

BOARDS, REIMAGINED

CEOs FOR THE FUTURE AND THEIR BOARDS

Thought Leadership



Purpose *and* profit. Performing *and* transforming. Core capability *and* agility. Previously considered paradoxes, these pairs are increasingly being treated as parts of an integral, holistic approach to managing a business.

As more and more CEOs lead with an enterprise mindset, leaders in the future will look to their boards as critical thought partners in connecting purpose, productivity, and impact to extend their reach beyond the business to its entire ecosystem. Overseeing dynamic and diverse communities—not just companies—is key to building a competitive but interdependent context for organizations to survive and thrive. CEOs and their boards will be at the heart of this dynamic.

Crises have a way of pressure testing what's working and making it stronger, as well as revealing the cracks that undermine success. When it comes to CEOs and boards, the lessons of the past two years suggest that having an effective board is essential to survival, and having a dysfunctional board is dangerous. Looking ahead, it is likely that companies will continue to face layers of crises—social, economic, environmental, public health. The most effective, resilient companies will have proactive CEOs and boards who fortify their partnership to weather the coming storms—and emerge stronger.

CEOs and board members will need to expand their thinking in a way that transforms how they work together for the benefit of all. So, what are the trends emerging among CEOs and boards as they step into the future side by side? To find out, we asked 105 directors and CEOs in North America about how leaders and their boards will work together differently in the future.*

CEOs and boards will be more real with each other.

“You want an environment where you can close the doors and have **some incredibly frank and open discussions...** [a]nd walk out of the room, maybe not in agreement, but at least you've put all the issues on the table.”

– Board Chairman, investment banking firm

Everyone is getting a window into each other's homes, aware of the challenges and multidimensionality of people's lives. As a result, we have built more personal relationships, more people have let down their guard, and we are now more accepting of the *whole* person.

We expect this shift to have a positive impact on CEOs and their boards, both becoming more open and authentic with each other. Indeed, our study suggests that CEOs will continue

*Our participants were 77 men and 28 women; 94 white people and 11 people of color; all serve as directors, and 88 are currently CEO, chair, or both. The participants represented a total of 311 companies, with a median annual revenue of \$6.7 billion. The companies represented 11 different industries; 54% are public and 46% private.

demonstrating more authenticity, transparency, and vulnerability and board members will continue opening up as thought partners who don't have all the answers but are willing sounding boards and problem solvers.

However, boards will need to be careful to preserve their independence and ability to constructively challenge the CEO and management. Empathy and accountability must walk hand-in-hand. Close partnership does not excuse the board from the essential task of ensuring effective succession planning, both emergency and in the long-term.

CEOs and boards will help their companies strategically pivot in order to stay relevant.

“Boards are going to have to be more demanding about whether or not a company is preparing for the fundamental changes that are **redefining our economy as we speak.**”

– Board Member, multinational video game company

The global pandemic's lasting economic and social impact will have executives rethinking their business opportunities. We anticipate reflection and analysis on which patterns will persist, what is sustainable over time, and how a company can rebuild some capacity for absorbing other unanticipated shocks—a rebuilding of resilience.

As 2020 showed, boards will need to be able to handle multiple crises **at the same time**, adapting risk assessment deep dives and scenario planning to the new reality. Many CEOs, in partnership with their boards, will accelerate the transformation and reinvention of their business—either by competing in non-traditional ways, recasting their business model, or by re-evaluating the purpose and metrics of success. In fact, it's imperative they do so: as our *CEOs for the Future* report reveals, CEOs are increasingly called upon to be ecosystem leaders—looking out, surveying the landscape, and building partnerships to multiply effectiveness and impact. Board members—and chairpersons, in particular—will need to provide

leaders with more robust debate, a wider perspective, and another extra pair of eyes on the changing environment.

Board directors who are both flexible and skilled in transformation will be highly valuable. The most effective boards in the future will look beyond the business to the entire ecosystem, keeping abreast of trends that could impact their company on multiple fronts—social, environmental, digital transformation. As one CEO put it, “They're going to want to be involved in this conversation.”

We also anticipate increased attention on discerning and articulating organizational purpose. Purpose-driven organizations that actively seek to have a broader impact, have two primary advantages according to Korn Ferry Institute research: 1) Purpose-driven companies can capture the hearts and minds of employees, who feel more energized and engaged when their reason for being overlaps or aligns with the company purpose. 2) Being purpose-driven adds to the brand value and brand permission the company has, resulting in higher profits compared with companies that are less purpose-driven. The CEO and board can work together to determine the strategy that will be most effective in pursuing and achieving the company's purpose.

Board directors will be more engaged and invested in a company's ability to thrive.

“The relationship between the CEO and the board **has to be collaborative.** The idea of having this vast separation [is] going to have to change just because this environment is complex.”

– CEO & President, convenience store retailer

Going through the motions will no longer be accepted. Instead, board directors will evaluate their personal purpose and values, drawing direct links to the work they do with companies. Directors' connection to both the purpose and profit of the companies they serve will engender a higher stake in the result.

Indeed, as our *CEO for the Future* research shows, boards will increasingly face higher expectations for embodying the purpose and culture of the company, and even in the board room. Not only the expectations of other stakeholders, but also the ones they set for themselves. Board members will need to both push management to be clear about the company's purpose, as well as hold management accountable for delivering, compensating them accordingly.

Increasingly, active engagement between CEOs and their boards is essential to troubleshoot in real time, sometimes requiring boards to meet more frequently and more informally. This shift is an invitation for their ongoing future involvement—ears and eyes more open from a governance perspective, but not interfering with management. Nearly a quarter of interviewees saw this role as important for future boards.

CEOs, boards, and companies will be held to outcomes beyond financial metrics.

“A board needs some kind of regular touchstone beyond stock price and quarterly earnings and projections. **It's our job to dig down and get that.**”

– Board member, international sports apparel company

In the future, CEOs and boards will go further in defining the measure of success.

After all, investors, customers, and employers have started to evaluate more non-financial metrics to determine a company's value and prospects—and our research suggests this trend will only accelerate in coming years. The Securities and Exchange Commission (SEC) will act shortly to request more disclosure and the various Environmental, Social, Governance (ESG) reporting standards are converging to allow greater comparability. Boards will need to use their time to focus on material ESG risks and opportunities, ensuring that their company is telling its story to stakeholders with clear disclosure and reporting.

Our research suggests investors, peers, and societies will continue to pressure boards to take action in holding their companies accountable as global citizens. Just consider a recent move by Exxon shareholders to elect three board directors who will help shape a strategic shift toward a net zero carbon target and a focus on renewable energy. As one CEO remarked, “Boards are going to have to be engaged in more than just the strategic and financial side of things, and be engaged in a way that's about the company's purpose in totality.” “If they are not doing that,” he added, “you're toast over the next 5 to 10 years.”

Boards will create new standards for directors' increased effectiveness.

“What you see now is **a different generation of board candidates** who want to be part of a think tank and an advisor to a CEO.”

– Chairwoman & CEO, mutual life insurance company

Board effectiveness will continue to be a balance of art and science, but with more professionalization, objectiveness, and intentionality in selection, onboarding, and succession practices. CEOs and boards will put more thought into the standards for effectiveness, including the role of board director, how to prepare to become a director, and what is required for their success.

This includes a general recognition that the current criteria to become a director is not necessarily what makes a person successful once on the board. In addition to the standards of effectiveness for individual board members, reflection on what is effective for group dynamics will be essential. Given the events of 2020, we expect to see a sharper focus on evaluating the legacy of working in a virtual environment—loss of in-person, casual interactions, but a gain in productivity. A hybrid model is likely to emerge with some board meetings and committees remaining virtual; and better use of in-person time on the big four topics: Strategy, Risk, Succession, and ESG/Human Capital Management (HCM).

Board composition changes will spark a focus on both diversity and inclusion.

“It’s imperative that [the board] is a group of people who can **truly help the CEO be successful** because every CEO is operating in a complex environment. We don’t even know all the questions. It is the unknown unknown.”

– CEO, business support services firm

Board composition and board succession, including board leadership succession, will require a more formal recruitment and assessment process for oncoming board members. Increased objectivity will complement the importance of relationships and networks by ensuring quality of placements that meet shareholder and stakeholder expectations. Board diversity standards may continue to be led by places like Europe and the state of California, but our study suggests this trend will be broadly embraced.

Some boards today have welcomed diversity in theory and brought on directors symbolically, but have expected little to change overall. But those boards will find that more constructive, more inclusive debate is inevitable—and beneficial. Although boards are able to attract diverse candidates, there is a need to ensure that board diversity is balanced with board inclusion. Optimizing the benefits from diversity requires boards to be deliberate about onboarding and consciously incorporating new voices at the table.

What’s more, boards will need to consider the generational shift in their director makeup. Increasingly, boards are adding young directors who are effectively career peers of the management team—many of whom may never become CEO themselves. The pressure for boards to find highly effective, agile members from whom the management team can learn will only grow.

In the words of one former CEO, the ability to bring different perspectives to the table, have honest and respectful debates, and reach consensus “becomes more important in the future, and more fluid.”

Expectations and roles are changing, for CEOs and boards

Companies that thrive in the future can credit an increasingly collaborative relationship between CEOs and boards.

The future includes increased expectations for the role of business in shaping and benefitting the environment in which the company operates, and even society in general. There is greater interest, and proven profitability outcomes, in businesses being purpose-driven in a way that has a positive impact beyond shareholder return. Additionally, a broad external focus will be required in order to anticipate and proactively respond to disruptive competitors, including from non-traditional, unexpected places.

Future expectations will only be met or exceeded by increased interdependence among CEOs and their boards, increased awareness of differing points of view and expertise, and a general shift in relationship toward a collaborative think-tank. Over 40% of CEOs and directors we interviewed reinforced this theme of open dialogue, enhanced trust, and increased engagement, while only one person suggested the relationship between CEOs and boards need not change.

Many of the CEOs and board members interviewed for the study felt that communication between the CEO and the board will be less formal, less hierarchical, and more of a mutual exchange, with increased accessibility and contact. They will face challenges together, rather than in silos. This is an evolved relationship of a “collaborative think-tank” rather than the traditional, more formal, distanced relationship of oversight—a change that requires reciprocal changes in both CEO and board director roles, relationship and behavior, in order to build trust and collaboration.

CEOs will need to be much more forthcoming about not only the decisions and choices they have made but about their thinking and concerns about potential upcoming challenges. They will need to admit doubts and uncertainties. CEOs will need to ask for the board’s help in anticipating and thinking through responses to changes in their business ecosystem.

The board will need to reciprocate by playing a proactive role in bringing their own knowledge and insights to the table to help resolve dilemmas as they occur. They will need to engage in open-minded give-and-take, leveraging the fact that

each one of them have been selected for the varied perspectives and expertise they can bring to bear.

As one director of an investment banking firm shared, “I think one of the real value-adds a board can bring is dialogue. For that dialog to have any meaning it really does take an extraordinarily high level of trust on both sides. I think it’s incumbent upon the CEO and individual members of the board to build that trust over time. It doesn’t happen automatically.”

In summary, as many interviewees acknowledged, this new relationship would require significant changes in the topics and tenor of conversation. The combination of more openness on the CEO’s part, paired with more engagement and collaboration from the board, will build a strong foundation for the future.

This kind of open dialogue not only increases the level of mutual trust that makes it possible to leverage the power of all, but it becomes a key advantage for the company.

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