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STRATEGIC BOARD
RECRUITING GETS
REAL

BOOSTING YOUR
BOARD CISO
RELATIONS

4 WAYS BOARD
INTERVIEWS HAVE
CHANGED

NEW M&A FACTORS
FACING YOUR BOARD

6 TRENDS FOR BOARD
EXECUTIVE SESSIONS

Q&A- Improving a CEO
Candidates Board "EQ"

BI ONLINE FINDS –
10/21

Upcoming in B.I.....

STRATEGIC BOARD RECRUITING GETS REAL

For decades, board membership was determined by who top managers and major owners wanted in the boardroom at the moment. At younger, venture and startup companies, this was a small group of founders and funders, and most of the time, it remains that way today. Since these are the real owners wrestling with immediate market and liquidity issues, it's been hard to fault this structure too much.

Big cap corporations receive much more attention for board makeup, and traditionally included bankers, company promoters, top officers, retired presidents and star-power names. These were older, white male folks, but as investor activism advanced in recent decades, corporations at least tried to convince shareholders that these worthies were the best and brightest. When I wrote my first book, *21st Century Corporate Board* 25 years ago, I noted that annual reports assured us boards sought such qualities as "commitment, teamwork and integrity." Such Boy Scout merit badge assets made for good IR filler, but did nothing to target strategic skill needs.

Governance failures, tighter conflict rules, court decisions, booming director liability, and investor activism over the past decade or so are now tipping the balance toward *targeted* boardroom recruiting. For the first time, we're seeing corporate boards in developed economies lay out talent profiles the board needs, and *then* seeking them, rather than rationalizing the folks already there.

Among the vitae and backgrounds in demand:

Digital, cybersecurity and cryptocurrency. Digital and tech skills have been a board need for years, but the scary speed with which big data, ransomware, digital currencies and virtual meetings/business have advanced have made demand for this expertise in the boardroom too urgent to ignore.

Diversity. Even private and family businesses feel self conscious now with an all-male, older board. Search firms tell me that most board headhunting orders now begin with "we're looking for a woman who..." In the U.S., the Nasdaq exchange has pushed the mandate even further, now requiring boards to include not just gender and racial diversity, but sexual orientation as well.

ESG background. Board discussion today inevitably touches on environmental, social and governance issues, and investor and regulatory demands are exploding. A board member with background and credibility here can help the board know where ESG trends are pointing.

One final trend confirms that strategic board recruiting has finally gained traction. Boards are less likely now to seek one tick-box "diversity" or "tech" prospect than someone who can blend several qualities. A minority exec with strong data security vitae not only covers several bases, but likely makes the board overall younger and more diverse. Everyone wins.

-- RDW

BOOSTING YOUR BOARD/CISO RELATIONS

Any corporate board member who needs to stay awake at night only needs to Google (or Baidu) the word "ransomware" for a quick adrenaline shot. Massive financial, functional, and reputation losses, legal nightmares, and dangerous "do we or don't we pay up" quandaries. Danger to companies, global economies, and even human life so serious that U.S. President Biden has called for a 30-country *international summit* to battle cybercrime.

For boards facing cyber dangers, communication is the #1 headache. "CISOs use too many tech terms that non-tech people don't understand," says *Frank Kim*, former CISO for the SANS Institute. Even assuming your board is made up of savvy business folks, the brain-

busting technical terms, acronyms and usages cause boardroom eyes to glaze over quickly. “The number one mistake is communication – CISO’s talk past directors,” notes Alex Yampolskiy, CEO at the [Security Scorecard](#) firm. How can you make the increasingly crucial board/CISO relationship more effective?

■ The CISO needs to speak in the board members’ language. And that doesn’t mean translating terms like “SQL injection,” “MTTR,” or “DDoS” into English, but rather “convey a link to business and strategy,” according to Kim. “CISOs need to step back and understand their audience – give them an overview on the threat landscape, and convey its link to business and strategy.” “Tell how cybersecurity helps the company hit its objectives,” adds Yampolskiy. “Consider what KPIs your board is using.”

■ One acronym U.S.-based boards should learn about is “NIST” – as in the U.S. National Institute of Standards and Technology. NIST has laid out a [framework](#) for managing and assessing a company’s cybersecurity structures based on five essential functions (identify, protect, detect, respond, recover). Familiarity with these basics should now be part of any U.S. board’s fiduciary role. Companies based in Europe, Asia, the Middle East, or other regions? Most have their own [frameworks](#), and there are more for specific industries. Asking your CISO about the security frameworks your company uses is a good ice breaker and needed introductory.

■ Even world-class cybersecurity programs become a boardroom blur when CISOs present endless tables of intrusion attempts, dwell time, and other medians that are valuable to the presenter, but meaningless to presentees. The effective CISO will make results from the company cybersecurity framework easy to grasp, often with visuals. Kim is big on board decks with stoplight dashboards, arrows (up, down or flat) and strategic bullet points to show trends, progress and results (*see example at right*). This is also effective for one of the measures directors find most important – how the company compares to peers in investments, technology, threats, and effectiveness.

Security Capability	Status	Trend	Highlights
Identify: Manage risk to systems, assets, data, and capabilities	Yellow	↑	<ul style="list-style-type: none"> 82% increase in unauthorized devices + 20% IIT + 3% HR 27% increase in unauthorized software Attributed to Q4 BYOD pilot
Protect: Ensure delivery of critical infrastructure services	Green	→	<ul style="list-style-type: none"> 12% of users failed sponsored email phishing tests 15% of employees have not passed security awareness assessments
Detect: Identify occurrence of a cybersecurity event	Green	↓	<ul style="list-style-type: none"> 27% decrease in elevated access accounts 27% total elevated access accounts
Respond: Take action regarding a detected cybersecurity event	Green	→	<ul style="list-style-type: none"> 5% of database systems with sensitive information have not been scanned by vulnerability scanners
Recover: Maintain plans for resilience and to restore any capabilities or services that were impaired due to cybersecurity event	Red	↑	<ul style="list-style-type: none"> 34% of systems not enabled with up to date anti-malware Attributed to Q4 BYOD pilot

■ Another tool the best CISOs use in briefing the board on their latest tech is actually one of humanity’s oldest – telling stories. Share anecdotes about incidents that communicate where typical intrusions come from, how they’re stopped and remediated, and lessons learned. Walk the board through the latest hacking or ransomware attack that made headlines, why it happened, and what could have been done. Be sure to include the costs incurred – financial, reputation, and legal. “Walk through case studies on what we could face at the company,” says Kim. Yes, some of these will be scare stories to get the board’s attention, but that in itself can be effective (especially during discussion of the company’s cybersecurity budget).

■ What can your board do to improve its end of the dialog with the CISO? Yampolskiy finds that even one director who’s conversant on current cybersecurity trends gives the CISO a valuable boardroom advocate and translator. Kim pleads with directors to stop asking the CISO “what can you do to guarantee no breaches -- that’s like asking a plant manager to guarantee there will never be an equipment breakdown.”

■ *ALSO* – Kudelski Security offers a handy, free 22-page [guide to board/CISO discussion](#) – check it out.

4 WAYS BOARD INTERVIEWS HAVE CHANGED

The COVID crisis that began in early 2020 has shaken up every aspect of boards and corporate governance – and that includes how new board members are found, vetted and ultimately selected. One aspect that’s seen the biggest shift is the interviewing process. As a board wannabe prepping for your upcoming quizzing, what do you need to know now?

■ The single “board interview” session has been thrown out the window. Online communication, the only tool available during lockdowns, has broken board interviews into dispersed, one-on-one chunks. The board chair, the head of nominations/governance, the CEO and other board members will be Zooming with you one at a time, which likely makes the process less stressful. Also, Jane Howze, managing director of the [Alexander Group](#) board and exec search, observes that “with everyone on their remote computer every day now, it works out famously.”

■ However, the vetting and qualification process for board search has grown far tighter. The grand old days of

waving through someone the CEO likes have turned into something closer to a top employee hiring process, drilling down on skills, experience... and any disqualifiers that may be hidden away. Diversity has become a serious concern for boards worldwide today, through regulatory mandates and investor pressure. That means some demographics who were boardroom shoe-ins a decade ago (white male CEOs in the U.S.) now have to wait in line to get the call.

■ Though board and committee meetings have been more flexy and virtual since 2020, more boards are pushing to return to boardrooms. Scheduling and time commitments for boards were growing tighter before the pandemic, and we see that returning. Exploding workloads make your ability to meet board time needs a potential dealbreaker.

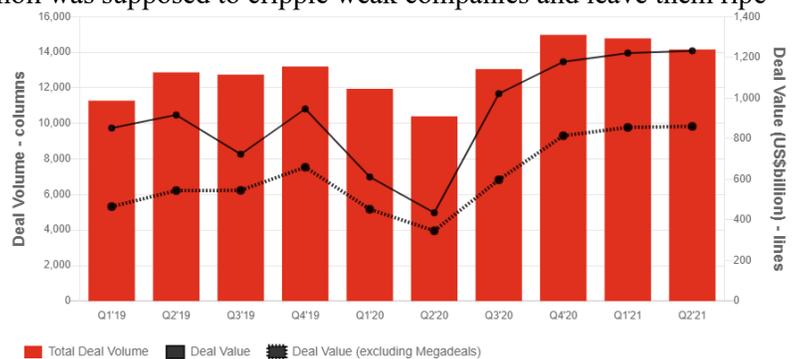
“When I do a board interview, the boards now have their meetings scheduled for the next two years,” says Howze. “I tell the candidates what the board dates are, and if they won’t be able to make more than one, we just can’t consider them.” Candidate willingness to build in added emergency board sessions is also a big factor now.

■ There are other board interview questions moving up in urgency lately. Howze finds that even non-diverse board candidates are being asked about their involvement and ally-ship when it comes to moving the needle at their companies. “One candidate just said ‘That’s an HR issue,’ which was the wrong answer.” Dennis Cagan, mentioned in an article above, wrote an article for [Directors & Boards](#) and few years back which covered some of the most common board interview queries you might face, and this intel is still valuable.

NEW M&A FACTORS FACING YOUR BOARD

When it comes to mergers and acquisitions, the past two years have proven that simplest of investment sayings – “no one knows anything.” The COVID turmoil was supposed to cripple weak companies and leave them ripe for takeovers. Others said no – companies of all sizes will be so stressed that they can’t put time and resources into M&A. Real world trends took their own course.

Continued low interest rates and innovative stock swapping fueled a record number of M&A deals in 2020-21, especially for \$5 billion+ megadeals. (see [chart](#) from PWC). What does your board need to know in weighing mergers and acquisitions today (and going forward)?



■ Digital technology and capabilities went from a Good Thing in 2019 to a Must Have by 2021, and grabbing these tools motivated many new deals. Extremely rapid advancement in AI, data tools, online meetings, digital currencies, collaboration platforms, etc. etc. mean companies need these capabilities *now*, but lack the internal resources and talents. So rather than build your own, seek an acquisition for a quick jump. “The value of M&A in tech more than doubled in 2020,” notes George Casey, a partner and head of global M&A at Shearman & Sterling. Thad Malik, head of M&A for Paul Hastings, observes that “the work from home movement sharpened focus on the tools needed to adapt, and that brought new ways to deploy technology in business.” Acquirers are added these abilities as fast as they can. Boards can help by forecasting where tech trends might lead, and what target companies can help you jump the curve.

■ One of the biggest factors hitting M&A (and especially moving into 2022) is growing governmental pushback on antitrust, business concentration, and taxes, plus inflation. “Everyone is expecting tax changes and an increase in capital gains taxes, so they’re trying to push exits through early,” says Bruce Werner, managing director at private company advisor Kona Advisors. “I’d advise boards to keep an eye on taxes and inflation,” adds Malik. Tax policies on foreign subsidiary earnings and repatriation of profits will be a major issue in 2022.

■ Antitrust and merger concerns are growing worldwide, particularly when it comes to tech concentration and cross-border acquisitions. Foreign direct investment rules are tightening in many countries, with China’s toughening policies on investments and pushing back on their private sector adding uncertainty. In the U.S., a 9/27 [client advisory](#) from Fried Frank notes “a rapid, significant shift to increased enforcement of the antitrust laws” by the Federal Trade Commission. The board should bring a clear-eyed, outside take on possible regulatory hurdles a planned deal may face (even if this deflates sunny estimates by management).

■ There are other, newer issues facing M&A today that the board’s counsel can help with. Liability issues for acquisitions on products, environmental and human rights concerns are expanding, with courts and regulators

more willing to associate a target company's past sins with the acquirer. "Companies are doing very careful due diligence now to understand the businesses they're buying," says Casey. Boards can no longer disregard ESG issues, and these are showing a real impact on structural plans. Acquiring a company with strong ESG credibility and technology (or carbon credits) helps ESG scoring with investors. Divesting subsidiaries that may have environmental or social responsibility skeletons, on the other hand, can improve corporate ESG cred. "When I talk with boards, this is one of the top issues on their minds now," adds Casey.

6 TRENDS FOR BOARD EXECUTIVE SESSIONS

"Executive sessions" of the board's independent directors have stirred much uncertainty over the years (starting with the question of why a meeting that *excludes* executives is called an "executive session"). Most of the world's regulatory regimes prod corporate boards to hold these board meetings without managers, and in the U.S. the major stock exchanges require they be conducted "regularly," whatever that means. The rest is left up to your board. As executive sessions have become a standard element of governance, how have they evolved, and what have we learned on making them a better governance tool?

- An "executive session" of the board need not be just a singular session. For example, independent directors may ask managers and employee directors to give them some time exclusively with the chief executive. Then, after this discussion, the CEO may leave, allowing a talk purely among the independents. Or, just the CFO, head of HR, company attorney, or other officer may be the only insider for a discussion. Boards are finding this "in and out" format brings advantages, especially in hearing the takes of various top execs when the CEO isn't in the room.

- "Leadership of the executive session is the most important factor," notes Dennis Cagan, managing director for [GovernX](#) board consultants. Otherwise, the program devolves into an aimless bull session, with "bantering back and forth, but nothing resolved." The board should formally agree on who will lead the exec sessions. "The independent chair, or the head of the nominating governance committee," suggests Bob Lamm, chair of the securities and corporate governance practice for law firm [Gunster](#). While a lead independent might seem the most natural chair for this session, it doesn't have to be that way – try innovating.

- Also, feel free to innovate on how and when you use executive sessions as a governance tool. Audit committees now use the executive session to close the doors for just committee members and the CFO, internal auditors, or the audit firm partner... and then a brief confab with just the committee members themselves. Compensation, finance, or other committees can also build this approach into their agendas.

- Speaking of agendas (or that other boardroom formality, minutes), the loose structure of an executive session doesn't lend itself to too much paperwork. "I've never seen one with an agenda," says Cagan (which puts more emphasis on good leadership). Lamm has found minuting typically doesn't extend beyond "the board then met in executive session." There are exceptions, though. Government-related entities might require full minuting of all board business – check with counsel on this. Also, if your board's executive session goes beyond general discussions and observations, its actions may want notation. This could include a resolution on succession or compensation, a request for full-board action, or other major issues.

- The CEO will obviously be curious about what happened behind closed doors, and a good board should be open about its thoughts. If there *is* any sort of an agenda, or just items that the session plans to cover, it's proper to let the CEO know in advance. The leaders should privately give the chief a summary of discussion, topics covered, and specifically any issues or concerns that arose. Frankness is important here. Done right, this summary will avoid a final executive session no-no – individual directors giving the chief back-channel takes on what was discussed, or the CEO approaching them to spill the tea.

- Executive board sessions imply closing the boardroom doors for a private chat, but since early 2020, few boards have met in person. How has the move to virtual, online governance shifted the exec session? "It's no different from a conference call... the CEO just goes off screen" says Lamm. Not only has virtual governance not crimped use of exec sessions, it makes it easier to just toggle select players in and out of the meeting, allowing more frequent, but quick executive sessions.

Q&A: Improving a CEO Candidate's Board "EQ"

Q: I'll be retiring soon as chief executive of our company – we're in retailing. I'm working with our board on a succession plan, and believe our current senior VP of finance would be the best candidate. He joined the company several years ago, and has really made a difference, building an effective, motivated financial team. However, I've

noticed he's doesn't seem comfortable in working with the board, and a couple of directors have mentioned this to me. How would you suggest dealing with this problem – can “emotional intelligence” issues with the board be overcome?

A: Your comment that this VP has shaped a good team (who seem to work well with him), suggests that overall emotional intelligence is less a problem than his ability to tune into the board. This is a not uncommon problem. “There are very complex dynamics in dealing with a board for a newer or less experienced CEO,” says Dennis Cagan, managing director with [GovernX](#) board consultants. If your board is made up of retail and sales leaders, it could be that a strong finance quant speaks a different language, making for EQ bumps. Research from [Korn-Ferry](#) notes that 89% of C-suite execs view themselves as strong on “left-brain” savvy – balance-sheet, numbers oriented. Your overall board “EQ” might lean more toward right-brain sales and gut instinct sorts.

What to do? As current CEO, add emotional intelligence tutoring to your succession role. Start with some frank talk with the VP on the mutual discomfort, and seek his take on the matter. It's likely he senses this as well, and is career-smart enough to realize that he'll need to work on stretching outside his comfort zone. Probe which matters he finds difficult in communicating with the board, and whether some members seem harder to read than other.

Often, board members have little contact with C-suite execs outside of boardroom presentations. Include the Vee in social events with directors such as dinners before board meetings, and arrange informal briefings and discussions one-on-one. But the board and committee meetings themselves are important as well. The VP should be sitting in on these as much as possible to learn the interests, styles and hot buttons of individual directors. Ask him to share his appraisal of these, and see how closely they align with what you've found.

If the chair of your audit committee works well with the VP, mention that he's your succession choice, but that he could use some help building relations with the board. The audit chair likely is numbers-oriented too, and can be an effective relationship mentor for a finance guy.

Cap this by having the finance VP present more to the board and committees, both to exercise his EQ muscles and to gauge his progress in communicating. Encourage the VP to go beyond just discussion of numbers, to also share his insights and opinions, skills a CEO in the works will need. Seek feedback from directors on how he's doing. His “grades” from them should show steady improvement, both for ease and empathy of communication, and the value and completeness of info.

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■ Board members of nonprofits, charities, colleges and associations know all too well the headaches they face in maintaining budgets with funding sources that can be erratic, limited or narrowly mandated. One governance solution is to move beyond the confines of an audit committee by chartering a specific finance committee of the board to shape long-term funding strategy. Nonprofit pros Blue Avocado offers some [ideas and tools](#) for forming a nonprofit board finance committee and putting it to work.

■ For women executives seeking their first board seat, there is much to learn, from how boards actually find talent, to what happens in the boardroom... and overcoming the special challenges facing a woman. The Wharton School is here to help with a multi-day online [Women on Boards](#) program December 1-9. It's pricy, but taps some top-tier talents, including boardroom legend Shellye Archambeau.

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The pace is speeding up for my speaking and Board Masterclass trainings. There's still time to register for my October boardroom masterclass for [AnyGlobal](#) in Dubai (*right*). The world's boardrooms are opening back up, and we have a lot to discuss! Visit the [speaker](#) page on the *Boardroom INSIDER* site for links to keynote speech videos, and also my listing on the [eSpeakers](#) site.



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