

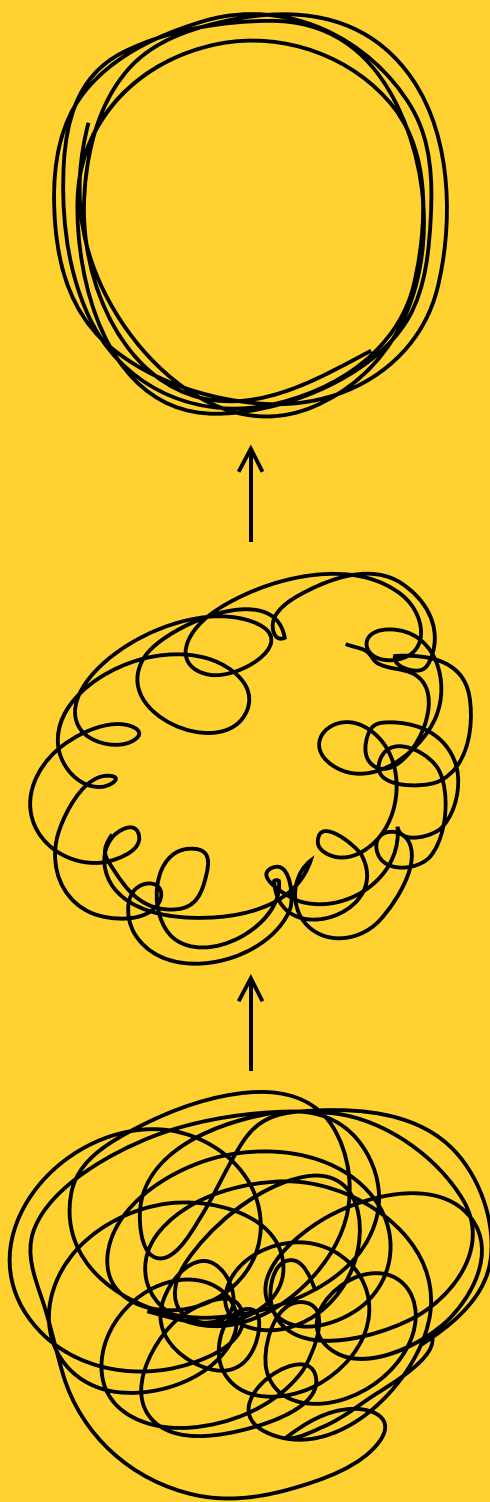
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BRINGING ORDER TO CHAOS

How boards can thrive in
an uncertain environment



Bringing order to chaos

2022 represents a new dawn for boards as the panic brought about by the COVID-19 crisis subsides and businesses learn to live with the associated uncertainty. For many boards, it represents an unprecedented opportunity to transform, writes **Kieran Moynihan**.

The pace of change in boardrooms before the COVID-19 crisis could best be described as glacial, with very little change over many decades in how board directors were recruited and how they functioned.

For most boards, COVID-19 has been an acid test of their effectiveness, leadership, and resilience at a time of extreme crisis. It also asks fundamental questions about their core purpose and values in terms of how they treat their customers and employees, how they balance the interests of their shareholders and stakeholders, and their overall contribution to – and impact on – society.

While several forward-looking boards are seizing the opportunity to fundamentally transform how they operate and who sits around the table, many boards are still clinging to an outdated model. In short, their composition and functioning are no longer fit-for-purpose.

Organisations and their boards face fundamental challenges to their long-term future: how they navigate through a maelstrom of economic headwinds, sector disruption, and rapidly changing customer requirements. Then, there are the existential challenges such as climate change and employees embracing a new flexible work paradigm and who want to work for organisations with genuine purpose and values.

Board composition and diversity: breaking the legacy mould

The day will come when we will no longer require trojan efforts by initiatives such as The 30% Club and both

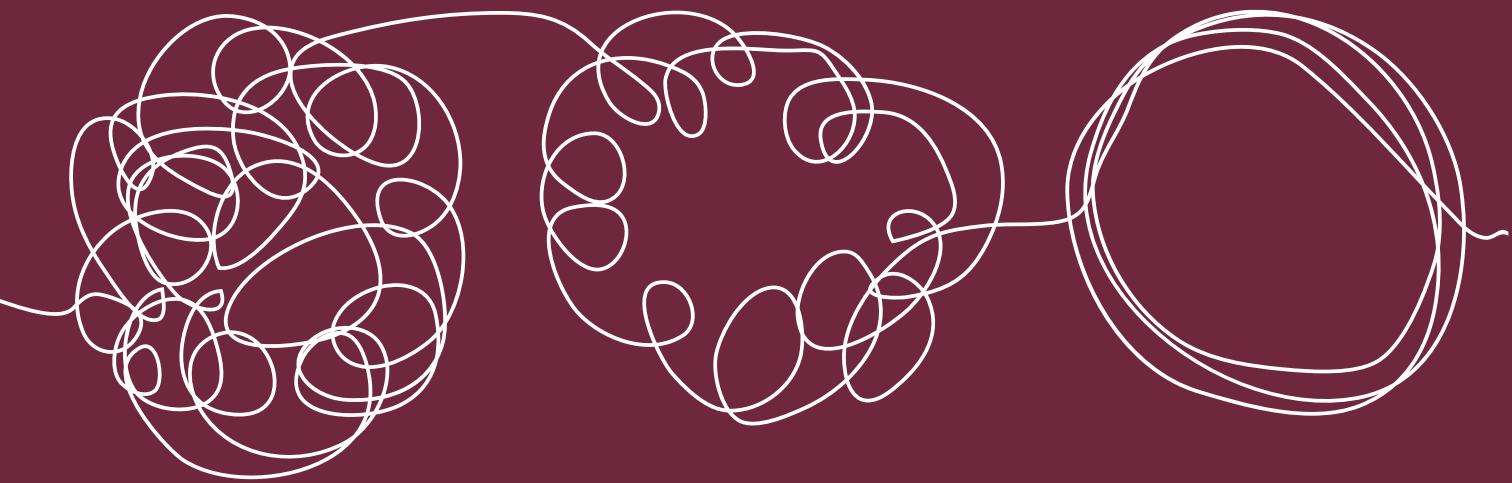
government and institutional investors to persuade and cajole boards on the value of board diversity (gender, age, sector, ethnic, thinking style and customer demographics).

The COVID-19 crisis accelerated this transition. Many boards struggled to demonstrate a diverse mix of non-executive directors (NEDs) who could bring value in the form of creative solutions to severe strategy and business model challenges; an understanding of the impact on customers and employees; and a vibrant range of thinking styles to enable the board – in partnership with the executive team – to imagine a very different future for the organisation.

Progressive boards are now assembling “the best board team we can find” where diversity is celebrated. One’s gender, age, sector, ethnic or geographic background no longer matters, provided the end product is an exceptional board team. An exceptional team can be described as one with strategic fire-power, independence of mind, understanding of customers and sectoral trends, and the capability to combine high-quality challenge, debate and oversight with support and value-add to the executive team.

In the COVID-19 era, many boards ‘got religion’ regarding the gaping hole in their board composition. There is a dearth of younger NEDs who have digital DNA and truly understand what it means to embrace environmental, social and governance (ESG) criteria and embed it into the fabric of the organisation.

I have evaluated and supported some exceptional NEDs in their 60s and 70s who do not understand the evolving digital world, the danger of cybersecurity threats, the mindsets of customers in their 20s and 30s, the values and aspirations of younger purpose-driven employees, and the need in some



cases for transformational business models.

What boards need is a vibrant mix whereby you get the best of both sets of NEDs, combining the deep experience, leadership and wisdom of the older NED with the dynamic, fresh perspectives and current expertise of younger NEDs.

ESG: a defining moment for boards

As the dust settles on COP26 in Glasgow, it has dawned on the boards of many organisations that they have a compelling responsibility to tackle climate change and reassess how their organisation contributes to society.

There have been some critical foundation stones for ESG. These include the introduction of triple-bottom-line economic thinking, the growth of corporate social responsibility (CSR), and milestones such as the Business Roundtable statement in 2019 that companies need to serve not only their shareholders but all key stakeholders.

ESG has become the hottest topic in boardrooms worldwide as institutional investors, customers, employees, governments, and society redefine the role of companies. While the seriousness of the climate change crisis has correctly focused attention on the 'E' in ESG, the spotlight on the 'S' and 'G' has also grown considerably.

In the coming decade, ESG could become the single most significant change catalyst for boards of directors.

Purpose-driven: an opportunity for servant leadership by the board

In evaluating and supporting boards week-to-week across the world, those that impress me most have a triple-helix in their DNA of customer-centricity, employee engagement, and a deep commitment to ESG and 'doing the right thing'.

These boards also have a diverse mix of high-calibre board members, generalists, and sector specialists with a great balance of robust intelligent oversight and outstanding support to their CEO and executive team.

However, at the core of these boards is a profound clarity of purpose, a vibrant and healthy culture, and the highest standards of behaviours, ethics and values. In addition, modern progressive boards have a core modus operandi of servant leadership and the most profound respect not only for their shareholders but their employees, customers, and broader partners in society.

I believe that purpose-driven servant leadership by the board will become the defining paradigm of organisations that thrive in the coming years.

Re-shaping the relationship between the board and its employees

One of the not-unexpected consequences of the COVID-19 crisis for many boards was the realisation of the fundamental role and importance of the organisation's employees. In a recent survey by the Chartered Governance Institute of FTSE 350 companies in the UK, 53% changed their approach to "workforce voice" during the pandemic. In addition, 68% of the boards surveyed now believe that they are more aware of "employee opinion". But why has it taken a pandemic crisis for these boards to realise that an organisation's employees are a critical stakeholder, deserving of the utmost respect and support from the board and their voice incorporated into the major decision-making of the company?

In reality, many CEOs are culpable for wanting to separate the board from the organisation's employees to control the narrative and deflect attention away from a poor organisational culture, avoidable turnover of employees, and serious operational or customer problems. In Ireland and the UK, there has been severe resistance to employee representation at the board table. This is understandable when you consider the challenges of finding an employee board member who can bring the employee voice to the table but balance the overall needs of the organisation as well as the complexities of industrial relations.

The resistance by boards to genuinely partnering with their employees is also a stubborn hangover from the traditional elitist ivory-tower paradigm where employees did not figure as critical stakeholders.

One of the most practical methods to ensure that the employee voice is heard at the board table is a strong non-executive director who understands the employees' perspectives, with solid support from the board chair. This approach ensures that the employee voice is factored into the overall decision-making of the board.

It is another area where improvements in board diversity can help modernise its mindset and attitude toward employees.

Customers: the most important stakeholder of all?

Ireland has been blighted by some terrible examples of customers being mistreated by companies and organisations for many years. Whether it is the misselling of financial services products, appalling levels of customer care, or the cover-up of negligence in the health sector, we have had – and continue to have – boards with simply appalling attitudes to their customers and the people they serve.

In the company sector, the tide is turning. The oft-rolled-out excuse by boards that "we simply didn't know that our customers were being treated so badly" simply doesn't cut it anymore. When evaluating boards, I always seek to understand how the voice of the customer or service user is heard and prioritised in the boardroom. Which non-executive directors will stand up to a CEO to say that poor customer

treatment is simply unacceptable? Does the board realise what the customer experience actually is?

This is what servant leadership at the board level means: putting customers at the heart of the organisation's functioning.

Culture, ethics, and a commitment to do the right thing

Despite the continual strengthening of corporate governance codes and company laws, there continues to be a never-ending cycle of boardroom scandals in Ireland and internationally. The introduction of the Companies (Corporate Enforcement Authority) Bill 2021 paves the way for a new independent statutory authority, the Corporate Enforcement Authority (CEA), to investigate and prosecute economic and white-collar crime in Ireland. This is an important stepping stone, building on the solid work of the ODCE.

However, unless the right culture and standards of ethics exist in an organisation and you have a sharp board and committees such as audit and risk on its toes, you will always have the potential for boardroom scandals – irrespective of how experienced board directors are.

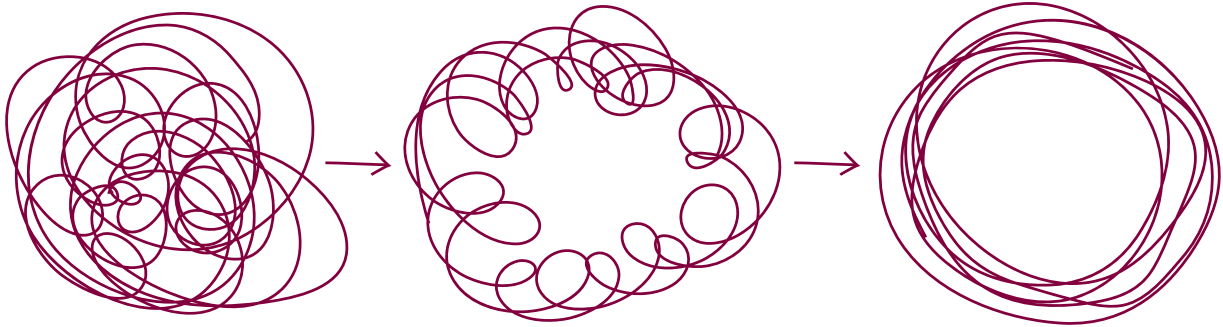
We are slowly starting to move away from some of the worst attributes of the elitist board model in terms of arrogance and disrespect by board directors for their responsibilities – not to mention the shareholders and stakeholders they serve. This is one area that has changed significantly in recent years in terms of the board chair's critical responsibility to set a very high bar for the organisation's behaviours, ethics, and values.

The board chair has a critical responsibility to set the board's moral compass, conscience, and commitment to do the right thing. With ESG and society in general setting the bar higher for boardroom standards, today's boards are under no illusions regarding the high standards expected of them in discharging their legal and fiduciary responsibilities.

Resilience, strategic agility, and a new paradigm for risk management

From the outset of the COVID-19 crisis, I found it striking to see the difference in the quality of crisis management by highly effective boards compared to ineffective boards. One of the hallmarks of high-performing boards is resilience and the ability to cope with a significant crisis.

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As we look forward to 2022, most sectors will continue to experience significant headwinds and volatility, requiring continual strategy and business model evolution. Progressive boards are now adopting a far more agile mindset on these issues and have a greater appreciation for risk management.

I now see progressive boards take a far more pragmatic approach to risk management, making more use of scenario analysis and learning the lessons from COVID-19 in terms of cascading risks (i.e. how the pandemic and the resulting public health restrictions completely turned the world of work upside down and disrupted the world's complex but fragile supply chains).

Walking the talk on the board's performance and re-thinking board director tenure

I am continually taken aback by the number of boards that put in place the most elaborate performance assessment structures for their CEO, executive team, and employees, but when it comes to their own annual assessment of their performance, both individually and collectively as a board, they either have inadequate basic processes or undertake pointless tick-the-box exercises that add no value.

In many cases, I see large companies and organisations where each board chair and director's performance are not assessed annually. However, there is a strong trend emerging of shareholders, institutional investors and broader stakeholders asking far more searching questions about the effectiveness and performance of the board, the level of value added by the board, and whether the board is walking the talk on assessing and improving its own performance – as well as replacing board directors who are not performing.

In the best boards, every board director must continually justify their presence at the board table irrespective of their profile and past glories. One characteristic of many ineffective boards is the bad habit of leaving in place under-performing board directors. This has seriously impacted many boards' ability to improve diversity and bring in critical new skillsets.

However, this is starting to change. You will soon see a greater degree of refreshing the board of directors, with under-performing directors replaced and a more robust performance culture instilled to ensure that the board

truly excels for shareholders, employees, customers and stakeholders.

Summary

One of the unexpected impacts of the COVID-19 crisis is the opportunity presented to boards to reflect on their purpose, how they function, and the value they add. It has also allowed them to consider how they partner with the CEO and executive team, their ability to handle major crises, and the agility required in terms of strategy and business models.

There has never been a greater spotlight on the role of the board of directors, the critical leadership it provides to the organisation, and its broader set of responsibilities to shareholders, employees, customers and stakeholders.

The boards that will thrive in the years to come will be highly diverse with a great mix of general and sector-specific skillsets. They will also place employees, customers, and the critical needs of society at their core.

The current ESG momentum is vital as it is finally breaking the shareholder primacy and profitability-at-all-costs paradigm that has, to be honest, not served society well. Shareholders and institutional investors now understand that you can still drive long-term, sustainable profit and success while simultaneously being a highly ethical and respectful organisation that truly excels for all stakeholders.

This enlightened model of servant leadership-centred and highly diverse boards with a solid moral compass and conscience underpinned by a high-performance culture is also key to significantly reducing board failures and scandals.

There has never been a better opportunity for boards of directors to look in the mirror and ask searching questions about becoming a modern, progressive and diverse board that is purpose-driven and deeply committed to excelling for shareholders, employees, customers, and stakeholders.



Kieran Moynihan is Managing Partner of Board Excellence, which supports boards and directors in Ireland, the UK, and internationally to excel in effectiveness, performance and corporate governance.