ISSUE 154
BOARD PERSPECTIVES

IMPROVING BOARD PERFORMANCE IN DISRUPTIVE TIMES

The 2020s are well on their way to earning the ominous label of a troubling, disruptive decade, but there remain viable opportunities amid the challenges. What is the board's role in preparing the organisation for "show-stopping" and potentially existential risks?

A global survey of about 1,500 corporate directors found that directors "are not pleased with their performance on risk management." Only 7% of the respondents believe that over the past year their boards were "most effective" — the highest rating — at overseeing risk management, and only 40% report that their organisations are prepared for the next major crisis.[1]

These responses raise important questions. Why are directors expressing these concerns? What do these results mean for directors' reputations and the board's culture and processes for understanding risk and communicating with key constituencies and internal stakeholders about risk? Said another way, what can boards do to increase their confidence in the organisation's risk management?

In focusing on the why, there is the shell shock and fatigue that business leaders and their employees are experiencing from absorbing the continuum of disruptive events. The pandemic spawned a public health crisis, hit certain sectors hard, and drove attrition on a massive scale that threw global supply chains, customer-facing processes and labour markets out of whack.

[1] "The Role of the Board in Preparing for Extraordinary Risk," by Nora Aufreiter, Celia Huber and Ophelia Usher, McKinsey, March 22, 2022: www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-role-of-the-board-in-preparing-for-extraordinary-risk.

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Russia's unprovoked war in Ukraine and the punishing sanctions the West has levied have added fuel to the fire of congested supply chains and a relentless inflationary spiral. Senior executives must cope with inflationary pressures on a scale not experienced for almost four decades, leading central banks down the road of raising interest rates, creating uncertainty as to how far they will go. China recently locked down yet another hard-to-stem COVID-19 surge, dealing supply chains another blow. Geopolitical tensions continue to build between the United States, China and North Korea. And volatility in financial markets has become the norm.

As if all of this weren't enough, employee mental health and fitness issues have emerged at all levels of organisations — adding still another dimension to the human capital management challenge. As employees cope with the scale and magnitude of draconian change, reassess work-life balance priorities, and express a need for flexibility, many are experiencing unprecedented strain and anxiety in both the workplace and life in general.

Leaders continue to struggle with finding the right way to get employees to work in the office again.[2] Wages are rising and labour markets tightening as employees cope with the weariness and monotony of a virtual environment and lingering spectre of COVID variants. No longer a stigma, mental health problems are a harsh reality that warrants recognition, empathy and attention. Directors can set the tone by demonstrating compassion when meeting with company executives and employees.

Simply stated, the pace of disruptive events and uncertainty looking forward are stressing traditional risk management tools and processes. A contributing factor is the lack of insightful and helpful data to give directors confidence they are in touch with the market forces that matter. For directors, this moment is about taking a fresh look at how the board oversees risk management and advises the CEO and management team as they grapple with the realities of the times.

To that end, boards should focus on the following six priorities.

Make it a strategic imperative to understand and focus on the pillars of disruption. Boards have learned valuable lessons from the pandemic that will help them plan for the future, but what about the next disruptive event? Trends in customer experiences, employee loyalty, organisational culture and supply chains — and the digital interfaces that drive them — are important considerations in shaping strategic conversations in the boardroom.

These trends are powerful sources of disruption and should be acknowledged and weighed when making decisions and formulating strategies to enhance organisational agility and resilience. With technology today, timely data is the new currency.[3] Boards should insist on frequent reports and briefings on disruptive market forces to inform strategic discussions appropriately. In an environment of rapid change, the motto is "Disrupt or be disrupted."

Manage strategic risk through actionable dashboard reporting. Regular briefings on "here are our risks and here is how we are managing them" have become too static in volatile times. Directors should understand the critical assumptions underlying the strategy and the plausible but extreme scenarios that may make one or more of those assumptions invalid.

2 "Please, Come Back to the Office," Korn Ferry Insights, April 13, 2022: www.kornferry.com/insights/this-week-in-leadership/please-come-back-to-the-office.

3 "Data Is the New Currency. Don't Let It Slip Through Your Fingers," by Peter Daisyme, Due.com, June 21, 2021: https://due.com/blog/data-new-currency/.

This analysis provides the foundation for gathering actionable intelligence on key indicators that give early alerts about whether one or more such scenarios are emerging. Actionable data and trending statistics provide early warning to the C-suite and boardroom and engender greater confidence.

Think long term when evaluating risk. Protiviti's global study of the impact of risk on the viability of an organisation's strategy illustrates the difference in perspectives when looking out 10 years versus 12 months.[4] The World Economic Forum, meanwhile, looks at long-term, global-scale threats to the planet and world order. The latest report highlights societal issues such as erosion in social cohesion due to income disparities, livelihood crises (due to unemployment, underemployment, lower wages and the erosion of workers' rights), and mental health deterioration as top risks. This report also covers such risk themes as climate action failure, countries driving regional convergence at the expense of global integration, and digital dependencies and cyber vulnerabilities.[5]

Directors should think through how these risks could impact the organisation over time to give them a more forward-looking perspective. A new world is evolving, one that entails different geopolitical dynamics such as friend-shoring, searching for natural resources that aren't evenly distributed globally, and increased sourcing, distribution and use of renewable energy.

Pay attention to and manage reputational risk. Companies that have the strongest brand authority share attributes worth examining. They are data-driven in their focus on customers; understand their value proposition; develop powerful and distinctive messaging; listen well and act to improve their processes and offerings continuously. They also establish accountability for results with metrics, measures and monitoring; work social media effectively; and treat their employees well so that they are inspired to live the brand promise passionately every day.

Strategic relevance and a strong commitment to quality, transparency, operational excellence and organisational resiliency set these companies apart. The board should evaluate the fundamentals underlying the organisation's brand image and reputation to ascertain whether there are opportunities to sharpen the focus.

Support the CEO in strengthening the organisation's platform of trust and cultural alignment with a proactive lean into the moment. It's time to sharpen the focus on human capital to manage talent and skills acquisition and retention. Hearts and minds must be won, trust must be earned, and genuine authenticity and wise compassion must be expressed. The game has changed as employees have choices, opportunities and mobility. They want purpose. Younger generations want to make a difference, which elevates the importance of management embracing environmental, social and governance (ESG) and sustainability priorities in formulating and executing strategy. Most important, people want a life.

These trends are undeniable, and that's why smart boards make human capital management an integral part of strategic boardroom conversations. Now is the time for the board to refresh the expectations, action plans and accountabilities for CEOs and human resources executives.

4 "2022 and 2031 Executive Perspectives on Top Risks," Protiviti and NC State University's ERM Initiative, December 2021: www.protiviti.com/US-en/insights/protiviti-top-risks-survey.

5 "Global Risks Report 2022," World Economic Forum, January 11, 2022: www.weforum.org/reports/global-risks-report-2022/digest.

Broaden and freshen the board's perspective. The diversity of experience and content expertise among directors and in boardroom discussions should reflect changing market dynamics. Independent advisers and outside informational sources should supplement insights from management. New thinking regarding market developments, dashboards focused on strategic drivers, and capital allocation proposals considering a balanced view of both opportunities and risks enhance strategic conversations. Post-mortem reporting regarding technology synergy, capital projects, and mergers and acquisitions sustains the board's institutional memory and engenders confidence.

Risk conversations are changing dramatically. So much is hitting the fan — and everyone is affected. This is the reality of our times, and it necessitates a different conversation in the boardroom. Traditional risk management lays a foundation for that conversation, but alone is not fit for purpose given today's issues and risk profiles. For directors, a digital mindset, actionable data, fresh and forward-looking perspectives, and a broader focus on agility, resiliency, accountability and key stakeholders will help improve performance in the boardroom.

Questions for Boards

Following are some suggested questions that boards of directors may consider, based on the risks inherent in the organisation's operations:

- Is there adequate focus on the values that frame the board's character to engage in tough conversations? Is there sufficient emphasis on the critical enterprise risks that could impair the organisation's reputation if not managed effectively? Does management apprise the board in a timely manner of significant changes in the enterprise's risk profile, and is there a process for identifying emerging risks?
- Is the board's culture strong enough to initiate direct conversations about organisational resilience, challenge conventional thinking, and recognise the need to be disruptive and agile in response to market developments? Does it foster an open environment that encourages tough conversations and feedback? Is it satisfied with the quality and creativity of the ideas it introduces to the dialogue around policy, strategy and innovation?
- Are directors satisfied that executive management comprehensively assesses the company's execution of the strategy with a forward-looking point of view linked to critical strategic assumptions and risks? Are strategic execution monitoring and actionable early warning capabilities in place that inform management and the board in a timely manner of new market developments?
- Does the CEO set the tone for agility and resilience through actions and strategic communications emphasising the importance of improving digital readiness, staying close to the customer, keeping an eye on relevant market trends, organising for speed and embracing change? Has management given sufficient attention to operational resilience — including dependencies on key suppliers and third-party vendors and the level of risk they introduce into the execution of the business model — to ensure organisational preparedness? How does the board know?

How Protiviti Can Help

Today's organisations are reconfiguring the workplace and adopting new business practices to align with changing market realities. They're focused on improving the customer experience, shifting to a distributed hybrid workplace, reconfiguring supply chains, advancing their digital maturity, adopting appropriate security measures around the enabling technologies they deploy, and implementing ongoing changes in business models and processes, and products and services.

Protiviti assists directors and executives in public and private companies in identifying and managing the organisation's key risks. We have the experience, know-how and expertise to help companies navigate the challenges of the times. We provide companies with access to industry, digital and innovation talent who can bring disruptive thinking to the table in helping them rethink their business and how they engage their employees, not just in the short term, but in the medium to longer term. Companies can benefit from working with our professionals who share their values, have knowledge and understanding of the technologies they deploy, and can draw on a risk perspective.