WORK HAS CHANGED

How Boards Navigate Disruption and Drive Human Capital Transformation

WCD WomenCorporateDirectors
A Foundation Inspiring Visionary Boards Worldwide

Pearl Meyer

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PROLOGUE

The WomenCorporateDirectors' Thought Leadership Commission, in partnership with Pearl Meyer, initially began developing this report in the fall of 2019. We felt that the concept of disruption was clearly extending beyond industries and markets, and increasingly affecting the workforce at large. As we polished the final text in the early spring of 2020, the emergence of a global pandemic immediately introduced previously unimagined levels of workforce disruption and unemployment. This shed an even brighter light on each of the three areas our report initially sought to investigate: engagement, organizational structure, and leadership. Then, as spring moved into summer, the rise of civil unrest and demands for racial justice brought more to bear on these topics. We believe the key concepts as initially outlined have maintained their relevance and have only been accelerated and further emphasized by the radical changes we are all experiencing.

In our commission's discussions on updating this report to reflect some of these specific rapid changes, it was noted that there has generally existed a crisis of conformity among boards and management teams for some time. This status quo position has left many of them vulnerable and exposed when unexpected events occur, making the suggestions here even more relevant and urgent.

INTRODUCTION

Disruption is a primary concern for today's boards. Market disruption—such as Amazon displacing physical retail—is simply expected. To further complicate matters, we are beginning to see disruptive undercurrents in the workforce and recognize that this is an equal threat to the long-term sustainability of businesses.

No matter the industry, ownership structure, or mission, what organizations are expecting their employees to do is rapidly changing. How, when, and where the workforce operates are also changing, and for the first time ever, it is comprised of up to five generations, all at various stages of engagement. Yet despite this upheaval, most companies continue to rely on the same hierarchical organizational structure, processes, and leadership models.

The fact is, there have been very few changes in how human capital is managed and compensated even though so much about employees and what they are being asked to do are different. The "attract-retain-motivate" model may no longer be enough to ensure an adequate labor supply and a fit-for-purpose workforce. How can boards help their companies refocus on talent management and eliminate out-of-date methods of organizing and running a business? How can they support the innovative leadership styles that are needed in order to manage ongoing disruption to the talent pool? How do they build supportive corporate cultures when individuals are physically isolated?

We must first begin by understanding that engagement and how people feel about work are serious issues. There are some simple aspirations that all humans have that do not conform to the reality of many workplaces: the need for a sense of purpose or belonging, the perception of equality and inclusiveness, and the opportunity to be a leader even if one is not in a leadership position. Instead, we have created work cultures over time that are generally hierarchical and inflexible, and we have settled for low engagement at work. Further, as the nature of what workers do is in flux, it is clear that there is some level of obligation (and benefit) as a company to help employees make those skills transitions, enable learning, and provide new opportunities. Companies that do so will have more engaged, agile, and capable employees and be better prepared to execute on strategy. There may never be a better time for this change to a people-centered business culture than the moment we are in now.

We must also be open to the idea that although many of us in the boardroom today have followed a step-by-step progression in our own careers, the future of work is no longer hierarchical career development. It's not as much a ladder as it is a kaleidoscope. The varied work experiences and values of our talent pools have shifted significantly and passionately. For example, MBA programs are graduating talent that increasingly has no interest in joining Wall Street, a top tech firm, or a consumer goods conglomerate. Many are saying no thanks to lucrative offers, and instead prefer to develop their own entrepreneurial ideas or pursue social change, leaving companies without the traditional talent pipeline they've relied on. Even in our very recent era of high unemployment, many skilled workers are still making moves based on personal desires.

So what can the board do? The solution ultimately lies in leadership. You will see in the following sections that the commission addresses the board's role and offers suggestions for steps that management can take in the short term. But at a high level—and beginning in your next board meeting—when you ask about the business strategy, ask how it's going to get implemented, and insist on seeing a plan and documented progress. Ask what's being done to help educate and train existing employees for new, emerging roles. Help management look ahead and see where they want to take the business and what kind of organization and employees they will need to get there. Stress that sameness does not breed innovation and business as usual is no longer a viable alternative. (One positive take-away from recent events is that black-swan occurrences are no longer quite as difficult to imagine.)

When evaluating the next CEO and the pipeline of management talent, look for the soft skills that are no longer "nice-to-haves" but requirements. Elevate those who have the courage to do things differently and the humility to take chances, course-correct, and seek broader input and consensus. You will want leaders who are unafraid to eschew short-termism, who will embrace a new definition of success, and who will build a relationship of trust and collaboration with the board.

Finally, it is equally critical to look inward at the board's composition—its gender, racial, generational, and global balance—and make it a priority to bring broader perspectives and experiences into the boardroom. It is only by changing "who" that we can change "how." The boardrooms that are best equipped to handle organizational disruptions are those that reflect greater social and racial diversity and gender balance.

It's a fact that all around us are matters of urgency and uncertainty, from the political environment to social upheaval, climate change, and continuing global health threats. The challenges are large and formidable. Yet, as directors, we do have the power and position to help enact meaningful change and guide our businesses successfully into the next era. The goal of this report is to highlight useful strategies and examples that can help visionary boards reframe the current workforce and organizational disruption as an opportunity to create benefits for all stakeholders. The time is now to meet the moment and reimagine the future.

-Evelyn Dilsaver and Halla Tomasdottir,
 WCD Thought Leadership Commissioners

CHAPTER 1

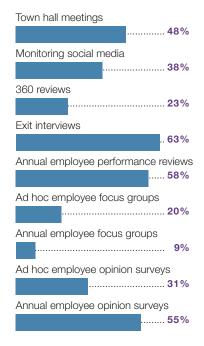**Employers, We Have an Engagement Problem**

Even before the global relocation into our homes and our growing dissatisfaction with our societal inequities, the research was clear. A frequently cited Gallup poll shows employment engagement "on the rise," yet 13 percent are "actively disengaged," which is described as having "miserable work experiences." The report indicates that 53 percent are "not engaged" and not "cognitively and emotionally connected to their work and workplace."[1] This slight majority of workers surveyed "will quickly leave their company for a slightly better offer."

The risk posed by this level of disengagement is well known and likely to grow in the wake of 2020, yet most boards and management teams perpetually struggle to craft an effective strategy to minimize talent disruption. Engagement surveys are conducted, town halls are held, exit interviews are mined for learnings, but the reality remains that we are not collectively doing enough to prepare our organizations for the future. Employees sense that lack of preparedness, and it is fueling their sense of institutional distrust, at a time when a culture of trust is more important than ever. Commissioner Cynthia Jamison points out, "Trust is the new luxury brand and there's far more demand than supply. Employees now need to trust companies with their health as well as their career and they want to trust companies to act fairly."

Within this context of disengagement, we have a social contract between company and employee that has swung from one extreme to the other. Before the 1980s' move to shareholder-driven capitalism, many corporations and employees found mutual advantage in a somewhat paternalistic arrangement that included community support and a pension system. As that model lost favor alongside the growing influence of investor returns, the notion of mutual obligation and benefit faded away, and we entered an era of profit maximization, including 401(k)s in lieu of pensions, layoffs and shrinking unionization, and general employment uncertainty. Today, we have up to five generations in the workforce who have collectively "seen it all."

At one extreme is an older generation that may feel abandoned by an employer they feel has no investment in them. At the other extreme are the much-examined millennials and Generation Z.

HOW DOES YOUR ORGANIZATION MONITOR/ TRACK/UNDERSTAND EMPLOYEE ENGAGEMENT?

Town hall meetings **48%**

Monitoring social media **38%**

360 reviews **23%**

Exit interviews .. **63%**

Annual employee performance reviews **58%**

Ad hoc employee focus groups **20%**

Annual employee focus groups **9%**

Ad hoc employee opinion surveys **31%**

Annual employee opinion surveys **55%**

Source: Pearl Meyer/WCD Survey

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[1] Jim Harter, "Employee Engagement on the Rise in the U.S.," *Economy*, August 26, 2018, https://news.gallup.com/poll/241649/employee-engagement-rise.aspx.

They appear to have little interest in aspiring to leadership roles within an organization; a recent Manpower Group study shows that just 22 percent aspire to leadership positions as a career goal.[2] And they are quite confident in their ability to take care of themselves—the same study says 62 percent are "confident that if they lost their main source of income tomorrow, they could find equally good or better work within three months."

We are left with companies facing labor requirements for the post-industrial digital age that are transforming at an ever-increasing pace, while a significant portion of their current workforce may be unable or unwilling to adapt. The traditional pact between employer and employee is being redefined at its most fundamental level, with neither side exactly achieving desired goals. According to Commissioner Susan Angele, "Employers get to set expectations, but employees are setting expectations now as well. It's not just a one-way street anymore." Indeed, for many, employment and talent management may feel more like a lawless intersection where anything goes. However, an instructive lesson from the tensions boiling over in 2020 is that cooperation is critical.

How do we find an equilibrium where organizations have a reliable supply of talent and skills needed to fulfill their strategy while the workforce at large earns a living wage through satisfying work with potential growth opportunities? Both are needed for a company to execute its goals.

Strive for Symbiosis

Today, any organization's discussion of its business strategy should trigger a simultaneous discussion of its talent strategy. And while many boards have a formal business strategy conversation on at least an annual basis, the focus of the talent discussion is sporadic and typically just at the executive level. From an institutional shareholder perspective, Commissioner Jessica McDougall says, "We're trying to identify companies that have a very positive top-to-bottom culture and a highly engaged workforce, and understand how they got there." At best, companies may be asking if they have the right decision-makers and the right succession plan, but few appear to be exploring

Total Rewards: Everything but the Kitchen Sink

Employers are having to think creatively about assisting employees who are navigating social disruption. Savings rates are down, debt is higher, and work and "life" are no longer separate for many.

This macro context has created an unprecedented level of stress that is spilling into the workplace and leading to burnout. With few places to turn, employees are increasingly looking to their companies for solutions. And organizations, in order to compete for talent, are in some cases responding quite enthusiastically by offering some of the following:

- Flexible work schedules and locations;
- Loan repayment and/ or continuing education allowances;
- Customization of benefit selections;
- Flexibility to exchange monetary compensation for time off; and
- Empowerment to pursue entrepreneurial interests.

"We have to adapt, to develop creative solutions for a contract that works."

SUSAN C. KEATING

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[2] Manpower Group, "The Can Do, Will Do Generation," *Millennial Careers*: 2020 Vision, https://www.manpowergroup.com/Millennials.

more granular questions that might help uncover workforce-related risk, such as:

- Are we an employer of choice or do we continually struggle to fill key positions?

- Are we an employer of choice among women and those of diverse backgrounds?

- Once employed, is our leadership pipeline diverse (i.e., is it reflective of the various communities we serve), and do employees stay engaged with the organization over the long term?

- Do we have higher-than-typical turnover, and if so, how does that affect our business?

- Is there a shortage of workers with the skills we need today? And if so, do we counter this by investing in the communities where we source talent, hiring new full-time or gig talent, and/or investing in a cultural shift through learning and development?

- Do we have the right organizational structure to accommodate our workforce requirements?

Perhaps one of the most important long-term questions, particularly in light of our new environment, is this: Do we understand what skills we're going to need *in the future*, and how are we preparing for that requirement? Commissioner Ceree Eberly points out, "Companies are looking at disruption to their business models and creating strategies for change, but often don't consider the critical knowledge, skills, and capabilities required to make that change." And Commissioner Kelley Steven-Waiss urges that "talent assets should be viewed like any other capital assets. What's the risk that your supply drops below demand? If inventory were to drop below demand, you wouldn't be able to earn revenue. Similarly, if your inventory of critical skill sets drops below demand, you can't execute strategy."

Back to School

As organizations continue to deal with this disruption and employees continue to feel disengaged, the partnership needs reestablishing and redefining. To some degree, companies are going to have to "return" to a more worker-centric approach in order to fulfill their talent needs, but this is likely to be far

"There's an understanding that companies need institutional knowledge—those who have a strong understanding of the business—but we may need them to have an additional skill set that will help transform the business. It's much more efficient from a cost perspective to invest in retraining."
JESSICA McDOUGALL

"The disruption is twofold: there may be a scarcity in the type of labor you need, and that labor force may be asking for very different things in terms of rewards and working environment."
KAPILA ANAND

less "parental" and more dynamic. Commissioner Catherine Allen stresses that "companies are going to have to take some responsibility and step up. The ones that do are the ones that are going to attract—and keep—the talent." At the same time, employees of all ages and experience levels will need to accept greater degrees of uncertainty and fluidity in their roles and responsibilities. Commissioner Mara Swan notes, "Given that the elastic labor market in the US is on its last legs, we're not going to be able to absorb those who can't keep skills up."

To enact this transformation successfully, culture must be a key focus. Organizations need to instill a culture of learning and agility, which will require responsibility and a significant mind shift for many on both sides of the employee/employer equation. Yet doing so may help kick-start the second requirement, which is helping rebuild an overall sense of purpose and satisfaction in work. This will be a key need if companies want to attract, retain, and engage the next generation and build them into experienced, forward-looking leaders. Yet, the learning is not all one-sided. Management must become more adept at recognizing the criticality of talent to its business strategy at a high level and more specifically, learn to create ongoing long-term labor profiles, forecasts, and talent strategies to meet the demands.

What Can the Board Do?

The traditional "noses in, fingers out" mantra of the board may require some rethinking as we see increases in both the demands of corporate leaders and the complexities of managing a successful company for the long term. Swan recognizes that "there's a huge demand for transparency that companies aren't really ready for. There's a lot of pressure externally for companies to do things that they might not want to do." In that context, we offer starting points for the board to begin discussions.

Expand the purview of the compensation committee to encompass all aspects of human capital management, and seed that expansion by recruiting directors with direct human capital expertise. In an age when corporations are being tasked, rightly or wrongly, with rectifying societal ills, a director experienced in human capital is becoming as important as a financial expert. If the board has already taken this step, take a deep-dive evaluation

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The Evolution of Performance Management and Pay Systems

Encouraging the workforce to engage in learning activities cannot occur in a vacuum. Both performance management systems and reward systems need to adapt. Here are some ideas to consider:

- Increased focus on an individual's potential with a corresponding de-emphasis on pure results
- Inclusion of learning goals as part of an individual's KPIs
- Spot monetary or reputational recognition for learning achievement or successful completion of a purpose-driven project
- Broader input on performance and an option to receive compensation from outside an individual's direct manager or division
- Greater compensation differentiation based on potential and learning achievement for similar roles (e.g., an expansion of pay bands and structures)
- Greater transparency regarding opportunities across organizations, and skill identification to match individuals with those opportunities
- Career coaches in the HR organization charged with helping individuals navigate career paths and required learnings for success

into progress to date, and reassess if any changes in direction are warranted.

Bring professional, external human capital expertise into the boardroom to expand the board's knowledge base. Allen suggests, "Have a demographer come in and speak to the board about the motivations of the upcoming generations and how to attract and retain people who are more mission driven and concerned about the values of the corporation. Outside third-party expertise in a multitude of areas, statistics, and perspectives can be very valuable." However, the first step to identifying what expertise is needed is for the board to confront its own biases and blind spots.

Ensure the company has the appropriate HR team and resources that will eagerly embrace the development of an ongoing, detailed talent strategy that maps to the business strategy and includes labor forecasting, gender balance, and diversity of background and experience.

What Can Management Do?

Treat the workforce as a capital asset and learning as a capital investment with a demonstrable ROI. Steven-Waiss has a broad view and sees this as an economic and a social endeavor that companies cannot avoid: "I believe companies have a very important role to play in re-skilling. It's something of a socioeconomic obligation." Fellow Commissioner Kevin Mulcahy stresses an important distinction: "There are two important elements—*re-skilling*, which is doing something completely new and different, and *up-skilling*, which is keeping skills current and fresh." Both have an important role in maintaining an organization and workforce that can meet future demands. With the increase in remote working, the ability to maintain a continuous learning environment will be hampered, but it is essential for organizations to adapt by rethinking their training initiatives.

Incorporate the labor supply chain into both short- and long-term operational planning. As with other aspects of your supply chain, outline current requirements and forecast future needs, assess current talent available and ascertain learning agility, and identify what needs to be sourced externally and outline a plan for securing these resources. Be especially mindful of establishing an ethos of continuous improvement on diversifying the workforce; future planning includes purposely planning for more diversity.

Answering the Call: Blue Shield of California

This innovative insurer organization is providing employees an opportunity to take on newly developed roles that can help manage the costs of healthcare. The CEO and leadership team presented the board with a novel idea for the company to help lower the overall cost of healthcare one patient at a time. The result is a new group of "healthcare advocates."

While the company has traditional customer service–focused employees, the healthcare advocate role requires a new skill set to help customers with severe and/or chronic conditions, who require more medical and social services than average, to better manage and coordinate their care.

The endeavor is based on a three-year strategic plan for assembling and training the team, including a communication plan for announcing the new role internally and explaining how employees can self-select into the program.

Establish an internal and interdisciplinary human capital committee, co-led by HR and the CEO, with representatives from various management levels across all business units and/or departments. Consider asking for a board member to participate or provide guidance. Charge this team with talent management across the organization. This also provides a natural channel for report-outs to senior management and the board.

How Have the Events of 2020 Accelerated Change?

• There has been a quick and vast expansion of working remotely.

• Social distancing has had psychological and emotional impacts.

• Employees are navigating infinitely more complex work/life balances.

• Rising societal tensions have shined a light on what responsibilities corporations should bear and how to communicate a commitment to equality that does not come across as hollow.

• Companies need to consider the impact on high-potential employees if near-term market dynamics necessitate a reduced appetite for risk and innovation, versus opportunities to create engagement through new business models, new processes, and new approaches.

• In the long term, companies will need to show that they have learned from the crisis, demonstrate how they have benefitted from the collaboration with employees, and commit to a level of ongoing collaboration.

"Leaders should ask questions about civil unrest, equity, and racial injustice and understand how those affect employees and the workplace."
STEPHEN BROWN

"After the global protests for racial justice, we had a town hall meeting with employees. They specifically asked what the board was going to do to make a change they could see."
KAPILA ANAND

CHAPTER 2

**The Ties That Bind:
Organizational Structure
and Processes**

When we look at most companies, the aforementioned idea of highly distributed talent management goes against the traditional organizational model. For the most part, organizational structures are hierarchical pyramids, and while there may be some "dotted-line management," reporting relationships are typically not only hierarchical but also functionally siloed. Succession plans at all levels are generally based on the pyramid concept with continued upward movement, rather than lateral changes (which in some organizations may be reserved only for the development of identified high-potentials), and compensation structures are based on establishing pay ranges for specific, static roles.

Further, those specific, static roles can come with a high degree of strict top-down oversight, often aimed at narrow performance goals. "Traditional leadership—both boards and management— tend to focus on putting more pressure on the workforce to perform, instead of thinking about how to attract, retain, and motivate," says Allen.

For the companies that want to move to a model of more fluid roles, focused on continual learning and collaboration, it can be difficult to strike the right balance. Is it possible to maintain necessary levels of accountability and responsibility while encouraging a more cross-functional structure that supports innovation and adaptation to changing requirements, a structure that may be more satisfying to the workforce long term? Eberly stresses, "We are at an inflection point. Traditional organizational structures will not sustain themselves in the future and must be agile, empowering their employees to grow, flourish, and perform through a culture of learning, mission, and purpose."

Resisting Command and Control

The fact that employees are pushing back against traditional work environments is further complicating an organizational structure that may no longer be optimal. The gig economy is here to stay, and although it is notoriously difficult to define and measure, there is a sense that this move to work that is project driven, part-time, remote, and/or completed on contract is on the rise. Some workers and employers find it a necessity for a number of reasons, but there is also an emerging segment of the workforce that simply prefers to be their own boss and set their own employment terms. Technology has greatly empowered this shift, and the pandemic has revealed that many gig and/or contract workers are in fact essential to the economy and basic societal functions.

"Companies need people with adaptability and grit. We'll continue needing a well-prepared and diverse workforce, but we will have to hire for those soft skills as well."

ANA PAULA PESSOA

At the same time, technology has contributed to a large push for more flexibility among traditional employees in how, where, and when they work. Despite the positive aspects of a distributed, remote workforce, some companies are struggling to accommodate this new level of uncertainty into their standard operational models. Commissioner Su-Yen Wong observes, "Irrespective of industry, startup companies tend to embrace flexibility as part of their DNA. This is intuitively necessary for their survival and growth, and it flows through to their work environments that are designed to be flexible from day one. The challenge that established organizations are facing is to reconfigure their workforce architecture to mimic this dynamism." This brings us back to the question of reskilling a company's existing employee base and fostering a learning culture. What additional accommodations and management styles do organizations need to plan for in order to successfully weather these changes alongside their workforce?

Empowering Teams

Embracing flexibility is key to bringing about a new and productive organizational model. Commissioner Cynthia E. Clark says, "At a certain point, you have to trust that a person knows how they work best and make some allowances for that." If we break down the company's business strategy into activities and tasks required for success, some activities will be accomplished best by full-time traditional employees, while other activities might actually be better accomplished by part-time or short-tenured workers. With this concept of a fluid, "fit-for-purpose" workforce as a backdrop, an organization can then further identify other activities that will lend themselves to new emerging scenarios, such as flexible workweeks, remote working, and job sharing. Commissioner Kathleen Affeldt sees that "more companies are doing a better job of providing some level of flexibility, and for many employees, that is a huge retention factor."

In addition to approaching work actions in a new way, defining roles more fluidly may also open the door for new opportunities for continuous growth and learning among the workforce. Thinking through possible unforeseen consequences in advance may help properly define that process. Jamison rightfully notes, "There is a tension point between stability and fluidity, between maximizing and destabilizing your workforce." As to reporting structure, she notes an inevitable move to flatter organizations and says, "We

> "The 'S' in ESG is becoming more important than ever. Through the lens of COVID-19 and issues of racial justice, companies are being held accountable for how they support their entire workforce, not just those with the luxury of working at home."
>
> **SUSAN ANGELE**

> "Performance management systems have focused so much on the term 'high performance.' If the focus is on building a workforce who continuously learn, try new things, learn from success and mistakes, and develop agility in mastering whatever is in front of them, this will result in high performance. Agile learners drive high performance, results show."
>
> **CEREE EBERLY**

have to recognize that the command-and-control style hasn't been working. We will still have a CEO and a CFO, but decisions may be more on the collaborative side with healthy discussion."

These concepts absolutely affect and are influenced by corporate culture. For example, the dispersion of workers—whether by geography, time, or task—can make it hard for the company to create a shared sense of vision, values, and purpose. A company's initial stance on workforce flexibility may reflect a pillar of its culture and thus influence how quickly it can make other changes. A move to a flatter, more collaborative structure will be both an operational move and a cultural shift. Likewise, going to a team-based—versus command-based—concept of work, management, and accountability also requires cultural acceptance. However, if navigated successfully, the moves can position an organization to take advantage of any workforce changes.

Commissioner Claudia Kelly sees an opportunity: "We have the existing office and work-from-home models, but our current health crisis combined with the calls for equity may help create new models. For example, shifting work to smaller 'pod-like' offices that offer some face-to-face interaction, but limit the numbers. Companies can take this distributed model into new cities and neighborhoods to improve diversity and increase economic opportunity."

Technology has a role in furthering this shift when deployed in a manner that maximizes the workforce rather than marginalizes employees. Mulcahy observes, "Transformation will be done digitally; there's no negotiation on that. Even if you're a steel mill, it will be digital." He offers a helpful example: "Does the company have a system in place for discovering who in the organization, regardless of location or current position, has made the effort to up-skill, and can you match that to open roles?" And Wong notes, "Technology can enable organizations to be a lot more differentiated in designing their employee value propositions. For example, rewards, benefits, or even working hours can be designed to suit different employee populations."

"Companies that are able to deploy work and talent in an agile way— think of it as an internal gig economy where people are moved around dynamically and leaders can instantly visualize their talent supply chain—are going to have a more efficient use of resources and less turnover, and they therefore can be positioned to 'win' in the market for talent."

KELLEY STEVEN-WAISS

What Can the Board Do?

At one level, setting workforce policies, establishing organizational structure, and developing infrastructure falls squarely under the purview of management, not the board. However, increasingly boards understand that getting these issues "right" is critical to the company's ability to deliver on long-term business objectives and not doing so represents significant fiduciary risk. There are also louder calls for the board to maintain some responsibility for corporate culture and improving corporate diversity. Elevating these issues for board discussion and oversight ensures that management is keenly aware of their importance and also provides the full benefit of the board's diverse experience.

Because workforce mobility and flexibility are issues that few companies can escape altogether, boards need to understand how a company's various formal policies, unspoken understandings, and informal agreements affect all of its workers (full-time, gig, temporary, and so on). Develop a clear picture of how flexibility is managed throughout the organization, and know whether this current model does or does not map to current and future talent requirements and labor forecasting.
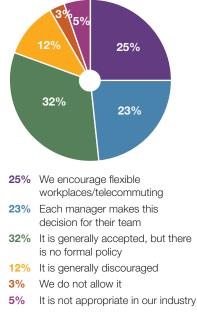
Conduct assessments of the CEO and his or her teams' management styles multiple levels down in the organization. Look for indications of a top-heavy approach that may not serve the organization in a time of workforce transformation. Also look for opportunities to encourage and elevate those who have established highly effective and collaborative styles that support needed change and innovation. This may include promoting a more diverse talent pipeline. Encourage the CEO to examine his or her inherited management structure, and evaluate whether or not it supports the CEO's vision and the current business strategy. Ensure that the board's own organization structure, policies, practices, documented leadership needs, and evaluations align with and set an example for management to emulate.

What Can Management Do?

A comprehensive assessment of the organization's use of technology will identify the areas where it is improving efficiencies and supporting the needs of a changing workforce. This deep look will likely uncover some areas where it is hindering progress or introducing unnecessary complexity. Commissioner Stephen

"Boards need to focus on connecting better to the company's workforce."

CYNTHIA E. CLARK

HOW DOES YOUR ORGANIZATION VIEW WORKPLACE FLEXIBILITY?

25% We encourage flexible workplaces/telecommuting

23% Each manager makes this decision for their team

32% It is generally accepted, but there is no formal policy

12% It is generally discouraged

3% We do not allow it

5% It is not appropriate in our industry

Source: Pearl Meyer/WCD Survey

Brown observes, "The genie is out of the bottle. As a result of the pandemic, the work-from-home transformation has happened. And while we've had flex work for a long time in corporate America, we may not have had a genuine strategy. Now, the job of management is to actually put some order to this transformation and successfully build on it."

Look for opportunities to deploy best-in-class, technology-based solutions for retraining and development programs and opportunities for improving interpersonal connectivity and collaboration within a distributed workforce. And mine HR data that can help customize total rewards programs for all employees. As part of developing a labor forecasting model, incorporate collaboration, cross-functional experience, and team-based leadership skills into management hiring profiles, and consider the impact on the company's total reward strategy.

More broadly, make it a near-term priority to explore and understand the company culture and the role that evolving organizational structures are playing. Question whether a "flatter" management structure might deliver more collaboration. Bring in experts to help objectively outline current work processes and policies and how they help or hinder the changing nature of the workforce and the long-range goals of the business.

How Have the Events of 2020 Accelerated Change?

- Companies must adapt; we are not going back to a "normal" state.

- The rapid changes we've experienced in who, what, how, and where work gets done has shown that significant levels of immediate change can be viable.

- Training on how to work remotely and how to manage teams is more urgent.

- Technology has a clear role to play and the adoption of new technologies can be deployed quicker and more smoothly than previously thought.

- There may be an inclination for companies struggling or in crisis to reinforce a hierarchical structure without understanding if it is really needed or is further harmful.

CHAPTER 3

Is Leadership Moving Forward?

We know where and how we work and what we work on continues to morph, while those doing the work are not always engaged or appropriately skilled. Further, our historical command-and-control environment presents roadblocks. Yet companies are often operating with a business-as-usual philosophy that is increasingly ineffective and out of touch.

A large portion of the responsibility for these issues goes directly to the leadership teams at the helm. How do so many disruptions affecting the workforce including the potential for a black-swan event, ultimately affect our leaders? How can we find, motivate, and keep the "right" teams now, and who can address all of these competing needs in the future?

The Captain of the Ship

The fiduciary role as a director is to help safeguard the long-term sustainability of a company, and to do this, a board must ensure it has the proper CEO and leadership team. In fact, hiring and replacing the CEO is one of the main duties of the board of directors, and succession planning is a very important part of this process. However, in reality, many companies lack this focus, and the recent pandemic has highlighted the importance of this issue.
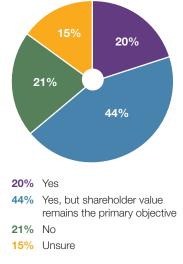
The statistics are sobering. According to a Pearl Meyer/WCD survey, 75 percent of companies report having either a formal or informal succession plan, yet 63 percent have no named successor, confidentially or otherwise.[3] Of those surveyed, 32 percent of boards review their succession plan only sporadically or as needed, and 49 percent review it annually. Even more interesting is that 64 percent of succession planning is focused solely on the CEO or the CEO's direct reports, meaning that roughly only a third of companies have an understanding of their talent pipeline two or more levels below the CEO. These statistics, coupled with the fact that companies have had to scramble to implement emergency succession plans for key leaders (and board members) due to the global pandemic, suggest more work is needed.

The current high-turnover environment is further complicating succession readiness. According to research from Spencer Stuart, the number of CEO transitions each year is steadily rising, having gone from 37 among the S&P 500 in 2012 to 55 in 2018.
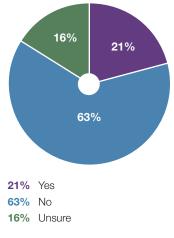
[3] Pearl Meyer, *Workforce Disruption*,
  https://www.pearlmeyer.com/knowledge-share/research-report/workforce-disruption.

IS YOUR BOARD DRIVING THE LEADERSHIP TEAM TO LOOK BROADER AT STAKEHOLDER IMPACT VERSUS FOCUSING ON SHAREHOLDER VALUE?

20% Yes
44% Yes, but shareholder value remains the primary objective
21% No
15% Unsure

Source: Pearl Meyer/WCD Survey

DOES YOUR BOARD HAVE A NAMED SUCCESSOR TO THE CEO?

21% Yes
63% No
16% Unsure

Source: Pearl Meyer/WCD Survey

Furthermore, it's been widely reported over the last few years that average CEO tenure is dropping, and it is currently at about five years.[4] Unplanned CEO exits are also on the rise—whether due to scandal, racial slurs, social media missteps, health issues, poor performance, or some other cause—and there is a notable uptick in the practice of existing board members stepping into the interim CEO role during the search for a full-time candidate. Board members serving in an interim CEO role, regardless of the time period, means that a succession plan failed for a multitude of reasons or it was nonexistent.

When succession discussions do occur, many boards are limiting their options and relying on traditional skills matrices that may be too narrowly focused for the demands of the time. Sourcing the same leadership style of the past to lead into the future contributes to a significant disconnect between the perceived available talent and the true needs of the business. Clark observes, "There's a strong tendency to hire people who share consistent views with existing management rather than hiring people who can take us where we need to go." Kelly says, "Character and qualities like the capacity to take on change, confront the unknown, absorb information from numerous sources, and consolidate that information into decisive actions have emerged as imperatives in a senior leader."

Might investors drive a new model and over time demand to see a thoughtful leadership development plan that includes:
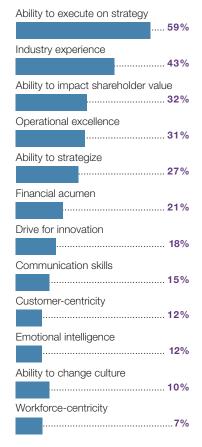
• Ready-now and ready-soon successors identified, along with an emergency succession plan;

• A deep bench of diverse executive talent in place and being developed for leadership roles;

• A board and management team that are willing and able to quickly pivot as needed based on changing circumstances; and

• A pervasive focus on human capital issues?

Brown stresses, "Intangibles are accounting for a good part of company valuations. Human capital management was once thought of as 'soft,' but investors now care very much about that."

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4 Spencer Stuart, *CEO Transitions 2019*,
   https://www.spencerstuart.com/research-and-insight/ceo-transitions-2018.

WHAT TOP THREE ATTRIBUTES DOES YOUR COMPANY WEIGH MOST WHEN CONSIDERING FUTURE CEOs AND OTHER SENIOR EXECUTIVE TALENT?

Ability to execute on strategy **59%**

Industry experience **43%**

Ability to impact shareholder value **32%**

Operational excellence **31%**

Ability to strategize **27%**

Financial acumen **21%**

Drive for innovation **18%**

Communication skills **15%**

Customer-centricity **12%**

Emotional intelligence **12%**

Ability to change culture **10%**

Workforce-centricity **7%**

Source: Pearl Meyer/WCD Survey

"Look for a CEO who inspires, who respects different opinions, and who has a clear vision for where he or she wants the team to go. You want someone who will get the best people around him or her, even if that will include a likely successor."

ANA PAULA PESSOA

Charting a New Course

There is broad consensus among leading directors that human resource–oriented expertise and commitment are emerging as necessities. Rethinking the skills and characteristics that define a leader is also key. Kapila Anand, commissioner and WCD board member, says, "Hiring a CEO is more nuanced than in the past. Acknowledged strong leadership attributes are now analyzed, prioritized, and calibrated to a company's business strategy and culture. How will this candidate lead and manage the people who will execute our strategy while respecting or enhancing our culture?" Affeldt says, "They have to have genuine interest in developing their people and helping their people fulfill the mission."

Some companies are updating their skills matrices to use expanded criteria and establish a specific set of characteristics that go beyond the traditional job and industry experience in the search for leaders. Commissioner and WCD CEO Susan C. Keating suggests a strong focus on a new leadership profile: "Are they flexible, adaptable, and leading the charge to work with their executive team and think through the human implications of the business strategy? Do they have the ability to pivot and think creatively?" Due to recent events, boards should also seek individuals who can serve as a steady rudder during uncharted and difficult times.

And this focus on talent is not only for the C-suite. Boards are also evolving to reflect a more diverse set of leaders. Wong suggests "thinking outside the box—for example, considering a different age and experience profile for your board. This will enrich board discussions and help minimize blind spots by incorporating a broader set of perspectives." After all, it's hard to mirror the changes being sought in management if directors do not embody those same values and desired characteristics.

What Can the Board Do?

With an acknowledgment that there are ever-increasing demands on the board, it is imperative that more time is spent on discussing CEO succession, broadening the purview beyond just the C-suite, and doing so with a more qualitative outlook.

Evolving Attributes

More Traditional Characteristics

Demonstrated leadership
Industry experience
Financial savvy
Operations experience
Management experience
Strong customer relationship orientation
Wall Street experience
Profit and loss experience
International experience
Risk-taking appetite
Accountability
Confidence
Drive
Delegation ability
Commitment
Dedication
Decision-making ability
Highly structured, rules-based approach

Today's Needed Characteristics

Integrity
Courage
Humility
Honesty
Empathy
Strategic
Opportunistic
Agile
Innovative
Transformative
Holistic
Resilient
Authentic
Continuously learning
Principles-based
Purpose-driven
Good communicator and listener
Mentor/coach mindset
Endorsing of a multi-stakeholder approach
Embracing of diversity of background and opinion

More holistic discussions of talent strategies with management including succession planning, diverse-pipeline building, compensation arrangements and incentive plan design, and the skills needed to be successful should be addressed at every board meeting. Once a year is no longer enough.

In these discussions and in succession (and emergency succession) planning exercises, use a different set of characteristics and a broader skills matrix to evaluate existing and future leaders. Look to values- and principles-based attributes rather than focusing narrowly on industry, financial, and operational experience. Tomasdottir further notes, "Gender balance on boards has been shown to improve corporate governance, corporate reputation, and board oversight while reducing unethical behavior."

Reevaluate the organizational footprint of the board in the same ways so that it can serve as a model to the company for how it should be done. Understand the importance of diversity, director succession planning, and of having more than one member on the board with a background in human resources, talent, and human capital management. Commissioner Ana Paula Pessoa says, "This is as important as any business plan or budget for next year or results for the quarter."

Finally, seek out the plentiful and in-depth information available both internally and externally from third-party sources with expertise in all of these areas.

What Can Management Do?

A strong management team will understand and value the importance of pipeline development and succession planning for all levels of the organization and will emphasize a continual need to evaluate different sets of characteristics and skills required for the long-term business strategy. For example, Angele observes, "in very progressive companies the CHRO is now very much a part of the senior management team and plays a large role in strategic direction."

It's more important than ever for management to serve as a partner with the board in developing and executing a talent management strategy as there are real inherent risks to the

> "One of the challenges right now is to walk the talk, express empathy, and show that the board looks a lot like its customers."
>
> **CYNTHIA E. CLARK**

Customizing an Executive Pay Program to a New Leader Profile

Profile

Ability to take prudent risks
Does well in uncertain situations
Thrives in a decentralized environment
Coach as opposed to manager
Empowers employees
Acknowledges and learns from mistakes
Desires long-term growth with organization

Pay Structure Design Inputs

Emphasize leverage and risk/reward
Prioritize "lead" over "lag" metrics
Focus on recognition
Implement team-based incentives
Allow for discretion versus purely paying to formula
Offer significant long-term compensation
Allow for some choice and customization by employee

business if these are not addressed. Pessoa says one of her companies is tasking management to provide insight on workforce ethnicity, in addition to gender. "We cannot make assumptions. We need to ask for granular data and really put a focus on promoting diversity." Communicating effectively up to the board as well as down throughout the workforce and also ensuring that the full organization is aware of the human capital lens through which business decisions are made will help support a talent-focused culture. And communicating openly about management's and the board's own endeavors for learning, development, and agility will set the right tone for cultural change.

How Have the Events of 2020 Accelerated Change?

- There's an even more urgent need for clear and deliberate succession plans, extending to the board and including emergency, mid-term, and long-term plans and clearly laid out rules and bylaws for the board regarding the quorum.

- Racial and social equality has joined gender balance as an imperative.

- Leadership teams now must have the capability to lead through uncharted and difficult times.

- There is a more obvious opportunity and need to upgrade leadership talent using a new set of characteristics and skills matrices that better align with the evolving business and workforce needs.

CONCLUSION

Fundamentally, the role of the board and the director has been to safeguard the long-term sustainability of an organization. Whether that is just for shareholders or more broadly for all stakeholders—including the workforce—is the subject of increasing debate. And even for those with the mindset that shareholder primacy remains our legal mandate and thus should be our focus, we are seeing evidence that it will be difficult to deliver those shareholder returns over the long term without a holistic stakeholder approach. The Business Roundtable and many others are stressing this point quite publicly. Our organizations are already experiencing the impact of these sweeping changes in the nature of work and "the social contract."

Examples abound. Dilsaver says, "For the most part, my boards have been focused on diversity, both at the management level and the board level, but given the current issues, they are doubling down on their commitment. They are having conversations with employees and starting to measure progress." And Anand sees evolution: "How employees are treated, how they're recognized, and the barriers they've faced are issues people are only now comfortable sharing and talking about openly."

Moving into the next phase of these crises and knowing there are sure to be others, Tomasdottir highlights an important inflection point: "We have leaders who want to restart business as usual, and we have leaders who say there is no going back to business as usual. The women who sit on boards could be a huge differentiating factor in what happens next."

We have outlined much to consider, and our commissioners, in the development of this report, have all noted the daunting nature of this workplace shift. Nevertheless, it is clear that our innovative directors, thoughtful academics and educators, and insightful consultants can together develop strategies and a roadmap that will lead organizations into a new and thriving era.

APPENDIX: KEY THEMES – LET'S GET TO WORK

At Issue	Key Transformational Opportunities	The Board's Actions	Management's Actions
The Changing and Disengaged Workforce	• Creating a sense of purpose and balancing needs to reengage the workforce • Building a continuous-learning environment • Introducing long-term labor profile forecasting against business strategy	• Expand the purview of the compensation committee • Bring in outside expertise • Task HR with long-range labor profile and forecasting	• View the workforce as a capital asset and learning as a capital investment • Incorporate the labor supply chain into operational planning • Enable cross-functional and interdisciplinary talent management teams
Organizational Structure and Processes	• Moving from traditional command-and-control management to a collaborative model • Leveraging the push for flexibility to build a fit-for-purpose workforce • Deploying technology to help enact and support talent management strategies	• View organizational structures through a lens of cultural and corporate risk • Explore the company's approach to workplace mobility and flexibility • Assess leadership team's management style • Apply these principles to the board itself	• Evaluate technology solutions for efficiency and demonstrable benefits • Allow for flatter and more collaborative management styles in talent profiles and total rewards programs • Understand the impact of current processes and policies
Leadership	• Renewing commitment to succession planning and leadership development • Looking long term and beyond the C-suite • Evaluating the board and management's evolving leadership needs and talent profile	• Include the topic of succession planning and leadership development on every board meeting agenda • Focus beyond the CEO to develop a pipeline multiple levels down in the organization, with a focus on nontraditional skills and characteristics • Examine the board's leadership profile needs, with emphasis on human capital management	• Value the importance of talent development and succession planning for all levels of the organization • Evaluate different sets of workforce characteristics and skills required for the long-term business strategy • Partner and communicate effectively with the board • Communicate openly with the organization about management's own journey in learning, development, and becoming more agile

2020 WCD THOUGHT LEADERSHIP COMMISSIONERS

This year's distinguished group of commissioners includes highly accomplished directors, leaders in corporate governance, and esteemed members of academia. Their varied experience and perspectives have guided the direction of this report and we greatly appreciate their time and commitment to exploring the future of work.

Kathleen Affeldt

Catherine Allen

Kapila Anand

Susan Angele

Stephen Brown

Cynthia E. Clark

Evelyn Dilsaver

Ceree Eberly

Cynthia Jamison

Susan C. Keating

Claudia Kelly

Jannice Koors

Erin Leymann

Jessica McDougall

Melissa Means

Kevin Mulcahy

Jane Park

Ana Paula Pessoa
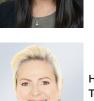
Lianne Richardson

Aalap Shah

Kelley Steven-Waiss

Mara Swan

Halla Tomasdottir

Su-Yen Wong

ABOUT THE WOMENCORPORATEDIRECTORS FOUNDATION

A unique global network, the WomenCorporateDirectors Educational and Development Foundation (WCD), a not-for-profit organization, has served as the place where the most powerful and influential women in the world have convened for almost 20 years.

WCD is recognized as:

• A bold catalyst for board diversity

• A true world-wide peer community for seasoned and acclaimed female corporate directors

• A critical resource for board opportunities

• A leader in developing high-quality governance programming, thought leadership, and sharing best practices

• A valued facilitator accessing critical insights from leading authorities across a variety of industries and topics

Our Mission

As the preeminent organization for women directors globally, WCD seeks to:

• Foster a powerful, trusted, and global community of women corporate directors who meet specific and objective criteria

• Increase representation of women on public and large private company boards and in board leadership positions

• Increase the pipeline of aspiring and qualified female board candidates

• Inspire visionary boards worldwide—by providing education and tools that keep members engaged, informed, and high-performing as directors

For More Information

To learn about the benefits of WCD membership and how to join, visit www.womencorporatedirectors.org.

ABOUT PEARL MEYER

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in Atlanta, Baltimore, Boston, Charlotte, Chicago, Houston, London, Los Angeles, New York, Raleigh, and San Jose.

Contact the Authors

In 2014 Pearl Meyer chaired the inaugural WCD Thought Leadership Commission report *Going Beyond Best Practices: The Role of the Board in Effectively Motivating and Rewarding Executives*. That was followed in 2017 by *The Visionary Board at Work: Developing a Culture of Leadership*. We are pleased once again to lead the discussion of important and timely boardroom issues on behalf of directors worldwide and the organizations they serve.

The report authors welcome and encourage further conversation on the topics examined in this year's report. Contact:

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