As employees and consumers speak out, how can corporations meet expectations?

External review, however crude, can improve the status quo. And today, it is no longer the sole remit of a handful of for-profit, activist investors. Free data and mobilised informal networks have enabled previously fragmented voices to amplify. Armed with a social media account and an opinion, the reach of any one person is limited only by their conviction, stamina, and, *ideally*, the quality of their insights.

Individuals can now be at least as important an influence as centralised hierarchies. This makes shifts in consumer utility, and the network effects that power them, a potentially brutal natural selection process for firms. One that pits external against internal governance as a central challenge to corporations everywhere. We are all activists now.

More than at any other time in history, corporate management teams will self-select as author or cast, and attract the kind of shareholders, employees and customers they deserve.

"Governance" is a term at risk of over-exploitation. Yet its fundamental value remains under-appreciated. In a quintessentially 21st century triumph of marketing over content, it is frequently confused with its less able, but faster-propagating cousin, "*compliance*". At its essence, "governance" is about ensuring that the *right people* are empowered to take the *right decisions*, at the *right time* and thereby deliver to organisational purpose and promise. Tensions in time horizon, or an inability to resist the temptations of the short-term, are symptoms of a failure to meet this foundational challenge.

The single most important opportunity for all organisations today is in recognising how the pre-requisites for such success are changing. As Jack Welch said, *"If the world outside is changing faster than the world inside your organisation, then you have a problem."* Internal corporate governance has to evolve with two fundamental shifts in the world outside that have transformational implications for how external governance will be metered.

The first is a broad sociological shift towards connectivity, co-operation and equitable distribution of the growth dividend. This recognises the value in higher quality, rather than simply lowest-cost routes to economic growth. The second is a shift in our ability to imagine the future. We are all having to adjust from decision-making with probable certainty, to decision-making with much less certainty.

- Obsolescence risk is high and pervasive, changing business mortality rates.
- Economic vitality is shifting away from "things" to "ideas".
- Real markets feel less stable, with unfamiliar winner-takes-all and market-of-one dynamics in play.
- Financial markets feel unhinged from their purpose in risk transparency by their role as a transmission

channel for, or an after-effect of, monetary policy.

- The final consequences of unconventional policies, both fiscal and monetary, are still unknown; and
- The explosive consequences of the COVID-19 global pandemic have further compounded this sense of *"future-as-fog"*. The pandemic itself, and the policy responses it has elicited, have accelerated many of these existing structural trends, and forced all of us to stare at the fault lines in our socio-economic foundations.

These shifting world orders mean that the assumptions and the reach needed for any of us to take strategic decisions are greater. Enduring competitive advantage will require the discipline to learn quickly and adapt those assumptions promptly. Future corporate value, indeed viability, lies increasingly in the abstract combination of organisational and human capital that can enable agile navigation of a broad range of plausible future states by:

- **Thinking in terms of outcomes that customers want and need, not products:** This is the central insight in transforming from an analogue to a digital business model. Yahoo worried about what would sell advertising. Google worried about what their customers wanted.
- **Leading rather than managing**: At least for me, at its most simple but powerful, leadership is just knowing that something is wrong and doing something about it.
- **Supporting all employees to lead in that way**: empowered to pull together the skills they require, either internally or beyond, to deliver the outcomes they are accountable for, in a way that respects the communities and natural world around them. This is what gives agility a heartbeat.

Insight on these characteristics cannot be found in quarterly earnings or traditional accounting tools, because these are inherently backward-looking and bound to specific points in time and circumstance. It requires assessment of an organisation's governing concepts of purpose; risk; and relationships, and their internal consistency:

Purpose. Organisational purpose cannot be vague and generic. It has to be precise, transparently aligned to a set of organisational ethics and directly and unambiguously connected with identifiers of organisational and individual employee success.

Perceptions of risk. To be a source of genuine competitive advantage, risk has to be conceptualised through 1) systems thinking: with a genuine respect for the communities and natural world in which we all operate, and for the reflexivity between fundamental and behavioural responses. The consequences of today's activities for the broader ecosystem that connects us all can no longer be ignored as remote tail events, or socialised. In a world of activists, externalities are likely to have (inexactly-timed but tangible) implications for franchise value, as future internalised costs or benefits. 2) Failure appetite: risk management is not risk avoidance, compliance, or earnings variability. Rather, it is the framework that establishes organisational "fitness", described as the capacity for rapid recovery from failed innovation initiatives and adverse events.

Carriage of relationships: Corporate relationships, both internal and external, have to progress from transactional to strategic:

The board's relationship with management cannot be compliance-focused. Directors need the skills for robust strategic and operational mentorship that evolve with the company's stage of development. These qualities are more valuable than independence alone.

- How do boards formulate and evolve the business strategy?
- Can they articulate how their shorter-term metrics (financial and non-financial) can be reconciled with their strategic objectives or used to identify failure early?
- Are these metrics aligned to the company's remuneration structures?
- What is their real risk budget for failure, which is synonymous with innovation?
- Are they cognisant of as-yet-unmonetised positive and negative externalities from their current operations?
- Do they focus on the project risks of particular growth initiatives *or the business-model risk of **not** doing something new?*
- What data do they focus on? How does this evolve?
- Are the collective skills around the board table sufficient to use this data to understand when to commit, when to experiment, and when to partner? Because data is not information, and in the succinct words of American historian James Gleick, *"information is not knowledge and knowledge is not wisdom".*

Management's relationship with employees cannot be hierarchical, because agility requires effective, distributed, decision-making. Distributing decision-making throughout an organisation—to ensure that those most able to understand and manage the risks in each decision are empowered to do so—***is*** the employee value proposition.

- Is the business purpose explained precisely?
- Are there a clear set of organisational values/ethics that boundary the risk budget and thereby support all employees to take the decisions they need to succeed?
- Are these boundaries connected with identifiers of organisational and personal success and remuneration structures that are unambiguous in their intent?
- Does the business take a skills-based and character-aware approach to attracting, retaining, sequentially evaluating, and continuously training its human capital?
- Can failure-points be identified quickly, including those associated with poor employee behaviours, and remedied effectively, to promote energized, respectful and meritocratic cultures that impel the median higher?

The board and management's relationship with shareholders, consumers and employees requires pro-active, sincere engagement – the objective of which should be **to convert all stakeholders** from passive recipients of dividends, marketing, and income (respectively) **into active advocates.**

This requires a genuine organisational capability for:

- Empathy and community building;
- Authenticity in, and revealed demonstration of, the principles governing decision-making;
- Appreciation of impact beyond the narrow;
- Delivery to promise;
- Integrity of follow-through on failure rectification;
- Self-awareness around building and maintaining long-term competitive advantages, endowed or manufactured, in a rapidly evolving marketplace; and
- Minimisation of leakage (excessive cost or waste that is not compensated with future potential value) through transparent financial disciplines and resource use. The numbers, even the short-term ones, still matter, but they must be communicated in the context of the businesses' long-term strategy.

Through this lens, "ESG" discussions seem to be a trivialisation of the capacity required for organisational success today.

We are all activists now. It is my hope that we can leverage this opportunity to take *"the road less travelled"* towards **higher-quality, rather than lowest-cost,** economic growth. Because that is likely to make *"all the difference".*

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Notes:

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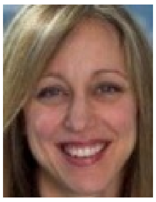

Alison Tarditi is the chief investment officer at the Commonwealth Superannuation Corporation (CSC) and co-chair of the World Economic Forum's Future of Investing Council.