SPOTLIGHT

5 trends for the board of 2020

There is an infinite amount of things a board could and should focus on, but here are five trends boards should consider to help their organisations thrive into the future. BY KIERAN MOYNIHAN

As we count down to 2020 and a new decade, it is very timely to reflect on the significant changes that have happened in the last decade in the areas of boards, directors and corporate governance – and importantly, the major trends that are happening right now that will shape boards across Ireland over the next decade.

This time 10 years ago, many company boards were in a firestorm in the middle of the financial crisis. Despite the significant strengthening of corporate governance codes between 2000 and 2010, a significant number of companies and boards, from large Plcs to SMEs ultimately failed to protect the interests of their shareholders, employees and broader stakeholders. This pattern was common across the world and resulted in the major strengthening of corporate governance codes and national company laws, with the result that now – both in Ireland and across the world – there has never been stronger corporate governance codes, company law and regulation in place to ensure that boards and their directors discharge their stewardship duties to ensure a sustainable long-term future for their organisation, shareholders and stakeholders.

As we stand now, there has never been greater scrutiny placed on boards and directors – not only in large companies listed on the stock market, but across the full range of companies, charities, non-profits and state boards. All shareholders, employees, stakeholders and the public at large have a strong understanding that the behaviours, culture, effectiveness, performance and decision-making of the board of directors have a fundamental impact on the organisation.

Despite the strengthening of our corporate governance and company law framework, we continue to see serious issues with boards. Unfortunately, this will continue to be a pattern. The collapse of Carillion in the UK with the catastrophic loss of jobs and significant impact on many state projects in the UK and Ireland sent shockwaves through the UK and Irish business world. When serious problems arise in Plcs and large charity, non-profit and public sector boards, there is significant media attention with in-depth analysis forensically examining how experienced boards made up of executives and non-executives with decades of experience could preside over significant destruction of shareholder value and very poor levels of stewardship that severely impacts on employees, broader stakeholders and – in some cases – the very future of the organisation.

In reality, while the scale of the organisation might differ and the board directors may have a lot more experience on high-profile boards, the complexity of the "people equation of the board" means that any board in the large private company, SME, charity, non-profit and public sectors can struggle to deliver on the leadership, performance and responsibilities that their shareholders and stakeholders have entrusted to them.

Boards are, by their very nature, complex and while all strengthened corporate governance and company law are very important, the reality is that the behaviours of the individual board members and the board team collectively will ultimately impact on whether the board can genuinely excel as a high-performing board team, demonstrating the highest standards of ethics and ensuring a long-term sustainable future for all their shareholders, employees and stakeholders. It is also important to highlight that in our work week-to-week supporting board teams across Ireland, the UK and internationally across all sectors, we see truly outstanding and committed board teams and directors who are excelling for their shareholders and stakeholders with a genuine commitment to "always do the right thing" and continually improve their board effectiveness and performance.

We will now look at the key themes that are impacting boards, both in Ireland and internationally, as we approach 2020. While many of these themes are particularly relevant to Plcs on the stock market, these themes are already finding their way into private companies and charity, non-profit or public sector boards. Progressive board teams, irrespective of scale, are also embracing these trends as key components of the board's leadership and drive for genuine, long-term sustainable success.

1 Focus on environmental social governance (ESG)

One of the most dramatic changes in company boards around the world throughout 2019 was the significant shift away from "shareholder primacy" to a much broader focus on both shareholders and all stakeholders including employees, customers, suppliers, partners, environment, state and the public at large.

This is quite a radical shift in thinking for boards and companies. The business and broader community across the world was quite shocked when a highly influential group of 181 CEOs representing many of the largest US and global companies (e.g. Walmart, UPS, Amazon, Johnson & Johnson) issued a radical statement on 19 August which outlined:

"While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders. We commit to:

- **Delivering value to our customers.**
- **Investing in our employees.** This starts with compensating them fairly and providing important benefits. It also includes supporting them through training and education that help develop new skills for a rapidly changing world. We foster diversity and inclusion, dignity and respect.
- **Dealing fairly and ethically with our suppliers.** We are dedicated to serving as good partners to the other companies, large and small, that help us meet our missions.
- **Supporting the communities in which we work.** We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses.
- **Generating long-term value for shareholders, who provide the capital that allows companies to invest, grow and innovate**. We are committed to transparency and effective engagement with shareholders."

This represents a truly seismic shift in how the boards of companies look at their role. While delivering and maintaining shareholders' best interests will always be a fundamental responsibility of a board of directors, it will now need to be shared with a broader set of responsibilities to operate and behave in a way that takes into account the needs and concerns of all its stakeholders. The emergence of a "multi-stakeholder model of corporate governance" in companies has been coming for some time as globally there is a very high level of soul-searching going on in terms of "the role of business in society" and the business sector's responsibility in supporting increasingly challenging social and environmental issues. While this is currently playing out in publicly listed companies, this change is starting to trickle down to large private companies and SMEs will also be affected in time. A key catalyst for this will be that investment, asset management and pension funds globally are now placing a key emphasis on ESG and this in turn is resulting in all types of investment and financial firms – from venture and private equity investors to debt providers, sovereign wealth funds, banks and private investors – now asking a lot more of companies and their boards in the area of ESG and stakeholder engagement in return for their financial investment and support.

What does this mean for companies? We are already seeing large companies listed on both the Dublin and London stock exchanges place a very significant emphasis on ESG and broader stakeholder

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engagement. The boards of progressive large private companies take their lead from their Plc counterparts and over the coming years, a lot more will be expected of the boards of companies and organisations to demonstrate that their actions are not solely driven by profit and financial performance but by a balanced, sustainable commitment to all shareholders and stakeholders for a sustainable future. There is also a strong school of thought globally that this more long-term approach to business and profit will help reduce the enormous impact on jobs and communities caused by excessive corporate pursuit of profits and risk-taking.

2 Engagement between the board and employees

One of the areas that has come into focus as part of this shift to a multi-stakeholder model is the relationship between the board and employees. The vast majority of employees in companies and organisations, large and small, would legitimately ask "what relationship?" Since the first boards of directors formed in the early 1600s (the Dutch East India company is considered by many to be the first company board of directors), the absolute focus of the board and company on financial performance made it very difficult for the board to genuinely partner with employees and incorporate their perspectives and concerns into the board's thinking and the company's decision-making.

We recently completed an external board evaluation for a FTSE-listed company in the UK. As part of the external evaluation and alignment with the UK Corporate Governance Code (2018), one of the newer areas in the 2018 UK Code we closely evaluated was the engagement model between the board and employees, and how the board and senior management team enabled the "voice of the employees" to be heard and taken into account in the boardroom. In this case, the board and executive team had an outstanding approach to employee engagement and this was reflected in an extremely talented, loyal workforce and an excellent reputation in the market for quality and customer-centricity. The UK's Financial Reporting Council (FRC), as part of its guidance on board effectiveness, has issued some new far-reaching guidelines as follows: "With the aim of strengthening the 'employee voice' in the boardroom, the Code asks boards to establish a method for gathering the views of the workforce and suggests three ways this might be achieved, consisting of:

- A director appointed from the workforce;
- A formal workforce advisory panel; and
- A designated non-executive director."

The FRC also suggested that employee engagement with the board could be further strengthened through:

- Hosting talent breakfast/lunches, town halls and open-door days;
- Listening groups for frontline workers and supervisors;
- Focus or consultative groups;
- Meeting groups of elected workforce representatives;
- Meeting future leaders without senior management present;
- Social media updates;
- Visiting regional and overseas sites;
- Inviting colleagues from different business functions to board meetings;
- Employee AGMs;
- Involvement in training and development activities;
- Surveys;
- Digital sharing platforms; and
- Establishing mentoring between non-executive directors and middle managers.

The vast majority of Plcs in the UK and, by extension, Irish Plcs are finding this a very radical change. In nearly all cases I have seen, Plcs in the UK and Ireland are opting for a designated non-executive director to represent the employee voice and interest in the boardroom. Outside of some European countries like Germany, where employee representation at the board is mandatory for larger

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companies, Ireland and the UK do not have a history of employee directors at the board. In a survey in October 2018 by the ICSA Governance Institute in the UK, 91% of companies surveyed indicated that they are not considering adding employees to their board, despite the strong encouragement and guidance in the UK Corporate Governance Code and FRC guide on board effectiveness. In my discussions with a number of Plc board chairs, they indicated that their biggest concern was that an employee could lack the overall breadth of experience and judgement to not only contribute effectively at board level and take the overall shareholder and stakeholder perspectives into account, but to handle very difficult issues involving – for example – potential employee layoffs, change of work conditions, etc. This is a very complex area, with sensible arguments on both sides of the debate.

In terms of company and organisation boards in Ireland, I believe progressive boards will assess what is happening in this area globally and find ways to increasingly engage employees and to ensure that their perspectives and concerns are genuinely integrated into the board's decision-making process. In his wonderful new book, Future Proof Your Career, John Fitzgerald provides far-reaching insights into how the workplace has changed fundamentally and that employees today, particularly younger employees, are re-assessing their overall approach to work and their employers. The era of "a job-for-life and unstinting loyalty to an employer who does not genuinely value you" is over and boards are increasingly nervous of the difficulty in attracting and retaining high-calibre employees. When I see a very high-quality board, whether it's in an SME, Plc or non-profit, charity or public sector board, they have an emphasis on building a genuine relationship with their employees, on nurturing the talent in their organisation, on inspiring their employees to go the extra mile for their clients and colleagues, on treating and supporting their employees with the utmost respect and dignity. Progressive boards also see the very strong link between customer satisfaction and the attitude and performance of employees engaging with customers. We have all seen over the course of our lives the difference it makes, whether as a consumer or a business, when you have employees of a company or organisation who are genuinely customer-centric, who take great pride in delivering for their team and company.

3 A step-change in the value being added by the board

As we go into 2020, the boards of companies and organisations have never been under such pressure to demonstrate the genuine value they add to the executive team and the company/organisation. A very wise board chair once said to me that if all the board is doing is merely oversight, and does not add any genuine value in terms of strategic "move-the-needle" thinking, helping the executive team optimise their decision-making and supporting the executive team in times of crisis, the board is ultimately doing a disservice to the shareholders and needs to be refreshed and strengthened to enable the board to add serious value. Every company, no matter how big or small, faces a very challenging set of headwinds, ranging from major business model and technology disruption in their market segment, significantly reduced barriers for new market entrants, unprecedented levels of competition, Brexit, volatile trading and geopolitical considerations as well as attracting and retaining outstanding employees. Clearly, oversight and the board acting as a key line of defence in safeguarding the financial, legal and operational health of an organisation will always be a critical responsibility for a board – but this in itself is not enough to deal with all the headwinds and chart a course of long-term sustainable success for the organisation.

A high-performing board team that excels for its shareholders and stakeholders has a great mix of executive and non-executive directors (NED). Successful NEDs bring serious strategic firepower to the board team that both compliments the CEO and executive team, but also brings different thinking. They stretch the strategic envelope of the CEO and executive team in terms of disruptive fresh thinking around new business models, innovation areas, mergers and acquisitions, and new product/service/geographic market areas while helping the CEO and executive team face up to the brutal reality that it's time to walk away from a once highly successful product or market area.

In working with boards, I often highlight the role of the board and NEDs as a lighthouse that shines a light in front of the executive team and, in many cases, illuminates dangerous rocks that could threaten the organisation. As a former CEO and in working with so many CEOs and board teams, I can testify first-hand that many CEOs and executive teams are working so hard and are so close to the day-to-day cut and thrust of the organisation that they can find it very difficult to step back, take a very objective look at their competitors, where customers are at, disruptive trends and the many significant threats and opportunities that are appearing in today's marketplace. An outstanding NED has a great work ethic, curiosity and interest in the organisation to go the extra mile to not only engage in high-quality challenge and debate with the CEO and executive team, but to roll up the sleeves, add serious value in the strategy area and ultimately increase the quality of executive and board decision-making.

4 Diversity and independence of mind

One of the challenges every board faces is group-think, where "a psychological phenomenon in which the over-riding desire for harmony or conformity in the group results in an irrational or dysfunctional decision-making outcome". While this is a well-documented problem that had a serious role to play in company boards in the financial crisis, it is a problem that can affect any board in any sector, sometimes with quite serious consequences. It is human nature; we can all be uncomfortable with having a contrary viewpoint and being an outlier in a group that manifests itself in a board team. Boards can therefore attempt to minimise conflict and reach a consensus decision without critical evaluation of alternative viewpoints by actively suppressing dissenters and isolating themselves from outside influences.

The two proven antidotes to group-think are genuine diversity in the board team and an outstanding board chair who nurtures and encourages high-quality challenge, debate and who legitimises either a single or small sub-set of board members who have a significantly different viewpoint to the majority of the board or major concerns with a key proposed strategy or decision. The critical area of "independence of mind" is very topical in the financial services sector, as regulators focus on ensuring that the non-executive directors are genuinely independent and putting this independence into action in the board team. Alfred P. Sloan ran General Motors from 1923 to 1956 and exemplified this quality of board chair leadership before one of his top committees, saying: "Gentlemen, I take it we are all in complete agreement on the decision here?" Everyone around the table nodded in assent. "Then," continued Mr Sloan, "I propose we postpone further discussion of this matter until our next meeting, to give ourselves time to develop disagreement and perhaps gain understanding of what the decision is all about."

In recent years, I have watched on in amazement at the debate around female representation on boards in Ireland and why there is still a strong need to impose gender quotas and so on, as there is still a portion of legacy-oriented boards resistant to adding female board members. Anyone who still feels, as we get ready to enter a new decade, that the addition of female directors, younger directors, directors with deep technology expertise and directors with diverse professional and industry backgrounds does not improve a board's effectiveness, performance and decision-making hasn't seen a genuine high-quality board in action.

The critical objective of diversity on a board is diversity of thinking styles. The highest performing board teams see diversity as the foundation of their board team's ability to not only drive optimal decision-making, but also avoid serious group-think problems. As we enter 2020, we are finally starting to get to an era where it will be commonplace to have a wide mix of gender, age, professional, ethnic and industry sector backgrounds where the sole criteria is to have the best mix of the best people who excel as an outstanding, diverse board team on behalf of shareholders and stakeholders.

5 Culture, ethics, behaviours and values

Throughout 2019, we have witnessed a series of scandals and serious crises involving the boards of a wide range of organisations throughout Ireland. We are not alone in experiencing this, as board scandals and crises are commonplace in most countries throughout the world. In many cases, there are common denominators such as an overly dominant CEO who rides roughshod over the board; or a CEO and board chair who are too close and, thereby, serious robust challenge and debate are suppressed. In the House of Commons Special Committee report on the collapse of Carillion, the following two conclusions are a frightening insight into how a board can lose its way so badly and drag everybody over the cliff-edge, resulting in tens of thousands of job losses: "Corporate culture does not emerge overnight. The chronic lack of accountability and professionalism now evident in Carillion's governance were failures years in the making. The board was either negligently ignorant of the rotten culture at Carillion or complicit in it." And: "Carillion's directors, both executive and non-executive, were optimistic until the very end of the company. They had built a culture of ever-growing reward behind the façade of an ever-growing company, focused on their personal profit and success. Even after the company became insolvent, directors seemed surprised the business had not survived."

In contrast to these findings is the following recommendation in the Carillion report, which highlights the importance of courage and "conviction to do the right thing" in a board team: "Emma Mercer is the only Carillion director to emerge from the collapse with any credit. She demonstrated a willingness to speak the truth and challenge the status quo, fundamental qualities in a director that were not evident in any of her colleagues. Her individual actions should be taken into account by official investigations of the collapse of the company. We hope that her association with Carillion does not unfairly colour her future career."

Early in my own career, I often wondered about the famous phrase from Peter Drucker that "culture eats strategy for breakfast". For board teams facing into a new decade, it has never been more critical to focus on culture and the board's key role in working with the CEO and executive team to define and embody the culture, behaviours and values of an organisation.

I sometimes hear board members from companies and organisations say that "culture is only for multinationals with tens of thousands of employees – we don't have time to worry about things like that, we have a business to run". Yet around the world, organisations and their boards are significantly increasing their focus on culture, ethics, behaviours and values as they recognise that a strong, healthy and vibrant culture in an organisation is a fundamental enabler of long-term sustainable success.

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Where an organisation has a healthy, vibrant and respectful culture that is embraced and put into practice day-to-day from the board chair and individual board directors right down to the most junior employee, you have the foundation for a sustainable organisation that is genuinely customer-centric. In this scenario, everyone's default approach in the organisation is to do the right thing, inappropriate behaviours – irrespective of the seniority of the individuals involved – are not tolerated, and all employees, stakeholders and shareholders are genuinely proud to be a part of the organisation.

In hyper-competitive and challenging markets, the stewardship and leadership of the board and executive team will influence an organisation's employees, culture and customer-centricity. This will, in many cases, make the fundamental difference in terms of which companies and organisations will be still standing in 2030.

Kieran Moynihan is the managing partner of Board Excellence, a specialist board practice that helps boards and individual directors excel in the areas of effectiveness and performance. Kieran has over 20 years' experience serving on boards as a CEO and executive director, non-executive director and board chair.