Innovating the board

KPMG Board Leadership Centre

In How Boards Work: And How They Can Work Better in a Chaotic World (2021, Basic Books), Dambisa Moyo – author, economist, and veteran board director – shares her views on 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 Centre (BLC), Dambisa 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.

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?

Dambisa Moyo: I think in order to answer the question of what's needed and the challenges of making change, it's important to set the scene on what the board mandate is, as well as to explain clearly what tools and levers the board has to execute change.

I'm approaching this need to upgrade boards with the fundamental view that we need to make corporations stronger than ever – partly because of their traditional role in job creation, infrastructure, driving innovation, and paying taxes, but also because we need to make sure that they're performing at the highest level as boards and the corporations that they serve are taking on a much bigger and broader responsibility set as we move away from financial shareholder primacy into a stakeholder world.

Directors are now being asked to opine on areas such as ESG – including everything from worker advocacy, climate change, discrimination, voter rights, obesity, data privacy, etc. The board has three main areas of responsibility: overseeing the company's strategy; hiring, and in some instances, firing the CEO; and driving and overseeing the corporate culture. My proposals around 'upgrading' boards and corporations for the 21st century are associated with the upgrade of those three aspects of the board mandate – strategy, succession, and company culture. But boards face some important challenges in executing this agenda.

One is that 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're not hired or voted in by society and yet, we are being asked to help drive those changes. It is a very challenging situation that companies find themselves in, even with the best intentions.

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? Barack Obama said when he was president, by the time something hit his desk, it meant that it was extremely difficult, because if it were easy, somebody else would have addressed it. The boardroom is the same. By the time something like ESG hits our boardroom, it's extremely complicated. If it were easy, somebody else would have solved it. 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, which can be global and very different from nation to nation. We need to be able to track change against other peer companies in the same industry and in different industries.

And 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. We want to pursue gender and racial diversity, but we don't want to lose a high-performing white guy. We want to pursue climate change, but calls to defund energy companies ignore that there are 1.5 billion people living in energy poverty and who don't have access to energy in a sustained way. These are required trade-offs.

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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?

Dambisa Moyo: I think that there have been some improvements over time in the annual reviews that look at how boards are operating. But I think that the relationship between the board and the management is a very important lens that traditionally hasn't 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's a lot more room to ask the question of where value can be created.

I also think that there's a lot more work that needs to be done around ethics. In 18 months, we had over 400 CEOs and senior business executives lose their jobs. A lot of that was driven by Me Too. 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. I had four CEOs in a company in just six years. That type of high turnover is very disruptive. And I think a lot of that has to do with weaknesses in board effectiveness, particularly around ethical questions.

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?

Dambisa Moyo: There's no doubt in my mind that there are questions of conflicts of interest and making sure that the delineation between an oversight role versus a managerial operational role should remain stark. The fiduciary custodial role of the board is very clear.

What I'm proposing be explored is that, to avoid concerns around asymmetry of information or concerns that the board is there to rubber stamp a strategy that's 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.

In that respect, 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 and say, 'Before we even review your deck, here are a bunch of things that we want to see. We want to see how you're addressing technology and digitisation, not just in risk mitigation on the downside, but upside investments. We want to see how you're addressing supply chains and globalisation. Here are some suggestions on how we think you might be thinking about M&A transactions or divestitures.' All I'm suggesting is that 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.

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

Dambisa Moyo: There are a number of elements to that. In general, committee structures are in place to make sure, particularly through the audit committee, that we do 'lessons 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've had, but also in terms of what items dominated the board agenda.

Initially, it was really about tactics. It was making sure that we could survive and that companies were not in a vulnerable place. About 14 percent to 15 percent of American corporations are considered 'zombie corporations' – they don't generate enough cash flow to cover the interest payments on their debts.

Obviously, for many companies, the environment was very challenged. There was a collapse in revenue, a collapse in global aggregate demand because we were all going to be sitting at home. Financial issues as well as [operational issues] – making sure that employees were safe, looking at the survival of the supply chain, not just globally, but also within countries. And of course, leadership. How do you lead through a challenged environment? It was blocking and tackling when COVID-19 hit.

As we are now looking at the broader opportunity to come out of this – there's still a way to go – there's a lot of blowback and challenge with debt, inflation, etc. Nevertheless, I would argue that the boardroom conversation is moving to much more structural kinds of discussions. How should we be thinking about digitisation? How should we be thinking about deglobalisation and the rise of China? So, more structural questions about an economic growth environment that was already challenged before COVID-19 hit. Most crucially, I would say, 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 corporations? That's where the discussions are moving.

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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?

Dambisa Moyo: When you think about it, it's kind of surprising that we haven't done more work on ethics, especially given that, as I mentioned earlier, over 400 CEOs and business leaders lost their jobs in 18 months because of Me Too. You would think that this should be a front-and centre issue.

I do think we are making progress. We rely on a number of levers. One is hiring the CEO. More and more, the CEO is becoming a standard-bearer of values who really should embody the corporate culture of the company. So, as we think about that and look at candidates, we're looking more beyond finance strategy and operational experience into this ethical realm.

It's also through 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. There's no doubt that this area is critical, but it's also at a very nascent stage. I made some suggestions … on how that might look. It might be changing the types of questions that we ask candidates. One of my favourites is, 'What's the worst thing that you've ever done to another human being?' It might also require more attestations, like you see in political parties in the UK, having CEOs or prospective CEOs sign a document to say that they have not done anything that could bring ill repute or challenge to the company over longer periods of time.

This is a nascent conversation. But 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're 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?' With those tools – compensation and hiring – I think we've got a lot of latitude to influence change.

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

Dambisa Moyo: The notion of 'right' metrics is the problem. This is an evolving space. Six months ago, I didn't think voting rights was something that boards would be expected to opine on. Well, guess what? We are being asked to opine on that. Yesterday, somebody asked me what my view was as a board member, or the company's view, on Israel versus Palestine.

In the past, no one would ask these types of questions. How are companies thinking about issues where, in essence, we're looking for sort of a landed answer, an equilibrium, 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're 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?

Dambisa Moyo: You've 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 big risks. Another risk is that we aren't looking at things that are fundamentally changing the way we live. I'm talking about things like deglobalisation, trade, movement of capital, the ability to fund investments, and ability to move people across borders. Nobody assumes that globalisation is going away. But we've actually only had globalisation and market capitalism for 1 percent of human history. Are we prepared for a more deglobalised world? Often, I think companies are finding themselves backfooted because they just can't think of these tail-risk scenarios, or what they think are tail-risk scenarios when they're not. By that, I also include things like digitisation, China, and complex geopolitical changes that are happening.

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's 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're 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?

Dambisa Moyo: I'm reminded of something one of my chairmen said many years ago, which was, 'Companies are in the business of taking risk.' When we think about risk mitigation, it's about reducing the cost or the risks of scenarios that we haven't thought about. I love Mark Twain's point that it's not what you don't know that gets you into trouble, it's what you know for sure that's just not so. I think that's a good frame of reference. We can spend an inordinate amount of time worrying about the bogeyman, so to speak, but it's the things that we assume to be true.

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I'll give you some examples. Brexit. We assumed that there was no way Britain was going to leave. Wrong assumption. The financial crisis, COVID-19, immigration, take your pick. You are always going to be surprised. Resilience is about having a balance sheet that is disciplined. It's about winning in all environments. It's 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.

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

Dambisa Moyo: When people think of digitisation, it's 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 don't 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's quickly a space where you can fall by the wayside.

In semiconductors, the United States used to have 37 percent market share of global semiconductors. It's now down to 12 percent. That doesn't happen overnight. Jack Welch said that when the rate of change outside of an institution is faster than the rate of change inside of an institution, you're basically dead.

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

Dambisa Moyo: One of the biggest threats to a company's innovation is the fact that it cannibalises 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 is attached to innovation – not necessarily the success of innovation, but being able to tangibly track where they've seen progress in innovation. Another example is Carol Dweck's work with Microsoft. It's about linking change and innovation to specific targets, whether it's in compensation or thinking more generally about how the companies operate themselves.

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?

Dambisa Moyo: The point is that all of the issues around ESG have trade-offs. As I mentioned, we don't want to fight discrimination with discrimination. We recognise the critical value and importance for society that we have more diverse boards, C-suites, and workforces. If you want to win in the future and compete, you're going to have to be diverse. But we don't want to lose the high-performing white guy because a message has gone out that there's a hierarchy and there's a sense that we're fighting discrimination with discrimination. We have to think about ethical questions through the lens of everyone, not just certain groups.

Climate change is another area. On the one hand, we want to make sure that we're having energy transition discussions at the highest level, but we can't forget that there are 1.4 billion people without energy. So, we're trying to thread that needle. ESG is absolutely critical. Ethics are absolutely critical. And how we evaluate ethics in a way that's inclusive and not exclusive of certain groups, whether it's within a country or between countries – all of these areas are pitfalls if they're not managed carefully. We cannot be ideological about this. We have to be pragmatic in a way that's 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 hear is, 'Do we really need another committee?'

Dambisa 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 of the full board. It could be an advisory committee, recognising, 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 recognise that the mandate around ethics may not necessarily just sit in one committee. We need to address ethics, whether it's through the compensation committees, through audit, and through all areas of how we run businesses globally.

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