



‘NEVER WASTE A GOOD CRISIS’

There’s nothing quite like a catastrophe to shake up the status quo—and this one isn’t over yet. But directors are already mining the wreckage of 2020 for lessons on emerging stronger, faster and ready for whatever is next. Here’s what they’ve found.

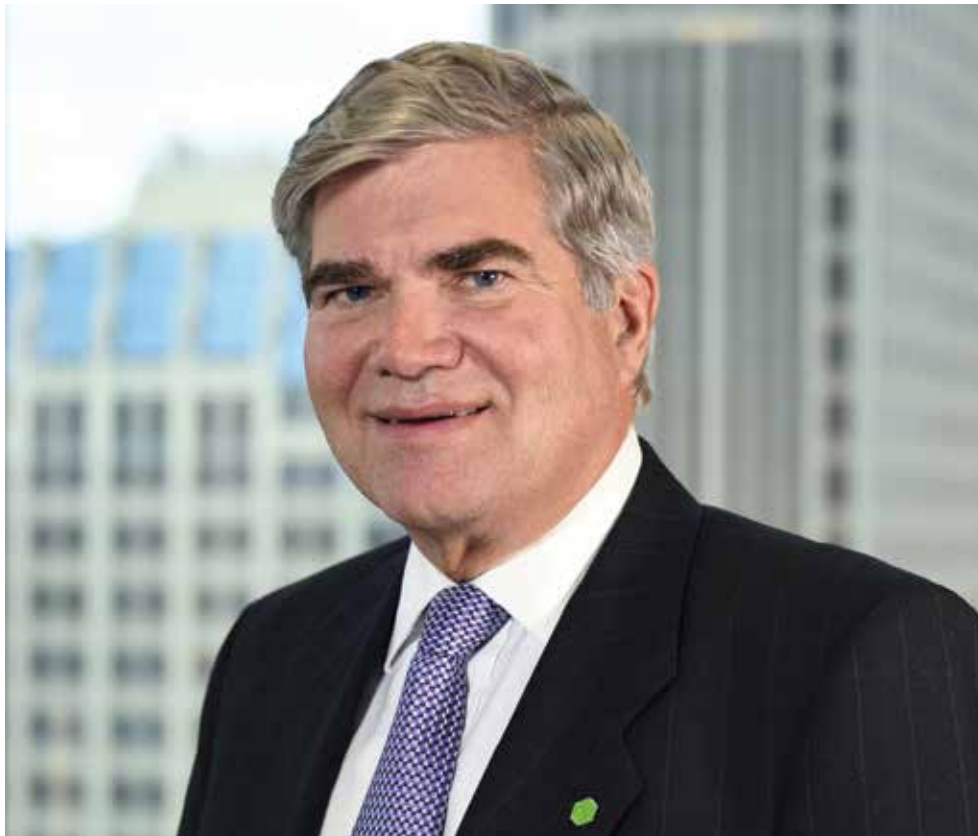
BY C.J. PRINCE

To say that 2020 presented boards with unprecedented challenges is, well, the understatement of the year. A once-in-a-century global pandemic, sudden economic shutdown, widespread civil unrest over racial inequality, an election that fractured the country down the middle—it was, putting it very mildly, a rough one. The good news? With the promise of an efficacious vaccine—or several—that will hopefully save both human lives and a wounded economy in 2021, boards have an opportunity to look at the hard-won wisdom they earned over the past year and apply

those lessons going forward.

“Never waste a good crisis,” says Mark Bertolini, former CEO of Aetna and now a Verizon board member. “I’ve told them, ‘You have to suffer through what’s going on now, but you should be learning every step of the way, and you should have your organization thinking about what’s next and how do we take advantage of these learnings to shift our business model in a positive way.’”

David Porteous, lead director for Huntington Bancshares, likens it to the Great Recession. “I would never want to go through ’08 and ’09 again because it was a near-death experience for so many companies, but the lessons



1.

Digitalization will be table stakes in the New Normal.

If there was one universally absorbed lesson from the Covid pandemic, it was that no company can afford to opt out of, or even be slow to adopt, digital transformation. Tech rollouts that had previously been plodding along or stymied by big company bureaucracy were rushed into operation in order to serve customers in the age of brick-and-mortar shutdowns and social distancing. A recent IBM survey of C-Suite executives found that six in 10 companies accelerated tech transformations because of the pandemic, and two-thirds say they completed initiatives that previously encountered resistance.

Those that gained some traction with digital before the pandemic benefited hugely. “We were never so glad that we had made investments in digitalization,” says Porteous. “If we had not, how would we have had people working from home? How would we have serviced our customers when the banks had to close if we didn’t have full digital capability?” He adds that the lesson for Huntington’s board was that “maybe we could move a little quicker” on the transformation front. “This was a great reminder to the board that we have to continually challenge ourselves and our organization as far as how we manage our scarce resources and our scarce capital to make sure that we’re staying on top of technology.”

The Texas Roadhouse restaurant chain had had an app prior to Covid, “but it wasn’t real strong in ordering online,” says lead director Greg Moore, who also sits on the board of Newegg. “But now more than 50 percent of take-out business is ordered online. So, we’ve spent a lot of time and effort and money this year improving our app.”

If your company wasn’t far enough along on the journey, now is the time to get whatever external help you need and dig in to figure out how the company will best benefit from a tech makeover. “And make sure you’re thinking about digital transformation not in an

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Huntington Bancshares*

I learned as a lead director, the lessons that our organization learned going through that, made us a much, much better company.”

Huntington’s experience in the pandemic was similar, he says. “I would never again want to go through the financial meltdown that happened as a result of the pandemic, but we are a stronger and better organization because of it.”

He points to the speed with which the company went virtual when bank branches had to be shut down as an example. “If you would have asked me [before] if we could transition that quickly, I would have said I don’t think that’s possible,” he says.

Thanks to the global pandemic, boards in all industries seemed to have learned that their organizations were capable of doing far more and doing it far more quickly than they knew. And an examination of the worst of 2020 reveals some monumental takeaways that, if taken to heart, will serve boards well heading into this year. According to the directors to whom we spoke for this article, those lessons are already informing decisions and strategies for 2021 and beyond.



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ad-hoc way, but more holistic, at scale—how can we really move the organization forward and really transform,” says Paula Loop, leader of PwC’s Governance Insights Center.

2.

Only the nimble survive.

When the pandemic shut its restaurants down, Texas Roadhouse went through something of an existential crisis. “People come to our restaurants for the experience—the line dancing, peanuts on the floor, the music,” says Moore. As a result, they’d never done much with takeout. But Covid changed all that in a hurry. “We strategically looked at how we were going to change the restaurants physically and operationally to be much more of a takeout business. In two or three weeks, we became a takeout curbside restaurant, which we had never done before.” Thanks to their quick action on the takeout side, sales as of November were equal to what they were pre-pandemic on a per-store basis, and the company’s share price, which had fallen 65 percent when the crisis first hit, fully recovered.

The key, Moore says, was not to hesitate. “You have to just take a risk and go for it. If you overanalyze and you overthink it, you’re gonna be behind the curve.”

The pandemic forced a lot of established companies to pivot at the speed of startups. “They were able to put in place strategies that they had talked about but didn’t think they could every really do—and very quickly,” says Julie Daum, leader of Spencer Stuart’s North American Board Practice.

But as things improve, companies have to guard against a return to complacency. “Going forward, companies really need to retain that lesson,” says Claudia Munce, a venture capital expert who sits on the boards of Best Buy and CoreLogic. That, in turn, requires investing in building the right culture because management and the board may be agile, but if the organization can’t follow, the end result will be disastrous.

“We were fortunate that over the

years, we had built a culture within the organization where our colleagues could adapt very quickly to working from home,” says Porteous, who notes that staying flexible will be key to success in 2021 as well, even as things improve. “There’s nothing I’ve seen that has changed from then till now that would tell me we don’t still have to be nimble.”

For the board, that means doing forecasting and having a strategic plan, but also being flexible enough to switch gears as needed. “Everybody should have a three-to-five-year plan, but I’m telling you, it’s hard to forecast just for a year,” says Peter Browning, lead director for Acuity Brands and a member of the board of ScanSource and GMS. He adds that the unknowns over the past year and moving forward have made the compensation committee’s job a lot harder. “It’s very difficult to set meaningful compensation targets with the uncertainty out there. That’s a challenge for everybody.” One way to address that, he adds, is to develop modified plans “to get over the hump until you’re in a position to forecast with a higher degree of predictability.”

3.

Take ESG seriously.

Boards have been talking about ESG for several years, but the pandemic and the focus on employee and customer safety, along with widespread social unrest over racial injustice, brought many of the tenets of stakeholder capitalism into sharp relief. One of the lessons, says Munce, is that employees actually work harder when the company shows that it cares about them.

Even as employees who had never before worked from home went fully virtual, “productivity levels didn’t suffer that much,” she says. “People worked longer hours to get their jobs done and they stayed engaged because they saw all the measures the company was taking to make them a priority.”

Increasingly, boards are learning that, going forward, ESG probably shouldn’t



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—Carey Owen, Deloitte

be a standalone topic but rather be woven into the overall fabric and strategy of the company. That’s something Verizon is working on. “We’re making it part of the employee brand,” says Bertolini. “It’s how we recruit people, how we develop people, how we create succession, how we reward people. Environment, social, governance—they really should be linked.”

As an example, Bertolini, who chairs the finance committee, points to \$1 billion of green bonds the company did this year (on top of \$1 billion last year) in support of a commitment to go carbon neutral. “As part of what’s been going on in society around us and among our employees, we had [the bonds] syndicated through all black-owned banks,” he says. “So, it’s all connected.”

Linking these things creates a culture in the company that says “we’re all in this together, we’re connected to our community, we’re concerned about the environment,” says Bertolini. “So, the board shouldn’t glaze over when it comes to the ESG presentation. They should say, how is this being integrated into our employee value proposition and how we bring people along inside of the company?” Another initiative led Verizon to help some of its smaller supply partners get access to capital when the recession hit and bank lending slowed.

Thanks to the demands of the pandemic, boards also learned, or in some cases, reaffirmed, that they require “all different kinds of experience in the boardroom,” says Daum. “They needed both seasoned directors who had been through a lot and people who are current and who have certain technical skills.”

Porteous agreed that mix of backgrounds was key for Huntington’s board. “When a board is made up of both people with great specialization as well as people who have more general experiences, living in different places with different work history, that provides important perspectives that enrich the board conversation and allow for some of the tough questions that have to be asked,” he says.

The eruption of civil unrest following the killing of George Floyd shifted the tectonic plates beneath many companies, and directors say grappling with racial injustice has forever changed them. “Even for me—I’m Chinese, I grew up in

Latin America, I’m not unfamiliar with racial issues—but this hit me in a way it never had before,” says Munce, noting that Best Buy is based in Minneapolis. “It was happening in our backyard. The pain we felt as part of that community was so real.” Taking a strong and vocal position on the issue, against social injustice, was not necessarily an easy decision to make for the company, “especially in the reality of today, where there are two opposing sides to every issue,” she says. “But it was absolutely the right thing to do.”

Going forward, boards can take what they learned about social and racial justice and build on that to be better, more empathetic companies. “The social challenges that our society went through during 2020, as difficult as they were—and are, because they’re not over with—we are a much better organization for listening and having had those open, candid and engaged discussions,” says Porteous. Companies need to do more to increase diversity, both inside the organization and on boards. “We can take some pride in the progress we’ve made so far, but unfortunately, so many of these systemic issues have been with us a very long time, it needs to be a point of continued emphasis, period—no excuses. We really view this as a never-ending challenge and opportunity for us.”

4.

Stay connected to management.

Like other directors, Shellye Archambeau, a board member at Verizon, Nordstrom and Roper Technologies, notes that she had more meetings in March, April and May than during the whole year prior. One upside of spending all that time in the foxhole has been a new level of familiarity between the board and management that may help facilitate discussion and understanding. Carey Owen, national managing partner of Deloitte’s Center for Board Effectiveness, says that a director recently told her he had always had access to the rest of the board and to management, but that communications were more formal. “But when they were managing through the crisis, they were getting on phone



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calls, Zoom calls, cell phone, texting—some of the formality of the boardroom really fell away,” she says. With management and the board working off something of a shared agenda, “the connection they’ve had to have this past year, that could be a bright spot coming out of all this.”

For many directors, the pandemic crisis created a greater sense of connection with management. “I feel like I got to know the leadership of the company at a deeper level, a more personal level, as human beings,” Munce says, adding that, as an engineer by trade, she isn’t “the touchy-feely kind,” but it gives her “a lot more pride to know that these are great human beings beyond just being great leaders.”

5.

Management is up to the job—or not.

When the crisis hit, boards jumped in with sleeves rolled, available to their CEOs 24-7 and going above and beyond the call of fiduciary duty. But as things settle, directors must remember their place. As tempting as it may be to leap into the fray, directors need to resist the urge to overstep.

But it’s a lot easier to keep noses in and fingers out when the board trusts management. “A board is only as good as the transparency, candor and forthrightness of the CEO,” says Browning, adding that the crisis will have revealed which CEOs may not have been up to the task. “Like Warren Buffett said, ‘When the tide goes out, you see who’s not wearing a bathing suit.’”

On the flip side, it can be a reaffirmation, reinforcing the board’s faith in the management team. That proved to be the case at Texas Roadhouse, where CEO Kent Taylor and his team rose to the challenge. “We learned that as good as we thought our management team and our founder were, they were actually better than that,” says Moore. “As a result, the board never had to get involved in day-to-day crisis management. Kent kept us in the loop, but we just kept track of what he was doing, and we

had a lot of confidence in him.”

At Huntington Bancshares, CEO Steve Steinour’s transparency and willingness to have directors speak with anyone inside the organization shored up the board’s confidence in his management. In addition to more informal calls, Steinour and other key executives updated the full board at biweekly meetings. And he had copies of John Barry’s history of the 1918 pandemic, *The Great Influenza*, delivered to every director. “We all read it. It was sobering to us as a board, but it also told us that with careful, rapid planning, there could be a pathway forward,” says Porteous.

That pathway will still have plenty of bumps in 2021 as the country waits for rollout of a vaccine. “The pandemic is still here for a while longer, and the ripple effects are still going to be pretty significant,” says Porteous. “At our organization, it was literally heroic what people did, but our leadership cannot rest for a minute because the challenges are very significant and they are likely to be coming in different ways than they’ve come before.”

The hope is that coping with this crisis has helped prepared boards for the inevitable next upheaval. But to truly reap the benefits of the 2020 experience, boards will need to lean in. “It’s like exercise,” says Archambeau. “If you haven’t exercised and you suddenly actually get a trainer and the trainer pushes you to see what you are actually capable of, the next day you wake up and you are sore as hell, right? There are those people who will say, ‘Okay, let me get back in there so I can work these muscles.’ And there are others who will say, ‘That was way too painful—I’m done.’”

“The same is true with this issue. There will be people who say, ‘I just want this over—whatever over means—because it’s just too painful,’ and others will say, ‘We went through the hard part, the initial pain and strain, so now let’s keep working those muscles because we’re going to get stronger and it’s going to get a whole lot easier.’”

And when times are roughest, keep in mind that “we’re not alone,” Browning says. “None of us is. The whole world is dealing with this in its own way. We’re all going through it.” **CBM**