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Human Capital Management

How Boards Can Promote a New Leadership Model for Companies

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Boards have a lot on their plate right now. Even before Covid-19, institutional investors were challenging directors to consider stakeholders beyond investors. Now, even as directors are busy with the pandemic, investors want boards to promote a more agile, mission-driven executive team. They want leaders ready to handle the expanding complexities of corporate life with distributed decision-making, to respond to a rapidly changing business environment.

Of course, companies have always been complex entities requiring talented leadership. But success in the past depended first and foremost on financial metrics—and boosting total shareholder returns. Corporate governance reflected this priority, shown most clearly in the performance-based compensation programs for executives. Now success increasingly involves multiple dimensions.

Three Trends Shaking Up Corporate Leadership

First, more and more industries are threatened with disruption through digital technology, a challenge to be met only with strategic investments over several years. In most industries, especially with digital technology, the pandemic has now intensified the disruption. Traditional three-year planning horizons aren't enough to meet this challenge.

Second, and related, boards are under pressure to better invest in the human capital of their companies. Observers have been calling for more creative, agile leadership for more than a decade, even as boards have increased their succession and talent planning under traditional criteria. Directors now need to work with management in defining the key attributes of their future leadership
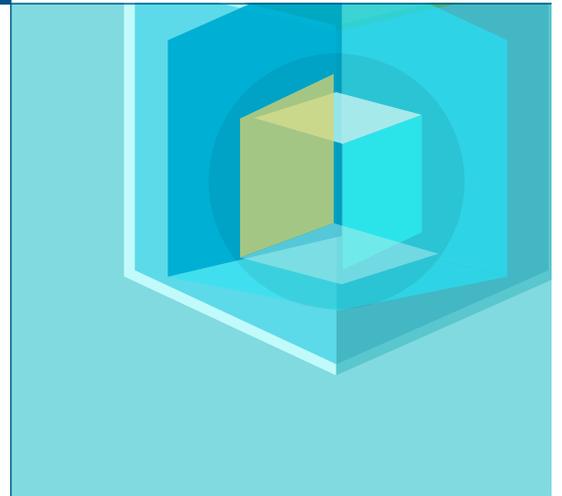
team—not just to develop the appropriate talent for their decision-makers, but to make sure that talent stays with the organization.

There's no simple formula for talent management. Some companies will need to replace existing leadership talent. For others it will make more sense to upskill the leaders already there, or to add new talent. Boards will need to assess the leadership capabilities against the current context and future requirements to achieve the corporate mission.

Moreover, that talent often expects a new mix of rewards from corporate careers. Work-life balance and a higher purpose are rising in priority, even as career stability and high pay remain important. Human capital management priorities increasingly extend throughout organizations, including topics such as reskilling and a living wage. If companies don't handle these pressures appropriately, the result could be organizational chaos.

Third, boards are facing calls for respecting all stakeholders, not just investors. The pandemic, juxtaposing a booming stock market in some sectors and sharply rising home prices with high unemployment, has thrown social and racial inequities into sharp relief. Longstanding concerns such as climate change remain powerful as well. Sustainability increasingly applies to social matters, such as diversity and inclusion, not just the environment. It includes greater attention to sustainable sourcing, sustainable packaging and human rights in general. Boards need to decide: Is their current executive team up for these challenges, and if not, what kind of leaders will be? What leadership skills does their company need to thrive going forward, and how should the executive team promote these skills?

Getting Back to the Mission

When the expectations for companies shift so noticeably and frequently, it's important for boards to ground themselves with their mission or purpose. What is the company about? What are its long-term goals, around which it can build an effective and appealing strategy? What are the fundamentals that its executive leaders must preserve, while freely modifying everything else? Consensus here will provide stability as the company adjusts strategy to address disruption.

(Of course, this advice applies only to companies with reasonably solid prospects. At firms in hard-hit industries such as non-essential retail and hospitality, boards are busy dealing with existential threats.)

This focus on a mission can ground leaders as they adjust priorities and strategies. It gives them clarity as they reinforce certain aspects of the company's culture and core values, while perhaps jettisoning others. It also gives directors some guardrails as they develop new ways of defining and rewarding performance.

Boards and management teams will likely spend much of their time developing a leadership model fit for their company. They can draw from a list of frequently cited attributes of agile, socially responsible leaders:

What Makes an Effective Leader Now?

Embracing change

Accepting greater risk than in the past (vs. risk adversity)

Demonstrating flexibility and openness to change

Experimenting and incorporating feedback

Acting promptly and decisively

Confronting colleagues who deliver results but don't support the mission or values

Modifying decision-making

Distributing it close to customers and markets

Increasing team-orientation (especially with multidisciplinary teams)

Communicating often, with clear goals and transparency

Empowering colleagues rather than command and control—listening as much as telling

Broadening the focus

| Embodying the company's mission and values—walking the talk

| Demonstrating intellectual curiosity, continually learning

| Promoting an inclusive culture with a diverse workforce

| Embracing all stakeholders, not just investors

Building a strong team

| Promoting collaboration and complementary skill sets

| Making the tough call to let go of people who deliver results but don't live the values

| Getting ahead of areas where skills need to be built or bought

Ensuring a strong bench

Questions for Boards

In addressing these pressures, boards can start by clarifying their own urgency on the trends described above.

- Is their company facing immediate disruption, or does it have some time before major threats are likely?

- How important is innovation to future success?

- If the company needs new leadership attributes now, how does the current executive team measure up? Where are the gaps acute and urgent?

- Either now or for the next generation of leaders, an the board shape a team ready for the likely challenges? How might hiring and succession criteria need to change?

- Has the company built an inclusive culture to attract diverse talent?

- More broadly, how might company culture need to evolve? These new demands have a common denominator of requiring greater trust within the organization, often through greater transparency on corporate goals and strategy.

- How can leaders encourage management toward greater toleration of failure, so employee are more willing to innovate and learn from mistakes?

- What changes should boards be pressing for now, as opposed to changes to be developed over time?

Boards may have the greatest signaling and practical influence here through compensation and people decisions—both promoting and terminating. How can boards re-align pay to emphasize high-demand skills such as digitization and supply chain management? Should the metrics emphasize long-term, mission-oriented outcomes, versus specific operational imperatives?

What kinds of talent are the priority in the organization, and how should boards reward leaders for effective talent management? How can boards recognize and reward executives who optimize results for all stakeholders? It's all about building the team that can best support the company's mission in the face of disruption.

Boards can help initiate and expand conversations about the best way to implement these plans. For example, an automotive supplier was focused on cleaner and safer vehicles, so it sought managers from tech industries to help boost innovation and introduce agile ways of working. A global medical device company altered how it made critical people decisions. It established a global steering committee to set principles for these decisions, then distributed the actual decision making to regional bodies drawn from business leaders and staff functions. The idea was for these groups to choose directions and experiment with solutions, which could then be improved with feedback. Likewise a global food distributor, with its business changed overnight by Covid, rapidly deployed teams to support its restaurant customers. It helped them stay open through a mix of financial planning, more outdoor dining, and reconfiguring to "groceraunts" and "cloud kitchens" (focused on the takeout business).

These are complicated times with the future unclear. Boards must juggle several variables, and balance the needs of the company with the preferences of talented (and mobile) executives. Fortunately they can take another cue from management thinkers and pursue an agile approach of their own. They can move gradually with a variety of experiments, making mistakes, learning and adjusting along the way. In the current corporate atmosphere of uncertainty and disruption, the agile approach may involve the least risk of all. ∎

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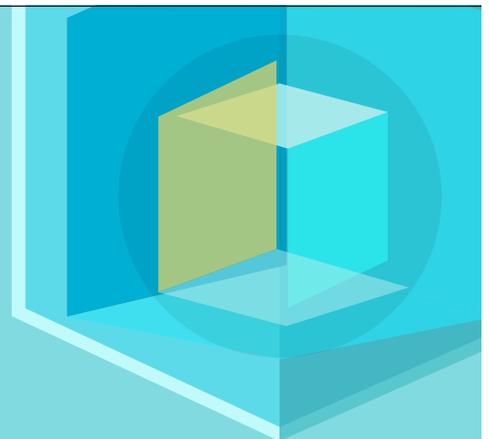
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