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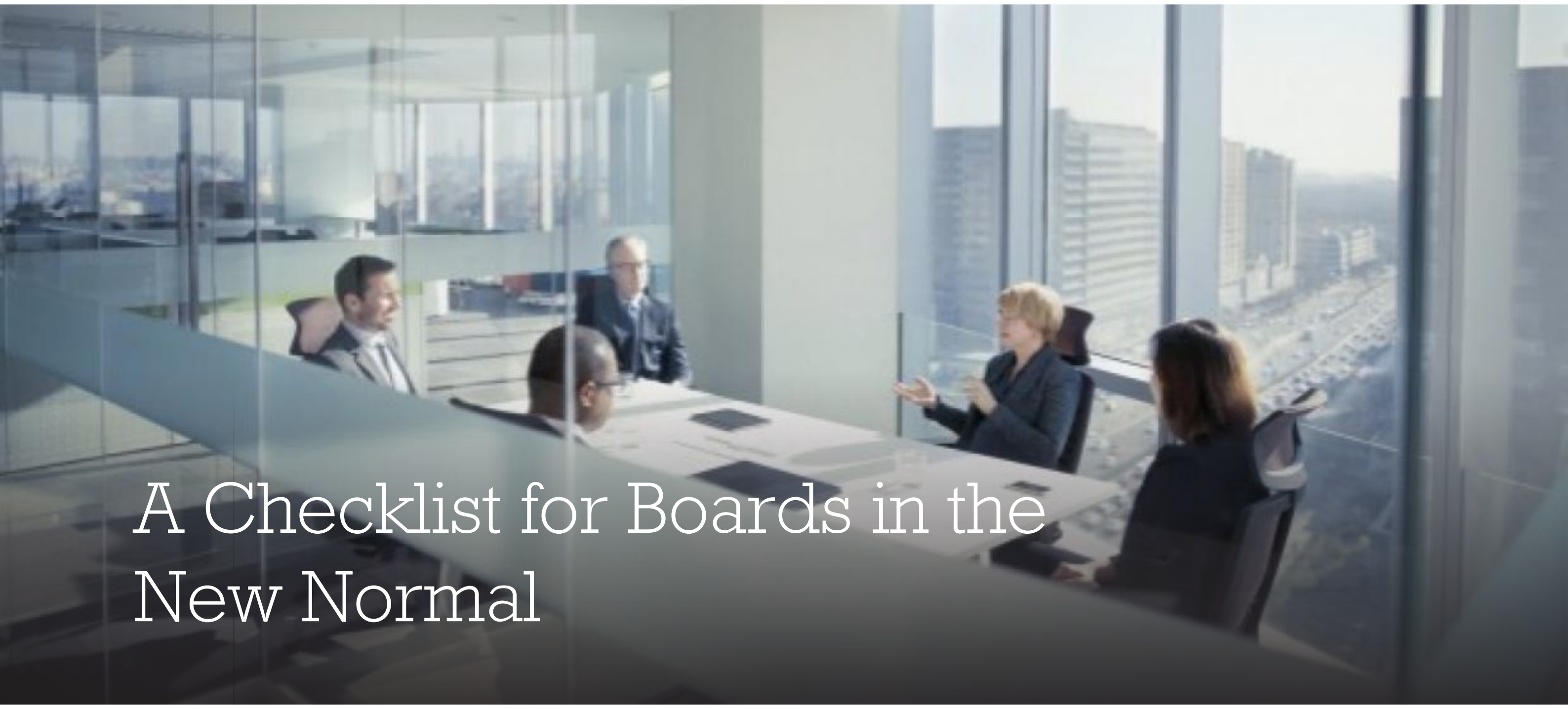

A Checklist for Boards in the New Normal

Covid-19 has spurred corporate boards to improvise new practices while keeping those that have served them well. Here's a run-down.

Boards make decisions that have a long-term impact on companies. In a survey of 266 chairs, directors and CEOs in 23 countries between May and June to assess **how boards have adapted** to the coronavirus pandemic, we found that the pandemic had cemented some long-existing best practices and also birthed a few innovative approaches.

We crunched through the responses using a model of effective boards we had developed based on previous research. This model, which we call "3PSC", defines five factors critical for board effectiveness: purpose, people, process, stakeholder relationships and chair. The following explains in detail our analysis, which we hope might serve as a checklist for better boards in the new normal.

Purpose

Regularly articulate, discuss and adjust the board's purpose. This is an essential practice that unifies directors, focuses their collective attention, maintains the board's place in the corporate governance system and ultimately leads to the right decisions. Survey participants whose boards regularly discussed or adjusted their purpose said they made better decisions.

One director recalled: "During the early days of the pandemic, the chair reminded us of our board's purpose, 'to create a company that we can be proud of in any context and that will outlive all of us'. The whole board felt more confident and focused. We knew what to do and what not to do."

People

The collective competence of many boards has been found wanting as Covid-19 spread like wildfire. Few had epidemiological or health and safety expertise. Governance rules prevented them from quickly electing new directors who would fill the skill gap.

One remedy is to regularly assess, at least once a year, the collective skills and knowledge of directors. They should reflect the board's purpose as well as the company's strategy, its risk exposure and other elements of the context in which it operates. The board should then devise a plan to address the gaps.

The second solution comes from external resources. Draw up a list of institutions and individual experts, periodicals and online resources and set aside a "knowledge budget" to pay for this external expertise whenever needed. Our survey shows that digital competency, agile and crisis management skills are in high demand among directors.

Another important issue is the **CEO's and senior management's fitness** to run the company and succession planning. Boards should regularly assess the CEO's fitness to manage the business and ensure that there are at least two backups ready to take over at any time. As one chair of a nomination and remuneration committee admitted: "The pandemic made us take a hard look at the existing CEO succession plan and realise that the company is overly dependent on three people. If something happens to them, we are in big trouble. We are reexamining our approach."

On a similar note, board members with more than four other directorships (a board chair or a CEO position in another company equals two directorships) should be considered a serious risk to the smooth running of the board. Responsible nomination committees should replace such members or ensure that they reduce their external commitments.

Process

Our research shows that virtual meetings work well for urgent decisions, information exchange and even emotional support. They work less well for in-depth discussions, intensive exchanges, personal feedback to the CEO and the development of trust.

Technology presents other opportunities to enhance board effectiveness and each board needs to develop a plan in this area. The most promising avenues are: specialised software to support the whole board process (not only the meetings); real-time access to operational and financial data to reduce the information gap with management; and regular industry updates to keep board members in the loop.

The Covid-19 crisis also reminds boards what should be on their agenda and what should not. Effective boards should treat business strategy as an ongoing conversation, rather than a done deal, and engage the CEO and the management in frequent strategic discussions. One board chair said: "We have been reexamining and readjusting our strategy at every meeting since March and we intend to continue doing so."

Many boards realised that they needed to reexamine their whole risk management strategy. They must focus less on identifying specific risks – and designing strategies for mitigating the most significant or probable – and more on dealing with unknown risks as they emerge. Such a shift will require boards to develop new monitoring capabilities and companies to build up resilience and adaptability. A board member acknowledged: "We realised that lean is not always great and that slack sometimes is useful. We are rethinking our business strategy to make the company more robust."

Stakeholder relationships

The pandemic highlighted the critical importance of productive board–CEO relationships. Boards described as effective by our survey respondents increased the intensity of their interactions without stepping into executive territory. They supported their CEOs by listening attentively, providing advice, mentoring and approving necessary investments and divestitures.

The best boards also challenged the CEO and the management by questioning their assumptions, asking questions, setting short-term objectives and taking a long-term perspective. They treated senior executives fairly, even if they had to make some tough decisions such as cutting pay. Many reduced their own compensation in solidarity.

Some interesting examples of board–management collaboration that emerged in the past months are worth emulating. Groups comprising board and management members were formed to bring the company's medical, health and safety expertise up to speed. Audit committees actively advised chief financial officers and finance teams on cash-flow management and other issues. Remuneration committees collaborated with HR executives on adjusting compensation packages and managing headcounts.

When it comes to shareholders, effective boards balanced attention with independence. Interesting practices included CEOs and board chairs hosting calls with investors and, in companies with complex stakeholder structures, board members divvying up engagement duties. In one such organisation, the chair communicated with two significant shareholders, the chair of the audit committee with minority shareholders, the chair of the nomination and remuneration committee with employees and an independent director engaged with the regulators.

Chair

Board leaders could draw several lessons from the pandemic. One is that good decisions can be made quickly when all directors are engaged and prepared. One chair observed: "Online meetings were very productive and efficient because everybody felt a sense of urgency and cared. There were no ego matches. I will need to recreate this spirit for face-to-face meetings."

It is also the chairs' responsibility to ensure that directors stay abreast of the latest trends and developments. They could do so by working with nomination committees and shareholders to ensure that the board has the skills mix it needs or has access to knowledge when required.

Know thyself

Given that every board is unique, we recommend that all chairs organise a board session to dissect their work and insights gained in the recent months. The meeting should also evaluate CEO and senior management performance. Use the 3PSC to structure the discussion, as follows:

- Purpose: Did our purpose guide us through the rough times? Do we need to fine-tune it?
- People: What competencies helped us navigate the crisis? What competencies were missing? How do we ensure that we acquire them? Do we need to change anything in our succession planning?
- Process: What worked well for us? What did not? What do we need to add to or remove from the board agenda? How can we use technology to make the board more effective?
- Stakeholder relationships:

- CEO and management: How effective was the framework that we created for the CEO and management team? Did we manage to maintain a healthy balance between challenge and support? What should we do differently in the future?

- Shareholders: Did we listen to our shareholders? Did we communicate effectively with all of them? Did we leave anybody unhappy? What should we change in our relationships with shareholders?

- Other stakeholders: What important stakeholders do we have? Did we interact with them effectively? What could we improve based on the pandemic experience?

- Chair: How did the chair lead the board through the crisis? What worked well? What was missing? What should the chair stop doing, start doing or continue doing? How can directors help the chair to lead the board effectively?

This is the second of our two-article analysis of boards' response to Covid-19 and our recommendation on how they could stay effective in the new normal. Read the first part on **why corporate boards prefer to maintain the status quo** in the face of Covid-19 upheaval.

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