Twitter’s CEO Steps Down

Featuring:
Harlan Tufford, *ESG Researcher, MSCI*
Andrew Young, *ESG Researcher, MSCI*

Mike Disabato:

What's up everyone. Welcome to the weekly edition of ESG Now where we cover how the environment, our society and corporate governance affects and are affected by our economy. I'm your host, Mike Disabato. We are back from holiday with one big story for you. We're going to focus on the step-down of Jack Dorsey, Twitter's longtime CEO and co-founder and what that means for the future of the social media company. Thanks as always for joining us. Stay tuned.

Mike Disabato:

One of social media's most recognized founders has stepped down from his company this week. Twitter's CEO and co-founder, Jack Dorsey, announced on Monday, November 29th, that he would be stepping down from the company to be replaced by the current chief technology officer, Parag Agrawal. This is a big move in the G world, in the governance world, because, when it comes to the tech sector, Dorsey's name would be mentioned among any of those high profile leaders.

Mike Disabato:

When a high profile CEO steps down, for us, there are a couple of questions that we ask. One, why? Why after a year when Twitter had added more users and revenue did its CEO leave? And the second is, what is going to happen next? How will Agrawal whose previous role was all about the enhancement of the product rather than concern around, let's say, how the product is used by society steer a ship that is sailing through the choppy waters that is the current environment around social media.

Mike Disabato:

To answer those questions and more, always more, I call up Harlan Tufford, my colleague who covers governance at Twitter for us, and Andrew Young, my colleague who covers the wider social media landscape for us. Since this was a CEO step down, I thought we should hear what Harlan had to say first about why Twitter's eccentric leader decided that now was the time to leave.

Harlan Tufford:

I think his departure has been a long time coming from Twitter. I think the first big signs were in early 2020 when we saw Elliot Management try to get him out of the company. Elliot was ultimately able to bring Dorsey to terms on that and secured board seats for itself and another investor and governance reform and a committee to actually explore whether or not Dorsey should continue as CEO and whether or not his management structure was the right thing for the company. Him serving as CEO of two different companies, Twitter and Square, is incredibly unusual. There's nobody else in the MSCI ACWI Index that does that, that serves as CEO of two listed companies.

Mike Disabato:

Harlan says a lot of names there that, if you're not enmeshed in the Twitter world, might have gone over your head. One of them was Square. Square is an online payments company that Dorsey's also the CEO of. It recently changed its name to Block, by the way. Square is now called Block, ostensibly because Dorsey and company loves the future of blockchain. They love the future of cryptocurrency and they love these systems' ability to provide economic empowerment. That's basically what Dorsey said in a press release that accompanied the name change.

Mike Disabato:

The bigger name that Harlan mentioned though is Elliot Management Group. This is a powerful and feared hedge fund that, last spring, took a 4% stake in Twitter, basically tried to push Dorsey out and settled in the end for three new board seats at the company and for Dorsey to form a committee to review its governance and evaluate a succession plan. Elliot was joined in that push by private equity firm, Silver Lake, in setting several aggressive growth targets for Dorsey such as an increase of 100 million more daily active Twitter users and increasing the company's ad revenue.

Mike Disabato:

Back when Dorsey emerged from that fight, he seemed victorious and it seemed like he had won the battle, like he was going to be fine, but I asked Harlan about the significance of those board seats and whether, no matter how hard a CEO tries to win, if the board of a company wants to make a move and the board has equal footing as the CEO in terms of control of that company, often the move will be made.

Harlan Tufford:

It's a sign of how getting board seats as an investor gives you more leverage of the boardroom, more ability to shape the conversation. At a company like Twitter that has a one-share, one-vote capital structure, an investor like Elliot is able to, through board seats, shape the conversation, change minds and make change happen at a company like this. I think that's a large part of what we're seeing here with Dorsey's departure, in addition to him just really liking cryptocurrency a lot.

Mike Disabato:

This is why we look at boards and it's so important for us and others in the investment world. I doubt I've said this before, because why would I, but all the environmental plans that we've talked about, all these labor agreements, anything that has to do with the social side of ESG matter not if there isn't a leadership at the company that can actually follow through on them.

Mike Disabato:

The G spawns the E and S in ESG. What about the new G, the new head at Twitter, ex-chief technology officer, Parag Agrawal? He's been at the company, he's been at Twitter for about 10 years. At a company like Twitter, that's three lifetimes. Let's see here, what's some of his stats? He's 37, which makes him the youngest non-founder appointed CEO ever.

Mike Disabato:

While Mr. Dorsey received only a token salary, Mr. Agrawal will receive $25 million in equity awards in his first year as CEO, only half of which will be performance based. Actually, his appointment coincides with another individual being appointed as chairman of the board at Twitter, co-CEO at Salesforce, Bret Taylor. Interestingly, these two have a common background. They both came from product development and technology positions and they moved up to leadership roles at their respective companies. So, a leader to have good product development and revenue growth and user growth is usually a good thing for a company to promote that person to a leadership role.

Mike Disabato:

But as Andrew will note, that growth over all else obsession at social media companies can create problems. I think everyone has to be aware of those problems by now. If we look at our data, Twitter has similar issues to Facebook when it comes to data privacy and security. While Facebook has had 53 controversies related to online content distortion, Twitter's had 32 so the company still has a lot of work to do to be a secure and safe platform for people to ingest every day.

Andrew Young:

I think maybe this heightened emphasis on commercial success might also be seen as a de-emphasis of platform safety issues. I mention this because, Jack Dorsey had taken the leadership position on platform safety or at least maybe you can say a stewardship role on online harms or platform safety in that, he faced the hearings at the US Congress, he took ownership of the decision to ban former US President Trump from the platform.

Andrew Young:

He hired a lady called Vijaya Gadde who's the head of policy and safety. And under her, works a lady called Del Harvey who's the of trust and safety. So he's established a team to look at this issue of trust and safety on the platform. But, to that point, Del Harvey left Twitter in October, about a month ago, so we've lost, at Twitter, the head of trust and safety and then also maybe the mentor of this issue, Jack Dorsey.

Mike Disabato:

This all rings a bit louder because, we remember at Facebook, no matter what you think about these Facebook whistle blowing accusations, it does seem that the company has put growth over concerns around trust and safety to the demise of a lot of democratic processes. Andrew wanted to shift away from this view of it just being a risky appointment because, you have to remember, the new CEO is an internal Twitter employee and that's important for the nearly 5,500 Twitter employees that are currently at the company, that idea of internal promotion being a possible future for them.

Andrew Young:

Employee empowerment is a really key part in building a strong corporate culture. I think there can be few more positive signs of empowerment than promoting someone to a senior position from within the organization. I think this internal recognition, it's quite a big motivator for employees so this particular promotion might be able to build trust and strengthen its internal corporate culture.

Mike Disabato:

I want to stay with this idea of empowerment because, as Jack Dorsey leaves, he moves to a company who has a much different ownership structure than Twitter. One is insulation. Life is easier for a leader when their power is tied up in callous contracts that can insulate them from the whims of outsiders.

This means that, stakeholder empowerment obviously changes when a CEO doesn't really have to deal with rebuke from his stakeholders, or so says Harlan.

Harlan Tufford:

From what Andrew is just saying about empowerment being such an important function in company culture, accountability is really the thing that we're after in boardroom culture. What's interesting when you look at Square versus Twitter is that, at Square, there's really no one who can challenge Jack Dorsey formally. Through a dual-class share structure, he controls the company at equity stake that's about 10% of outstanding shares and almost half of votes.

Harlan Tufford:

That's not the case of Twitter. At Twitter, investors are actually able to challenge him, are able to hold him accountable in the boardroom, but at Square, he leaves when he is ready to leave and not before. There's really no way around that, unless their capital structure changes, which he would have to consent to. So, in choosing to leave Twitter and stick with Square, he's focusing at a company where he is going to be a lot more secure in his position.

Mike Disabato:

How much different is Dorsey's reign going to be when all his attention is at Block? At Twitter, he was surrounded by people with equal parts power and suspicion towards his ability to lead the company into the future, but at Block, he has another board to convince that the futuristic crypto and payment platform model can move into a more sustainable future where everyone is equal and paying everything in online currency. When it comes to board management, to governance, how different is Block than Twitter?

Harlan Tufford:

Looking at the board level, I think the key challenge, and it's pervasive at technology companies, is getting directors to understand the business and the risks of the business. You often get into very technical issues, very cutting edge issues that a lot of directors may not be familiar with, but they need to understand these things.

Harlan Tufford:

So, I think that, as you move into something like cryptocurrency compared to social media which is a bit more understood, you could have a harder time getting directors to really get a handle on the risks involved, the material risk for the company, getting an understanding of how these things are going to grow and change and affect the company in the world. It's going to be really hard for Square's managers to explain to a director how cryptocurrency is going to look in 10 years. I don't envy the team at that job, but it's what they have to do.

Mike Disabato:

Since we're a research firm, I'm just going to throw some data at you to back up Harlan's claim there. When we look at Square's board, we rank three members out of 12 with industry expertise. Eight of those members have financial expertise, so eight out of 12. You could do what you will with those numbers, but only three have "industry" expertise as they're steering through the crypto waters.

Mike Disabato:

Anyway, there is maybe something we should also discuss here, the fact that payments might be way less risky for a leader than social media. I mentioned Facebook earlier, aka Meta, and at the moment, all anyone can really think about when you talk about social media is congressional testimonies and no one wants to testify in defense in front of Congress.

Mike Disabato:

It's almost hard to remember this at this point, but Dorsey joined Zuckerberg and Google's Pichai to face congressional scrutiny in March 2021 over the spread of misinformation on their platforms. So, maybe Dorsey saw the writing on the wall and is getting out for the relatively greener pasture that is money platforms and cryptocurrency.

Mike Disabato:

Instead of getting people pissed at you for spreading extremism and hoaxes online, Dorsey can promote himself as someone that advances access to financing. What is access to financing, you ask? Well, it just so happens that Andrew covers some financial platforms as well as social media ones so I will cut him in here real quick to give you an example of what advancing financing on a money platform is in the real world.

Andrew Young:

The example I always like to make is M-PESA by Vodafone in East Africa. This platform, more than a decade ago, really transformed how transactions are done in local markets. This is the potential for access to finance for underserved populations around the world.

Mike Disabato:

So, many people were able to make secure transactions and that was helpful. Where does Twitter go from here? Well, there are the growth demands made by Elliot Management that we mentioned. There is a major communications issue still at the company. It's head of communications, Kelly Sims, left Twitter last week after less than four months at the company.

Mike Disabato:

In sort of a nod to his predecessor, Agrawal is among the executives that loves crypto and decentralization and all the beauty promised by blockchain. While there's anecdotal evidence that Dorsey put more time in Block, Square, than he did at Twitter, Twitter is still losing this very eccentric and visionary founder. You have to wonder how the company is going to recover after the person that helped start them, that was the face of Twitter for a long time leaves and goes somewhere else.

Mike Disabato:

But really, what should be paid attention to for governance is something that Harlan said as an aside, that Dorsey was the only dual CEO in the broader financial markets, and there's a reason for that. Running two relatively large companies is difficult, I would assume. Twitter and Block are now both with a leader that is solely focused on the success of the company that they are running, not two of them. No matter how this is all spun and what happens, when it comes to the G in ESG, that could be seen as an improvement.

Mike Disabato:

That's it for the week. I wanted to thank Harlan and Andrew for talking to me about the news with an ESG twist. I want to thank you so much for listening. I always appreciate it. If you liked what you heard, don't forget to rate and review us because that puts us up higher on lists and then people think that this is something I should continue to do at work. If you liked what you heard today, maybe you could subscribe and you would hear us every week. That'd be cool. Thanks again. Talk to you next week.

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