

# National Director Conference 2017

14 June 2017

“Board's Roles in Connection of Culture,  
Risk Appetite and Strategy”

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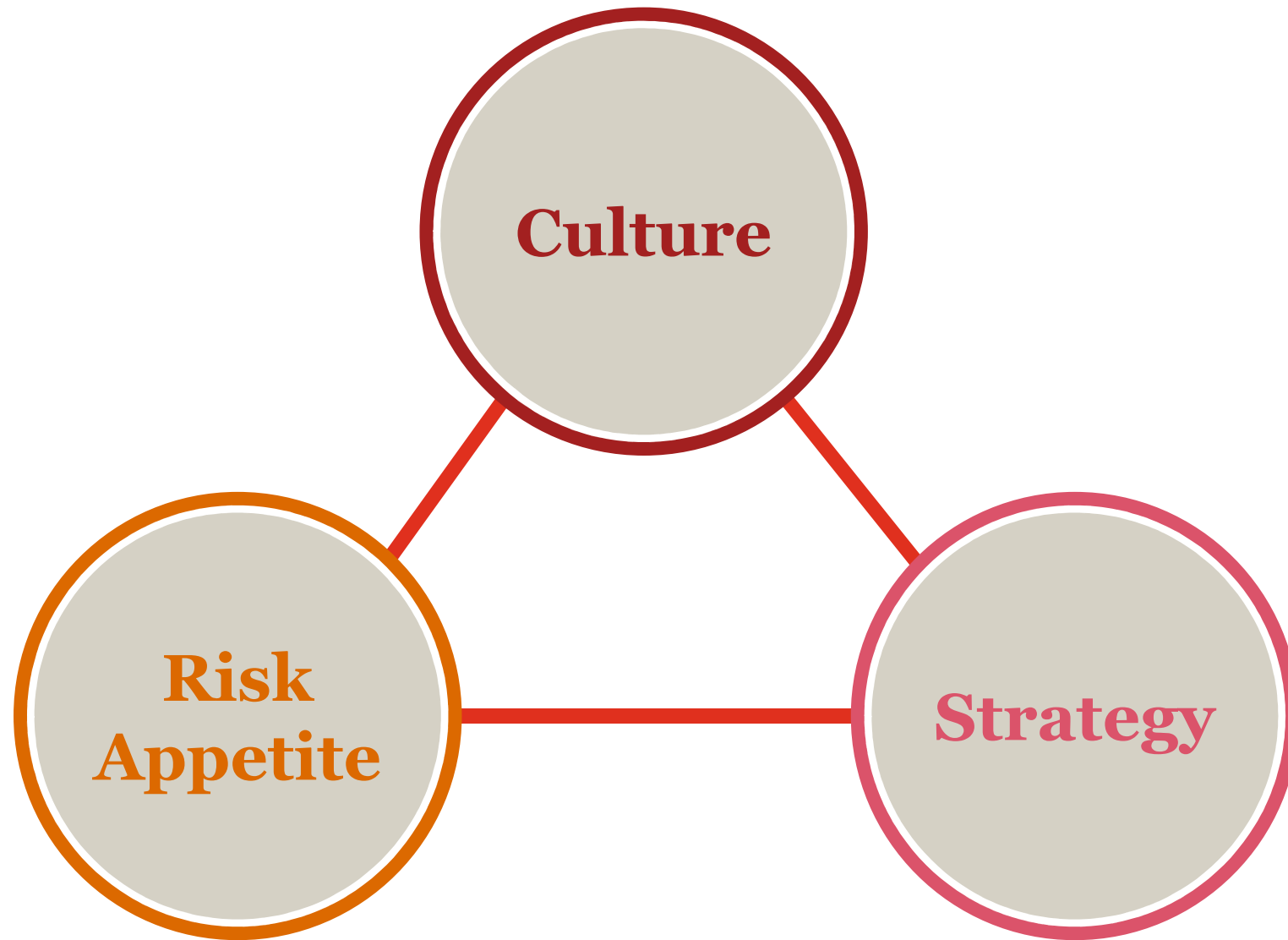
# Agendas

- Part 1**      Culture
- Part 2**      Risk appetite
- Part 3**      Enterprise risk management connects with strategy
- Part 4**      Take away

# *Culture*

**1**

# Introduction



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# What is Culture?

It's the set of common assumptions or beliefs in a company that allow you to predict how people will behave and what they will achieve.

Source: PwC, How your board can influence culture and risk appetite, February 2017

# Challenging of Culture

- Board presentations are carefully vetted and edited, and may not include all of the relevant issues.

- Patterns in whistleblower complaints may be explained away.

- Employees aren't necessarily driven by incentive compensation.

- Employee departures aren't clear when these go beyond "normal".

- Different parts of the company may have different cultures.

Since the risk of wrongdoing is never zero, directors have to be open to the possibility that things are going wrong.

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## Board's action

- Ensure the topic on culture is on the board's agenda.
- Ensure compensation plan is explicitly connected to risk-taking.
- Challenge management on risks they are taking during strategy and performance reviews.
- Review reports and trends from whistleblower hotlines, regulators and exit interviews.
- Get feedback in culture in private sessions with the chief audit executive and the chief compliance officer to see if they have noticed anomalies
- Discuss tone at the top with the CEO and other top executives.
- Take advantage of board meetings held at different company locations to do so.

# Room to improve board engagement with culture

## Directors report:



**68%** *discussed tone at the top*



**57%** *had directors interact more with members of management below the executive level*



**42%** *increased the time discussing risks embedded in compensation plans*



**25%** *evaluated executives' upward/peer feedback*



**15%** *discussed information from exit interviews*

Source: PwC, 2015 Annual Corporate Directors Survey, October 2015.  
Question: Which of the following has your board done in the last 12 months to reduce fraud risk?



# *Risk appetite*

# 2

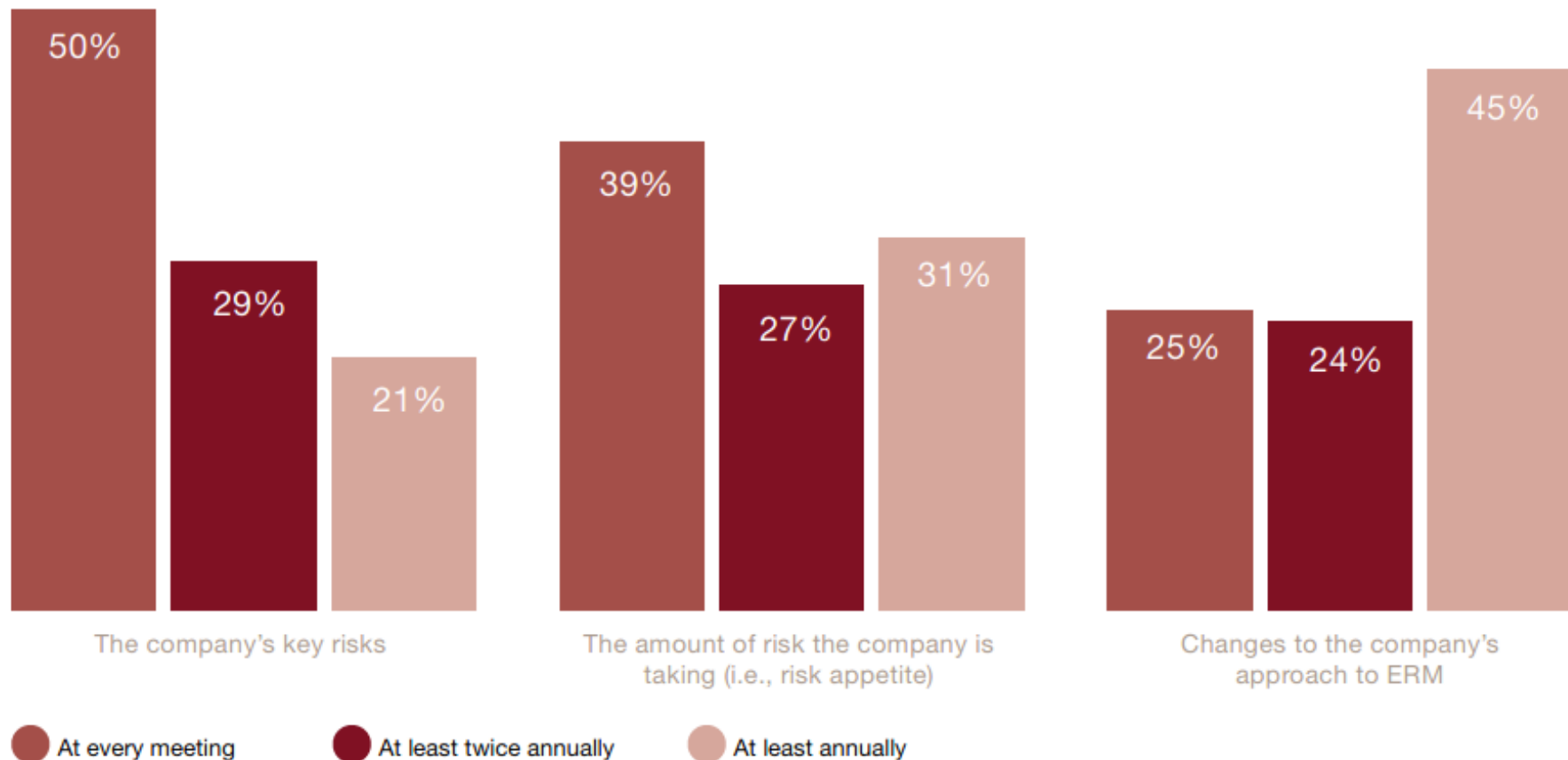
# Risk appetite

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Source: PwC, How your board can decide if it needs a risk committee, March 2017

# Boards get regular updates on the amount of risk the company is taking



0-1% of directors responded 'Don't know';

1-6% of directors responded 'Never'

Source: PwC, 2016 Annual Corporate Directors Survey, October 2016.

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## Board's action

- Review risk appetite regularly and make sure that it is aligned with culture.
- Encourage management to create a risk appetite structure that reflects the interaction of multiple risks.
- Recognize that management may need to revisit, refine and revise risk appetite as the company's strategy changes and as enterprise risk management evolves within the company.
- Ask management to notify the board when risk moves outside acceptable levels so directors can discuss the impact on strategy and performance.
- Hold managers accountable when people take risks that are well outside the bounds of the established risk appetite.

# Enterprise risk management connects with strategy

# 3

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# What enterprise risk management (ERM) is – and isn't

- ERM is the collection of capabilities, culture, processes and practices that helps companies make better decisions as they face uncertainty.
- It helps protecting value and creating value.
- It's most valuable when it's integrated with strategic planning.
- The best ERM programs allow companies to have both **risk agility** (can you quickly adapt to a changing environment?) and **risk resilience** (can you withstand business disruption?).

## Signs that management could improve the way it addresses ERM



Your strategy discussions focus only on opportunity without mentioning risk.



You get a laundry list of risks –no analysis, no connection to the company’s strategic objectives.



There’s a heavy focus on easily understood and discrete risks – such as financial reporting, compliance and/or operational risks.

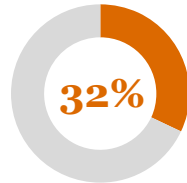


ERM doesn’t have visibility or creditability at the board or senior management level.

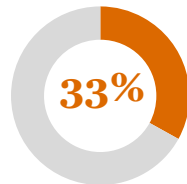


ERM discussions feel stale – covering the same risks every year.

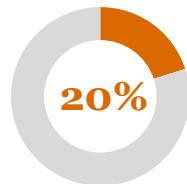
# How common are these elements at US companies?



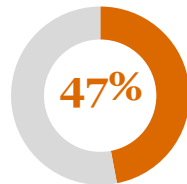
**aggregate risk against the company's risk appetite**



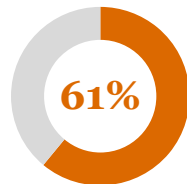
**organisationally align their risk management strategic planning functions**



**develop risk-related performance incentives**



**develop key risk indicators**



**identify and forecast emerging risks**



## Board's action

- Discuss with senior management :
  - how they have put ERM into practice
  - who's accountable for key risks
  - how ERM works at lower levels in the company
- Push executives for regular forward-looking, strategic input on emerging risks.
- Be clear on the kind of risk information you need from management and how often you want to see it.
- Given the complexity of how risks can offset or magnify each other, directors need to understand that context to recognize how strategy is affected.

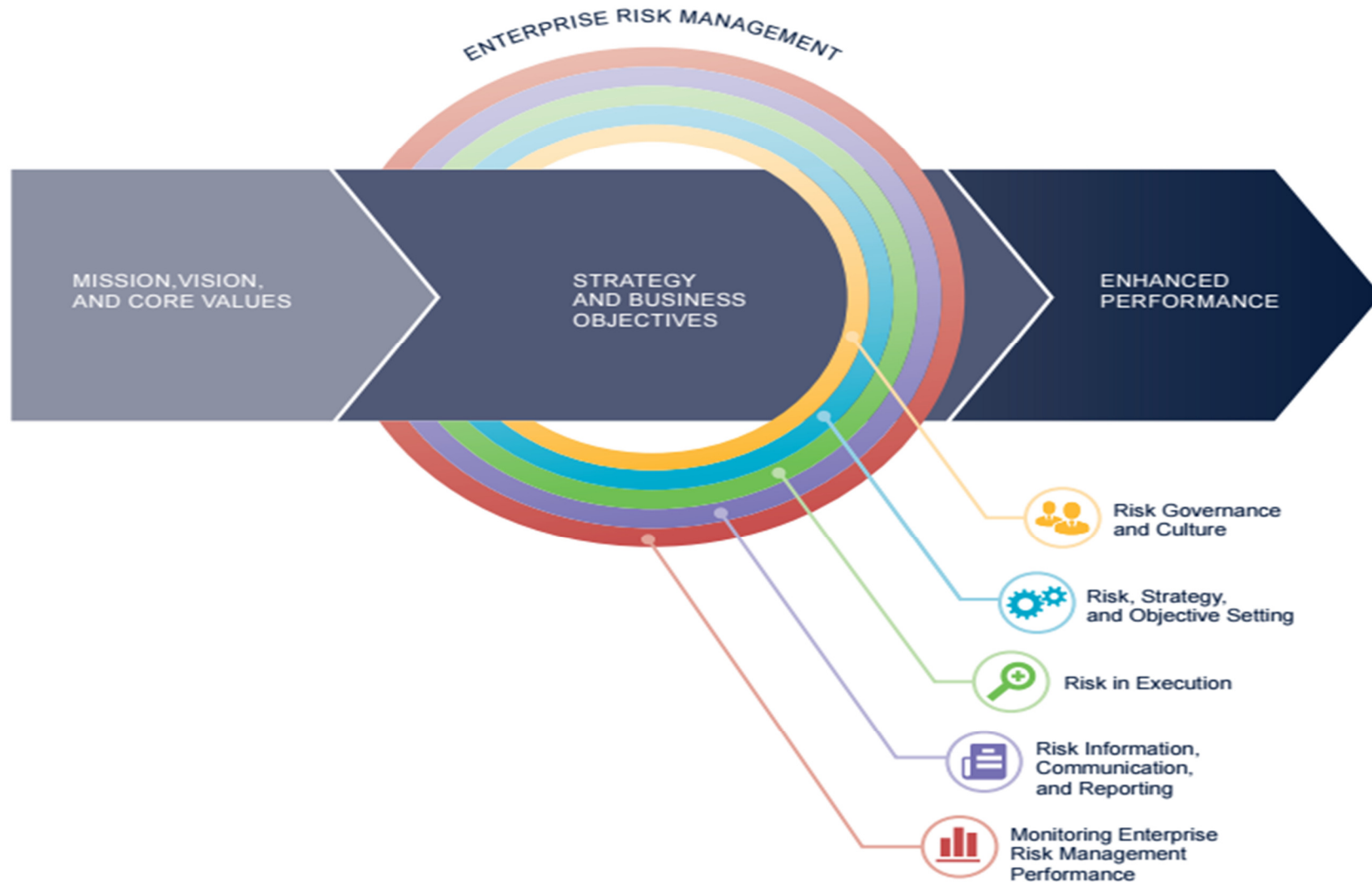


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# Take away

4

# COSO ERM, Revised – Coming soon



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# *Thank you*


If we can help in answering any of your questions or if you wish to discuss any information further, please contact:


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# Heidrick & Struggles

Getting your Board for the next decade:  
Building an effective and diverse Board

HEIDRICK & STRUGGLES

# Initial Statements

- ▶ The world is changing at a faster pace
- ▶ Asian companies have the ambition to expand regionally and globally
- ▶ Companies must adapt to survive – the Darwinism principle
- ▶ Building a strong Board is key to ensuring growth, profitability and sustainability

## Initial Statements

- ▶ The business environment is different in Asia compared to Europe or North America
- ▶ Family businesses represent the majority of companies in Asia
- ▶ Family businesses face specific governance issues

# Initial Statements

All companies – public or private,  
family-owned or not – MUST  
assess their Board efficiency



# Board Assessment - The necessary questions

- ▶ Is my Board aligned with my objectives and strategy ?
  
- ▶ Composition
  - Size
  - Diversity
  - Competencies
  
- ▶ Governance
  - Committee
  - Advisory Board

# Board Efficiency

- ▶ Understand and define the company objectives and strategy, as well as their impact on the Board
- ▶ Define the ideal Board size and composition to drive the most efficient business impact
- ▶ Review existing Board performances and make the necessary adjustments to face the challenges of tomorrow

# Board Efficiency

- ▶ Identifying required expertise and behaviours
- ▶ Evaluate Board effectiveness and performances
- ▶ Best Practice benchmarking
- ▶ Evaluate the relationship between the Chairman and CEO
- ▶ Define and implement new procedures and policies

# Board Efficiency

## 1. The structure and composition of the Board

- ▶ Right balance of backgrounds, specific experience and behavioral competencies
- ▶ Ability to interpret management's analyses and challenge effectively
- ▶ The right skills and perspective to carry out the terms of reference for committees

## 2. The degree of engagement with and understanding of company issues

- ▶ Effectively engaged with company strategy
- ▶ 'Presiding over' a strategy they do not fully grasp
- ▶ Understand competitive threats and strategic risks

## 3. The quality of the Board's operating processes

- ▶ Do the mechanics of the board to support its mission

# Board Efficiency

## 4. The relationship between the board and management

- ▶ Is this a productive partnership?

## 5. The quality of dialogue and interaction within the Board

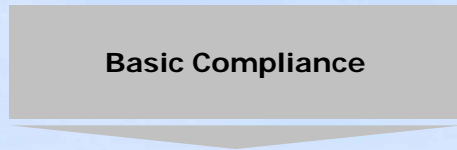
- ▶ Are Board and committee meetings productive?
- ▶ Do issues get aired quickly and discussed openly?
- ▶ Do Board meetings lead to concrete decisions and actions taken by management?

## 6. The personal contribution of each Director

- ▶ Does each Director bring all that he or she can to the Board?
- ▶ Beyond attendance, do individual Directors demonstrate commitment to the Board and to the company through careful preparation, effective questioning in Board meetings and incisive recommendations?
- ▶ Are time commitments for individual Directors clearly understood?
- ▶ Are these commitments honored?

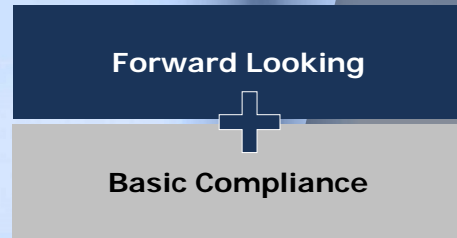
# World Class Board

## Foundation Board



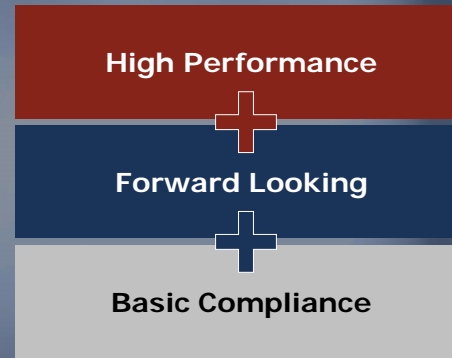
- ▶ Satisfy core governance and compliance requirements
- ▶ Define and implement key Board processes

## Developed Board



- ▶ Board members competences and capabilities are aligned with requirements of the company's 10yrs objectives
- ▶ Core technical capabilities and experience defined and brought onto Board

## Advanced Board



- ▶ High IQ and EQ NEDs, able to be forensic on arguments and engage positively with others
- ▶ Talent focused, mentor execs
- ▶ Global mindset & global networks
- ▶ Strong track record of growth
- ▶ Board skill gaps and succession regularly addressed

## World-Class Board



- ▶ Works as a team
- ▶ World-class insights
- ▶ In-depth knowledge on best practice but relentless focus on tomorrow
- ▶ Candid about development needs
- ▶ Diversity of views
- ▶ Live the values

Process driven

Behaviour driven

# World Class Board

The most effective Boards put substantial energy into managing their effectiveness and added value, ensuring Directors can challenge management effectively.

An important aspect of first-rate Board reviews addresses the personal contribution of each Director, and the quality of dialogue and interaction within the Board.

*Example: A recent review in a global high-technology company showed that while some Board members had a clear view of how the company sought to win in its key markets, others – especially those who had come from less technical sectors – were confused about this.*

*The review led to the Board establishing a strategy away day, and to preparing special briefings for members who needed more in-depth knowledge in the sector.*

*Example: A recent review in a global energy company showed that Directors tended to make comments based on their own perspective rather than building on other's comments, resulting in a somewhat disjointed debate and suboptimal decision-making.*

*We observed that although the consensual and 'loose' approach to facilitation was necessary immediately after a post-merger situation to create genuine team dynamics, a more directive and controlling approach to facilitation was now more appropriate.*

- ▶ Actionable recommendations may include recommendations for new Board member profiles, individual developmental plans for existing Board members, and changes to the governance structure and processes.
- ▶ Additionally, we can conduct individual coaching sessions with Board members as necessary.

# Diversity

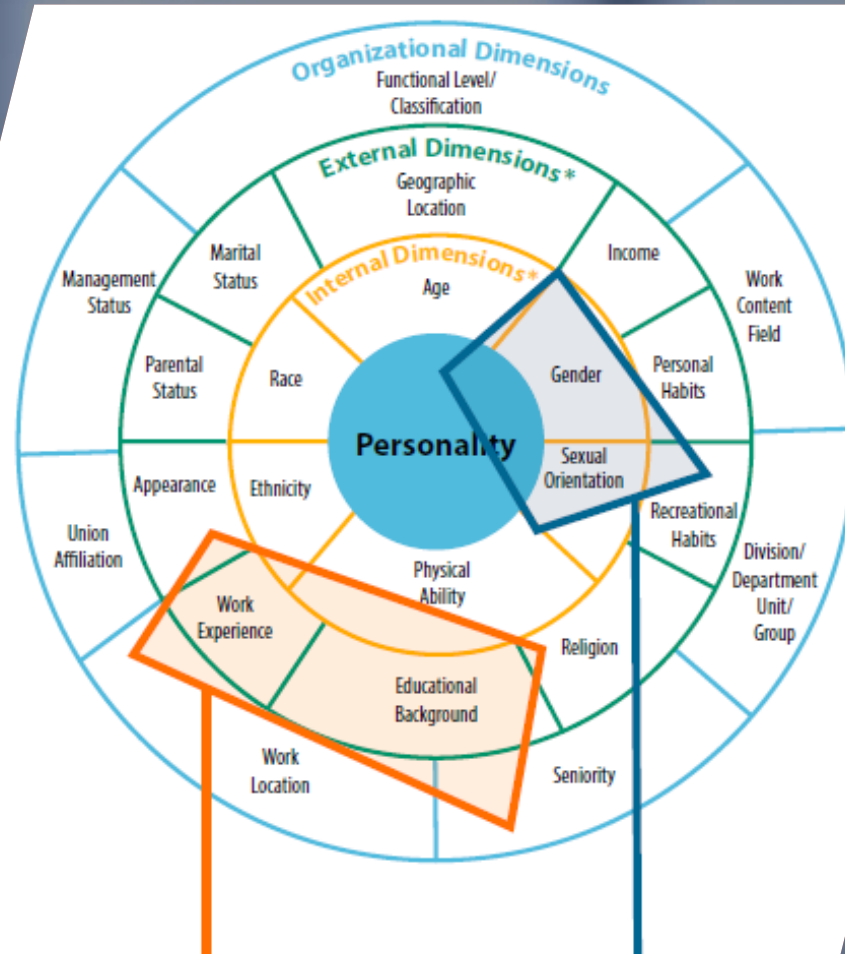
- ▶ What is Diversity?
- ▶ Why Diversity?



# Diversity

Diversity is much more than gender,  
work experience or educational  
background

# Diversity



Where H&S thinks these diversity aspects contribute greater value on building diverse thinking patterns and opinions

Where the usual aspects of diversity to be discussed

# Diversity

The power of diversity lies in taking a broader view that balances the internal and the external environments in assessing potential business issues and solve them more efficiently

## A Diverse Board

- ▶ Helps companies deliver better value to all their stakeholders, increase risk analysis capacity, improve the decision-making process and ultimately increase profit and sustainability
- ▶ Moves its role from regulatory gatekeeper to strategic advisor
- ▶ Is a necessary evolution since the world is transforming at a very fast pace

# Diversity – Family owned businesses

Diversity is more complex to achieve in family-owned businesses.

# Family Owned Company: The specifics

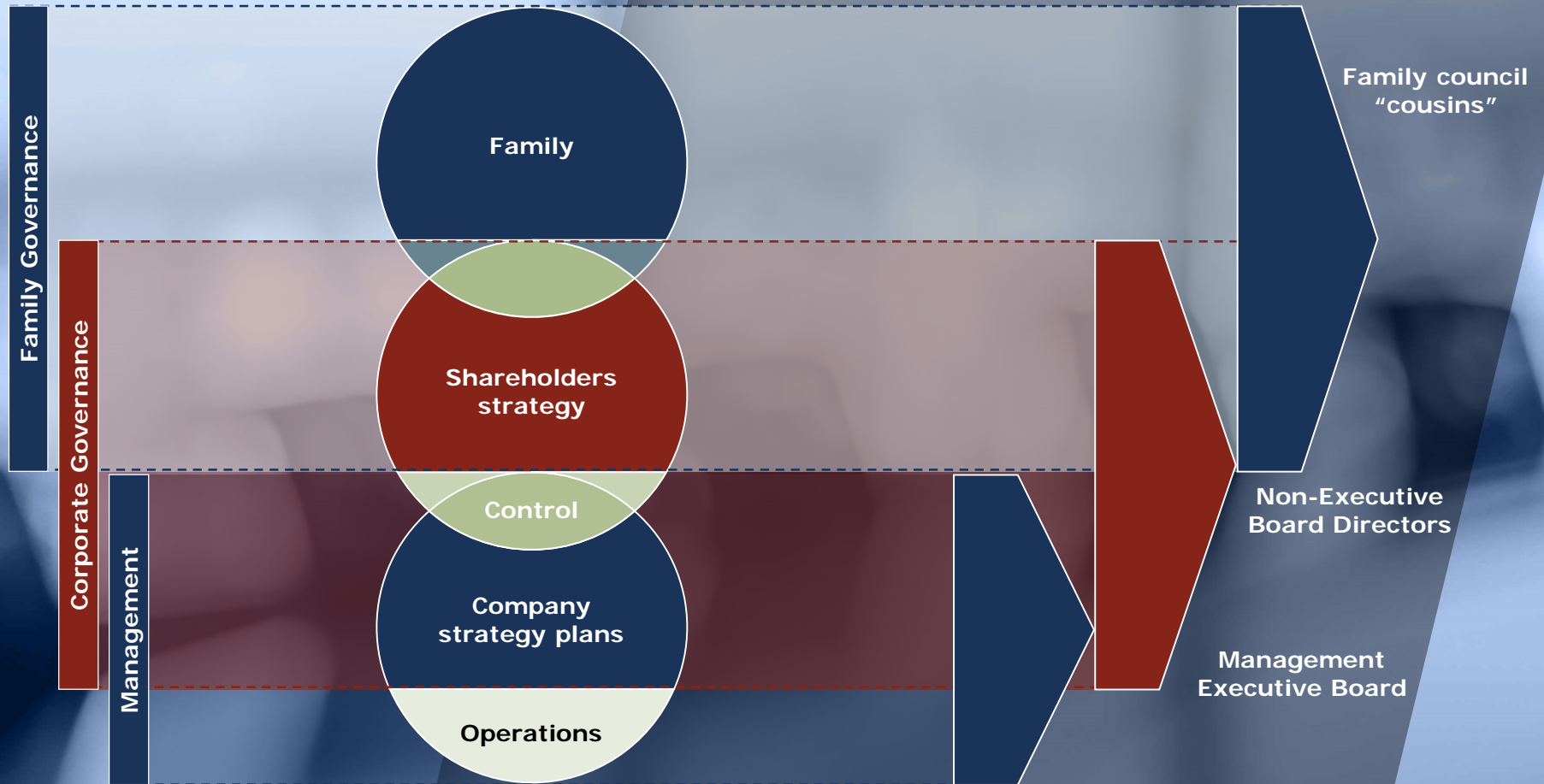
Corporate Governance Codes were designed to solve issues specific to publicly held companies.

# Family businesses face governance challenges too...



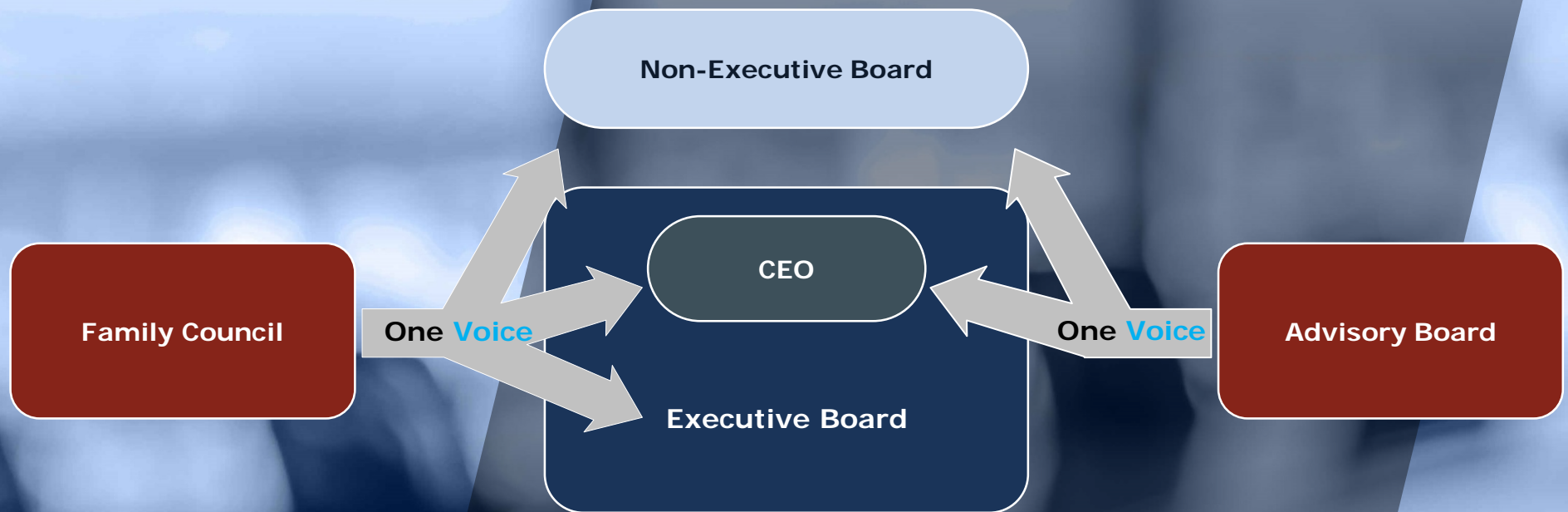
Corporate Governance as a "Family Affair"

# Family businesses face specific governance issues, calling for a specific governance structure





# Governance structure in family businesses



A formal structure to legitimize the governance structure

## Role of Chair

The Chairs have a key role to play in building and running an efficient and diverse Board:

- ▶ Define the strategic objectives of the company and how diversity should fit with the implications
- ▶ Must assess the board, and analyse all the gaps affecting performance and the capacity to assess risks
- ▶ Implement the board transformation – to avoid culture dilution and tension, this should not be done hastily

## Conclusion

Companies should move beyond compliance to effectiveness and performance. This should be done by improving diversity and competencies, and influencing behavior, in order to build an efficient and sustainable board.

Status quo is no longer an alternative

## CEO succession

In order to prepare for orderly and emergency CEO succession events, a Board must continually address four fundamental topics and be ready to move forward with, and defend their decision regarding the next CEO to lead the company.

# Fundamentals of CEO Succession

## Company Strategy

Where is the company today?  
Where will it be in the future?  
Is the Board aligned around the strategy and objectives?

What external talent is available?  
What are the risks of selecting an outsider?  
Is the Board familiar with the external talent?

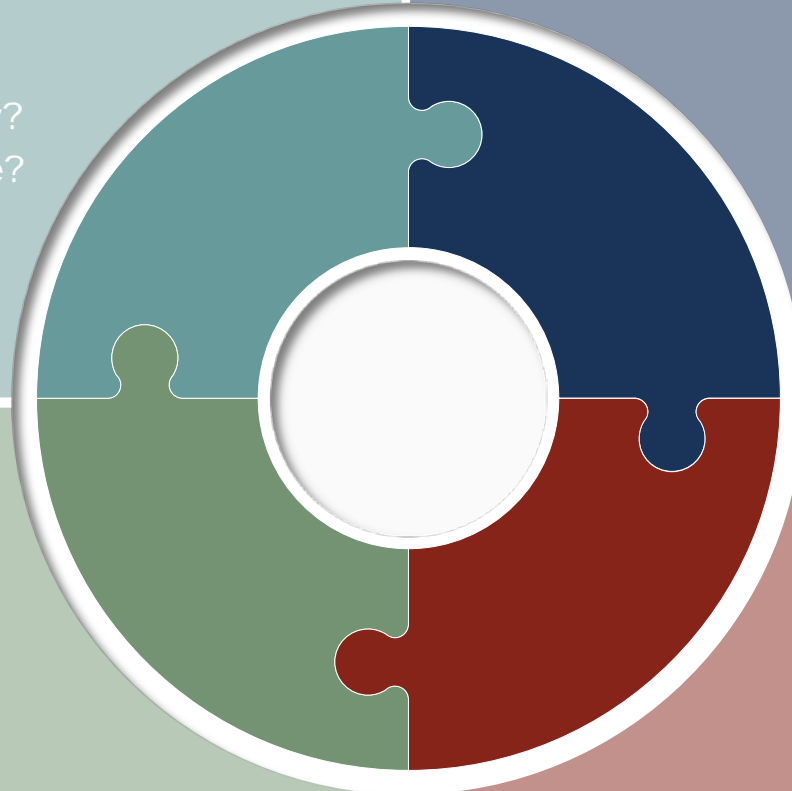
## External Market Analysis

## Future CEO Profile

What are the critical CEO experiences?  
What are the critical CEO leadership criteria?  
Is the Board aligned around the future CEO profile?

Which executives are interested and ready?  
What are the risks of selecting an insider?  
Is the Board confident in the internal talent to lead?

## Internal Candidate Assessment



## **Rule of Thumb:**

External candidates should be 1.5x better than the internal candidates to warrant the increased risk

## **Internal Candidate Considerations**

### **Benefits**

- ▶ Low risk of culture rejection
- ▶ Proven ability to operate effectively in the company's culture
- ▶ Management tends to have a deeper understanding of candidate's abilities
- ▶ Already knowledgeable about the company
- ▶ Continuity with external relationships (customers, analysts, investors, media)

### **Concerns**

- ▶ If the company is in need of a transformation, internal candidates may be closely linked to legacy strategy and culture
- ▶ Lower likelihood internal candidates will have prior similar managerial experience
- ▶ May create tension among 'ex-peers'

## **Rule of Thumb:**

External candidates should be 1.5x better than the internal candidates to warrant the increased risk

## **External Candidate Considerations**

### **Benefits**

- ▶ Frequently viewed as being more credible in leading new businesses and/or setting new strategies
- ▶ Will view the businesses (strategy, opportunities, talent, etc.) through a fresh lens, and can bring best practices forward
- ▶ Typically has a proven track record of successfully managing comparable activity

### **Concerns**

- ▶ Outside managers' integration in a new, strong culture is never straightforward
- ▶ Risk of turnover amongst executives not selected for the role
- ▶ Greater learning curve concerning businesses dynamics and challenges

# WHY GOVERNANCE MATTERS?

IOD Thailand

14 June 2017

Presented by Mervyn E King SC



# GLOBAL REALITIES

- ★ Changing times require changed approaches
- ★ Primacy of the shareholder, yesterday's thinking
- ★ From short term profit at any cost to value creation in a sustainable manner
- ★ Increased demand for product with a declining natural asset base
- ★ To be accountable reports have to be understandable

# OPPOSITION TO AN ARTIFICIAL PERSON

An individual with immortality lacks a soul to be punished by the Almighty,

Lacks a body to be kicked

Is a person without a conscience

“No soul to be damned and no body to be kicked.”

John Poynder 1844

Negative reaction by society to a person not being a creature of the Almighty

Limited liability statutes were passed in the middle of the 19<sup>th</sup> century

# INCAPACITATED PERSON

- ★ Young healthy individual, soul and heart in the body
- ★ Incapacitated of mind
- ★ Artificial person no heart, mind or soul
- ★ Directors become the heart, mind and soul
- ★ Content to a director's duties of good faith, care, skill and diligence

# “PRIMACY” – A SOCIAL CONSEQUENCE

- ★ Wealthy families provided the equity capital
- ★ Members of the families directors
- ★ Seen as “owners” of the company
- ★ Primacy of the shareholder developed
- ★ Public discourse of shareholders’ “ownership”
- ★ Short term profit for shareholders even at a cost to society and the environment
- ★ Free economy subsidized monetary gain
- ★ Focus on financial capital

# THE PRIMACY OF SHAREHOLDERS REINFORCED

- ★ The Dodge Brothers vs Henry Ford 1919 – minority shareholder
- ★ Ford wanted to use profits to pay better wages
- ★ Court ordered Ford to discharge its primary duty to shareholders and pay a special dividend
- ★ So thinking was directors had to act in the best interests of the shareholders - primacy
- ★ Corporate success was equated with share price
- ★ There was a focus on shareholder centric corporate governance

# OWNERSHIP MYTH DEBUNKED

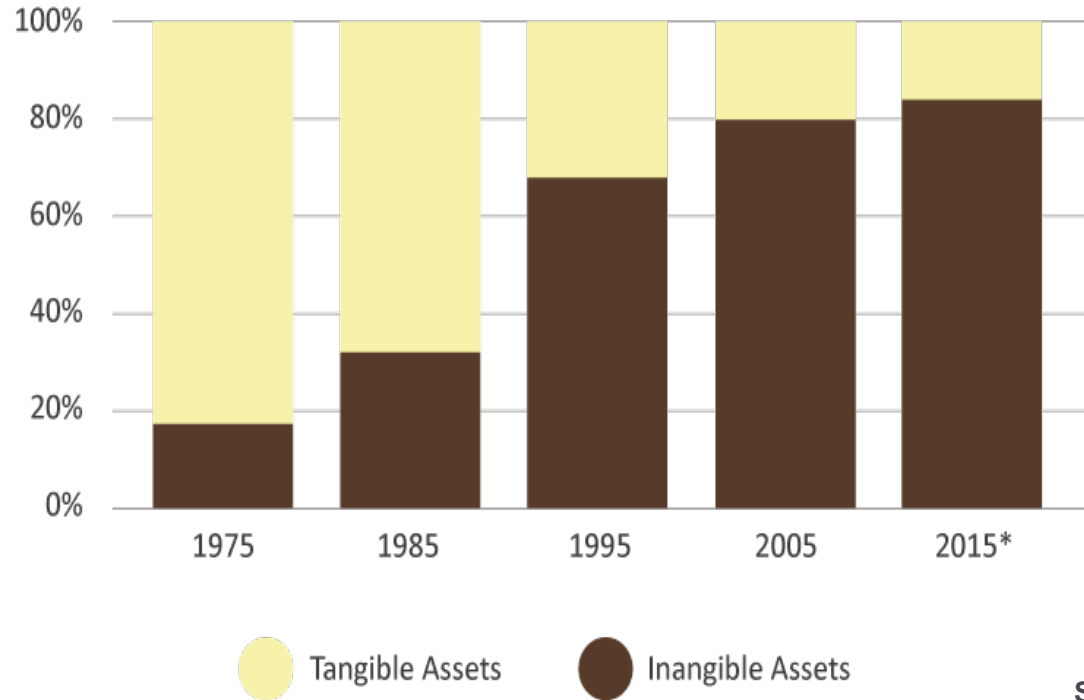
- ★ Shareholders no rights:
  - To possess the company's assets
  - To use the company's assets
  - To manage the business of the company
  - To the income of the company
- Shareholders have no duty or responsibility to the company
- Representative shareholder duty of RI to their ultimate beneficiary hence UNPRI
- Practising RI a driver of quality governance

# THE ERROR OF CORPORATE LEADERS

- ★ Duty to the company not shareholders
- ★ Agency theory requires directors to obey
- ★ Independence of mind fettered
- ★ A company's health not its shareholder's wealth
- ★ Time has come to challenge maximising shareholder value
- ★ Distracts boards from building the company's health
- ★ Professors Stout (Duke) and Paine (Harvard)



# COMPONENTS OF MARKET VALUE



Source: OCEAN TOMO LLC  
January 1, 2015



# INTANGIBLE ASSETS

- ★ Ecological overshoot and population explosion
- ★ Strategy – long term value creation
- ★ Reputation – perceptions of stakeholders
- ★ Supply chain – legitimacy of operations
- ★ Human rights – child labour
- ★ Stakeholder relationships – civil society
- ★ Positive and negative impacts on triple context
- ★ The quality of governance of the organisation
- ★ How does the company make its money?

# INNOVATIONS IN CORPORATE REPORTING AT BEGINNING OF 21<sup>ST</sup> CENTURY

- ★ Enhanced business reporting
- ★ Balanced score cards
- ★ Triple bottom line – theory - context
- ★ Sustainability reporting
- ★ Each trying to communicate value creation

# BEYOND FINANCIAL REPORTING

- ★ Triple context
- ★ Reporting in monetary terms
- ★ FR critical but not sufficient
- ★ SR critical but not sufficient
- ★ The two in silos divorced from reality
- ★ Required was a report integrating the financial and the sustainability issues
- ★ IR was a concept whose time had come
- ★ Inputs, business model, outputs, outcomes

# DRIVERS OF CHANGE (1)

- ★ Global financial crises
- ★ Climate change crisis
- ★ Ecological overshoot
- ★ Radical transparency – tax policy
- ★ Greater expectations from stakeholders

# DRIVERS OF CHANGE (2)

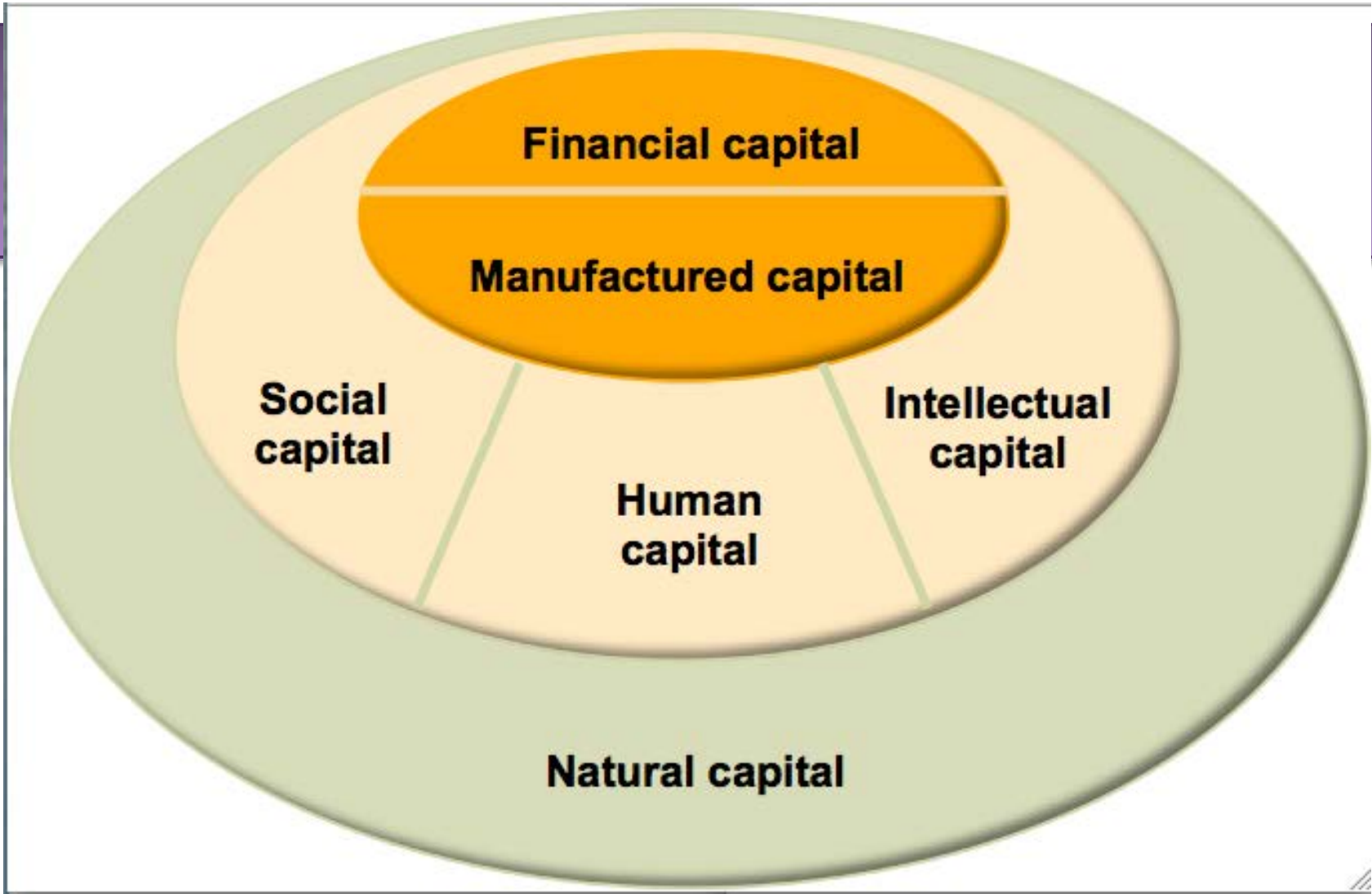
- ★ Responsible investment
- ★ Population growth
- ★ Digital and net generation era - fourth Industrial revolution
- ★ Cannot carry on business as usual
- ★ Have to learn to make more with less

# “FREE” PROFIT

- ★ From Friedman’s “free” economy profits
- ★ 21<sup>st</sup> century value creation by a company
- ★ Historically book value – the difference between total assets and total liabilities
- ★ Book value greater or less than the market value
- ★ Book value equals market value
- ★ Value of money – the present value of discounted future cash flows
- ★ All through a financial lens

# VALUE TODAY

- ★ In a resource deprived world with increasing population
- ★ How does the company make its money?
- ★ The positive and negative impacts on the triple aspects of the company's business model and output – financial, social and environmental
- ★ Enhancing the positives, eradicating or ameliorating the negatives
- ★ Embedding sustainability issues into strategy
- ★ As water is critical to the beverage manufacturer
- ★ Now value is seen through a value creation lens in a resource deprived world
- ★ In the long term better interests of shareholders



All organizations depend on a variety of **resources and relationships** for their success. These resources and relationships can be conceived as different forms of “capital”.



# THE SIX CAPITALS



**Financial**



**Manufactured**



**Human**



**Intellectual**



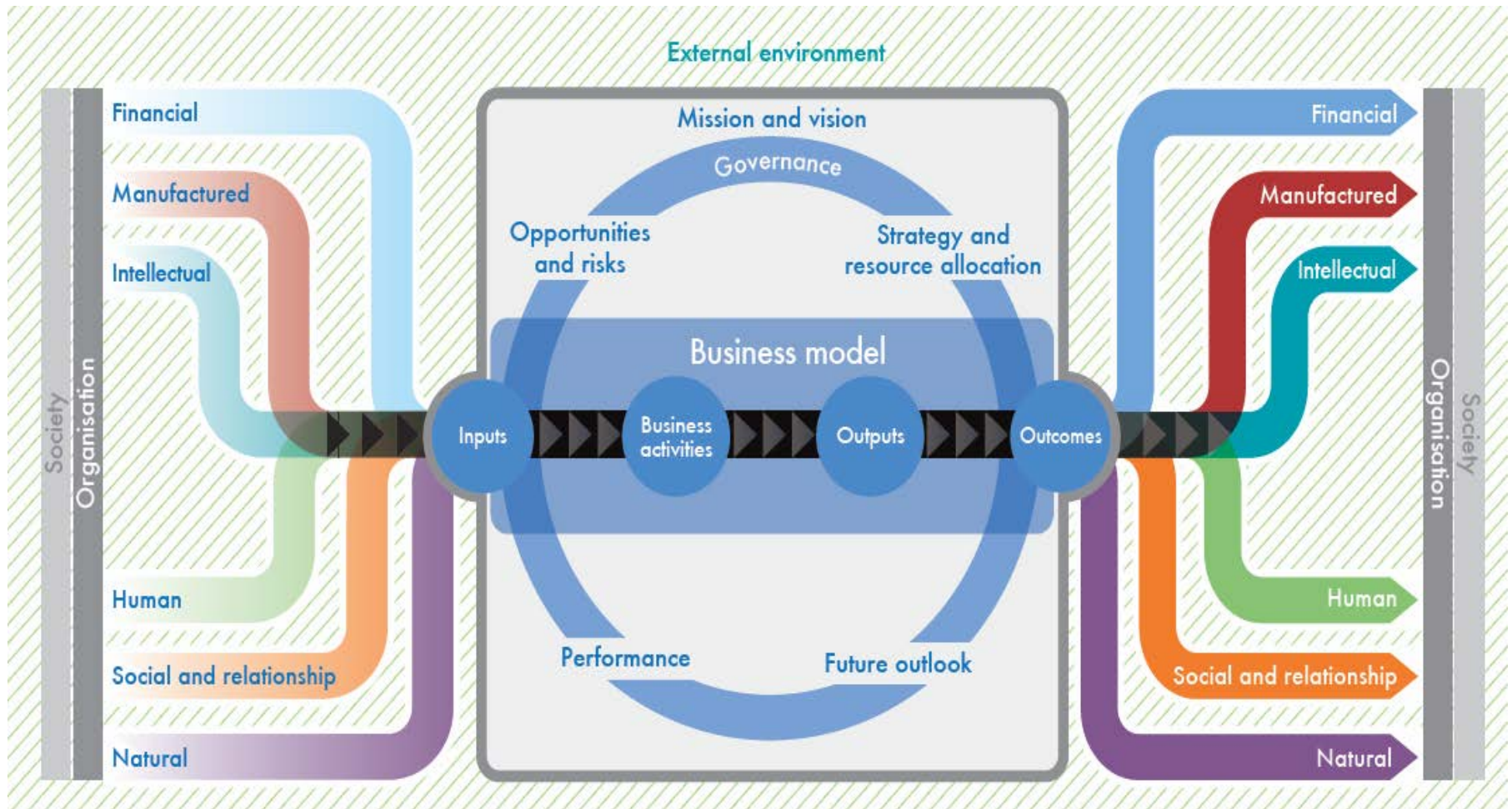
**Natural**



**Social**



# AN ORGANISATION'S VALUE CREATION PROCESS





**At Coca-Cola, we believe active lifestyles lead to happier lives. That's why we are committed to creating awareness around choice and movement, to help people make the most informed decisions for themselves and their families. Coca-Cola commits to:**

- 1** Offer low- or no-calorie beverage options in every market.
- 2** Provide transparent nutrition information, featuring calories on the front of all of our packages.
- 3** Help get people moving by supporting physical activity programs in every country where we do business.
- 4** Market responsibly, including no advertising to children under 12 anywhere in the world.

# INTEGRATED THINKING

- ★ Every company dependent on relationships and sources of value creation
- ★ The six capitals, F, M, H, N, I, & S
- ★ Mindset change at board & senior management level, including the CFO
- ★ Symphony of resources and relationships
- ★ Knowledge of stakeholders' legitimate NIE's
- ★ Greater stakeholder expectations
- ★ Agenda items: stakeholder relationships
- ★ : inputs to outcomes

# SHARE VALUE TO VALUE CREATION

- ★ Board decides how, affects and strategy
- ★ To generate long term value
- ★ For its business, society and the environment
- ★ Success depends on internal and external outcomes:
  - ★ internal financial return
  - ★ external social, environmental and economic results

# CONCEPTS OF MODERN CORPORATE GOVERNANCE

- ★ Ethical leadership
- ★ Role of the company in society
- ★ Responsible corporate citizenship
- ★ Value creation in a sustainable manner
- ★ Company centric governance
- ★ Integrated thinking
- ★ Integrated reporting

Source: Foreword to King IV Report

## Sustainable development

Sustainable development, understood as “conducting operations in a manner that meets the existing needs without compromising the ability of future generations to meet their needs”,<sup>5</sup> is a primary ethical and economic imperative.

## Corporate citizenship

As the organisation is an integral part of the broader society it has corporate citizenship status in society which affords it rights but also obligations and responsibilities. It is also recognition that the broader society is the licensor of the organisation.

## The organisation is an integral part of society

*Organisations operate in a societal context, which they affect and by which they are affected.*

## Integrated thinking:

*Takes into account the connectivity and interdependencies between the range of factors that affect an organization’s ability to create value over time.*

## Stakeholder inclusivity and responsiveness

It is by taking into account and responding to the legitimate and reasonable needs, interests and expectations of stakeholders and by establishing relationships that an organisation becomes attuned to opportunities and challenges posed by the triple context in which it operates.

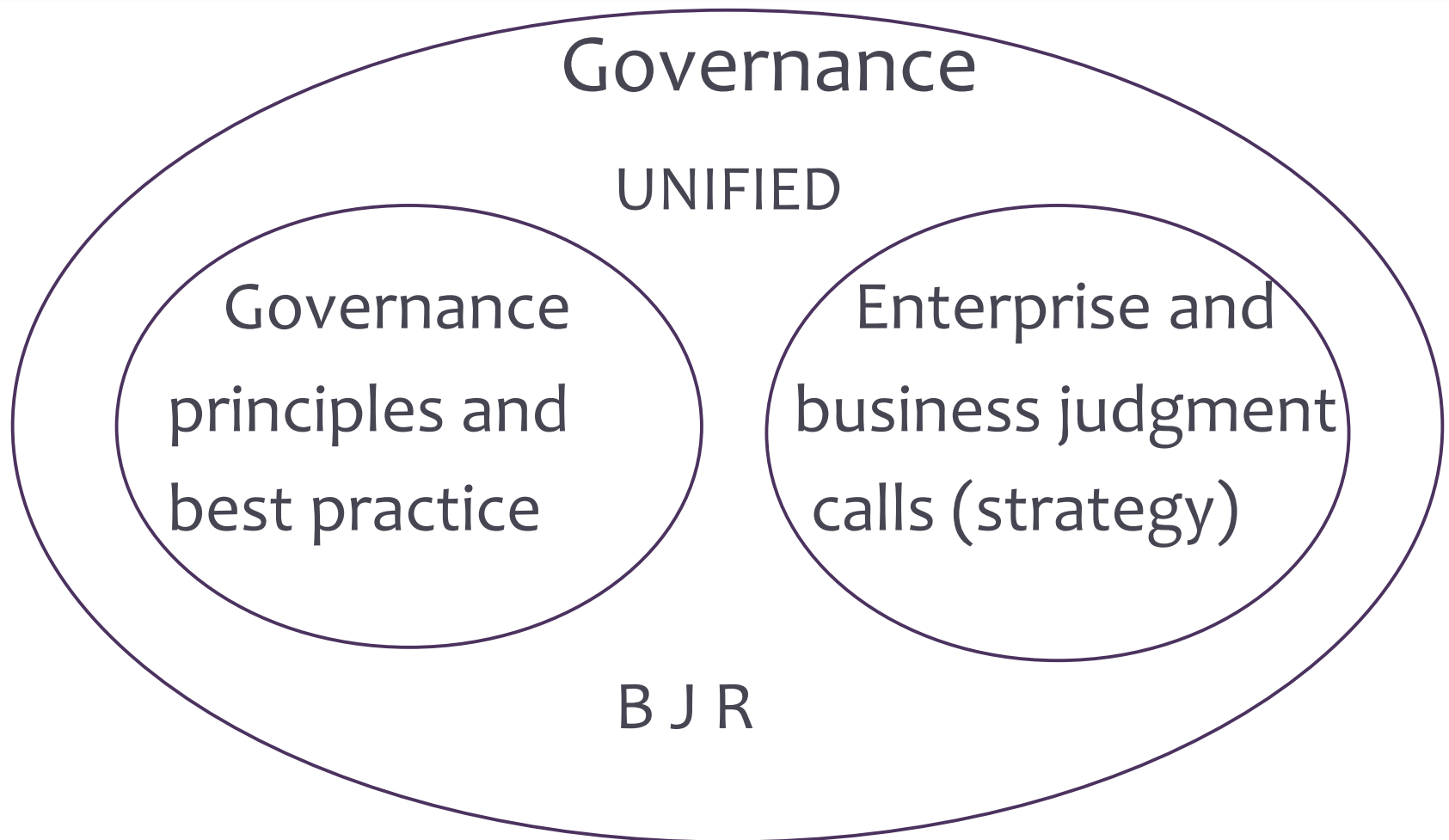
**Integrated annual report**  
‘tells the story’ of *how* – that is, the business model, by which the organisation creates value.

# FOUR OUTCOMES

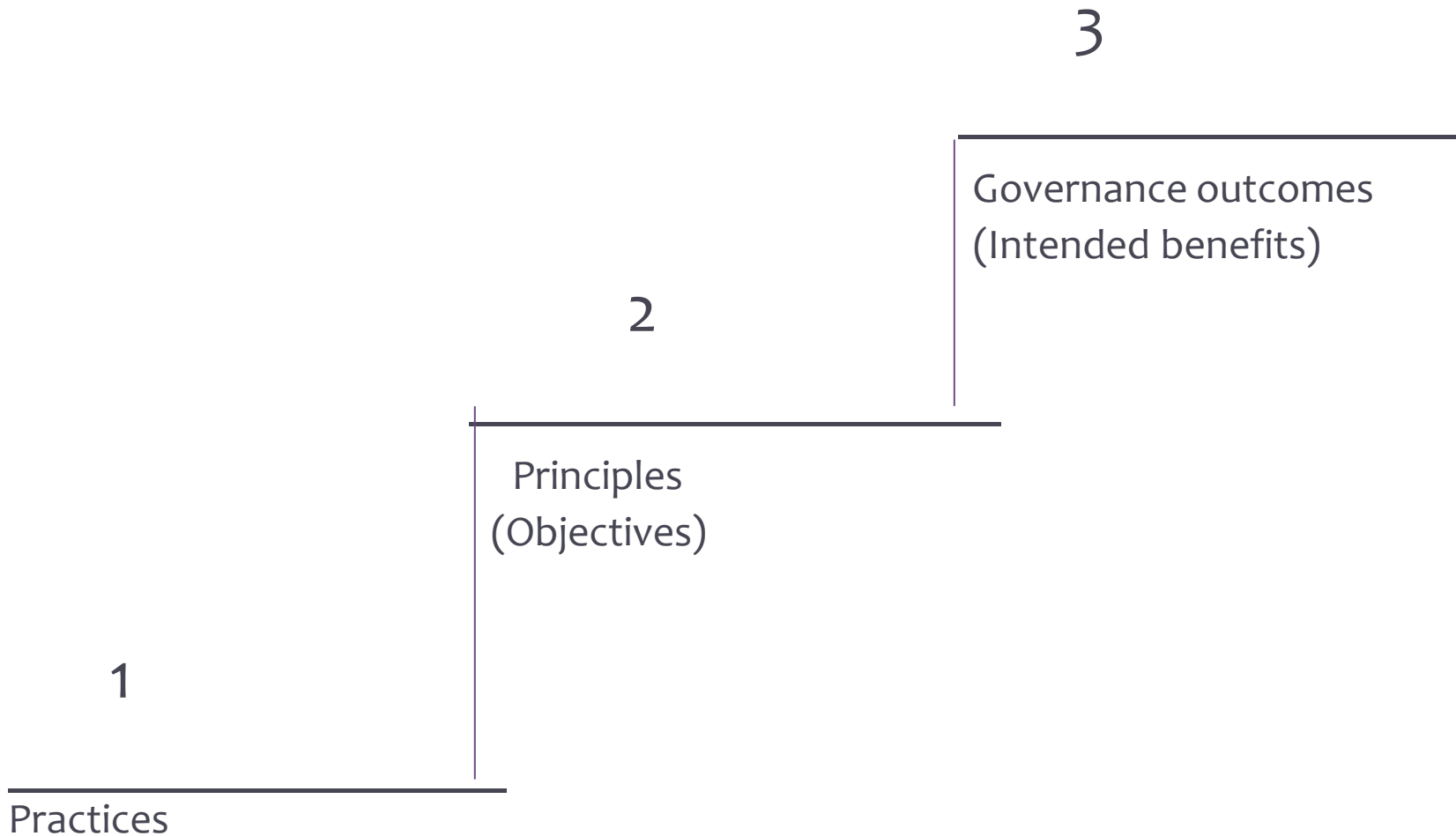
- ★ Ethical culture and effective leadership
- ★ Performance and value creation in a sustainable manner
- ★ Adequate and effective controls
- ★ Trust, good reputation and legitimacy
- ★ Need these outcomes because of value of intangibles
- ★ Good governance results in these outcomes
- ★ Governance does matter!



# THE GOVERNANCE EQUATION



# STEPPED APPROACH



# ETHICAL CULTURE

- ★1. The board should lead ethically and effectively
- ★2. The company is and is seen to be a responsible corporate citizen.

# PERFORMANCE AND VALUE CREATION

- ★3. Value creation process in a sustainable manner
- ★4. Reports enable stakeholders to make informed assessments of the company's performance and its short, medium and long term prospects

# EFFECTIVE CONTROL (1)

- ★ 5. The board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence
- ★ 6. The board should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness

# EFFECTIVE CONTROL (2)

- ★ 7. The board should govern risk in a way that supports the company in setting and achieving its strategic objectives
- ★ 8. The board should govern technology and information in such a way that supports the company setting and achieving its strategic objectives
- ★ 9. The board should govern compliance with applicable laws and adopted non-binding rules, codes and standards in a way that supports the company being ethical and a good corporate citizen

# EFFECTIVE CONTROL (3)

- ★10. The board should ensure that the company remunerates fairly, responsibly and transparently
- ★11. The board should ensure an effective control environment

# TRUST AND LEGITIMACY

- ★12. The board should adopt a company centric approach in the interests of its long term health



# NELSON MANDELA

★ “Action without vision is only passing time, vision without action is merely day dreaming, but vision with action can change the world.”

# BASIC PRINCIPLES

## ★ I C R A F T

★ Incapacity

★ Good faith, care, skill, diligence

★ Essence of good governance– acting with intellectual honesty in the best interests of the incapacitated company of which the director is its heart, mind and soul

★ Good governance matters

THANK YOU

Prof Mervyn E King SC

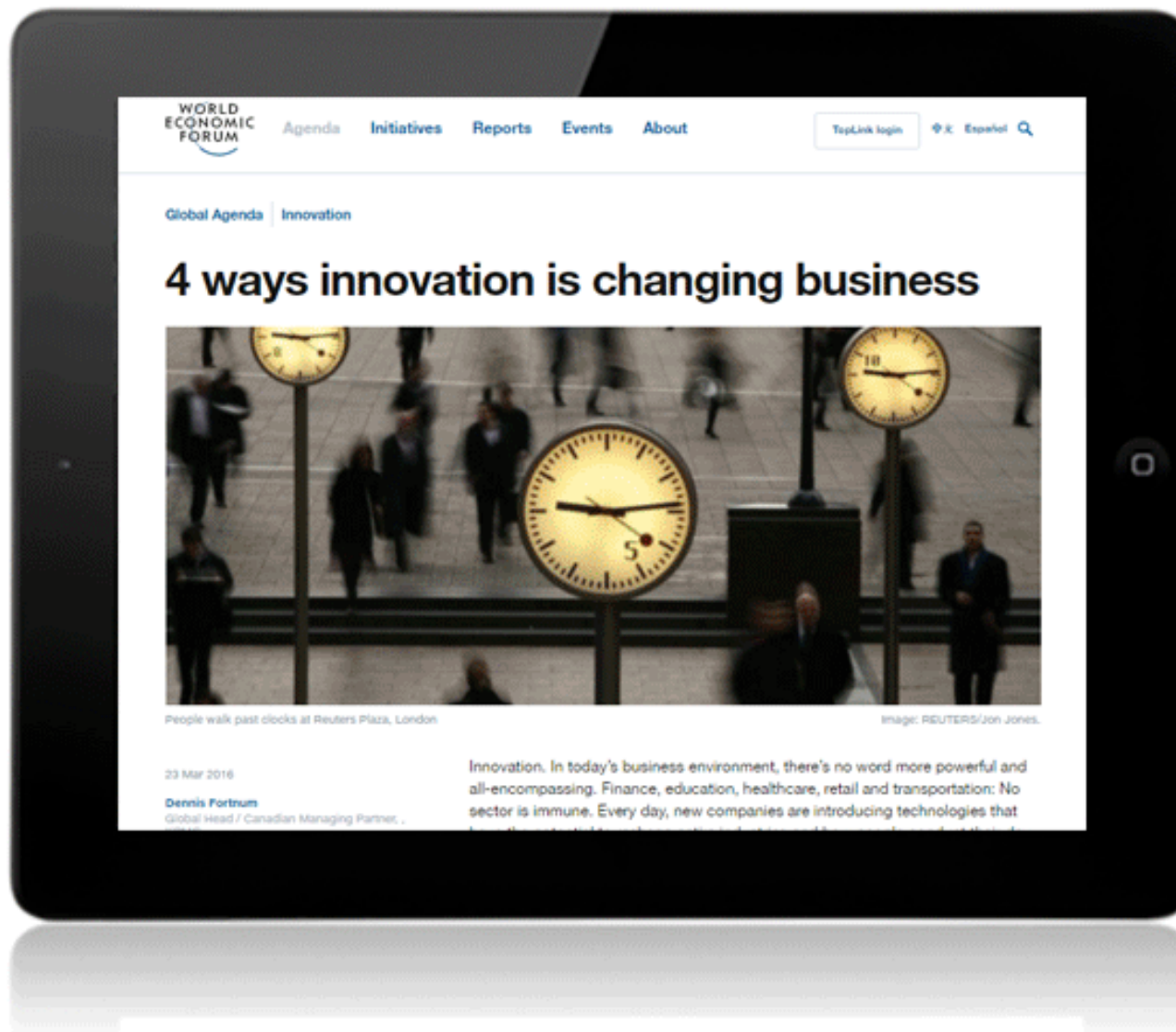


# Board Challenges in an Uncertain Time

**THAM SAI CHOY**  
Regional Chairman of KPMG in Asia Pacific

14 June 2017

# Ever-faster change



## FIRST

- Water and steam power
- Mechanical production



## SECOND

- Division of labor
- Mass production
- Electricity



## THIRD

- Electronics
- Information technology
- Automated production



## FOURTH

- Physical (IoT) + Digital Convergence
- Hyper-connectivity
- Digital Labor and professional augmentation
- Digital Ledger
- Everything 'as-a-Service'
- Big Data & Analytics
- Additive manufacturing



1800

1784: First mechanical loom

1900

1870: First assembly line

2000

1969: First programmable logic controller

**TOMORROW STARTS TODAY...**

2016: Google Deepmind beats human expert at GO

# Our focus today



**Data & analytics**



**Intellectual  
property**



**Cyber security**



# Our focus today



Data & Analytics



Intellectual  
property



Cyber security



# Intellectual property



Telecoms



Retail



Alibaba.com™

淘宝网  
Taobao.com

amazon



Transport



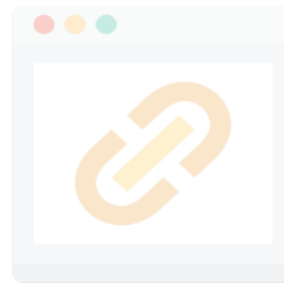
Digital



# Our focus today



**Data & analytics**



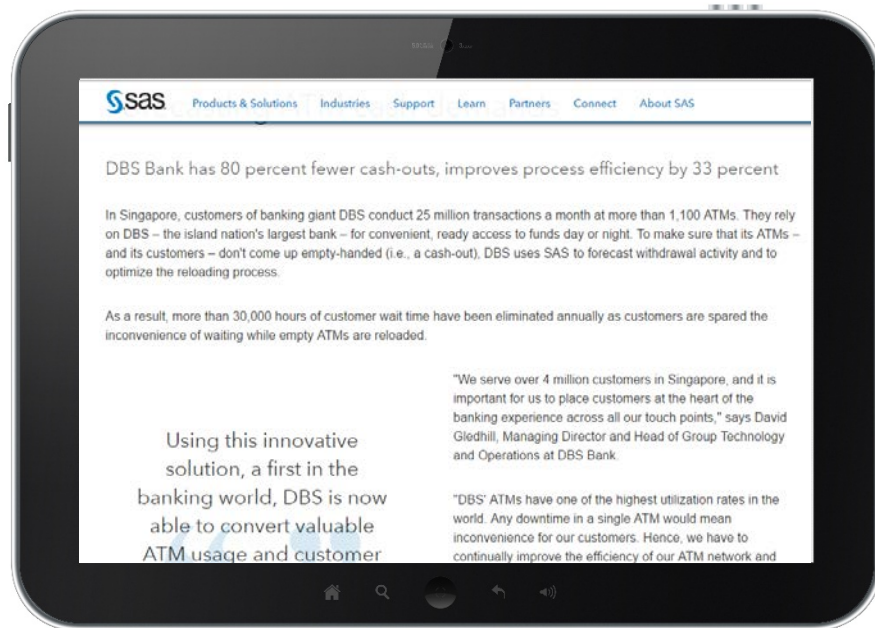
**Intellectual property**



**Cyber security**

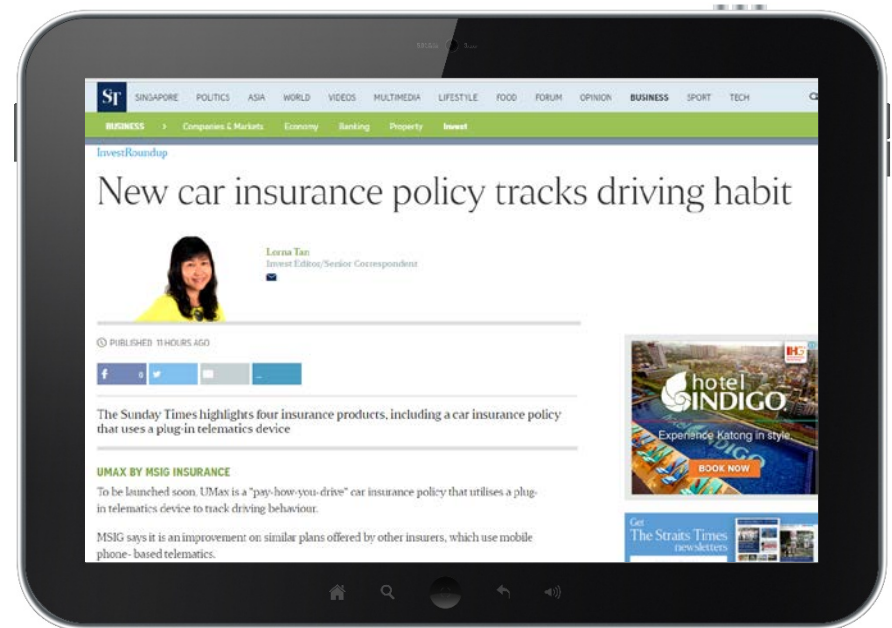
# Data & analytics

## Banking



- Restocking ATMs
  - Improving process efficiency

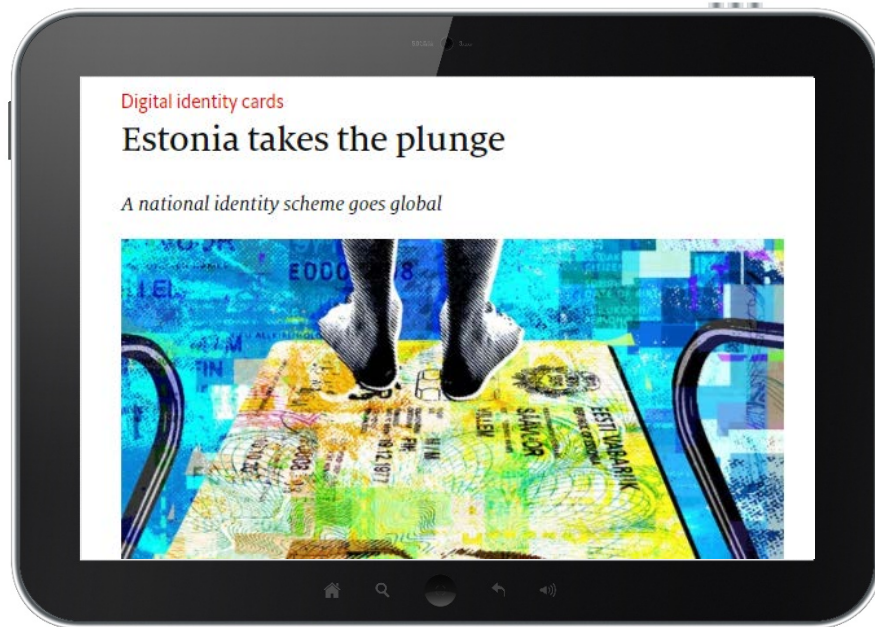
## Insurance & Telematics



- Telematics to "pay-how-you-drive"
  - Improving product pricing

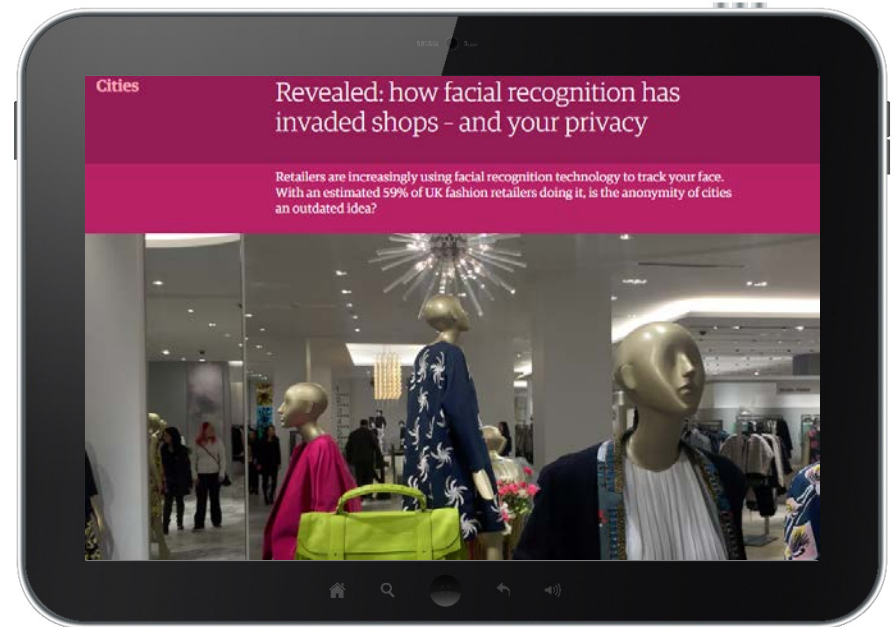
# Data & analytics

## Government



- Digital birth certificates
  - Improving convenience

## Retail



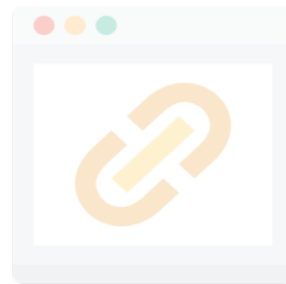
- Customer facial recognition
  - Increasing revenues



# Our focus today



Data & Analytics

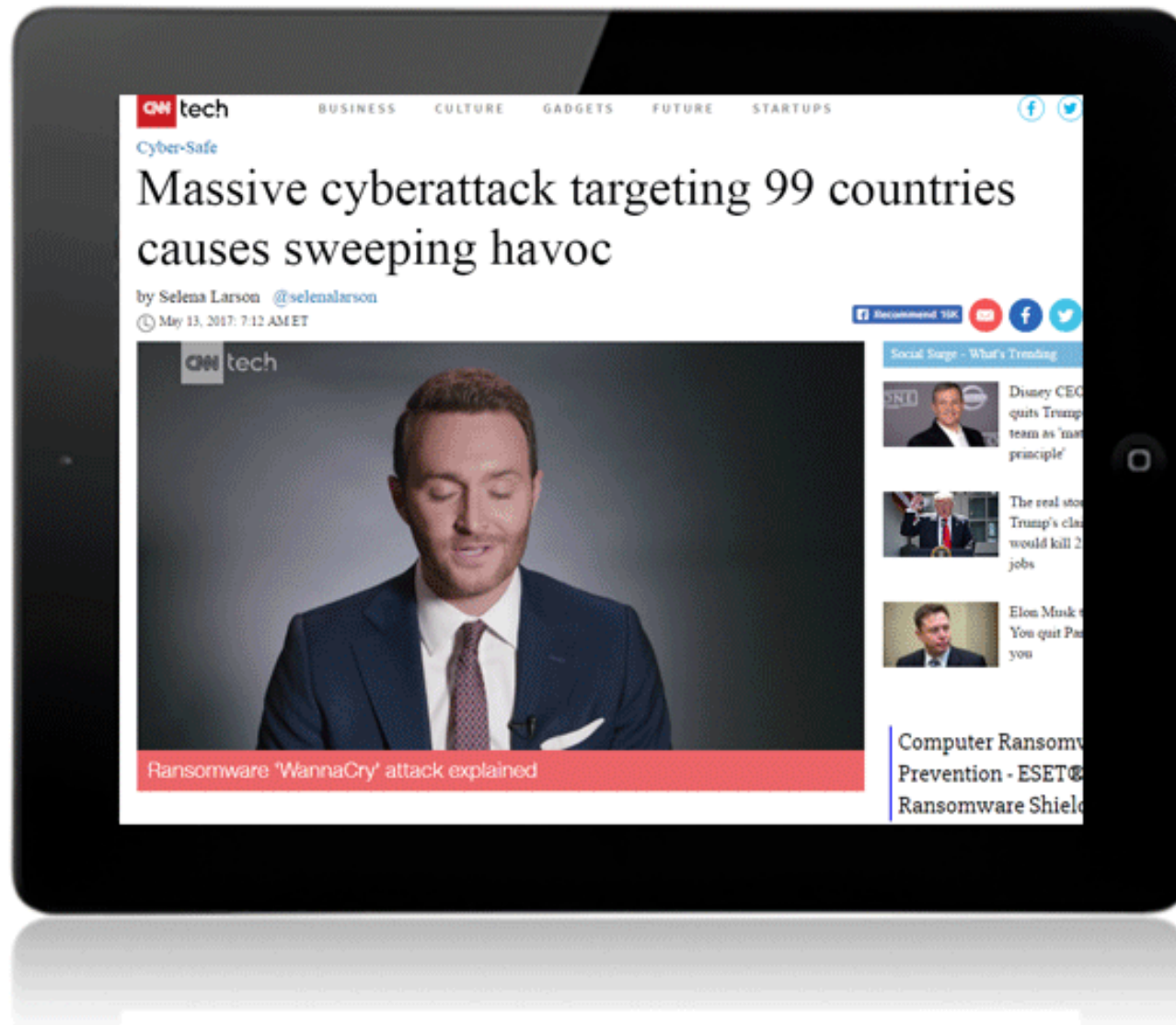


Intellectual property



Cyber security

# Cyber security – Protecting your data



# Areas of focus today



**Data & Analytics**



**Intellectual  
property**



**Cyber security**



Thank  
you





# **National Director Conference 2017**

**“Steering Governance in a Changing World”**

14<sup>th</sup> June 2017

**“How might boards disrupt  
the disruption?”**

Robert Gordon CEO Board Accord

# A Consultant's Perspective

Q. How might the board proactively disrupt ITSELF to optimise performance and outcomes?

Q. How might the BOARD REVIEW be a vehicle to disrupt the Disruption?



# What is Technological Disruption?

A disruptive technology is one that displaces an established technology and shakes up the industry

or

a ground-breaking product that creates a completely new industry.

- Christensen – ‘The Innovator's Dilemma’
- ‘Kodak Moment’
- Tsunami on the horizon



# Leadership Struggling in the VUCAD World

- “Leadership crisis in the world today.” (86% WEF 2016)
- IBM - 1,500 CEOs - business complexity is increasing and 50% doubt ability to manage
- CWL (Melb Uni) 2015 – concerned about leadership and management capability



# The Fourth Industrial Revolution

*“There has never been a time of greater promise or potential peril. Decision-makers are too caught up in traditional linear, non-disruptive thinking*

***or***

*too absorbed to think strategically about the forces of disruption and Innovation shaping our future.”*

Klaus Schwab - “The Fourth Industrial Revolution”

- Disruptive Stress or Disruptive Opportunity?



# The Cost of Leadership Failure

- 40% of Fortune 500 Companies gone by 2020
- Mega Oil and Gas projects - 65% failure (AmCham)
- Serial Banking crises
- BHP in Brazil and VW emissions in Europe
- Ford CEO in USA
- The Future of Capitalism



# The Challenge

## The Complexity Gap

Failure of cognitive and emotional ability to process information and coordinate multiple variables that overwhelm comprehension and minimise the ability to act with power, presence and agility.

## The Age of Acceleration (Thomas Freidman)

- Moore's Law in Tech, data and automation
- Globalisation - trade, information, communication and travel
- Climate Change and Population



# Is the board 'Disruption-Ready'?

- An artifact from the Industrial Revolution
- Deloitte Global Board Survey April 2016 -

*“Boards stand unarmed to enter the battlefield of future business creation in a disrupted world”*





# Is the Board heading for a Kodak Moment?

- Virtual & Augmented Reality
- Real Time Voice Translation
- Deep Learning / AI
- EdTek, MedTek, FinTek, GovTek
- Blockchain – DAO, Ethereum

## Is that enough?

The pace of technological advancement must be met by maximising human 'operating systems' to 'Govern' -

- Thinking
- Behaving
- Collaborating

# Psychological and Sociological Disruption

*“The key is social. Exemplary boards are robust, effective social systems”.*

- J Sonnenfeld

- Board as incubator of disruptive thinking.
- Directors and management must ‘self-disrupt’ thinking and behaviours of self and others, as well as processes, procedures, protocols and technology.
- Darwinian



# Human Potential - Developmental Theory

Graves, Kegan, Torbert, Wilber, Spiral Dynamics, Cook-Greuter, Laloux

## **Optimising ability to –**

- Comprehend complex systems and conflicting multi-stakeholder perspectives
- Engage in emergent organizing
- Demonstrate emotional awareness
- Adapt as fast as change itself

## **Amplify wisdom -**

- through profound reflection and dialogue
- to engage in transformational interactions and
- balance global and local perspectives.



# Three Board Space Engagements to Ignite Developmental Shift

1. Externally-led board reviews
2. Professional Development
3. Mentoring and Coaching



# 1. Board Review as a Strategic Engagement

*“Self-evaluations can be used to rethink board composition and address a director’s poor performance. But 51 percent of directors say their board didn’t make any changes as a result of their last self-evaluation process”. PwC*

- Annual, self and peer, externally-led – No ‘box-ticker’
- KEY – Embed in an architecture of PD
- A disruptive engagement that exposes conscious and unconscious cognitive bias and builds capacity
- Elite Athletes – Why not elite Directors?



## 2. Personal and Professional Development

*“There is a consensus that improved education of our polity will result in better leadership” WEF*

Targeted, transformational PD –

- customised
- provokes reflective thinking
- raises self awareness
- ‘soft’ skill literacy to interrogate, articulate, evaluate and execute ‘hard’ skills.
- assists developmental growth as people *and* practitioners
- IOD’s Role



# 3. Mentoring and Coaching

*“Leadership qualities have to be cultivated. Respondents prioritised **training, coaching and mentoring** as the best way to develop tomorrow’s leaders” WEF*

Every significant and successful disruption, innovation, strategy or initiative began with a QUESTION.

- Master listening, questioning and curiosity.
- Skillful, respectful questioning of self and others to move beyond ‘cognitive software failures’, (conscious and unconscious bias), embedded in board culture.
- Insightful, targeted Mentoring and/or Coaching engages both challenge and support.

# Director Disruption begins with a Question

*“All disruption starts with introspection. Self-disruption is like undergoing major surgery, but you are the one holding the scalpel”.*

- Robin Sharma

- Anchoring bias – the lies we tell others
- Optimism bias – the lies we tell ourselves

*“Why am I sitting around this boardroom table?”*

**Purpose**



# Cohort Disruption begins with a Question

*“The highest-performing companies have extremely contentious boards that regard dissent as an obligation and that treat no subject as undiscussable.”*

J Sonnenfeld

- A board’s performance is determined by the quality of its questioning.
- All risk analysis and strategic decisions need to pass through a gauntlet of divergent ‘devil’s advocacy’ to avoid strategic error and operational failure.



# Culture creates the Tech and Tech creates the Culture

Technological Disruption doesn't evolve in a vacuum

- Culture is the software with which we negotiate the Social world.
- Technology is a tool – Culture is the operating system that determines whether the tech will crash or run.
- The 'command & control' model of industrial revolution profit-driven governance is exhausted.
- We'll evolve an operating system for a new type of organisation.
- GovTek will enable a shared and distributed governance model.



# We need a Brave New Board

- Is The Fourth Industrial Revolution also The Sixth Great Extinction?
- Boards need to proactively ensure their PEOPLE and ORGANISATION are accelerating developmentally to manage the Age of Acceleration
- The Age of the Transhuman, Cyborg ?



**Robert Gordon BEd M Coun GAICD CCG (INSEAD)**

**Director of Programs @ Board Accord**

[robert@boardaccord.com.au](mailto:robert@boardaccord.com.au)

[www.boardaccord.com.au](http://www.boardaccord.com.au)

*While the review process may not necessarily be comfortable, Gordon believes 'it should always leave the directors feeling reinvigorated, more purposeful, more committed and more capable'.*

*'A good review will be one that re-energises the people around the table,' says Gordon, Director of Programs at Board Accord. 'That's why it's crucial to get buy-in from all participants, for the process itself and for following up on recommendations.'*

**AICD Company Director Magazine Oct 2013**



**UNCERTAINTY AND  
SUSTAINABILITY**

# Sustainability Systems

## Kenya CG Code (2015)

**Sustainability** means meeting existing needs without compromising future needs.

The board shall have formal strategies to promote sustainability. Attention shall be given to Environmental, Social and Governance (ESG) aspects of the business which underpin sustainability.



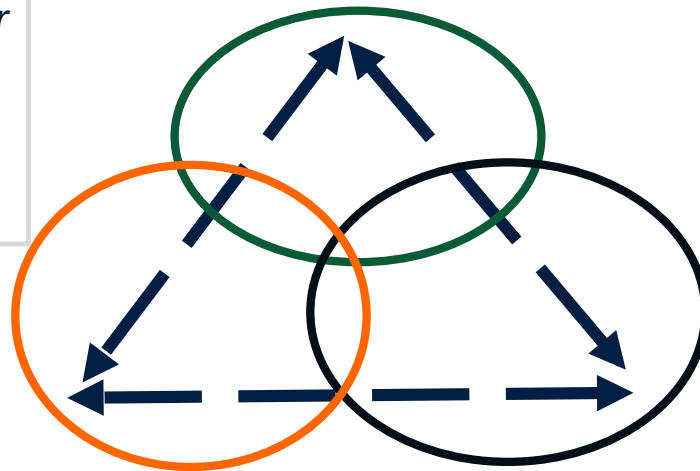
# DYNAMICS OF SUSTAINABILITY CONFLICTS

(EXAMPLE)

## Business Initiatives

Financial, Economic, Technical,  
Environmental

*Climate change is a driver  
of instability and  
requires a broader,  
whole-of-government  
response*



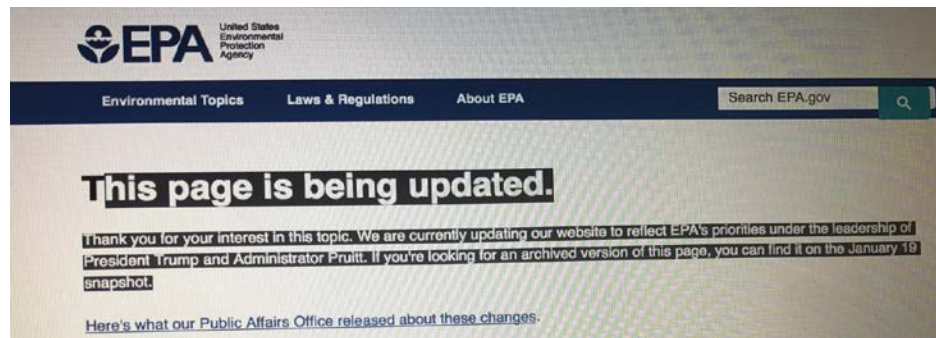
## Opinion

Attitudes, values, beliefs,  
expectations, commitments



## Governance Structures

Laws, regulations  
Elections and policies  
Federal, State, Local



Adapted:  
Larson (2001)

# Self-Organizing Business Initiatives



**Rain water hits in roof areas and is collected in a storage area**



**Effluent Treatment Plant recycles water**



**Man-made lake collects +/- 700,000 liters of water per day during rainy season**



**“These initiatives are not only environmentally friendly, but also cost effective.”**

**Rajiv Naidu, Augustan Corp.**





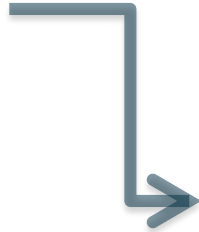
# Corporate Governance Board Leadership Sustainability Systems



# Board Leadership – Attributes and Skills

## Attitude / Mindset

Skeptical  
Frustrated  
Critical  
Indifferent  
Dismissive  
Know already  
Intimidating  
Defensive



Real change  
begins with a  
change in the  
questions that we  
ask ourselves  
and others.



# ESG and Board Leadership

## Lake Turkana Wind Power

Lake Turkana Wind Power Limited and Vestas are currently setting up a 365 turbine wind farm in Kenya. Once completed, the project will be the largest wind farm in Africa.

This project will contribute significantly towards the country's energy supply and economic growth. When operating at full capacity, the wind farm is expected to produce 310 megawatts of clean energy.

The wind farm will be located on 40,000 acres of land in an area that receives steady winds throughout the year.



<http://ltwp.co.ke/lake-turkana-wind-power-project-on-course-to-meet-2017-deadline/>

Stakeholders?

# Business Case for ESG/Sustainability

		ESG/ Sustainability Factors						
		Governance		Environmental Focus		Socio-economic Development		
		Leadership, Management	Stakeholder Engagement	Environment Process Improvement	Environment Products & Services	Local Economic Growth	Community Development	Human Resource Management
Business Success Factors	Revenue growth & market access		✓	✓	✓			
	Cost savings & productivity		✓	✓	✓	✓	✓	
	Access to capital		✓					
	Risk mgmt. & compliance	✓	✓	✓	✓	✓	✓	
	Human capital		✓					
	Brand value and reputation	✓	✓	✓	✓	✓	✓	

## Why Should the Board Care?

- **Mitigating risks (environmental, social, commercial)**
- **Demonstrating responsibility, accountability and fairness and transparency with regulators**
- **Developing stakeholder relations**
- **Building brand value and reputation**
- **Skilled employee commitment, loyalty**
- **Enhancing efficiencies, fostering innovation**
- **Increasing market share**
- **Generating investment opportunities**
- **Others?**



### Market Value

- *Less Risk*
- *More Trust*
- *Lower Costs*
- *More Growth*

# The New World Economy

Contribution

Market Cap (in Billion USD)

\*Data from 30<sup>th</sup> May, 2017



Iphone

63%

799.54

**Market Cap of 5 companies**

**2,706.18**

**Thailand Reserves**

**184.47**

**China Reserves**

**3,030.00**

\*In Billion USD



China Retail Sales

79%

307.64

Total 2,706.18