Integrated board oversight needed to address increasing economic pressures

Michael W. Peregrine, Partner at McDermott Will & Emery - Monday, December 13th, 2021 Print | Email

Board oversight of the impact of the weakening American economy can be effectively addressed though the collaboration of two previously unconnected committees: Finance and Human Capital. As companies continue to confront the twin issues of inflation and job participation/workforce supply, these committees can offer the management team a coordinated board approach to an increasingly vexing strategic problem.

The headlines make the economic issues confronting business abundantly clear. Inflation is not the transitory issue business was initially led to believe, and is likely to be an ongoing financial and planning concern. Indeed, the latest economic data indicates that inflation has now risen to the highest level in almost 40 years, prompted in large part of the combination of supply chain problems, increasing consumer demand and the rising cost of housing.

And, of course, the rising inflation rate is having a materially negative impact on consumer confidence, as noted by a recent University of Michigan study. The consumer confidence index prepared by The Conference Board reflects a similar decline in consumers' appraisal of current business conditions.

At the same time, people continue to leave their jobs at near record levels, in what has become known as "the Great Resignation"-with the associated impact on pay scales. The data suggests that these "resigning" workers are leaving their jobs with confidence that they will be able to find another, higher paying job. This, as opposed to people leaving the workforce entirely. But to companies in desperate need of workers, it makes little difference at this point. This is especially when the job participation rate continues to linger below pre-pandemic levels.

Obviously, both committees—given their traditional, respective responsibilities—have individual call on these issues: Finance with respect to the impact of inflationary pressures on the company's bottom line, and Human Capital with respect to the supply, compensation and culture of the company's workforce.

From a strictly economic perspective, inflation and job participation are uniquely related. As *The New York Times* recently noted, pay levels and related employee retention benefits are already rising due to the huge gap between the number of job openings, and the number of people actively seeking employment. In addition, rising costs of basic staples and increasingly likely to prompt workers to request wage increases in order to offset the inflationary impact.

So for board leadership to approach these issues in a siloed approach could be a mistake; it would ignore the fundamental inter-relationship between the inflation rate and job participation levels (and their root causes) and could cause these committees to provide uncoordinated oversight and unintegrated recommendations to the board.

So just as the issues of inflation and job participation are connected, so should the committee response. That can be achieved through the use of such measures as joint meetings; overlapping membership; coordinated agendas; the same executives serving as staff to each committee, and unitary reporting to the full board. But those are just examples. The board chair, teaming with both the chief financial officer and the chief human resources officer, can develop organization-specific ways to coordinate the oversight and recommendations of the two committees.

The ultimate goal from a governance perspective should be: "No Silos". Special, board-driven emphasis should be placed on knowledge and information sharing amongst personnel, and management and board committees, with finance and employee workforce responsibilities. Cross-disciplinary communication should be formalized where necessary to reduce the risks of organizational "silos." The board should be intolerant of artificial barriers and territorialism that limit the extent and effectiveness of coordination between committees with overlapping subject matter responsibility.

The effective and horizontally coordinated application of key committees can significantly enhance governance's ability to provide support to management during these challenging economic times. The teaming of the Finance and Human Resources committees are one, if prominent, example. The executive leadership team can work with board leadership to identify other, similar ways to support the board/management relationship in their resolution of challenging concerns.

Michael W. Peregrine, a partner at the law firm of McDermott Will & Emery, advises corporations, officers, and directors on matters relating to corporate governance, fiduciary duties, and officer and director liability issues. He is outside governance counsel to many prominent hospitals and health systems, voluntary health organizations, social service agencies and health insurance companies. His views do not necessarily reflect the views of the firm or its clients.