



Re-thinking your board composition, diversity and skillsets to enable your organisation adapt and thrive in the coming challenging years

Description

A veteran board chair once hauled me over the coals for recommending as part of an external board evaluation, the addition of a female non-executive director (NED) to improve the board's diversity and in particular, range of thinking styles. His remark at the time made a deep impression on me and I had cause to revisit it in recent weeks during this crisis. He indicated that *"this board is such a well-oiled machine, we don't need to worry about any diversity and our outstanding business results, year in year out, are the answer I give to you and the odd shareholder who moans about our board diversity"*. He nevertheless grudgingly ended up adding a female NED and even more grudgingly admitted two years on, that she has become one of his two best NEDs on a board of nine bringing a very sharp strategic and different perspective to the board table.

I thought of this remark recently when I was asked by a board chair of one of these "well-oiled machine boards" who were really struggling to come to grips with the carnage in their business and sector due to the Covid-19 crisis. The board chair indicated that they had three serious challenges ;

(a) facing up to and accepting the brutal reality that their company, which had been a model of consistency with impeccable performance, year in year out, has been severely damaged and that as a board and executive team they needed to dig deeper than what they have been used to as a board and were struggling to do this as "they were feeling so sorry for themselves".

(b) being able to step back and look at creative new ways to address all the challenges, adapt in support of the customers who were having to adapt rapidly – **he indicated that a lot of tense board meetings were "getting stuck" and he now realised what a "board group-think problem" really is!**

(c) being able to get themselves properly into **"a new strategic agile mode"** of far more radical thinking about company positioning, business model, significantly accelerating their digital transformation programme, looking at adjacent sectors and having to courage to potentially "slay some of the sacred cows" that have been the mainstay of the company.

Apart from some immediate support to help the board chair in getting the board team re-energised and jolted into a "new mode", **I strongly recommended to the board chair that he had to bite the bullet and genuinely freshen up the board with at least two NEDs who would bring a very different thinking style and set of skills.** The current board while packed with genuinely experienced NEDs, has a serious diversity and capability problem – not only in terms of thinking styles, gender and age *but the most important thing is that all the NEDs are "very much the same" and while each contributes, the sum of the parts is far from greater than the individual parts and the board is very limited in terms of the "strategic move-the-needle type thinking" that this board and company need right now.*

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 fine 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 board team.

In recent weeks and months, many CEOs and board chairs in the eye of a storm that in some cases threatens the entire business model and future of their company, have regretted missed opportunities where they could have genuinely strengthened the capability and diversity of their board team over the years. “Safe oversight-centric boards” often do not do well in a complex crisis and in cases where there are fundamental challenges to the business model, current strategy and positioning of the company. ***In recent weeks and months, I have seen some great cases of very strategic NEDs with great “independence of mind” bring some very left-field and in some cases radical thinking to the table that enabled the organisation to rapidly adapt, support their customers in innovative ways and position themselves to make big calls where needed on their strategy and business model.*** In some cases, this radical thinking consisted of left-field thinking around embracing some new disruptive technologies and in other cases, it simply represented the ability of a NED to put themselves in the shoes of one of the company’s customers, understand how their world has changed radically and how the company needs to adapt to help their customers in “the new normal”. One CEO made a very prescient remark to me recently where he indicated “ I would put my hand up and say I don’t exactly encourage the NEDs to get creative strategically as I feel that’s my territory but we in the executive team were mighty glad last week when one of them unlocked a very serious dilemma we in the executive team were struggling with ...”



As the first firefighting phase of the Covid-19 and economic crisis is now transitioning to a “new normal” many board chairs, CEOs and nominations 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”. In other cases, there are CEOs who need to face up to the uncomfortable truth that they are doing a dis-service to their shareholders, employees and stakeholders by wanting “vanilla NEDs” in the board who are not capable of mounting serious challenge to the CEO and executive team, who are not capable of going toe-to-toe in terms of high-quality debate and who do not have the “strategic firepower” to bring new thinking to the table and ultimately enhance the collective ability of the board and executive team to “make the big calls” and enable the organisation to thrive in the volatile fast-changing landscape every organisation is now operating in.

As boards are preparing to grasp this “window of opportunity” to strengthen their board, I have outlined a number of the key focus areas they are particularly focused on;

Technology

The Covid-19 crisis has cruelly exposed the lack of genuine depth of technology expertise in the ranks of NEDs on many board teams. The impact of technology in areas such as artificial intelligence is becoming so pervasive in so many sectors that a serious board needs NEDs who have “technology in their DNA and bloodstream”. In many cases this is resulting in boards having to look at younger NEDs who have been technology entrepreneurs, senior execs in tech companies, who have actually built technology platforms, developed disruptive business models and who have the ability to understand new disruptive technologies. *So many boards are overloaded with “general financial and business background NEDs” who to be brutally honest, simply do not have the capability to understand new and disruptive technologies at a level that would enable them to provide high-quality guidance to the board, understand trends around this technology area and be capable of adding serious strategic value to the CEO and executive team.* **This is also the exact reason why so many boards are “asleep at the wheel and letting down their shareholders, employees and stakeholders” in the cyber-security oversight area at board level because none of the “traditional NEDs” on the board have an ability to understand the scale of the cyber-threats to the organisation and what the board needs to do in terms of proper oversight of the CEO and executive team in this area.** It’s hard to believe that right now in 2020, there are still boards with an average age of 59 who would still struggle to get their heads around adding a younger NED aged 38 who could have an outstanding technology pedigree and who could literally overnight transform the “technology capability” of the NEDs on the board!!



Strategy and Business model innovation

One of the biggest tests of boards right now is the ability to objectively understand where their current business model is not viable, the traditional “norms of their sector” have changed, their customers requirements have changed on a medium/longer-term basis and “business as usual” is not simply going to work. *Sometimes CEOs and executive teams can really struggle to fully come to grips with this and it needs genuine “independence of mind” in the ranks of the NEDs and “new strategic and business model thinking” to help the board and executive team to face up to the brutal reality that the company “can’t go back to the 1st March 2020” and now needs to potentially adapt its strategy, business model and positioning in the market.* In my experience, it can be hard to find NEDs who are really strong strategically, understand the “ebb and flow of a sector” at a deep level and can bring disruptive and left-field thinking to the table. I have also recommended to some boards in recent weeks that they need to look at adjacent sectors and in some cases further-afield sectors to bring in new strategic thinking NEDs who have experience in different types of business models, **who are not “wedded to the current business model and positioning of the company” and who can bring very fresh eyes to the board table.**

Environment, Social and Governance (ESG)

While it has been one of the hottest topics on the minds of institutional investors for the last two years and everywhere you turn in terms of board and corporate governance media, ESG is everywhere, **there are still quite a number of boards who “do not get ESG”, are paying lip service to it and are still struggling to get to grips with the fact that a board’s attitude to ESG and how the company genuinely “walks the talk on ESG” is increasingly going to be a serious variable in the “success and long-term sustainability equation of an organisation”.** In many respects, ESG has come of age during the Covid-19 pandemic and as boards are increasingly waking up to the scale of the climate crisis and the shifting tectonic plates around society and organisations finally facing up to racial in-equality, boards have an absolute imperative to integrate ESG into their thinking, their strategy, decision-making and “putting meat on the bones” on the flowery rhetoric in annual reports and websites. Many boards would really benefit from a strong independent NED who has “ESG flowing in their veins” and can help the board and executive team to embrace ESG as a very positive force for the organisation that not only impacts on the overall culture and ethos of the organisation but will help the organisation to attract investors, employees, customers and partners to support the organisation on the next phase of the journey to long-term sustainable success and commitment to “doing the right thing”.

Diversity and the link to board and organisational performance

It genuinely saddens me to see that after so many years of commentary, debate and research that there still seems to be a continuous struggle to justify why board diversity in terms of gender, age, ethnic background, professional background, social background, sector background, customer demographics representation etc. is so important for a board and the organisation. **I look at the “diversity equation of a board” in very simple terms – high-performing board teams have at their core a wide range of thinking styles, backgrounds and experiences which enhance the overall capability of a board, avoid the potential for serious group-think problems and increase the ability of the board in terms of asymmetric, strategic and left-field thinking which can not only help a board in times of crisis but enhance the overall ability of the board, executive team**



and organisation to radically innovate where needed. There is also a strong link in my experience between board diversity and ESG being embraced by a board. Now, more than ever, boards need that diversity of thinking styles and experiences brought by diversity in gender, age, ethnic background, professional background, social background, sector background and customer demographics representation. Many board chairs have resisted genuinely embracing diversity over the years, playing it safe and preserving the status quo. **Continuing with this stubborn legacy approach, given the continuing challenging landscape and the strong evidence that diversity of thinking styles is a hallmark of outstanding board teams, is in my view, letting down the shareholders, employees and stakeholders** who have a very legitimate expectation of the board chair, CEO and nominations committee at this critical time that a board of directors is in place with the diversity of thinking styles, independence of mind and strategic firepower to enable the board to demonstrate the high level of stewardship and leadership for “the new normal”.

Summary

A window of opportunity has been blown wide open by the Covid-19 economic crisis for board chairs, CEOs and nominations committees to fundamentally re-think their whole approach to their board composition, diversity, the “strategic capability of the board” to add to and compliment their CEO/Executive team and the overall capability of the board to demonstrate progressive leadership and stewardship to enable the organisation to adapt, thrive and sustain long-term success with a customer-employee-ESG centric culture and ethos. We are entering a new world and boards are subject to the same Darwinian principles of needing to adapt to thrive. Shareholders, employees and stakeholders have entrusted a great responsibility to the board chair in particular, CEO and Nominations Committee to demonstrate decisive leadership and take the steps necessary to ensure the board has the right composition, capability, diversity, skillsets and “strategic firepower” to partner with the CEO/Executive team and employees to enable a bright sustainable future for the organisation.

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