Governance Institute of Australia

Future of the board

We examine the issues and challenges that need to be on your radar now, and outline the skills and attributes that will be required to be effective in the future.

Research Partner

Diligent

About us

A national membership association, Governance Institute of Australia advocates for a community of more than 43,000 governance and risk management professionals, equipping our members with the tools to drive better governance within their organisation. We tailor our resources for members in the listed, unlisted and not-for-profit sectors, and ensure our member's voice is heard loudly. As the only Australian provider of chartered governance accreditation, we offer a range of short courses, certificates and postgraduate study to help further the knowledge and education of the fast-growing governance and risk management profession. We run a strong program of thought leadership, research projects and news publications and draw upon our membership of the Chartered Governance Institute to monitor emerging global trends and challenges to ensure our members are prepared. Our members know that governance is at the core of every organisation — and in these tumultuous times, that good governance is more important than ever before.

About this report

This piece of thought leadership from Governance Institute of Australia is the third in our 'future' series. The first in the series was the 'Future of the governance professional', published in 2019, followed by the 'Future of the risk management professional' in 2020. Each report aims to paint a picture of what the future of key players in the governance industry might look like.

This report focuses on the future of the board. It provides insights into the challenges the board of the future is likely to face, which issues should be on its radar now and the skills and attributes board members will need to be effective.

The full data of the survey is available below.

Survey report

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Letter from Governance Institute of Australia Chair

We are delighted to share the Future of the Board report with you, Governance Institute of Australia's key thought leadership project for 2021.

Based on two highly qualified working groups and a survey of 550 professionals, this report provides a roadmap for leaders and directors – current and aspiring — eager to be well-positioned for the future.

It provides a window into what the board of the future will likely need to look like, the key challenges predicted to be faced, which issues should be on its radar now and the skills and attributes future board members will need to be effective.

We set the year 2025 as the 'future' benchmark, looking forward, but not too far into the future. We want this to be a relevant, timely and useful guide for you and your teams.

It's clear that leadership challenges are set to intensify, with the management of non-financial risks including climate change and ongoing pandemic fallout among the key issues at the top of directors' minds.

Strategic thinking is set to be the #1 asset needed to tackle these issues, identified as the key attribute that will help directors navigate the challenges ahead. There were also some interesting views on the nature of the changes in the relationship between boards and management.

Boards are also set to come under greater scrutiny, with strong opinions emerging about how many boards a director should sit on – and for how long.

There is concern from many of our survey respondents about the 'overcommitted director', but we also saw a clarifying view emerging from some of our roundtable participants who say we need to be careful and assess the size and commitment of a whole portfolio before limiting participation.

Our report shows that for the board of the future, considering key decisions not just from a short-term profit perspective will be imperative, with 'social licence to operate' noted as the top ethical (or conduct culture) challenge boards will face in 2025.

These are important discussions to have as we traverse a landscape where expectations will continue to grow of our leaders. How our directors be the most effective they can be in these challenging times when we also expect them to do more, faster, and in totally changed conditions and circumstances? Our Future of the board report will help you navigate the road ahead.

Thank you to everyone who has been part of this important project, your time and feedback is invaluable. Also a special thank you to this year's sponsor, Diligent.

Pauline Vamos
Chair, Governance Institute of Australia

Research process and participants

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This report focuses on the future of the board. It provides insights into the challenges the board of the future is likely to face, which issues should be on its radar now and the skills and attributes board members will need to be effective.

Three main areas of research were carried out to inform this report. We convened a working group of directors and governance leaders to discuss key themes relevant to the board of the future, conducted an extensive survey, plus reconvened our working group for a second session to consider the survey responses and reflect on the themes that emerged.

Working group participants

Peter Hearl
Chairman, Endeavour Group and Non-executive Director, Santos and Telstra

Dr Lisa O'Brien
Non-executive Director, Bupa Australia and New Zealand

Simon Pordage FGIA
Company Secretary, ANZ Banking Group

Charles Prouse
Managing Director, NyikBar and Director, The Benevolent Society

Dottie Schindlinger
Executive Director, Diligent Institute

Diane Smith-Gander AO FGIA
Chairperson, ZipCo and Committee for Economic Development Australia

Andrew Stevens
Chair, Industry Innovation and Science Australia and Non-executive Director, Stockland

Working group 1

A group of industry leaders discussed the broad themes related to the future of the board at a roundtable event. This discussion laid the foundations for the report.

Survey

Between July and August 2021, Governance Institute of Australia conducted an online survey of directors and company secretaries. A total of 550 responses were received, the highest level of engagement in the series so far.

Survey respondents

The average age of respondents is 56. The gender spilt of respondents was: 47 per cent female and 53 per cent male. The majority of survey respondents hold senior positions: 27 per cent are NEDs, 16 per cent are CEOs or C-suite executives and 13 per cent are company secretaries. Sixty-nine per cent are on a board, 40 per cent are on more than one board.

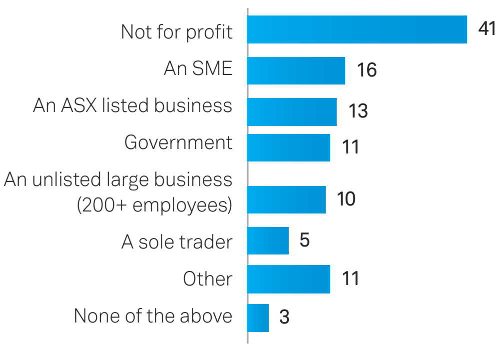
550 respondents

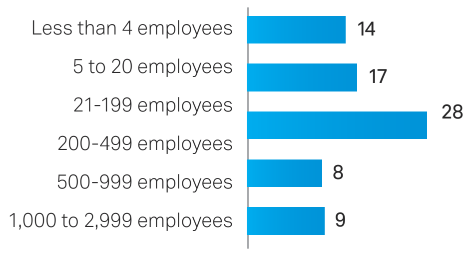
highest level of engagement in the series so far

27% Non-executive director	**8%** Early career governance or risk management	**13%** Company secretary	**11%** Senior governance or risk management professional
16% CEO or C-suite executive	**8%** Governance or risk management consultant	**8%** Other	**9%** Retired

Most respondents are based in either New South Wales or Victoria, and nine per cent are based overseas. A broad range of sectors is represented: 41 per cent of respondents work for a not-for-profit organisation, 16 per cent work for an SME and 13 per cent come from an Australian Securities Exchange (ASX) listed business. A wide range of organisation size is also represented, with the largest proportion of respondents (28 per cent) working at an organisation with between 21 and 199 employees.

Organisation respondents work for by type and size





A diverse set of organisation types.

People from not for profits account for 41 percent of respondents, followed by small-to-medium-sized enterprises (SME) at 16 per cent.

13 per cent came from an ASX-listed business.

A wide range of sizes of organisations is represented.

Working group 2

The working group reconvened to reflect on the results of the survey and consider the themes raised.

Executive summary

Future board members are set to face pressure on many fronts.

They can expect to be held accountable for the activities of their organisation: 92 per cent of our 'Future of the board' survey respondents agree that board accountability and responsibility will increase, and 73 per cent agree that chairs and directors will take responsibility for corporate failures.

Public scrutiny of the board will increase, particularly as attention on environment, social and governance (ESG) issues continues to grow. The report argues that the board should lead on these areas – acknowledging their importance and embedding them into strategy.

Our survey findings reflect this trend: respondents ranked social licence to operate as the top ethical challenge board directors will face in 2025. The majority (89 per cent) of respondents agree that boards will need to align organisational purpose with community purpose. Survey respondents also ranked values and ethics as the third most valued attribute for future board directors.

As more emphasis is placed on these non-financial areas of operation, the report highlights that more often the board will need to consider the moral dimensions of a certain course of action, as well as legal or compliance issues.

Pressure from investors will also increase: 73 per cent of survey respondents agree that shareholders will have a greater influence on board agendas. Investors are more willing to hold directors to account for mismanagement of ESG risks. Legal liability is also likely to increase as regulators seek to accelerate change, particularly in ESG-related areas.

Overall, the report shows responsibility and accountability continuing to move away from management and towards the board as directors become more involved in management issues. Survey respondents ranked leadership and management skills as the second most important skill future board members need to develop. Perhaps with this trend in mind, survey respondents also ranked a culture of transparency, trust and respect between board and management as the most important factor affecting the dynamic between the two in 2025.

Board members can equip themselves to meet these challenges by developing strategic skills, which the report highlights to be particularly important. They should take charge of their own professional development and ensure there is the best overall skillset on the board by recruiting from the widest possible talent pool. Diversity of lived experience around the boardroom table will improve decision-making, mitigate groupthink and keep the organisation in tune with the public.

There is scope for redefining how the board operates in the face of mounting pressure on its directors. For example, higher pay could facilitate directors taking on fewer positions, allowing them to cope with the demands of their roles. There is a range of divergent views on the issue of overboarding and the question of whether directors will be expected in the near future to substantially reduce their number of board appointments. The report considers the benefits of having more subject matter experts on the board in specialist areas such as climate science. It also considers how taking advantage of technology could make board meetings more efficient and welcomes regulatory changes to facilitate this.

The future will be challenging, but the future board can meet that challenge.

Key findings

Faced with a challenging future, boards will need to balance competing interests

Climate change, the fallout from the COVID-19 pandemic, economic instability, technology and digitalisation and cyber security risk were all ranked equally as issues survey respondents believe will have the most impact on society, and therefore on their organisation, by 2025. This demonstrates the magnitude of the challenge facing boards over the next four years, with several significant and complex issues all high on the agenda and competing for attention.

Balancing these factors will be critical to successfully navigating a difficult future. Speaking at our second working group, Andrew Stevens describes the competing interests that directors are juggling: opportunity and threat, planning for both the short term and the long term, thinking about compliance and wider ethical elements when making decisions, all while maintaining a connection with the community. 'That balance is key,' he says.

ESG issues will dominate future boardroom discussions

Our survey found that social licence to operate will be the top ethical challenge for boards in 2025, followed by workplace conduct and culture. This reflects a growing public expectation that businesses take account of the interests of the communities and wider society in which they operate. There is increasing focus on how organisations treat their employees, their supply chains and the communities in which they operate: how they earn their social licence to operate. These sorts of ESG issues will dominate future boardroom discussions.

Strategy will play a central role

Survey responses consistently highlight strategy and strategic thinking as top priority for the future board. For example, strategy is ranked as the top skill or competency that future board members will need, and strategic and critical thinking the most valued attribute of future directors. Corporate strategy was ranked the most important issue requiring the board's time in 2025.

This makes sense given the difficult issues boards will have to address. Survey respondents acknowledge that improving strategic thinking will be central to the board's ability to navigate the challenges of the coming years.

The pendulum will swing further from management to the board

As the board faces greater accountability for the organisation's actions, it will become more involved in management issues. Management and the board will work well together where their responsibilities are clearly defined, and when they appreciate the value each can bring the other. Despite working more closely together, the board and management will remain separate groups with distinct lines of accountability.

Future board members will need to spend more time developing a thorough understanding of business operations. This will allow them to assist management with operational problems where appropriate and also put them in a strong position to set the organisation's risk appetite.

Survey respondents ranked board members spending time immersing themselves in the organisation to better understand it and the challenges for management as the second most important factor defining the dynamic between the board and management by 2025.

Working group participant Diane Smith-Gander AO FGIA argues, 'It is about the board creating a framework that directs management to make day-to-day decisions.'

It's time for boards to be bold on risk

The idea of balancing risks and opportunities was a theme at both working group sessions. Participants in our first working group observed that during the pandemic it has been possible to take a bolder approach to risk. They argued that boards are setting their risk appetite too low by over emphasising threats and not giving enough consideration to the opportunities that come with risks. They felt this type of approach would not be suited to addressing the challenges the future board will face.

Speaking at the second working group, Andrew Stevens argues that the board's mindset on risk can affect its overall strategy. He believes 'there's an opportunity to reposition the board and the role of the director' as being bolder and more willing to take calculated risks.

Divergent views on overboarding and tenure

The majority of survey respondents (71 per cent) agree that there should be restrictions on how many boards a director can sit on, with 54 per cent saying the limit should be three to four boards. The majority of respondents (84 per cent) also agree that there should be a limit on the length of time a board member can serve for. Thirty-six per cent think the limit should be six to nine years, and 23 per cent think it should be 10 years.

Overboarding can be a key governance risk. When a board member holds too many board positions, there is a chance they may become ineffective. When they hold a position for too long, they may lose their independence.[1] The central challenge is defining what we understand to be an overcommitted director.

Participants in our second working group were divided on this, with several arguing that the preferences of the survey respondents would be too restrictive for many directors and would call into question current compensation models. They argue that, to an extent, the correct approach to overboarding will depend on the unique mix of boards that each director sits on, and the combined time commitment involved. Because this will vary for each director, it could be an ethical challenge for the future board member to honestly reflect on whether they are overcommitted and take action to free up their time where necessary.

[1] See the discussion in ASX Corporate Governance Council 2019, Corporate Governance Principles and Recommendations, 4th Edition, ASX Corporate Governance Council, p 14.

Boards face a challenging future

The context that boards operate in is becoming more nuanced. There is increased focus on non-financial areas that are harder to define and measure. There is greater risk associated with failure to address ESG issues.

This means a new skillset is needed around the board table, which places greater emphasis on emotional intelligence and the ability to tackle issues that are not black and white. Boards will need to achieve a more diverse, possibly younger membership that is equipped to steer the organisation through the challenge of the coming decades to create long-term value.

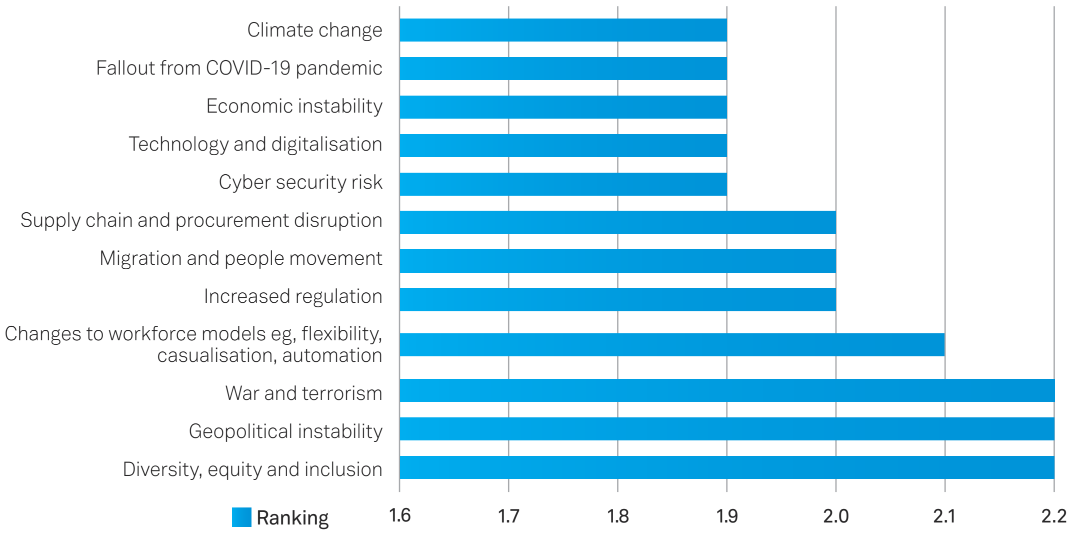
The public's expectations of business and what it is for have shifted: there is much greater focus on ESG issues. It is the role of the board to lead change in this area. Boards need to acknowledge the importance of ESG and related initiatives, such as the UN Sustainable Development Goals, and take action to ensure they are at the heart of decision-making and strategy. Doing so will create long-term value for the business and retain its social licence to operate.

Clouds on the horizon

Survey respondents were asked to rank the three issues they believe will have the most impact on society, and therefore on their organisation, by 2025. Climate change, the fallout from the COVID-19 pandemic, economic instability, technology and digitalisation and cyber security risk were all ranked equally as having the most impact by 2025. This demonstrates the magnitude of the challenge facing boards over the next four years, with significant and complex issues all high on the agenda and competing for attention.

The three issues that will have the most impact on society, and therefore your organisation, by 2025

(ranking from 1-3 where 1 is most important)



A range of issues will have an impact on society and organisations by 2025, with no one issue standing out.

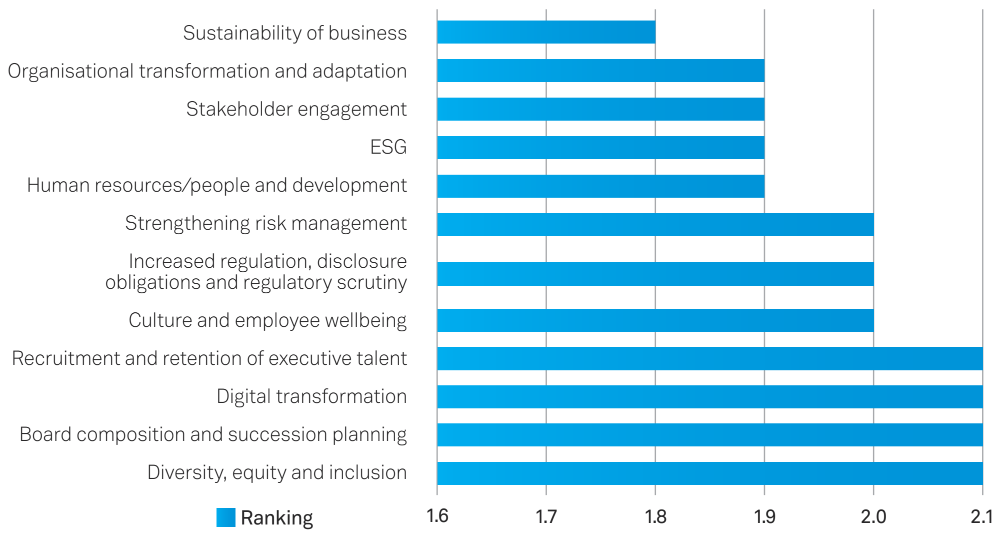
Climate change, fallout from COVID-19, economic instability, technology/disruption and cyber security risk are all ranked equally as having the most impact by 2025.

The clouds on the horizon that boards face are reflected in how survey respondents ranked the top three internal challenges that would be high on the board agenda by 2025. There was little difference in the rankings given to all 12 options available, showing how a testing future will translate into a broad range of internal challenges to be navigated by the board.

Sustainability of business was ranked as the most important internal challenge, reflecting how the issue of climate change is increasingly influencing the board agenda. Stakeholder engagement, ESG and human resources or people and development were all equally ranked second most important issues, reflecting the shift in perspective towards a more stakeholder-centric operating model. A fourth issue, organisational transformation and adaptation, was also ranked second most important to the board agenda by 2025, demonstrating an awareness that an agile approach will be required to respond to the changing landscape ahead.

It is clear that future board members will need to understand the most pressing issues of the day and be able to translate them into action to be taken by their organisation. They will need to appreciate how the conversation about what business is for is changing and how their organisation can engage in that debate in order to remain relevant and therefore successful.

The top three internal challenges that will be high on the board agenda by 2021
(ranking from 1-3 where 1 is most important)



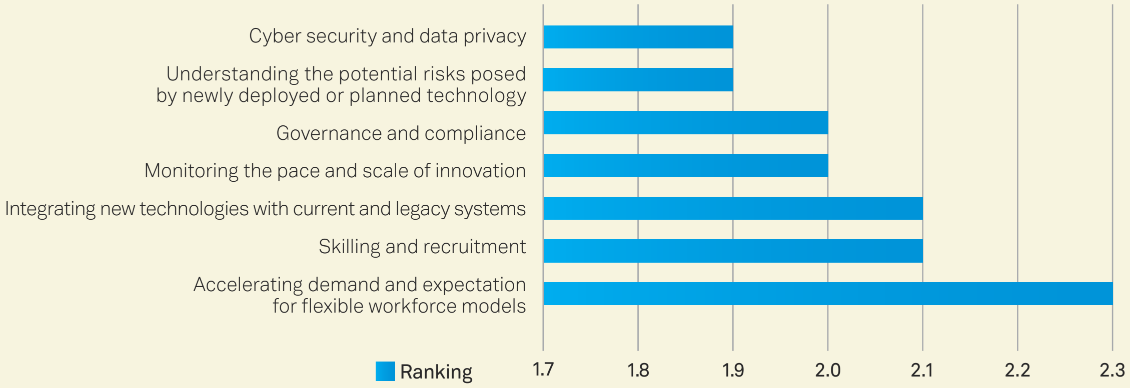
When it comes to internal challenges that will be high on board agendas come 2025, sustainability of business is #1.

Next, almost equal in importance, come organisational transformation, stakeholder engagement, ESG and HR/people and development.

Technological disruption

The COVID-19 pandemic accelerated digital innovation. This will be an area of competition in the future and therefore one that boards will need to understand so they can make strategic decisions about the role of technology in their organisation. Being able to innovate is an important skill for boards and their organisations to develop and will help them to retain their competitive edge. Survey respondents ranked digital transformation as the third most important issue for boards to spend time on in 2025 and technology and digital literacy as the third most important skill needed by a future board member.

The biggest challenges posed by technological disruption for boards in 2025
(ranking from 1-3 where 1 is most important)



Looking at the likely challenges posed by technological disruption in 2025, cyber security and data privacy is seen as the biggest issue along with understanding the risks posed by newly deployed or planned technology.

Governance and compliance and monitoring the pace and scale of innovation will be the next biggest challenges.

'The fact there is technological disruption is the greatest opportunity for companies,' Andrew Stevens.

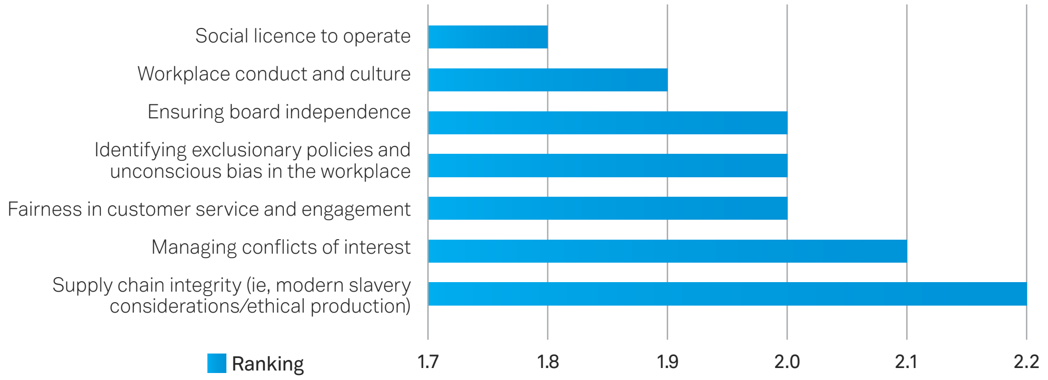
Survey respondents ranked cyber security and data privacy and understanding the potential risks posed by newly deployed or planned technology as the two biggest challenges for the board posed by technological disruption. This could reflect concern that digital adoption, out of necessity, was too quick during the initial stages of the pandemic, and the risks associated with new technology were not fully understood. This appears to be reinforced by survey respondents ranking governance and compliance and monitoring the pace and scale of innovation as the two second most important challenges associated with technological disruption.

However, it is also true that boards gained a much better understanding of technology during the pandemic, at a rate of change that would never have been possible in a normal operating environment. This has put boards in a much better position to assess the future risks and opportunities associated with technological disruption. It seems unlikely that the pace of digital innovation will slow as the pandemic eases, so it will be important for future boards to apply what they have learnt during this period to their future strategy for managing and implementing digital innovation.

ESG and social licence to operate

Survey respondents ranked social licence to operate as the top ethical challenge boards will face in 2025, followed by workplace conduct and culture. This reflects a growing public expectation that businesses take account of the interests of the communities and the wider society in which they operate. There is increasing focus on how organisations treat their employees, their supply chains and the communities in which they operate - how they earn their social licence to operate. These sorts of ESG issues will dominate boardroom discussions in the future.

The challenges for board directors in 2025
(ranking from 1-3 where 1 is most important)



When asked what will be the key ethical challenges in 2025, social licence to operate is number one, followed by workplace conduct and culture.

Ensuring board independence, identification of exclusionary policies and fairness in customer service/engagement are also seen as likely to be important.

'I think the issue around social licence to operate is a big one.' - Peter Hearl

Our second workshop discussion covered the importance of ESG and social licence to operate. 'I think the issue around social licence to operate is a big one,' says Peter Hearl. He describes a rapidly changing ESG landscape in which the correct focus for the board continues to change. For Peter, these kinds of issues include stakeholder responsibilities coming out of the financial services royal commission and climate change activism. He believes it's important that the board remains alive to current thinking.

Andrew Stevens agrees, 'this (ESG) is not some fringe, marginal thing,' he says. 'This is [of] major significance now.'

Peter adds, 'I've seen a seismic change in the way boards think, act and behave over the last four or five years.' He reflects on the shift in focus from creating shareholder wealth to embracing all stakeholders and delivering the best outcomes for the community in which an organisation operates. For Peter, the social licence to operate is a tangible asset that needs to be protected.

'This (ESG) is not some fringe, marginal thing. This is of major significance now' - Andrew Stevens

Participants in our first working group agreed that most boards understand how their social licence to operate is linked to successful engagement with all their stakeholders. They also observed that, increasingly, there are tangible consequences for boards that do not recognise this. They argued that a lack of ESG-awareness led to the recent royal commission investigations in certain sectors. In light of these observations, boards need to have more open discussions about ESG issues.

Greater regulation means more accountability

The understanding of what it means to be a board member is changing as greater regulatory accountability is being placed on individual board members.

Directors already face strict penalties for contravention of their obligations under the *Corporations Act 2001* (Cth), including the possibility of imprisonment and/or a large fine. There is potential for significant fines or imprisonment for a director who breaches their duties under the *Workplace Health and Safety Act 2011* (Cth), or the anti-bribery provisions contained in the *Criminal Code Act 1995* (Cth). Directors can also be held personally liable for a breach of relevant environmental legislation, consumer law or taxation law. This is in addition to their duties and responsibilities under other statutes and at common law.

This is already a lot of responsibility for an individual director to take on. In addition, we are beginning to see new reporting requirements that are aligned with the rise of ESG issues. For example, the new modern slavery reporting requirement.[2] So far, the consequences of not fulfilling this requirement are limited to publication of the organisation's identity and information about its non-compliance, which could cause significant reputational damage. It is worth bearing in mind, however, that as society places more value on ESG issues, the reputational fallout associated with non-compliance in these areas could be as damaging as financial penalties.

As the importance of ESG grows, it seems likely that more obligations relating to these areas will be placed on directors. This will alter the essence of what it means to be a director and the risks that come with taking on a board position. Will this make the role less attractive and therefore make recruitment of new board members more difficult?

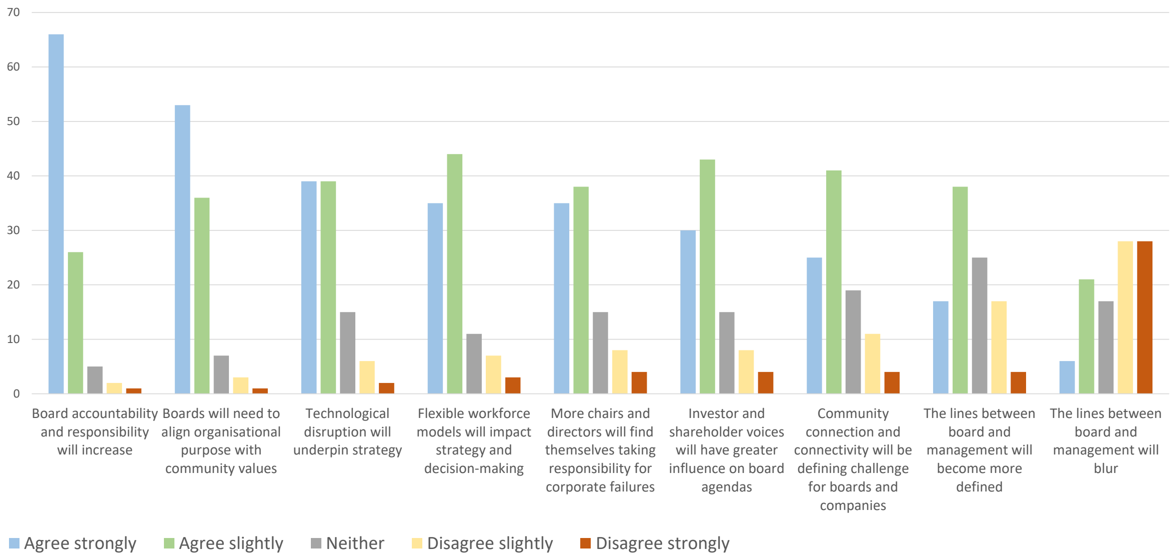
[2] Introduced in Australia on 1 January 2019 when the *Modern Slavery Act 2018* (Cth) commenced. The Act requires Australian entities or those which carry out business in Australia with a minimum annual consolidated revenue of $100 million to report on the risk of modern slavery in their operations and supply chain, including their owned and controlled entities, and outline the steps they have taken to manage those risks.

How will boards respond to uncertain times?

Survey respondents were asked to rank how strongly they agree or disagree with a series of statements about how boards will operate in the future. Ninety-two per cent of respondents agree, of which 66 per cent agree strongly, that board accountability and responsibility will increase. This shows an awareness of the increased pressure that future board members will face. Eighty-nine per cent of respondents agree that boards will need to align organisational purpose with community purpose, showing how influential the ESG agenda will be and why it will be important for future board members to engage with the latest thinking on ESG.

The increasing focus on issues relating to the social licence to operate is further reflected in additional statements about the future that the majority of respondents agree with. For example, the majority of respondents agree that flexible workforce models will impact strategy and decision-making, that more chairs and directors will find themselves taking responsibility for corporate failures, that investor and shareholder voices will have greater influence on board agendas and that community connection and connectivity will be the defining challenge for boards and companies. These responses acknowledge the way in which working practices and public expectations have changed over the course of the pandemic and demonstrate an awareness that these factors will play a central role in the evolution of the board and the organisation it serves.

Beliefs about the future

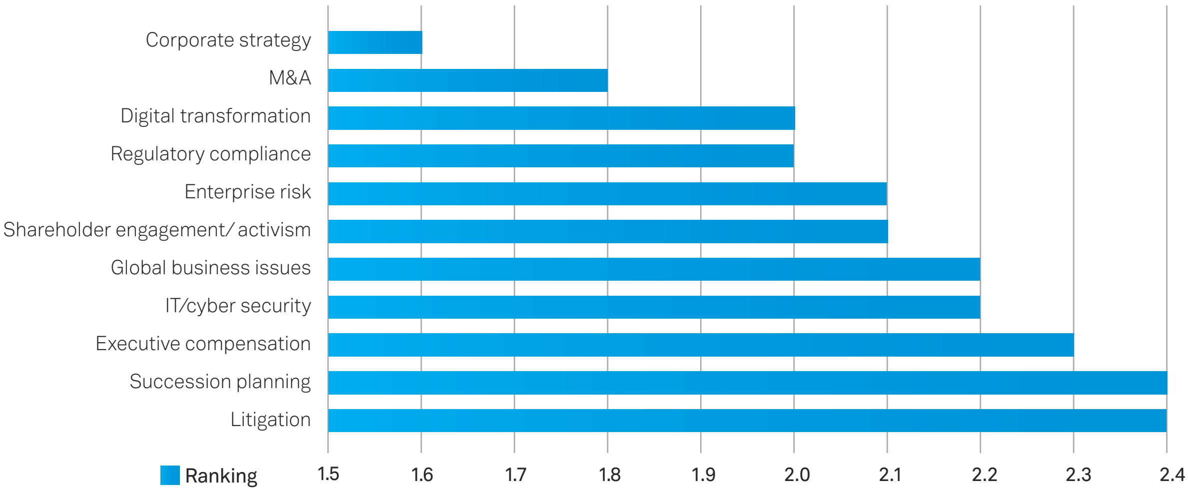


Interestingly, the shift in focus towards ESG issues is not fully acknowledged when it comes to how the board will allocate its time in 2025. Survey respondents ranked corporate strategy as the most important issue requiring the board's time in 2025. M&A was ranked second, with regulatory compliance and enterprise risk ranked fourth and fifth. This suggests boards will continue to allocate time to more traditional issues. Despite this, digital transformation is ranked the third most important issue for boards to spend time on, acknowledging an increased focus on this area, accelerated by the COVID-19 pandemic. Shareholder engagement/activism is ranked joint fifth. Given investor pressure on ESG, boards may have to reconsider this order of priorities.

Overall, future board members will face increased pressure from a variety of sources. They will need to balance their time between traditional issues and newer ones in order to address the concerns of all their stakeholders.

Participants in our second workshop acknowledge how important this balance will be. Andrew Stevens describes the competing interests that directors are juggling: opportunity and threat, planning for both the short term and the long term, thinking about compliance and wider ethical elements when making decisions, all while maintaining a connection with the community. 'That balance is key,' he says.

What will require the most substantial time commitment from your board in 2025?
(ranking from 1-3 where 1 is most important)



Corporate strategy and M&A will require the most time in 2025. Next will be digital transformation and regulatory compliance.

Learning from the COVID-19 pandemic

Survey respondents were asked, having been through a global pandemic, what boards should do to best prepare for future crises and major business disruption. The top answer was business resilience and continuity planning, followed closely by crisis management planning. This is a marked shift in emphasis on crisis management planning. It differs from the findings of the 2020 Governance Institute Risk Management Survey Report, carried out just as the pandemic was beginning to hit, where 39 per cent of respondents said they had not run scenarios around risk events. This demonstrates a key area of learning for boards coming out of the pandemic.

Respondents also emphasised the need for boards to focus on innovation and change management as a way of preparing for future crises and major business disruption. This acknowledges how the pandemic necessitated flexibility and how the ability to innovate helped organisations to cope with its impact. Human capital management and encouraging flexible work policies also feature highly: both examples of the kinds of innovation that have helped organisations navigate the pandemic and that will be critical to their success in future.

Strategy will play a central role

There is an overall sentiment from survey respondents that strategy will be a key area of focus and risk for the future board. This makes sense given the difficult issues the board will have to address. Survey respondents acknowledge that improving the ability to think strategically will be central to the board's ability to navigate the challenges of the coming years.

Survey respondents ranked strategy as the top skill or competency that future board members will need, and strategic and critical thinking were ranked the most valued attribute for future directors. Corporate strategy was ranked the most important issue requiring the board's time in 2025.

When it came to the board's educational priorities, strategic skills, such as the development of strategy, were ranked the most important for the board to learn more about. Survey respondents also ranked competitive strategy or market landscape as the most important area in which their board will need better information, processes and/or reporting to effectively oversee risk in 2025.

'There's a lot of focus on [the] strategic [theme], which to me drove a feeling... that there's so much disruption and change that the board really needs to be very involved in what to do, rather than necessarily how to do it.'
- Diane Smith-Gander

However, Diane Smith-Gander also highlights the response to the survey question, 'what do future boards need to focus on to prevent the risk of corporate failure?' She argues that if, in the future, chairs and CEOs will take responsibility for corporate failures, then future boards will also be deciding 'how' something will be done.

Participants in our first workshop argued that boards will need to initiate as well as govern and that boards should move away from a command-and-control style of operation and adopt more agile ways of working.

Future boards will need to reassess their ways of working to consider if they are fit for purpose in the new operating environment. Board members will need to develop strategic skills to equip themselves to face the challenges of the future. They will also need to consider whether traditional methods of governing are the most appropriate for steering their organisation through the clouds that lay on the horizon.

Board composition and succession planning

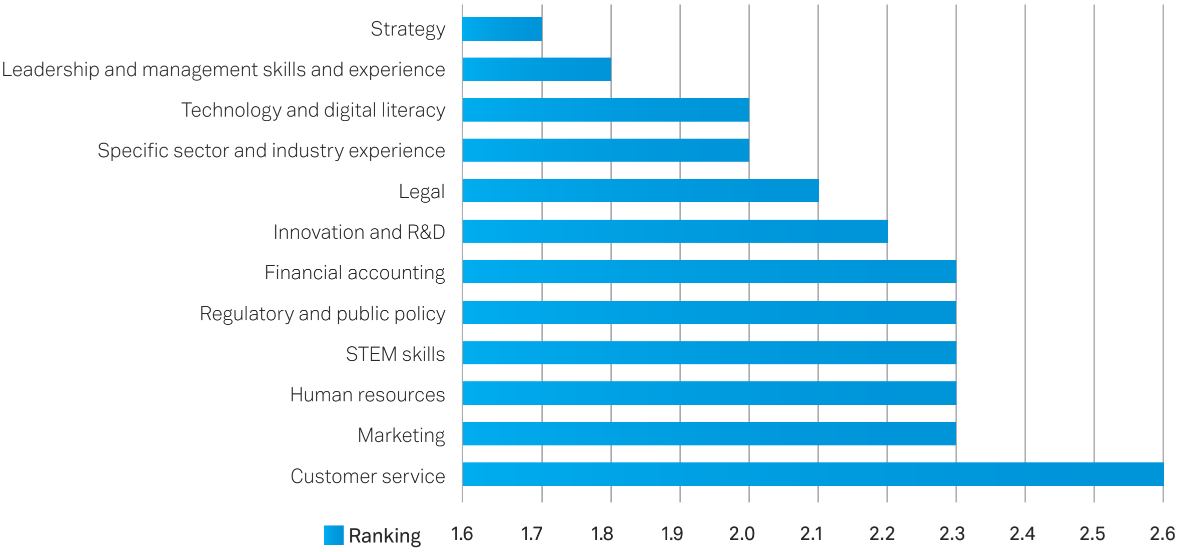
Board composition should reflect the broader role that directors now have. Boards will need people who are in tune with the issues of the day and the values of society. Board members will need emotional intelligence to help the board respond appropriately as ESG issues become more important.

Participants in our first workshop considered whether the board should set its own purpose as well as that of the company. Doing so could help it attract the right people whose vision is in line with that purpose. They also considered that a more diverse board membership could offer more challenge when decisions are being made. Therefore, it will be even more important for board members to develop emotional intelligence, to avoid discussions becoming polarised.

Survey respondents were asked to rank the top three skills and competencies future board members will need. Strategy was ranked the highest, with leadership and management skills and experience ranked second. This demonstrates that future board members will be valued for a skillset that goes beyond sector-specific experience, which was ranked fourth-most important. Ranking leadership and management skills the second most important skill for future board members indicates that the board will work more closely with management in future and will need the necessary skills to be effective in this capacity.

The top three key skills and competencies that future board members will need

(ranking from 1-3 where 1 is most important)



Strategy is the key skill that future board members will need.

Next come leadership/management skills and experience followed by technological literacy and sector specific experience.

Survey respondents ranked technology and digital literacy as the third most important skill needed by a future board member, indicating how technology will play a greater role both in how organisations are run and in how the board itself is run. This response also reflects a growing understanding that there will be a need for specific technical skills and experience on the board that go beyond those associated with the sector in which the organisation operates. A recent report from the Institute of Business Ethics – The Ethics of Diversity – highlights how 'the COVID-19 pandemic has added to the urgent need to have a broader range of expertise on boards to address global health issues… and in dealing with existing systemic risks such as climate change.' Alongside technology experts, the future board might include health experts, or climate and sustainability experts.

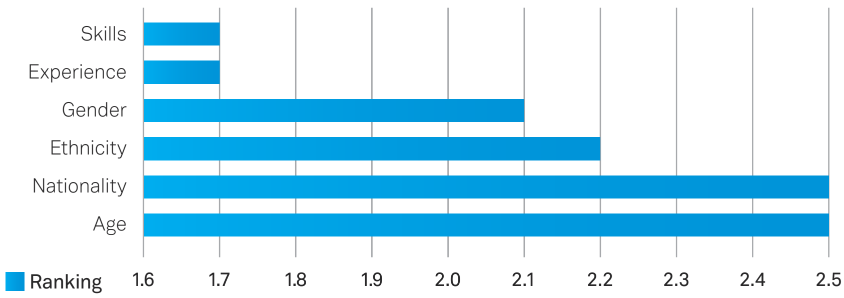
The recent 2021 Board Diversity Index from Governance Institute and Watermark Search International observes the beginnings of progress in this area. 'Though still proportionately at low levels, those with Technology, Healthcare and Property experience are starting to entrench themselves at board level,' it says.

Survey respondents were asked to consider what the most valued attributes will be for future board directors. Again, strategic thinking and critical thinking were ranked the highest, followed by values and ethics. The emphasis on values and ethics could reflect the way in which board-level decision-making is becoming more nuanced: it is increasingly important to do what is morally right as well as what is legally compliant. Directors with strong values and ethics will help boards to navigate this difficult terrain.

Diversity and inclusion

Survey respondents believe that skills and experience are most important when it comes to diversity and inclusion, ranking them above gender and ethnicity.

What is important when it comes to diversity and inclusion?
(ranking from 1-3 where 1 is most important)



Skills and experience are seen as most important when it comes to board diversity and inclusion.

They are seen as more important than gender and ethnicity.

It is worth considering how interlinked various facets of the boardroom diversity debate are. For some the most important goal is to achieve a diversity of lived experience around the boardroom table. This can enhance decision-making by ensuring a range of perspectives are heard, which also mitigates the risk of groupthink. This is sometimes referred to as cognitive diversity.

Making the boardroom more representative of the community in which the organisation operates ensures it is more in touch with its customer base and with society. This is vital to retaining a social licence to operate: when boards are not in tune with the public, they are more likely to make decisions that damage their contract of trust with society.

Participants in our second workshop agreed that skills and experience are the most important when it comes to diversity and inclusion. Peter Hearl argues, 'it's just an order of priority; they're all important.'

Their discussion framed the idea of skills and experience as looking as widely as possible for candidates that will bring the specific skills the board needs and thinking creatively about how to source and nurture talent. In this sense placing skills and experience above other areas of diversity such as gender or ethnicity reflects a desire to move beyond labels and groups to get the best candidates for the board from all areas of life.

Diane Smith-Gander argues, 'the board's got to be able to [ask], what are the skills and resources that I need access to?' She describes creating a board adviser role to provide specific expertise to the board and management as one solution where a skills gap was identified.

The discussion moved to the need for flexibility across boards and organisations to allow mid-career executives to take time out of their executive positions to sit on a board, as well as considering different tenures for these kinds of positions.

'We're talking about innovation and investment in human beings, in a generational change.'
- Charles Prouse

Working group member Charles Prouse observes that as leaders, board members are required to innovate and think about the broader society. To achieve boardroom diversity in all its aspects, you need innovation. 'We're talking about innovation and investment in human beings, in a generational change,' he argues. Investing in the next generation of talent will inevitably feed the talent pipeline that will populate the boardroom of the future. 'It's about the broader societal remit you have as leaders,' he argues.

Gender diversity

The progress made in getting more women onto Australian boards shows that it is possible to change board composition. The 2021 Board Diversity Index found the total number of board seats occupied by women has increased by 60 per cent since 2016 and the number of ASX 300 companies with at least 30 per cent women directors has tripled since 2016.

A variety of factors have influenced this progress. Australia is one of only three countries to have achieved the 30 per cent women on boards benchmark without quotas. A recent report from the University of Queensland, supported by the Australian Institute of Company Directors (AICD) and the Australian Gender Equality Council, titled, Towards Gender Parity: Lessons from the Past – Directions for the Future, identifies some drivers of this change. These include mentoring senior women, using targets and reporting and 'naming and shaming' laggards, particularly by the media. It also highlights the importance of advocacy from senior chairs and directors and the 30% club, as well as campaigning by institutional investors and industry superannuation funds.

Beyond gender: age and ethnicity

The diversity debate is now moving beyond the issue of gender to consider other areas of difference which, through being better represented at board level, will help businesses more accurately reflect the communities they operate in.

Speaking at our second workshop, Peter Hearl said it will be important for boards to take a chance on younger directors and consider different models for working with them to make the most of the value they can bring to the board.

According to the 2021 Board Diversity Index, only five per cent of ASX 300 company directors are under 50 years old. The youngest director is 27 and the oldest is 89. The report notes, 'though there are examples of very young directors… these are outliers. Youth at the boardroom table is still in the minority, even when defined as below 50 years of age.'

Older, more experienced board members can make the case for youth in the boardroom and work with the nominations committee to identify young talent. They also have a role to play in ensuring newer, younger board members understand what is required of them, in terms of both good governance and legal compliance.

The Board Diversity Index highlights that only 10 per cent of ASX 300 company directors are from a non-Anglo-Celtic background. Current trends suggest it will take a further 18 years for Australia's boardrooms to reflect Australia's cultural diversity.

Our second workshop discussion acknowledged the benefits of ethnic and racial diversity for decision-making. Better representation of women in the boardroom shows that change is possible. Future board members can use this example to advocate for better representation of ethnicity and race on the board. Doing so will ensure the board recruits from the broadest possible pool of candidates, which will give it access to the best talent. It will also help to mitigate groupthink and ensure the organisation remains engaged with its customers and with society.

Ripe for disruption: the non-executive director (NED) recruitment process

Participants in our first workshop considered it should be possible to recruit board members with no prior NED experience. They argued that we need to think differently about what qualifies an individual to hold a board position and that merit should be made clearer.

For example, recruiters should consider the mindset of the candidate as well as their background: are they predisposed to the ESG mindset that is becoming so important? They should also avoid a reliance on specific industry experience and think more broadly about the kinds of skills the board needs and how a certain candidate might fulfil those criteria.

The Institute of Business Ethics report, 'The Ethics of Diversity', notes 'the role that executive search firms play is critical in progressing diversity at the upper echelons of companies.' It is important that boards work closely with search firms to ensure they see the best candidates, demanding a review of shortlists and long lists if they feel they do not fulfil their specific criteria.

In the UK, Aldemore Bank recently appointed an apprentice board member. This an interesting model for allowing access to the boardroom so that an individual can gain the necessary skills and experience to take on a fully fledged NED position in future.

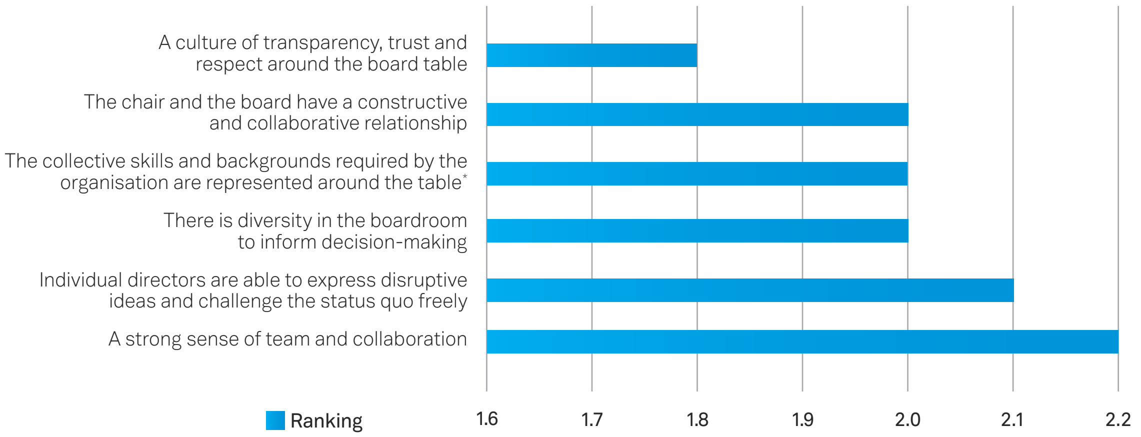
Board effectiveness

Survey respondents were asked what they thought would be the most important factors defining board dynamics by 2025. A culture of transparency, trust and respect around the board table was ranked the most important. Three factors were ranked second most important: the chair and the board have a constructive and collaborative relationship, the collective skills and backgrounds required by the organisation are represented around the table, and there is diversity in the boardroom to inform decision-making.

This demonstrates the important role that culture plays in board effectiveness and how critical the chair is in setting the tone for boardroom dynamics. These answers also suggest survey respondents understand the importance of diversity for improved decision-making. They seem to back up the idea that when survey respondents ranked skills and experience as the most important when it comes to diversity and inclusion, it was a matter of priority rather than preference, and that ultimately all facets of diversity are important elements of improving board effectiveness.

The most important factors defining board dynamics by 2025

(ranking from 1-3 where 1 is most important)



*lower amongst government respondents 2.5

When it comes to forming board dynamics in 2025, having a culture of transparency, trust and respect around the board table is seen as the most important factor.

Next, all equally important, come the relationship between the chair and the board, the skills around the board table and diversity in the boardroom.

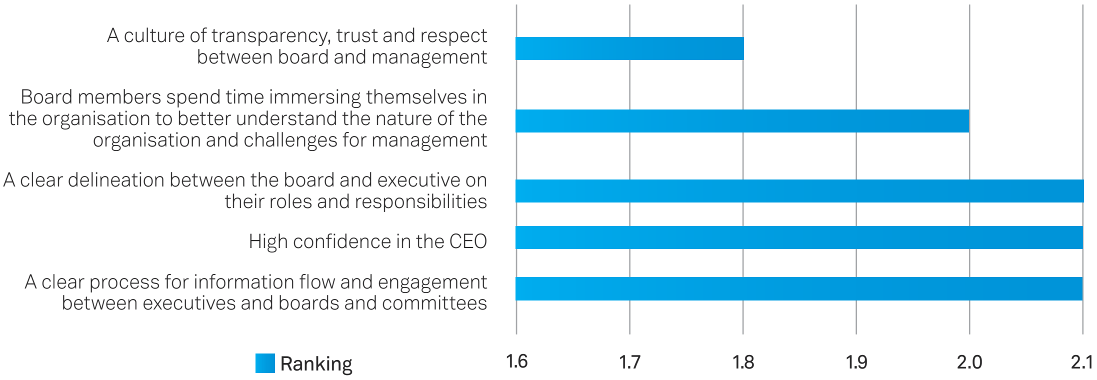
The board's relationship with management

Survey respondents highlighted a culture of transparency, trust and respect between board and management as the most important factor defining the dynamic between boards and management by 2025. They also feel it is important for board members to spend time immersing themselves in the organisation to better understand its nature and the challenges faced by management.

Some participants in our second workshop felt the lines between management and the board will be increasingly blurred in future as the two will collaborate more.

Peter Hearl argues this will be the case particularly when it comes to strategy, risk and execution.

The most important factors defining the dynamic between boards and management by 2025
(ranking from 1-3 where 1 is most important)



Transparency, trust and respect between board and management will be most important in defining the dynamic between boards and management by 2025.

There is also a belief that board members should spend time immersing themselves in the organisation to better understand the nature of the organisation and challenges for management.

Dottie Schindlinger describes boards and management working in tighter alignment during the pandemic so that, in some cases, 'the normally rigid lines between governance and management softened a bit.' For example, directors have helped management solve operational challenges, such as those created by disruption to global supply chains. She also says that directors have taken a more active role in supporting the mental health and wellbeing of the management team during the pandemic.

However, Diane Smith-Gander argues that the board and management will remain distinct because of accountability regimes, for example in financial services. She says that regulators are providing clear guidelines on what is expected of boards to support this distinction, for example ASIC's guidance note, 'Board oversight of executive variable pay decisions.'

For Peter the blurring of the lines between board and management is being driven by the increased focus of all stakeholders on 'an organisation's commitments to, and execution of, a range of ESG agenda items' and the potential reputational and class action risk associated with getting your ESG settings wrong.

Dottie agrees. She argues that an increased focus on stakeholder capitalism is motivating corporate leaders to take a stance on a range of environmental and social issues, which they are doing in a climate of increased public scrutiny. 'Knowing when to speak out, when to stay silent, which issues to champion, how to measure impact and what to disclose to the public – many of these are newer questions for companies,' she says. Addressing these questions requires alignment between NEDs and executives so that they can communicate clearly and consistently with stakeholders.

Dottie also argues that increased use of technology has created a culture in which stakeholders expect their problems to be resolved immediately. This runs counter to the traditional operating model of the board and means that the board and executive will need to be aligned and in close communication so that they can keep pace with expectations.

However, closer collaboration between the board and management does not mean the board will become involved in day-to-day management. 'I don't believe there will be a softening of the discrete responsibilities of governance vs management,' argues Dottie. For her, directors should not seek to tell management what to do, rather they should seek to provide 'more immediate – and potentially critical – support at key moments.'

Diane agrees that the board will not take an active role in day-to-day management. She says that increased accountability means board members will have to demonstrate they have 'a very strong understanding of the business operations and therefore be in a place to understand (among other things) risk triggers and measure them, set an actionable risk appetite and examine any breaches to make course correction.' This echoes the survey respondents' emphasis on board members spending time immersing themselves in the organisation to better understand its nature and the challenges faced by management.

‘It is about the board creating a framework that directs management to make day-to-day decisions.’
- Diane Smith-Gander

For Dottie, a closer relationship between the board and management will be beneficial when there is agreement on who is responsible for what. While it is not the role of NEDs to become involved in day-to-day business, management should recognise the board as a strategic asset that can bring fresh perspectives, as she puts it, ‘looking from the outside in.’

Future board members will work more closely with management, but they will need to understand where their role ends and where the role of management begins. A well defined relationship between the two groups will help the organisation effectively engage with the ESG agenda, as well as enabling it to be more responsive to operational challenges.

The board and culture

There is a lack of clarity about how to define organisational culture, how to measure it and how to improve it. Traits such as honesty, transparency and integrity are so critical but so difficult to define. Boards seem to understand that culture is linked to strategy and how effectively that strategy is implemented. However, there is a disconnect between understanding this in theory and implementing it in practice.

The lack of metrics for measuring organisational culture echoes a frustration over a lack of agreed metrics for measuring many areas that come under the social aspect of ESG. In some ways, the environmental aspect more readily lends itself to measurement of tangible factors such as carbon emissions. Social factors such as culture, employee wellbeing and even diversity are much harder to measure. Some organisations are beginning to develop guidance on reporting to address this problem. For example, the Climate Disclosure Standards Board is developing guidance for companies on ‘how best to report on social issues, in line with the recommendations of the Task Force on Climate-Related Financial Disclosures.’ These initiatives could give boards the tools they need to begin to understand the culture in their organisation.

Participants in our first workshop discussed the kinds of action the board could take to help it understand the culture of the organisation. They considered reporting to the board on these areas could be useful. This could take the form of employee surveys or having a people representative on the board.

Workshop participants also considered whether boards could be measuring the wrong factors. For example, there could be scope for the board to reflect on how it reacts to mistakes or poor decision-making and what those reactions tell it about the culture of the board and, by extension, the organisation. Are mistakes treated as a constant reminder of failure by certain individuals, or are they treated as a learning opportunity that in turn provides scope for growth and improvement?

Participants also highlighted the idea of ‘can’ versus ‘should’ becoming increasingly important to decision-making as society more often expects boards to go beyond legal compliance and think about the ethics of a certain action. Just because something is legal does not mean it is the right thing to do.

The importance of culture is echoed in our survey findings, which rate values and ethics jointly with governance expertise as the third most valued attribute for future board directors to have. Increasingly, future board members will need to consider the ethics of a certain action and question whether it is the morally right thing to do. This will be important both for steering the organisation in the right direction and for setting the correct cultural tone from the top.

The board's relationship with the CEO and the chair

Participants in our first workshop discussed the relationship between the board and both the chair and the CEO.

They argued that the appointment of the CEO is the most important decision the board makes: the CEO embodies the future the board wants for the organisation. They also believe that CEOs need support and direction from the board, and that boards should make sure that support is available. This is especially true in the current, uncertain times when CEOs and other leaders need help with resilience. Workshop participants argued that we see bad behaviour emerge when the CEO isn't supported. Equally, they felt that the CEO should see the board as a resource and not a roadblock.

Workshop participants considered that recovery from the effects of the COVID-19 pandemic might require different types of CEOs leading different types of organisations. For example, there could be a rise in founder-led companies, which bring with them different boardroom dynamics. Consequently, there could be demand for a different type of board member in future who is able to work well with a different style of CEO.

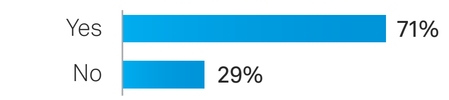
As boards become more diverse, the role of the chair as mediator of a range of different views and facilitator of effective decision-making will become even more important. The chair must create an inclusive culture in the boardroom that welcomes challenge and encourages those from under-represented backgrounds to speak and contribute. Creating this culture at the top can also set the tone for inclusion throughout the organisation.

Participants in our workshop argued that the chair should act as a mentor and coach to the CEO. The relationship should not be too close, however, because there needs to be scope for honest feedback from the chair to the CEO.

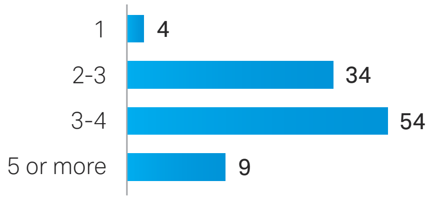
Managing overboarding: limiting tenure and board positions

Only five per cent of survey respondents sit on five or more boards; 29 per cent sit on one board and 23 per cent sit on two boards. The majority of respondents (71 per cent) agree there should be restrictions on how many boards a director can sit on, with 54 per cent saying the limit should be three to four boards. The majority of respondents (84 per cent) also agree that there should be a limit on the length of time a board member can serve for. Thirty-six per cent thought the limit should be six to nine years, and 23 per cent thought it should be 10 years.

Should there be restrictions on how many boards should a director should sit on?



How many boards should a director be allowed to sit on?



Average = three boards

The majority, 71 per cent believe there should be limits on the number of boards a director can sit on.

The average number that should be the limit being three.

Overboarding is a key governance risk. When a board member holds too many board positions, they may become ineffective. If they stay in position for too long their independence from the organisation could be compromised. The central challenge is defining what we understand to be an overcommitted director.

In its [Corporate Governance Principles and Recommendations](), the ASX Corporate Governance Council states, 'the interests of a listed entity and its security holders are likely to be well served by having a mix of directors, some with a longer tenure with a deep understanding of the entity and its business and some with a shorter tenure with fresh ideas and perspective.' It also comments that long tenure does not always compromise independence but recommends boards review whether directors have retained their independence once they have served for over 10 years.

The Australian Shareholders Association's position states, 'Companies should voluntarily adhere to tenure limits of no more than 12 years for independent directors and this should be formalised in board protocols and disclosed.'

Participants in our second workshop were divided on this: some felt the responses of our survey respondents were too conservative.

'If you had a world where people were limited in that way, it does call into question the current compensation model'
- Diane Smith-Gander

Diane Smith-Gander argues that limiting board directors to the extent suggested by our survey responses would undermine current remuneration structures. She says, 'if you had a world where people were limited in that way, it does call into question the current compensation model, because the [current] compensation model doesn't work for an environment that looks like that.'

Andrew Stevens agrees, adding, 'there's an assumption here that all boards are equal.' However, he argues that, in practice, directors could sit on a range of different boards, where 'some are relatively easy to operate in, in terms of the demand and the issues being faced, and some are quite complex.' For him, 'three (boards) would seem… to be very limited.' He also argues that sometimes it can take up to four years for a board director to be at their most effective.

However, Peter Hearl argues that 'for a medium or larger ASX-listed company, nine years is too long' for a director to sit on a board. He adds that, 'after about six years you start to not be relevant in terms of your skillset and your experience.' However, he doesn't feel as strongly about limiting the terms served by directors of a not-for-profit, private equity or unlisted business, which might require less of a time commitment and where it might be harder to recruit new board members.

'For a medium or larger ASX-listed company, nine years is too long [for a director to sit on a board.]'
- Peter Hearl

Peter agrees with Diane on the link between limiting the tenure and number of positions a director can take on with how NEDs are paid. 'The risk inherent in being a non-executive director is far greater than it was five or 10 years ago,' he argues, 'there's financial risk, there's reputational risk, and there's all manner of governance issues that go along with being associated with a publicly listed entity.'

For Simon Pordage, length of Director tenure should reflect the circumstances of the particular board, looking at its composition as a whole and the need of Directors to focus on the long-term success of the organisation. 'I'm quite comfortable with there being directors on a board for longer than management,' he says. While acknowledging the importance of Board renewal, he observes the potential disruption in having shorter terms for board directors that can create misalignment between the board and management and potential gaps in Board oversight due to a loss of corporate memory.

Given the different opinions of individual roundtable participants and survey respondents, it could be hard to implement strict universal limits on how many board positions a director holds, and for how long. It may be that the 'right' number of board positions for a director to hold will depend on the unique mix of organisations they serve, taking into account differing time commitments.

Defining whether the board is getting sufficient value from each of its directors could be a challenge for the future board to address. Perhaps this could be an aspect of the values and ethics future board members will need to have: to consider if they are truly able to give their best effort to all the boards they serve.

Remuneration

In their discussion on limiting director tenure and the number of positions a director can take on, second workshop participants established a link between limiting these two areas and remuneration. If a director role is well paid, it is less likely board members will seek out additional positions that could compromise their effectiveness.

A recent report by Aon and Governance Institute – 'Aon and Governance Institute Board and Executive Remuneration Report 2021' – echoes this sentiment. It states, 'Providing competitive and appropriately structured remuneration is one factor in attracting the right calibre of individual to building Board capability and effectiveness.'

Participants in our first working group discussion argued that the COVID-19 pandemic created a climate in which board and executive pay had to be rethought or altered to reflect the current circumstances. The findings of the Executive Remuneration report reflect this. It shows that uncertainty caused by COVID-19 at the beginning of the 2020-21 financial year led many companies to hold board and executive salaries at current levels or defer the timing of any increase. Fewer CEOs received a rise in fixed pay and those that did received less than usual.

Over the long term this review of board pay should go much further. For example, board and executive pay should be rethought in the context of the drive for greater diversity at board level. Board positions should not be reserved for the wealthy.

Despite recent pay freezes, there is still a feeling that CEOs in particular are overpaid and that this embeds inequality. Our workshop participants argued that directors need to think about what constitutes fair remuneration for a board-level position, or a CEO position, taking into account the level of responsibility and the demands of the role and benchmarking it against comparable roles. They feel it's time to move away from equity-based pay and short-term incentives. In addition, they argue that boards should consider employee-to-CEO pay ratios when setting CEO compensation. Discussion of board-level pay should be holistic, taking into account how it is treated at a not-for-profit, for example, compared to how it is treated at a corporate or listed company. There is also increasing support for taking into account ESG metrics such as diversity or climate targets when setting pay.

There is an opportunity to radically rethink remuneration. Higher pay for NEDs could be a factor in addressing overboarding and could help to recruit board members from under-represented backgrounds. More appropriate pay for CEOs and other senior executives could help to address inequality, rather than embedding it.

Digital board meetings

The pandemic necessitated that board meetings were run differently, and digital solutions were adopted quickly. Now there is scope to consider whether board meetings are run in the most efficient and effective way possible. For example, should the default be board papers, or should a digital alternative be adopted?

Using technology could offer those running the board meeting, for example the chair and the company secretary, more assurance that the necessary board papers have been received by directors ahead of a board meeting, so that directors can fulfil their duty to act with care and diligence. The benefits of a digital solution should be investigated to see if they offer, for example, a read receipt when documents are sent. Directors could consider whether it is quicker to send out digital board papers, which would allow more time for reflection ahead of the meeting, facilitating better decision-making.

One hurdle to making better use of digital solutions could be regulation and the way in which some companies are required to communicate with the regulator. Our workshop participants considered whether regulatory requirements stifle innovation in the way board meetings are held and in how decisions are recorded.

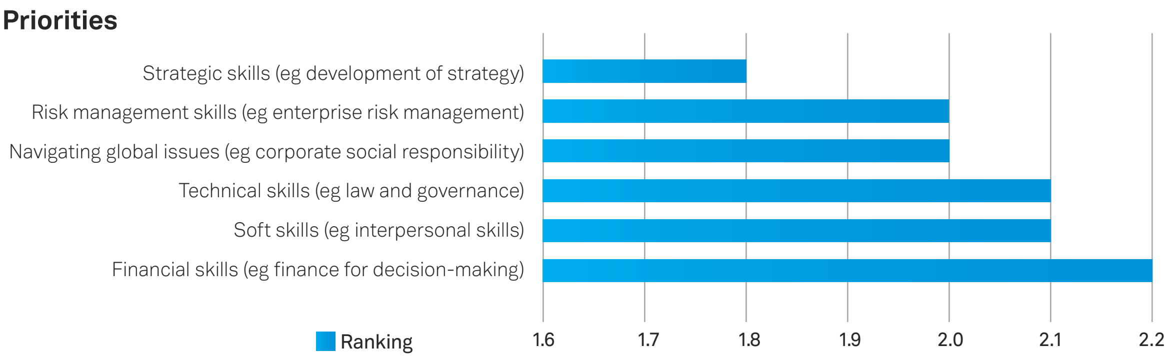
Currently all directors have to consent to the use of technology for holding a board meeting. In future, should this requirement remain, or could it be a hurdle to innovation if some directors are less willing to accept technology than others?

In some cases, decisions from the board meeting need to be communicated to a regulator, for example, ASIC or the ASX. Directors could investigate whether these bodies would accept digital communications, or whether they still need to be in paper form.

NED training

When asked what the board's educational priorities would be in the future, survey respondents ranked strategic skills, such as the development of strategy, as the most important skill, followed by risk management and navigating global issues such as corporate social responsibility. The majority of respondents believe continuing professional development is the most important way of acquiring and developing these skills.

Educational priorities for the board of the future
(ranking from 1-3 where 1 is most important)



The areas that should be priorities for education for the future board are strategic skills, risk management skills and navigating technical issues. CPD is the most important way of addressing these skills.

The survey asked about a range of skills that future boards could be educated about, which respondents ranked closely together in terms of importance. Placing strategic skills and the ability to navigate global issues high on the priority list for board education seems to reflect the need for future directors to move beyond technical skills to a develop a broader skillset, with a focus on non-financial areas of operation that are linked to global issues. That being said, technical skills were ranked as important as soft skills, such as interpersonal skills, and financial skills came closely behind these two. This could reflect the way our understanding of what makes a good director is evolving, as new candidates and existing board members will need to bring a mixture of soft and technical skills to the board table. This will ensure the board is the best equipped to tackle the unprecedented challenges of the years ahead.

Participants in our working group considered whether there is sufficient emphasis on NED training: are NEDs allowed enough time to learn how to be a NED? They felt that often the board does not take enough ownership of its training programme and that NED training can be dictated by the executive.

Working group participants also considered whether NED training should be reported on. Under the Corporations Act 2001 (Cth) directors are required to have an understanding of the company's activities and its financial position. Could there be a more formal reporting requirement around director education and training?

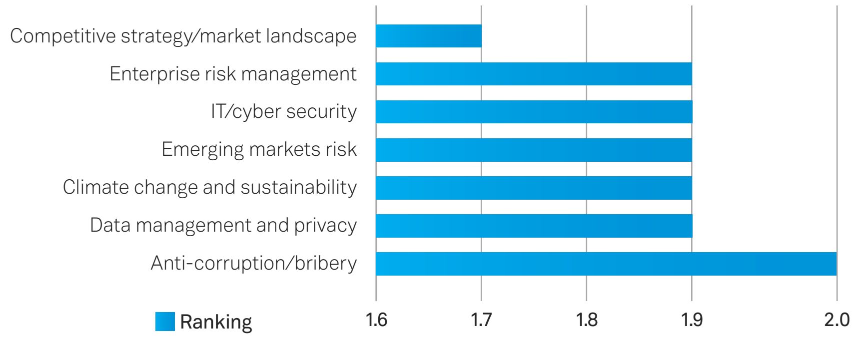
Future board members should be more proactive in setting the course of their training, seeking out a mixture of soft and technical skills that will equip them to take on the varying nature of the challenges that lie ahead. Technical skills do not need to be sector specific. NEDs should consider the benefits of more detailed learning in areas such as climate change, which will become central to decision-making.

Risk post-pandemic

Survey respondents were asked in which areas they feel their board will need better information, processes, and/or reporting to effectively oversee risk in 2025. The area of competitive strategy or market landscape was ranked the most important. This seems to reflect an overall sentiment from survey respondents that strategy will be a key area of focus and risk for the future board. This makes sense given the difficult issues the board will have to address. Survey respondents acknowledge that improving strategic thinking will be central to the board's ability to navigate the challenges of the next few years.

Where does your board need better information, processes and/or reporting to effectively oversee risk in 2025?

(ranking from 1-3 where 1 is most important)



Competitive strategy/market landscape is the area where boards will need better information, processes, and/or reporting to effectively oversee risk in 2025.

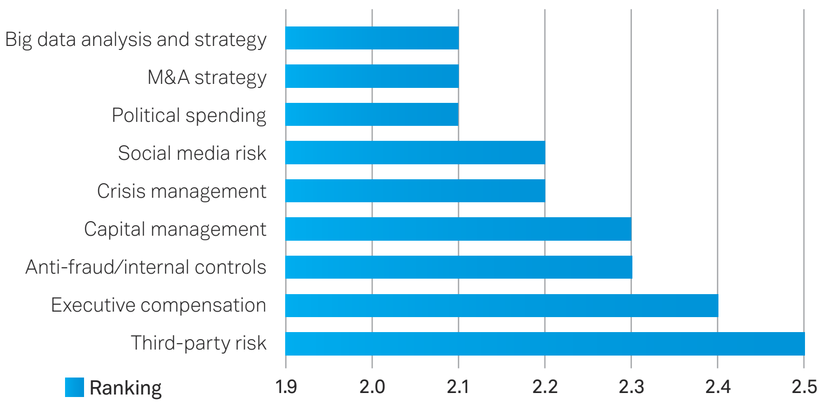
There is little differentiation across the issues highlighted, suggesting that boards will need to look at all of these areas when overseeing risk in 2025.

A wide range of additional areas of risk were ranked closely together, reflecting the difficult future landscape for boards: respondents seem to acknowledge there will be scope for boards to improve their understanding of most major areas of risk in the coming years. This suggests that when it comes to future risk management, the board shouldn't take anything for granted.

Some areas of risk that respondents ranked higher on the priority list for better information, processes and/or reporting could perhaps be considered newer areas of risk, such as cyber security, emerging markets or climate change and sustainability. It makes sense, therefore, that these areas would rank highly, because learning about them remains in its infancy.

Where does your board need better information, process and/or reporting to effectively oversee risk in 2025?

(ranking from 1-3 where 1 is most important)



These issues represent the second tier of areas where there is less need for better information processes and/or reporting.

Big data analysis, M&A strategy and political spending are of equal need.

Third-party risk is the area with the lowest level of need.

Given respondents' recent experience of the pandemic, it is surprising that crisis management is not ranked as a higher priority for improved risk oversight. However, perhaps respondents feel the experience of the pandemic itself has, by necessity, improved their board's approach to crisis management meaning it will not need to be a top priority over the coming years.

Executive compensation is not a new area of risk, but it remains in the spotlight. Survey respondents ranked it the second least important area of risk for boards to receive better information, processes and/or reporting on. Future boards would be wise to keep their eye on this area of risk, especially in light of calls for pay and bonuses to be linked to ESG, for example through sustainability or diversity targets. These are areas where the future board could benefit from engaging with the current debate to make sure its approach remains in tune with public sentiment, which in turn will make it less risky.

Risk versus opportunity

The idea of balancing risks and opportunities was a theme of both working groups. Participants in our first workshop observed that during the pandemic it has been possible to take a bolder approach to risk. Organisations and governments have taken risks they probably would not have taken before the pandemic and in many cases, they have paid off. Boards should learn from this experience and look to be more opportunity-focussed.

Working group participants argued that currently boards are setting their risk appetite too low by overemphasising threats and not giving enough consideration to the opportunities that come with risks. They feel this type of approach would not be suited to addressing the challenges the future board will face. They argue that the board should adopt a long-term, return-on-investment mindset when discussing risks and opportunities, taking calculated risks. They also observed that it takes courage to initiate the right conversations about risk and opportunity at the board table, with the data to back them up.

'There is [a] general view that boards, particularly in the listed space, are incredibly conservative and there's something about the way we apply our governance that is holding us back from success.'
- Diane Smith-Gander

Our second workshop discussion delved deeper into these themes. Diane Smith-Gander comments, 'there is [a] general view that boards, particularly in the listed space, are incredibly conservative and there's something about the way we apply our governance that is holding us back from success.'

Andrew Stevens argues that the board's mindset on risk can affect its overall strategy. He says, 'if you're looking at competitive strategy as an avoid-failure plan, your approach would be quite different to if it was saying, I've got to be a best-in-class performer in what we're doing to, on an ongoing basis, attract capital, retain capital and retain employees.'

For Andrew, 'there's an opportunity to reposition the board and the role of the director' as bolder and more willing to take calculated risks.

'There's an opportunity to reposition the board and the role of the director.'
- Andrew Stevens

Future board members will need to take a much bolder approach to risk management, being willing to take more calculated risks. They should be mindful that risks bring opportunities as well as threats and avoid over-emphasising the threats at the expense of realising the opportunities.

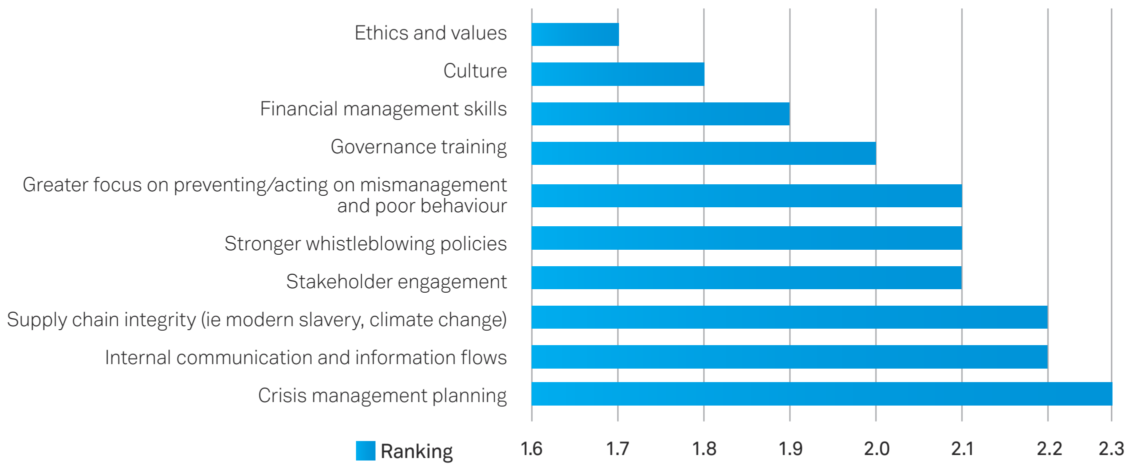
Corporate failure risk

Survey respondents rated ethics and values and culture as the two most important areas that boards need to focus on to prevent corporate failure, ahead of financial management skills, which were rated third most important. The responses reflect the growing importance of ESG: in order to avoid corporate failure, the board of the future will need to apply an ethical lens to its work. It will become increasingly important for the board to consider the moral dimensions of a certain course of action, as well as legal or compliance issues.

We have seen the tone of the conversation around corporate failure change in recent times as part of a wider expectation that boards take the views of all their stakeholders into account when making a decision. For example, proxy adviser ISS recently changed its voting policy to state that it will now view 'demonstrably poor risk oversight of environmental and social issues, including climate change' as a material failure of risk oversight of the same magnitude as committing bribery or being issued with large fines or sanctions. The policy could result in ISS recommending voting against directors for such failures. Actions such as this from influential bodies such as ISS confirm the materiality of ESG risk.

What future boards need to focus on to prevent the risk of corporate failure

(ranking from 1-3 where 1 is most important)



Ethics and values are what are considered most important in preventing corporate failure.

Next comes culture, then financial management.

Conclusion: a roadmap to success for future board members

Be in tune with the public

Future board members will need to understand the most pressing issues of the day and translate them into action to be taken by their organisation.

Embrace ESG

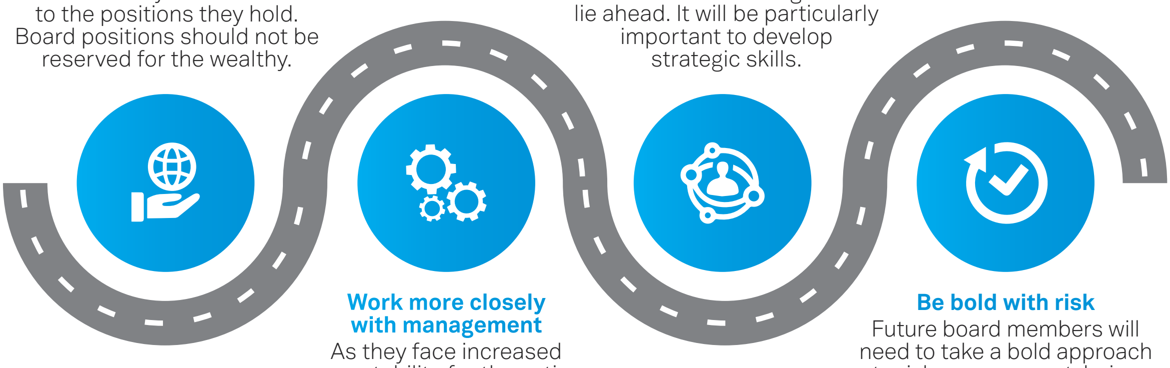
Future board members will need to be ready and able to discuss ESG issues, respond to changing ESG priorities, and embed ESG in their organisation's strategy. ESG will dominate boardroom discussions in the future - board members must acknowledge this.

Achieve balance under pressure

Future board members will face increased pressure from a variety of sources. They will need to balance their time between traditional issues and newer ones in order to address the concerns of all their stakeholders.

Know how to add value

Future board members will be valued for their ability to think strategically and to apply a ethical lens to decision-making. They will need strategic, leadership and management skills. They should recognise and promote the benefits of diversity of lived experience in the boardroom for improved decision-making and to mitigate groupthink.



Be honest about time commitments; seek out the right pay

Future board members will need to be honest about whether they have sufficient time to dedicate to each board they serve. Appropriate remuneration will be key to empowering board members to make the right decisions about the time they can dedicate to the positions they hold. Board positions should not be reserved for the wealthy.

Work more closely with management

As they face increased accountability for the actions of their organisation, future board members will need to be comfortable working closely with management. They will need to help management withoperational issues but not become involved in day-to-daymanagement.

Take control of your development

Future board members should be proactive in setting the course of their training, mastering a mixture of soft and technical skills that will equip them to take on the varying nature of the challenges that lie ahead. It will be particularly important to develop strategic skills.

Be bold with risk

Future board members will need to take a bold approach to risk management, being willing to take more calculated risks. They should be mindful that risks bring opportunities as well as threats and avoid overemphasising the threats at the expense of realising the opportunities.

Acknowledgements

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