Bolt from the blue

Boardroom lessons from the pandemic

RALPH WARD

M. MUNEER

The pandemic panic gripping the global business world might finally trigger action to quell the rising concerns on widening inequality in compensation between the C-suite and the rest. Time-zero events and inflection points show that the virus attack probably will accelerate some changes that were brimming to spill over for a long time now.

With massive layoffs worldwide and bankruptcy filings waiting on the wings, top executives feel prodded into tightening their belts. In the USA, CEOs of major airlines, Disney, GE, Fiat-Chrysler, Marriott, Fox Live Nation are among the many who are either taking a cut or deferring compensation. In India, Reliance Group has boldly fired the first salvo to unilaterally cut the pay of all senior executives drawing more than Rs15 lakhs per annum. Other global giants that have taken the C-suite to task on pay include BT, Santander, Singtel, and Temasek Holdings.

In the last few weeks, several reports and mails from compensation consultants have been seen floating on how the crisis is shifting executive incentives and performance targets. Where does that leave the board of directors?

Some large public enterprises are already trimming director pay, but it's still too early to see solid patterns. A survey last month amongst 315 US firms found only six per cent cutting board compensation already, but many are considering it. Given the sentiments of job losses and misery all around, some boards have taken action on their own, voluntarily giving back between 10-50 per cent of their compensation.

Immediate cost cutting will see sitting fees and retainers getting eliminated in quick succession now. Equity has been a much bigger aspect of director pay over the past decade and cutting this is more complicated. Even trickier are director stock ownership and holding requirements. Many boards may set director equity holdings as a multiple of the annual, but soon-to-be-trimmed, cash retainer. Further, it is not easy for a board member to cash out some of those shares, given the crashing stock markets. So is governance in turmoil?

The pandemic has driven boards not just into a pay-cut crisis, but a graver issue of crisis governance as well. Why didn't the board see this coming? And was it not their fiduciary responsibility to prepare the enterprises they serve for all such eventualities? Has the 'grey hair' wisdom lost its relevance in the realms of uncertainty?

Just as everyone else, a board director too has to endure the lockdown, WFH, economic turmoil, spiking unemployment, and fear for the future. He or she is also venturing out for emergency supplies and getting used to wearing a facemask. In coping with the management and governance issues of companies, the board member is also breaking head on shutdown losses, sick or unavailable employees, suppliers and customers, sharp cutbacks, uncertainty, etc to find a way through.

With the immediate crisis settling down into long-term trench warfare against disease and depression, we should take a look at the lessons our boards have learnt from this. All the disruption, urgency and trauma no doubt make governance more challenging, but if we are truthful with ourselves, we are learning governance lessons that actually make our boards better.

Today we are focusing more on the essentials. There is neither time nor bandwidth for all those Powerpoints of a few months ago. It's tough enough to get our directors all online or on the phone as it is now, so they have no time to waste. We are trimming fluff and filler from the agenda to make time for more crucial board business – and re-discovering our governance role better.

Since online conference time is tough to schedule for everyone, our board members are working harder offline. They're calling each other and the C-suite between meetings for discussions, information and updates. Locked down, they put more time into reviewing board materials and doing their own research. Board meetings now are less of single event in their schedules, and more of an ongoing process – members don't need to come back up to speed on the company every few months.

Board members are also pitching in to make themselves more helpful to the company. Younger and venture firms have always asked directors to help with introductions, research, pitches and special projects. In the current crisis, companies of all sizes are asking board members to roll up their sleeves and help management meet immediate needs. Going forward this radical shift will be here to stay and will help the PSUs in India where board members are normally nominated by the government, not necessarily based on their fit and wisdom.

Finally, though directors are putting in far more time, with more stress, they are gaining a clearer view on what their roles really are. Governance is no longer running through an agenda, ticking off the boxes, and moving on. Today, it is urgent oversight of literal life and death matters for people, companies, investors, stakeholders, and employees. And directors will step up, stronger than ever from the current turmoil! •

Ralph is the publisher of Boardroom Insider, and Muneer is co-founder and chief evangelist at the non-profit Medici Institute. Twitter @ MuneerMuh