



*Mr. Byron E. Loflin

Board Opportunities in a Challenging Macroeconomic Environment

As of mid-December 2022, inflation continued to make headlines globally. While inflation has slowed recently in India, with annual retail price inflation dropping to an 11-month low of 5.88 percent in November (Trading Economics, 2022), persistent inflation is the present norm around the globe. And many global company leaders are concerned that 2023 will be recessionary. On the positive side, we're far from the early 1980s recessionary period when global annual inflation peaked at nearly 14 percent. At that time, Indira Gandhi was India's Prime Minister, and the Commodore 64 computer was hot new technology.

During the pandemic, strategies to survive in the short-term dominated boardroom discussions. Over the past three years, we have seen firsthand the pandemic's impact on company boards and directors in their approach to governance and a paradigm shift in risk oversight risk and crisis planning. For all boards, we argue, the pandemic presented an opportunity to improve their approach to corporate governance. Current macroeconomic challenges provide a new opportunity to test strategies and find avenues to gain competitive advantage in the local and global marketplace.

Nasdaq's Board Advisory team works with boards around the globe to facilitate evaluations of board performance and governance practices. We track key trends drawn from this work, and majority of directors across industries and geographies have identified the past 24 months as a period of significant corporate governance challenges. Uncertainty in the macroeconomic environment, compounded by inflation and economic headwinds, interest rate hikes, and rising costs of doing business, is a dominant topic in boardroom discussions. Investors and stakeholders expect insight and understanding from their seasoned company directors.

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The following ten themes have emerged from directors' observations in terms of what boards can be doing at this time:

1. **Understand trends in the global economy** and macroeconomic instability (i.e. beyond their own country).
2. Closely monitor **workforce conditions and talent management**.
3. To remain competitive, **ensure that sales teams, too, understand market and consumer changes**.
4. **Rethink the strategic framework** considering that a likely recession, supply chain issues, high inflation, and softening consumer demand will have short- and long-term impacts.
5. Engage in **table-top scenario simulation exercises** and regular review.
6. Be current on regulatory mandates regarding executive **remuneration and compensation for performance**.
7. Know the right questions to ask regarding **data risk monitoring and cyber security**.
8. Understand long-term implications of **sustainability, stewardship, and ESG** integration.
9. Focus on the importance of **corporate culture** and setting the tone from the top.
10. Keep focusing **diversity and women** on boards.

VUCA Volatility, Uncertainty, Complexity and Ambiguity

The last two years have magnified the importance and responsibility of a company's board. The effective board member provides insight and helps managers look down the road to anticipate the organization's possible opportunities and threats. Roman philosopher Seneca is credited with saying, "Luck is what happens when preparation meets opportunity," but more apposite for the wise board member might be, "If you do not change direction, you may end up where you are heading."

The acronym "VUCA" was conceived in 1985 by economists Warren Bennis and Burt Nanus. During the collapse of the Soviet Union, VUCA became a concept used by the United States Army War College to broaden leaders' understanding of the four words in a post-Cold War, data-driven world. (VUCA World, 2022)

Navigating VUCA is relevant for board members in their effort to deliver competent oversight and added value to the organizations and shareholders to whom they owe their fiduciary duty. Specifically, this means: 1) learning about the

volatility, uncertainty, complexity and ambiguity challenging the company, the key governance issues and opportunities, and the challenges facing the company; and 2) regularly having "what if" discussions to prepare for the unknown and test current processes and approaches – in other words, preparation. One of the key initiatives and emerging best practice through which boards can add significant value, but many have yet to adopt, during a "VUCA environment" is in scenario planning, often described as "tabletop" or "incident response simulation exercises." This brings board and management together to evaluate the potential outcomes of a crisis or risk scenario.

Inflation around the World – Opportunity or Risk?

During "normal" times, the individual director's duties and mission to add value to the board are well-documented and relatively clear, though never simple. Ask the right questions, contribute to discussions, bring relevant knowledge and experience to the table, and always act in the best interests of shareholders and the company. During periods of global macroeconomic uncertainty and instability, adding value takes on a critical, new dimension.

VUCA is particularly helpful for board members' ability to understand their business' strategic environment and how they can add value through oversight of opportunity and risk. To the traditionally defined board duties of monitoring, care, and loyalty, we would add the duty of being curious. As investors, regulators and other stakeholders have mounted increased pressure on board performance, more is required of board members in terms of engagement, knowledge and contribution. The days of passive board membership are over. Curiosity and care should drive a board member to better understand the company's business and business environment.

Looking forward, boards are expected to gauge and balance risk versus opportunity. This goes directly to strategy, capital allocation, merger and acquisition review, and other areas of opportunity that often arise during periods of uncertainty. An essential role of the board is to examine conditions that impact the company, a skill that requires interpretation and understanding. Scenario planning can play a critical role in enhancing the board's knowledge while adding value to a decision process such as in the evaluation of an acquisition target.

Most board members serving today have survived several periods of economic uncertainty and are able to provide insights from the perspective of lessons learned and opportunities that emerged. "All times are good times for those who know how to work and have the tools to do so." This quote from Mukesh Ambani speaks to board member responsibility. Finding

opportunity and evaluating risk is a leadership team effort that requires sufficient hard work and input from both management and the board members. VUCA examination coupled with informed scenario and simulation processes are frameworks from which to examine what are the opportunities and risks that lay before us.

**Mr. Byron E. Loflin is Global Head of Board Advisory at Nasdaq, where he leads board assessments and Boardroom Engagement services. He is the founder and former CEO of the Center for Board Excellence (CBE), which was acquired by*

Nasdaq in 2019. He is also the founder of the Nasdaq Center for Board Excellence that serves as Nasdaq's corporate governance content and collaboration community. ■



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www.iodglobal.com

INSTITUTE OF DIRECTORS

M-56 A, Greater Kailash, Part - II (Market), New Delhi - 110048, India
Board Nos.: +91- 11- 41636294, 41636717, 41008704
Fax: +91- 11- 41008705 • Email: info@iodglobal.com

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