



A triple-helix of customer-centricity, employee engagement and ESG at the heart of progressive board teams

Description

A Board Chair asked me recently “As you evaluate boards week to week, what characterises the *“very best of the best that you see?”*. I responded indicating that all of the strong boards that would be an 8 out of 10 upwards from a board effectiveness/performance assessment would all have the same characteristics in terms of calibre, work ethic, strong Board Chair, diversity, high-quality challenge/debate and strategic focused ***but the very best had a special combination of three qualities interwoven through their DNA: an incredible focus/commitment to their customers, a genuine partnership model with and respect for their employees and a deep commitment to Environment Social and Governance (ESG).***

I also added the following perspectives from evaluating and supporting boards across a wide range of sectors;

(a) While it might be assumed that these special boards might solely come from the ranks of listed company boards and larger organisation boards with board directors having decades of experience, this is certainly not the case. I have seen exceptional boards with these qualities in sectors such as charity, non-profit, membership/trade association bodies and public sector boards and in some cases from board directors with little board experience

(b) I have seen company boards and executive teams deliver exceptional profits to their shareholders and institutional investors whereby they have placed these three qualities at the core of their business in a manner which has driven outstanding customer loyalty, employee retention, a stellar reputation with their shareholders, stakeholders and the broader market/public while still delivering consistently high financial performance

(c) I have also seen many company boards who are finding it very hard to break free of the all-consuming focus on the financial bottom line and return to shareholders and who struggle to place any genuine value on employee engagement and ESG.

(d) It is extremely rare that exceptional boards with these qualities preside over scandals and organisational collapses – they simply don't happen on their watch as their commitment to oversight of the CEO/Executive team/Organisation, to protect the health and long-term sustainability of the organisation's shareholders, employees and stakeholders, is so strong that combined with their commitment to “do the right thing” that serious issues in the organisation are identified early and faced up to in the appropriate way.



(e) These exceptional boards, in the case of companies, have been the vanguard of and embody the shift that is underway to “stakeholder-capitalism”. In a recent report from the World Economic Forum in collaboration with Baker McKenzie (*The Future of the Corporation, Moving from balance sheet to value sheet, January 2021*), they highlighted how progressive company boards are evolving and how “*stakeholder capitalism emphasizes the significance of stakeholder governance as a key enabler to advancing how business can create longer-term value with all material business stakeholders – customers, employees, suppliers, communities and the planet – as well as shareholders.*”

Since the Covid-19 crisis emerged in March 2020, boards across all sectors have faced unprecedented levels of challenge and crisis. In both the boards my team have supported since then and are continuing to support as well as watching many organisations, big and small, handle the crisis, in many respects, the boards and the organisations they lead, have shown their “true colours” in how they have supported their customers, their employees and the overall decisions they have made. I am sure each of you can list many organisations throughout this crisis where you felt the organisation went the extra mile to support their customers, safeguard and protect their employees, many of whom were on the frontline or severely impacted economically by the crisis. There were however other organisations whose boards simply went missing in terms of their responsibilities and commitment to customers, their employees and their overall responsibility to “do the right thing”. This is not simply a once-off where they had a bad day at the office – it goes to the very heart of their organisation, their culture and their priorities.

We will now explore how these exceptional boards approach and place customer-centricity, employee engagement and ESG at the very core of their functioning.

Customer-centricity – who do we as a board serve?



One of the interesting areas I discuss with board directors as part of a board evaluation is to ask them to share their perspective on their overall culture and in particular their customers who they serve, how well does the board individually and collectively understand their customers, how well they are treated, customer satisfaction ratings, any serious issues and how effectively does the board hold the CEO and executive team's feet to the fire on how well the organisation is treating and supporting its customers. It's important to say here that I am discussing "customers" in its broadest sense, from traditional retail/enterprise customers to patients of a hospital, to the membership of a professional membership body to the homeless being supported by a charity to we as citizens being supported by a government department. I am always amazed by the range of responses to these questions ranging from *"It's not a focus for me or the board, our priority is the bottom line and unless the bottom line is impacted or something breaks in the media, I won't be wasting the board's time by asking about how well we're treating customers"* to *"what's happening our customers is a core part of the CEO and executive team's reporting – how we serve and support our customers goes to the very core of this organisation's purpose"* and a wide range of responses in between. There is clearly a very strong inter-dependency between the CEO/Executive team's level of customer-centricity and that of the board. **Clearly what you are looking to see is that there is a shared common purpose and high-level of customer-centricity shared by the executive team and board which filters all the way down to the most junior employee in the organisation. I also commonly see aspects of "Servant leadership" in progressive boards who have a major focus on the organisation's customers.**

Over the years as we have all watched and continue to watch unfold, scandals of shocking treatment of consumers by financial services companies to poor levels of customer service from telecommunications companies, ***I am always very curious as to what role did the board play in allowing this to happen on their watch? I always have very little sympathy for board directors who claim that it came as a complete shock to them that their organisation had treated their customers terribly on a sustained basis over many years. This speaks volumes about the culture in the organisation and the board, individually and collectively, being derelict in their duties to such a critical stakeholder.*** It also seriously questions the sophistication of the oversight of the CEO/Executive team and how in many cases, CEO and executive teams were left un-checked who very deliberately were treating customers poorly, in many cases over many years and sometimes sadly, in plain sight of the board.

In boards where customer-centricity is in their core DNA, board members have a key focus on;

- Understanding their customers, their evolving requirements, their pressures and focus areas (this has been hugely important throughout the pandemic)
- Understanding the performance of the organisation in delivering and supporting customers (quality, customer complaints, customer feedback scoring, customer churn)
- Setting a customer-centric focus in the organisation and holding the CEO and executive team's feet to the fire on delivering on this culture and commitment to customers
- Being curious and alert to external media and commentary on how your organisation is perceived by customers and where appropriate for the board to request external validation of how the organisation treats customers independent of the executive team



- Standing up for customers where you feel the CEO/Executive team have lost their way on customers

Employee Engagement – the most critical stakeholder of all?

One of the most significant changes in recent years in international corporate governance is a focus on a far more sophisticated engagement between the board and employees. The UK Financial Reporting Council (FRC) as part of their guidance on board effectiveness issued some far reaching guidelines as follows;

“With the aim of strengthening the ‘employee voice’ in the boardroom, the Code asks boards to establish a method for gathering the views of the workforce and suggests three ways this might be achieved consisting of

- *A director appointed from the workforce*
- *A formal workforce advisory panel*
- *A designated non-executive director”*

Over the last 10 years, we have seen boards slowly move away from the “Ivory Tower paradigm” in so many areas. Employee engagement is one area unfortunately where many boards are still stuck in the dark ages with quite a poor attitude to and lack of respect for the critical role their employees play in the organisation. In evaluating boards, I am always looking to understand the attitude of the board to their employees, how the “voice of the employees” is taken into account in the board’s decision making and the overall level of respect by the board for their employees who are the lifeblood of the organisation. Some time back, I evaluated the board of a UK food manufacturing company and was simply blown away by the board’s progressive employee engagement. As I sat in the reception of their headquarters waiting to observe a board meeting, I was struck by an employee newsletter that had quite sensitive financial and customer information in it. It had an interesting little box on the front page which indicated *“Please don’t take me out of the building – there is sensitive information in here we are anxious to share with each of you as our colleagues”* signed by the Board Chair and CEO. The newsletter also had incredible coverage of customer success stories and celebration of different teams and individuals who had gone the extra mile for customers. This tone continued in the board meeting where it was very clear that the Board Chair, who was formally the “designated non-executive director representing employees”, ensured that there was a standing item discussing how the various teams were getting on in different manufacturing locations, the loading on various teams etc. **This same board also had an Employee AGM whereby the whole board met with the employees and genuinely opened the floor to the employees to discuss the company’s progress together and for the board to be accountable to their employees on their own progress and performance as a board team. You won’t be surprised to hear that this company and other similar organisations with exceptional board employee engagement, have significantly lower employee turnover rates and higher customer satisfaction rates.**

In marked contrast, I have observed board and remuneration committees where I have witnessed nuanced debates on the most incredibly elaborate executive bonus and share incentive schemes in



~~organisations where the employees haven't received a pay-rise in four years and do not have a single share option.~~ I have also seen, as I am sure each of you have seen, incredible cases of employees, in their hundreds and sometimes thousands, sacrificed at the altar of “financial expediency” to compensate for in some cases mismanagement and poor decisions by the CEO and executive team. *In cases where employees are made redundant, I always feel that how the employees are treated in terms of their redundancy payments, support to help them find new roles etc. gives you a great insight into the “soul and level of genuine employee engagement of a board”.* In many cases, employees have been abandoned by non-executive directors who have not stood up and been counted in terms of “doing the right thing” in terms of how their employees are being treated, many of whom who gave decades of loyal service to the organisation.

I am nevertheless encouraged to see greater awareness within boards of employee engagement and the importance of “walking the talk” in terms of how the board engages with and supports employees ensuring that the board matches the very often impressive language in the glossy annual report of the wonderful levels of employee engagement and focus within the board!

In board teams who are truly partnering with their employees, key focus areas are;

- Understanding how employees are doing in the organisation, their morale, their pressures and how the organisation supports them and monitoring this through assessment of employee engagement survey results, turnover rates, absenteeism, health and safety incidents etc.
- Ensuring that the “voice of the employees” is heard and integrated into the major decision-making of the organisation
- Ensuring that the culture of the organisation sets the bar high for all leaders in the organisation, from the CEO to the most junior team leader, in terms of how employees are treated and that a zero-tolerance culture exists in terms of in-appropriate behaviours towards employees
- Board members, individually and collectively, engaging with employees as colleagues, both informally and in innovative approaches such as Employee AGMs

Environment, Social and Governance (ESG) – the biggest paradigm shift for boards?

Over many decades, there have been boards and organisations in every sector across the world, who have embodied ESG, its predecessor Corporate Social Responsibility (CSR) and in every fibre of its being, have had a deep commitment to “do the right thing”. These organisations have always impressed us and stood out for their authentic culture, how they treat their customers and employees and how they treat each other as board members and executives. In evaluating listed stock market company boards, I am seeing first-hand how boards are adapting in the face of sustained pressure from institutional investors, shareholders, regulators, society, partners, customers and increasingly younger and enlightened employees who want to work for an organisation that has a strong purpose, ethics, values and a commitment to “do the right thing” whether that’s in environment sustainability, ethical sourcing of products and their overall role in contributing to society. I am also encouraged to see ESG making its way on to the agenda of private companies (private-equity backed, family



businesses, Small-Medium Enterprises), public sector and charity/non-profit boards. ESG means many different things to an organisation depending on the sector they operate in and their scale. How a board treats ESG is also inextricably linked with the culture, values, ethics and purpose of an organisation.

Progressive board teams are incorporating ESG into the very fabric of their organisations as follows;

- Incorporating ESG into the very heart of the organisation strategy
- Identifying concrete action plans that will enable the organisation to truly make a difference
- The board and CEO/Executive team setting the example and inspiring and empowering their employees at all levels to embrace ESG
- Embracing “Stakeholder Capitalism” and accepting that profit and financial performance are not mutually exclusive to “doing the right thing” at all levels as part of long-term sustainable success

Summary

In the depths of a crippling pandemic and an increasingly complex volatile fast-changing world, organisations and their stakeholders/shareholders have never had a greater need for inspiring leadership and stewardship from their boards – not just in the very short term but in their board teams laying the foundations for sustainable long-term success excelling for their customers, employees, stakeholders and shareholders. Overseeing the financial and organisational performance will always be a core foundation responsibility of a board but progressive boards have evolved significantly beyond this. I was asked recently about what needs to happen to further strengthen national corporate governance codes to avoid collapses such as Wirecard and Carillion. I believe we are almost at the limit of strengthening corporate governance codes and the best way to avoid catastrophic collapses like this is by ensuring you have a board team with the right calibre, competence, diversity, with independent non-executive directors who will always have the courage to stand up and be counted to protect shareholders, employees and stakeholders and the culture, ethics and values of the organisation, set by the board, creating a solid core of “commitment to do the right thing”.

I passionately believe that a triple helix of customer-centricity, employee engagement and ESG represents the blueprint for boards who will excel for their organisations, stakeholders and shareholders in the challenging years ahead. It comes as no surprise that these progressive boards have shown great resilience during the pandemic crisis as they have been able to galvanise their employees to support their customers, adapt business models and show great leadership. Looking forward, high-performing board teams will combine the traditional core qualities of an exceptional board (*outstanding board member calibre, work ethic, commitment, diversity, excellent board chair leadership and a great partnership model between executive and non-executive directors balancing the highest levels of challenge, debate and oversight*) with a deep commitment to customer-centricity, employee engagement and ESG. It’s also important to acknowledge that where I have seen this triple helix present, the boards are invariably diverse with a great mix across gender, age, professional/sector background, geographic/ethnic background and most importantly of all, thinking styles.



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