The Endemic Era: 6 Difficult Conversations Happening in the Boardroom

By Janice Ellig

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Crisis management and the ability to be strategically agile are top priorities for boards.

Over the past 30 months, leaders in the boardroom have had to adapt repeatedly to unprecedented uncertainty. Directors have come to recognize that we will continue to have constant pivots to what the new normal is – that is the reality. The role of a board director has never been more demanding, and decision-making requires courage and the ability to pivot fast. The seat that each director holds is a critical piece of real estate supporting good corporate governance and ensuring the viability of the company they serve. The discussions in boardrooms require directors to have the experience, skills and strategic thinking to ensure companies continue to grow and fulfill their purpose to shareholders and stakeholders, including employees, customers and communities.

The same has been true for the leader of the company: the CEO. It has been a time when directors have had to ask deep, probing questions of their CEOs to ensure the company would not just survive but thrive, sometimes resulting in CEO replacement. It has been a time when companies are under greater external scrutiny and directors are being held accountable for decisive and discerning corporate governance.

As we brace for more new realities, boards know there will always be looming crises of varying magnitudes, situations that require even more frequent, substantive and inquisitive conversations. Those conversations will present conflicting opinions, robust debates and difficult questions for management. The results may be a catalyst for more turnover in the boardroom and the C-suite, some planned and some unplanned, to ensure a company's viability with the right leadership at the helm. The following recent interview with Maggie Wilderotter, a highly experienced board director, highlights some of those difficult conversations taking place in the boardroom.

The Right CEO at the Right Time

Janice Ellig

Janice Ellig: You have had thousands of hours of conversations in boardrooms across all sectors for the past 30-plus years. What are the top priorities facing boards, individually and collectively, in this new normal, which some have called the endemic era?

Maggie Wilderotter: It's multifaceted and complicated. If you are a director on a public board, the responsibilities are many, but one of our primary responsibilities is having the right CEO leader.

If we don't, the first thing we have to address is what are we doing about it to either help that CEO improve or replace him or her. We can surround them with the right people, but if that doesn't work, then the tough decision has to be made to find a new leader for the company.

If you have the right CEO, then the focus is on making sure you retain that individual. It's a discussion around what the right retention incentives are. When the CEO is also a chairman, then the lead director would, in an executive session, talk to the independent directors about what needs to be done to retain a great CEO or to replace that CEO.

JE: In the past two years, did you see a need for a new type of leadership? Were there key attributes needed whereby CEOs effectively

dealt with and navigated through multiple and unexpected crises? Leaders know they may not face the same level as COVID-19, but that crisis management is still a major risk.

MW: Absolutely. What boards need to ask themselves is if they have a CEO who can lead during the good and the challenging times. Leadership resilience means proactively dealing with a crisis, especially when it wasn’t anticipated. Boards have to evaluate if the CEO and their teams are asking the right questions. Are they analyzing the right information? As a board, you’re not making declaratory statements, you’re asking questions of the leaders. If they don’t have the answers, what information do we – the board – need to help them make the right strategic choices?

The other area that boards have to watch out for is a company’s prioritization of the vital few deliverables that matter to value creation. CEOs have to make choices; they cannot focus on everything.

What we saw during the pandemic was that a lot of CEOs lost their jobs because a) they didn't know how to manage through a crisis, or b) they grew so fast that they’d never put the practices in place or set the company up to be able to manage to a larger scale. Many tech companies have laid off employees in the last 60 days. Many over-hired during the pandemic because their systems and processes could not enable growth at scale. Automation and digital systems have to be put in place for profitable growth.

CEOs and their management teams need to be disciplined about “what you do and what you don’t do.” This happens when leaders don’t say no to anything. Jim Sinegal, who is one of the founders of Costco, actually coined a phrase: “‘No’ is a complete sentence.” And it is one of the most important words in business.

Strategies That Pivot with Agility

JE: With CEO departures of over 10% in the S&P 500 during 2020 and 2021, those were tough decisions that took a lot of due diligence and courage. Each time a CEO leaves, there is disruption and confusion in the company on the company’s future direction, its strategy, how Wall Street will evaluate the change and what the board is doing to mitigate any risks. What are those board conversations with regard to the company’s strategy?

Maggie Wilderotter

MW: That type of disruption can impact the second critical aspect of a board’s responsibility, which is making sure that the company has the right strategy. If you have the right CEO, or when there is a change in the CEO, the board must make sure we don’t miss a beat on our path forward. A three- to five-year strategy window is what boards are focused on now, not annual plans. The annual plan is fundamentally put together to support getting to that three- to five-year strategy.

JE: When you look at strategy, during the pandemic many companies like General Motors and two of the boards you are on, Lyft and Costco, had to pivot and do so with some speed. What’s the pivoting strategy going forward for boards?

MW: The pandemic questioned the viability of many companies that had to pivot, and the successful ones were agile with resilient leaders. I think public boards must understand when there’s material uncertainty and unpredictability, you must be agile. You must be able to engage with the CEO and the leadership team on the truth. What are the facts? What’s working? What’s not?
As an example, when John Zimmer and Logan Green, co-founders of Lyft, had their business fall by over 80% in two weeks when the pandemic started, they

had to respond quickly. The board helped them face the reality that cash had to be preserved and the company had to make tough choices on projects, priorities and people. Speed and agility mattered for the company to pivot in the right direction. Board members must ask tough questions: What are we going to do to preserve cash? Are we going to freeze hiring? Do we need to restructure and right-size the company? Who are the right people that should be kept, and who are the people that we are going to need to let go? How do we communicate with our partners, like our drivers who are independent contractors?

JE: So, these are the deep probing questions and follow-up questions a board needs to ask?

MW: Yes, and during these times the board gets very actively involved in the shift in strategy and business model for the company. And that requires a lot more time than just the typical six to eight board meetings a year. In some cases, you are having them weekly.

A Robust Governance Process

JE: If you have the right CEO, you've got the right strategy, you have an agile organization with a CEO and team that is resilient and who can pivot and rise to the challenges, what is the next big conversation around the boardroom table?

MW: A robust governance process starts with the financials. Are the financials sound and solid? Are the right processes in place to manage, on a financial basis, the company's revenues, profitability and operating cash flow? It is important for boards and management to have a set of consistent statistics that are looked at all the time. And, of course, management must especially engage with and listen to their audit committee, which is accountable for the diligent, robust risk oversight of the company.

The mitigation of risks and the management of risks are specific to each organization. Each company has risks of varying degrees depending on the sector they are in, yet, for all companies, there are some risks you just can't predict. Pandemics are a good example of that. No one predicted that we were going to shut down the world for a couple of years. There are always going to be those black swans that creep up, and then you just have to deal with it in the moment.

But boards and leaders must try to mitigate as much of that unpredictability as possible. Boards should have management teams present mitigation plans. When they identify risks, what actions are being taken to mitigate those risks? How are they monitoring and managing risk to make sure that they don't get surprised? Surprises are going to happen anyway, but vigilance is critical.

Some companies use dashboards, some use risk heat maps. Some use presentations that are consistent every quarter for the audit committee, and presented a couple of times a year to the full board.

Finally, boards should make sure that the 10-Ks and 10-Qs are correct, that the information that companies communicate to investors is consistent and correct, and that we've got the right practices in place to run the company soundly. These are all part of good corporate governance.

JE: We noted earlier in our discussion that about 10% of the S&P 500 CEOs departed in 2020 and in 2021; about 71% and 80% of those openings, respectively, were filled internally. That was a key learning curve during unprecedented times. Given the CEO turnover, and the fact that the tenure of a CEO is on average seven years, how does a board bulletproof itself against being a rudderless ship?

MW: Succession planning is a full board responsibility, but nom/gov tees it up: "Here's the 'hit by the bus' proposal, and here are the longer-term CEO options." Succession planning is paramount. When there is a person in the company who works for a CEO, they could be an interim CEO, and, in many cases, it's usually the CFO. However, we are focused on both scenarios – planned and unplanned succession. There are more CEO changeovers now than I've seen over a long career. Board succession, as well as CEO succession, are both really important and are an agenda priority for public and private boards.

JE: In recruiting executives, we find that boards are looking for C-suite leaders and board refreshment candidates who have enterprise-wide experiences and are diverse.

MW: The best talent is a key factor in hiring and promoting employees, and diversity is part of that lens. The boards I serve on look at the pipeline two levels down from the executive leadership to be able to have solid backup plans for the top leaders of the company. I think that succession planning for the CEO, C-suite and board is going to be an increasingly important discussion topic in every boardroom.

The Culture to Drive Strategy

JE: Some companies have experienced the Great Resignation, where employees left not just for money, title or career promotion, but probing deeper it has been more about a feeling of not belonging, not feeling a sense of purpose in their organization. Are boards talking not just about bench strength of talent, but of the underlying culture of the organization as top of mind?

MW: Culture – the people factor – drives strategy, so, yes, it is important. Culture is two-fold. It's the culture of the board and the culture of the company. I think one of the challenges with boards is that you have an environment where no one is in charge. It's collective wisdom. With that, you have a lot of gray areas, and the decision-making process does take a lot longer than if somebody says, "This is what we're going to do." You have to get alignment. That takes work, and it takes a different skill base from your committee leaders and your board chairs because you can't leave people behind. Boards must also spend meaningful time with each other in person, building relationships one-on-one or collectively in groups, in order to build that trust. For the company culture, leaders have to build trust with their employees.

The in-person meeting shutdown that happened with the pandemic resulted in boards not meeting in person for over two years. Adding to this, 30% to 40% of boards refreshed during that period of time. So, boards did not have the opportunity to build relationships. Because of the pandemic, you got a lot of new board members who don't know their fellow directors. That's on the minds of boards. Now that everybody's getting back together in a boardroom, how do we build up the relationships and the culture?

JE: As for the internal culture, given some of the stories that have hit the press about toxic cultures and with boards only meeting on a typical schedule of four to six times a year, how does a board monitor a culture? Do you do culture scans?

MW: Yes. It's usually through employee surveys. Typically, boards will use them, and companies do what I call “snapshot surveys.” Several of the boards I sit on are doing surveys once a quarter, and then there’s an annual survey. And you’re looking for four or five hot spots, and, then, is there an action plan to improve? Are they measuring the success of those plans? Do we see the scores changing with the employees? Management owns that, and the board has oversight of it. And we are looking at the talent, the turnover, the temperature of the company. Are we seen as an employer of choice? Beyond our diversity stats at all levels, do our people feel like they belong and can have multiple careers with the company? Good governance at the board level ensures we have heterogenous groups who reflect the thinking of our employees, customers, communities and investors. Culture is our DEI standing, and the “S” in ESG of how all constituents view the company.

Communicating with External Constituents/Activists

JE: Should boards write an “activist’s letter" to themselves, as the board of HP did when you were on it? Should a board examine itself and say, “If I was an activist, this is how I would look at and evaluate the company”?

MW: Yes, I think it’s a healthy process, because it takes a third-party perspective, and it puts the board in a mindset that we’re going to be on the other side of the table now. Since the board knows the company well, probably better than the activist would, we can be very thoughtful and probing. Where are the attack points? And what would we do about that if it happened, and what should we do now to make sure it doesn’t?

Going through that exercise with the top leaders in the company gets them in a frame of mind of making sure that they're paranoid enough. I find that CEOs and leadership teams tend to be wildly optimistic. There’s a goodness to that, but leadership often thinks and acts like, “Oh, that will never happen to me. It’s going to happen to somebody else.” But stuff happens to everybody. I think boards being realistic in that way is important.

Another external factor that is taking time and is frustrating for boards right now — and it's a new phenomenon — is these organizations that have cropped up with multiple proposals to go in front of your shareholders. It could be animal rights issues, ESG issues, etc. In many cases, these proposal groups are cause-oriented and the proposals go to many companies. Boards have to decide if the proposals have merit or not. Do these proposals benefit our stakeholder relationships and/or our returns to shareholders?

JE: What about taking a stand on social issues? How does the board view those issues or talk about that with their CEOs, whether it be abortion, gun control or other social, geopolitical or economic issues?

MW: I think it depends on the business you're in. As an example, if you sell guns, you better be talking about that subject, but gun control is not necessarily something we talk about at just any board meeting.

I think our focus at the board level has to do with the company and the risk to the company. That should be the standard that we judge by. There's a lot of things we don't need to get involved in, and then other things we are required to be involved in. It shouldn't be personal. It shouldn't be about what the CEO thinks. It should be about business. This is not somebody's soapbox. And that's what happens in some companies. It becomes a personal quest, and that's not what companies should do.

Maggie Wilderotter is a public company director at Costco, Lyft and Sana Biotechnology and chairman of the board at DocuSign (as well as interim CEO). She has served on 36 public company and 15 private company boards, including leadership roles for Hewlett-Packard Enterprises, Xerox and The Procter & Gamble Company.

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