address them. Directors should immerse themselves in the CEO's world so they can engage in strategic conversations around allocating resources to address the issues that truly matter.

Change presents opportunity. But it also requires effective prioritisation and change enablement processes built on effective strategic communications up, down and across the organisation. Experience, judgment and insight are vital to directors as they focus on understanding the real business issues the CEO faces and as they contribute to boardroom conversations that lead to actionable policies and initiatives that will make a difference.

Review, consult, advise and approve — don't direct. Being a director doesn't mean being directive. Directors should be prepared to participate in strategic conversations in each meeting with the CEO. The board members' role in relation to the CEO isn't to make decisions unilaterally or immerse themselves into the business as de facto managers but to review, consult on, approve and support specifically designated decisions and empower the CEO to carry out those decisions.

Board members advise the CEO and management team in a manner consistent with their fiduciary duties. They're expected to exercise reasonable care when evaluating options within appropriate strategic, operational, financial and time constraints. They act in good faith when making or concurring with decisions consistent with the corporation's interests. They're also expected to place corporate and shareholder interests ahead of their own. And finally, directors inculcate a relationship with the CEO based on trust, shared values and transparency. Metrics and standards of CEO performance are developed in consultation with the CEO in alignment with the strategy and are used to hold the CEO accountable for results.

[4] *The Three Leadership Tensions Every CEO Must Manage to Thrive in a Complex World*, by Adam Kling and Lisa Caswell, Spencer Stuart, August 2022: www.spencerstuart.com/-/media/2022/august/ceotensions/arcl-ceothreetensions-july2022-final.pdf.

Directors should ensure that the CEO uses an external, outward-looking lens that emphasises customer value creation and customer experiences as keys to success.

Encourage a relentless focus on markets and the customer experience. Connectivity alleviates pressure. Being alert to market signs of potential impacts on critical assumptions that underpin the strategy and business model is essential as this engenders confidence in knowing when change is occurring so necessary adjustments can be made. Connectivity to customer fulfillment processes sharpens the focus on improving them continuously.

The CEO should foster an environment where metrics, advanced data analytics and employees provide insights to leaders about markets, customers, process performance and other matters, including news and contrarian information they may not want to hear. Infatuation with internal process performance without understanding the needs of end users doesn't turn out well in a rapidly changing environment.

Directors should ensure that the CEO uses an external, outward-looking lens that emphasises customer value creation and customer experiences as keys to success. They should also encourage timely escalation of market opportunities and emerging risk issues. In the aforementioned global survey of the most significant risks that companies face, decision-makers not being apprised of reliable, real-time information is the eighth-rated risk for 2023.[5] Connected executives are best positioned to make high-velocity, quality decisions.

Be aware of the importance of culture. A trust-based, diverse and inclusive culture fostered by a CEO and leadership team who are authentic, connected and transparent is needed to break down barriers of resistance and enhance organisational preparedness, agility and decisiveness. The board chair or lead director sets the tone for a constructively engaged culture by working with and through the CEO to develop and sustain a productive working relationship in which differences are valued. The dynamics driving this relationship are complex in a rapidly changing environment. Board members should set reporting protocols and controls and work with the CEO to develop an appropriate dashboard of key metrics and measures. A well-informed board is an effective board.

[5] *Executive Perspectives on Top Risks 2023 and 2032.*

CEOs need collaborative, on-point sharing of ideas from their boards to be successful. They need value-added guidance and advice. They need empowerment.

When advising the CEO, prioritise the guidance provided. Directors should be sensitive to when it's time to tap the brakes on adding more details and issues to the CEO agenda. To illustrate, environmental, social and governance (ESG) objectives are just one aspect of corporate purpose. Many ESG road maps reflect lofty and admirable ambitions. Just remember that practical common sense and actionable advice win hands down with the CEO in challenging times.

Ensure the board's collective experiences and skill sets enable each director to participate in supporting the CEO. A recent survey noted that 48% of directors are of the view that one or more directors on their board should be replaced. Almost one in five directors (19%) would replace two or more of their fellow directors. This suggests that more discussion is warranted around thoughtful, reasoned departures from boards to maintain the board's overall currency with market developments and the ability to provide value to the CEO.[6]

Markets are changing. Companies are evolving. Is the board aligned with the times while remaining knowledgeable of the business? If not, that's a problem. Interestingly, a recent study[7] of the skills profile of Russell 3000 boards found that the incoming director skill sets with the largest increases in prevalence over the last four years were marketing and sales, technology and global experience. A shift in emphasis in boardroom skills is not surprising. CEOs are searching for practical solutions, ideas and advice. They need critical thinking. That's why board composition and individual director contribution should be periodically reviewed.

Don't neglect succession planning and CEO well-being. Succession planning is a dynamic conversation. The CEO's job takes a toll and, with average CEO tenure lasting approximately five years,[8] a strategy for identifying and developing future leaders is a priority for the board. Developing a workable succession plan takes time. Updating candidate selection criteria and choosing an executive search adviser with a proven methodology and successful track record facilitate the preparatory process. A strong executive bench of exceptional leaders breeds qualified candidates.

[6] "There's One Thing Board Members Should Do a Lot More Often: Resign," by Adam J. Epstein, Third Creek Advisors, December 2, 2022: https://adamjepstein.com/theres-one-thing-board-members-should-do-a-lot-more-often-resign/.

[7] "2022 Inside the Public Company Boardroom," National Association of Corporate Directors, 2023: www.nacdonline.org/insights/publications.cfm?ItemNumber=74564.

[8] "Industrial CEO Tenures Get Shorter and Busier," by Brooke Sutherland, Bloomberg, June 3, 2022: www.bloomberg.com/opinion/articles/2022-06-03/industrial-strength-ceo-tenures-get-shorter-and-busier-l3yrilmw?leadSource=uverify%20wall.

It's also important to ensure the CEO is focused on well-being. A healthy CEO is best positioned to look after the health of others and the business. Directors should watch for signs of unrealistic demands and expectations regarding how long key change and transformation initiatives will take to implement. Goals and targets based on forecasts and assumptions that are not grounded in reality can impose unnecessary stress, drive burnout, lower morale, and encourage inappropriate shortcuts and unacceptable risk-taking.

CEOs need collaborative, on-point sharing of ideas from their boards to be successful. They need value-added guidance and advice. They need empowerment. They don't need theory that isn't actionable. They don't need extraneous agendas that drain energy and focus from the core strategies and challenges they and their boards have chosen to take on. The board's challenge is to stay focused and position itself to engage in productive strategic conversations with the CEO in these challenging, disruptive times. In summary, directors should set the tone for an environment that encourages transparency, trust and candor.

How Protiviti Can Help

Protiviti is a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders confidently face the future. Our consulting solutions span critical business problems in technology, business processes, analytics, risk, compliance, transactions and internal audit.

We assist directors in public and private companies in identifying and managing the organisation's key risks, including the risks related to disruptive change. We provide an experienced, unbiased perspective on issues separate from those of company insiders and an analytical assessment approach that's aligned with the unique characteristics of the risks the company faces.