



Why boards should think like activists

After slowing for some of 2020 during the pandemic, activist investors are back. Many boards will benefit from asking themselves some of the questions activists would ask—before activists do.

As boards adjust to new norms following the events of the last year, thoughtful boards will understand that the new demands on them and the agility many discovered during the pandemic together present an opportunity to reassess themselves and senior leadership teams and make changes that might not have been possible before. Furthermore, if boards don't undertake a reassessment themselves, activists may well see new opportunity. Following the pandemic-related downturn in activist activity of mid-2020, the first quarter of 2021 saw a second consecutive quarter of elevated global activity—53 new campaigns were initiated, which is in line with first-quarter 2020 levels.¹

Boards that evaluate themselves and their organization's executive leaders as activists might (and before the activists do), focus on the board's specific purpose in strategic planning and implementation, and stay in touch with their other major shareholders have the best chance of providing stability as activist activity ramps up again.

¹ Lazard, "Lazard's Quarterly Review of Shareholder Activism – Q1 2021," April 14, 2021, [lazard.com](https://www.lazard.com).

Focus on the board's strategic purpose

All boards benefit from ensuring their members are aligned, with a common purpose and shared goals in support of the company's strategy.² At a time when that strategy and its implementation may have changed much faster than most boards refresh themselves, such reflection can be particularly valuable.³ Boards should start by making the time to assess their role in the context of today's and, possibly more important, tomorrow's environment, taking into account organizational purpose, pandemic recovery, and political volatility, among many other considerations. They should assess their own ability to mobilize, execute, and transform with agility—and their ability to support the leadership team in doing the same. If boards don't step back and assess their purpose and strategy themselves, an activist may well force the conversation. Boards should also stay actively engaged and in communication with institutional or other major shareholders in order to ensure that their perspectives and needs are addressed.

Ensure the board has the right mix of competencies

Even the most well-managed organizations may well have—and need to understand—weak spots in their leadership, some of which may have been exacerbated by the events of 2020. As the remit for boards continues to grow, so do the expectations of the board's agenda and dynamics, composition, and capabilities.⁴ Boards should review their status, capabilities, and refreshment processes regularly to help ensure they are as strong as possible since, again, activists may otherwise force changes.

Review the board's agenda and dynamics

In the wake of radically shifting their processes and norms, boards can now take some time to review their priorities and ensure that their meeting agendas and overall efforts are their helping organizations meet their current strategic goals. Boards can use their organization's purpose as a starting point to determine whether their current agenda and activities are working to support the fulfillment of that purpose. They must also ensure that the responsibilities of the board and management are clearly delineated.

Assess the board's overall composition and capabilities

Today, more public company boards work harder to align their composition with their company's strategy, for example, and to focus more on the value of diversity in making better decisions as well as meeting stakeholder expectations. In addition to a review of their strategic purpose, most boards will benefit from reassessing their composition: the mix of skills, expertise, backgrounds, and board experience their members need in order to take their companies into the future. Taking this time will allow chairs and nominating committees to understand if they need to make changes to cadence, term length, term or age limits, or board size.

Heidrick & Struggles' most recent research on Fortune 500 boards found that in 2020, boards continued to prioritize adding directors with prior experience serving on public boards—62% of appointments in 2020, respectively. Nearly a quarter of new director seats were filled with people with financial risk expertise, but only 6% were filled with directors with sustainability experience.⁵

Board tenure and refreshment can be vulnerabilities for boards, as many boards lack diversity and long-tenured members can be seen as too close to management. Our research found that Fortune 500 boards continued to make significant progress appointing women—41% of all appointments in 2020, slightly down from 44% in 2019. But the most marked change was in the share of new Black directors in 2020: 28% of the seats filled in 2020 went to Black directors, up from just 10% the prior year and years of little progress before that. Just over three-quarters of those appointments were made after the murder of George Floyd on May 25, 2020. However, the appointments of other people of color continues to be disappointingly low, with only 9% of seats going to Asians and Asian Americans, and 4% to Latinx people. Looking ahead, we believe it is crucial that boards not trade off one form of diversity for another.

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2 Alice Breeden and David Hui, "A board review that accelerates competitiveness," Heidrick & Struggles, on [heidrick.com](#).

3 For more on new approaches to board refreshment, see Alice Breeden, Theodore L. Dysart, and David Hui, "Building the foundation for better board refreshment," Heidrick & Struggles, on [heidrick.com](#).

4 For more on the challenges facing boards and how they can meet them, see Alice Breeden, David Hui, and Anne Lim O'Brien, *Future-Proofing Your Board*, Heidrick & Struggles, on [heidrick.com](#).

Nominate someone who thinks like an activist

All that said, one additional area of expertise to consider in the current context is the ability to ask questions from an activist's perspective—particularly, but far from exclusively, on financials. Having such a director can ensure boards look at the fundamentals with fresh eyes. Boards can do this by making sure they have one or two directors with investment expertise or who can provide a corporate perspective with deep financial acumen, such as a public company CFO. Understanding the types of financial situations that can draw activist attention—large cash reserves, for example—can also help the board and management prepare.

For boards of organizations that may need to restructure, bringing such expertise in house is even more important. Intimate knowledge of the process, fees, creditor rights, and key players—including lenders, law firms, turnaround consultants, and restructuring advisors—can help boards make better decisions with tight timelines.⁶

Ensure the company has the right executive team for the long term

Boards should use what they learned about the executive leadership team during the past year to assess whether they have the right team for the long term. More than ever, internal and external scrutiny is focused on how people are being managed, whether operations are sustainable, and what the purpose-driven business strategy will be moving forward.

When evaluating current CEOs and making succession plans, boards should keep in mind how management responded to the challenges of the COVID-19 crisis, global calls for social and racial justice, and the greater focus on organizational purpose through 2020, as well as how investors, employees, and other stakeholders reacted. But boards must balance those actions with the leadership capabilities that will be needed to guide the company going forward.⁷ An important element of succession planning, particularly after a crisis that may have brought the stakeholders of a company together, is to de-personalize the choice of the CEO—as activists typically do. Too often, succession planning is about individuals rather than what the CEO will actually need to be able to do. Developing a CEO profile requires a clear understanding of the company's strategy and challenges as well as what combination of CEO skills and priorities will best convince all investors that the best leaders are both in place and being developed to ensure stable leadership in the long term. In addition, the volatility of 2020 has underscored the importance for organizations to have ready-now successors in the event of an emergency.⁸

Boards that take this moment to evaluate their capabilities and priorities as well as those of their senior leaders, reassess their strategic role, update succession and crisis management plans, and stay in contact with institutional investors will help their companies thrive. Taking the dispassionate perspective of an activist while doing so may well strengthen companies enough that they won't face another round of disruption.

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⁵ Heidrick & Struggles, *Board Monitor US 2021*, on heidrick.com.

⁶ For more on restructuring, see Elisabetta Bartoloni and Shannon Bade, "Restructuring expertise: Bringing a new voice to the boardroom," Heidrick & Struggles, and Elisabetta Bartoloni, "Successful financial restructuring during unprecedented times: An interview with Stephen Spencer, managing director at Houlihan Lokey," Heidrick & Struggles, on heidrick.com

⁷ For more on leadership capabilities, see Steven Krupp and Becky Hogan, "Agility for the long term," Heidrick & Struggles, on heidrick.com.

⁸ Bonnie Gwin and Jeffrey Sanders, "The clock is ticking on CEO succession: Is your board ready?" Heidrick & Struggles, on heidrick.com.

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