

# How Better Boards Navigate Disruption and Transformation

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Intro: You are listening to C-Suite Perspectives, a podcast by The Conference Board.

Sara Murray: Welcome to C-Suite Perspectives, a signature series by The Conference Board. I'm Sara Murray, Managing Director International at The Conference Board and the guest host of today's episode. Today we'll explore how boards can help companies navigate disruption, prevent strategic errors, and ensure that decisions support the long-term resilience of the business.

Joining me is Vincent Giolito, professor of strategy and organization at emlyon Business School in France. Vincent's teaching and research focus is on how companies transform their strategies and organizations in response to unprecedented technological, environmental, and societal change.

His work examines servant leadership; how leaders should respond when strategies unexpectedly fail; and how interactions between operational teams, senior executives, and boards can either foster or impede innovation and performance. He's also published extensively on strategic errors and digital transformation. Welcome, Vincent.

Vincent Giolito: Thank you, Sara, for the invitation. I'm also a senior fellow at The Conference Board for a number of years and participate in a number of activities.

Sara Murray: Great. Let's begin with the idea of a strategic error. What exactly is a strategic error and how is it different from an obviously poor decision?

Vincent Giolito: Strategic errors are an intriguing concept that I've been working on for years. Intriguing because everyone thinks they know what errors are. But of course, nobody does errors, right? So let's start with the obvious misconstrued decisions. They are decisions that don't make business sense from the start.

We have this example of Bayer, this big German chemical company acquiring Monsanto, an American company that was in a huge litigation about its main product, and eventually just a few years after Bayer ends up poorer, with a lower valuation, less profit because it had to incur all the costs of the litigation. That was a poor decision from the start.

Errors are different. Strategic errors, let's start with the strategic. Strategic means that the future of the company is at stake. The company's future may be challenged.

That is the strategic term. Errors mean that, okay, we have a decision that seems to be correct, that seems to make sense at the start, but it becomes flawed because something happens. Something happens either in the landscape, transformation, disruptions-- we'll talk about that-- or inside the company.

And often both. We have a number of examples, but we'll develop that in the next few minutes.

Sara Murray: Okay. So that distinction, I think, is really important. A strategic error isn't necessarily a bad decision from the outset. It can be a perfectly rational decision that becomes a wrong decision as circumstances change.

The real failure is not recognizing that change or recognizing it and still continuing down the same path for too long. So why are companies particularly vulnerable to making strategic errors during periods of disruption? And could you give any examples that help illustrate how a decision that initially appeared reasonable ultimately led to failure?

Vincent Giolito: Following up on the examples first. For Boeing, for example, it made perfect sense to develop a new aircraft based on the 737 and not develop a full-fledged new aircraft. Makes sense. However, inside the company, something happened.

The standards for quality slipped and you know what happened. Accident, air crashes with casualties, and then this door blowing up out of an aircraft mid-flight, etc., etc.

Other strategic errors: Meta and TikTok, the social networks. It made sense to target teenagers. It made perfect business sense. However, they inside the accent on teenagers and the harmful content that teenagers share, that was unexpected. And the reaction of society was partly unexpected.

What happens now, it's that Meta, TikTok, and other social networks face huge litigation costs.

Disruptions. They are at the core of the unexpected in unexpected changes. Disruptions, the eruption of AI, of course, AI is central today in what matters to firms and to boards, and disruptions make the landscape difficult to read.

Errors, it's like driving. You drive a little too fast, it may make sense for whatever reason, but if all of a sudden there is smoke or fog or the road conditions change, it doesn't make

sense anymore to drive too fast. This is where disruptions make errors more likely and more damageable.

Sara Murray: Yeah, I think that's the lesson running through those examples, that disruption changes the assumption on which the original strategy was built. So the danger's not that the original decision was wrong, it's failing to keep testing the assumptions. We often assume that the CEO is responsible for devising and leading a company's strategy. What role should the board play in helping the CEO and the wider organization navigate this rapidly changing strategic landscape?

Vincent Giolito: Yeah, the role of the board. It's always good to go back to the basics, right? It's the board that is responsible for the strategy. The CEO is here to propose and then to implement, to execute. The board is here to endorse the strategy, to validate the strategy, and it's about accompanying the CEOs and the top management team.

It's not about making the strategy, but it's about helping the people in charge of developing and executing the strategy to have the right ideas in the first place and to adapt and to correct, along with the changes in the landscape and within the firm.

This is the fundamental distinction between the board and the CEO. The board is here both to provide confidence to the CEO but also to challenge the CEO to ensure the strategy effectively delivers a long-term value for the firm.

Sara Murray: So it's not just sitting on the sidelines or approving the strategy, but as you said, challenge assumptions, monitor what's changing, but also help the CEO recognize when something needs to be adapted before that error becomes an existential one.

Vincent Giolito: Yeah.

Sara Murray: Okay. Yeah.

Vincent Giolito: That's a very good point. For decisions to develop as errors and then strategic errors, then there needs to be at least two things. First, one initial decision, and two, external changes. It's the compounding of one first direction and then changes that makes errors strategic.

Sara Murray: What qualities should we expect from a board collectively, and how should it balance the long-term value creation, obviously continuous innovation, and concern for the company's wider stakeholders?

Vincent Giolito: The qualities that can be expected from boards, I won't go to the basics of corporate governance but for example, diversity. Diversity in a board is absolutely key. We can be concerned when we see some boards in that respect. But I would list a few qualities.

Competency. Competency is absolutely key in a board. A firm is a complex organization with multiple dimensions, and a board should represent all the dimensions and in a way

all the stakeholders that a firm has. The customers, the people inside, and the society at large.

Competency is perhaps less about knowledge and more about mindset. And that would be the second quality, curiosity. The appetite for learning and for being aware of what is going on.

Quality number three could be, I would say, creativity. Don't see the firm as a fixed organism, as a fixed structure. It's a living organism. And creativity, how to transform the firm, develop new ideas, help the CEO and the management team develop innovation and foster innovation.

And then a strong ethical sense. It's essential particularly now that-- I may sound a little outdated here-- but question what is right and what is wrong for all stakeholders is absolutely key.

To an extent at least, I would like to cite Apple here. Their stance on data privacy, their stance on this very issue makes it a good company that people want to buy from, to work for, etc. And last, my last quality is the board should work as a team, a learning team.

Sara Murray: It's interesting because what you've described is that the board, it needs way more than the financial expertise.

It needs the curiosity, the diversity of experience, the imagination, and the confidence to challenge. So you also use the term servant strategy. What does this mean? How can it help boards serve the long-term interests and the resilience of the firm?

Vincent Giolito: Servant strategy is a term I coined to describe a strategy that benefits not only the company's shareholders, employees, customers, of course, but also the society at large.

It's a theory that has been empirically proven. I don't like the term proven, but it has been shown to deliver the results, particularly in terms of sales and profits. Servant leaders are here to help their employees grow, personally, professionally. I derive servant strategy at the organization level, at the firm level, and in my theorization, servant strategy serves society. Servant strategy helps society become healthier, become more resilient, and more prosperous of course, but also happier.

Servant strategy means a firm strategy that is not only for the greed of the managers or the shareholders, but also for the good of the society. And just on that point, of course, classic strategy focusing on financial aspects may be effective. We know that. We see that every day.

But servant strategies as servant leadership makes people better off and also delivers. The example perhaps here is Patagonia. Patagonia is a very rich company that has made making our home planet better off environmentally, and yeah, it makes good money.

Sara Murray: We're going to take a short break and be right back with more of my conversation with Vincent.

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Sara Murray: Welcome back to C-Suite Perspectives. I'm your host, Sara Murray, managing director, international at The Conference Board. I'm joined by Vincent Giolito, professor of strategy and organization at emlyon Business School in France. Okay. So turning to individual directors, you say board members need progressive lenses.

What do you mean by this, and how can directors become better at identifying weak signals in the strategic landscape but also understanding the finer details of how the company operates?

Vincent Giolito: Yes. Bifocal lenses, you may or may not know what it is all about. It's helps see both far away and also what is very close, what is under or before our eyes.

This is what I would expect from boards and directors. Not only be able to read the fine print of financial statements. That's for the closer eyesight. So financial statements, that's for sure.

But also the way a company operates. I'm always reminded of this chairman of a bank who took his fellow board members to unexpected visits to branches, and just to see how things are going, how people are operating. Are they happy? Do they look professional or don't they? The closest things

But also directors should be able to evaluate what's going on in the landscape. The faraway eyesight. And it starts with the details, and it starts not only with thinking, but also with feeling. You know when something's going differently.

When something changes. This is part of the conversation, and those weak signals should be part of the conversations and the challenges and the questions that boards ask to management teams.

Sara Murray: I really like that analogy that the boards need to be able to zoom out and

see what's coming over the horizon, but also zoom in and understand what's actually happening inside the organization.

Because I think it means that you can't just rely on the board pack. You need enough exposure to the business to recognize the weak signals for yourself as a board member. You argue that transformation should be understood as a process rather than a single event. Why is that distinction so important and what can boards learn from companies that have struggled to adapt their business models?

Vincent Giolito: Yes. The distinction that I like to emphasize is between disruption and transformation. Disruption is an event, right? Disruption, it's a point in time. There is a before, there is an after. OpenAI launches ChatGPT. There is a before, there is an after, right? The pharmas, they launch anti-obesity drugs that there is a before, there's an after.

So that's disruption. Disruption or disruptions are not the real concern for boards. The real concern, I would argue, is about transformation. And transformation is a process in the sense that there is always a coexistence of the old, the before, and the after, the new. It is exactly that which CEOs and boards are concerned with.

How to go from A to B, from the before to the after. How to go from the red to the blue knowing that in between there is a lot of purple, right? Or lots of patches of blue and red. This is how boards and management teams should think about transformations, is the name of the game right now.

How to go from the old to the new knowing that, again, you don't do it overnight. It's really a process with a start, a middle, and essentially no end because there is another transformation to start right after that.

Sara Murray: I think, I suppose for boards, that means having the patience to support a longer transition while still being willing to question whether it's moving quickly enough.

Vincent Giolito: Transformations take time.

Sara Murray: Indeed. You describe the ideal relationship between the board and the CEO as one of ruthless empathy. How can directors support and understand executives as individuals while remaining willing to challenge them or intervene when they believe the CEO's going too far?

Vincent Giolito: Trust, which directly relates to empathy. Trust is essential to a good working relationship between people and particularly between the board and any management team. It has been shown, particularly with a great study on the revival of Nokia, the Finnish telecom company.

It has been shown that the board becoming more trustful, more empathetic, more emotionally open to discussing with the management team. It has been shown that this empathy, if you like, has been really key to Nokia transforming and reviving after the

terrible disaster of the mobile phone.

Empathy is key. At the same time, never forget that board members and managers have a big ego, otherwise they wouldn't be managers or board members. And this ego can go overboard. Particularly CEOs, they are people. They can become mad, they can become, or they can be greedy, they can be too self-confident.

Boards are responsible, and boards have the power to contain the musings of a CEO, and the power to revoke, and the power to fire CEOs. What matters is the good for the company and society, and if a CEO goes overboard, it's why they are here.

Sara Murray: I think ruthless empathy is a phrase that captures that tension very well. What I take away from what you said is about directors and the board being able to understand the pressure that executives are under because that creates the trust that then allows difficult issues to surface, but empathy can't become the excuse for avoiding challenge. Yeah.

Vincent Giolito: Yeah, sure.

Sara Murray: If listeners remember just one thing about the role of boards during periods of disruption, what would you like it to be?

Vincent Giolito: Keep perhaps the progressive lenses. Both the Things that are very close and things that are far away. And not only see, again, feel, try. For example, AI. Board members, while they're often seasoned people with some experience, some of them have a hard time dealing with new technology. They have to experience what it is to work with AI by themselves, how it can help, how it can transform themselves, so that they, board members, can help their management teams transform the companies.

Sara Murray: That's a great summary. And I think I take away that the board, it's got to keep its eyes on the destination and the road ahead, but also the warning lights that might appear on the dashboard, so to speak. Perhaps that's how the boards can prevent those strategic errors. It's not about predicting every disruption. It's recognizing when the circumstances have changed and helping the organization change course in time.

Vincent Giolito: Yeah. Going back to the servant strategy, the role of the boards, particularly in times of disruption, remains or should remain to serve the long-term interests of the company, all their stakeholders, and serve the society.

Sara Murray: Mm. Well, that's it for today. Thank you for joining us, Vincent. And thanks to all of you for listening to C-Suite Perspectives. I'm Sara Murray, and this series has been brought to you by The Conference Board.

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