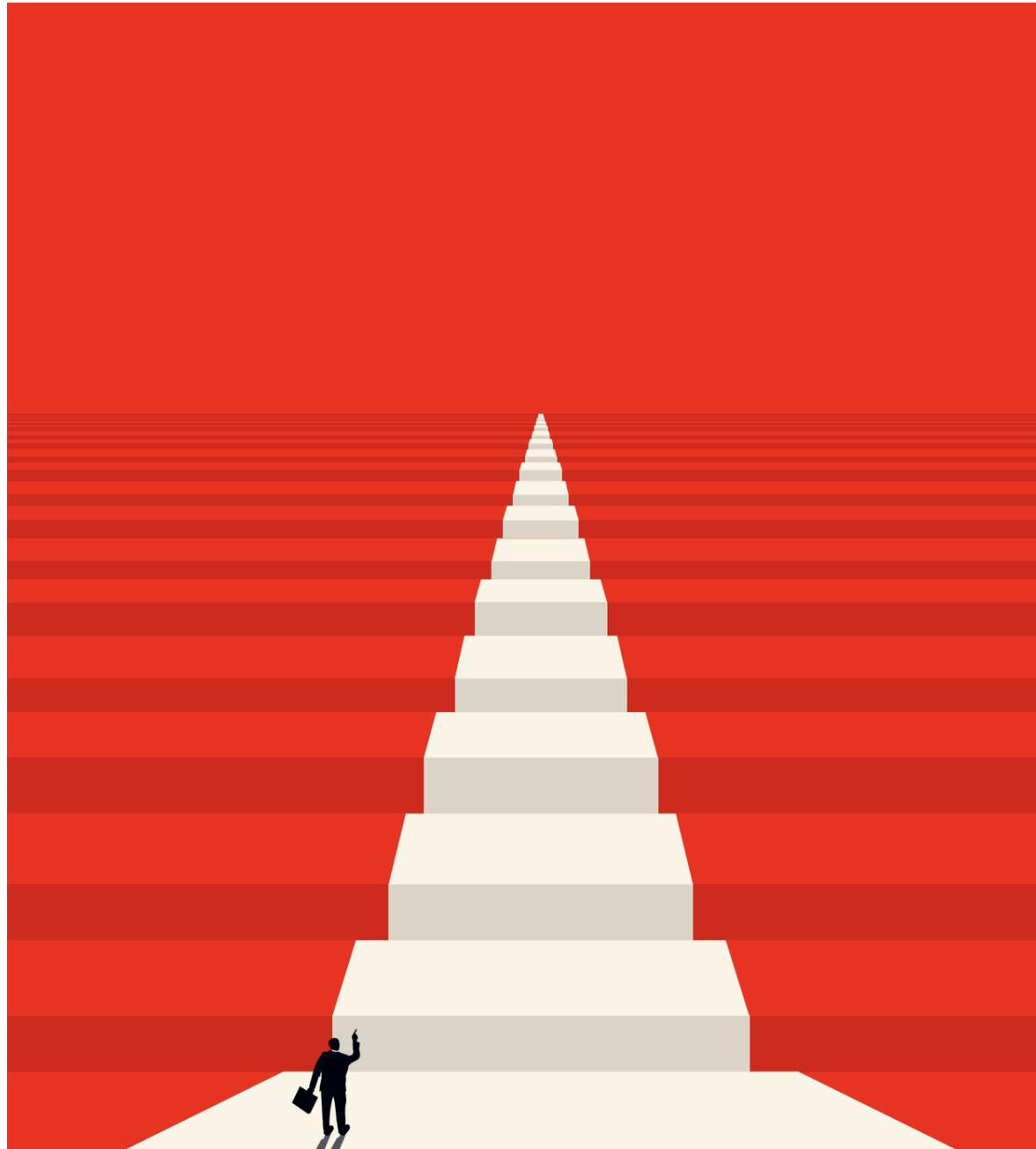


The Darwinian



Factor

There are key challenges for boards and how they are adapting to thrive in 'the new normal'

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A board chair recently shared the following perspective with me which I believe is not unique in terms of characterising the incredible challenges boards have faced since COVID-19 emerged. "I believe we have a genuine group-think problem where our board and executive team are collectively in denial in terms of how serious the problems confronting the company are. There is incredible reluctance to even consider changing the company business model. The government furlough scheme will not last forever, our customers' world has been turned upside down, disruptive new technologies are lowering the barrier to entry in our market sector. I'm getting increasingly concerned that as a board, we're just waiting for everything to go back to the way it was and that we're not capable of adapting to this new world".

In boardrooms across the UK and the world, many board teams have faced their greatest ever crisis over the last six months since the initial emergence of COVID-19. This crisis is continuing and on a daily basis we are witnessing alarming increases in employee layoffs across a wide range of sectors. Many boards have found that while they function well in 'peacetime', how the board has and continues to handle this crisis is providing an unprecedented test of a board's calibre, composition, effectiveness, decision-making, leadership, performance and stewardship. Many of the strongest board and executive teams have struggled so it is no surprise that the COVID-19 crisis has highlighted inherent weaknesses in many boards that are having profound implications for the quality of leadership they have shown to help steer their organisations through a storm that shows no sign of abating.

Setting the Scene

Perhaps the greatest challenge boards are experiencing right now is the continued high-level of

uncertainty and volatility which is making planning extremely difficult. Historical data and forecasting models are of limited or little use given the complexity and volatility of the market environment. New data and completely rebuilt analytical models will be essential to steer operational decisions in a far more fluid approach. Many current business models and three to five-year strategies have become obsolete overnight. In the initial months of the pandemic, boards and executive teams had to adapt rapidly in firefighting mode moving at hyper-speed to make major and far-reaching decisions often with very little visibility and hard data. There continues to be incredible levels of disruption to supply chains and as we are increasingly seeing the re-emergence of public health restrictions across the world, the relentless pressure on boards to make the appropriate big calls shows no sign of slowing down.

The Brutal Reality

The opening quote in this article gives a very illuminating insight into one of the biggest challenges for many company boards in terms of genuinely facing up to the scale of disruption and change in both their customers and their market landscape. Many boards, particularly those with very solid long-standing market positions, have found it particularly difficult to accept that in many sectors, customers and the market are simply not going to return to the pre-COVID-19 world. The severe nature of the disruption has resulted in customers having to significantly change in terms of their needs and engagement model, both on the consumer and enterprise side, and this disruption in certain sectors is weakening the traditional market hierarchy and lowering the barriers to entry for new players. Progressive boards are taking a brutally honest approach to ensure that they understand where their customers' needs are at today, how they are continuing to change, how their direct competitors are evolving, and how peer companies around the world are innovating with their business models and customer engagement approaches.

Calibre, Composition and Performance

A CEO of a significant-sized company recently shared with me his deep disappointment at how little value the non-executive directors on his board added in the last six months during this crisis. While he acknowledged that the non-executive directors (NEDs) put in a significant effort in terms of a significantly expanded board and committee schedule, the bottom line is that this is an 'oversight-centric board' and there is very little 'strategic firepower' around the board table. The company is in a sector significantly impacted by COVID-19 and is having to radically evolve its business model with a particular focus on rapidly accelerating its digital transformation programme. As we talked through the challenges, the following emerged as key factors which led to this situation:

- the board has a majority of NEDs from a financial background
- there is only one industry-specific non-executive director
- no technology expertise exists within the ranks of the NEDs
- very little experience of business model transformation
- a board that at the CEO's own admission was not used to collaborating with the executive team on strategy and were 'shocked and surprised' to be asked to come up with some left field thinking on radical strategy shifts.

What the COVID-19 and enveloping economic crisis has shown up in pretty stark terms in some cases is that many boards are 'safe oversight-centric boards' who work perfectly well in steady state, where an organisation has a very solid position in its sector, a very capable CEO and executive team and while there is competition in their sector, the organisation is able to maintain its position 'without leaving third gear'. In these boards, very few of the NEDs 'move the needle' in terms of serious disruptive strategic thinking and the range of thinking styles around the table is very narrow. Over the years, I have had many interesting debates with CEOs who I felt unfortunately were very comfortable and happy to see this lack of 'high-calibre NEDs with serious strategic firepower' around the board table who could not only pose a very high level of thoughtful challenge and debate to the CEO/executive team but could also bring genuine independent fresh thinking, creative approaches to major dilemmas and ultimately enhance the strategic firepower of the overall team.

Harsh Lessons

One consistent piece of feedback I have heard from many boards across many sectors is that this crisis has illuminated the critical value of genuine board diversity in terms of a wide range of thinking styles

and genuine 'independence of mind'. This makes absolute sense in terms of the ability of a genuinely diverse board across gender, age, sector background, professional background, customer demographics and thinking styles to have the capability to take a step back, bring a wide range of perspectives to help the board and the executive team to discuss and develop a very honest and accurate perspective of the current situation. Several CEOs and executive teams have also commented to me that they were genuinely taken aback by some of the inspiring left-field suggestions and asymmetric thinking from their NEDs. I believe one of the root causes of some serious mis-steps by boards in recent months has been due to an underlying group-think problem which inhibited the radical range of disruptive thinking needed.

As the first firefighting phase of the COVID-19 and economic crisis is now transitioning to a 'new normal' many board chairs, CEOs and nomination committees are soul-searching around their board composition, diversity of thinking styles, skill-sets and the strategic firepower of their NEDs. In many cases, they are coming to the realisation that they have a critical imperative to act decisively on behalf of their shareholders, employees and stakeholders and to be bold in genuinely bringing in fresh blood to strengthen the board and ensure that the board is an outstanding high-performing diverse board with a broad range of thinking styles, independence of mind, skillsets and strategic capability that can enable the organisation to adapt and thrive in the months and years ahead. In some cases, this will involve the addition of new NEDs. In other cases, the board chair will have to make some tough calls and replace some of the existing NEDs, many of whom have served for many years but are not capable of making a strong contribution for the next phase of the organisation's journey.

Business Models

Perhaps the biggest test for boards since the emergence of the crisis has been the capability of a board and executive team to adapt their business model and organisational strategy. One of the most effective approaches I have seen boards adapt is a very flexible and fluid approach to strategy based on a very practical correlation of strategic scenarios, actions and trigger points correlated with a range of scenarios involving the virus-spread and public health response with the corresponding economic impacts. McKinsey have done some great work in this area and I have highlighted their five-step approach here.

- (1) Gain a realistic view of your starting position
- (2) Develop scenarios for multiple versions of your future
- (3) Establish your posture and broad direction of travel
- (4) Determine actions and strategic moves that are

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- robust across scenarios
- (5) Set trigger points that drive your organisation to act at the right time.

This approach has as its foundation the reality that in our current world of extreme uncertainty, a rigid deterministic plan won't be right for very long – the key is to focus on a flexible plan that is iterating based on trigger points. Many executives and boards are now embracing a much more agile, real-time approach to resource allocation, perhaps one of working in quarterly sprints. I have also seen an increasing focus on boards and executive teams operating at high-speeds where the bias is towards speed, flexibility and pragmatism rather than perfection.

Prior to the crisis, I believe there was genuine momentum being built in terms of boards embracing Environment, Social and Governance (ESG) trends. I believe many boards have a serious day of reckoning coming in the next few months where the board's commitment to do the right thing long-term, taking a genuine multi-stakeholder perspective is going to be severely tested. As government supports for employees start to taper off and the full dark shadow of the pandemic continues to envelop so many sectors, many boards will have fundamental decisions to make in terms of the balance between for example dividends to shareholders, and retaining a significant number of employees who in a number of cases demonstrated commitment to their companies and customers through the very difficult first months of the crisis. This is also a major test for shareholders and institutional investors to 'walk the talk themselves' in terms of supporting a board who are genuinely taking a long-term approach to sustainable success for the company with a balanced approach across the needs of their shareholders and stakeholders. On a positive note, I have been very encouraged to see a number of progressive boards take the opportunity to embed climate change as part of new business model and strategic directions.

Seizing Opportunities

While quite a number of boards are continuing to struggle to cope with severe challenges in their sector, there is a cohort of boards who are seizing the opportunities to buy crisis-weakened competitors and adjacent sector companies at attractive prices. Boards are embracing the concept of 'crisis is the mother of invention' to deliver new innovative business models and re-thinking supply chains. While capital expenditure programmes have been dramatically curtailed in most areas for organisations,

one area stands out in terms of receiving significant increased investment is the area of an organisation's digital transformation programme. This underpins the fundamental role that digital and disruptive technologies will play going forward. As an example of seizing the opportunity in the depths of a crisis, the SARS pandemic of 2002-2004 catalysed the meteoric growth of a then small e-commerce company called Ali Baba and helped establish it at the forefront of retail in Asia. This growth was fuelled by underlying anxiety around traveling and human contact, similar to what we see today with COVID-19.

Critical Considerations

History has been very consistent in showing us over the decades that the organisations which ultimately survive and thrive during and after a crisis are the organisations which, according to Darwin's theory, have the ability to intelligently adapt. The combination of the crisis and a worrying deterioration in international trade and macro-economic factors have created a perfect storm for boards of directors to navigate. I believe the following factors will characterise the progressive boards that will adapt and thrive in the coming years:

- (1) commitment to change the composition of the board to ensure a highly diverse board (gender/age/sector/customer demographics/thinking styles) with a healthy balance of director-specific and generalist non-executive directors with the optimum mix of skillsets in key areas such as technology and ESG that will optimally position the company for the 'next phases of the journey'
- (2) evolution to a very agile strategic board with an enhanced collaboration model between the CEO/executive team and non-executive directors underpinned by a genuine depth of 'strategic firepower' in the ranks of the NEDs
- (3) integrating employee engagement and ESG at the core of the organisation as part of an enhanced multi-stakeholder engagement model geared towards the long-term success of the organisation and an un-stinting commitment to 'do the right thing'
- (4) embedding an exceptional board performance culture where every single board member brings value to the board, has an outstanding work ethic and commitment to the organisation and represents an integral part of the board team that will excel on behalf of their shareholders and stakeholders to successfully meet the challenging months and years ahead. n

