

THE FUTURE BOARD

Stewardship for sustainable success





**ASSESSING CURRENT
BOARDROOM
CHALLENGES, FUTURE
NEEDS AND THE ROLE OF
BUSINESS EDUCATION
AND DEVELOPMENT**

EXECUTIVE SUMMARY

This report considers the various dimensions of the board's stewardship role in creating long-term sustainable success for their business. It does so by looking at the strategic challenges facing business in the coming years, the future implications for boards of the new global business reality and the readiness of business schools to help address the future needs of leading businesses and their boards.

Strategic challenges facing business in the coming years

The headline issues thought to be fundamental to the future role and effectiveness of boards are:

- adapting to technological change
- responding to climate change
- addressing societal challenges
- changing societal and regulatory approaches to business
- the globalisation of business with a shift eastwards and southwards

Future implications for boards of the new global business reality

To succeed today and in the future boards need to:

- anticipate and prepare for uncertain futures
- seize the right opportunities as well as manage business risks
- embrace the possibility of fundamental change to their business models
- increase, in most instances, their ability to deal with technology issues
- cope effectively with geopolitical uncertainty
- create diverse boards and be able to respond to the need for changes in board roles and structures
- introduce necessary changes in their working practices
- recognise the central importance of the chair's role
- afford a strong emphasis to director formation and development

How business schools need to adapt to meet the needs of leading businesses and their boards

The issues identified in the report have significant implications for many business schools if they are to meet the needs of current and future board members:

- the curricula for MBA and other programmes at many schools will need to cover a broader range of subjects
- research, degree programme teaching and executive education will need to become more interdisciplinary bringing in a range of subjects from beyond the business school
- there will be a need for more faculty members with board level experience as executive or non-executives or in advisory roles
- business schools will be expected to provide part-time/blended 'top up' courses to enable their alumni to adopt a lifelong learning approach and prepare for board positions
- business schools are likely to be called on to provide joint courses leading to degrees and professional qualifications for board members

In overall terms, the role of boards has been relatively neglected in business schools with the primary focus on executive leadership in business. Going forward, there will be a need for much stronger collaboration between boards and business schools for their mutual benefit and that of business and wider society.

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INTRODUCTION

This report builds on two high-level roundtables organised by Mazars and ABIS that explored different dimensions of the stewardship role played by boards of directors in creating long-term sustainable success. It considers the overall trends and challenges facing business and the resultant implications for boards of directors, especially those of listed companies, as well as the implications for business schools with particular reference to research, graduate degree and executive education programmes.

Participants in the roundtables included senior representatives of the business community, investors, professional bodies, think tanks, regulatory agencies and leading business schools.

STRATEGIC CHALLENGES FACING BUSINESS IN THE COMING YEARS

The headline topics below emerged from our discussions as fundamental to the future role and effectiveness of boards of directors as stewards of long-term sustainable value creation for their organisations.

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 with, for example, new digitally-driven competitors starting to build up significant market shares in a wide number of sectors. A range of well-known cases – from Airbnb, Amazon and Uber to Facebook, Google and Apple – highlight the impact that radical innovation is having on some conventional industries. Moreover, the importance of robust cybersecurity, both in business and wider society, is now widely recognised, not least as a result of the impact of cyber-attacks on a number of global businesses.

For many established incumbents, it will be crucial for their leadership to understand and seize the positive opportunities offered by digitalisation and technology more generally while also responding effectively to the threats posed by it. Former industry leaders such as Blackberry and Nokia have seen their once-bright lights significantly dimmed by failing to keep up with innovation trends.

At one of the roundtables, Accenture Strategy highlighted five dimensions of digital transformation that are raising critical challenges for large companies and their boards of directors¹:

- new sources of competition
- the pace of disruption
- impacts on society
- increased transparency
- the potential to accelerate change in existing sustainability-oriented products and services

¹ Accenture Strategy. 2016. *Tuning your GPS: Redefining the rules of competitiveness in the digital age.*

New sources of competition

Technology has removed barriers to entry in many sectors and digital transformation can be expected to do so on an unprecedented scale. Disruption to existing business models, positioning, competitive advantages and brands is already occurring. Companies need to be prepared to adapt quickly, which implies new organisational structures that look very different to today's more linear, hierarchical and centralised models.

Pace of disruption

Research indicates that digital transformation will result in an unparalleled rate of churn among established companies across many sectors. Innosight, an innovation consulting firm, has recently estimated that 75% of firms currently listed on the S&P 500 Index will be replaced within it over the next decade². Complacency within incumbent firms is one of the main threats to sustained, long-term value creation in the global economy.

Impacts on society

There is a great deal of uncertainty today about the effect of digital transformation and whether it will lead to the advent of a new age of mass automation. Many companies are actively embracing technology as a means of improving productivity and reducing organisational cost. In a recent CEO survey conducted by Korn Ferry³, two thirds of respondents expressed twin beliefs that technology would be their firm's greatest source of competitive advantage in five years' time and that it would ultimately create more value than people. Such thinking, however, carries its own risks, especially in the light of recent political developments in the US, UK and elsewhere in Europe, where issues related to full employment and job repatriation are on the agenda. Large companies can expect to be held more accountable than in the past for the impacts of their decisions on labour markets and communities in their operating environments.

Increased transparency

Social media has heralded an age of unprecedented scrutiny of organisations and the individuals that lead them (e.g. the popular website www.glassdoor.com is a case in point, discussing whether particular companies are seen as good employers). Yet ethical conduct as a competitive differentiator and strategic asset is an issue that still appears to divide opinion at the highest levels in listed companies: according to further Accenture Strategy research, around one third of UK FTSE CEOs⁴ see it as a threat to business development and enterprise value rather than an opportunity to build consumer loyalty and societal trust and thereby brand capital.

Potential to accelerate change in sustainable products and services to drive future growth

There are many emerging synergies between the potential of technology-driven innovation and recent intergovernmental agreements and accords. Recent research from GeSI and Accenture Strategy⁵ highlights the indispensable role that digital solutions will play in driving progress towards achieving the UN Sustainable Development Goals (SDGs). A key question is whether current governance structures and the opinions of key decision-makers, including investors, will enable companies to risk an organisational transformation to seize these opportunities.

² Innosight. 2012. *Executive Briefing Winter 2012: Creative destruction whips through corporate America*.

³ Korn Ferry Institute. 2016. *The trillion-dollar difference*.

⁴ Accenture Strategy. 2016. *The UN Global Compact – Accenture Strategy CEO Study 2016. Agenda 2030: A Window of Opportunity*.

⁵ GeSi and Accenture Strategy. 2016. *Summary Report: #SystemTransformation – How digital solutions will drive progress towards the sustainable development goals*.

Responding to climate change and societal challenges

Issues related to global warming, biodiversity loss and natural resource depletion, as well as trends in demographics, public health and social exclusion, have been acknowledged for a number of years. International action on managing these issues has, however, now started to move forward both through the ratification of the UN climate accord and the launch of the 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 oil, gas and their renewable counterparts, the energy sector more generally, car manufacturing, those that are heavy users of carbon-intensive fuel, and, very importantly, the insurance industry. In this context, the G20's Task Force on Climate-related Financial Disclosures has, for example, recently called for companies to take new approaches to measure their climate-related liabilities so as to align future disclosures with investors' needs and concerns.

Meanwhile, the stresses currently experienced by various social systems around the world – health, welfare, pensions, education and more – present a wide range of opportunities for business to innovate in core products and services and also to strengthen engagement with governments in pursuit of more sustainable solutions.

Moreover, the lines of responsibility between governments and business for framing and delivering solutions are becoming increasingly blurred with companies being more involved in co-creation and partnership schemes with governmental bodies and through them enhancing their 'licence to operate' as they take on roles which have historically been undertaken by government or civil society organisations.

Changing societal and regulatory approaches to business

Recent political developments have shown a substantially negative view of business within many western electorates – possibly in reaction to the financial crisis and a belief that the financial sector has not transformed itself sufficiently in the years since 2009. There is also growing pressure for protectionism in some countries, resistance to immigration and to foreign workers as well as a concern about the growing inequality in corporate pay evidenced by the widening gap in companies between the remuneration of their executive directors and their lowest paid employees.

New technologies and social media have empowered consumers and citizens to look more deeply into corporate activities leading to unparalleled demands for transparency on issues such as tax, human rights, lobbying and diversity. Leading institutional investors, for example those linked to major pension funds, are also taking greater interest in the attitude of businesses they invest in towards their main stakeholders and wider society.

Meanwhile, social and environmental track records of companies are rapidly becoming a central factor for 'millennials' in their choice of future employer and a defining issue in the 'war for talent'. In addition, companies such as Unilever have suggested there is a profound shift in consumer attitudes underway with a potential 'tipping point' towards a much sharper focus on corporate purpose. Around 400-500 million customers are already thought to prioritise positive social and environmental benefits in their purchasing decisions and this number is growing especially among younger consumers.

The globalisation of business with a shift eastwards and southwards

Many businesses have increased their global reach in recent years through mergers and acquisitions and organic growth into new territories or by significantly growing their presence in existing ones. Most are, however, still recognisable by their corporate culture, senior management and board composition as being essentially anchored in one country or region. If globalisation continues apace, this could start to change, though some recent political developments are providing evidence of some resistance to such trends.

What seems more certain, however, is that the world is shifting eastwards, and to a lesser extent southwards, in terms of population growth and share of world GDP. In business, new leading brands are emerging from Asia to challenge western incumbents while cross-border mergers and acquisitions originating in the region are increasing. The shift eastwards is also clearly leading to international political change, such as the recent statements of China's leadership on how it will respond to the Paris climate agreement. Such trends seem likely to continue but longer term uncertainties remain, for example around the pace of China's future development together with the extent of population, health, demographic and environmental developments in many emerging and developing markets.

THE IMPLICATIONS OF THE NEW GLOBAL BUSINESS REALITY FOR BOARDS

Anticipating and preparing for uncertain futures

The business challenges discussed above raise far-reaching issues for boards which are likely to be beyond their 'comfort zone' and current competencies in many instances. Whilst some of the trends are fairly predictable, others are subject to substantial uncertainty which is amplified by the complex and interconnected nature of these issues.

There is a clear need for boards to ensure they are sufficiently adept and agile in navigating this complexity, supported by scenarios about the long-term development and competitive positioning of their businesses which are informed by robust external analysis and guidance. In parallel, boards must become more comfortable with addressing 'unpalatable truths' and asking difficult questions about the future trajectory of the company and its industry sector(s). They will also have to determine how to balance long-term value creation with short-term volatility and an unprecedented rate of disruption to the established way of doing business.

An ability to seize the right opportunities as well as manage the risks

In periods of significant change when risks and uncertainties are at an unusually high level, so too are the opportunities for innovation and growth; thus it is essential that boards are able to identify, assess and seize major strategic opportunities both through ensuring the organisation has an innovative culture and that it has the capability to introduce successfully new services and product lines and new ways of working.

Embracing fundamental changes to the business model

A number of the principal business challenges identified could have major effects on the predominant business models in a number of industries, whether through the emergence of new competitors, external pressures such as climate change, or a loss of market share for failing to address the trend towards a more responsible approach to business. Inevitably this will raise difficult questions for boards and they will have to be willing and able to oversee and guide fundamental change within their businesses if they are to be sustainable in the longer term.

Successful change will require the board to develop a clear view of the purpose and values of the business, develop a long-term strategy, engage effectively with all its key stakeholders and treat them fairly, ensure a strong innovation capability in the business, and to be very conscious of its reputation and 'licence to operate'.

Increasing the board's understanding of, and comfort in dealing with, technology issues

Many boards are uncomfortable dealing with technology issues which have significant implications for current operations such as redesigning production systems, providing new routes to market via online sales, inventing new goods and services, increasing stakeholder engagement and transparency, and managing risks, in particular those related to cybersecurity. This is partly a generational issue with the average age of board members, and in particular of non-executive directors, generally being greater than their workforce as a whole.

The issue is therefore how boards can best ensure they have the necessary collective skills and expertise to deal with the wide range of relevant technology issues they need to be able to address. In some cases, the answer with regards to non-executive directors (NEDs) will be to significantly increase the technology expertise on the board, either through having an NED with a specialised technological background or at least one who has had responsibility for managing technology and innovation issues. A view is emerging, however, that this is not the only way forward and that in other instances the best way ahead may be to establish a baseline of general competence among NEDs and to find new ways of bringing relevant technological knowledge and insights into boardrooms through external experts and/or an advisory group covering the necessary range of specialist areas.

Coping effectively with geopolitical uncertainty

Today's global business environment is shaped by high levels of geopolitical risk and uncertainty probably more so than for a number of years with the 'known unknowns' forming a long list: the UK's anticipated exit from the European Union, the rise of protectionist pressures in the United States, the future growth path of the economies in China, Russia and Japan, the outcome of institutional crises in Brazil and Venezuela, OPEC's future responses to the slump in oil prices, and more.

Boards require a deep understanding of the political dimensions affecting their key markets and how the relevant issues may interact with each other. They will also need to consider how their businesses should best engage with regulators and policy-makers across different jurisdictions, especially where settled approaches may be subject to significant change in coming years, e.g. at the European Union level following the UK's anticipated exit in 2019.

Diversifying the composition of boards

Our discussion on the business, political and societal changes facing boards highlights that they will need to become more diverse in their composition with greater regard to diversity across a number of dimensions including gender, ethnicity, international background and their skills base. Crucially, pressure is increasing for diversity to be strengthened amongst the senior executive team as well as the NEDs and this implies significant changes in the way that leadership talent is identified and developed in major businesses.

Diversity on boards is vitally important in ensuring the company is treating its employees fairly and enabling each to achieve their full potential. It is also essential to having diversity of thought and approach within the boardroom and to empowering directors to raise difficult questions that challenge the status quo and then successfully address them.

Placing more focus on having the right board in place to secure long-term sustainable success is likely to mean that greater emphasis will need to be placed on the work of the nominations committee. It will need to consider a broader range of candidates when making new appointments and as part of its long-term succession planning. This will involve it keeping future skillset needs under ongoing review, monitoring the talent development pipeline, and ensuring all new board members are wholeheartedly committed to the purpose of the firm and to a sustainable approach to societal value creation. Reporting on the committee's work is also likely to increase.

Changes in board roles and structures

Change may also occur in the functional roles represented on boards with, for example, the finance role broadening into a measurement role reflecting the need for a wider range of KPIs to assess the achievement of sustainable success for the benefit of all stakeholders and wider society. In some cases, new executive roles linked to technology, stakeholder engagement or stewardship of corporate culture may also emerge more prominently. In addition, more major companies may have board committees dealing with ethics and issues related to their undertaking business in a responsible fashion.

To ensure stronger links between the board of a company and its key stakeholders, there may be a move towards stakeholders being more directly involved in the appointment of board directors as investors currently are in Sweden, through shareholder committees external to the board, and as employees are in Germany through their role on the supervisory board. Another way to involve stakeholders in board appointments and in issues on the board's agenda would be through setting up stakeholder advisory panels (an idea that has been raised in the UK).

Changes in the working practices of boards

The discussion of the potential impact on boards arising from changes in the political, economic, social and technological landscape in which they operate means their working practices as well as their structure and composition are likely to change significantly. This will include new approaches to how the board uses technology at its own meetings both in terms of the provision of information for decision-making and the balance between physical and virtual meetings. In addition, it will encompass the need for an increase in the length of some meetings with them having agendas that more fully enable critical reflection and in-depth discussions to take place. Last but not least, this will incorporate changes in the style of meetings as boards become more diverse and potentially draw more on external expertise to advise and support boardroom debates and decision-making.

The central importance of the chair's role

The importance of the issues to be considered by boards in the coming years and the changes facing them mean the chair's effectiveness will have a vital impact on the overall success of the board in leading the company forward. Understanding what constitutes exemplary practice by the chair, e.g. building consensus and shared vision, empowering critical voices, working effectively with top management in times of uncertainty and steering the board to have the courage and wisdom to seize the right opportunities will therefore be very important. It seems that there is little research currently available on this topic and only limited high-level training programmes.

Stronger focus on director formation and ongoing development

Against the backdrop of the significant changes facing boards in the coming years, the growing complexity of the environment in which they are going to have to operate and the likely increase in boardroom diversity (with more members coming from non-traditional backgrounds), there will be a far greater need for structured programmes to support the formation and development of board members. Given the nature of learning and development required, business schools have a potentially significant contribution to make in this area.

HOW READY ARE BUSINESS SCHOOLS TO HELP ADDRESS THE FUTURE NEEDS OF LEADING BUSINESSES AND THEIR BOARDS?

Need for a greater business school focus on boards

The roundtable discussions highlighted that business schools have not generally paid significant attention to boards *per se*. Most research and teaching has been focused on the executive leadership rather than the board. An important question for business schools to consider is whether there would be benefit in reviewing their current approach and enhancing their contribution to boards and thereby to the business community and wider society. Stronger relationships with boards would also hopefully provide greater opportunities for boardroom-related research. In the succeeding parts of this section we set out some issues that business schools are encouraged to consider.

Analysis of future macro and business trends and implications for boards

Business schools would seem to be potentially well placed to provide some of the kind of independent, expert guidance on current and future trends that could help to frame effectively inputs to board-level decision processes. To do this successfully, however, faculties will need to be sufficiently aware of the role and function of the board within the wider context of promoting corporate sustainability or, if there is judged to be a gap, to determine how best to obtain the necessary board expertise.

Education of future executive board members

The issues discussed in this report have significant implications for the education of future executive board members and business leaders not least via mainstream MBA and EMBA programmes. They also raise fundamental questions about the need to broaden current curricula and disciplinary approaches/frameworks within business schools with deeper integration of themes such as digital transformation, macro trends, global and corporate governance, boardroom culture and capabilities and more. This raises two strategic questions for business school deans and leadership teams. Firstly, how can current programmes be modified to integrate such themes in a manageable way? And secondly, do current faculty members generally have the necessary expertise and experience to teach these topics?

With the pace of change accelerating, there will also be an ever greater need for a lifelong learning approach amongst board members and those seeking to join boards with opportunities needed to enable business school alumni to build on their earlier studies, most likely through part-time/blended learning. There should also be potentially increased demand for joint courses leading to both professional qualifications and degrees for board members.

Implications for faculty

To respond effectively to the changing needs of boards, and to leverage this as a potential area for growth and development, business schools will have to rethink a number of current approaches. The complex long-term nature of board-level challenges will require a more interdisciplinary approach to research and teaching, including executive education. This creates an opportunity for business schools to act as a connecting hub within the university, drawing on other faculties such as those related to environmental studies, international relations, psychology, technology and the economics and science of innovation.

There is also likely to be a need for more faculty members with significant non-executive or executive experience with a good understanding of the interface between boards and top management. Schools could become far more proactive in creating late career transition opportunities from business to academia and in promoting more movement generally between the two sectors as part of a longer-term faculty development strategy. This may also involve encouraging faculties to undertake more applied research on boards, stewardship and sustainable value creation and/or to spend periods of time within companies as a key means of experiential learning and career development.

CONCLUSION

Opportunities for boards and business schools to work more closely together for mutual benefit

The high level roundtables which underpin this report have suggested that there are significant opportunities for boards and business schools to build deeper, more extensive relationships that go well beyond providing relatively standard executive training modules. Business schools are ideally positioned to address the knowledge gaps and professional development needs outlined in this report – with the caveat that long-term success is likely to depend on diversifying the skills, experience and backgrounds of faculty members and championing strategic engagement with boards for the purposes both of teaching and new interdisciplinary research.

Our dialogues have also started to bring out a number of action points and key questions to be addressed going forward, including deeper study of what constitutes effective board chairmanship, culture and processes, a wider mapping of current training and development offerings to boards within the international business school landscape, the identification and assessment of effective collaboration and partnership models between business and academia that could be replicated and scaled up, and, more generally, how the desired approach of closer collaboration might best be pursued with the inclusion of other interested stakeholders, including investors, regulators and policy makers.

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