Fit for the future?

Anna Bateson considers how boards can ensure that their members are those best suited to the task in hand.

The challenge

For centuries we have been reminded that if we travel down the same path we cannot expect to arrive at a new destination. So, in order to achieve different outcomes, business leaders need to think in different ways. This new thinking is required at board level and will allow board members to design and promote flexible business models which perform effectively in the rapidly changing business environment.

It can be difficult to accommodate different thinking in those boardrooms where tried and tested approaches dominate decision-making and behaviour is conditioned by past successes. Governance codes highlight these dangers, which can lead to complacency and 'groupthink'.

As each board reviews its structure, composition, behaviour and development plans, the challenge is to determine which new insights are required in order to be' fit for the future' and who can best contribute those insights to board debate.

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The new business world

All organisations, whether in the private, public or third sectors, seek to create value for their 'customers'. Understanding your customer and the marketplace in which you operate are critical board insights. It is only when armed with this information that boards can enable their organisations to create distinctive value propositions.

Leading Fast-moving consumer goods (FMCG) companies have identified five mega- trends which have significant implications for the way in which companies will deliver value to their customers in the future. Published in the 'Future Value Chain' report, these are as follows:

1. **Informed, expectant customers:** In a digital era, new customer technologies are driving different relationships and market dynamics. By 2020, a third of consumer purchases are expected to be made online.
2. **An ageing population:** By 2047, people under 15 years will be outnumbered by those over 60. There are implications for where and how products and services are marketed and delivered.
3. **Mass urbanisation:** By 2050, 70% of the world's population will live in cities. This will provide logistical challenges for city planners and drive the need for businesses to collaborate.
4. **Wealth:** By 2021 the global middle classes will have increased by 1 billion people. By 2030, 90% of the world's middle classes will live in emerging market economies. These changes provide growth opportunities for providers of goods and services. They could potentially drive commoditisation and also create significant pressure on limited resources.
5. **Conscience:** Sustainable resourcing is now a mainstream concern. By 2030, the global population is expected to reach 8.3 billion and pressure on water, food and energy will be significantly increased.

In meeting consumer expectations, marketplace dynamics are changing to recognise a number of key trends:

Globalisation: Increasingly organisations choose to create and deliver value in multiple geographic territories. Their value chains are often based on collaborating with credible 'local' partners.

Emerging markets: Adjacency to emerging markets shortens value chains and potentially reduces the costs of production.

Deregulation: Barriers to entry for many industry sectors have been reduced in order to increase competition and provide consumers with a better deal. The mobility of labour has also been enabled through deregulation.

Agile organisations

Organisational models deliver the capability which creates value for customers. New organisational models challenge conventional thinking that all factors of production must be owned and controlled. Boards should ask themselves critical questions about whether any new capability is required to address emerging trends, and whether that capability needs to be developed in-house, borrowed on a temporary basis or permanently acquired. In deciding the best course to take, the risks of each of these approaches should be considered.

Building flexibility into organisational design has been recommended by board advisors for several decades. However, in practice implementing agile thinking, as opposed to continuously restructuring, has proved to be complex. Boards have found that methodologies which focus on the concrete aspects of organisational models, such as structures and processes, can have a limited impact. Holistic organisational models, which also address intangible aspects of the business, such as culture, brand and reputation, have proved to be more effective in building a sense of common purpose across value chains and in enabling the organisation to adapt to changes in the business environment.

Effective boards work in partnership with their executives to build flexible organisational models to deliver their strategic objectives. The exchange and discussion of strategic and operational insights, contributes to an effective development process. These boards are visible and active in their sponsorship of the development process and consequently sustain its focus and momentum across the organisation.

New leadership

The changing business environment and the new organisational models it requires make different demands on boards. The board's words and actions are more closely observed by a wider range of stakeholders than at any

other time in the past. Each board member's roles and responsibilities are closely defined by a plethora of regulation and legislation, requiring directors to balance commercial imperative with ethical considerations; short-term performance with long-term stability. Increasingly boards are advised to bring diverse insights to their discussions in order to improve their decision-making and consequential organisational performance.

The 2009 UK Government report 'How diverse are boards and why?' established that most existing diversity data focused on gender. This issue continues to preoccupy politicians and business leaders globally. The 2011 Davies Report did not recommend the gender quota approach adopted by some countries, promoting an educative rather than legislative approach to increasing female representation on boards.

In January this year, Ernst and Young published its 'Mixed Leadership' study showing a five year trend linking female representation at board level with financial performance. The study involved Europe's 300 biggest listed companies by market capitalisation and highlighted the talent pipeline to Supervisory boards. Cranfield University's Female FTSE Board Report 2012, entitled 'Milestone or Millstone' regards 2012 as a step change in the number of women appointed onto FTSE 100 company boards and suggests that the Davies Report has provided a catalyst for this change. The report identifies companies which it considers are effectively addressing and improving the female talent pipeline to the board, such as Diageo.

True diversity

Factors such as gender and age are simplifications of the term 'diversity'. A richer definition recognises the different insights which individuals may contribute to discussion. In its *Guidance on Board Effectiveness,* published last year, the Financial Reporting Council (FRC) states that:

'An effective board should not necessarily be a comfortable place. Challenge, as well as teamwork, is an essential feature. Diversity in board composition is an important driver of a board's effectiveness, creating a breadth of perspective among directors, and breaking down a tendency towards groupthink'.

This sentiment is shared by Mary Francis CBE, Senior Independent Director at Centrica and Non-Executive Director of the Year, (Peel Hunt/Sunday Times Awards, 2011). She comments, 'being an effective director is not a gender issue; every director brings different strengths based on their executive and other experience. You don't get appointed to boards simply because you are clever and talented. It is about knowing what you can specifically offer. Non-executive directors (NEDs) must bring hard-edged skills and experience to the board table increasingly these days in areas such as risk and IT, not just finance.'

The challenge for chairmen and their boards is to effectively identify and take into account the diverse insights required by their specific board and to develop and implement effective succession plans in order to fulfil this need. The contribution of

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executive and non-executive members and the use of external advisors are all situationally dependent. There is no blueprint which can be universally applied, though common trends are emerging and a number of these relate to the pervasive impact of technology.

In 2005, Jack Welch, ex-chief executive of GE, forecast that the convergence of technologies such as biotechnology, nanotechnology and information science, would provide some of the greatest opportunities – and potentially some of the most difficult ethical dilemmas – for boards to consider. Seven years later, some of those ethical dilemmas are receiving significant media attention. Instant, global connectivity, the use of spyware and the impact of virtual communities are now all firmly on the agenda.

The PwC Annual Global CEO Survey tracks the increasing importance of, and focus on, technology, asking questions about the nature, level and purpose of investments. Last year's survey considered the 'ambidextrous nature of IT investments, made for both cost efficiency and growth' and considered how to leverage emerging innovations, such as mobile devices and social media, in order to differentiate products and services.

Alan Coates, an experienced Chairman and Non-Executive Director with a background in FMCG and the leadership of public private partnerships, highlights this important trend in boardroom debate:

'There has been a fundamental change in the marketing insights which are debated around the boardroom table. Conventionally these involved considering marketplace dynamics and the way in which the organisation's core proposition aligned with emerging demand. Developments in technology have a profound effect on many businesses, radically changing the way in which consumers and providers interact. As a result, boards increasingly need to understand issues such as the potential of social media as a critical part of the marketing mix.'

Finding the expertise to contribute to board debate on the potential and impact of various technologies may involve avoiding some of the common filters which apply to boardroom recruitment. 'Digital natives' have grown up in a very different technological environment from the 'digital immigrant' baby boomer and X generation business leaders who lead most boardrooms. As such, generational perceptions of upside and downside risk will differ significantly.

As with all experts, those who specialise in technology speak a distinctive language, which can easily confuse and antagonise their colleagues. Many of the insights they bring to boardroom discussion require new thinking and can fundamentally change business strategies and organisational models. Effective experts educate, guide and challenge the board on the context in which they need to perform. We refer to this skill as 'Situational Intelligence'.

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In 2000, Alliance and Leicester recognised the need to change its business and started to restructure its board. It recruited two new non-executive directors to bring technological insights to the board debate. Jonathan Watts, now President of Geo, reflects on how he contributed his telecommunications and information and computer technology experience to the board over eight years:

'We acted as catalysts to stimulate discussion within the board as a whole, challenging some of the long standing 'truths', which cleared the way for the organisation to determine how far and how fast they could travel towards the provision of real time online services. This was no small undertaking as it involved re-engineering the core systems at the heart of the bank with reputational damage being the key risk. Our contributions were at a strategic level, concerned with policy and architecture and we shared examples of how other organisations had taken advantage of current technologies in affecting managed change. We helped the board to establish which strategic options should be explored, partnership selection and how progress should be monitored. While we supported the executive, it was important not to interfere.'

Conclusion

There is no universal template for determining the diverse insights required to enable your board to lead your organisation into the future. Every organisation is different. Taking a strategic approach to resourcing determines the insights which will be needed, how they can best be provided and by whom. By deliberately attracting a diverse pool of candidates and ensuring you have a coherent and transparent appointments process you will optimise the chances of bringing the required insights to the boardroom. The chairman is responsible for ensuring these insights inform debate and board decision-making. Regular board review and effective succession planning will ensure that the structure and composition of the board remains relevant through time. ■

About the author

Anna Bateson is the founder of business consultancy 'Cutting Through The Grey' – www.cttg.org – and works extensively with boards and business leaders, addressing the challenges of leading strategic change and delivering governance. In collaboration with global expert, Dr Laurence Lyons, she researches, writes and consults on the development of 'Situational Intelligence™'. In collaboration with ICSA, Anna delivers strategic and influencing skills training programmes. Find out more at www.icsaevents.com.