BEING BOARD READY
Proactive Governance in 2020
INSIGHTS FROM BOARD MEMBER BETSY ATKINS

2020 continues to pack powerful punches presenting corporate boardrooms with tremendous oversight pressure. Board directors continue to operate in crisis-mode while still thinking strategically about the future of their companies, stakeholders and business models, as businesses position themselves to recover and thrive.

BDO’s Center for Corporate Governance and Financial Reporting Amy Rojik, National Assurance Partner, recently sat down with Betsy Atkins, CEO and Founder of Baja Corporation, a deeply experienced corporate executive and highly accomplished board member, who reflected on and shared her thoughts, experiences and advice for being a proactive director during such challenging times. The following captures key takeaways from their recent national webinar conversation and runs the gamut from matters related to human capital, responsibilities of the board for emerging risks, communication and engagement, as well as issues that are percolating on the horizon.
NAVIGATING A CRISIS

Action items for board members to consider when faced with a crisis to their business:

- Ensure timely, relevant information is being received by the board
- Clearly define crisis management roles and responsibilities
- Review operational risk management capabilities
- Verify all key team members have been identified, fully understand and are confident in their duties and abilities
- Encourage collaboration across the organization
- Centralize focus on key business outcomes
- Focus on your communications plan and your work culture
- Assess management’s access to adequate resources (internal and external) in assessing and mitigating risks
- Develop centralized, timely messaging from leaders disseminated to all stakeholders to instill confidence and calm, and counter fear and misinformation
- Require transparency in communications and set expectations for the frequency
Amy: Given the times we’re in now and taking a chapter from your most recent book *Be Board Ready*, which reads like a pocket MBA, can you share with us an early experience of your board journey as an independent director where you had to jump right into a crisis situation?

Betsy: I joined Health South, right when the CEO and founder had been accused of insider trading. I joined as the independent director to chair the Special Litigation Committee to look into the allegations by the Securities Exchange Commission (SEC). I was on the board just a short period of time and the FBI and the Department of Justice stormed the company’s premises to seize records. I was the acting chair of an eleven-member board and the New York Stock Exchange suspended trading. I really didn’t know my fellow directors very well and they were all pretty close, many of who were friends of the CEO. As the chair, I called everybody and said, “We need to have an emergency board meeting.” I received a lot of resistance as they didn’t see the pressing need. When we finally met, they showed up with their attorneys. We were concerned we wouldn’t be able to make payroll. There were allegations that management had cooked the books and our credit lines were frozen. What I learned going through this enormous crisis was:

- If you have to make one decision every day, make the hardest, most important decision first and get everybody together to focus on and make that one decision with the information at hand. In a crisis you have to go forward and you have to actually do the work yourself. You cannot abdicate to your outside advisers, your bankers, your attorneys. You have to actually dive in, do the research and figure it out.

- And if you make a decision based on the premise that all of your life savings and those of your friends and your family are invested here, you are going to make the very best business decision you can.

In a severe crisis, the key thing is don’t become paralyzed. Don’t let it become a daunting thing. I find you just have to keep moving up the Maslow’s hierarchy of needs in the pyramid to making the critical most decisions first. Tackle one big topic at a time and work through it with your colleagues.

**MASLOW’S HIERARCHY OF NEEDS**
CULTURE AND HUMAN CAPITAL IMPACTS

Amy: As we think about some of the more pressing cultural and human capital impacts that board members are seeing today, managing employee retention and recruitment continues to be a significant concern as companies determine economic realities, cost containment initiatives and capacity capabilities.

Betsy, what are your views on potential headcount reductions versus alternative measures that companies have taken?

Betsy: As a result of the COVID crisis, companies have an opportunity to really take a harder look at their employee base. For high performers, retention is essential. It’s also easy to identify poor performers who are not contributing adequately to the organization. The challenge is those who may not be realizing their full potential and how you may “up-skill” them in order to “forward-building” your company.

Can you use this current time to forward hire, to upgrade, where possible? Can you use this time to re-skill existing employees?

Virtual work and the gig economy are here to stay. The on-line economy and growth in data-driven analytics decision-making to increase and make businesses more successful is a trend to embrace.

This raises the question: Can you re-skill? Do you have the right skill mix currently? Now is the time when you could evaluate and shift your skill mix and do that forward hiring. I think it’s an opportunity.

Many companies don’t regularly review the excess capacity in their organization. This particular crisis window gives you permission to go look at those things.

Amy: In speaking with other board members, looking at capacity is increasingly important. So being longer-term focused and looking beyond the short-term containment of cost. How can we economically and creatively sustain a workforce? We want to make sure we have retained those skilled employees on staff and that they haven’t been siphoned away to other companies also looking to upscale.

So how do we preserve those employees without putting ourselves in jeopardy economically? What does the compensation factor look like – from the most senior executives, the board itself, down to their staff and employee base. What are your thoughts on that?

Betsy: Well, it’s a great question because every board is now faced with this. In the beginning of the year, you approve your annual operating plan. You had your long-term incentive: typically, three-year long-term incentive metrics as we all have to be performance-driven. Then you have your annual bonus short-term incentive plan and that’s all out the window in the current environment. You know your employees are working harder than ever. But compensation goes beyond the employee, and we need to consider the impact on all stakeholders. Depending on the company, shareholders may have taken a big hit as well in share price. We are mindful of the governance watchdogs: Institutional Shareholder Services (ISS) and Glass Lewis, who score companies on their actions.

We also have to consider disclosures within the CD&A section of the annual proxy explaining what we’re doing with compensation, it has to be a pay for performance system.

So, you need quantitative, measurable metrics. They are often revenue, maybe EBITDA or market share. Metrics need to be reflective of the current environment. Some of those metrics are just not going to work in current market; estimates and forecasts and vary greatly across industries.

For example, consider industries like hospitality, cruise and entertainment that are completely shut down. As a Wynn Resorts board member, standard metrics can’t really be applied. Our employees are working hard. We need to do a second-half year plan that reflects current and forecasted realities of our business.

The majority of companies are asking themselves this now. If you haven’t yet considered this, then I would really urge your management team to have your HR lead, CFO and CEO raise and address the question. Only about 20% of all the companies that are public have reported externally what they’re doing for the second half, so it’s truly a moment to look at what performance metrics are.

If you are a board member, I suggest you go to your compensation chair and ask how the company is positioned with respect to the second half of the year. You want to have the chance to be able to pay in both the short and long term as a competitive organization.

This is the moment to figure out what are the performance metrics that you could actually measure. For example, it might be that you are still able to measure revenue, but profit may be harder depending on your industry. However, you might be able to look at how to strengthen the balance sheet. Have you raised capital? Are you being careful and thoughtful in how you deploy your capital?
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So, there may be other performance metrics that enable your organization to better address the second-half compensation plan and put you in a position to be able to propose something for both short-term and long-term that you could then publicly disclose.

**Amy:** Corporate culture, now more than ever, has taken on significant meaning. Proactive boards are highly focused on the tone of the organization being set by leadership and the board.

**How does that function in a time when organizations and their employees are under an incredible amount of pressure and facing real challenges in shifting to and from virtual environments, dealing with morale and equality issues and significant uncertainty about the future. What do you say to your fellow board members about truly focusing on the culture of an organization?**

**Betsy:** Culture is the key and it comes from the top. In this moment, boards should actively make it a positive opportunity to operationalize your values. For example, OYO Hotels & Homes is a budget hospitality company that I’m associated with. They are second largest in terms of rooms right after Marriott. They’ve surpassed Hilton and I bet you may have never heard of them. They are concentrated in India and China in emerging markets. What they have done is taken the opportunity to actually use their empty hotels in India as a possible place for quarantining people and provide assistance for health care workers.

So, I challenge organizations to critically look at the way to operationalize your culture within your communities. Another company I work with and admire is PointClickCare, the leading electronic health record (EHR) technology partner to North America’s long-term post-acute care and senior care industry. They had some call center employees who were idle during the crisis, so the company repurposed these employees and have them assisting the spouses of employees, who have been laid-off, in finding new job opportunities.

So, there are creative things that you can do in your company. Be thoughtful. Ask what you can do within your employee base to support your community that shows your cultural values and brings people together. These actions build morale and positivity that allow individuals and companies to stay cohesive.

I’m sure every leader is regularly doing “town hall” videos and communicating with their employee base. The other thing that occurs to me at a time like this is that we are all familiar with “middle management.” I believe it’s time to empower them to be “middle leaders” and have them take ownership in this virtual, distributed work environment and focus on how they are leading their teams. Empower them to connect with their employee-base and help drive efficiency and productivity within their teams. There are opportunities here to really operationalize your organization’s cultural values.
Amy: As part of a leadership team, this operationalization is one of the fundamental things that I’ve seen work so well at BDO during this crisis. We are all asking ourselves: “What do we need to do to help our employees and our clients?” That simple acknowledgement and willingness to act, more than anything, really speaks to the value system and core purpose within an organization. BDO’s core purpose is helping people thrive, every day. If you remain true to your values, if you have those clearly mapped out and in front of you and you have a board of directors and leaders who make them their focal point, you have the catalyst to support both your internal and external stakeholders. We all know the action speaks louder than words and we all have an opportunity to show our culture right now.

Looking at human capital issues, how has addressing diversity, equality and breaking down bias, whether it’s conscious or unconscious, taken on renewed and prominent meeting for corporate directors? Betsy: Diversity is really a positive thing as you get better discussion, ideations, dialogue, thoughts and outcomes. A diverse set of opinions allows you to look at all the risks and solicit different ideas and drive healthy debate in today’s boardroom.

On the boards I serve, we’ve had a big focus on gender diversity for the last few years. For public S&P 500 companies, female directors represent about 27%. Gender diversity is increasing very rapidly. Big search firms are tracking at over 45% of new searches seeking gender diverse candidates. That is great but forward-thinking boards are further actively talking ethnic diversity, geographic diversity as well as diverse skillsets and experience as well. All of these are important to forming a well-informed board.

Additionally, we have to think about generational diversity. After all, Millennials are 37% of our workforce and represent increasing components of our customer-base and our investor-base as well. Right on their heels is Gen Z at 21% of the workforce. I believe generational diversity is really important to look at.

Generational diversity, along with ethnic diversity, are really about future-proofing our discussions and our decisions that impact our broad stakeholder base. We have a long way to go in the boardroom on these fronts and bringing in additional and varying perspectives will only enhance board decision-making.
Amy: Driving diversity not just at the board level but within other leadership levels throughout the company is another increasing area of focus for organizations. This includes considering governance policies towards diversity broadly as well as from a cultural standpoint as well.

So how are companies making this more of a priority? How are you bringing in the human capital perspectives and backgrounds into the boardrooms you are serving?

Betsy: We are actively looking for different backgrounds. A board, on average, is comprised of 10 directors. You are going to want some people who have the industry knowledge of the company’s business. You are going to need functional expertise, like within your compensation, audit and governance committees. You additionally need experienced committee chairs in each of those roles as well as financial expertise. These are tablestakes.

However, you really receive additional insights when you bring on other functional areas, like digital expertise, as every product in every service business is going to need to be tech-enabled. The whole customer journey and customer experience is rapidly changing within each industry.

Tech allows companies to take friction and steps out of the business process and transaction workflow. For example, tech-savvy companies are learning to take their legacy Enterprise Resource Planning (ERP) systems (e.g., SAP or Oracle) and put these applications into the cloud so that you can freeze some of the back office spend and re-purpose it to the front office in what we refer to as “containerization.”

On the revenue acquisition side, where can you embed analytics by organization and functional department? There is a lot of value in adding technology expertise. Boards learn from directors with entrepreneurial expertise. Existing directors need to get and remain current on the tech front. Boards that don’t strive to refresh the skills within their boards run the risk of stalling and becoming low growth enterprises.

For the directors who are not staying current, the digital interlopers are coming up fast behind them and will pass them. You don’t want to become Blockbuster Video when Netflix comes along to impact your business and make you irrelevant. So, I think it’s critical for directors to have those kinds of skills as well.
RESPONSIBILITIES OF THE BOARD AND COMMITTEES FOR EMERGING RISKS

Amy: Companies that we are seeing as being well positioned to weather the current situation appear to be those that made significant digital technology investments up front – before COVID-19 happened. So, now being more tech-savvy is really an execution phase for them as they have already done the “stress-testing” of their systems. They are likely thinking, “Okay, we have this now. How can we expand upon this and really go all in?”

For many other companies, things are much different. They are realizing they had very concentrated businesses that had not kept up with technology and now they’re having to advance very quickly and try to build something where there wasn’t anything before.

I recently read a Directors and Boards article you were featured in discussing COVID-19 as a catalyst for change. I would love your thoughts on these scenarios and for those companies who may find themselves in the “in-between” phases of technological advancement.

Betsy: So, one of the things I think is very valuable in a board setting and what I would advocate as an idea is to have a working dinner with outside speakers. We started to do this very successfully on one of my public boards several years ago. “Digital transformation” - at the time, I could kind of see that was a buzzword that didn’t resonate for some colleagues. Not everyone is 100% clear as to what digital transformation really is nor how to apply it.

So, I suggested instead of having the normal board/leadership dinner routine, we have a working dinner with several large consulting firms - Accenture, the Boston Consulting Group, and McKinsey – one after another came in to explain digital transformation. By the third presentation, we started to get a really good idea of what digital transformation meant for our customer journey. And we didn’t stop there. We followed up on these informational sessions with topics like cybersecurity. In this instance, we held a working lunch with a cyber expert Kevin Mandia. He shared with the board what knowledge we needed to understand how to ensure our cyber systems were strong enough, what the different types of firewall systems are covering the range of topics like data leakage protection. We also were educated on cyber frameworks like the National Institute of Standards and Technology (NIST) that the audit committee typically considers as part of the annual enterprise risk management (ERM) framework. We received education on global monitoring of cyber threats impacting our business as well as AI and other insights that applied to our business at a departmental level.

The goal is ensuring the board goes through these emerging topics in depth and then adopts a pragmatic approach to oversee how management applies them to the business. Periodic working sessions can be a fantastic exercise for the board and for leadership.

That’s one idea I would offer as how you actually get the board to be aligned and tech-savvy because the companies that are leading in tech are enabling their product and service are outperforming the tech laggards. I think there’s going to be a continued acceleration of the importance of tech enablement.
Amy: We are in agreement with you here and recognize that BDO has an entire firm initiative around BDO Digital which helps our clients, particularly those in the middle market, with all the things you have spoken about and asks “Where is your business trying to go?” This is certainly one of the fastest growing knowledge areas being sought after by our clients and contacts. They want continuing education and the better boards that I have the pleasure of working with are the boards that are continually inquisitive about what they don’t know and they are proactive in their research and outreach to experts. They are trained to ask, “What am I missing? What can you tell me that I should be focused on with my management teams that will help move this forward? What questions should I be asking?”

Betsy, what about the magnitude of what COVID-19 has done to business today. How are boards that you sit on dealing with emerging risks relative to COVID-19?

Betsy: Allow me to share an anecdote of what I thought was outstanding by CEO of Wynn Resorts Matthew Maddox.

What he did was create a really amazing public company/private sector collaboration. Wynn needed a clearer understanding whether as a hospitality company we could re-open. How long do we furlough people? Will we have to lay people off? We needed our regulators and our state agencies, municipal governments and at the state level in Nevada and Massachusetts as well as internationally to work with us.

Early in the crisis the board suggested we add an epidemiologist. Our CEO went to Johns Hopkins in January and engaged Dr. Rebecca Katz to become a member of our team as an advisor. We then created partnerships with our local hospitals, healthcare providers, universities and pharma companies to gather the information in order and ask ourselves how we could help speed and support the re-opening in states like Nevada.

For example, we have a reservation call center that was going unused as Wynn was closed. We allowed our call center employees to be lent out – approximately 70 plus people – to southern Nevada’s municipal health care organization to do COVID-19 tracing because they didn’t have enough people in their own call center.

This was a meaningful example in creating a public/private partnership. Wynn gained credibility and the opportunity in sharing the voice of Dr. Katz from Johns Hopkins to liaise with those various agencies.

We were then able to help accelerate the plan for the state of Nevada by sharing learnings and insights. This was so valuable that our CEO was invited to the White House to speak to President Trump with other CEOs on how they were handling the re-opening through a private sector/public partnership.
Amy: What about in the global setting and transactions? What are the opportunities and risk management areas that companies are looking at in your experience?”

Betsy: I actually hope every board is speaking about risk and opportunity. It’s hard to hold up the mirror and look at yourself and say, “Gosh, I’m a low growth and a value company.” It may be hard to admit you are not a growth company anymore. However, you have to be very honest and have that conversation, because I think we’re going to see a lot of unsolicited, inbound merger and acquisition outreach.

So, if you’re a smaller to medium-sized company that’s flat-lining, and not a growth company, you might be well-served to ask yourself, “should we sell ourselves now?” It might be better to pick your own “White Knight” to combine with rather than be on your back foot when the knock on the door happens as we’ve seen this wave of deconsolidation. There are many small pureplay companies that just are not going to have the critical mass to survive.

For example, perhaps you are a small valve $300 million public company. You may not be large enough, and you’ll be better off combined with another valve company of scale.

On the other end, if you have a strong balance sheet and are in an ecommerce business, it’s a moment to go shopping and buy the smaller competitors or the technology tuck-ins. The business landscape won’t stay quiet.

Our current conditions breed increased activism. I expect activism to increase considerably starting in Q3. The activists are currently building positions quietly. They have their investment thesis. They have big war chests. And they’re going to start to go after companies.

Historically, the number of activist campaigns before 2008 was about 85 a year. In the last 10 years, it’s about 90, but in 2009, following their financial crisis, activist activity increased by 50%. I suspect we are going to see that same kind of big increase in activist campaigns. Following the 2020 downturn, it would be a very good time to look at yourself and maybe have your banker or advisors come in and perform an outside-in assessment to see how you are poised.

You may need to “future proof” your board, and be looking at your operational efficiency. In October 2019, Carl Icahn went after Tenneco (before COVID-19). He had given them a list of things he thought they should do to improve their business. You can be sure that targets of activists pre-COVID are going to remain on the target list. I think that through this period the activists haven’t been as busy because it’s unseemly in a health crisis. Things are going to change soon.

### COMMUNICATING AND ENGAGEMENT

Amy: With regard to communicating and engagement, what, if any, changes are you noticing with respect to frequency or quality not only between the board and management but within the board itself?

Betsy: For almost every board, whether private or public, in Q1 boards were holding weekly board calls, and it was surprisingly effective. Normally, board meetings take a lot of preparation and it is a disruption for the CEO and the leadership team who are operating the company to prepare for these.

Since everybody was in crisis mode, we needed high frequency of dialogue to align. We got a deeper understanding of the operations and the urgency of decision making. We also were able to encourage CEOs to be more highly engaged and transparent with the employees. It’s all been quite positive. Many companies, I think are still on a monthly meeting cadence.
Amy: ESG – Environmental, social and governance matters. You wrote another great article covering allocation of capital towards value drivers and strengthening the brand through real actions that companies are taking in the ESG landscape which goes beyond reporting on such things but it’s really about embracing what your company can do to look at your long-term sustainable prospects.

So, I’m really interested in your thoughts, particularly while there’s been a huge push through the media and investor communities, to bring ESG into the conversation as to what companies should and could be doing to prepare themselves as they emerge from COVID-19?

Betsy: ESG - There’s several parts to this – there is the environmental piece which is your sustainability energy efficiency. How you use water, cleanliness of water, everything you’re doing impacting the environment. There are Social aspects - diversity, inclusion, equal pay... What you are doing to build your culture, community, wellness, OSHA and safety, etc. On the governance side, you have your corporate board practices, like anti-money laundering, cyber protections, anti-bribery, programs on no child labor usage, etc.

Today, there’s confusion for a lot of board members and a lot of people on what ESG reporting framework to use? This is because there are about 7 or 8 known and different frameworks being used globally. For example, two of the most popular currently are GRI internationally and SASB in the U.S. Then there are reporting agencies like MSC and ISS where they report on ESG score. What all of these things have in common is that they don’t quite agree or align on quantitative measures of the different metrics being used.

So, here’s what I would recommend you do: Don’t be paralyzed and don’t be overwhelmed, but start!

Here’s how you start: Look at what your company is doing. Everybody has great human resource policies: equality of pay, diversity, inclusion, Wellness, OSHA, safety... We have cyber protections.

Just start measuring and reporting what you’re already doing. It’s a matter of collecting the information and communicating it. Do some self-education and pick your framework and start reporting. Begin your ESG program incrementally. It’s a journey. You will get credit for it with all your stakeholders, because you can demonstrate that you have begun.

In many companies, this means moving from what was shareholder centric to what is stakeholder centric in broader terms: your investors, employees, customers, suppliers, community, etc. Start the journey and report out in your proxy.

Private companies need to do this as well because your private equity investors or your venture capital investors are also interested. Private equity and venture capital investors have “limiteds” from university endowments, pension funds, sovereign wealth funds. These “limiteds” investors have very strong ESG beliefs and expectations and they want private companies to begin reporting.

Right now, it’s all up side. You don’t have to be perfect. Everyone knows this noisy ESG framework/reporting agency landscape continues to change. For example, the World Economic Forum expects that by the end of this year they will have a recommendation from the big accounting firms of a consensus view of the most important ~22 ESG metrics to start reporting on. We are all hoping this ESG reporting landscape may become a bit clearer as we proceed. My suggestion is to begin the process and not let it be overwhelming. Just start!
FINAL THOUGHTS

Boards play an important role in the safeguarding of capital markets and in helping create and maintain sustainable business models. Governing through significantly challenging times and how boards choose to collect information, analyze it and take action can truly impact the future of business. Governance is a tremendous responsibility but there are many resources out there to help directors succeed.

To access the related full video webinar on this topic, visit here. We encourage you to remain current in your learning and invite you to subscribe to BDO's Center for Corporate Governance and Financial Reporting to receive a regular cadence of thought leadership and events covering a broad range of emerging governance and accounting topics.

Amy Rojik is a National Partner and the founder and director of BDO’s Center for Corporate Governance and Financial Reporting. She oversees the firm’s communication and governance efforts. She has over 25 years of experience in the auditing profession, engaging with financial reporting executives, audit committees and board members. Amy is a member of the Center for Audit Quality’s Advisory Council and is a National Association of Corporate Director’s (NACD) Certified Governance Fellow.

Betsy Atkins is three-time CEO and serial entrepreneur. She has co-founded enterprise software companies in multiple industries including energy, healthcare and networking. She is an expert at scaling companies through hyper growth and leading them to successful IPO and acquisitions. Betsy is also known as a corporate governance expert and “board whisperer” with an eye for making boards a competitive asset. Her corporate board experience is vast and covers multiple industries including: Technology, Retail, Financial Services, Healthcare, Hospitality, Auto, CPG, Manufacturing, and Logistics. She is an accomplished author and sought-after commentator on various news outlets. For more on Betsy and the work of Baja Corporation, visit here.
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