The Board as a Leader

CEO perspectives on the performance of boards in strategic decision-making, results delivery and motivating leadership

ODGERS BERNDTSON

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Introduction

As in any productive leadership relationship, the way an organisation's board acts as a leader for its CEO matters. The competences, insights and methods of boards differ greatly between companies depending on their size, composition and ownership, which means that their approach to leading the CEO varies as well.

While much work has been done to better understand board working practices and internal dynamics as well as demographics and diversity of board members, there is less insight available into how CEOs view the board's contribution to their own performance and the company's long-term success. Hearing the CEO's perspective, however, is important as well – most of the board's contribution and value-add enters the organisation through the CEO, and how they feel about the board certainly impacts their performance as well as how the board's insight is utilised within the organisation.

In order to gain a bird's-eye view on the topic, we at Odgers Berndtson surveyed the CEOs of 72 major Finnish companies of different size and ownership type. We hypothesised that when it comes to governance and statutory matters, boards are seen to perform at a high standard against which the aspects of leadership could be benchmarked.

As for what leadership and a board's work as a leader entails, we approached the topic by first asking the respondents more generally about the board's role as a leader. Then, we delved deeper into the topic by dividing it into three dimensions of leadership: strategic leadership, partnering in results delivery, and motivating leadership.

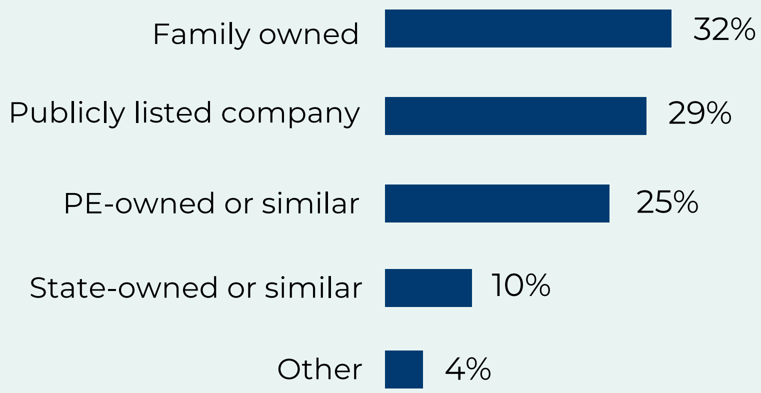
As the results show, CEOs perceive these differently depending on company size, board composition and particularly company ownership type. Both the data itself as well as the comments from the respondents highlight strengths and challenges and offer interesting details regarding what, specifically, the CEOs perceive distinguishes the very top-performing boards from others.

We hope that the insight provided by this report brings new diversity to the discussions regarding a board's role as the CEO's leader and in the company's continued success. Our findings can help boards of all types better understand how to ensure that the company is able to fully benefit from their valuable work, and also how they can support the CEO to perform at their best.

Respondent demographics

The respondents, 72 in total, were a mix of new and more experienced CEOs heading a variety of different company types.

Ownership structure



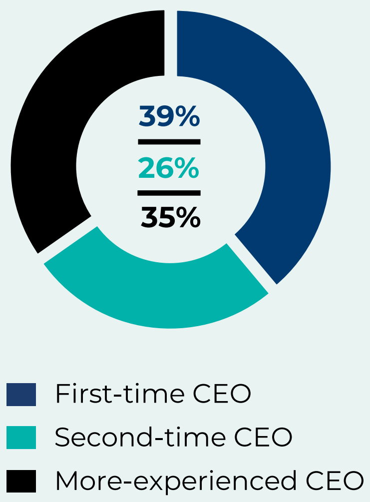
In terms of survey respondent demographics, our aim was to collect a representative and diverse sample of CEOs from major Finnish companies.

Among the companies our 72 survey respondents represent, the majority (81%) have revenue of more than €50m.

For further analysis by company size, we divided the respondents into **two categories**:

- 40% represent 'large companies' with revenue exceeding €200m
- 60% represent 'small companies' with revenue less than €200m

CEO experience



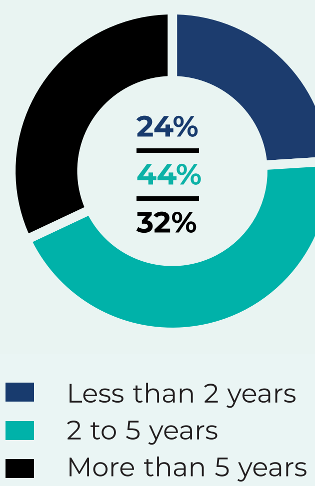
Regarding CEO experience, the respondents are quite evenly spread between first-time (39%), second-time (26%), and more-experienced CEOs (35%). 76% of the respondents have been in their current role for at least two years.

In terms of ownership type, the vast majority (86%) of the companies our respondents represent are either family owned, publicly listed, or PE-owned or similar, with a fairly even share of each of these three types.

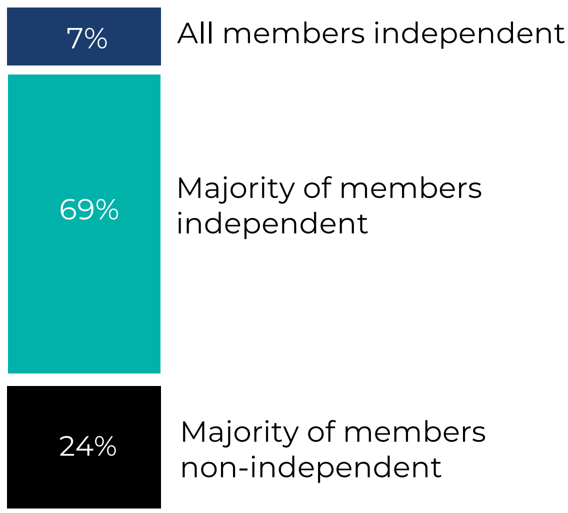
As for board independence, three-quarters of CEOs worked with mostly or fully independent boards.

CEO tenure

Length of time in role (years)



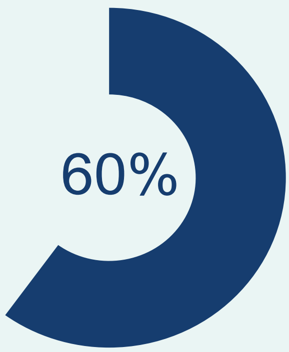
Board composition



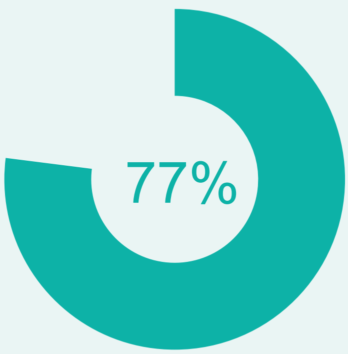
Benchmarking against governance

According to CEOs, boards are better at managing governance than acting as a leader.

Acting as a leader



Managing governance



The graphics illustrate the share of CEOs who are happy with how their board acts as a leader and manages governance and statutory matters, respectively.

The specific survey questions used to measure this were ‘I am highly satisfied with how the board acts as a leader’, for acting as a leader, and ‘The board manages governance and statutory matters well’, for managing governance. The percentages illustrate the share of CEOs who stated they either ‘agree’ or ‘strongly agree’ with the statement in question.

One CEO of a large company describes a need for development as the company grows:

> “They understand the business and industry very well, so that part works. As we transition into a much bigger company, we (CEO and board) need to develop more professional practices covering audit & risk, sustainability (ESG), and longer term strategic direction.”

OPPORTUNITIES FOR DEVELOPMENT

60% is certainly not a low figure, confirming our expectation that the majority of boards are seen as good leaders by their CEOs. Still, the difference compared with managing governance is notable: 23% of respondents are not entirely happy with how their boards handle governance matters, while as many as 40% feel their boards lack something when it comes to leadership.

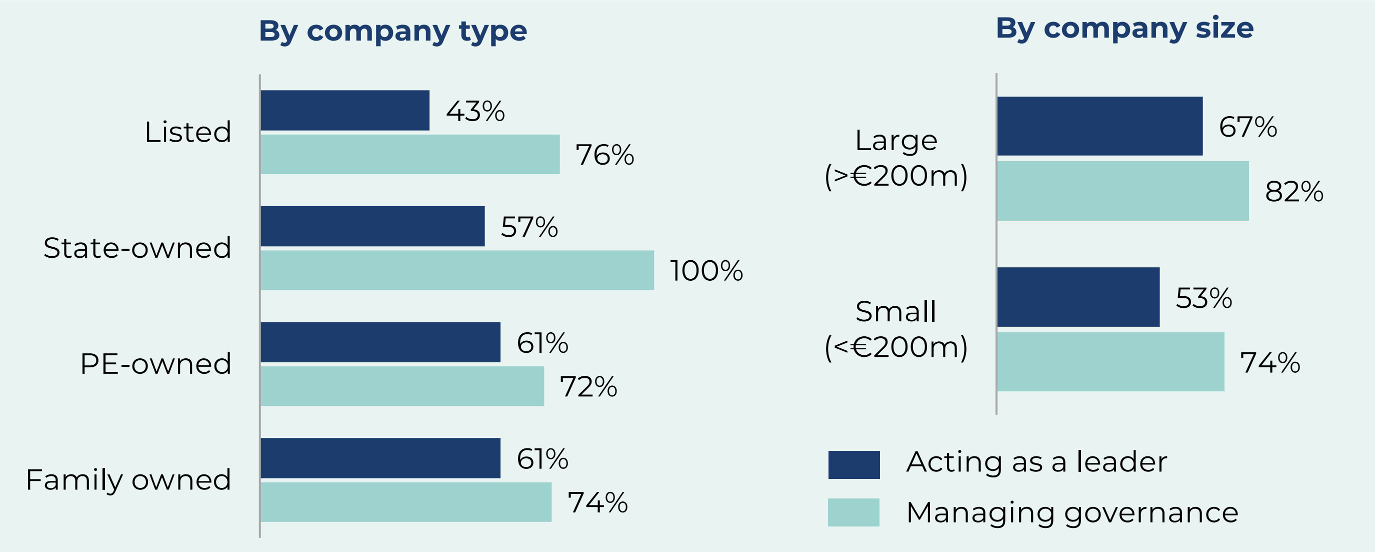
This could be because the board's governance responsibilities are based on legal requirements, and good governance practices have been clearly codified, so they are more consistently understood and executed. In contrast, there is no commonly observed, established definition for good leadership. Therefore, at least part of the perceived gap might not be related to competence as such but rather to differing views regarding how the board should act as the CEO's leader.

As an additional note, while governance was not the focus of our survey, it was fairly surprising to see that nearly a quarter of the respondents feel that the board does not handle governance and statutory matters well.

Performance by company type and size

CEOs of non-listed companies are happier with board leadership than CEOs of listed companies. Large companies outperform small companies.

Board performance



When categorised by company ownership type or company size, the gap between governance and leadership persists in every category but its prominence varies.

CEOs of large companies are generally happier with their boards than CEOs of small companies. This is true of both governance and leadership.

Share of CEOs saying they 'agree' or 'strongly agree' with the statements 'I am highly satisfied how the board acts as a leader' and 'The board manages governance and statutory matters well'

A fairly straightforward explanation for this could be that, generally speaking, boards of large companies work in a more professional manner, and it is also possible that CEOs of large companies expect less from their board – the high-profile positions they themselves hold come with an expectation of self-motivation and self-leadership.

> “ Diligence in governance and statutory matters does not necessarily correlate with better leadership ”

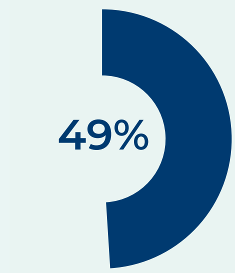
NON-LISTED COMPANY BOARDS ARE BETTER AT LEADERSHIP THAN LISTED COMPANY BOARDS

As for results by company ownership, the majority of CEOs in all non-listed company ownership types were happy with their board leadership – a clear difference from listed companies where only 43% of CEOs agreed or strongly agreed that they are highly satisfied with how their board acts as a leader. Then again, boards of state-owned companies scored 100% in managing governance. The clear observation to make here is that diligence in governance and statutory matters does not necessarily correlate with better leadership.

Three themes: strategy, results, motivating leadership

When leadership is examined by more refined themes, CEOs become more critical of their boards. Only 43% think their board excels in motivating leadership.

Board performance by theme of leadership



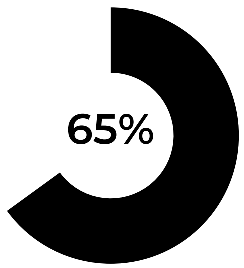
Strategic leadership

Typical strengths

- Monitoring implementation of the strategy on a regular basis
- Making decisions that are consistent with the long-term strategy

Typical development areas

- Bringing insight and knowledge into the substance of the strategy
- Establishing strategic objectives



Partnering in results delivery

Typical strengths

- Reaching clear and actionable conclusions and decisions

Typical development areas

- Focusing agenda and debate on value creation and forward-looking topics

Motivating leadership

Typical strengths

- Showing trust and backing up the CEO when needed
- Honest and open communication

Typical development areas

- Caring about the CEO as an individual

The graphs on the previous page demonstrate the share of CEOs who approve of their board's approach to strategic leadership, results delivery, and motivating leadership, respectively. The percentages indicate the portion of respondents who stated that they agree or strongly agree with the statements 'Overall, the board demonstrates excellence in strategic leadership', 'Overall, the board demonstrates excellence in partnering in results delivery' and 'Overall, the board demonstrates excellence in motivating leadership'.

Nearly half of all the CEOs are happy with their board's strategic leadership. Particularly, it appears, they are happy with how the board contributes to the implementation of the existing strategy.

The more complex part of strategic leadership, adding value to the strategy itself and setting strategic objectives, were conversely named as areas of development.

Some respondents further explain that this is not due to a lack of competence but rather a lack of business- or industry-specific insight. As one CEO comments:

> "Some board members have a lot of understanding and experience. However, at times, that does not necessarily help in defining a new long-term vision and strategy."

The majority of the respondents (65%) were happy with the board's performance in delivering results. Reaching clear and actionable conclusions and decisions was seen as a strength, but there was a need to focus the agenda and debate on value creation and forward-looking topics during board meetings. One of our respondents reported board meetings were mostly spent on interpreting figures, which, while necessary, needs to be followed by concrete actions and decisions. Another told us:

> "In my 15-year CEO career in various companies, I have not yet seen an active and forward-looking board, like it could be."

When it comes to motivating leadership, less than half of the surveyed CEOs feel their board demonstrates excellence.

While the CEOs felt trusted and backed up by their boards and praised their honest and open communication, some also felt the board did not care about them as an individual.

This reflects how the CEO believes the board sees them: are they seen as a person who performs better when they are properly motivated, or one that can and should perform to the same standard regardless of how they are treated?

Trust in the CEO can be a double-edged sword if the board does not also guide and support them. One less-experienced CEO said:

> "I have the trust and backing from the board but don't really get that much support for the operational challenges."

Another CEO, who had spent more than five years in their current role, felt that the balance was right: "The board gives me a lot of freedom and support."

CONNECTING SURVEY QUESTIONS WITH PERSONAL EXPERIENCE

It is quite interesting that when the respondents were asked about leadership in general (see: Performance by company type and size), they scored their boards higher than when they were asked about a particular aspect of leadership. This could be because leadership is a high-level concept and breaking it down by theme helped the respondents to approach the question in a more focused way, allowing them to connect it with their personal experiences.

Earlier in this report, differing expectations of the board's role as a leader was discussed as one potential reason for why CEOs feel there is room for improvement. When expanding on the subject using each of the above three themes, it becomes more apparent that skills and competencies of the board play a key role as well – with remarkable differences between different company ownership types.

Strategic leadership

The boards of PE-owned companies far outperform all others in strategic leadership. As many as 72% of PE-owned company CEOs approve of their board's strategic capabilities, which is exactly the same rating this ownership type received for handling matters of governance, the benchmark. This might be because private equity acquisitions are typically backed by an investment thesis that already contains strategic direction and the logic by which the investment is expected to generate profit. Board appointments are made based on it, and once the work begins, this well-defined vision continues to drive board performance as well as help with strategic decision-making.

One CEO of a PE-owned company felt that effective communication is also a key part of effective strategic leadership:

> "The company strategy and the current set-up are very familiar to everyone. Follow-up and continuous review are ensured both in operative management as well as on the board level."

> “The percentage approving of the strategic leadership of listed company boards was smaller than any other leadership theme for any other leadership type.”

At the other end of the spectrum, the percentage approving of the strategic leadership of listed company boards was smaller than any other leadership theme for any other leadership type. Governance requirements might play a role here; they are higher for listed companies than others, which can steer the board’s focus and resources away from strategic and value-adding themes.

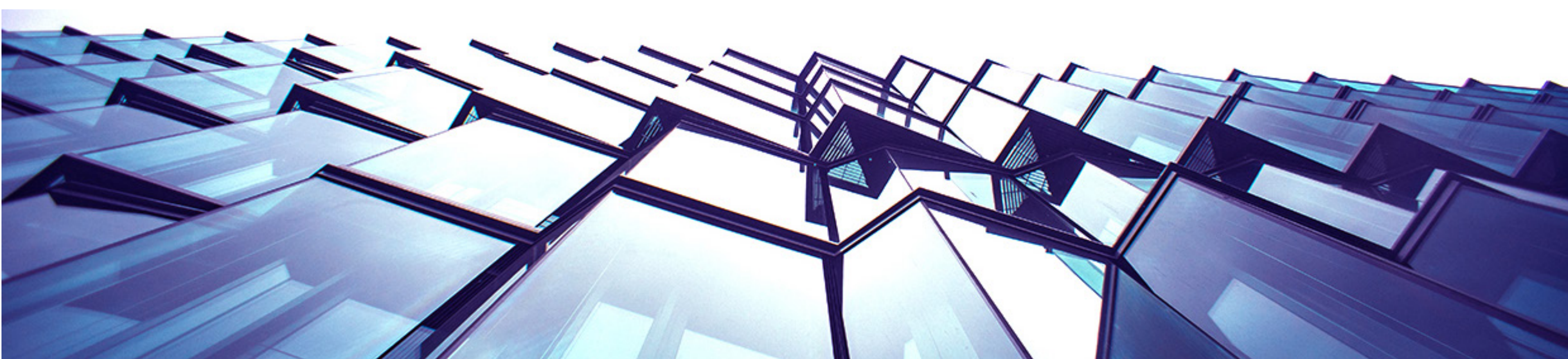
Some respondent comments, however, also suggest lack of insight might be a factor. One CEO of a listed company said:

> “The board has fully delegated the strategy process to the operational team, and the board’s contribution is somewhat limited in any strategic discussions. Instead, the board is very interested in operational issues on a detailed level.”

Boards of privately owned and state-owned companies received similar levels of approval of their strategic leadership. The CEOs of family-owned companies feel their boards should improve on delivering clear and actionable conclusions and decisions. As one CEO of a family-owned company describes:

> “The board members have strong experience and expertise, but they do not actively lead… I have to push matters towards a decision, including strategic guidelines.”

Meanwhile, state-owned companies often operate within a unique industry or area with very specific circumstances, so experience from elsewhere does not necessarily carry over well. This can certainly make it challenging for even very experienced board members to contribute effectively at a strategic level.



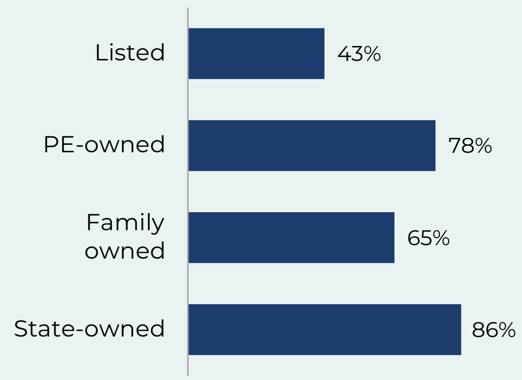
Delivering results

Of all the leadership themes surveyed, the respondents rate their boards highest for results delivery – regardless of ownership type. For example, even though the boards of listed companies scored lowest of all four categories at 43%, this figure is still higher than what they were given for strategic leadership (29%) or motivating leadership (33%).

PE-owned boards – who were the best performers in strategic leadership – also scored highly for partnering in results delivery, perhaps illustrating how strategic involvement ties in with setting objectives and taking an active role in achieving those objectives. They did not entirely escape criticism, however. As one CEO of a PE-owned company described:

> "Since the board does not understand the details related to running our business, their contributions are quite high level."

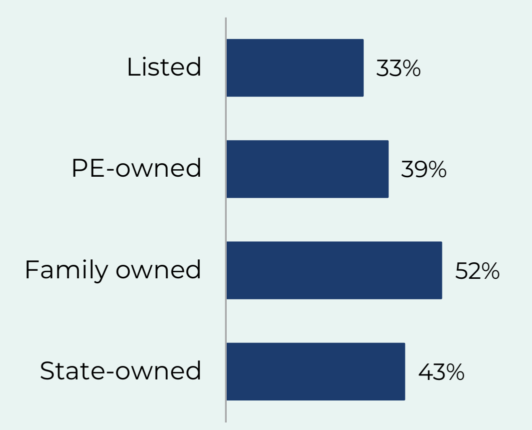
Partnering in results delivery



Another interesting angle to the relationship between objective setting and results delivery is offered by the staggering 86% of state-owned company CEOs who approve of their board's contribution in results delivery. They commended their boards for reaching clear and actionable conclusions and decisions as well as setting reasonable expectations and evaluating performance fairly.

Family-owned company boards also partner well for results delivery: "The board helped to establish a clear strategy with precise performance measurements. This brings clarity to the meetings and follow-up," one CEO commented.

Motivating leadership



Motivating leadership

CEOs of family-owned companies were the happiest with motivating leadership, praising their boards for empowering them and giving them the right amount of autonomy. It could be that private owners tend to be more personally invested in appointing the right CEO and helping them to perform, and this attitude then guides the board's approach to the CEO as well.

A CEO of a family-owned company describes seeing a clear difference to their previous experience:

> "Positive and open atmosphere will drive risk taking to deliver results. The worst case is fear in some past organisations."

Another respondent heading a family-owned company connected motivating leadership with board composition:

> "Our board is a balanced combination of long-term family-business owners and external board professionals from different industrial backgrounds."

As for listed companies, the perceived lack of involvement the CEOs described in the context of strategy and results delivery unsurprisingly resulted in a comparatively low approval of motivating leadership as well. Meanwhile, the CEOs of state-owned companies viewed their board's performance for this theme similarly to strategic leadership.

Perhaps the most fascinating finding, however, is that the PE-owned company boards who excel in strategy and delivery rank second-lowest for motivating leadership.

Unlike with listed companies, this is very unlikely to be due to lack of involvement or motivation to help the CEO to succeed. Instead, it could be due to too much involvement, as suggested by this PE-owned company CEO:

> "We have to explain the same issues many times during the month in weekly, bi-weekly and monthly meetings. Taking into account the company size, the communication is too intensive."

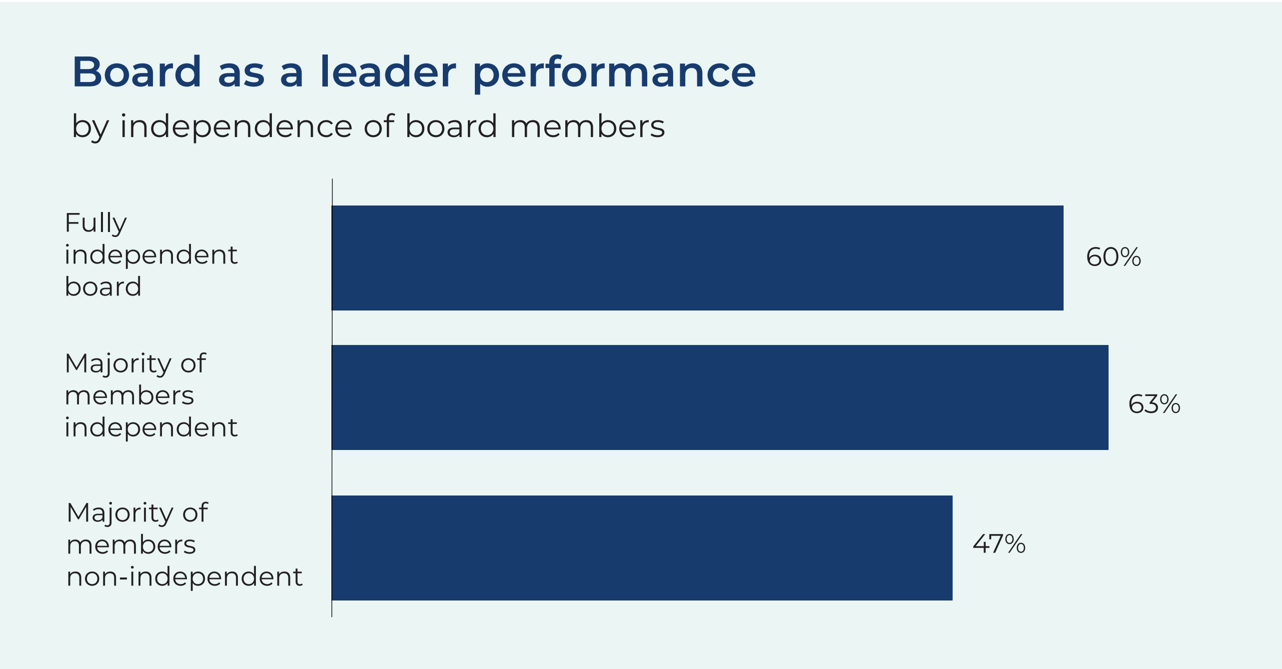
Equally, as the PE world in general tends to be driven by financial incentive, PE-owned boards might assume that a financial upside is all CEOs need in terms of motivation and that their leadership ability does not play a role. As another CEO puts it:

> "The majority of the members in my board are private equity professionals, most of whom completely lack leadership skills."

> "The PE-owned company boards who excel in strategy and delivery rank second-lowest for motivating leadership."

Board independence and CEO experience

Independent and non-independent boards have opposite strengths and weaknesses. CEOs with short tenures are less satisfied with board leadership.



Categorised by board independence, CEO tenure and CEO experience, the graphs above illustrate the share of CEOs stating they agree or strongly agree with the statement 'I am highly satisfied with how the board acts as a leader'.

Besides board leadership in general, board independence also had an interesting impact on what the respondents stated as their board's strengths and weaknesses.

Managing governance was seen as a strength of independent boards and a development area of non-independent boards, while providing valuable expertise and strategic leadership was seen as a strength of non-independent boards and a development area of independent boards.

In addition, a further analysis of the data revealed that the lower approval of non-independent boards is above all explained by the perceived lack of motivating leadership. This could be simply because having a stake in the company is not a predictor of competence as a board member or leader.

Juxtaposed with how motivating leadership was conversely a particular strength for family-owned companies, this could indicate that it is advantageous to have board members who are personally involved in the company, but only when the board is complemented with a sufficient number of external professionals as well.

TURBULENCES OF THE EARLY YEARS

Few differences were found when the survey results were examined by differentiators of the CEOs themselves. The only notable observation is that CEOs who have been in their current role for less than two years are less satisfied with board leadership than others.

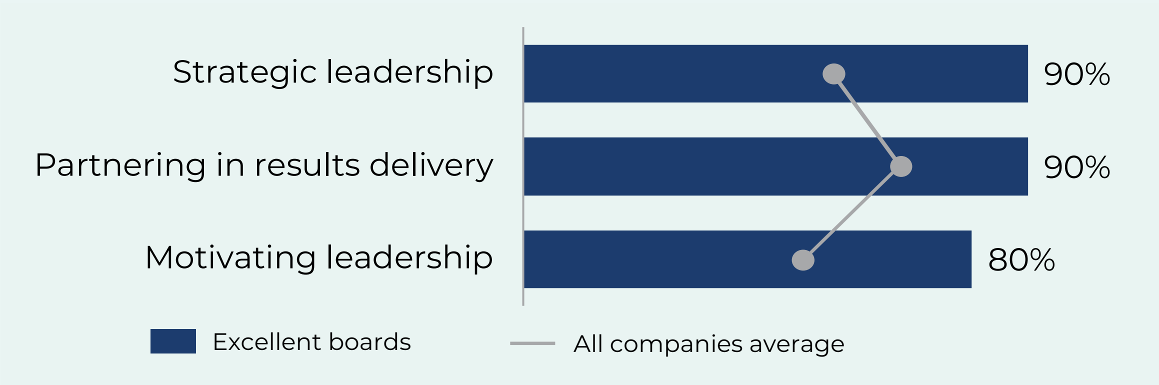
Part of this is certainly because more support is needed at the beginning: in our survey, new CEOs stated they appreciate the expertise that the board provides but can feel overwhelmed by requirements, and that they expect more actionable and clear decisions from the board.

The working relationship between the CEO and the board also develops and matures over time, and it is likely that the CEOs and boards who have worked together for more than 2 years would have resolved any potential incompatibility issues by that time as well. Interestingly, it appears that lack of experience itself has no impact on how CEOs view board leadership, as demonstrated by how experience as a CEO does not seem to affect results very much.

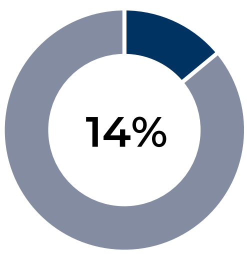
What ‘excellence’ looks like

The ability to contribute to strategy and strategic decision making is the key differentiator, calling for a future-oriented focus and competence relevant to the business.

Performance of excellent boards vs all



Excellent boards



In this final section, we are examining the top-performing boards through the 14% of our respondents who stated they ‘strongly agree’ that they are highly satisfied with their board as a leader.

These respondents rated their board as demonstrating excellence in strategic leadership in 90% of cases (vs 49% in the overall results for all surveyed CEOs), demonstrating excellence in partnering in results delivery in 90% of cases (vs 65%) and as demonstrating excellence in motivating leadership in 80% of cases (vs 43%).

These top-performing boards are described as having a firm grasp of strategy goals and content, being forward-looking and able to lead, as well as able to motivate and show their appreciation for the CEO.

Overall, strategic leadership seems to be the greatest differentiator in which excellent boards demonstrate good leadership by:

- Contributing effectively to the strategy process and establishing strategic objectives
- Bringing insight into the content of the strategy
- Focusing the board agenda and debate on value creation and forward-looking topics

One CEO of a top-performing board summarises:

> "We have clear strategy done by management and discussed and agreed with the board. Owner targets were driving strategy setting, and management has to be 100% autonomous to implement the strategy. The board is staying out of operations and that is how it should be."

Many respondent comments also highlighted mutual trust and respect as underlying factors fostering success, with one such comment describing:

> "The board is counting 100% on management performance. It is a great balance, and the MD is considered a colleague within the board."

Conclusions

Together, the quantitative data and qualitative insight from respondent comments draw a fairly harmonious picture of how CEOs of major Finnish companies perceive boards as their leaders. Generally speaking, the board's support and leadership are appreciated by the CEOs, who also feel the boards trust them and value the work that they do.

There are certainly also some clear opportunities for development.
Large companies with independent boards appear to have a somewhat mechanical approach to board work.

This means they take care of governance and business monitoring at a high standard, working in a professional manner and treating the CEO fairly, however they also remain somewhat distant towards the CEO and do not succeed in providing sufficient business- or industry-specific insight and subsequent strategic clarity. This gap is particularly prominent for listed-company boards.

At the opposite end of the spectrum, **PE-owned company boards contribute with a strong strategic vision, agenda and incentive to perform well.** At the beginning of this report, we suggested that besides competence needs, perhaps different expectations of leadership also play a part in explaining the results.

PE-owned company boards in particular would do well to take note of this, as they clearly underperform in motivating leadership. Supporting the CEO and seeing them not just as a professional but also as a human being, is inarguably a part of modern leadership competence and yields far better results than motivating by financial incentive alone.

CEOs also need autonomy, freedom and respect for their time – it is detrimental to their performance if they spend all their time explaining themselves to the board or being micromanaged by it.

However, while people skills are part of good board leadership, this should not be taken to mean they form the core of it. Time and time again, the CEOs we surveyed highlighted the importance of clarity over what has been decided and what is expected of them.

Clarity, as perceived by the CEOs, is an indicator not just of good board working practices but, most importantly, of strategic leadership.

In our survey, strategic leadership also set the best apart from the good. It is founded on sufficient breadth and depth of insight, ideally with people very involved in the business in question sitting on the board as a minority, with the rest of the board consisting of professionals with sufficiently diverse competencies to match the company's current needs.

Besides board composition, **what the board chooses to concentrate on also matters**: time management and agenda setting need to facilitate forward motion and future-oriented thinking instead of focusing on numbers, retrospective analyses and matters of governance. Then, once the CEO leaves the board meeting, hopefully energised and inspired, they are also equipped with clarity over strategy.

> “Time management and agenda setting need to facilitate forward motion and future-oriented thinking instead of focusing on numbers.”

This allows them to feel supported and sure about which way to steer the company not just within the immediate operational context or as per the latest roadmap, but also in terms of the company's direction when it comes to the wider scheme of things, its place in the world and its journey through the unknowns of the future towards the envisioned destination.

About the author

Having the right people in leadership positions is essential to ensuring that your organisation's CEO and its board work smoothly, efficiently and constructively together to lead, motivate and deliver results. Every organisation needs to recruit – and to retain – the best possible people in its key leadership roles.

This report and the survey it was based on were compiled by the experts at Odgers Berndtson Finland. With extensive experience and expertise in identifying, attracting and developing global leadership talent, the team guides its Finnish corporate customers towards executive appointments and helps them build outstanding leadership teams.

Globally, Odgers Berndtson is a renowned expert of leadership talent with offices in 33 countries, with the scale, reach and experience to successfully deliver executive search, assessment and leadership development to businesses and organisations around the world.

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