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Innovating the board

Board Leadership Committee

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Dambisa Moyo

In *How Boards Work: And How They Can Work Better in a Chaotic World* (2021, Basic Books), Dambisa – author, economist, and veteran board director – shares her views of how and why boards, like the companies they oversee, must innovate to go beyond surviving to thrive amid the challenges ahead.

In an interview with the KPMG Board Leadership Center (BLC), Moyo discussed the opportunities and challenges facing boards as they adapt to meet the increasing demands of stakeholders, regulators, and the public. Below is an edited excerpt of the conversation.

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BLC: In the book, you suggest that directors need to innovate how boards work to make them more effective. Can you talk about what you believe is driving the need for the more assertive board oversight that you call for?

Moyo: We need to make corporations stronger than ever and to make sure that they are performing at the highest level as boards and the corporations that they serve are taking on a much bigger and boarder responsibility set as we move away from financial shareholder primacy into a stakeholder world.

My proposal around "upgrading" boards and corporations for the 21st century are associated with the upgrade of the three aspects of the board mandate – **strategy**, **succession** and **company culture**. But boards face some important challenges in executing this agenda:

We are not elected public officials. We are being asked to drive change in a lot of social and cultural issues that are not part of the traditional board mandate. We are not hired or voted in by society and yet we are being asked to help drive those changes.

Another is **metrics**. How do we evaluate some of the social changes given that, as much as they may seem obvious and easy to address, there will be trade-offs?

Metrics to help track performance have to be metrics that we can use to track the performance of the company over time against itself. But we also need to be able to track performance against regulatory standards, to track change against other peer companies in the same industry and in different industries.

Finally, the issue of **trade-offs**. These areas may seem obvious at the superficial level. But at the practical level, you don't want to fight discrimination with discrimination. These are required trade-offs.

BLC: Regarding change in the boardroom, we often hear that board evaluations are viewed as being less than effective, sometimes even by board members. What can be done to help improve their usefulness and help them be a meaningful tool to drive change in the boardroom?

Moyo: The relationship between the board and the management is a very important lens that traditionally has not really been thought about as much. Going to management and asking how much value, or where the board is adding value, that is something that I have not seen done that effectively. We tend to rely on board members reviewing each other, but I think there is a lot more room to **ask the question of where value can be created**.

Also, there is a lot more work that needs to be done around **ethics**. How we think about ethics and moving beyond getting references and focusing on financial, strategic and operational expertise and driving the questions around ethics is another way for us to evaluate the performance of the board in terms of effectiveness.

BLC: You also talk about having the board work on strategy in parallel with management's efforts. What would you say to those who might argue that that sort of approach is risking crossing the line into management's responsibility?

Moyo: To avoid concerns around asymmetry of information or concerns that the board is there to rubber stamp a strategy that is going in one direction, there might be room to discuss the efficacy of getting alternative views that are enhanced by outside third parties who only advise the board. You could come up with a red-team/green-team scenario or a scenario where the board can come to the discussion on strategy with the management.

Rather than management leading this, there could be some additional value add from the board forming its own views of what the strategic issues are in the short, medium, and long term, and making their own sort of broad assessments on where the world is going in the business landscape.

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BLC: As we emerge from the pandemic, how do you view the nature of boardroom conversations and the agenda time that is allocated to backward-looking compliance matters versus strategy changing? Do you see more judgement and reflection happening?

Moyo: There are a number of elements to that. In general, committee structure is in place to make sure, particularly through the audit committee, that we do "**lesson learned**". We look at how discipline on the balance sheet and controls and operations survive through a challenging period, such as COVID-19. **There have been material changes in the past year on how the board has engaged, not just in terms of the quantity of meetings that we have had, but also in terms of what items dominated the board agenda.**

Soon after the COVID-19 hit

It was really about tactics. It was making sure that we could survive and that companies were not in a vulnerable place.

1. **Financial issues** – A collapse in revenue, a collapse in global aggregate demand because people were all going to be sitting at home.
2. **Operational issues** – Making sure that employees were safe, looking at the survival of the supply chain etc.
3. **Leadership** – How do you lead through a challenged environment?

Emerging from COVID-19

The boardroom conversation is moving to much more structural kinds of discussions:

- How should we be thinking about digitization?
- How should we be thinking about deglobalization and the rise of China?

More structural questions about an economic growth environment that was already challenged before COVID-19 hit. Most crucially is how do you think about allocating capital in a world that is going to experience more challenged growth, but also a world where ESG is so dominant and people are expecting more from corporation?

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BLC: Let's talk about CEO succession. One of the things you suggest to improve the process is that boards incorporate metrics to gauge the potential CEO's values. You touched on this briefly when you were talking about ethics. What would that look like? And how does that tie into corporate values and purpose more broadly?

Moyo: I do think we are making progress. We rely on a number of levers, for example hiring and compensation. This is where I think, directionally, the world is going. With social media and platforms and technology like Glassdoor, The Layoff, or Blind, where you can get more diffused information about how people – employees, clients and customers – feel about the company's morals, **I think we are going to move further away from questions about "is this profitable, is this investment legal?" to a world where we additionally ask, "is it ethical and is it moral?".**

Recruitment

- The CEO is becoming a standard-bearer of values who really should embody the corporate culture of the company
- Looking more beyond finance strategy and operational experience into this ethical realm:
  - Changing the types of questions that we ask candidates
  - Request more attestation that they have not done anything that could bring ill repute or challenge to the company over longer periods of time

Compensation

- The way compensation is structured is changing
- Today, sometimes as much as 30 percent or more is linked to things like diversity and environmental issues

BLC: There has been a lot of discussion about the challenge for the board of how do you know which metrics are the right metrics?

Moyo: **The notion of "right" metrics is the problem. This is an evolving space.** How are companies thinking about issues where, in essence, on areas that are constantly moving and changing. I think we need to remain vigilant, of course, but at the same time, appreciate that we must be innovative in terms of how we are addressing these complex issues.

BLC: Many companies and boards are giving their risk management and enterprise risk management processes a fresh look because of the changing risk environment. Are there particular macro risks, including the risk of missed opportunities, that should be on the board's radar? What do you think that companies and boards get wrong most often when it comes to risk?

Moyo: You have touched on one of the biggest ones, which **is only thinking about risk mitigation and not upside opportunities.** That is absolutely, to me, one of the biggest risks. Another risk is that we are not looking things that are fundamentally changing the way we live. Often, I think companies are finding themselves backfooted because they just cannot think of these tail-risk scenarios, or what they think are tail-risk scenarios when they are not.

Another thing that can be related is **slow versus fast changes**. When COVID-19 hit, everybody was trying to solve it as soon as possible. It is more slow-risk things, like not thinking about innovation, the type of bureaucratic grind that can kill you and reduce your competition longer term.

BLC: We are hearing a lot of discussion about corporate resilience. In your view, is resilience more about risk and crisis readiness? Is it more about strategy? Is it some combination of both? Why are some companies resilient and others are not?

Moyo: It is not what you do not know that gets you into trouble, it is what you know for sure that is just not so. We can spend an inordinate amount of time worrying about the boogeyman, but it is the things that we assume to be true.

Resilience is about having a balance sheet that is disciplined. It is about winning in all environments.

It is about understanding that we need to take risks in order to innovate and grow the business. But at the same time, you need to run the business so that whatever the next proverbial shoe to drop is, you are not only able to survive, but to thrive in the next environment.

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BLC: You also suggest that boards should embrace a more offensive stance to align with technological change. Can you elaborate on that?

Moyo: When people think of digitization, it is often with risk mitigation in mind. They think about cyber, nefarious state actors, rogue employees. They think a little bit about how operations can improve – reducing costs and enhancing efficiencies. **But I do not think we think as aggressively as we could in terms of the innovation for products** – not just the delivery of products, but the underlying products themselves. I think it is quickly a space where you can fall by the wayside.

BLC: How can boards help combat that? Can you give an example?

Moyo: One of the biggest threats to a company's innovation is the fact that it cannibalizes itself. For example, Western Union, a brick-and-mortar money transfer business, saw that people were moving their transactions online. The existing business was laying golden eggs, but it was not future-proofed for tomorrow. They set up wu.com as a separate entity. They ring-fenced it, put it in Silicon Valley with its own management team, its own budget, etc., thereby nurturing innovation in a ring-fenced way.

Disney is another example. The company changed its compensation structure so that a large part of management compensation structure is attached to innovation – not necessarily the success of innovation, but being able to tangibly track where they have seen progress in innovation.

It is about linking change and innovation to specific targets, whether it is in compensation or thinking more generally about how the companies operate themselves.

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BLC: CEOs, and by extension board members, are increasingly being pulled into the debate on broader societal and political issues. That is partly at least due to increasing stakeholder expectations for brands and employers to have a public point of view. In the book, you mention the idea of creating a standing board ethics committee to help navigate those kinds of expectations. Can you explain that idea?

Moyo: The point is that all of the issues around ESG have trade-offs. As I mentioned, we do not want to fight discrimination with discrimination. We have to think about ethical questions through the lens of everyone, not just certain groups.

ESG is absolutely critical. Ethics is absolutely critical. And how we evaluate ethics in a way that is inclusive and not exclusive of certain groups, whether it is within a country or between countries – all of these areas are pitfalls if they are not managed carefully. **We cannot be ideological about this. We have to be pragmatic in a way that is supportive and all-encompassing of people around the world.**

BLC: How would you go about creating that kind of standing board ethics committee? One of the questions we sometimes here is, "Do we really need another committee?"

Moyo: There are some examples, especially from technology companies, which are dealing with ethics more and more. **It may not necessarily have to be a committee on the full board. It could be an advisory committee, recognizing, of course, that there are some decisions that only senior managers and board members can make.**

Risk-taking, accountability, and setting goals are all areas that I believe should remain the purview of the board and senior management. They have the broadest perspective of the company's risks and opportunities.

The ethics committee will have to deal with some of these issues. I think we want the feedback of employees and other stakeholders, customers, suppliers, etc., but we have to also recognize that the mandate around ethics may not necessarily just sit in one committee. We need to address ethics, whether it is through the compensation committees, through audit, and through all areas of how we run businesses globally.

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