ISSUE 178

10 Questions to Increase Your Strategic Impact as a Board Member

The role of corporate directors is to be trusted advisers to the CEO consistent with their duty of care and to exercise oversight on the shareholders' behalf. To confirm they are fulfilling this role, directors need to periodically self-assess their boardroom performance.

In June 2024, we moderated a session at an event sponsored by the National Association of Corporate Directors (NACD)[1] attended by over 45 active directors. The tone of the discussion focused on the board's interactions with the CEO on strategy, policy, execution and other matters. It surfaced a number of takeaways around how a director can add value in the boardroom as an independent trusted adviser to the CEO.

In this issue of *Board Perspectives*, we distill the takeaways from this event with 10 questions that directors should ask themselves while they self-assess their performance as advisers.

Am I effective at pattern recognition? Much has been said about bringing technology and geopolitical savvy and knowledge of markets, competitors and customers to the boardroom. But strong board members are also good at connecting the dots.

Data points and information are great to have and so is knowledge of specific domains. But what really sets an exceptional director apart is the ability to distill a deep understanding of data, information and knowledge into real "aha" insights they can share in strategic conversations.

[1] The session, "Aligning Expectations: Insights from CEOs on What They Want from Directors," was conducted on June 11, 2024, at NACD's June 2024 Symposium, Lead with Impact: Making a Difference as a Board Director.

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Patterns, related trends, possible scenarios and strategic alternatives are what get people thinking. If directors aren't adept at recognising patterns, they should start exercising that muscle. As they develop the skill of digesting data, information and knowledge and integrating their take into strategy discussions, the value they contribute increases.

Do I bring a detached perspective into the boardroom to see things as they are?

Directors should be objective in facing reality as it is, not as they would like it to be. They should pay attention to the extent to which processes and decisions are data-driven and ensure that customer, employee and supplier feedback loops exist. A management-by-fact discipline engenders confidence. More important, directors should expect an engaged culture in which bad news travels fast enough to enable timely corrective action to get things back on course. They should look to the CEO to be open and candid in facing up to mistakes and errors of judgment, learning from them and sharing them with the board. The board has a role to play in ensuring that fresh business realities are considered objectively and acted on timely to sustain the business.

Overly cautious or optimistic board members can be suboptimal in a rapidly changing world. Directors should maintain an appropriate level of independence in positioning themselves as realists when they support and advise management and carry out their oversight responsibilities.

Am I challenging the assumptions underlying management's decisions? No matter how well-conceived they are, many strategies fail. Research reporting on the percentages of failed strategies cite statistics that fall into a wide range, with some asserting a rate as high as 90%. Whatever the number is — whether the strategy itself is flawed or the execution of the strategy is poor — the failure rate is high enough that directors must be at their best when engaged in strategic conversations with management.

Strategies fail for many reasons.[2] However, one important angle directors should pursue constantly is the validity of the assumptions underlying the strategy, both during strategy-setting and strategy execution. The objective is to ensure the relevance of the corporate strategy in view of current and expected market developments.

[2] "20 Reasons Why Strategy Execution Fails," by Jeroen Kraaijenbrink, *Forbes*, September 10, 2019: www.forbes.com/sites/jeroenkraaijenbrink/2019/09/10/20-reasons-why-strategy-execution-fails/.

The board should look to the processes management has in place to reality-test strategic assumptions against market developments. If there are none, that is a red flag.

Is my EQ high enough? EQ (emotional quotient) includes being in touch with one's emotions, possessing self-awareness and social awareness, being emotionally resilient, having strong interpersonal skills, and being adept at conflict management and cool under fire. People with a high EQ can often influence without authority. They are great collaborators and authentic in their communications, and can freely own up to their mistakes.[3]

Communication in the boardroom is as much about leaving one's ego at the door and developing relationships as it is about displaying smarts. True, board members should have a high IQ, as they must display a strong capacity for learning, and processing and interpreting information. But a good EQ is about empathy, listening and managing reactions — all of which are building blocks toward creating productive relationships.

Am I thinking enough about disruptive innovation and how it will manifest itself? One of the toughest tasks of management is recognising when a strategy is running out of steam or when the business model must be reimagined to improve the customer experience.

According to a global survey of 3,100 senior executives, six in 10 (61%) CEOs see their role as pushing their executive teams to respond with the urgency they believe is needed given the disruption in the marketplace.[4] Yet, 63% of CEOs in that survey said they believe their executive teams lack the agility needed to keep pace. Further, 59% reported that their employees tend to be set in their ways and resistant to change.

The board should focus on assisting the CEO with building a trust-based, innovative and resilient culture that can compete and sustain profitable growth in rapidly changing markets. And while it helps to have a continuous improvement mindset, there are times in the life of a business when clinging to the status quo by incrementally improving what's been done for years is not enough. This is where directors can contribute as a sounding board to the CEO.

In today's optics of changing business fundamentals where it is "disrupt or be disrupted," it pays to think ahead, anticipate scenarios, develop early warning capabilities and start early in making adjustments. Recognising vulnerabilities, assessing how to address them and formulating actionable response plans are valuable skills in managing uncertainty.

[3] "Top 11 Signs of High Emotional Intelligence: Explained," Maven, July 4, 2023: https://maven.com/articles/signs-of-high-emotional-intelligence.

[4] *AlixPartners Disruption Index*, AlixPartners, 2024: https://disruption.alixpartners.com/.

Directors should be mindful of their language and tone in the boardroom. Are they thinking enough about seeking and taking on opportunities and not just focused on risk mitigation? Are they focused on offense as well as defense?

Am I wired for risk but not for opportunity? Risk is inevitable and most boards are actively engaged in risk oversight. But risk management in successful organisations is much more than just reducing or avoiding bets; it is also about making the best bets with the intention of creating long-term enterprise value. That is what makes the discipline a differentiating strategic skill.

Savvy leaders understand that there are consequences to both risk-averse and risk-taking behaviour when deploying capital. To that end, directors should be mindful of their language and tone in the boardroom. Are they thinking enough about seeking and taking on opportunities and not just focused on risk mitigation? Are they focused on offense as well as defense?

Playing offense means investing to innovate processes, products and services. It also means pursuing new markets and building economic moats as well as adopting disruptive business models that offer differentiating value propositions. Defense, meanwhile, is about compliance activities, reducing risk to an acceptable level and taking steps to preserve reputation. There is a place in strategic discussions for both; therefore, each director should be wired for both.

Am I making a positive contribution to board conversations? The manner in which directors engage and collaborate with each other in and out of the boardroom and with the CEO is impacted by the board's processes, the manner in which the management team engages the board and, most important, the behaviour of individual board members.

These factors — often referred to as board dynamics — frame the board's culture and contribute to or avoid cultural fault lines and behavioural norms. Each director must contribute to effective dynamics in the boardroom. Over time, it is easy to spot who listens, who dominates the conversation, who is respectful of others and who isn't.

Do I foster an environment of trust based on values? The foundation for trust is open, honest and transparent communication. Board members should inculcate a boardroom culture where the CEO is comfortable sharing both good and bad news, knowing the board will provide support and guidance rather than judgment or censure.

Directors should ensure they are contributing value in the boardroom — consistent with their duty-of-loyalty obligations — with the objective of helping their CEO succeed.

Disagreements are inevitable; however, how they are handled can either build or erode trust. Thus, the boardroom culture should foster an environment where differing opinions and views are expressed respectfully and appropriately considered.

Am I taking time to learn so I can prepare to participate in strategic conversations?

The board's role is to ask questions regarding progress on the strategy and business plan, the status of major projects and other internal developments, as well as external market forces and their implications, and let the facts lead to sound decisions.

Directors should be curious and adopt a continuous learning mindset regarding matters pertinent to the organisation's viability that the board and CEO have not focused on at all or sufficiently (which we refer to as "blind spots"). Directors should take stock of their strengths and limitations as a board, particularly on issues or in areas where they lack expertise or don't fully understand, and focus on the appropriate questions to ask — of the board chair or the CEO, before or during board meetings, or before the full board, in a board committee or in executive session.

The best questions are those focused on strategic or policy issues that will impact the long-term success and sustainability of the business rather than getting mired in the weeds of day-to-day operations.

Am I effective in understanding and offering advice to the CEO? Each director has a responsibility to contribute to the board's collective efforts to foster open, trust-based and transparent communications with the CEO. To that end, directors should ensure they are contributing value in the boardroom — consistent with their duty-of-loyalty obligations — with the objective of helping their CEO succeed.

As a starting point, they should ensure that they and the CEO are aligned with respect to the company's long-term vision, strategic direction, market positioning, resource allocation decisions and performance incentives linked to long-term shareholder value. This alignment of interests is fundamental to building an effective working relationship with the CEO.

In summary, the role of the board extends beyond governance and oversight to offering diverse perspectives and constructive feedback as advisers to the CEO in shaping the corporate strategy, identifying market opportunities and emerging risks, allocating capital, evaluating performance, and formulating succession plans. Building trust is paramount in all of these activities.

How Protiviti Can Help

Protiviti assists boards and executive management with assessing enterprise risks and their capabilities for managing those risks. We help organisations identify and prioritise their risks, including emerging and disruptive risks that can impair their reputation, brand image and enterprise value.

We assist companies in 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 organisations improve their risk reporting to better inform the board's risk oversight process.

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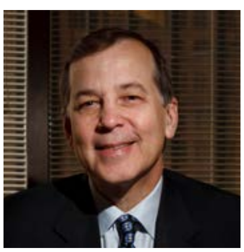

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