ISSUE 151
BOARD PERSPECTIVES

THREE KEYS FOR CEOs: RELEVANCE, CULTURE AND ALIGNMENT

These are exciting but stressful times. The world is changing in fundamental ways, and CEOs are feeling incredible pressure. Has the board recently checked its CEO's pulse to ascertain how it can be supportive in this era of unprecedented change?

A recent Protiviti global survey indicates varying views across different executive groups about the overall risk environment.[1] CEOs rate the relative riskiness of the business environment higher for 2022 than anyone else, jumping from the lowest rating in 2021 to the highest rating in 2022. Also, the number of risks that CEOs noted would have a "significant impact on their business" increased from four in 2021 to 13 in 2022 (of 36 risks studied in the survey). By contrast, board members indicated a significant decrease in their 2022 risk expectations relative to 2021 and did not rate any of the 36 risks as "significant impact." Examples of risks rated as "significant impact" by CEOs relate to such matters as the future of work and the workplace, acquiring and retaining talent, rising labor costs, the economy, supply chain disruptions, access to capital, digital innovation, ongoing pandemic concerns, and loss of market share to new market entrants.

Another recent global study reports 72% of CEOs are concerned about losing their jobs in 2022 because of business disruptions. Like the

[1] "2022 and 2031 Executive Perspectives on Top Risks," Protiviti and NC State University's ERM Initiative, December 2021, available at www.protiviti.com/US-en/insights/protiviti-top-risks-survey.

aforementioned Protiviti survey, this study reflects a marked spike over the prior year's assessment. Furthermore, the study noted that 94% of top executives expect their corporate models will need to be overhauled within three years.[2]

Each CEO is unique, of course, but the two studies offer insight into CEOs as a group. And both studies suggest that many CEOs are facing formidable challenges. The Protiviti study also indicates that CEOs view the current business environment as riskier than other business leaders do, including board directors.

The reality is that the speed of change has accelerated to an unrelenting pace. The "Great Resignation," workplace upheavals, digital disruption, supply chain failures, spiraling inflation, uncertainty over central bank policies, the rising bar of environmental, social and governance (ESG) expectations, and a pandemic that just won't quit all add up to a changing world in search of an elusive "new normal." With business model revamping on the horizon, as well as concerns about organizational resistance to change,[3] it appears chief executives are feeling the pressure of uncertainty in the marketplace more acutely than others.

The implications for boards are clear: Engaged directors should understand their CEO's state of mind in these unprecedented times to recognize what they can do better to help the CEO succeed. Directors should ask themselves:

- Which aspects of the strategy represent the greatest risks to the enterprise, and why? Is there a process for company stakeholders to reach a consensus about the most critical enterprise risks?
- Are there areas where the company is undertaking huge risks that the board is unaware of? For example, are there existential threats that can "stop the show" over the next two to three years, forcing the organization to "circle the wagons" and engage in damage control? Does the CEO engage appropriate teams in scenario planning to ensure the organization has access to effective risk mitigations?
- What are the hard and soft spots in the business plan for which the CEO is accountable? Has the plan been stress-tested against extreme but plausible scenarios?
- Are there any areas of dysfunction within the company that require correction?
- What can the board do differently in helping the CEO succeed? Is the board giving the advice and counsel the CEO really needs? Is the board contributing to CEO anxiety through its practices and focus?
- Do the CEO and board have the talent and resources needed to execute the approved strategy? Does the organization's culture act as a magnet for talent? How does the CEO know?

Depending on the direction and substance of the answers to these questions, the board may need to focus on getting on the same page as the CEO regarding how to face the future confidently. To that end, periodic sessions with appropriate independent advisers on specific matters relevant to understanding and preparing for the future may prove valuable. Directors can begin the conversation with their CEOs with a focus on relevance, culture and alignment.

Sustaining relevance — as defined by the customer and the people in the workforce — is the challenge of the times. A commitment to sustaining relevance is a commitment to embracing change and adapting the business to current and expected market forces. A strong, steady hand with a focus on sustaining relevance emphasizes "first things first" for the CEO, which engenders

[2] "CEOs Are Worried About Losing Their Jobs in 2022," by Arianne Cohen, Bloomberg, December 27, 2021: www.bloomberg.com/news/articles/2021-12-27/fearing-the-ax-in-2022-ceos-sweat-supply-chain-more-than-covid.

[3] "2022 and 2031 Executive Perspectives on Top Risks."

confidence looking forward. This process starts with focusing the organization on understanding markets and customers at the speed of change. It continues with ongoing improvement to the company's customer-facing processes and offerings to effectively meet evolving market demands and customer needs in distinctive ways.

In an environment of rapid disruptive change, the quest for relevance presents a challenge for long-standing incumbents who achieve excellence at what they do best.[4] Market success and the blinding lights of short-termism breed resistance to change. In contrast, agility is vital to sustaining an organization's relevance. Much more than product innovation, agility entails delivering products to market through new business models and channels adapted to evolving customer experiences. It's driven by offering solutions to the market ahead of anticipated demand based on reliable, insightful data.

The CEO faces several fundamental questions in pursuing relevance:

- Is the strategy the right one in view of current and expected market developments, and is it focused on the right outcomes? Monitoring the validity of critical assumptions underlying the strategy against marketplace developments over time is a way to "reality test" the strategy's relevance.
- Are the strategy and business model for executing it on course? What's the story underlying actual performance against the plan, and are there headwinds the organization needs to address? Effective metrics, measures and monitoring earn the CEO's confidence in the organization's continued relevance.

These are the questions the CEO dashboard should address.

An organization's culture based on trust and values is a key differentiator. People and culture should be front and center for every CEO. One of the global surveys noted earlier points to the importance of doubling down on retention through employee engagement and experience.[5] The future of work and the workplace is driving the need for significant investments in upskilling and reskilling.

Retention is also important to avoid competitors poaching upskilled and reskilled workers. This requires a trust-based culture embracing core values that are attractive to the talent needed to execute the strategy. A commitment to diversity, equity and inclusion (DEI), as well as to human rights, safety and well-being, integrity and fairness builds trust. So does community impact through investing in people and where their families live, work and play.

For CEOs, building and sustaining a strong culture is a fact-based journey that begins with straight talk and transparency. Leaders should learn what their employees really think through confidential, anonymous surveys, share the unvarnished results across the organization, and commit to improving the company's culture and work experience in response to those results.

Once employees are engaged and understand that their leaders are truly committed to listening to their feedback and continuously improving their experience, the process of building trust and inculcating core values will take care of itself through successive iterations over time and regular strategic communications from the CEO.

The CEO's most critical challenge is alignment. The CEO's quest for alignment covers a lot of ground. It begins with the executive team to ensure that all the chief executive's direct reports are pulling in the same direction, particularly on major transformation and change initiatives. With a

[4] "The Essential Clayton Christensen Articles," The Editors, *Harvard Business Review*, January 24, 2020: https://hbr.org/2020/01/the-essential-clayton-christensen-articles.

[5] "2022 and 2031 Executive Perspectives on Top Risks."

focus on relevance through monitoring markets and customer needs, leaders achieve executive alignment through the "blocking and tackling" aspects of linking strategy, people, processes, reporting, technology and data.

Executive alignment sets the "tone at the top," which has always been important. But rank-and-file employees are more influenced by their immediate superiors than by what the CEO and executive team say. That's why aligning the "mood in the middle" with the tone at the top is vital to the chief executive. Performance expectations and reward systems linked to the strategy, effective escalation processes, and periodic assessments of the mood in the middle, as well as the "buzz at the bottom," are critical tools in this regard. Directors and CEOs should also pay attention to the warning signs posted by independent risk management functions and flagged in audit reports.

Alignment efforts must also embrace core values. This starts at the top with leaders who model the desired behaviors. Leaders cannot say one thing and do another. They cannot set policies and not abide by them. CEOs must decide which behaviors best represent the brand promises differentiating their company and resonating with buyers, and then drive these behaviors with intention and integrity throughout the organization. These behaviors should emphasize treating others with respect and dignity.

In summary, CEOs are feeling pressure in an unprecedented environment of uncertainty and ever-growing expectations. If one or more of the three keys — relevance, culture and alignment — are at the root of their CEO's concerns, directors should shift their focus accordingly to ensure they're contributing value in the boardroom consistent with their duty of loyalty obligations.

How Protiviti Can Help

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

Protiviti partners with the National Association of Corporate Directors (NACD) to publish articles of interest to boardroom executives related to effective or emerging practices on the many aspects of risk oversight. As of January 2013, NACD has been publishing online contributed articles from Protiviti, with the content featured on https://blog.nacdonline.org/authors/42/. Twice per year, the six most recent issues of *Board Perspectives* are consolidated into a printed booklet that is co-branded with NACD. Protiviti also posts these articles at protiviti.com.