

THE FUTURE BOARD

Stewardship for sustainable success



EXECUTIVE SUMMARY

Building on contributions from roundtables organised by Mazars and ABIS – The Academy for Business in Society, this briefing considers the stewardship role of boards in the creation of long-term sustainable success in their businesses for the benefit of their stakeholders and wider society. It does so by looking at the strategic challenges facing leading corporates in the coming years and the implications for boards of the new global business reality and then poses some questions that boards should ask themselves in assessing their readiness for the challenges ahead.

STRATEGIC CHALLENGES FACING BUSINESS IN THE COMING YEARS

Adapting to technological change

Business is at the early stages of a profound technological transformation, sometimes referred to as 'The Fourth Industrial Revolution', implying an extended period of rapid and disruptive change offering both great opportunities and heightened risk. Technology has removed barriers to entry in many sectors on an unprecedented scale with disruption to existing business models, competitive advantage and brands already occurring. Many companies are actively embracing technology as a means of improving productivity and reducing costs but are doing so in an environment in which they are being held more accountable for the impacts of their decisions on labour markets and the communities in their operating environments. This is linked to social media bringing about an age of unprecedented scrutiny of organisations and their leaders. These trends are likely to lead to major changes in league tables of leading companies by market capitalisation with new entrants emerging and many existing leaders being overtaken, if they survive.

Responding to climate change and societal challenges

International action has started to move forward on issues related to global warming, biodiversity loss and natural resource depletion, as well as in responding to trends in demographics, public health and social exclusion. This is occurring as a result of the ratification of the UN climate accord and the launch of the UN Sustainable Development Goals (SDGs). The implementation of large-scale responses to the COP21 Paris agreement and managing the risks from global warming will have a significant effect on a number of industries including those in the energy sector, manufacturing and insurance. Addressing these issues provides both challenges and opportunities for businesses, including in the latter case through partnerships with governments and from strengthening their 'licence to operate'.

Changing societal and regulatory approaches to business

Recent political developments have shown a substantially negative view of business within many western electorates. Social media has empowered consumers and citizens to look more deeply into corporate activities, leading to unparalleled demands for transparency on issues such as executive pay, tax, human rights, lobbying and diversity. Meanwhile, the social and environmental track records of companies are rapidly becoming a central factor for 'millennials' in their choice of employer and there seems to be a profound shift in consumer attitudes underway with a move towards a much sharper focus on corporate purpose in choosing suppliers.

The globalisation of business with a shift eastwards and southwards

Many businesses have increased their global reach in recent years through mergers and acquisitions, by organic growth into new territories or by significant growth in existing ones. This is linked to the world shifting eastwards and, to a lesser extent, southwards in terms of population growth and share of world GDP, with new leading brands emerging from Asia and an increasing number of cross-border mergers and acquisitions originating in the region. The shift eastwards is also clearly leading to political change in the world. Such trends seem set to continue but longer term uncertainties remain around China's pace of development and concerning population growth, health, demographic and environmental developments in many emerging and developing markets.

THE FUTURE IMPLICATIONS FOR BOARDS OF THE NEW GLOBAL BUSINESS REALITY

To succeed going forward boards need to be able to:

Anticipate and prepare for uncertain futures navigating their complex environment with its interconnected trends- some relatively predictable, others substantially uncertain. Planning needs to be informed by relevant external analysis and to use techniques such as scenario planning to consider alternative futures.

Seize major strategic opportunities through ensuring their organisations have an innovative culture and the capability to introduce successfully new products and services and ways of working .

Embrace fundamental changes to the business model which may arise through the emergence of new competitors without legacy issues, external pressures such as climate change or, more generally, from a move towards a more responsible approach to business.

Ensure they have the necessary collective technology skills and expertise e.g. through a NED having a specialised technological background or at least having managed technology and innovation issues. Alternatively, external experts or an advisory group could cover the necessary range of specialist areas.

Cope effectively with unusually high levels of geopolitical risk and uncertainty which calls for a deep understanding of the main political issues affecting their key markets and for them to consider how to engage with regulators and policy-makers across different jurisdictions especially where settled approaches are subject to significant upheaval, e.g. as a result of Brexit.

RESPONDING TO BOARD CHALLENGES

To respond to the above challenges boards need to consider:

Diversifying board composition. Boards are facing increasing political, societal and business pressure to increase their diversity, e.g. including vis-à-vis gender, ethnicity, international background and the skills base. Crucially, there is an expectation of increased diversity within the senior executive team meaning significant changes in leadership development and succession planning.

Changes in board roles and structures. Change may occur in board roles with, for example, the finance role broadening into a measurement role. Other new executive roles linked to technology, stakeholder engagement or stewardship of corporate culture may also emerge more prominently. In addition, more boards may have committees dealing with ethics and stakeholder engagement issues.

Changes in boards' working practices. These are likely to include the greater use of technology in providing board information and a shift in the balance between physical and virtual meetings. Some longer board meetings to facilitate critical reflection and in-depth discussions are also likely along with other changes as boards become more diverse and potentially draw more on external expertise.

Recognising the central importance of the chair's role. The chair's effectiveness will have a vital impact on that of the board hence understanding what constitutes exemplary practice by the chair, e.g. building a shared vision, empowering critical voices, working effectively with top management in times of change and steering the board to seize the right opportunities, will be very important.

A stronger focus on director formation and ongoing development. Against the backdrop of the significant changes facing boards in the coming years, including growing complexity and increased diversity, with more members coming from non-traditional backgrounds, there will be a much greater need for structured programmes to support the formation and development of board members.

HOW READY IS YOUR BOARD FOR THE CHALLENGES AHEAD?

Boards may wish to consider the following 10 questions in order to identify changes that would likely enhance their effectiveness in building sustainable success in their business for the benefit of their stakeholders and wider society:

Board commitment to inclusive sustainable success

- 1 Are all board members fully committed to promoting the sustainable success of the business for the benefit of all their stakeholders and wider society?
- 2 Does the board demonstrate the importance it attaches to 'tone from the top' through leading by example?

Board structure and membership

- 3 Should there be a board-level stakeholder committee to reflect the interests of stakeholders? Should it be supported by a stakeholder advisory panel?
- 4 Is there currently sufficient diversity on the board across a range of dimensions, e.g. gender, ethnicity, international background, age, personality type? Does board succession planning properly recognise the importance of diversity including with regards to executive talent development?
- 5 Are there areas in which board skill sets need to be improved, e.g. technology, key emerging markets and/or talent leadership?

Board approach and processes

- 6 Does the remuneration committee remit focus on ensuring fair remuneration across the business?
- 7 Does the board thoroughly consider corporate culture and values and ensure the expected culture is aligned with the actual culture which exists in the business?
- 8 Is there effective risk management coupled with a focus on innovation and seizing the right opportunities?
- 9 Do board processes facilitate the achievement of inclusive sustainable success, e.g. sufficient time at board meetings for wider ranging discussion of strategic and related issues, appropriate use of long-range forecasting techniques and the effective use of external expertise?

Board development

- 10 Does the board place sufficient emphasis on the training and development of current board members and potential members within the business?

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The roundtables that informed this briefing considered the perspectives of both the business and the academic communities. While this briefing focuses on the implications for business, the full report also considers the preparedness of business schools to respond to these future needs. The full report is available for download at mazars.co.uk.

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