Governance Insights Center

How effective is the board? It depends on who you ask

July 2024

The five questions boards should be asking themselves

In a time of change for many organizations, two recent PwC surveys show that boards and the C-suite don't always see eye-to-eye on some key topics. We compared the results of our *Annual Corporate Directors Survey* (ACDS) and *Board effectiveness: A survey of the C-suite*. The findings show that directors and executives have different views on topics such as board effectiveness, composition, refreshment, board understanding and knowledge of key business risks, and the ability of boards to guide their companies through a time of crisis.

We've identified five areas where directors' views differ substantially from those in the C-suite. Boards should view each of these as an opportunity for productive discussion that can ultimately strengthen the relationship between them and management.

1. **Does my board have the right expertise to provide future-ready governance?**
2. **How can my board overcome the obstacles of making needed composition changes?**
3. **Are my board colleagues fully committed to performing their oversight responsibilities?**
4. **Is my board providing effective oversight of emerging risks?**
5. **Has my board done everything it can to prepare to lead during a crisis?**

1. Does my board have the right expertise to provide future-ready governance?

The roles and responsibilities of today's board members look different from those of their predecessors. The modern director's oversight role has greatly expanded as corporate strategies quickly pivot to address competitive pressures, acquisitions and new technologies. In this environment, boards need a different roster of skills and experience oversee the organization.

But our C-suite survey on board effectiveness found that only 28% of executives feel their boards are armed with the right combination of skills and experience. There was also a wide disparity between the importance of having specific competencies on their board. While executives prioritized industry, regulatory/public policy and environmental expertise as their top three competencies, directors prioritized more of the traditional board oversight areas like finance, risk management and operations.

Different views on critical expertise needed on the board

Directors	Executives
1. Finance	1. Industry
2. Risk management	2. Regulatory/public policy
3. Operations	3. Environmental

Q: How would you describe the importance of the following skills, competencies or attributes on your board?; How would you describe the importance of having the following areas of expertise on your company's board?

Base: 611-616 (Directors); 548-569 (Executives)

Sources: PwC, *2023 Annual Corporate Directors Survey,* October 2023; PwC and The Conference Board, *Board effectiveness: A survey of the C-suite,* April 2024.

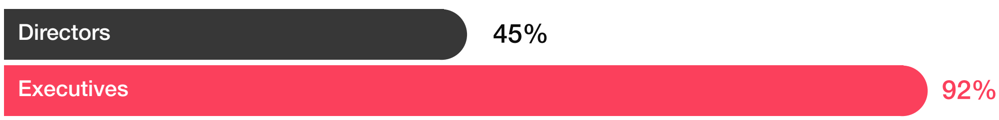
Interestingly, the very areas that are on executives' wish list in the near term — environmental/sustainability, AI/ GenAI and IT/digital — are the same areas executives say are getting too little board attention. Directors view these areas of expertise as less important to have on their boards than core areas like financial and risk management expertise.

The takeaway: Closing the gap between these views is a two-way street. Executives can drive the upskilling agenda by championing subject matter education and providing clearer and richer reporting. Boards, on the other hand, can increase their focus on high-risk areas and lean on external experts to gain deeper insights into these topics. They can also cultivate deeper, more meaningful relationships with the entire C-suite, not just CEOs and CFOs. To that end, many board and committee chairs are now in the habit of holding periodic calls with relevant executives in advance of — and even apart from — board and committee meeting schedules.

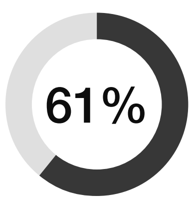
2. How can my board overcome the obstacles of making needed composition changes?

One of the hurdles to adding needed expertise is board refreshment. We found that 45% of directors believe at least one of their board colleagues should be replaced and that percentage has stayed consistent over the last five years. Directors mention a reluctance to challenge management and fellow board members overstepping their oversight role as two possible reasons for needing refreshment.

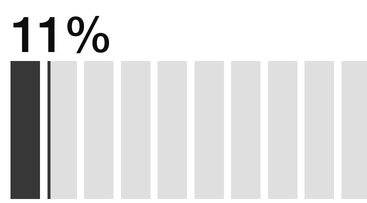
Someone on the board should be replaced



Most directors say their boards are taking action from assessments...



...but few directors say their boards removed an underperforming director



Q: In your opinion, how many directors on your board should be replaced?; In response to the results of your last board/committee assessment process, did your board/committee decide to do any of the following? (select all that apply)

Base: 614 (Directors); 620 (Executives); 600 (Directors)

Sources: PwC, *2023 Annual Corporate Directors Survey,* October 2023; PwC and The Conference Board, *Board effectiveness: A survey of the C-suite,* April 2024.

Yet, not all boards are utilizing one of their most effective refreshment tools — the assessment process. Directors point to an ineffective assessment process and board leadership's unwillingness to initiate difficult discussions about stepping down as two of the stumbling blocks to board refreshment. Our ACDS also found that 61% of directors say their boards are taking action based on assessments, but just 11% say their board's assessment processes resulted in the decision not to renominate a director.

This is leading to growing dissatisfaction among executives. A record-high 92% of executives advocated replacing at least one board member. Yet only 45% trust their boards to remove underperforming directors.

The takeaway: Boards should be introspective and conduct an assessment of the full board, committees and individual directors, as well as a comprehensive board skills/experience gap analysis that aligns with the organization's short- and long-term strategies. Such analysis should be coupled with the board building a pipeline of diverse, qualified candidates. Over time, boards should update prospective candidate profiles to include relevant skillsets that can fill these gaps. Boards should also be open to discussing mandatory tenure and retirement ages and expanding their sizes to accommodate candidates that can add immediate value.

3. Are my board colleagues fully committed to performing their oversight responsibilities?

What may be compounding concerns about board refreshment is that many executives believe some current directors are overboarded.

Our C-suite survey on board effectiveness found that 69% of executives think a current director serves on too many boards (that percentage was even higher for the largest companies, with revenue more than $10 billion). In turn, just 29% of executives think their boards spend enough time doing their jobs and almost half say they consistently observe board members who are unprepared for meetings. Another 37% believe their boards have directors who do not actively participate in strategic dialogue.

Overboarding concern among executives is rising, but directors aren't seeing it

Q7: Do you believe any of the following about any of your company's board members? (select all that apply) Serves on too many boards

Base: 619 (Executives - 2023); 607 (Directors - 2023); 600 (Executives - 2022); 693 (Directors - 2022)

Sources: PwC and The Conference Board, *Board effectiveness: A survey of the C-suite,* April 2024; PwC and The Conference Board, *Board effectiveness: A survey of the C-suite,* May 2023; PwC, *2023 Annual Corporate Directors Survey,* October 2023; PwC, *2022 Annual Corporate Directors Survey,* October 2022.

Overboarding may only partly explain that sentiment. The heightened scrutiny of board seats comes at a time when directors' responsibilities are evolving. The scope and volume of information sent to the board is increasingly complex. It may touch on areas of strategy and risk mitigation unfamiliar to some members. Indeed, the findings of our C-suite survey on board effectiveness apply to all directors, regardless of how many boards they sit on.

Directors aren't seeing it that way, though. Just 7% believe their colleagues serve on too many boards, and 94% of directors say they have enough time to prepare for meetings.

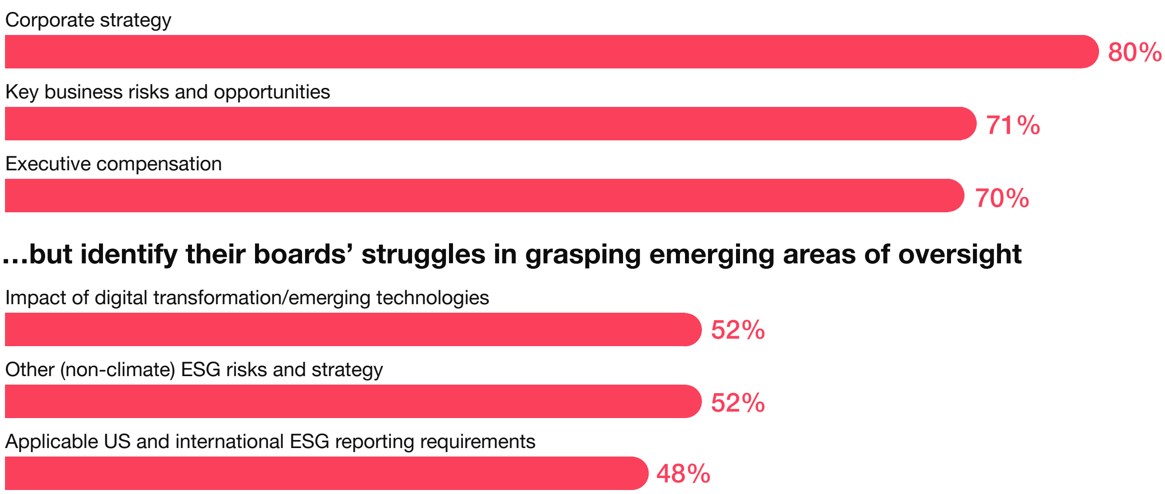
The takeaway: Boards should take a fresh look at their overboarding policies, especially given that overboarding concerns have become a key driver for recommendations or votes against director elections in recent years. But this is also an opportunity for management to provide more in-depth but concise reporting to drive director engagement, including calling out any material changes and interpreting key data. Management should provide the reporting well in advance of any meeting and make it clear what they think the board should focus on and where they need board input.

4. Is my board providing effective oversight of emerging risks?

Executives continue to express confidence in their boards in traditional areas such as strategy and knowledge of key business risks, but they are less confident about areas such as digital transformation and sustainability.

Executives and directors tend to disagree on how much time to spend on these issues and how important it is for the board to have expertise on these subjects. Half of the executives surveyed are looking for an infusion of new AI/GenAI expertise on the board in the next 3-5 years, and 40% want directors with IT/digital expertise. But just 22% and 28% of directors believe it is very important for the board to have IT/digital and cyber risk expertise, respectively. It's a similar story with sustainability — 57% of executives believe it is very important to have environmental/sustainability expertise on the board compared with just 11% of directors.

Executives affirm their boards' proficiency in key oversight areas



Q: How well do you think your board understands the following about your company? Response: Very well and somewhat.

Base: 612-620

Source: PwC and The Conference Board, *Board effectiveness: A survey of the C-suite,* April 2024.

The takeaway: Boards should acknowledge and act on the fact that executives are looking to them for greater leadership and guidance in these key areas.

The survey findings are also a recognition of AI/GenAI's transformative potential, as well as the risks. Boards should discuss using refreshment to add deeper digital knowledge and expertise, educating their current directors on emerging technology or doing a combination of both.

On sustainability, we have begun to see a shift in sentiment. Fewer executives (48%, down from 65% in 2022) believe it's not getting the board attention it deserves. That's likely due to a wave of new sustainability disclosure regulations in the US, Europe and other regions. Boards should discuss whether oversight of these issues should fall to the full board or a specific committee. And to better understand what is happening on the ground, the board should regularly hear from the management team overseeing both the opportunities and risks related to sustainability.

5. Has my board done everything it can to prepare to lead during a crisis?

Almost all of the directors surveyed (96%) say they are confident their boards can lead their organizations through a crisis. Executives, though, aren't as sure. While they have faith directors can make value-driven decisions and plan for the future, just 66% trust their boards to steer the ship in a time of crisis. Granted, that confidence level is rising: In our 2022 survey just 48% of executives trusted their boards to guide the organization through a trouble spot.

Directors' confidence may be leading to a potential blind spot: just 70% have participated in tabletop exercises and 48% say their boards have not created a formal crisis management escalation policy.

The takeaway: After navigating a series of major global health and geopolitical crises, it would be surprising if management teams weren't more prepared than they were four years ago. But boards should not conflate periodic discussions of this topic with being prepared for the next big crisis. They should make crisis management part of their annual strategy session and devote time to tabletop exercises.

96% of directors are confident their board can guide the company through a crisis

Yet, 70% have not participated in tabletop exercises

48% have not created a crisis management escalation policy

Q25. How confident are you in your board's ability to effectively: Responses: Very much and somewhat; Q16. With regard to crisis management oversight (e.g., cyberattack, natural disaster, financial fraud allegations), has your board done any of the following?

Base: 550; 571-576

Source: PwC, *2023 Annual Corporate Directors Survey,* October 2023.

Next steps:

Challenge your fellow directors to build strong relationships with the C-suite

Our surveys paint a complex picture of the current state of board effectiveness. The above five questions reveal diverging viewpoints between executives and directors on key issues. But bridging the sentiment gap is a challenge worth accepting.

For their part, directors should educate themselves on the business so they can ask tough questions and challenge management when appropriate. Management should provide boards with more in-depth but concise reporting and be open to director engagements outside of regular meetings. By having candid discussions of these issues, boards and management can develop closer connections that can help companies stay on the road to success.

How PwC can help

To have a deeper discussion about how this topic might impact your business, please contact your engagement partner or one of the PwC specialists below.

Contacts

Ray Garcia
Leader, Governance Insights Center
ray.r.garcia@pwc.com

Paul DeNicola
Principal, Governance Insights Center
paul.denicola@pwc.com

Carin Robinson
Director, Governance Insights Center
carin.l.robinson@pwc.com

Catie Hall
Director, Governance Insights Center
catherine.hall@pwc.com

Relevant resources:

2023 Annual Corporate Directors Survey

Board effectiveness: A survey of the C-suite