The Report of the NACD Blue Ribbon Commission

FIT FOR THE
FUTURE
An Urgent Imperative
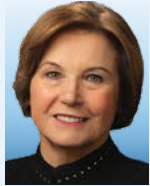## for Board Leadership

ÍNACD

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Letter From the Cochairs

A century ago, America witnessed a managerial revolution with the emergence of professional executives and the birth of the modern corporation. The revolution built on new types of expertise in accounting, statistics, technology, engineering, and social sciences to "professionalize" management. Specialization of labor, standardized processes, quality control, workflow planning, resource allocation, and accounting allowed companies to optimize efficiency, build scale, and drive a long period of remarkable growth and wealth creation.[1]

We are now in the midst of another, equally significant business revolution with profound implications for companies and how they are governed. Changes involving markets, global competition, demographics, regulation, and, perhaps above all, technology are reshaping social and economic life in powerful ways. Businesses are confronting a wave of major, simultaneous, and interconnected trends that are redefining how companies create and preserve value.

The accelerating pace and intensifying complexity of change are leading to the emergence of a fundamentally different operating reality than incumbent executives and directors have experienced in their careers to date. However, this dizzying amount of change also creates immense opportunities for companies to out-innovate the competition, to generate value in new ways, and to strengthen their governance.

As the science-fiction writer William Gibson put it, "The future is already here—it's just not very evenly distributed."[2] The future belongs to businesses that can truly grasp the scale and scope of change and make the fundamental adaptations in operations and organization that this age demands.

For boards and their leaders—the independent chair or lead director and committee chairs—this is a period of challenge and transition that entails a difficult balancing act. In exercising their current board leadership responsibilities, they need to perform against heightened, often short-term expectations and to contend with ever-intensifying scrutiny from a wide range of stakeholders. At the same time, they need to meet the demands of the future by fundamentally reshaping how the board thinks, operates, and interacts with the business.

This is a report about leading boards into the future and about positioning boards to help their companies meet the challenges of the future. It argues that the pace and scale of change require a different modus operandi from the board governance model prevalent for the last 100 years, a new approach involving greater speed of decision making, proactive behaviors, adaptability, and innovation.

Boards will need to renew themselves by adding new types of expertise, experience, and capabilities to their ranks. They will need to take a critical look at how they perform and focus on continuous improvement. Their discussions will become more intense, and their structures more flexible. And they will need to carefully fulfill their supervisory and monitoring role while working in close partnership with management to shape business strategy.

In all of this, the role of a strong and effective board leader—the specific focus of this report—is crucial. It is the leader's job, as ever, to build and maintain a high-performing board. This is an increasingly challenging task given the demands on boards to ensure that the corporation is fit for the longer term, and it requires new leadership qualities. Board leaders now need to be able to do far more than preside over board or committee discussions. They need to be capable of catalyzing and orchestrating a transformation in how the board is composed and structured, how it operates and interacts with the business, and how it holds itself accountable.

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[1] Rita Gunther McGrath, "Management's Three Eras: a Brief History," the *Harvard Business Review*, July 30, 2014.
[2] William Gibson, participating on the panel for the episode, "The Science in Science Fiction," on National Public Radio's *Talk of the Nation*, November 30, 1999, timecode 11:20.

This is by definition not an easy process. It will involve uncomfortable decisions about board members who are not fit for the future, and challenging discussions with management teams whose strategies may be stuck in the past. It will entail painstaking work to reinvent board processes and reshape behaviors, with a view to increasing the quality of information available to the board and the candor and rigor of its discussions. It will mean requiring that all directors demonstrate a commitment to continuous learning and improvement and, in many cases, it will require them to devote more time to their duties outside of formal board and committee meetings.

The report summarizes the leadership qualities required with a word not often used in modern business parlance: fortitude. It's a fitting term, because it has many layers of meaning. Courage, for sure, but also strength of mind and character, boldness, perseverance, and resilience. These will all be needed, because sustaining the new approach will demand vigilance, even from leaders of the best-governed boards who may have already adopted many of the practices we outline in the report. As a Commissioner put it: *"It's easy to slip into a perfunctory frame of mind. Even big companies and high-performing boards need a reminder that none of the attributes of effective leadership can be taken for granted."*[3] And another Commissioner articulated the required mind-set as follows: *"Many board leaders know what they should do to improve their boards, but lack the courage."*

These statements came from directors of large public companies, but all of the above also apply to private companies, and even to nonprofits, which may be disproportionately affected by disruption, and may be more hamstrung by inertia when considering changing their governance approach.

This report takes a deeper look at major, accelerating business trends and their implications for board oversight (Part 1), and recommends specific actions board leaders can take in collaboration with their fellow directors—on board structure, engagement, composition, culture, and disclosures—to position their boards for the future (Part 2). As an aid to implementing the specific recommendations (summarized in Part 3), we offer a set of practical tools, examples, and case studies that board leaders and their boards can use to trigger the changes that we think are essential to keeping the board focused and forward looking—particularly in disruptive and demanding times. This report will help boards to identify and develop leaders capable of renewing the board's human capital, of adapting board structures and operations, and of delivering incisive board oversight and engagement on critical long-term issues, while demonstrating transparency and accountability. We believe that all of these capabilities are vital for the leaders of today, and that leaders with these capabilities will make an all-important contribution to their companies' chances of surviving and thriving beyond tomorrow.

Cari Dominguez
Lester Lyles

This Blue Ribbon Commission report represents a consensus of the Commissioners' viewpoints and reflects their support for its principal recommendations. We did not believe it necessary that each Commissioner agree with every word of the report. As a group, however, the Commissioners regard this report as a fair representation of their views on an important and timely subject.

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[3] Quotations in italics throughout this report are from members of the 2019 Blue Ribbon Commission.

PART 1

The Future is Already Here
Implications for the Boardroom

It is a truism that the only constant in business is change. But that statement does not remotely do justice to the scale and scope of the multiple changes confronting business in the first half of the twenty-first century. Rapid and far-reaching advances in technology are reshaping competition and the process of value creation in every business sector. The struggle to deal with climate change is beginning to transform the economics of extractive industries and others. Global supply chains are challenged by geopolitical and mercantile conflicts. Investor scrutiny is more demanding than ever. Society's expectations of business are increasing as governments struggle to address mounting challenges—income inequality, threats to data privacy, crumbling infrastructure, global warming, and so forth.

Each of these changes in itself is seismic. But what makes the current epoch uniquely unpredictable and hard to navigate is the fact that these changes are happening concurrently, interacting with and amplifying each other, as illustrated in the figure below.

As a result, companies may find it extremely difficult to anticipate the full impact or the second- or third-order effects of these disruptions in the next few years. This is especially true for boards of directors and their leaders, whose job it is to secure the long-term success of their companies. It is a challenge that is not going away any time soon—indeed, all indications are that it will become more acute.

Source: NACD research
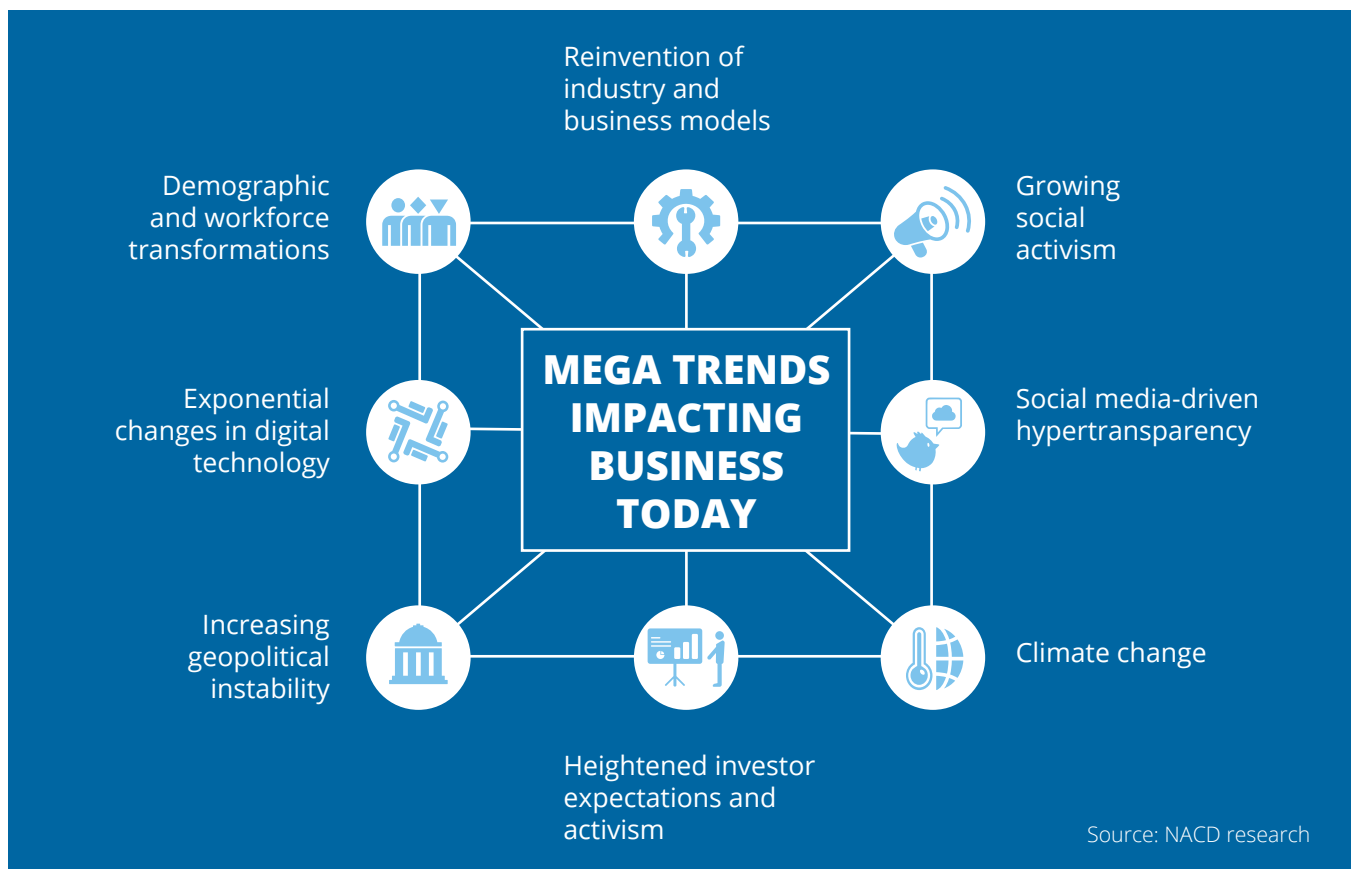
AN EXISTENTIAL THREAT

As last year's Blue Ribbon Commission report on board oversight of disruptive risks pointed out, these trends "have the potential to change industry structure or operating conditions, make existing business models obsolete, derail growth, or otherwise pose a fundamental threat [or transformative opportunity] to the long-term strategy of the organization."[4]

But while the threats are clearly existential, it is far from clear that all companies and their boards are adequately equipped to respond, because many of the big issues facing business are in new or uncharted territories.

Technology is one obvious disruptor which is reshaping industries and forcing companies to consider new forms of collaboration that would have been unimaginable a few years ago. For example, the car industry is having to retool its entire production system to meet rising projected demand for electric vehicles while forming partnerships and joint ventures with leading software providers to exploit the emerging markets for autonomous cars. The competitive battleground and source of value creation has shifted rapidly and radically from the vehicles' hardware to the systems driving it.

Another challenge is the complex issue of climate change, where companies are feeling their way toward a response to fundamental market shifts involving international politics, governmental regulation, and investor expectations while considering the economic impact of climate risk. Boards need to bolster their capacity to navigate this labyrinth.

A third and rapidly-moving set of challenges is emerging from tectonic shifts in geopolitics and in particular from the rise of great-power rivalry, trade protectionism, and mercantilism—notably in the domain of technology, where the United States and China are engaged in what some see as a new arms race for control over the systems of the future.

Overarching all of these trends is another relatively new pressure: the pressure for companies to articulate and justify their broader purpose, in terms of how they address society's unmet needs in an era of great social change, activism, and political uncertainty. This is certainly the message from some of the largest institutional investors. As Larry Fink, CEO of BlackRock, put it in his 2019 CEO letter to portfolio companies, "Companies that fulfill their purpose and responsibilities to stakeholders reap rewards over the long-term. Companies that ignore them stumble and fail. This dynamic is becoming increasingly apparent as the public holds companies to more exacting standards. And it will continue to accelerate as millennials—who today represent 35 percent of the workforce—express new expectations of the companies they work for, buy from, and invest in."[5]

CREATIVE DESTRUCTION ACCELERATES

One important inference from these trends is that the formula for past success matters even less to companies considering their future. Research conducted in 2018 for the Fortune Future 500 initiative (the public companies with the best long-term growth outlook) shows that for large companies, there is now less correlation than there was before between past and future financial and competitive performance over multiple years.[6] This means that companies can no longer hope to prosper merely by sticking to their historical growth strategies and competitive advantages. Relying on past success can engender complacency—itself an existential threat.

It is certainly true that the process Joseph Schumpeter called "creative destruction"[7] is accelerating, and in consequence corporate lifespans are shrinking. A 2018 Inno-

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[4] NACD, *Report of the NACD Blue Ribbon Commission on Adaptive Governance: Board Oversight of Disruptive Risks* (Arlington, VA: NACD, 2018), p. 9.
[5] Laurence Fink's 2019 letter to CEOs, "Purpose and Profit."
[6] Martin Reeves, "The Global Hunt for the Next Decade's Fastest-Growing Companies," *Fortune* magazine, October 18, 2018.
[7] For more background, see Wikipedia's "Creative Destruction" entry.

sight study showed that, based on recent trends, nearly half of the corporate constituents of the S&P 500 could be expected to be replaced over the next 10 years. While companies in the S&P 500 had an average tenure of 33 years in 1964, tenures had narrowed to 24 years by 2016 and are forecasted to shrink to just 12 years by 2027.[8] This accelerating churn is to be seen also among very young firms—for example, five-year survival rates for newly-listed firms have declined by nearly 30 percentile points (dropping from 92 percent to 63 percent) since the 1960s.[9] In a parallel trend, the median CEO tenure for large-cap companies has been shrinking steadily over time—indeed, it dropped by one full year between 2013 and 2017. Median tenure is now five years. [10]

Structural change and industry consolidation are also impacting the nature of competition, creating a "winner-takes-most" dynamic in an increasing number of business sectors. Recent research based on analysis of 5,750 of the world's largest companies shows just how unevenly the fruits of success are now distributed in terms of economic profit (a measure of a company's invested capital times its return above its weighted cost of capital). The top 10 percent of these companies captured fully 80 percent of positive economic profit between 1994 and 2016. [11]

> The challenges for boards and management teams are stark—probably more so now than at any time since the birth of the modern corporation a little more than a century ago.

All of these implications are brought into sharper focus by the increasing shareholder scrutiny which companies are now under, not only from activist investors but also increasingly from institutional investors who wield their significant influence to demand change. Stephen Murray, the president and CEO of private equity firm CCMP Capital, goes so far as to say, "The whole activist industry exists because public boards are often seen as inadequately equipped to meet shareholder interests."[12]

So the challenges for boards and management teams are stark—probably more so now than at any time since the birth of the modern corporation a little more than a century ago. They mean that some, though by no means all, of these individuals' accumulated experience in strategy development and execution may be less relevant in the future than in the past. And they suggest that board leaders in particular need to adopt a new mind-set and consider a different modus operandi attuned to the demands of this rapidly-changing environment.

IMPLICATIONS FOR BOARDS

Three years ago, in its *Report of the Blue Ribbon Commission on Building the Strategic-Asset Board*, NACD first pointed out that a new leadership mandate for boards was

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[8] Scott D. Anthony, S. Patrick Viguerie, Evan I. Schwartz and John Van Landeghem, *2018 Corporate Longevity Forecast: Creative Destruction is Accelerating* (executive summary), Innosight "Insights" on innosight.com.

[9] Vijay Govindarajan and Anup Srivastava, "Strategy When Creative Destruction Accelerates" (Tuck School of Business Working Paper No. 2836135, September 7, 2016), p. 4.

[10] Dan Marcec, "CEO Tenure Rates," *Harvard Law School Forum on Corporate Governance and Financial Regulation* (blog), February 12, 2018.

[11] James Manyika, Sree Ramaswamy, and Michael Birshan, "What's Driving Superstar Companies, Industries, and Cities," *Harvard Business Review*, October 25, 2018.

[12] Dominic Barton and Mark Wiseman, "Where Boards Fall Short," *Harvard Business Review*, January–February 2015 Issue.

emerging, driven by "an operating environment . . . that is characterized by increased complexity and uncertainty and includes new sources of risk and opportunity."[13] We highlighted the role of the board leader in driving a continuous improvement ethos to ensure that the board remains fit for its purpose.

Yet performance expectations for boards continue to rise. In a 2019 NACD survey, 73 percent of directors reported that board leadership is more challenging now than it was three years ago, and 84 percent reported that performance expectations had gone up for all board members.[14]

Directors admit that they find it really challenging to keep up with change. In the same NACD survey, 36 percent of directors cited the struggle to stay abreast of the changing speed of business as one of the key impediments to the effectiveness of board leaders.[15] Commissioners for this report echoed that concern and highlighted it as a challenge for the entire board.

"Many directors don't feel comfortable talking about emerging technologies, cybersecurity, and other complex topics," said one Commissioner. *"As a result, they tend to defer to others, which can become an abdication of their responsibility to be active board members."*

In the view of the Commission, this shifting business paradigm has profound and immediate implications for boards, and these implications will intensify dramatically over the next 5 to 10 years. They cover board engagement with management, board renewal, operations, transparency, and accountability. Some of these implications are not new—indeed, boards have been grappling with all of them with greater or lesser success for some time. But there is no doubt that all of them have recently become more acute, and now pose an urgent challenge to board leaders. This is the agenda on which we will present specific recommendations for board leaders and their boards in Part 2.

IMPLICATION 1
Boards must engage more proactively, deeply, and frequently on entirely new and fast-changing drivers of strategy and risk.

The environment described above demands both expanding and deepening board engagement, and a new relationship between the board and the management team.

"The edges of the board stewardship box are expanding," said one Commissioner. *"Investors expect boards to focus on issues that fall under the ESG [environmental, social, and governance] umbrella . . . given the connections with long-term sustainable performance. There has been a push for boards to engage with management on these issues that I don't think will be reversed."*

In turn, a much deeper board understanding of business operations will become critical as these new trends start to transform how businesses are financed, run, and controlled, and how they deliver value to customers. Similarly, boards will be expected to get more deeply engaged in the oversight of major digital transformations, which are critical to the future of many firms, but which almost as many firms struggle to implement.

In a recent NACD survey, 86 percent of board respondents indicated that they fully expect to deepen their engagement with management on new drivers of growth and risk in the next five years.[16] This deeper, more proactive engagement is far from easy to implement. In effect, it entails the board moving from being a fairly passive monitor and overseer of the business to being more actively engaged in challenging management's thinking, and when appropriate, acting as a thought partner with management in order to effectively respond to new strategic challenges. The risk is that this new mode of engagement may spill over into micromanagement by the board or cause undue (rather than constructive) tension between the board and

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[13] NACD, *Report of the NACD Blue Ribbon Commission on Building the Strategic-Asset Board* (Washington, DC: NACD, 2016), p. 9.
[14] Data from an NACD director poll on the future of board leadership, conducted in April 2019.
[15] Data from an NACD director poll on the future of board leadership, conducted in April 2019.
[16] Data from an NACD director poll on M&A governance and other topics, conducted in May 2019.

the management team. For all of these reasons, making the shift in how the board engages requires strong and steady leadership, and in particular a constructive relationship between the chair or lead director and the CEO.

To be clear, we are not suggesting that directors encroach on the prerogatives of executives. A clear dividing line is still needed between board and management activity, with the board providing oversight and direction, not day-to-day management. We are suggesting is that board leaders reshape the conversation between the board and management to position boards as more proactive in providing direction and shaping the future strategy.

This will require access to better-quality information on the business and external trends—including information from sources independent of management and increasingly generated through advanced analytical techniques that can more quickly and precisely spot issues. The board leader will have a heavy responsibility to ensure that this proactive approach does not lead to board agenda overload by maintaining focus on what really matters—strategy, corporate culture, incentives, risks, capital allocation, financial performance, and talent, which are all critical to the company's long-term success and value creation.

By definition, a more engaged posture will also place new demands on board members' time. Board engagement can no longer just happen through a quarterly cadence but is becoming a continuous process. Already, the average public company director spends 245 hours per year on board service (per company)[17] and 74 percent of directors expect that their boards will have to significantly increase their time commitment in the next five years to fulfill their mandate.[18] Expending more time may not always be the right answer. It is more imperative for board leaders to critically evaluate the current process for agenda setting and management reporting to ensure that directors are appropriately informed and that time allocation during meetings is focused on the most critical issues.

The recalibration of roles—while respecting the essential oversight-versus-operations dividing line highlighted above—will turn the board-management relationship into something more akin to an iterative collective-learning process with a focus on both forward-looking strategic thinking and adaptation to change. As one Commissioner said, *"In our review and approve roles, we sometimes lose sight of the need to engage and then ruminate—continuing to learn—and then come back together to discuss again."*

In this environment, which puts a premium on orchestrating dramatic transformations and the successful execution of new ideas, there is a greater onus on boards to exercise good judgment than before. They need to continue to act as guardrails on management's ambitions, but they need to balance that with providing encouragement to management to be bold, embrace change, and put resources behind affecting change. As one Commissioner put it, *"The board's role is to exercise critical judgment on when to tap on the brake and when to accelerate through the curve."*

THE NEW EXPECTATION FOR BOARD LEADERS
It falls to the board leader to drive this heightened, more continuous degree of engagement—to ensure that the right conversations are being conducted at the right time, that the board is well-informed, that the critical relationships are in good order, and that the necessary boundaries are being respected. One Commissioner likened the leader's role to that of an orchestral conductor, setting the rhythm and tone of discussions and ensuring that each player plays his or her part to best effect.

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[17] NACD, *2018–2019 NACD Public Company Governance Survey* (Arlington, VA: NACD, 2018), p. 25.
[18] Data from an NACD director poll on M&A governance and other topics, conducted May 2019.

IMPLICATION 2

Boards must approach their own renewal through the lens of shifting strategic needs to ensure long-term competitive advantage.

The ways in which firms create and preserve value is dramatically changing, demanding new types of expertise and thinking tied to the organization's shifting strategic needs. There is a pressing demand, for example, for up-to-date expertise in digital technologies, corporate culture, human capital, operations, marketing, and environmental issues, which will lead boards to consider different talent pools for board renewal. The most important aspect here is to ensure the right balance between expertise on emerging issues and relevant past experience.

For example, boards now recognize that technology competence on the board is critical—64 percent of respondents in a recent NACD survey on digital governance believe that the next member recruited to their board should possess strong technology expertise.[19] But as one Commissioner cautioned, such expertise needs to be bolstered by practical experience: *"The candidates best placed to make a contribution will be those that have worked in technology for many years, can put innovation in a strategic context, have a proven track record in digital transformation, or even have had to stay ahead of digital issues just to stay in their job."*

Board diversity—in all senses, from ethnic, racial, and gender diversity to the cognitive and experiential dimensions—is becoming a strategic and moral imperative, as Commissioners in our 2018 report on disruptive risks emphasized. NACD's 2018 public company governance survey reports that 53 percent of companies now have adopted an explicit goal to diversify their board composition.[20] Board diversity alone is not enough to ensure the full benefits of board renewal. Ensuring the true inclusion of each member

of a diverse board is also key; board leaders must be purposeful in creating an environment that enables diverse voices to be heard. One Commissioner stated that *"diversity without inclusion is just an illusion."*

The question is, how are boards approaching the task of renewal? NACD analysis summarized in Board Renewal in the Russell 3000 Index (Page 14) signals gradual progress in areas such as the gender, ethnic, and age diversity of public company boards, but also suggests a mismatch between the types of director skills and experiences that boards are recruiting for today and the types of skills that will serve the future needs of their organizations.

Recognizing that boards will always need to possess "classic" leadership and industry experiences, these findings suggest that more effort is needed to align board recruitment with companies' evolving strategies and risks. In Part 2 of the report, we outline specific recommendations to strengthen this alignment.

THE NEW EXPECTATION FOR BOARD LEADERS

This is a first-order issue for board leaders—to maintain a constant, critical focus on the mix of expertise and ability on their boards, and specifically the alignment of that mix with the company's shifting strategic and risk needs. Every board will come up with its own answer to this question, but the crucial role for the board leader, in collaboration with the nominating and governance committee, is to ensure that the board's human capital represents shifting strategic and risk priorities and to challenge the board to keep coming back to this hard discussion rather than simply accepting "more of the same."

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[19] Data from an NACD director poll on board oversight of emerging technologies, conducted in February 2019.
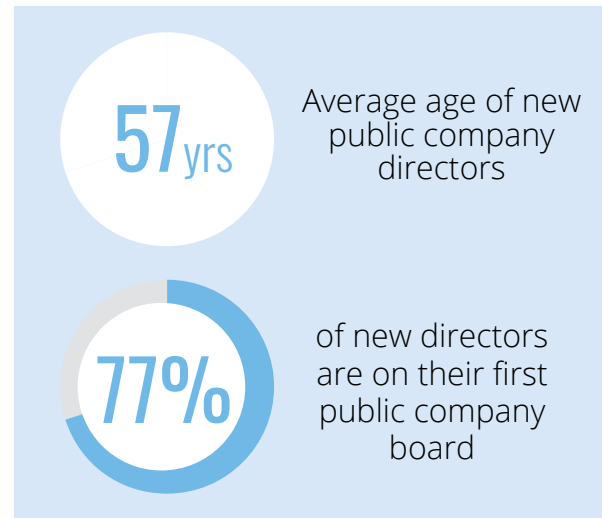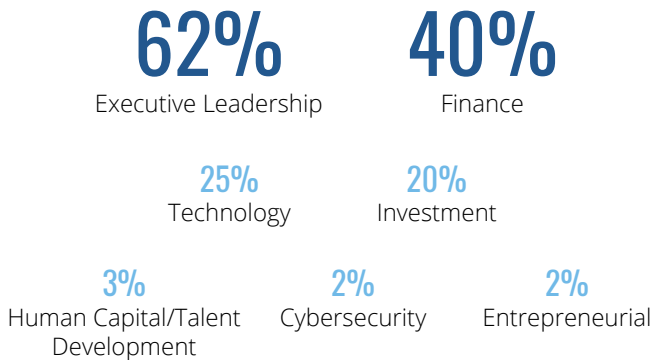
[20] NACD, *2018–2019 NACD Public Company Governance Survey* (Arlington, VA: NACD, 2018), p. 29.

Board Renewal in the Russell 3000 Index (Since 2018)

Director recruitment continues to prioritize classic skills and experiences.
(Prevalence of selected skills in new directors)

62%
Executive Leadership

40%
Finance

25%
Technology

20%
Investment

3%
Human Capital/Talent Development

2%
Cybersecurity

2%
Entrepreneurial

57yrs
Average age of new public company directors

77%
of new directors are on their first public company board

Gender Diversity
Percentage of new public company directors that are women

26% 2018
34% 2019
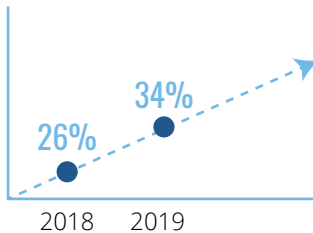
4% have a woman board chair

9% have a woman lead director

20% of directors are women

Ethnic Diversity
Percentage of new public company directors that are non-Caucasian

9.7% 2008
14% 2018
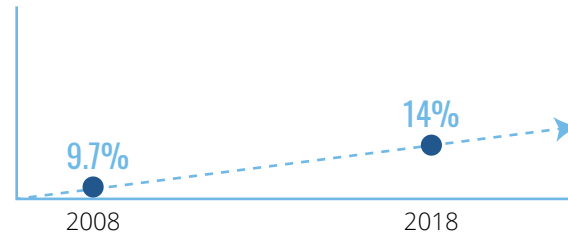
10% of directors are racial and ethnic minorities, not including women.[1]

[1] Kosmas Papadopoulos, "ISS Discusses U.S. Board Diversity Trends in 2019," *The CLS Blue Sky Blog.*

Directors are in for a long ride.

15+ yrs.   **10–15** yrs.
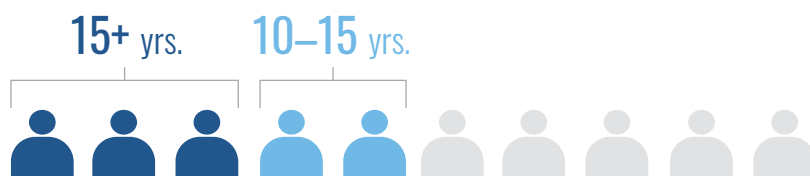
The average public company director has been in seat for a decade.

Source: Data and company intelligence collected from MYLOGIQ - Multidimensional Public Company Intelligence, NACD analysis (as of July 2019).

IMPLICATION 3
Boards must adopt a more dynamic operating model and structure.

The furious pace of change also puts strains on the traditional board operating model. At a formal level, board structures and processes appear to have changed little as new challenges have proliferated in recent years. Boards still meet six-to-eight times a year in most cases, their standard meeting agendas still dedicate what might seem to be a disproportionate amount of time to procedural and compliance matters, and they generally retain the same three standing committees, despite the emergence of a variety of new issues that may fall outside those committees' mandates.

> Board leaders will be expected to optimize scarce meeting time, rethink agenda setting, and consider the use of virtual tools to connect more continuously as a board.

At the same time, there is concern with overload, both at the full-board level and in committees. In a survey conducted by KPMG, 39 percent of audit committee members said it is becoming increasingly difficult to both oversee the major risks on the audit committee's agenda and carry out its core oversight responsibilities.[21]

Formal meetings are, of course, where all board decisions are made (other than decisions by unanimous consent), but meetings are not the only time that board leaders and directors engage with the company. What happens between and outside board and committee meetings is also important. An INSEAD research study on board chairs of global companies noted that "meetings are just the tip of the iceberg" of a board leader's efforts to "create the conditions under which [the board] can have productive . . . discussions."[22] Board leaders will be expected to optimize scarce meeting time, rethink agenda setting, and consider the use of virtual tools to connect more continuously as a board.

The Commissioners suggested that boards need to adopt a more fluid and flexible operating model, involving more regular off-line conversations between lead director and CEO, regular CEO updates to directors, and premeeting conversations between the lead director or chair and other board members to maximize the effective use of formal meeting time.

"We will have our three core committees but may need more fluid committees depending on the issue or urgency," one Commissioner said. *"We will have to become fluid around the board's schedule and time and may need to use more tech-enabled meetings to address issues. Should an independent chair or lead director be spending time with management two-to-three levels down?"*

THE NEW EXPECTATION FOR BOARD LEADERS
The board leader needs to drive an ongoing and rigorous—not perfunctory—assessment of the board's processes and structure, with a view to ensuring that precious board time is correctly allocated and that the necessary off-line conversations take place, and enabling a more dynamic, fluid board structure to better oversee new and fast-changing issues.

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[21] KPMG's Audit Committee Institute's *2017 Global Audit Committee Pulse Survey: Is Everything Under Control?* (KPMG International, 2017), p. 5.

[22] Stanislav Shekshnia, "How to Be a Good Board Chair," *Harvard Business Review*, March-April 2018.

IMPLICATION 4
Boards must be much more transparent about how they govern.

Whenever a company encounters a governance failure or a major ethical problem, ranging from #MeToo-type executive misconduct to allegations of widespread fraud, one of the first questions that gets asked is this one: "Where was the board?" This implies a lack of visibility into how boards have acted or failed to act when confronted with major challenges. It also reveals significant concerns about directors' levels of engagement and awareness.

> The image of an aloof and ill-informed board is dangerous in a world in which news items (or rumors) about corporate failures proliferate with great speed due to social media.

The image of an aloof and ill-informed board is dangerous in a world in which news items (or rumors) about corporate failures proliferate with great speed due to social media. When such matters do come to the public's attention, boards find themselves forced into a defensive or reactive posture.

Hypertransparency is a challenge for all companies and it is not going to go away. Increasingly, companies and their boards will need to behave as if anything they say and do, however spontaneously and privately, may become public. They will need to be aware that public opinion is a moving target, and that those who do not stay ahead of it can find themselves accused of being myopic or, worse, dishonest.

Meanwhile, the volume of formal corporate disclosure has increased exponentially in recent years. For example, 86 percent of the S&P 500 now publish annual sustainability reports, compared to only 20 percent in 2011.[23]

But while better information about companies is important to all stakeholders, investors, in particular, want a more nuanced understanding of the value that the *board* brings. They have expressed the desire to learn more about how boards operate, how they make decisions, and how they hold themselves accountable. They are looking for more transparency about everything from boards' processes for self-evaluation to the extent of their cybersecurity expertise.

THE NEW EXPECTATION FOR BOARD LEADERS
The board leader needs to challenge prevailing assumptions about the limits of transparency and disclosure, engaging directors and management in dialogue about how to appropriately offer visibility into the workings of the board. At the same time, the board leader should seek to strengthen relationships with major shareholders or other stakeholders to better understand their shifting needs for information about the board and the governance of the company.

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[23] Governance and Accountability Institute, "FLASH REPORT: 86% of S&P 500 Index® Companies Publish Sustainability / Responsibility Reports in 2018," May 16, 2019.

IMPLICATION 5

Boards must hold themselves more accountable for individual director and collective performance.

In a recent NACD poll on the future of board leadership, 46 percent of respondents reported that their board leaders fail to remove directors who are no longer qualified to serve.[24]

Even if this perception does not fairly reflect the reality, the perception is in itself a problem. It is a key part of the board leader's mandate to get the most out of the board's skills, and if the talent on the board is deficient, the board leader should help lead the process to make changes. *"How do we hold directors accountable if they are not carrying their weight?"* commented one Commissioner. *"This is one of the most critical responsibilities for board leaders, and one of the toughest to deal with."*

When it comes to collective board performance, accountability arguably starts with the rigor and candor of discussions within the boardroom—and this is found in many cases to be wanting. According to research by WomenCorporateDirectors, 77 percent of directors (male and female) said their boards would make better decisions if they were more open to debate.[25] Board leaders have an important responsibility to ensure that board dialogue, while remaining productive and striving for con-

> **When it comes to collective board performance, accountability arguably starts with the rigor and candor of discussions within the boardroom.**

sensus, encourages diverse and even conflicting ideas.

Individual director and full-board performance may be improving, but the question is whether it is doing so fast enough in an era of heightened investor, regulatory, and societal expectations. What is needed is a degree of change that will have far-reaching effects on the purpose, mandate, and operating model of boards. And the cost of inaction will be high. As the 2016 NACD Blue Ribbon Commission on building the strategic-asset board emphasized, "without sufficient and timely evolution, boards could face revolution."[26]

THE NEW EXPECTATION FOR BOARD LEADERS

Strengthening the board's accountability for individual director and collective performance is an urgent mandate for every board leader. This requires that the board have clear objectives, and that board members have a detailed job description, a clear understanding of what is expected of them, and encouragement to express diverging views. The board leader must demonstrate courage in initiating discussions with underperforming directors and, when appropriate, start the process to replace directors who no longer add value.

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[24] Data from an NACD director poll on the future of board leadership, conducted in April 2019.

[25] Stuart Jackson, "Boards Must Be More Combative," *Harvard Business Review*, January 27, 2017.

[26] NACD, *Report of the NACD Blue Ribbon Commission on Building the Strategic-Asset Board* (Washington, DC: NACD, 2016), p. 6.

PART 2

Opportunities for Action
Strategies for Board Leaders

The implications and expectations outlined above combine to create a blueprint for making board leaders more effective in dealing with the challenges of today and, more important, tomorrow. Clearly, the future will require more engaged, forward-thinking, agile, flexible, and self-correcting boards. The Commission has formulated a number of recommendations to assist board leaders in addressing each of the five areas with practical measures, but first we will look at the crucial role of board leaders. What is their new mandate, and what new leadership attributes will they need to exhibit?

SETTING EXPECTATIONS FOR THE NEW BOARD LEADER

The fundamental role of board leadership stays the same: building and maintaining high-performing boards that build long-term value. Here is how NACD has described board leaders and their role in its past Blue Ribbon Commission reports:

- Board leaders are the linchpins on many key issues, including the board-CEO relationship, board dynamics and culture, setting the board agenda, information flows between the board and management, and stakeholder relations (especially board-shareholder engagement).
- Many NACD principles and positions about what constitutes good board practice are contingent upon having a strong and effective leader in this role. Strong, qualified individuals in this role "[have] the ability to give the board a competitive advantage."[27]

> Board leaders must facilitate change through persuasion and influence, most notably by conducting productive dialogue with the full board and each individual director.

- As seen in the infographic that follows on page 19, based on 2019 NACD analysis of S&P 500 chairs and lead directors, board leaders today have extensive tenure on the boards they serve, bringing with them strong institutional memory, and they almost always have past experience in business leadership roles and a proven track record in strategy and execution.

But the new imperative for the board leader—the independent chair or the lead director—is to both lead and "future proof" their boards. In addition to leading the board in supervising and advising management, board leaders need to catalyze important changes. But they cannot command change in the way they may have done as CEOs or executives in their prior professional lives. Board leaders must facilitate change through persuasion and influence, most notably by conducting productive dialogue with the full board and each individual director. The board leader can't just push through new governance approaches to make the board fit for the future by diktat; he or she must make it the collective responsibility of the board to identify and execute on self-improvement opportunities around structure, process, and behavior.

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[27] NACD, *Report of the NACD Blue Ribbon Commission on the Effective Lead Director* (Washington, DC: NACD, 2011), p. 13.

Profiles of the Board Leader (Russell 3000)

Independent Board Chair   ## Lead Director

4%
Female

9%
Female

7 yrs.
Average Tenure as Independent Board Chair

14 yrs.
Average Tenure as a Director

65
Average Age

67
Average Age

13 yrs.
Average Tenure as a Director

5 yrs.
Average Tenure as a Lead Director

Most Prevalent Experience

Independent Board Chair	Experience	Lead Director
62%	Finance	66%
24%	Global Experience	23%
36%	Investment Experience	37%
84%	Leadership	82%
61%	Management-Strategic Vision	60%
34%	Technology	30%

Source: Data and company intelligence collected from MYLOGIQ - Multidimensional Public Company Intelligence, NACD analysis (as of July 2019).

Criteria for Future Leaders

In light of this evolving mandate, boards should pay more specific attention than they have in the past to defining the characteristics and behaviors they require in their leaders. And it's not a one-size-fits-all description. It will likely vary based on the maturity of the board's composition and the challenges and opportunities confronting the company. Armed with a clear definition, boards should then devote more effort to identifying future leaders, starting with the initial process of recruiting directors and continuing through the selection of committee chairs, the assignment of new responsibilities, and the establishment of new behavioral norms. At the same time, they should agree on what measures to use to evaluate the performance of their current board leaders.

RECOMMENDATION FOR THE BOARD

Define, and periodically refine, the characteristics and role requirements expected of your next board leader in order to prepare candidates to lead the board into the future. Consider emphasizing the importance of fortitude and adaptability when updating the leader's role definition.

Establishing this new baseline for effective leadership is a vital prerequisite for all of the recommendations that follow. Their application requires commitment and fortitude from the board leader, often in collaboration with the CEO and the management team.

While every board will want to approach this in its own way, the Commission suggests a number of responsibilities and attributes they regard as essential for today's board leaders, which we summarize below.

PRIORITY RESPONSIBILITIES FOR BOARD LEADERS OF TODAY

- Lead the setting and monitoring of board performance goals that are regularly synchronized with the (shifting) business strategy.
- Drive alignment and connectivity. This includes staying connected on material new initiatives and strengthening alignment in how committees and the full board engage on crucial, but now fast-changing, issues such as strategy, risk, disruption, talent, corporate culture, incentives, and technology.
- Lead the setting of shared values and expectations for a well-functioning board, including the use of a fully candid board, committee, and individual-director performance evaluation.
- Pay continuous attention to (a) what's working and why, (b) what's not working and why, and (c) how the board can use this knowledge to improve its effectiveness.
- Spend considerable time in one-on-one discussions on key topics with other board members, the CEO, and the management team, with a focus on ensuring openness of discussion and constructive group dynamics.

DESIRED ATTRIBUTES FOR BOARD LEADERS OF TODAY

- Fortitude and vigilance to ensure that changes in board processes and practices change behaviors over time
- Adaptability—a willingness to recognize a board's new needs and responsibilities and adjust board practices, processes, agenda setting, and structures accordingly

- Superb communication skills, especially with regard to difficult communications, including sensitive messages to the CEO and to fellow directors
- Aptitude for relationship building, not just with the board, the CEO, and the senior team, but also with key shareholders, stakeholders, and regulators
- Inclusiveness—ensuring that the growing diversity of the boardroom is optimized, and enhancing collaboration that is inclusive of different, unconventional thinking
- Humility—placing a high premium on listening and seeking to understand the (contrasting) views of others. The successful board leader presents himself/herself as "last among equals"

Page 37 of the Toolkit includes a more extensive list of attributes regarding the lead director.

These new leadership characteristics and roles should also trigger a reassessment of the approach used to develop and select the right board leader candidate. In the spirit of future proofing the board, this process must be fair and transparent. As one Commissioner pointed out, *"Seniority shouldn't rule or the current chair's favorite shouldn't be anointed."*

RECOMMENDATION FOR THE BOARD

Evaluate the current process that will be used to select the designated board leader to ensure that it is a fair, transparent, and sufficiently future-oriented process.

The following summation highlights a number of key considerations to strengthen the selection process.

CONSIDERATIONS IN IDENTIFYING AND SELECTING THE NEXT BOARD LEADER

- **Set criteria for the next board leader.** Criteria could be informed by the assessment of the current board leader's performance and prioritization of their most important improvement areas. Also, emphasis should be given to a track record of championing change in and outside of the boardroom, and to the ability to think strategically about the role of the board in light of major business change.

- **Elicit input from directors.** Have one or two designated lieutenants to the chair or the lead director canvass which members of the board fit the criteria and would make an effective lead director or nonexecutive chair.

- **Seek CEO input to the selection of the board leader.** This will increase the chances of a collegial and constructive relationship between these two individuals in the future.

- **Have the nominating and governance committee or a special committee recommend a candidate to the board after considering several candidates.** The committee should evaluate the strengths and weaknesses of several candidates to assist the board in choosing the right person for the job.

- **Hold a formal vote in executive session by the independent directors after discussing the conclusions and recommendations made by the nominating/governance committee or a special committee.** The particular voting method (e.g., a show of hands, roll call, or anonymous ballot) will depend on boardroom culture and the level of trust among the board members.

Source: Summarized and updated from the *Report of the NACD Blue Ribbon Commission on the Effective Lead Director* (2011).

When the board selects its next leader, it should consider adopting a policy that precludes the new lead director or nonexecutive chair from also chairing a board committee. This dual leadership role is still common, with 45 percent of board leaders of companies in the Russell 3000 Index chairing at least one of the three standing board committees.[28] However, these multiple roles may inadvertently limit the growth opportunities of other directors, who are ready to fulfill new leadership roles, and may distract the board leader from delivering on the new imperatives we describe above.

STRENGTHENING BOARD ENGAGEMENT

Board leaders will need to orchestrate more meaningful board engagement to help inform strategic choices and to understand the risks being taken in a much more uncertain and fast-changing environment. Earlier, we described the pressures for boards to become more actively engaged with their companies, without falling into the trap of micromanagement or losing the objectivity required to oversee the business. We suggest that this requires collaboration and candid dialogue between boards and management teams about respective roles and responsibilities.

An open and trusting relationship, based on mutual respect, between the board leader and CEO is indispensable to the health of any company. For the role of the board to change in ways that we have argued are necessary, these two individuals need to reach agreement on where more proactive and deeper board engagement would be most valuable.

In a study of "superaccelerators" (large global companies with a demonstrated track record of outperforming competitors on profitable-growth metrics), Heidrick & Struggles found the strength of the relationship between the independent chair/lead director and the CEO to be the most important of five key distinguishing characteristics of top performers.[29]

For the board, the guiding motto should be, "Trust, but verify." This means striking the right balance between trusting the management team and having the confidence to ask tough questions and drill deeper when the answers aren't satisfying, the assumptions about fast-changing risks and opportunities are less certain, or the information given is opaque or insufficient.

For the CEO, it means being ready to listen and consider board input—for example, in cases where management appears to have been reluctant to engage the board—but also sharing candid feedback where the board's contribution is seen as falling short.

The precise thrust of the discussion will differ from one company to another, but the aim is to enable the senior executive team to draw on the full potential of the board without crossing the line of performing management's role. This ongoing dialogue may cover, in no particular order, these topics:

- **Clarifying where the board would like to seek deeper involvement and why this creates better governance.** Examples might be earlier and more in-depth understanding/verification of strategy development and underlying assumptions, preparations for responding to disruption, and plans for major corporate transformations.
- **Creating a shared picture of the present, and of the future, and of where the industry and the competition are headed, and of what that means for strategy.**
- **Enhancing board focus on innovation and change.** Here is another shift made imperative by the speed of business change. Where in the past a board's typical posture may have been to act as a brake on management's ambitions, an equally important goal should now be to work with management to ensure that they embrace innovation and can successfully drive change in the organization.
- **Assessing how well management is maintaining critical alignments among key determinants of performance (e.g., strategy, risk management, innovation, controls, incentives, culture, and talent).** This becomes increasingly important as strategies are more frequently being recalibrated.
- **Establishing a framework for more frequent, focused management communication with the board between formal meetings.** This can help streamline the meetings themselves, freeing up time to focus on the most critical strategic matters.

In this "trust-but-verify" mode of engagement, transparency through the provision of better, real-time, objective information is a critical ingredient. This type of engagement can no longer be a quarterly activity. In the words

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[29] Heidrick & Struggles, "Is Your Board a Catalyst—or a Constraint?," an online article on heidrick.com, March 16, 2017.

of one Commissioner, *"There now needs to be continuous communication between board and management and among board members, and the board leader has to be the conductor, ensuring that this more-intense engagement takes place in a harmonious way, where everyone is respectful of each other's role. Equally, the CEO has to orchestrate the management's engagement in this process to create an environment of real-time transparency and candor."*

That means more frequent management updates on key changes in the business environment and resulting impacts on business strategy. Crucially, updates need to include insights about company performance vulnerabilities and reporting on underperformance against benchmarks. This would address the board's need for more meaningful information, appropriately timed, to help them to advise on strategic decisions and improve oversight.

RECOMMENDATION FOR THE BOARD

Review the protocol for the flow of information to the board to ensure appropriate transparency on company performance and risk.

According to NACD's 2018–2019 public company survey, directors now spend nearly twice as much time reviewing materials from management as they allocate to reviewing relevant information from external sources, revealing a heavy dependence on management views and analysis in fulfilling their oversight duties. However, 53 percent of directors indicate that the quality of management's reporting to the board must improve, suggesting that boards need better—not more—information from management.

Boards should regularly reassess with management teams their reporting approach and materials. One Commissioner suggested a systematic reappraisal every three years as a good benchmark; another recommended more frequent rethinking of dashboards and flash reports, to check that they cover the right leading indicators. Finally, it is helpful if boards provide written guidelines on the desired length, format, and content principles for information that the board receives.

More important still is the openness of the communication channel, including regular written updates from the CEO accompanied by monthly calls and ad hoc communications on material issues in real time. Page 48 of the toolkit includes a case study from Netflix, which has introduced a distinct approach to enhance board transparency about performance.

DRIVING STRATEGIC BOARD RENEWAL

In order to deliver more meaningful and deeper engagement on entirely new issues, the board leader and the chair of the nominating and governance committee should thoroughly assess whether the board has the right human capital to fulfill its mandate and deliver ongoing value. One of the key questions will be whether the board's existing composition is aligned with the challenges likely to face the business in the future sketched out together with the management team, and if not, how it should best be renewed.

One useful way of thinking about this task could be a "clean-sheet" approach to board diversity and composition, which NACD first recommended in its Blue Ribbon Commission report on building the strategic-asset board.[30] In particular, nominating and governance committees should consider asking the following questions:

- If we were to create a board from scratch today, what would it look like holistically, from the standpoint of skills, leadership styles, and backgrounds? What will we need in three, five, or more years?
- Have we sufficiently mapped out our strategy and risks into the future to understand what profiles we need?

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[30] NACD, *Report of the NACD Blue Ribbon Commission on Building the Strategic-Asset Board* (Washington, DC: NACD, 2016), p. 14.

- How should our board composition represent the characteristics of the company's current and future customer base as well as its workforce?
- If we are anticipating adding one or more new directors in the next couple of years, have we vetted our recruitment profile to ensure criteria are relevant and that they are not unnecessarily restricting access to appropriate candidates (e.g., requiring CEO or prior board experience)?

Page 49 of the Toolkit addresses considerations around aligning director compensation with the new demands on boards and page 56 offers detailed guidance on future proofing director skill sets.

In addition to requirements for the board as a whole, this exercise should include committee-specific considerations, such as the availability and readiness of potential successors for current committee chairs and plans for committee-chair succession. The output will be a future-oriented outline of what the organization requires from the board. It can be used as a baseline to assess the relevance of current directors' skill sets, to identify opportunities for continuing education, and to prioritize recruiting needs.

In considering board renewal, it can also be helpful to learn directly from major investors, and perhaps other stakeholders, how they are scrutinizing board composition and succession planning. What skills and perspectives would they want to see represented in the boardroom?

RECOMMENDATION FOR THE BOARD LEADER

Develop your board renewal process to align with both current and future strategic needs and valid stakeholder expectations.

Recruitment

In recruiting new directors with appropriately varied skills and experience, it will be important to minimize biases and consider genuinely different talent pools. Several of the Commissioners stressed that the behavioral or personality-based aspects of director candidates should also be taken into careful consideration. For example, in recruiting so-called "expert" director candidates, the board needs to ensure that they have the right mind-set to collaborate and add value in areas outside of their particular domain expertise—and the potential to become future board leaders.

This expectation calls for introducing more rigor into the recruitment of director candidates overall: for example, proper assessment tools and interview techniques should be used to evaluate a candidate's approach to governance, fit with the culture of the board, and capacity for learning, as well as his or her ability to deal with conflict and constructively disagree. Although these types of assessment are not yet commonplace, nominating and governance committee chairs should consider their benefits in collaboration with the recruitment firms they use.

In addition, it is vital in the recruitment and onboarding process that expectations are set at a very early stage with every candidate about how they will contribute. Several Commissioners mentioned the use of board mentors—for example, a seasoned board member showing the new director "*the ropes within the boardroom,*" offering feedback after board meetings, and advising on specific aspects of board governance. Indeed, this type of support may well be worth repeating for directors who have been in seat for some time. A board on which one Commissioner serves has created a "reboarding" program for directors about 18 months into their board service to help them better understand the business and to enhance their board/committee contribution.

RECOMMENDATION FOR THE BOARD

When recruiting "expert" directors, balance the emphasis on proven, relevant, technical expertise with the candidate's ability to learn, to add value in other areas, and to collaborate.

Tenure

Tenure is an often-overlooked aspect of ensuring the right board composition. Boards with members who have served for varying lengths of time enjoy a number of benefits, including a blend of institutional memory and fresh perspectives. NACD does not have a formal, rigid position on the use of tenure-limiting mechanisms to drive board renewal. Such mechanisms are a useful part of the board's toolkit to ensure the right composition, and their adoption should be left to individual boards. But their formulaic use can deprive the board of the richness and depth of knowledge that can only be brought to the table by seasoned directors.

We expect the use of formula-based, tenure-limiting mechanisms to be blended with continuous-improvement models that keep board composition and director turnover attuned to evolving strategic needs. As NACD outlined in its 2016 Blue Ribbon Commission report on building the strategic-asset board, at a minimum, boards should strive for a balanced mix of tenures on the board—for example, maintaining a composition that includes at least one director with less than 5 years of service, 5–10 years of service, and 10 years or more of service.[31]

RECOMMENDATION FOR THE BOARD

In renewing the board, acknowledge the importance of tenure. Boards should strive for a mix of tenures on the board—for example, maintaining a composition that includes at least one director with <5, 5–10, and >10 years of service.

Boards that regularly revisit their renewal strategies are better prepared to identify gaps against current and future needs, and to ensure that the board's composition supports the company's strategic direction. Page 54 of the Toolkit offers a detailed case study of Foot Locker's successful approach to board renewal and its alignment with the shifting strategic needs of the company.

BUILDING AN INCLUSIVE BOARD CULTURE

Boards already know how to be purposeful in seeking out individuals who bring a variety of backgrounds, perspectives, and skills. Now they need to be just as purposeful in creating an environment that enables those diverse voices to be heard.

The board leader has a critical role to play in activating diversity in the boardroom by recognizing that the aim is not "hiring for diversity and then managing for assimilation."[32] The goal of the board leader after bringing in new board members is not assimilation but rather enhancing collaboration that is inclusive of different, unconventional thinking. With higher levels of diversity in the boardroom—whether this is diversity in experience, skills, gender, race, ethnicity, or age—it's critical for board leaders to create a culture that facilitates constructive and candid interactions between board members and that ensures that each director is heard from on important issues.

RECOMMENDATION FOR THE BOARD LEADER

Foster a collaborative culture that will get the most out of a more diverse group of directors.

The difficulty of this should not be underestimated, given the unusual characteristics of boards as opposed to more conventional teams who actually work (or play) together. A 2018 INSEAD study on independent chairs of

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[31] NACD, *Report of the NACD Blue Ribbon Commission on Building the Strategic-Asset Board* (Washington, DC: NACD, 2016), p. 19.

[32] Nicole Anand, "'Checkbox Diversity' Must Be Left Behind for DEI Efforts to Succeed," *Stanford Social Innovation Review*, May 21, 2019.

global companies pointed out that "directors are not a traditional team. They spend little time together (four to six board meetings a year plus some committee meetings and phone calls), and each member usually sits on more than one board."[33] So different approaches to collaboration and meeting leadership are required.

Perhaps the most important, and most difficult, aspect of this challenge is creating a culture in which directors can speak candidly, disagree vigorously, and still achieve a workable consensus. In our NACD Board Leadership poll, directors cited "promoting candid and rigorous discussion during board meetings" as the most important responsibility facing board leaders. They also suggested it was one of board leaders' most difficult responsibilities.[34]

This is another reason why we emphasize fortitude as the most crucial attribute for board leaders—in this context, the courage and strength of mind to gain acceptance for difficult or controversial messages or points of view. One Commissioner summarized it as follows: *"The board leader needs to enable a culture that allows for creative, innovative thinking and embraces dissenting viewpoints—not just 'go along to get along.'"*

Page 60 of the Toolkit offers a board effectiveness checklist to pressure test your board's current dynamics.

FOSTERING CONTINUOUS LEARNING

"Continuous lifelong learning" is such an oft-heard phrase that it's close to becoming a cliché. But it's nonetheless a worthwhile approach for boards and management teams to adopt—because when the pace of change is accelerating, "the fastest-growing companies and most resilient workers will be those who learn faster than their competition."[35]

This, too, will function most effectively as a collaborative effort between the board and the management team. It's the role of management to help educate the board about the future and its impact on strategy. The board leader should help the C-suite understand the board's expectations for the learning process, the time line, and the board's information needs.[36] At the same time, the board leader should set the expectation that directors not rely solely on management for all of the information they receive, but rather seek out other external sources proactively to deepen their understanding of the business.

The agenda for potential learning is vast and constantly growing. As our 2016 Blue Ribbon Commission report pointed out, "Some learning opportunities may be specific to individual directors; others may be common to all members of a committee or to the entire board (e.g., raising the board's collective knowledge about cyber threats). Individual, committee, or board-level learning agendas might include industry-specific topics; emerging economic and technology trends; governance matters; regulatory developments; shareholder/stakeholder issues; and/or team dynamics and decision making."[37]

RECOMMENDATION FOR THE BOARD LEADER

Develop and maintain a targeted, continuous learning agenda for the board.

Commissioners offered a number of observations about the pursuit of structured board learning:

- First, that it is not just a matter for board leaders and committee chairs—it is a collective task for the whole

[33] Stanislav Shekshnia, "How to Be a Good Board Chair," *Harvard Business Review*, March–April 2018.
[34] Data from an NACD director poll on the future of board leadership, conducted in April 2019.
[35] Thomas Friedman, "The Next America," the *New York Times*, Dec. 4, 2018.
[36] KPMG, *Facilitating the Board's Engagement in Strategy*, KPMG Board Leadership Center's Lead Director Insights (2019), p. 4.
[37] NACD, *Report of the NACD Blue Ribbon Commission on Building the Strategic-Asset Board* (Washington, DC: NACD, 2016), p. 19.

board to stay "constantly curious." This can be assisted through experiential learning, where the board visits company sites or meets local managers.

- Second, there is a constant need to focus collective learning on new technologies—not just the features of emerging technologies but also the reasons why they are so disruptive and how competitors have succeeded in commercializing them.
- Third, longer-serving directors will benefit from periodically refreshing their knowledge of the basics—for example, by joining new director orientation in order to understand how management's presentation of the issues may have changed.
- Finally, the learning imperative applies equally to management. To this end, selected executives should be encouraged to take board positions with companies that are not competitors.

A continuous-education strategy for the board should also include sessions where the board collectively reflects on governance failures that happened elsewhere, perhaps at companies in their industry. This analysis can offer important teaching about how and why other boards may have struggled to deliver effective oversight, what their blind spots were, and whether similar vulnerabilities may be present on their own board. Additionally, directors who serve on more than one board or who have prior experience on other boards should bring relevant experiences from other board service into the boardroom.

BUILDING AGILITY INTO BOARD OPERATIONS AND STRUCTURE

As stated earlier, the dynamic external environment requires boards to be more careful than before about how they allocate their time, but also more flexible in responding to events. The starting point is effective agenda setting for board meetings.

Agendas

The Commissioners offered a number of specific ideas for enhancing board meeting effectiveness:

- First, think holistically about the entire cycle of meetings throughout the year and not just about the agenda for individual meetings. The objective is to ensure the highest return on the time that the board spends together and with management—including what happens outside, around, and in between the actual board meetings.
- Second, make a deliberate effort to ensure that board meetings are not predominantly focused on the past and on compliance—on the rear-view mirror, so to speak. Create "white space" time for open conversation and time to delve into identified issues of importance. Foster dialogue and minimize time spent on formal presentations.
- Third, take a strategic and almost mathematical approach to time allocation. One Commissioner described how the board tracks how it is spending its time in meetings, then asks board members their opinions about how the board *should* be spending time, and periodically optimizes the mix.
- Fourth, try to maximize one-on-one time with the CEO and the board. It is important to spend time with the CEO without other managers present. An hour and sometimes more at the start of every meeting, and then again at the end, coupled with a CEO/director-only dinner, is an effective way "to get everything that needs airing out on the table."

More Fluid Interactions

Boards must move beyond their four-to-six formal meetings a year to much more frequent interaction aided by technology, so that real-time communication becomes the norm and the board meetings are used for deliberation, decision making, and the opportunity for in-person check-ins. The use of technology does not negate the importance of the personal connection. That is still very important for many reasons—not the least of which is for developing relationships that enable difficult conversations. But with this change, the dynamics of the board meeting may shift, becoming more focused on major strategic and risk issues and unscripted conversation, rather than on procedural or compliance matters. Fortunately, the widespread availability of videoconferencing and other secure communication capabilities make the real-time board a realistic possibility.

This fluid approach to communication, applied more broadly, can help boards to deliver against heightened expectations and the accelerated speed of business. Commissioners shared a number of ideas that blend the traditional board structure with new forms of interaction:

- **Encouragement of cross-fertilization and interaction between committee chairs, combined with periodic joint meetings of committees with overlapping or interlinked mandates**, such as the audit, risk, and technology committees.
- **Use of ad hoc or "special" board committees and other forms of organized collaboration.** Devoting board attention to an issue such as culture, cybersecurity, or technology in the form of a committee, even if temporary, can signal the importance of a new issue to the company. Ad hoc committees can also help the board to address matters that require specific expertise from existing directors who serve on different committees. Care needs to be taken, however, that such committees do not detract from the quality or inclusiveness of discussion at the full-board level or in the standing committees; for this reason, ad hoc committees should have clear terms of reference and "sunset clauses."
- **Use of advisory panels on critical strategic issues**, allowing, for example, outside CEOs from other industries to attend board meetings and give their own perspective on running a business, or inviting key clients to present their own insights.
- **Encouraging board members, and in particular the chair or lead director, to spend more time with key talent in the organization, going two or three levels below the C-suite**, in order to better understand issues and assess human capital.

Ongoing Relevance of Board Structure and Operations

Board operations should not be set in stone. Just as board membership needs to be renewed from time to time and individual members need to be held accountable for their contribution, so a modern board needs to consider regularly whether its governance guidelines, committee charters, structure, and operating model are still fit for purpose or have become stale.

There are various models for this type of evaluation. One Commissioner suggested that it was good practice as part of the board's annual governance self-evaluation to

- consider whether new committees are needed,
- review external trends and practices to identify possible governance innovations,
- assess whether the board was conducting effective oversight, and
- look at opportunities to redistribute expertise across committees or assign new committee chairs.

It is a critical responsibility of the lead director and the committee chairs to ensure that this review is rigorous and not simply a perfunctory check-the-box exercise, mandated by external bodies. It is part and parcel of their duty to constantly enhance board/committee operations and oversight processes to bring the right focus and attention to those issues that are most critical to the company's long-term success.

Similarly, committee charter reviews can be used to consider changing how responsibilities are allocated between committees. One of our Commissioners advised boards to *"take a fresh look at the committee charters. Who owns this issue? Who should own it? If you have an ad hoc committee for a specific issue, is that committee still necessary?"*

Page 70 in the Toolkit offers guidance on the expanding mandates of the three standing board committees and on the regular review of their charters.

Apart from the board's annual review, board self-awareness can be encouraged by inviting activists or former regulators to share how they may perceive the workings, actions, decisions, and competencies of the board.

INCREASING TRANSPARENCY AND ACCOUNTABILITY

To do its job effectively, the board must also be *seen* to do its job. That means explaining its modus operandi to external audiences that are keen to learn precisely how the governance of the company works and how key decisions are made.

The position of the Council of Institutional Investors (CII), an association representing corporate, public, and union employee-benefit funds and endowments, illustrates just how granular this desire for information can be. CII members, it says, are looking for evaluation-related disclosures that "explain how the lead independent director (or equivalent) filters information and insights across multiple levels and facilitates one-on-one discussions with individual directors."[38]

RECOMMENDATION FOR THE BOARD

Build greater internal and external transparency about how the board operates.

We do not have a single recipe for how to build better transparency, but the Commissioners offered some examples of enhancing transparency in practice:

- **Use the proxy statement and CD&A to tell a more comprehensive story about how the board operates.** This

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[38] Glenn Davis and Brandon Whitehill, Council of Institutional Investors, "Board Evaluation Disclosure," *Harvard Law School Forum on Corporate Governance and Financial Regulation* (blog), January 30, 2019.

would include information about the board's rationale for its choice of leadership structure, details about the board-evaluation process, information about ongoing director education, and the board's overall philosophy regarding board leadership and succession planning, shared through disclosures or other channels of communication.

See disclosure examples from companies that offer more meaningful transparency into the workings of their boards on page 72 of the Toolkit.

- **Prepare designated members of the board to engage directly with investors on selected governance matters**, or to communicate with key stakeholders during crises.
- **Increase internal transparency about the board with employees and customers.** A few Commissioners shared that they have met with rising business leaders, new line managers, and leaders of diversity and inclusion initiatives to share what the board does and how it operates.

Transparency about how the board works is of limited value if the board itself simply goes through the motions and lacks a clear purpose. It is a curious fact that few boards clearly articulate what their mission statement is beyond boilerplate legal language. To reinforce accountability, it will become important that boards start to set objectives for themselves.

RECOMMENDATION FOR THE BOARD LEADER

Clearly define the board's annual objectives, and assess how the board delivers against them.

As one Commissioner put it, "*How many boards define specific goals for themselves? How do we know if we're fit for purpose if we don't articulate our own performance expecta-*

tions?" Another pointed out the obvious anomaly: "*We hold CEOs responsible and fire them depending on how they perform. We should do that for the board, too. Everyone should put down on paper what they are going to contribute and hold themselves accountable for delivering on those goals.*"

Annually setting objectives as a board around structure, process, and behaviors, as well as around oversight practices, will help clarify key priorities for the board and contribute to establishing a cycle of continuous improvement. If done properly, it becomes a crucial mechanism for ensuring that the board remains fit for the future.

It's important that the setting of objectives and the evaluation processes be embedded into the board's routine. For example, the board and its committees should update their work plans regularly based on evaluation feedback, and should regularly review progress on action items stemming from evaluation results. Additional emphasis can be provided by including the agreed-upon annual goals for the board, board leader, CEO, and committee chairs at the front of every board and committee pack throughout the year, and by requiring committee chairs to include a report at every meeting on progress toward those goals.

The Royal Bank of Canada is a good example of a company that provides a lot of detail about the performance objectives and the desired behaviors of its board members. The bank's 2019 proxy statement details how individual directors are evaluated, and against what behavioral framework. See page 82 of the Toolkit for more detail about their board evaluation.

In an ideal world, board members would be regularly assessing the strength of the contribution they are making, and would recognize when that contribution was beginning to wane or when they were struggling to keep up with change. At that point, they would voluntarily decide it was time to move on. Unfortunately, this type of self-correcting board culture is only too rare, but the use of well-defined performance objectives and candid assessments can help change habits.

That is another reason why it is so important for the board leader to set clear expectations from the outset about what is expected in board service, including a formal and detailed job description and expected time commitment. The message needs to be reinforced that board service is a duty of finite duration, not an entitlement. The concept is not "serve as long as you want" but "serve as long as you are needed."

Clear criteria enable proper individual evaluations of board members to take place. These must be relevant (e.g., reflecting changes to corporate strategy), must encourage candor, and ensure that findings are translated into clear action. It's the responsibility of the independent chair/lead director to ensure that the evaluation process is more than just a check-the-box exercise.

Such assessments would be usefully complemented from time to time by a 360-degree management assessment of the board, enabling some helpful truths to be conveyed, in a measured fashion, about how the board's overall contribution could be strengthened. To ensure objectivity, it's sometimes useful to enlist third-party advisors to help in such exercises.

> The issues are so multifarious and in many cases unfamiliar that board leaders are required as a matter of urgency to tap new sources of expertise and a new diversity of experiences and perspectives.

CONCLUSION

We have argued in this report that the rapid pace and complexity of change now taking place in global business calls for a new paradigm of board leadership. The issues are so multifarious and in many cases unfamiliar that board leaders are required as a matter of urgency to tap new sources of expertise and a new diversity of experiences and perspectives. They need to learn to harness these perspectives to best effect and organize discussions and decision-making processes to make the most of precious board time. They need to engage more proactively and effectively with their companies and management teams. They need to ensure that their boards become more transparent. They need to be clear about their purpose, and they need to hold themselves collectively and individually accountable for delivering strong performance.

Above all, board leaders need to show fortitude: courage, perseverance, and strength of mind. This is the preeminent quality required to help boards evolve rapidly along the lines described, and in that spirit we present our recommendations to readers.

Summary of Recommendations

FOR THE BOARD LEADER

Strengthening Board Engagement
- Work with the CEO to step up board engagement with management, under the motto, "Trust, but verify."

Driving Strategic Board Renewal
- Develop your board renewal process to align with both current and future strategic needs and valid stakeholder expectations.

Building an Inclusive Board Culture
- Foster a collaborative culture that will get the most out of a more diverse group of directors.

Fostering Continuous Learning
- Develop and maintain a targeted, continuous learning agenda for the board.

Building Agility into Board Operations and Structure
- Periodically review agenda effectiveness and assess how the board is spending its time to ensure that the most critical issues receive appropriate attention.
- Working with the chair of the nominating and governance committee, perform a rigorous governance review that covers the board's governance guidelines, operations, structure, and charter(s) every year.

Increasing Transparency and Accountability
- Clearly define the board's annual objectives, and assess how the board delivers against them.

FOR THE BOARD

Setting Expectations for the New Board Leader
- Define, and periodically refine, the characteristics and role requirements expected of your next board leader in order to prepare candidates to lead the board into the future. Consider emphasizing the importance of fortitude and adaptability when updating the leader's role definition.
- Evaluate the current process that will be used to select the designated board leader to ensure that it is a fair, transparent, and sufficiently future-oriented process.

Strengthening Board Engagement
- Review the protocol for the flow of information to the board to ensure appropriate transparency on company performance and risk.

Driving Strategic Board Renewal
- When recruiting "expert" directors, balance the emphasis on proven, relevant, technical expertise with the candidate's ability to learn, to add value in other areas, and to collaborate.
- In renewing the board, acknowledge the importance of tenure. Boards should strive for a mix of tenures on the board—for example, maintaining a composition that includes at least one director with <5, 5–10, and >10 years of service.

Building Agility into Board Operations and Structure
- Consider the use of more flexible and informal mechanisms for board interaction, aided by technology, to enable robust oversight of new and fast-moving issues.

Increasing Transparency and Accountability
- Build greater internal and external transparency about how the board operates.

APPENDIX

Related Resources

Report of the NACD Blue Ribbon Commission on the Effective Lead Director (Washington, DC: NACD, 2011) The Commission emphasized that while the role includes important process-oriented responsibilities (chairing executive sessions, collaborating with the chair/CEO on setting the board agenda, etc.), the role extends well beyond those areas. In the Commission's view, lead directors are key players in shareholder communications and relationships with outside advisors and are essential to improving board dynamics, facilitating effective communication among independent directors and between directors and the CEO/management team, helping the board avoid "groupthink," supporting effective board composition and succession planning, and providing leadership in crisis situations.

Report of the NACD Blue Ribbon Commission on Board Leadership (Washington, DC: NACD, 2012) This Commission recommends that "the leader of the independent directors should possess the appropriate qualities for the role and be someone who is respected by all directors and the company leader" (p. xiv), and notes that it is "the relationships and behavior that determine the effectiveness of board leadership, more than the particular structural option that is chosen." (p.viii). The report provides directors with the first profession-wide clarification of the division of specific board leadership roles between the leader of the independent directors and the leader of the company. It also provides guidance on leading the "independent work" of the board, spells out the characteristics necessary for board leaders to succeed, defines the leadership roles of independent committee chairs, and provides guidance on the process of conducting executive sessions.

Report of the Blue Ribbon Commission on Building the Strategic-Asset Board (Washington, DC: NACD, 2016) The Commission recommended that the nonexecutive chair or lead director, along with the nominating and governance committee, oversee the board's continuous-improvement activities, including establishing and maintaining governance principles, evaluations, recruiting and succession planning, continuing education, and shareholder communications. The tools provided in the report's appendices inform and improve boardroom practices in seven areas, including board leadership and oversight responsibilities, board composition and succession planning, recruiting and onboarding new directors, board evaluation processes, continuing education for directors, tenure-limiting mechanisms, and communication with shareholders and stakeholders.

The following NACD online resource centers are updated regularly and contain a range of current thought leadership, expert commentary, boardroom tools, and links to related programs and events:

Board Evaluations

Director Onboarding

Emerging Issues

Role of the Lead Director/Nonexecutive Chair

Toolkit Materials

The Toolkit contains sample board documents, questions to inform discussion among directors and with members of management, and other materials to support directors in implementing the recommendations of the NACD 2019 Blue Ribbon Commission. The Toolkit is available exclusively to NACD members. For more information about joining NACD, please contact Matt Barone at join@NACDonline.org. To learn more about NACD, visit NACDonline.org.

Attributes of a Lead Director

Board Leadership Structure

Changing Board Expectations and the Future of the CEO

20 Questions for Management on the Future of the Business

Case Study: Netflix's Approach to Increased Transparency

Director Compensation as a Catalyst

Case Study: Foot Locker's Approach to Strategically Diversifying the Board

Future Proofing Director Skill Sets

Board Effectiveness Checklist

Case Study: BMO's Approach to Continuous Education for Directors

Cultivating the Long-Term Habits of a Highly Effective Board

Agenda Setting for the Full Board

Expanding Committee Scope

Reassessment of Ongoing Committee Charters

Using Proxy Disclosure to Increase Boardroom Transparency

Investor Expectations of Board Leaders

Vanguard's Engagement Guide

10 Questions to Evaluate a Board's Fit for Purpose

Case Study: Royal Bank of Canada's Approach to Practicing Board Accountability

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The table below indexes the contents of the Toolkit according to the priorities for action outlined in Part 2 of the Blue Ribbon Commission Report.

Priority for Action	Commisson Guidance	Toolkit Materials
Setting Expectations for the New Board Leader	• Define, and periodically refine, the characteristics and role requirements expected of your next board leader in order to prepare candidates to lead the board into the future. Consider emphasizing the importance of fortitude and adaptability when updating the leader's role definition. • Evaluate the current process that will be used to select the designated board leader to ensure that it is a fair, transparent, and sufficiently future-oriented process.	• Attributes of a Lead Director • Board Leadership Structure
Strengthening Board Engagement	• Work with the CEO to step up board engagement with management, under the motto, "Trust, but verify." • Review the protocol for the flow of information to the board to ensure appropriate transparency on company performance and risk.	• Changing Board Expectations and the Future of the CEO • 20 Questions for Management on the Future of the Business • Case Study: Netflix's Approach to Increased Business Transparency
Driving Strategic Board Renewal	• Develop your board renewal process to align with both current and future strategic needs and valid stakeholder expectations. • When recruiting "expert" directors, balance the emphasis on proven, relevant, technical expertise with the candidate's ability to learn, to add value in other areas, and to collaborate. • In renewing the board, acknowledge the importance of tenure. Boards should strive for a mix of tenures on the board—for example, maintaining a composition that includes at least one director with <5, 5–10, and >10 years of service.	• Director Compensation as a Catalyst • Case Study: Foot Locker's Approach to Strategically Diversifying the Board • Future Proofing Director Skill Sets

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Priority for Action	Commisson Guidance	Toolkit Materials
Building an Inclusive Board Culture	• Foster a collaborative culture that will get the most out of a more diverse group of directors.	• Board Effectiveness Checklist
Fostering Continuous Learning	• Develop and maintain a targeted, continuous learning agenda for the board.	• Case Study: BMO's Approach to Continuous Education for Directors
Building Agility Into Board Operations and Structure	• Periodically review agenda effectiveness and assess how the board is spending its time to ensure that the most critical issues receive appropriate attention. • Consider the use of more flexible and informal mechanisms for board interaction, aided by technology, to enable robust oversight of new and fast-moving issues. • Working with the chair of the nominating and governance committee, perform a rigorous governance review that covers the board's governance guidelines, operations, structure, and charter(s) every year.	• Cultivating the Long-Term Habits of a Highly Effective Board • Agenda Setting for the Full Board • Expanding Committee Scope • Reassessment of Ongoing Committee Charters
Increasing Transparency and Accountability	• Build greater internal and external transparency about how the board operates. • Clearly define the board's annual objectives, and assess how the board delivers against them.	• Using Proxy Disclosure to Increase Boardroom Transparency • Investor Expectations of Board Leaders • Vanguard's Engagement Guide • 10 Questions to Evaluate a Board's Fit for Purpose • Case Study: Royal Bank of Canada's Approach to Practicing Board Accountability