



THE BOARD'S ROLE IN **CHANGE** **MANAGEMENT**

In recent months, the Covid-19 pandemic, economic uncertainty and significant social unrest have combined to bring waves of change not seen in more than a century. To assess the potential fallout for public companies, Corporate Board Member Institute and RSM US convened a small group of board members to share their experiences helping their executive teams focus on appropriate courses of action. Some takeaways.

BY JENNIFER PELLET

IT'S RARE, BUT EVERY now and again, an event comes along that upends the environment in which we operate, laying waste to carefully calculated forecasts, injecting chaos into even the most seamless of supply chains and just generally derailing the proverbial best-laid plans. We're now six months into such a crisis, and the upheaval ushered in by Covid-19 has yet to fade. Yet, already companies that scrambled to adapt and adjust initially are beginning to adopt a more strategic approach to the post-pandemic competitive landscape.

"Boards and leadership are starting to look at this as an opportunity," Tom Kane, national director for organizational change management at RSM US, told directors participating in a Corporate Board Member Institute roundtable discussion on change management held in partnership with RSM. "Is it time to

invest in a fundamental change to the organization, such as an ERP technology upgrade or a merger or acquisition? There's an awful lot of change going on and, in some cases, that can be a strategy accelerator."

That idea meshed with the experiences recounted by directors, several of whom reported that their companies are developing initiatives or fast-tracking programs already under way in response to the seismic shifts taking place. Mesa Laboratories, for example, managed to maintain production of its medical devices and keep employees safe by splitting its workforce into two shifts. But the company also had to ramp up its digital transformation efforts and rethink a sales model that entailed sending employees into hospitals. "We're having to quickly develop ways to remotely calibrate our product because you can't have



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salespeople in hospitals now,” said John Schmieder, a Mesa Laboratories board member. “And we’re playing catch up on our digital strategy—including a customer relationship management process—in case trade fairs never come back.”

THE BURNING PLATFORM

Companies like KAR Auction Services, which had been thriving on in-person auctions that could no longer be held, were forced to make even more dramatic adjustments to their business models. The company pivoted to an entirely digital platform, said Mark Howell, a board member at KAR, who added that the adapt-or-die situation sped up a transition that the company had already planned to pursue. “We had a three- to four-year strategy of moving from physical auctions to a digital platform,” he explained. “So, two weeks into this, we started bringing our organization and customers, who were rooted in legacy processes, through that migration process.”

Cut off from the option of a traditional auction, customers proved highly receptive, and the company is now back up to customary volumes in a purely digital environment. “We went into this as one company, and we’ve come out of it another,” said Howell. “Without the constraints of a pandemic, that level of migration would have taken a lot longer.”

The story resonated with Kane, who pointed out that there’s nothing quite like a burning platform to help organizations get past their natural inclination to resist change. “Always, the pain of the current situation has to be greater than the anticipated pain of having to change,” he said. “Covid was that in spades for a lot of industries.”

At Century Aluminum, the crisis surfaced chinks in a seemingly solid supply chain that were far less urgent but nevertheless needed addressing. “We were surprised to find that a lot of the small suppliers we deal with were not digitally sophisticated,” said Errol Glasser, a board member at Century Aluminum and co-founder of Triangle Capital. “So, our management team had to build up an education program for the supply line

so that they could deal with us, submit invoices and get payments digitally because people were working remotely. That’s a forever change now, we hope.”

Remote working may well be a forever change for some companies. Many employees discovered a preference for working from home during the pandemic, and, now that productivity has been tested due to Covid-19, employers are considering making work-from-home arrangements more permanent.

At Marsh & McLennan, the shift to telecommuting worked well for some employees but was less than ideal for operations in India, where workers weren’t well equipped with the technology to work from home. “Our board embraced the analogy that it’s like a college, some people like to study at the library, some like to do it in the dorm, and whatever works for someone is the model we should consider for the future,” said Bruce Nolop, a director at Marsh & McLennan. “We’re contemplating between 10 percent and 40 percent of our people will never stop working remotely. That’s a big, big change we’re now addressing.”

Other companies focused on broad reflection, going through a full reassessment process rather than embarking on a specific change or initiative. “Something like this allows you to dial back and make sure that you’re putting priorities where they should be,” said Maribeth Rahe, board member at Consolidated Communications. “What are the things that we do as a matter of course, that we’ve always taken for granted is the right thing, that we should stop doing?”

Easy to overlook while operating in emergency mode, that type of retrenching is critical to the success of any transformation effort—particularly when a crisis like Covid-19 is the catalyst for the change. Employees displaced from their offices, lacking tools and technology they need and often sharing their workspaces with children, pets and elderly parents are already under duress. Expecting them to take on new roles and responsibilities or pivot to new goals and metrics while doing everything they did before is a sure way to jeopardize a transformation effort.

COMBATING CHANGE FATIGUE

"Organizations need to be thinking in terms of a stop for every ask," said Bob Mulcahy, director of learning for RSM. "To accelerate change, we need to be able to explain to our people, here's what we're going to do—and here's what we're going to stop doing so that you can achieve that. Because if we ask you to do everything you're doing today, plus something else, you're going to break, and that's not good for the organization and getting where we want to go."

Boards can play a part in that by helping management functioning in survival mode not to lose sight of cultural values and by reminding them of the need to be sensitive to employees' concerns. For Srikanth Datar, board member at ICF International, Novartis and Stryker, the pandemic was a test of the culture, principles and values for which each company stands. "We wanted to hear how management was doing things in a way that keeps the employees safe while, obviously, keeping the business running. How sensitive are you to needs like elderly parents, childcare and other things going on?"

Several discussion participants mentioned the need for boards to encourage more frequent communications during the change management process, pointing out that check-in calls can easily fall by the wayside when operations go remote. Some directors reported going so far as to check up on management's efforts to connect with employees. "When I get downtime, I call people who report to the manager," said Rahe. "Sometimes you discover that they haven't heard from him or her for six weeks. That's unacceptable. I say, 'Imagine if you didn't hear from me for six weeks?'"

At a time when many employees value intangibles like working relationships and flexibility as much or more than compensation, efforts to engage and connect are more crucial. "The employee value proposition has changed, with compensation and bonuses becoming less important, and flexibility, satisfaction, recognition and development becoming much more important," asserted Nolop. "Those are things you're going to need to [deliver] to retain the kind of

high-quality people who can manage in a world of constant change."

Many companies employed pulse surveys to get feedback about employee concerns and engagement during the crisis. Erie Indemnity, where the vast majority of employees were working remotely, conducted surveys to gather information that would inform an office reopening plan. "Survey respondents reported that they were feeling productive and wanted to come back but only when it was safe," said Tom Palmer, a board member at the company, which also emphasized communication, both in groups and one-on-one, when operations were impacted by the pandemic.

Several board members reported supporting management by stepping up their time commitment. Directors on Spirit Airlines' board, accustomed to meeting seven times a year, began spending hours on the phone every day, discussing fallout from the pandemic's impact on the airline industry. "We were just in survival mode, looking at everything from capacity and route management to just having to look at all your strategic plans—just having to hit the reset button," said Myrna Soto, a board member at Spirit.

Directors at some of the hardest hit companies participated personally in painful measures like pay cuts. For example, when CEO Kevin Lobo informed Stryker's board that he personally planned to take a larger pay cut than what he was asking of his people—50 percent—board members immediately agreed to do the same.

KAR's directors reacted similarly. "We cut our pay along with that of senior leadership, and we went from monthly reporting to daily reporting," said Howell, who said KAR furloughed 12,000 of 15,000 employees soon after the pandemic hit. "It was a trial by fire, and one of the benefits was that there's now a closeness among this board due to what we've gone through together."

INSTITUTIONALIZING RESILIENCY

When things normalize and the change imperative fades, directors are concerned that some of these hard-won gains will



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be lost, as boards resume regular meeting schedules and levels of involvement and companies drift back into business-as-usual operating mode. At the same time, there's recognition that "normal" as we knew it may never return.

"Change is just on steriods now," said Rahe, who noted that the need to continually adapt is the only certainty ahead. "We know where we are today, but we don't really know what the world is going to look like one, two, three years down the road. That's why it's so important that we, as a board, get to draw on and use all the people and experience we have to get the best of good thinking."

Directors must brace themselves to help boards navigate the unclear path ahead, added Datar. "There's so much uncertainty about what will come out of this," he said. "Which way will the economy go? How quickly will things come back? What will it mean with respect to the unemployment we have? There are just tons of open questions at this point." One thing that does seem crystal clear to board members is that the forced acceler-

ation of digitization is unlikely to abate. As Palmer put it, "I don't think any of us feel the sense that once we get over the hump, we can go back and do things at a more leisurely pace."

"We're really in a new world, where everyone needs to be agile and resilient," agreed Eileen Mallesch, a board member at Fifth Third Bancorp and State Auto Financial. "We all face that personally right now as well, in terms of what is going on in society. So, we need to find positive words as we sit in our oversight role on boards to be able to help and encourage management to shift toward being more agile and resilient."

Ultimately, it will be up to those in leadership roles—on the board and in management—to continue to prioritize agility, setting priorities about what changes to pursue and then working to sustain the sense of urgency and positivity necessary to make them happen. "Uncertainty is part of our lives, accelerated change is part of our lives, the need to think about existential threats is a part of our lives," noted Palmer. "All of us as board members need to keep that attitude front of mind." **CBM**

ROUNDTABLE PARTIPANTS

SRIKANT DATAR

Board Member, Novartis, T-Mobile and Stryker

GENE EWING

Board Member, Compass Diversified Holdings; Managing Member, Deeper Water Consulting

ERROL GLASSER

Board Member, Century Aluminum

JACK HENRY

Board Member, Grand Canyon Education and TPI Composites

MARK HOWELL

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BOB MULCAHY

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BRUCE NOLOP

Board Member, Marsh & McLennan, TEGNA and On Deck Capital

TOM PALMER

Board Member, Erie Indemnity Company

MARIBETH RAHE

Board Member, Consolidated Communications, First Financial Bank; President and CEO, Fort Washington Investment Advisors

JOHN SCHMIEDER

Board Member, Mesa Laboratories

MYRNA SOTO

Board Member, CMS Energy, Spirit Airlines, Popular; Chief Strategy and Trust Officer, Forcepoint