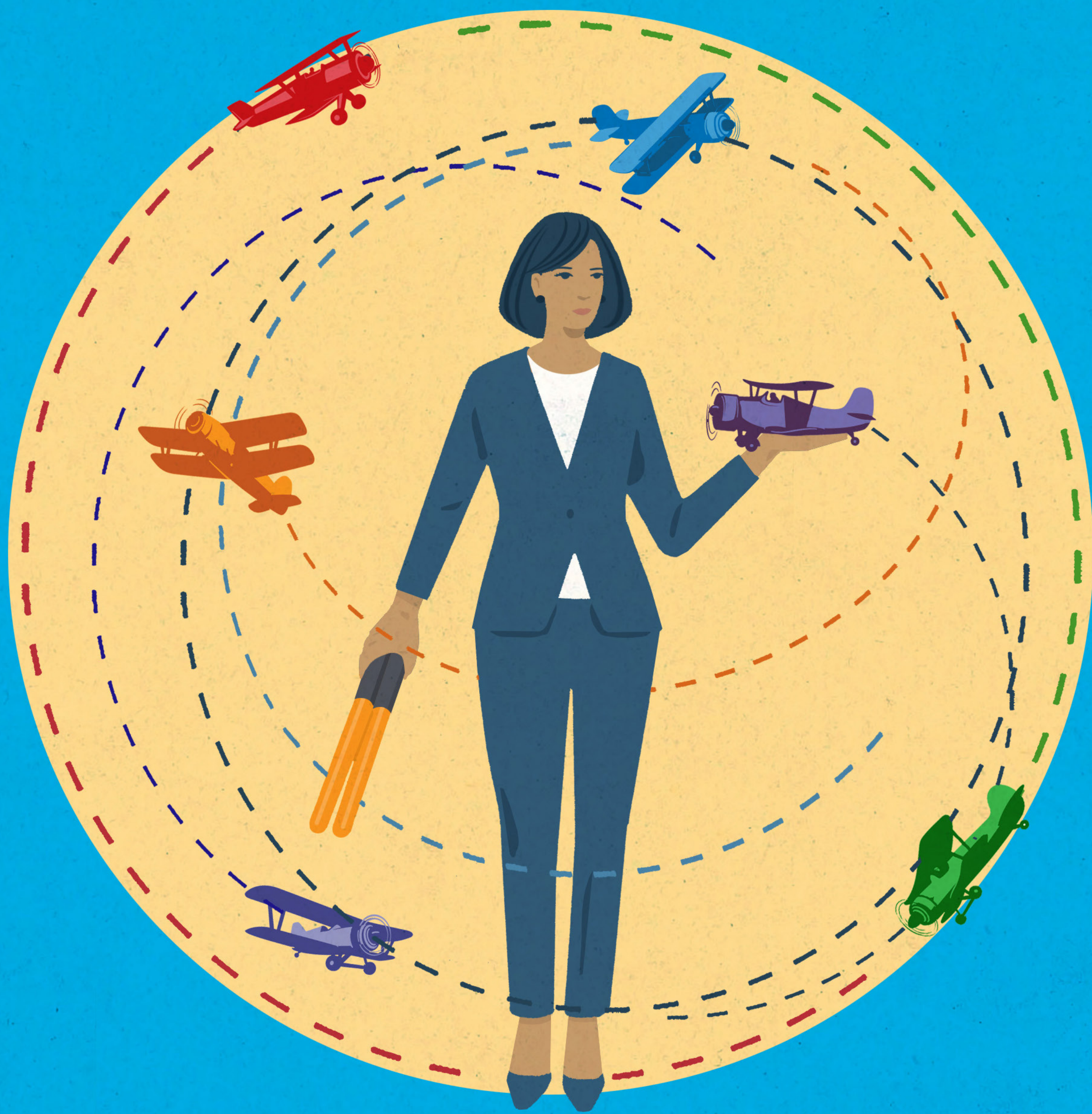
Deloitte.
Insights

A report by Deloitte's Chief Executive Program
and the Deloitte Center for Board Effectiveness



Seven steps to a more strategic board

What CEOs need to know

About the Deloitte Chief Executive Program

Deloitte's Chief Executive Program is dedicated to facilitating the success of CEOs and general management executives throughout their careers. We offer insights and immersive experiences to help our clients navigate critical points of inflection, design a strategic agenda, align their teams, and lead through personal change and end-to-end organizational transformation.

About the Deloitte Center for Board Effectiveness

The Deloitte Center for Board Effectiveness helps directors deliver value to the organizations they serve through a portfolio of high-quality, innovative experiences throughout their tenure as board members. Whether an individual is aspiring to board participation or a veteran of many board experiences, the center's programs enable them to contribute effectively and provide focus in the areas of governance and audit, strategy, risk, innovation, compensation, and succession.

Contents

Introduction

TO BE A CEO today is to have one of the most complex and demanding—not to mention visible—jobs in the world. Beyond the scope of their business, CEOs and the organizations they lead have increasingly significant and more transparent influence at multiple levels—societal, cultural, environmental, political—affecting vast numbers of stakeholders, including shareholders, employees, customers, and citizens. Meanwhile, the world around them is in constant motion.

Given the weight of responsibility that rests on their shoulders, it's no wonder that CEOs, when observed from a distance, are often depicted in near-heroic terms. It's also not surprising that CEOs, when engaged in more intimate conversations about their role, are often keenly interested in finding help to validate their models of the business environment and to develop their vision of the future.

But where can CEOs find the sounding board they need without falling short of the extraordinary abilities that people find reassuring to attribute to them? One possible answer lies in the recognition that CEOs also have bosses: the boards who hire them, evaluate them, set their pay, and sometimes fire them. In fact, as one CEO told us, "The board relationship is really the most critical factor in [a CEO's] success."

While there is no shortage of advice on how boards can improve their effectiveness as the corporate and management oversight entity, there is far less written on how CEOs and boards can work together to enhance their relationship for strategic benefit.[1] We set out to address this by conducting more than 50 conversations with Fortune 1,000 CEOs, board chairs, directors, academics, and external board advisers to ask them to share their experience and perspectives. This article draws insights from what we heard.

For CEOs, the board of the future is strategic

THE DAYS OF boards being a collection of the CEO's best friends are behind us. Boards of integrity want far more than to be identified as aloof VIPs who meet from time to time to rubber-stamp management's decisions. Even the notion that boards be actively engaged in overseeing the development and execution of corporate strategy is now being superseded by the expectation that they get actively involved in interpreting complex market dynamics and shaping a vision for the company's future. Board chairs and other directors told us they want to contribute more value and use their full range of talents: "The trendline is unequivocal that directors want to be more involved in strategy and discussions at that [top] level."

> "CEOs are realizing that the board is a strategic asset. That's the board of the future."
>
> — Director

CEOs seem to want that, too. Boards represent a unique wealth of strategic and leadership experience that CEOs should want to tap into. As one CEO shared, "When I took over [as CEO], it was clear to me that the executive team wanted as little interaction with the board as possible. I feel completely different about that. Getting the board engaged is going to pay off down the road."

A key challenge for CEOs is how. Consider that the typical board is composed of prominent, successful individuals, accustomed to having significant influence and to having people ready to assist them when needed. Further, being a board member is not a full-time role, and board members likely have multiple other commitments that constrain the amount of time and energy they can spend on board activities, which might make it difficult for the CEO to attract the board's focused attention.

How can CEOs engage the board in becoming a "strategic asset" under such challenging circumstances? Here are seven pieces of advice drawn from our research.

1. CEOs, it's really up to you

ONE OF THE first steps for CEOs is to step up. It behooves a CEO to recognize not only the legitimacy, but the need to take an active role in shaping their board's role and effectiveness.

> "It all starts with the CEO: in determining his or her openness, determining what the board wants, and articulating what the board members need to do."
>
> — Director

This may seem unnatural to CEOs accustomed to taking a more reactive or passive stance toward the board's role in oversight, compliance, and the execution of its fiduciary duties. But when it comes to the board's potential to contribute to strategy, our interviews made it clear that most boards are not naturally positioned to drive this shift. Many, in fact, are looking for guidance and leadership from the CEO.

It's not necessarily easy for boards to contribute to strategy, however, or even to embrace the idea that they should. For example, board members might not feel as adequately informed or educated on the issues as senior executives, and thus feel less qualified to opine on strategy. "There's a huge information asymmetry," one chair-CEO said. "They're here for eight days, we're here for 365 days."

A second challenge, as one experienced board director pointed out, is that "when a board has a CEO whom they think is absolutely the right CEO, many members will not be spry about being used as strategic assets. They like to enforce the theme, 'We gotta let the CEO be the CEO.'" This sentiment was echoed by another director who said bluntly, "Boards tend to be overly deferential to management." That deference, according to still another director, can become "passivity," whereby boards defer to the CEO's judgment "until it's *really* not working."

A third challenge is that boards may self-censor or otherwise fail to clearly communicate with the CEO, particularly if they anticipate a difficult conversation. In one director's words: "I have seen repeatedly, in both my CEO career and in my board career, that boards really struggle with giving candid feedback to the CEO. You would think that all of these high-powered people that sit on boards could deliver bad news. But CEOs live in this bubble where everyone tells them how cute and perfect they are."

At the end of the day, then, *it is incumbent on CEOs to take the lead in cultivating the shift to a "strategic" board*. The CEO, among all of a company's top executives, is in a position to exert the greatest influence over what boards focus on and the intangibles of how they do their work. Using this influence, CEOs can set the tone for the relationship between the board and management, establish the tenor of dialogue, set standards for communication, play a role in defining expectations for board composition and education, and more. In doing so, they should be thoughtful, intentional, and even adamant about what board behaviors and interactions they desire.

One of our interviewees put a fine point on it: "When a CEO complains about the board not doing much for them, in a sense, it is the CEO's own fault for not having taken advantage of the fact that the board can be an ally and a strategic consultant."

2. Be fearlessly transparent

DIRECTORS WANT THEIR CEOs to succeed. With that in mind, the directors we spoke with exhorted CEOs to be fearlessly open and transparent. If a CEO is not transparent, not soliciting feedback, or not open to it—or if, as one director said, an "insecure CEO" seems to "feel threatened that there is this group they wish would just go away"—board members can pick up on that. At the same time, too much self-confidence without a corresponding amount of self-awareness can be just as great a barrier: "CEOs who think they are God's gift to the business world are not great listeners," grumbled one director. An "open spirit" is what allows for a productive conversation.

> "The CEO needs to understand that the board is on their side. The board has no reason not to want the CEO to be the most successful CEO in the world."
>
> — CEO and director

CEOs can convey their openness and humility to the board in many ways, but it requires the courage to be willing to engage in an authentic exchange. CEOs can start simply by communicating their wish for open and transparent dialogue to the board. They can also model how they want to communicate in the way they share both "good" and "bad" news (without hyping or downplaying), and in the way they ask questions and listen. They can show boards they are interested in dialogue by the manner in which they respond to input and feedback, as well as how they give feedback to the board, both collectively and to individual board members. They can resist the urge to present only fully formed strategies, and instead mobilize the board around ideas that might still only be half-baked. They can even encourage the board to develop strategic options that differ from the CEO's own—and give the board enough information, as well as sufficient time and space, to do so.

CEOs can also cultivate transparency in the expectations they set for interactions between the board and the rest of the management team. For example, they can encourage board members to walk the halls and ask questions, facilitate board member visits to company sites, or arrange direct meetings or informal lunches with key executives and others in management. They may need to consider new ways to include the management team in board meetings. Some CEOs invite their directors to internal meetings and town halls—either to observe, or to learn about a specific topic in greater depth. Others go so far as to ask their executive teams for feedback on how the board can better support the C-suite.

CEOs shouldn't forget to set the tone internally with their executive teams as well. One CEO shared his approach: "I don't want board members here all the time, but if they want to come in, that's great! I tell my team to let me know, you don't have to do a dry run with me. My team should never feel like they have to withhold information. Be honest about our shortcomings. I am very honest about the things that are problematic, as long as [directors] don't kill me for telling them things aren't perfect. It's been refreshing for the board. You don't have a company this size, and everything is perfect. It's just not that way."

TRANSPARENCY DEPENDS ON MUTUAL RESPECT

Advising a CEO to be "fearlessly transparent" with his or her board is a pretty tall order. Since their authority and power depend on the board's goodwill, why should CEOs increase their risk of losing that goodwill any more than necessary?

Our interviews strongly suggest that the *absence* of "fearless transparency" may present an even greater risk for the CEO. The mitigating factor, to the extent that it exists, is the degree to which the board and CEO desire—and actively work toward—a partnering relationship rather than an unequal one. CEOs will likely be willing to be transparent to the extent they experience mutual respect, trust, and support. When board actions reinforce these attitudes, it can strengthen the relationship and encourage honest communication.

3. Take advantage of tension

TENSION IS A fact of life for boards. Disagreement is inevitable. As one interviewee put it, “Diversity of thinking is not free.” But tension in board interactions is not necessarily a bad thing. CEOs who want their boards to be more strategic should understand that tension can be leveraged for the greater good. Constructive tension may even be necessary to bring the best out of a board—to drive higher-quality dialogue, and therefore higher-quality outcomes.

> “I can’t think of any one board in the universe that has conflict management right.”
>
> — CEO and director

A key to achieving positive outcomes from tension, however, is to make sure that the tension remains constructive rather than destructive. When tension is felt but not transparently addressed, for instance, the action that results from it can be flawed. It is important, when discussions grow heated, to accept and name the tension instead of avoiding it or, worse, allowing it to simmer and grow under the table.

Actively balancing tension with the need to maintain mutual respect, trust, and support with the board may be a new role for many CEOs. While the individual who facilitates board meetings obviously plays a key role in managing tension, the mindset and posture of a CEO who clearly evinces comfort with discomfort, and even an appreciation of conflict, can be a subtle but powerful influence on the tenor of the conversation. “Don’t be too quick to cut off conversation in the boardroom instead of letting it play out,” one director we spoke with advised.

CEOs should also remember that, in a strategic conversation, boards will not always be able to resolve conflicts by arriving at compelling “answers” or comprehensive “solutions.” In such cases, it can be more important to agree on well-defined actions. These actions could be as simple as agreeing on what information is necessary to reach a satisfactory resolution, and what needs to be done to obtain that information. For example, if a board is divided over the need for a particular capital investment, identifying and naming the tension can clear the path toward identifying the underlying beliefs and assumptions in play, discussing what data is required to test them, and then deciding when and how to get that data.

Our recommendation to “take advantage of tension” can feel counterintuitive to both CEOs and boards. Yet some of the best strategic answers can come from engaging in and mining fraught conversations.

With a strong partnership between the board and CEO, what at first may feel like difficult conversations can become revelatory dialogues, surfacing ideas and insights that might otherwise stay buried from a desire to smooth tension and maintain civility. Our experience, and that of most of our interviewees, shows that when trust, respect, and support characterize the board culture, communication becomes more reciprocal, with everyone working to find “the truth” and uncover the unknowns. The board’s cultural context shifts from a focus on power dynamics to what is good for the organization.

4. Facilitate the board experience, not just the board meeting

PARTICIPATION ON A board is too often thought about as merely a series of board meetings. In reality, the board experience *outside* the formal board sessions is equally important—or even more so, as some of our interviewees believed. "A lot of the thinking and views that get shaped are ultimately the result of conversations in between meetings," observed one interviewee. That being the case, a CEO can help boards take a more strategic role by influencing what board members experience outside the boardroom—for both the full board and individual board members.

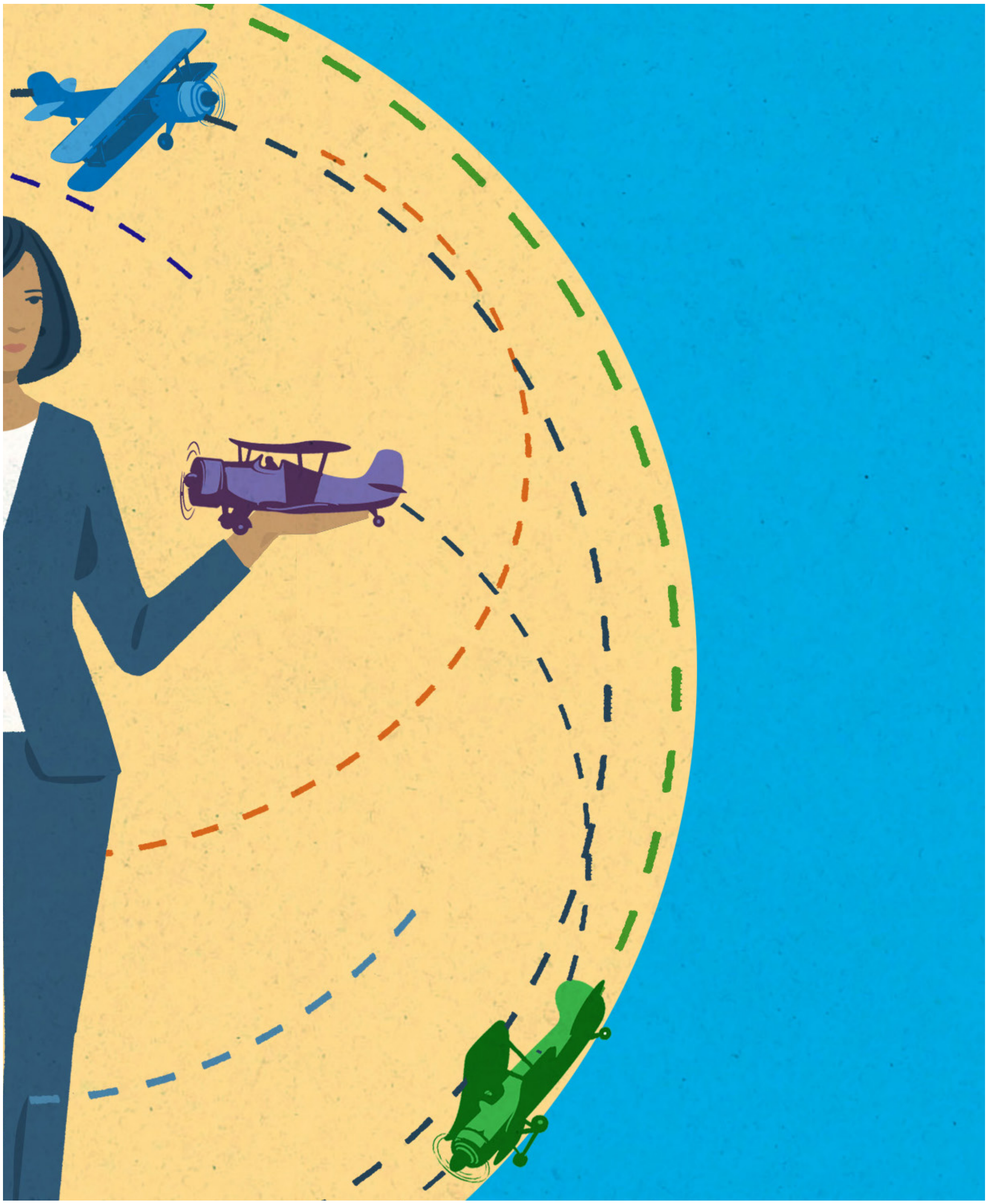
> "Never, ever surprise a board member—which means you've got to talk to each director every two weeks."
>
> — CEO and director

Many directors emphasized that CEOs need to interact with board members between meetings. "If the only times you're talking to the board is four to five times a year when they're in the boardroom, that's not good," said one. This doesn't necessarily mean interacting with the board or a board committee as a group. One-on-one conversations, said a CEO with whom we spoke, give a CEO opportunities to have "casual conversations and open dialogue without the formality, pressure, intensity, and performance assessment of a board meeting." Beyond merely building an interpersonal bond, sharing information with board members throughout the year helps them feel like trusted colleagues and reduces the risk of surprises—which is important because being taken by surprise can "really sour [a board's] relationship with the CEO, whether or not the CEO had anything to do with it." Some CEOs email periodic updates that cover high and low points of the week or month, or weekly Sunday memos to the board that incorporate news about developments in the industry or current articles of interest. (It's important, however, to suit one's tactics to the audience's preferences. One director we spoke with, for example, disliked emails from the CEO: "If the CEO shoots an email, then everyone is reacting to the email. Use the board portal.") And don't forget the power of simply picking up the phone.

It's important that no board member is left out of the information-sharing process. Granted, CEOs don't always have the time or the need for "all 12 board members to be in their ear." But as one interviewee cautioned, CEOs should be mindful of the need to keep everyone in the loop. "It's very natural to start to speak to [only] one, two, or three people. But that's not informing the board; that's informing individuals. Everybody needs to be informed at the same level."

Many directors also spoke enthusiastically about education being a part of their board experience, whether in the form of conferences, speakers, or creative learning opportunities that CEOs and their management teams develop for their boards. Some CEOs have even arranged off-site "field trips" and tours of external organizations (such as Google and Singularity University) for their boards, to powerful effect.

By influencing what happens between board meetings, CEOs have the opportunity to curate and even cocreate the full board experience. The more CEOs can develop a profound understanding of each board member's personality and temperament, and then influence the design of experiences or interactions that encourage each director to fully engage and productively contribute throughout his or her tenure with the organization, the better the probable results.



5. Curate information, and then curate it again

ONE OF THE most critical aspects of facilitating the board experience is the thoughtful curation and preparation of information. Not surprisingly, the most vehement complaints we heard from directors were about the seemingly impossible volume of information that board members are expected to digest. As one director put it, "The iPad® is a wonderful invention.[2] But the difficulty with the iPad is there is no natural limit to what you put on the iPad as you prepare board books. In the old days, there was a limit. It was called the UPS box. If it didn't fit into the box, it didn't go to the board. Too much information can be just as bad as too little information." Another said, "I used to dread it when the 12 inches of paper arrived on your desk. You could only [process] 50 pages, not 500. But now, you get the iPad, and secretly hidden are 1,800 pages. How as a director do you effectively navigate through that? It's awful."

> "Boards are only as good as the information they have access to."
>
> — Board adviser

Some CEOs have started to take different approaches to keeping the board informed, experimenting with a variety of formats and lengths. For instance, one CEO told us that, instead of slides, he now writes short white papers up to three pages long when he requires the board's perspective on a topic. "In the paper, I try to point out why we need their attention, the types of options we have, and the decisions we have to make. When you read a two- to three-page summary instead of a deck of slides, you get a much stronger flavor of the CEO's position and what it is that the CEO wants to discuss."

Varying the presentation of information can also be essential. "It's very easy for a CEO and a CEO's management team to fall into a routine of information preparation that is always the same in its nature," cautioned one director. "You have the same financial information. The meetings fall into a rhythm and a cadence. It's the same, the same, the same. One thing to make sure of is that we don't fall into a routine and cadence that takes away from the need to look into the future." Consider ways to change it up as an antidote to complacency."

Perhaps most importantly, many CEOs touted the value of asking explicitly for feedback, through the lead director or chair if necessary, after every session: "What's working? Are you getting the right information? If not, what do you need? What information should we be taking out?"

6. To chair or not to chair? Think about it very carefully

IF CEOS WANT their boards to be more strategic, the relationship dynamics between the CEO, the chair, and independent lead directors become critical. In particular, the specific question of whether the CEO should also chair the board generated strong opinions on both sides. One interviewee called the issue "a red herring." "It continues to bother me," he said, "when people say you *have* to split the role. I think there are multiple ways to get to the same place." Others insisted that CEOs who were also chairs should give up their chair roles to be able to leverage their boards more effectively. "Underscore that 20 times," said one director, who further explained that it was critical for a chair to serve as "a release valve for the tensions that may build between the board and the CEO. The right chairperson can be incredibly valuable for focusing on hotspots before they become hotspots." Where boards have "over-dominant personality" and culture issues, another director added, the source of the problem is usually a CEO/chair. "You would need a really strong lead [independent director] to counterbalance. I've never seen it."

> "There are multiple ways to get to the same place."
>
> — Board adviser

What is evident from our research is that no one size fits all and that the leadership structure is somewhat dependent on the individuals in the roles. As CEOs work with their boards to determine the most effective structure, below are questions that can help CEOs to determine the best path, given the specific circumstances of their board and environment:

- **The current structure.** Is the CEO already the board chair, or is the CEO attempting to become the chair? In case of the latter, the bar may be higher to justify the consolidation of roles.

- **Board engagement.** How engaged is the board? If the board is less engaged, the CEO may have more influence to increase the board's engagement by playing a dual role. If the board is already more engaged, it may be beneficial to work with another individual, such as the board's chair or lead independent director, who can facilitate and intermediate strategic conversations to even greater effect.

- **The CEO's personality.** What is the CEO's personal effect on others? Is the CEO naturally perceived as being open and receptive to differing viewpoints, or does the CEO have a domineering presence? Self-awareness and/or the ability to gather reliable input from board members is critical for the CEO to be able to determine whether to assume or give up the chair role.

7. Say your piece on board composition

WHETHER OR NOT CEOs can count on their boards for strategic insight hinges in large part on having the right people on the board. “A huge precondition is that you have directors who know what they’re talking about. That’s not always the case,” said a corporate governance professor. Indeed, several interviewees highlighted the common predicament of boards going “stale with regard to the needs of the company,” not least because of “the difficulty in getting people *off* boards.” There is sometimes a “lack of refreshment,” which leads directors to feel that their service is “a lifetime appointment” and results in a board full of people “who are smart, but have finance experience from the ’60s.”

> “It’s always a huge mistake to ignore the human assets that happen to sit in [your boardroom] five times a year for a day and a half. If you think you won’t get enough from them ... you better work with your nominating governance committee.”
>
> — Professor

While it is the nominating/governance committee’s responsibility to recruit board members, CEOs should not be shy about proactively and strongly signaling what specific capabilities are required of a board that is truly qualified to weigh in on matters of current and future strategy. One director who is also a governance committee chair declared that board recruitment was one of his most important tasks. As he said, “Our recruiting methods have changed dramatically to become a more thoughtful strategic process. It’s not that we weren’t looking for great people before, but now we look for people with specific skill sets that will help the CEO and [make the board a] strategic asset to the CEO.”

Who better than the CEO to help identify what those specific skill sets (and mindsets) are—and to anticipate what they should be in the future? “Skill sets need to be thought of as a moving target,” said a director. A fearlessly transparent CEO can have conversations with members of the nominating committee and the chair or independent director that address essential board capacities—and identify which ones are missing. Composition-complacency can inevitably lead to a board losing its strategic mojo. Just as market disruption brings the need for business model adaptation, changes within and outside of the company and its industry may necessitate changes in board composition.

The time is now

A STRATEGIC BOARD WOULD qualify simply as a "nice to have" were it not for the blistering pace of relentless disruption—no longer episodic and isolated, but continuous and ecosystemic. We now live squarely in the era of the "Big Shift," and CEOs need to adapt.[3] For CEOs, the stakes have never been higher, and they need every last resource at their disposal not just to stay in the competitive game, but ideally to shape what the rules of the game are before another player writes them to everyone else's disadvantage. In this environment, it's no longer enough for boards to simply be "check the box" boards, or even solid and reliable executors of their fiduciary duties.

> "A lot of board members won't be there in 10 years. They are just looking at what is around the immediate corner, and not at the longer opportunity, even three years out. It's very difficult for most boards to get into a mindset beyond the charters and corporate policy and protection and compliance. But what is shifting that thinking is disruption."
>
> — Director

Leveraged in the right way, boards can—and must—transcend their oversight role to be a tremendous strategic asset. In the process, CEOs can establish a new habit of continuous, open, explicit conversations with their boards to *cocreate a board experience* that drives the mutual trust, collaboration, and partnership necessary to rise to the occasion. Wouldn't that be a beautiful thing?

Endnotes

1. One notable exception: Jeffrey Sonnenfeld, Melanie Kusin, and Elise Walton, "What CEOs really think of their boards," *Harvard Business Review*, April 2013.
2. This article is an independent publication and has not been authorized, sponsored, or otherwise approved by Apple Inc. iPad® is a trademark of Apple Inc., registered in the United States and other countries.
3. Benjamin Finzi, Mark Lipton, and Vincent Firth, *Can CEOs be un-disruptable? Why today's best leaders are flexible, not steadfast*, Deloitte Insights, October 17, 2017.

Acknowledgments

Above all, this piece was made possible by the CEOs and board chairs, directors, scholars, and advisers who shared so much of their time, observations, and insights with us. The authors are also grateful for the generous support of many colleagues, including **Mark Lipton**, **Deb DeHaas**, **Bob Lamm**, **Junko Kaji**, **Virginie Henry**, **Caitlin Klein**, **Steve Jennings**, **Ambar Chowdhury**, **Ralph Judah**, **Mike Lemmons**, **Siddharth Bali**, **Rick Sanders**, **Heather McBride Leef**, and the many partners who supported our research and outreach. To the full teams of both the Chief Executive Program and the Center for Board Effectiveness, thank you for making this collaboration possible.

About the authors

Vincent Firth | vfirth@deloitte.com

Vincent Firth is a managing director with Deloitte Consulting LLP in the US strategy service line, Monitor Deloitte. As leader of Deloitte's Chief Executive Program, Firth supports the success of chief executives throughout their careers. He works with them and their executive teams to build new strategic capabilities, redesign organizations, and develop, align, and implement strategy.

Maureen Bujno | mbujno@deloitte.com

Maureen Bujno is a managing director in Deloitte LLP's Center for Board Effectiveness. She is a subject matter resource to public and private company directors and committees on several governance, strategy, and risk-related topics, as well as on timely and emerging topics that pose challenges to companies. She also serves as the governance liaison to several of Deloitte's most significant and complex clients, and provides education to boards and audit committees. In 2016, 2017, and 2018, Bujno was recognized by *NACD Directorship Magazine* as one of the top 100 influential professionals in corporate governance and in the boardroom. In her 29 years with Deloitte, she has also worked in Deloitte & Touche LLP's Audit and M&A practices.

Benjamin Finzi | bfinzi@deloitte.com

Benjamin Finzi is the national co-managing director of the Deloitte Chief Executive Program. The founder and former leader of Deloitte's New York Greenhouse, he has designed and facilitated hundreds of immersive "lab" experiences for chief executives and their leadership teams, where he combines principles of business strategy with behavioral science and design thinking to address clients' challenges. Previously a senior member of Monitor Deloitte's Strategy practice and a cofounder and president of a private equity-backed 300-person telecommunications provider, Finzi has focused for over 20 years on researching and understanding how companies succeed in disruptive markets.

Kathy Lu | klu@deloitte.com

Kathy Lu is a senior manager and a founding member of Deloitte's Chief Executive Program. Her role includes researching and providing insights that support CEOs' success. Lu has over 15 years of experience working with clients at the intersection of strategy, thought leadership, and executive development in the service of individual and organizational growth.

Contact us

Our insights can help you take advantage of change. If you're looking for fresh ideas to address your challenges, we should talk.

Benjamin Finzi
US Chief Executive Program leader, Managing director | Deloitte Services LP
+ 1 917 855 0162 | bfinzi@deloitte.com

Benjamin Finzi is the national co-managing director of the Deloitte Chief Executive Program. He is based in New York City.

Deloitte.
Insights

Sign up for Deloitte Insights updates at www.deloitte.com/insights.

Follow @DeloitteInsight

Deloitte Insights contributors
Editorial: Junko Kaji, Nairita Gangopadhyay, Abrar Khan, and Preetha Devan
Creative: Emily Moreano and Adamya Manshiva
Promotion: Ankana Chakraborty
Cover artwork: Richard Mia