BOOK CLUB SYNOPSIS

How Boards Work:

And How They Can Work Better in a Chaotic World

Dambisa Moyo

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PREFACE

Boards play an essential role in guiding corporations. They serve as leaders for the organization, make decisions that can guide a company to success or failure, and help its various business units pull together toward a unified vision. But, in Dambisa Moyo's view, they also must change in order to better suit the times.

"The prosperity of society relies on corporate boards succeeding. If corporations are to succeed, change is imperative."

This book aims to provide an overview of what boards do, proposes a number of suggestions for how boards should reform to adapt and survive, and aims to help the general public better understand the importance of boards.

INTRODUCTION

Numerous corporate scandals in recent decades have driven a more negative view of business and a growing anti-corporate sentiment. Moyo, however, notes that there's a distinct difference between criminal acts and managerial ineptitude. And while both of these things may be true in some instances, the benefits of corporations continue to outweigh their shortcomings. Instead of dismantling corporations, she advocates reforming them—starting with the corporate board.

A successful board will help a corporation be more prosperous and functional than before. Yet a board member isn't simply the recipient of prestige and shares and a large payday. This view, Moyo believes, is the result of people having a limited knowledge of boards. The following section provides a brief history of corporate boards.

Boards first emerged in the 17th century and have changed little in the intervening centuries. An 1811 law in New York listed a board's responsibilities as overseeing "the stock, property, and concerns" of their companies, which in large part remains true today.

A board differs from a CEO because the board is a "structure of governance," while the CEO is a "day-to-day leader." There's also a difference between executive and nonexecutive directors (NED) of boards. The former are full-time employees of the company, while the latter are not employees but serve in the position on a contractual basis and paid a flat fee. Beyond these standard guidelines, the structure of a board may differ from company to company or country to country.

Much of the way a board is structured and the responsibilities it has are based on commonly accepted conventions as opposed to rules, meaning that they can and have changed over time. Today, many boards have at least three primary committees, responsible for nominations and governance, audit, and compensation. Some companies have an additional committee, which may cover areas like risk, finance or CSR.

“Today’s boards are tasked with three things: shaping the company strategy, selecting leaders (in particular the CEO), and safeguarding the company’s culture, ethics, and values.”

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CHAPTER ONE

SETTING THE COMPANY STRATEGY

In Moyo's view, the most important role of the board is setting company strategy. It might not be possible to get every decision in this vein right, but in the U.S. there are certain laws that dictate some minimum obligations of the board director: the duty of care and the duty of loyalty.

The duty of care requires the director to be "sufficiently informed before making a decision and that board members may reasonably rely on information, opinions, and reports provided by officers of the company or outside experts." The duty of loyalty, meanwhile, requires board members to act in the best interest of the company and its stockholders and act in good faith. This law also requires individuals to maintain confidentiality and to advise other board members if they have any conflicts of interest.

These responsibilities form part of what is called the business judgment rule in the U.S. The law doesn't just set out expectations for the board—it also offers some protections for its members. Should something go wrong, so long as the board members made the decision based on rational business reasons, they cannot be penalized.

The chairman of the board is the head of the board. In many countries, the chairman is an NED; in the U.S., however, the CEO can often serve as chairman, as well. "The chairman sets the tone of engagement for the board, smooths out misunderstandings, referees relationships among board members, and acts as a liaison between the board and management." The chairman also sets the agenda for board meetings.

Boards typically meet once a year for a few days for the annual strategy session, in which they discuss the strategic plan proposal put forward by management. The proposal includes short-term, medium-term, and longer term-plans. The board is responsible for reviewing and approving this plan. Additionally, boards typically meet at least quarterly to discuss other items such as company performance.

“It is the board’s responsibility to look on from forty thousand feet.” The members aren’t just responsible for approving the strategic plan, but also consider a range of macro factors, including the global economy, politics and regulatory changes. There are a number of typical macroeconomic factors that the board must keep in mind, such as changing interest rates, inflation, and economic growth forecasts, as well as considering the competitor landscape and the changing regulatory environment. Each of these factors can affect the business and may in turn have an impact on the business plan.

The board must also consider a range of micro factors, including internal data. Moyo identifies four micro factors of which the board must be aware to help them manage the company’s assets: revenue, capital allocation, use of resources and returns.

REVENUE RECOGNITION

The board must look at whether the company’s forecasts are aligned and ensure that it is not overly revenue reliant. But this is not enough. Moyo recommends that boards help oversee other metrics too, like earnings, revenues less expenses and cash-flow statements. The underlying guiding question is, “where should the company allocate its capital for the best outcome in the years ahead?”

ALLOCATING CAPITAL

Management is responsible for proposing how to allocate a company’s capital, but the board must analyze this proposal, to balance and prioritize the various needs of the company to help it sustain itself and grow. The board has three primary options for capital: reinvestment, payments to shareholders, and buying or selling assets. Portfolio assessments are critical to informing these decisions.

USE OF RESOURCES

The board must also ensure that management is efficiently using the company's resources, including labor and capital. One way to analyze this is by looking at the cost-income ratio or inventory turnover. "If a business' productivity is stalling, the board must consider importing and using outside technology, standardizing existing processes, or achieving more output with the same or fewer assets."

GENERATING RETURNS

There are a number of ways the board can assess returns. This includes looking at returns generated against capital employed, return on equity (ROE), or return on invested capital (ROIC). In simpler terms, the board must try to understand how the company is using money to generate earnings and returns.

The board can't simply rely on figures though, as these can be somewhat misleading. That's why the board members must also use their judgment and understanding of longer-term considerations. In fact, the board must not focus only on areas where the business is doing poorly, but also the areas where it is performing "uncharacteristically well" as this could potentially be a sign of an ethical or legal breach. Despite this, "return ratios remain an extremely valuable tool. They help boards and investors calibrate performance across industries, across competitors, and across business units within the same company."

Year in and year out, a board is responsible for approving the company strategy, but the regularity of this practice does not mean it is without risk of going wrong. Failure can appear in a number of different ways and boards must do what they can to prevent, or at least respond to, potentially destabilizing threats.

"Boards must remain alert to these creeping threats: technological obsolescence, loss of competitiveness, deteriorating competence and quality of management, and inattention to organizational culture and values."

There are a number of typical responses for when tough times do arise: scaling back costs, closing operations and reducing dividend payments. At the same time, Moyo argues that a company can't "cut its way to growth." The board must in all instances make the hard decisions necessary to keep the company alive.

A company may also choose to sell. When that happens, the board should not just consider the price, but also keep in mind any and all events that could derail the transaction—or change the market value of the company. The board is responsible for assessing available information and determining the company's value to decide whether or not to accept the bid.

Beyond the challenges of deciding whether or not to accept an acquisition bid, boards face a number of difficult decisions on a regular basis. This decision-making is rendered more difficult because of the fluidity of the data on which these decisions need to be made.

That's why Moyo argues that perceptions that boards are "stupid" are misplaced. Boards must make decisions in spite of uncertainty, poor or incomplete data, and the possibility that management may not be executing on the board-approved plan. One reason the latter happens is because of cannibalization, in which employees resist the change. Some companies resist cannibalization through ring-fencing, or "granting the new business its own financial and managerial lines that are clearly delineated from the existing mother ship."

"What will distinguish the most successful companies' performance is the ability of their boards and management to constantly identify, quantify, and mitigate these risks. …. To achieve the best outcomes possible, companies will need to regularly update the risk tools, data, and models upon which the board's strategic decisions rely."

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CHAPTER TWO

HIRING (AND FIRING) THE CEO—AND THE BOARD

One area where the board holds complete control is over the hiring and firing of CEOs. CEOs, according to Moyo, set and model the tone of the business and are responsible for delivering the board-approved strategic plan—and therefore boards must be diligent when choosing a chief executive. Frequent CEO turnover is also destabilizing for a business, making the decision-making process all the more essential.

There are a number of typical questions to consider when selecting a CEO, particularly pertaining to their past experience managing people, serving in leadership positions, and driving growth for a company. CEOs can be chosen from internal or external candidates, with each option being appealing for different reasons. Boards must also consider the moral or ethical compass of a prospective CEO.

When it comes to firing a CEO, there are equally a number of things that drive such a decision. The individual in question could have engaged in ethical infringements, there may have been issues with their performance, or at times the decision is driven by public perception. The last reason has the potential for being the most complex, as the public may call for a CEO's resignation even when they haven't technically done something illegal.

On the one hand, the relationship between the board and the CEO (who often serves as an executive director on the board) is collaborative. On the other hand, the structure is technically hierarchical, with the board serving in a supervisory role. Nevertheless, the information the board has access to is filtered through leadership, meaning they only know what management wants them to know. That's why trust is essential.

Board members must be aware of blindspots when assessing a CEO's performance, as well. It is easy to believe that a CEO, rather than a board-approved plan, is the issue when a problem arises. At the same time, the board must not allow itself to be seduced by a charismatic CEO. The board must also consider whether they're dealing with a "wartime" or "peacetime" CEO when evaluating performance.

The board isn't just responsible for hiring the company's CEO—they must also hire other board members. In the process, the board deals with questions around structure, term limits, age limits, and even the number of board members among many other items for consideration.

Many of these questions are answered by laws or regulations. In Moyo's opinion, however, guidelines may be better than strict rules. "Boards need a flexible structure to best match their company's circumstances. Rules that dictate how long any individual can serve or that prescribe a compulsory retirement age can end up working against the best interests of the organization."

Age limits or term limits may erode the board's institutional memory, but age limits may also be used to inject younger talent or increase diversity. Other questions, like the number of board members, are less charged. Most boards today have around 12 members.

To ensure the efficacy of the board, they are sometimes subjected to formal assessments. This ensures that the board is effectively carrying out its duties, while feedback can also help them improve where needed.

Board independence is another item for consideration. While they are technically serving on behalf of stakeholders, some board members may hold stock in the company for which they sit on the board. There are arguments both for and against allowing members to own company stock; Moyo ultimately thinks the benefits outweigh the risk.

Another question is who should be permitted to sit on the board. Should employees, founders and activists be allowed? Again, there are advantages and disadvantages. This is also the case when considering whether someone should be allowed to serve as both chairman of the board and CEO. Whereas in some countries these roles are separated, in the U.S., companies tend to put more emphasis on the lead director who is responsible for serving as a go-between for the chairman and the rest of the board. Regardless of the model, the chairman appoints the chairs of each board committee.

"If one observation can be drawn from the many different varieties of board structures, it is that their differences often reflect the idiosyncrasies of the company they oversee."

Ultimately, however, it's important to get the right people "on the bus" first before worrying about the precise roles for each person. Many companies draw on people who have previously served as CEO at other companies when staffing the board. They will also look for people with the right technical expertise—while balancing different types of expertise.

Three trends, according to Moyo, have changed board staffing in recent years: the need for geopolitical expertise, technical skills, and diversity.

GEOPOLITICAL EXPERTISE

"Global economic and political shifts demand that boards place an even greater premium on the type of experience and knowledge that has traditionally belonged to those working in public policy." These shifts include diminishing power of multilateral institutions, rising protectionism, government encroachment and regulatory changes. Developments like these make skills like knowledge of intellectual property law or experience dealing with cross-border M&As more attractive.

TECHNOLOGY EXPERTISE

It is indisputable that technology is changing the face of business, yet many countries continue to undervalue technical expertise. "How technological shifts will affect a company depends on at least two factors: whether technology is a strategic differentiator for the business, and the nature of the industry and market structure."

Some companies may simply rely on technology to keep them current. Other companies may derive much of their value from technology, while still others are explicitly technology companies. For the latter group, it would likely make sense to have at least one board director with the appropriate technical knowledge in Moyo's view.

A board member with technological expertise can also be useful to provide oversight and to challenge management decision-making.

DIVERSITY AND INCLUSION

Boards remain largely undiverse. Women continue to be underrepresented in the C-suite and boardroom, despite evidence that increasing female representation leads to better performance. Boards should also reflect the diversity of their customers, across areas like race and sexual orientation. This too leads to better performance.

Yet while Moyo argues that boards agree on the need for greater diversity, there is less agreement on how to go about achieving it. It is important not only to avoid tokenism, but also to ensure that "reverse discrimination" doesn't occur.

And diversity is not just a question of gender or racial diversity. "As boards think about refreshing their ranks to better align with the times, the best boards will also look at staffing with an eye to different types of intelligence." This helps both avoid groupthink and sets the board up to better weather future challenges.

Actually creating a more diverse board requires relying on different recruiting efforts. This can include tapping into different networks or partially suspending certain priorities. As far as recruiting for specific expertise is concerned, Moyo lists three possibilities: creating explicit positions for specific expertise, relying on specialist outside advisors, or delegating expertise to management. As with anything, there are advantages and disadvantages to each approach.

Beyond the efforts of the board itself, its members can hold senior management and the CEO to account for creating broader diversity. “Boards should also work with management to identify more explicit, transparent, and trackable metrics to measure progress—or lack of it—around the issue of racial diversity.” Boards also have the power to set pay according to leadership’s success in increasing diversity.

All of this comes with a large caveat, however. Diverse hiring for the sake of it is not the right approach in Moyo’s view. While some believe that diversity should be prioritized over performance concerns, she disagrees. The problem is not that there is a limited talent pool from which to recruit, but with how and where recruiting happens.

“Rather than hiring a board candidate because of a quota system, boards would be better off committing their time and budget toward identifying the women and minorities with the best potential to rise to a seat on the board.”

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CHAPTER THREE

A CULTURE REVOLUTION ENTERS THE BOARDROOM

The Friedman doctrine, which put emphasis on the responsibility of companies to generate profit for shareholders, is increasingly a thing of the past. Today, businesses are responsible for serving all stakeholders, not just shareholders. In the process, corporate culture is changing, too.

"This has invariably placed boardrooms under pressure to ensure that management articulates the role the corporation is meant to play and the ways it benefits society." Now, the company has more people to satisfy, and with that, a wider range of expectations to satisfy. This job is made all the more challenging by the fact that many of these expectations contradict or compete with one another. As such, it is increasingly in the board's remit to define, monitor, and oversee corporate culture.

Getting the culture right is important because it affects the company's bottom line—profitability, shareholder value, and even the longevity of the company.

Company culture is often codified in some way and the board is responsible for upholding these values and principles. Some of these values are nonnegotiables, like ethics, while others, like embracing human rights, are "on the cultural frontier."

The values or code of ethics in themselves are not controversial yet two challenges remain for the board: "embedding the desired cultural values so that they permeate every layer of the organization," and "ensuring adherence to those values." Doing this is not easy—many believe that their company's culture needs to improve, but this is frequently because the company has failed to put its stated values into practice.

The process of embedding values will look different depending on the type and size of the organization. Startups, for example, often derive their values from those of their founder. Global companies may face challenges embedding their values across countries because of the need to navigate a variety of cultural norms.

But striving to get this right is essential to meeting goals. "A positive culture can drive innovation or the successful execution of a strategy, just as a poisonous culture can impede a company's progress."

Different types of organizations benefit from different types of values, and in fact, some larger organizations have a number of different subcultures. It is the board's responsibility then to create a unified, overarching corporate culture from these various subcultures.

Corporate culture is also important to keep in mind when considering mergers or acquisitions, hiring a new CEO, or working with third parties like contractors or consultants.

When it comes to culture adherence, social media and workplace review websites like Glassdoor can provide boards with a better understanding of how employees feel. Surveys and assessments also help them understand internal sentiment and employee performance, and help ensure employees reflect the company's values in their behavior. Audits can also help a board measure cultural adherence.

Other than metrics and measurement tools, cultural norms can be enforced via compensation or bonuses, nudging or even disciplinary action. "In much the same way that compensation is used to drive sales or revenue, it can also be an effective tool to promote adherence to cultural norms."

Corporate scandals can often be traced back to failure of culture, which makes getting it right all the more important. Operational excellence shouldn't be the only goal of a company—cultural excellence should be, too; and generating it is a continuous process.

Companies are increasingly expected to chime in on social issues like gender and racial equality, public health and parental leave. A 2019 Fortune 500 CEO poll found that 44% of CEOs felt their company should play an active role in solving major social problems as part of its broader strategy.

In some cases, these more active social roles are driven by pressure from NGOs or governments, while in others, companies have been able to step in where governments have fallen short.

When making decisions, boards must consider social ramifications. To do this, Moyo suggests that boards consider three questions: "Is it legal? Does it make financial sense? And is it moral or ethical?"

These questions pertain to a number of complex issues.

PAY EQUITY

The first issue Moyo considers is that of pay equity. The gap between the pay of a CEO and the lowest paid employee has increased considerably in the past 40 years. While CEO pay has increased 940% since 1978, the average worker compensation has grown only 12%.

"Boards face fierce pressure to ensure that pay and performance are properly aligned, and that they steer clear of rewarding poorly performing CEOs with outsize compensation packages." CEO compensation should be based on goals and scorecards that reflect short-, medium- and long-term goals.

Boards also need to be sure to reward junior and middle managers, as these individuals will be the future leadership of the business. As with setting CEO pay, one way to do this is by matching performance to pay.

Considering the question of pay equity more broadly, Moyo calls for greater transparency on compensation and pay structures.

GENDER EQUITY

The next complex issue is gender equity. As mentioned in an earlier section on diversity, it is clear that gender equity is necessary—but the means to getting there isn't always so straightforward. Challenges like maternity leave, overpromotion of men, and underrepresentation of women in STEM majors further impede this goal.

While companies can make changes to their recruitment process or do more to encourage women to "lean in," boards have limited recourse. Beyond the areas over which they do have influence, Moyo suggests that boards do more to partner with governments, policymakers and civil society organizations to drive broader structural changes.

SOCIAL AND ENVIRONMENTAL EFFECTS

Boards have heard the calls for companies to address social and environmental issues; however, they mustn't be hasty in driving changes to address these concerns. This is in part because companies have a mandate to deliver their goods, but also because such changes can lead to unintended consequences that may actually serve to undermine the intended progress.

"In order for the company to survive, boards must reallocate human and financial capital to avoid being out of step with societal shifts and capitalize on these trends by going into new business lines." One such example is a growing shift to offer meatless "meat" products at fast food chains like McDonald's.

While management may be the first port of call when thinking about these social issues, the board also has a role to play.

A SHIFTING WORK ENVIRONMENT

There is a decreasing distinction between work and home life. Bringing one's "full self" to work may increase authenticity, but can also create issues, such as employees refusing to work on certain projects or with certain clients for ethical or political reasons.

Other emerging issues that boards will have to face are those that didn't previously touch the workplace purview, such as gun control and mental health. "Just because these are difficult issues does not mean that boards can avoid them. Society is holding companies to account precisely because these issues are important and not going away."

With growing calls for corporations to take responsibility for social issues, many companies' boards are coming under fire. Moyo believes these criticisms are, for the large part, too harsh or unfounded. Boards often do a lot to address these issues, but many issues they do not have the authority or power to address themselves.

"Still, boards should also take into account that emphasizing sustainability need not reduce returns and that sustainable corporations will likely gain market share and appeal to more customers." Striking a balance between returns and social responsibility is not easy, but ultimately, Moyo calls for corporations to adapt to new cultural norms. To fail to do so would lead to failure.

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CHAPTER FOUR

FIVE CRITICAL ISSUES NO BOARD SHOULD IGNORE

Boards cannot be distracted by short-term issues at the expense of considering those that may crop up in the future. The best boards will keep five issues in consideration:

1. The risk of a more siloed and protectionist world
2. Massive changes in the investment landscape
3. New technological developments
4. The global war for talent
5. Short-termism itself

Each of these factors are overlapping and interrelated, but Moyo goes on to explore each individually in greater detail.

THE RISK OF A MORE SILOED AND PROTECTIONIST WORLD

Despite the success of market capitalism, its desirability has diminished in recent years. Across the world, populism has surged, democracy has been deprioritized, and the world economy is "de-globalizing." Boards must be prepared for a possible future in which the liberal market system is replaced and in which business models may need to be reconfigured.

There are a number of threats within this broader issue. De-globalization may disrupt the global supply chain and these silos could have an impact on technology, recruiting and finance. Concerning technology, the rise of a "splinternet," in which the internet is increasingly divided between U.S.- and China-led platforms, could have negative repercussions. Immigration controls could affect recruiting, while decentralization could affect a company's financial system. More broadly, de-globalization may render moot the advantages of global corporations.

Companies will have to decide for themselves whether they think this de-globalization is here to stay and determine their response respectively. To help guide their decision-making, Moyo suggests that boards ask themselves whether they're considering the long-term view and whether they're making decisions that are best for the company, as well as whether they're successfully avoiding the urge to follow what others are doing.

MASSIVE CHANGES IN THE INVESTMENT LANDSCAPE

Boards are increasingly seeing a concentration of capital, which in turn has an impact on investor power. "Boards must reckon with more vocal institutional investors, the risk of outside activists, investors excluding their companies from key funds," and more.

Large institutional investors are demanding more of the corporations—and the corporations (and their boards) are being forced to listen because of the investors' influence. That's not all: Smaller investors in turn often claim that this unbalanced access and influence is unfair.

Passive funds, active funds, and activist investors are also becoming increasingly demanding and influential. But boards must strive to strike a balance between their investors' interests and their broader stakeholder base.

While different categories of investors have different strategies and objectives, each increasingly wield considerable power. This may lead to a perception that investors are encroaching on the decisions that the board is intended to make and can make relations between the two parties fraught. "Today's boards are exploring whether greater engagement with investors is the answer to keeping shareholders happy." It's not as simple as keeping investors happy though—different investors have competing agendas.

Some laws are being proposed to quiet the voices of a loud minority. Another big change is that hedge funds no longer have the information advantages they once did. With technological advancements, everyone has access to much of this information. Nevertheless, investors are now turning to a new approach called factor investing—yet another development that boards must keep in mind.

Advancements in technology, such as the creation of automated trading made possible by AI, is also changing the investment landscape. This not only increases the speed with which stocks are being moved, it also makes it harder for the board to keep track of who is holding stock. Algorithmic decisions also preclude the possibility of a board or corporation explaining a decision that it makes to investors. This means that stocks may be bought or sold without considering nuance, and may consequently drive worse decision making by the company in question in an attempt to stave off this possibility.

ETFs, or exchange-traded funds, also have an impact. "ETFs have shifted the investment landscape by making it possible for investors to gain exposure to certain sectors without having to invest in individual companies." This in turn can lead to greater competition for investor capital.

The number of public companies has declined over time, as well, which means boards will need to do more to keep shareholders happy to prevent them from moving their investments to private companies.

"Companies try to operate with the interests of all shareholders in mind but can be forced to placate the more vocal ones. This is a difficult balancing act."

NEW TECHNOLOGICAL DEVELOPMENTS

The rapid technological changes we're seeing today mean that boards must do more to: increase competitiveness, remain resilient in the face of technological threats, and future-proof. Boards must not simply consider how to use technology to stay afloat; they must also explore what to spend on tech and where to deploy it to increase competitiveness. And advancements don't automatically equal positive progress. Automation, for example, could have a positive financial impact, while having negative social ramifications (by laying people off).

Technology can also create more areas of exposure. Companies need to protect against the dark side of technology, like cybercrime or cyberwarfare. At the same time, customers are demanding more transparency from companies and technology makes it easier for them to share their views. Companies must build resilience in the face of all of these challenges.

Finally, companies must focus on future-proofing. This can mean preparing for the rise of the splinternet and also considering questions around surveillance and counterterrorism. "Boards and management often find these to be among the hardest questions to answer, as they can pit moral and ethical views against the imperative to grow the business and achieve commercial success."

Data privacy issues must also necessarily be considered when future-proofing. Network effects help drive the quality of search engine results and GPS-based maps. Yet the populations of many Western countries believe personal information should be protected. In places like China, on the other hand, the government and companies have greater access to personal data. This is no longer just an ethical question: Failing to keep up with China could also have an impact on the future competitiveness of U.S. or Western companies.

"A middle ground is achievable on data privacy. Corporations can find their way by agreeing to a data-sharing protocol with their customers or perhaps anonymizing the data." An option like this won't appease everyone and boards must do what they can to prepare.

THE GLOBAL WAR FOR TALENT

The OECD has found that this generation of Americans will be less educated than the last one. This development is occurring at the same time as increasing automation and a growing need for highly skilled workers. This means that corporations are facing a tougher and more expensive hiring environment.

"Securing top talent is becoming tougher in part because of greater competition for fewer high-quality candidates and rising barriers to immigration." To combat these challenges, corporations must increase investment in training. In some cases they may also find they need to lower minimum qualifications for jobs.

SHORT-TERMISM

Corporations tend to be overly focused on the short-term. According to Moyo, financial losses can be associated with a failure to consider the long-term view, as well.

This short-termism is seen in numerous areas of a business: the average tenure of CEOs has dropped and many companies are choosing to pay excess cash flows to shareholders instead of reinvesting in their business.

Such a way of thinking doesn't just impact longer-term investment (and therefore prospects for growth); it can also impact the board's ability to appraise a company's exposure to risks. This is because boards tend to focus on urgent, visible risks. "But the risks that are most likely to sink companies are longer-term problems that are not within the board's immediate purview."

Moyo concedes that long-term problems are both harder to predict and the impact is harder to quantify. Yet this should not stop risk-management tools from better taking them into account. Boards, too, must be more systematic when considering risk, guiding management to consider both the short- and longer-term.

Short-termism can also be seen in investing strategy. High-frequency trading increases pressure "to deliver profits sooner rather than later, forcing companies to meet the expectations of shareholders every quarter." This often means keeping shareholders happy today at the expense of future growth.

Boards of many companies are already aware of this challenge and have taken steps to address it, such as changing compensation structures. As the problem grows, however, Moyo believes boards will need to consider other areas of the business that are ripe for change.

Change is inevitable, but survival isn't. To better prepare for the future, Moyo suggests boards consider whether their company is likely to disrupt, be disrupted or stay the same. Where will it be in 30 years? Corporate strategy must be updated regularly to best ensure the company will continue to exist.

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CHAPTER FIVE

INNOVATE OR DIE: THE EXISTENTIAL CRISIS OF THE TWENTY-FIRST-CENTURY BOARD

Companies and corporate structure are not alone in their need to reform and adapt—boards must keep up with the times, too. Boards are responsible for overseeing decision-making in the areas of strategy, leadership, and culture. "Any reforms must enhance the ability of boards to deal with these three areas and to ensure that their companies remain competitive over the long term."

The following section has a number of proposals for how to upgrade boards to ensure they remain relevant over time.

RENEWING THE APPROACH TO STRATEGY

Boards should explicitly incorporate a focus on long-term strategy and address possible issues that may arise in the future with more frequency. One way to do this is to update the board agenda to review long-term risks regularly.

As previously established, boards must reckon with data asymmetry—the information that they have access to is provided by management, who can decide what information they do (and don't) see. Boards could rely more heavily on third-party information to address this issue and gain a broader perspective.

Another area for opportunity is taking more of a front-seat role in setting corporate strategy. Moyo proposes that a board could work on developing the strategy alongside management, rather than simply approving what is presented to them. One way this could happen is through the creation of working groups, which then meet to discuss the various proposals.

UPGRADING SUCCESSION PLANNING

Moyo calls for boards to undertake a deeper assessment of prospective CEOs. While ethics are already a matter for consideration, she suggests putting ethics and values "at the very heart of evaluation, equal in importance to financial performance."

There are numerous ways of getting to the heart of this, including by asking about mistakes, how the individual innovates and improves, and even what the worst thing they've done to another person is. Another question Moyo recommends is asking in the vetting process if there's anything the candidate wants to tell them that could cause embarrassment should it be uncovered in the future.

It's not just CEO recruitment that needs to change. Board recruitment should change, too. Moyo believes an active process, as opposed to leaning on age rules, will help improve boards. "The most effective boards will be those that populate their ranks with specialists and people who are knowledgeable about the specific shifts and trends most likely to affect corporations in the years ahead."

With the rise of de-globalization, it may also be worth considering whether multinational corporations should have separate boards for the various regions in which they operate.

CONFRONTING CULTURAL CHANGE

As boards are increasingly expected to chime in on social and ethical issues, they could set up an ethics committee or be more transparent about what mechanisms they have in place to address ethical dilemmas. This would allow boards to increase their oversight on issues of growing concern.

"Ultimately, assertive boards must recalibrate their mandate to ensure that they are acting as a change agent on ethical matters. After all, a transfer of decision-making from government to industry is underway on many ethical issues."

Boards can also more directly engage with investors to get a better sense of their concerns and priorities. Such engagement offers the complementary benefit of helping investors better understand how and why boards make the decisions they do. Boards could also take this a step further, naming someone from the board to lead investor engagement.

PRIMED FOR CHANGE

Like many humans, board members can be reluctant to change, happy to stick with the status quo. But according to Moyo, "no board can believe that it will survive the coming years without adopting some reforms." Innovate or die, she writes.

Innovation requires open-mindedness, including thinking differently about how to calibrate and assess organizational performance. One example could be using different information to determine employee compensation, as opposed to relying on figures associated with revenue, cost and profit.

To fail to reform would be to face existential risk. Many already believe boards are obsolete and boards must do more to counter this belief. This does not mean that boards are without function or that detractors are well-placed in their criticisms. "Board critics should remember that good governance requires sound judgment and not rote compliance." This judgment is precisely what boards can bring to the table.

"What all of this points to is that boards and their directors must continue to justify their existence and their authority." One way boards can do this is by getting ahead of trends and preparing for the future, such as reviewing practices around social and environmental concerns today rather than waiting until society demands it.

Board members of today must do what they can to strengthen their company and prepare it for future board members to continue to help it grow. "Ultimately, this means corporate board members must embrace humility rather than hubris, remaining vigilant and malleable, as they lead in an increasingly chaotic world."

ABOUT WORLD 50

Founded in 2004, World 50 consists of private peer communities that enable CEOs and C-level executives at globally respected organizations to discover better ideas, share valuable experiences and build relationships that make a lasting impact. The busiest officer-level executives and their most promising future leaders trust World 50 to facilitate collaboration, conversation and counsel on the topics most crucial to leading, transforming and growing modern enterprises. Membership is by invitation only.

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World 50 is a private company that serves no other purpose than to accelerate the success of its members and their organizations. It is composed of highly curious associates who consider it a privilege to help leaders stay ahead.

Inquiries? +1 404 816 5559