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Improving Governance Performance Through Senior Leadership Engagement

The imperative for corporations to develop and maintain high-performing boards has never been stronger, thanks to pressures fueled by continued globalization, disruptive technologies, economic and regulatory trends, activist shareholders, and other uncontrollable forces.

High-performing boards provide wise counsel and insights during the development of new corporate strategies and business plans that are focused on capturing a disproportionate share of future industry value creation, while also proactively developing bulletproof CEO succession plans and sustainable business models. The most progressive companies are setting a new agenda, built around achieving and sustaining boardroom excellence. This typically includes a greater commitment to board succession planning, director evaluations, board composition and diversity, and other policies that today define best practices in corporate governance. But a valuable set of resources is routinely overlooked.

It is without question that a company's senior executive leadership plays a critical role in the quality of the information, conversation, and key decisions of the board. And yet, few boards understand how best to channel the capabilities and experience of senior leaders to foster stronger governance performance.

At Allegis Partners, we see the invaluable difference that certain key executives—the Chief Financial Officer, the General Counsel, the Chief Human Resources Officer, and of course, the Chief Executive Officer—can deliver in creating a board operating environment that promotes and sustains high performance. We have observed the impact in boardrooms when talented senior executives are fully empowered in their roles. These leaders do not need to be board members, rather, they need to be actively and productively engaged with the board. It is their connection and relevance to primary board responsibilities that makes the input of the CFO, GC, and CHRO central to improving governance performance.

In addition to the CHRO's role in the CEO succession planning process, the CHRO is essential to compensation design, and should be active with the board across a range of human capital topics, including employee engagement, workforce development, and corporate culture. Similarly, the GC should be the go-to counselor on governance best practices for the board, legal and regulatory compliance issues, as well as risk matters as they relate to corporate strategy, or any of the other myriad areas of potential enterprise risk. Clearly, the CFO is also essential to risk and strategy development discussions, as well as the preparation of financial statements and engagement with external stakeholders.

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Of course, in all cases, an executive who simply enters the boardroom several times a year, makes a presentation and then departs, offers limited value. Boards can derive the most value from these executives when they are active participants in boardroom dialog and debate, included in committee meeting discussions, and part of ongoing director communications between board meetings, advancing high-priority topics. It is in these situations that CFOs, GCs, and CHROs can truly contribute to elevating governance performance.

Additionally, this sort of responsibility and board interaction further develops the capabilities of these executives, making them better candidates for outside directorships in the future. Call it a win-win-win for the company, the board, and the senior leaders.

Quite simply, boards have an opportunity to rapidly improve their performance via enhanced board and senior executive engagement. This opportunity seems too valuable to overlook. ■

THE **CEO'S** ROLE

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When it comes to boardroom roles, the CEO is viewed as the leading voice in the boardroom and plays a key role in defining:

- STRATEGIC CHOICES
- ENTERPRISE RISK APPETITE
- BOARD AGENDA

For boards committed to improving governance performance as well as corporate performance, ***it is vital that the board and CEO have a close working relationship that is grounded in mutual respect and responsive to key stakeholder priorities and needs***. With that foundation, the board will be well positioned to add significant value and become an invaluable corporate asset.

Starting with the fundamental attributes of the relationship, **the CEO...**

1. ***Must supply the board with accurate information in a timely manner***, including financial and operational updates between meetings.

2. ***Looks to the board for additional insight and fresh perspectives on the big decisions*** that will impact future enterprise performance. Boards that simply nod their heads in agreement or raise minor peripheral issues are failing to provide the CEO with the kind of dialog and debate that these matters demand.

3. ***Needs to engage in honest and open board debate*** on the expanding array of risks companies face today, as well as establish a consensus on the future direction of the enterprise.

4. ***Should also enhance boardroom discussions by regularly including senior team members.*** In this way, the CEO is not the sole voice, but rather the conductor of executive team engagement with the board. Key value-add players include the CFO, General Counsel and CHRO.

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Continuously improving both governance performance and enterprise results are goals of any board of directors. Building a transparent, highly productive relationship with the CEO is the essential first step toward those goals.

THE **CHRO'S** ROLE

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Corporate boards are increasingly committed to elevating governance performance and to sustaining boardroom excellence. Yet, too often, boards overlook an important avenue for improving their performance: broadening the impact and influence that a company's senior leaders can have in the boardroom. In the case of the Chief Human Resources Officer, their role with the board too often is unnecessarily restricted to working with the compensation committee. But when board chairs open the aperture of their view on the role of the CHRO with the board, ***these leaders can bring unique input and insights to a wide range of board conversations and priorities.***

These CHROs need not be board members, rather they need to...

- BE A RESPECTED RESOURCE FOR THE BOARD
- HAVE FIRMLY ESTABLISHED WORKING RELATIONSHIPS WITH BOARD MEMBERS
- BE A VALUE-ADDED ADVISOR WITH DIRECTORS REGARDING KEY BOARD ISSUES

Many board priorities are squarely in the purview of HR. Beyond compensation design, **boards...**

1. ***Must consider and regularly evaluate senior leadership effectiveness, talent pipeline readiness, talent risk scenarios***, as well as the development of the broader workforce and employee engagement trends. The CHRO plays an active role in the alignment of strategy, people and execution.

2. ***Provide the board with insights that go beyond the numbers.*** Issues of corporate culture can seem intangible until a culture challenge begins to derail a business unit or even an entire company. In this situation, the board's best insights to the problem and the potential solutions are likely to come from the CHRO.

3. ***Elevate their board involvement to a more strategic level.*** When discussing people matters with the board, the CHRO should strive to align human capital opportunities with future-focused enterprise strategic priorities and near-term value creation plans.

4. ***Move beyond traditional executive compensation planning and analysis*** to a broader and more strategic understanding and alignment of total rewards effectiveness and alignment with strategic goals.

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High-impact CHROs develop broad-based relationships with the board and interact on a variety of topics beyond traditional HR functional issues. Boards willing to fully engage the CHRO in a broader scope of issues should expect to develop a deeper perspective of the company's performance and the board itself.

THE **CFO'S** ROLE

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Chief Financial Officers are typically an underutilized boardroom asset. That might seem like an unexpected statement given that CFOs are deeply involved in developing key board materials.

The CFO needs to be fully engaged in the boardroom to help elevate board performance.

When considering the breadth of the responsibilities of the CFO, the potential impact of their insights on governance performance becomes easily apparent.

Beyond the development of financial statements with accuracy and integrity, **the CFO...**

1. ***Brings the leadership team's ideas to life***, both for the internal organization and the board. Working from the CEO's vision and long-term objectives of the enterprise, the most successful CFOs focus on strategy development clarity and value-creation plans and targets.

2. ***Effectively packages and communicates this information to the board.*** Without a clear distillation of the vision into sound business plans and financial targets that the board can clearly understand and assess, boards can become frustrated and skeptical of the company's strategic direction.

3. ***Is on the frontline of stakeholder communications.*** Of course, this starts with communicating company plans and financial data with all internal constituents. And then the CFO must also be able to communicate with external stakeholders, such as proxy advisers, activist investors, institutional shareholders, regulators, and the media.

4. ***Often plays a lead role in risk management.*** While many financial services firms have Chief Risk Officers, other industries tend not to have a senior executive in that role. In those cases, the CFO becomes the de facto owner of risk management discussions in the boardroom, often in tandem with the General Counsel.

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Activist investors tend to take a measure of board directors in terms of their individual and collective return on investment. Greater inclusion of the CFO in board discussions and decisions enhances governance performance and amplifies the board's ROI.

THE **GC'S** ROLE

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As a trusted resource for corporate teams and boards, the General Counsel is a regular participant in boardroom activity. Yet, boards could derive even more value from a GC that is empowered to play a more integral role in key board matters.

As boards look for paths to enhance governance performance, further ***tapping the capabilities and judgment of the GC is a powerful option.***

GCs naturally play a primary role in the boardroom, as **the GC…**

1. ***Provides continuity and serves as the liaison to directors between meetings***, handling both administrative needs and following up on board-designated action items. The GC may also serve as the Corporate Secretary, which requires the GC's attendance in all board and committee meetings.

2. ***Has a facile command of legal and regulatory compliance.*** Boards look to the GC to serve as the expert on corporate governance, informing and guiding the board on best practices and emerging board issues.

3. ***Is the principal liaison to the nominating/governance committee.*** The purview of these roles and the GC's expertise combine to make the GC ideally suited to help spearhead board development, including building board assessment processes, responding to outside stakeholders' needs and enhancing governance practices.

4. ***Is uniquely qualified to help guide a discussion that assesses*** the risks, considers various courses of action, and balances the risk/reward tradeoffs to help ensure the long-term success of the enterprise.

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The most capable GCs bring into the boardroom informed perspectives on critical issues, strong interpersonal skills, and sound business judgment. The GC is a key resource for boards focused on improving governance performance. The board proceeds more efficiently and effectively when a GC with sufficient command of the information is able to provide judgment in the moment.