

Top Corporate Directors Debate the Board's Role in Long-term Value

Webinar hosted by FCLTGlobal and Russell Reynolds Associates follows up on joint research on how boards can steward long-term value creation

On 19 October, FCLTGlobal and Russell Reynolds Associates co-hosted *Tone at the Top: The Board's Impact on Long-term Value*, a discussion among experienced corporate board members about the ways in which boards of directors can impact long-term value creation at their respective companies. The conversation, led by board members of notable companies throughout the United States and Canada, considered how to manage between long-term objectives and short-term pressures, ways to affect greater diversity among board directors, and further integration of environmental, social, and governance (ESG) considerations into company strategy.

The meeting was a follow-up to [research conducted by FCLTGlobal and Russell Reynolds published in April 2020](#) that explored how maintaining a long-term approach in the boardroom while still delivering against short-term objectives can lead to superior corporate performance. Directors who joined the meeting on 19 October discussed these themes and spoke on the shifting practices of corporate boards amid 2020's challenging business landscape.

Balancing short- and long-term goals in a multi-stakeholder environment

"Everyone serves on a board because they want to manage for the long term, but that is a constant struggle," said one director, "Stakeholders have found outlets for their platforms and they are using them to be loudly engaged in ways not seen before. This means everyone has their own point of view about what the company should prioritize, making it hard to respond to all those near-term demands and remain focused on the long-term."

The COVID-19 pandemic has both challenged and, in some senses, freed corporate boards to focus on the long-range health and resilience of the company. On the one hand, management teams have been pressured to be nimble, reacting in real-time to an ever-shifting operating environment and a future so cloudy that it makes it difficult to plan. On the other hand, a general lack of clarity has both led to less demand for short-term guidance and tamped down expectations from the sell-side, freeing companies from the yoke of hitting short-term expectations and allowing boards a lot more room to be thoughtful about the focus and future direction of the company.

As one director observed, "What really defines a long-term company is having the risk tolerance and fearless wherewithal to take decisions that have consequences that you might not be able to quantify near-term. Things like geopolitical risk and the future of the workforce – these things require near-term decisions that you won't necessarily have robust numbers to inform. The fearlessness to make those tough decisions based on principle, without having the full picture or all the data, is a hallmark of a long-term company."

Directors generally agreed that board composition and risk tolerance play large roles in a company's ability to focus on the long term during a global health crisis, explaining that boards' perspectives and orientations are built from within, not dictated by an agenda, and directly translate into how the board focuses, whether that be long or short-term.

Commitment to growth investments

The directors then discussed how a board can challenge its management team to maintain a focus on growth investments, even during the turbulent times we find ourselves in today. One director explained that diversity and depth of experience within a board both play significant factors, as boards feel more comfortable trusting their committees and directors with past crisis experience to navigate the current storm effectively. Practically speaking, to tackle the volatile operating environment head-on, one board doubled their in-camera meeting time and significantly increased one-on-one time with the CEO.

The compensation systems a board puts in place are also key in aligning the entire organization to a long-term strategy, said another. A frequent point of scrutiny, the manner in which management is paid will greatly influence their approach to running the company and incentivizing shorter benchmarks can lead to poorer performance in the long run. Other directors emphasized that now, more than ever, boards need to address the needs of all the company's key stakeholders. Because boards are looking 10-15 years into the future, it is important that they understand where their stakeholders will be at that time, and that they allocate capital in support of delivering on key needs aligned with that vision of the future.

From a practical standpoint, one director shared a strategy used on their board: At the start of every meeting there is a "value moment," where there is a discussion about ethics and core values; management provides one example where an ethical situation has arisen in the business and how it was addressed. This prevents the meeting from immediately being drawn into chatter on short-term fluctuations or market movements by reminding the participants about the company's core purpose.

The "tone at the top" and strategic recruiting

As the title of the session indicates, the "tone at the top," or the culture coming from the boardroom, tends to influence that of the entire organization. As such, selecting new candidates for the board is a crucial responsibility of sitting directors. There was a consensus that boards should be "purpose-led and principle-based," a sentiment in line with the growing public consciousness around corporate purpose, and that new candidates should reflect that effort. The ability to get results is a valuable trait, said one director, but *how* a candidate would go about getting them is equally important. Performance itself is no longer enough in of itself, they said; "You need to understand how a potential director candidate would rank on engagement, and values, and so on." This is often hard to tease out in a typical board screening process. One director suggested asking potential nominees to submit written responses explaining how they might tackle various thorny scenarios while another noted their board had made a "values evaluation" part of their selection process and have elevated values as a requirement on par with particular skills they may be selecting for.

Another director emphasized that long-term thinking stems from collegiality and trust within the board room, and from the freedom to experiment. That freedom, they said, is an important part of board recruiting and, generally, of being a board director. “By definition, you are dealing with things that bring uncertainty and you have to be willing to have an honest dialogue about various scenarios and the ramifications of certain decisions,” they explained.

Environmental, Social, and Governance considerations

It is crucial for corporate boards to meet the growing demand for ESG-centric initiatives. If there is one certainty with regard to ESG, the directors said, it’s that nobody defines it in precisely the same way. The broad scale of the topic, and its newness relative to other more traditional corporate initiatives, often leave boards struggling with how to go about taking meaningful action. This is especially true for the social component. Whereas environmental and governance programs lend themselves to clear goals, social progress can be subjective and leave much up to the outlooks of the board.

“The real questions are ‘What can you do that is actionable, and how can you find those actionable things while ignoring the short-term pressures? How can you communicate and frame it in terms of the long-term strategy of the company?’ That is what makes ESG credible and allows directors and management to do what is right,” one director contended.

Understanding the importance of a board’s composition, culture, and long-term mindset will be crucial as companies navigate the new landscape of their businesses in 2020 and beyond. We thank all the participants who joined this meeting for leading an informative discussion, and to all those who have contributed to our work on this important subject. To learn more about the impacts of the board of directors on long-term corporate strategy, read [Tone at the Top: The Board’s Impact on Long-term Value](#). We welcome your perspectives on this and other topics at research@fcltglobal.org.