



Webinar

Does Governance need a reboot?

Re-thinking and re-imagining governance models that are more fit-for-purpose for a fast-changing context”

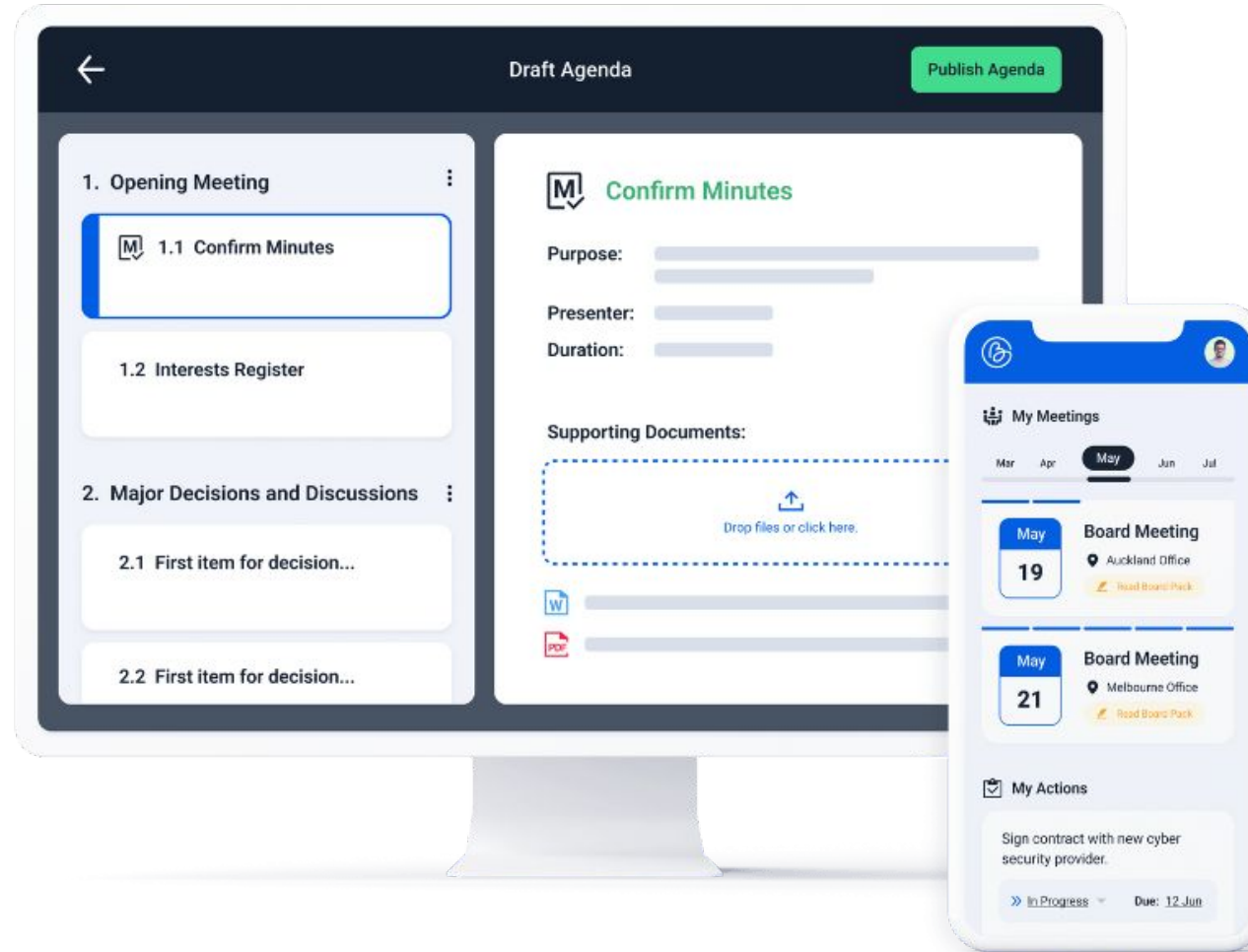
Special guest:

Dr Dean Blomson
Sextant Consulting





BoardPro™





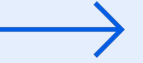
Making the fundamentals of governance free and easy to implement



Governance Made Easy

Governance Resource Center

boardpro.com/resource-centre



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Does governance

need a reboot? Governance 4.0

Re-thinking and re-imagining governance models that are more fit-for-purpose for a fast-changing context”

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There are five key messages that I hope you will take away from today

- 1** The unitary Governance model is a creation of a bygone era. Just about everything is different. Enterprise operating models are generally keeping pace (more or less); but governance models arguably are not.
- 2** Our research shows that the prevailing model is approaching its use-by-date – not for all enterprises, but for many (if not most) it is under strain. Thinking you are immune or have it all under control, is singularly unwise.
- 3** An unpredictable and fast-changing future (a VUCA world), plus stakeholder expectations, means that the rate and pace of change is placing unprecedented demands on governance systems ('operating models'). But if you look ahead, you can see the trends that 'better' governance operating models will need to respond to
- 4** From this consideration, you can see other governance models options that may offer more relevant features and benefits (not just structural responses); but
- 5** Any governance operating model design response needs to be 'fit-for-your-future- purpose' and therefore relatively bespoke

Our findings confirmed six 'umbrella' working hypotheses that we tested about the current state of governance



1 Risk focus is debilitating and distracting

- ▶ There are genuine pressures on compliance and risk management – some companies are exposed – but board members feel like they are submerged with operational/tactical risk detail
- ▶ The risk/regulation impost is re-directing energy, focus and air-time away from strategic conversations that are informed by an appropriate risk: opportunity lens

2 Information overload

- ▶ As a consequence of #1, management teams are operating on the basis of “if in doubt, tell them everything” - leading to misalignment on the ‘breadth and depth’ of information required on agreed topics
- ▶ Technology/AI to support reporting, data interrogation and decision-support in boardrooms is in its infancy

3 NED’s Liability Impost

- ▶ More and more is being demanded/expected
- ▶ NEDs are feeling like they are increasingly in the cross-hairs for regulatory breaches and class actions
- ▶ The risk: reward balance is out of kilter

4 Skills are not aligned to match the new normal

- ▶ Digital literacy is sought after – but talent/expertise in AI/digital/cyber etc. cannot be met through current structural limitations if you want the best and these brightest
- ▶ Diversity as a topic is all about ‘observables’ - divergent thinking (cognitive diversity) is still embryonic

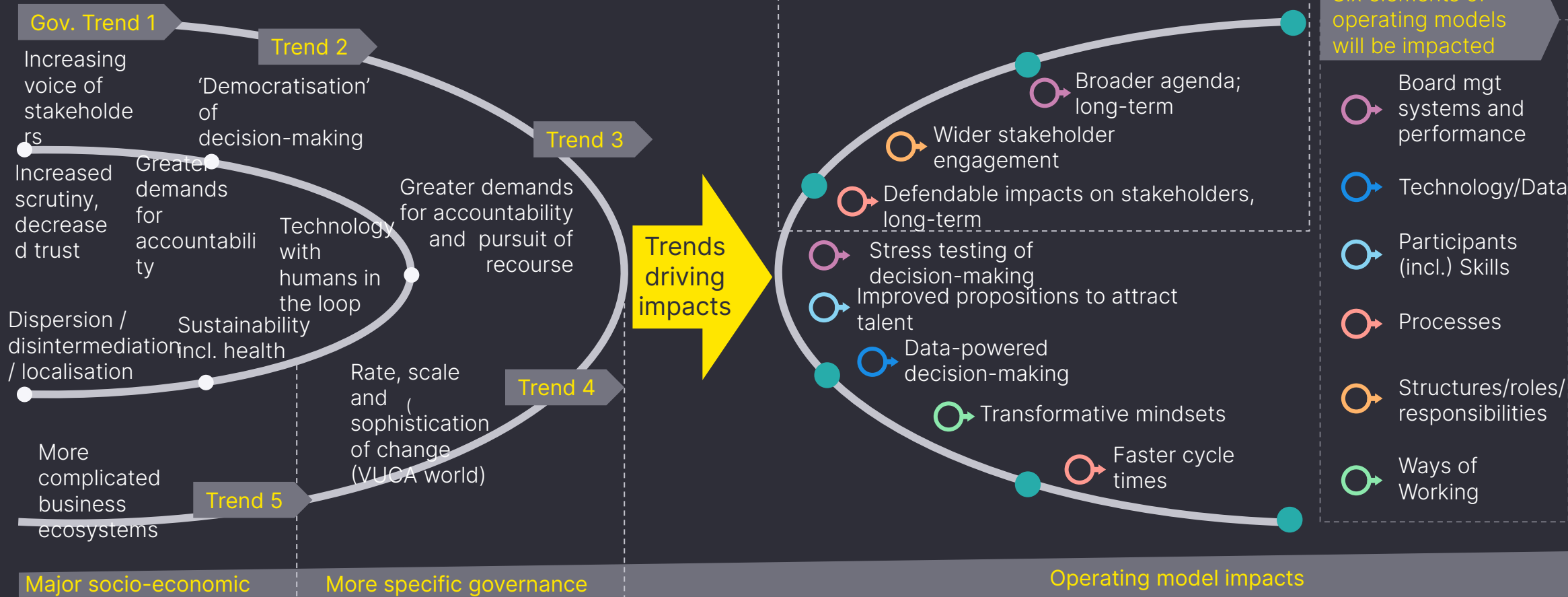
5 Early stage transition to ESG

- ▶ Boards are still digesting how to focus support on other stakeholders: not yet officially endorsing an expanded mandate to meet new societal and stakeholder demands, but not expressly declining these either
- ▶ What this will mean for their board engagement mechanisms, structures and processes is still not apparent

6 “Frog in the pot” syndrome

- ▶ Boards seem to be “grinning and bearing it”
- ▶ COVID is the advance-guard for new impacts from ‘VUCA’ factors – requiring new levels of responsiveness, flexibility, ability to process rapidly evolving events and data etc.
- ▶ Boards talk ‘VUCA’ – e.g., about complexity and pace of change – but are staying with their usual *modus operandi*

A subset of macro trends is impacting governance, bringing likely impacts to the governance operating environment of 2030



Major socio-economic trends
A range of forces are intersecting with each other and are causing a number of 'waves' that are affecting enterprises - and consequently causing specific impacts for boards

Consequences for future governance
Boards and executives are already feeling the pressures resulting from primary and secondary trends and forces. These will likely continue to accelerate.
Operating model components will need to be transformed to deal with these new forces, solely and in combination

Governance has little choice but to respond effectively to these trends

1. Increasing voice of stakeholders

Implies the need and ability to:

- Engage more effectively in a two-way dialogue
- Be clear on why / where/ when you will or won't give priority (i) to certain stakeholders and (ii) on certain issues /demands (but not on others)
- Have listening-posts closer to point of impact

2. Transparency of decision-making

Implies the need and ability to:

- Be clear on why / how you reached key decisions
- Use evidence / data that you can justify/ defend
- Be clear on assumptions, bias, depth and diversity of competencies / inputs sought

3. Greater demands for accountability

Implies the need and ability to:

- Be clear on what accountability means (taking? giving? entrusting? holding? seeking?)
- Build an accountability mindset and set of norms / behaviours
- Devolve responsibilities closer to the point of impact and decision-making

4. VUCA'ness

Implies the need and ability to:

- 'Industrialise listening' - augment human ability to listen to and decode noise/signals
- Be more agile in responding to volatility - more responsive processes, structures and effective 'risk-radar' (establish 'AWACS')
- Be more 'experimental/ intuitive' in dealing with complexity
- Manage trade-offs and tensions more dynamically in dealing with ambiguity
- Model and make faster decisions (and where needed) iteratively, for uncertainty

5. More complicated ecosystems

Implies the need and ability to:

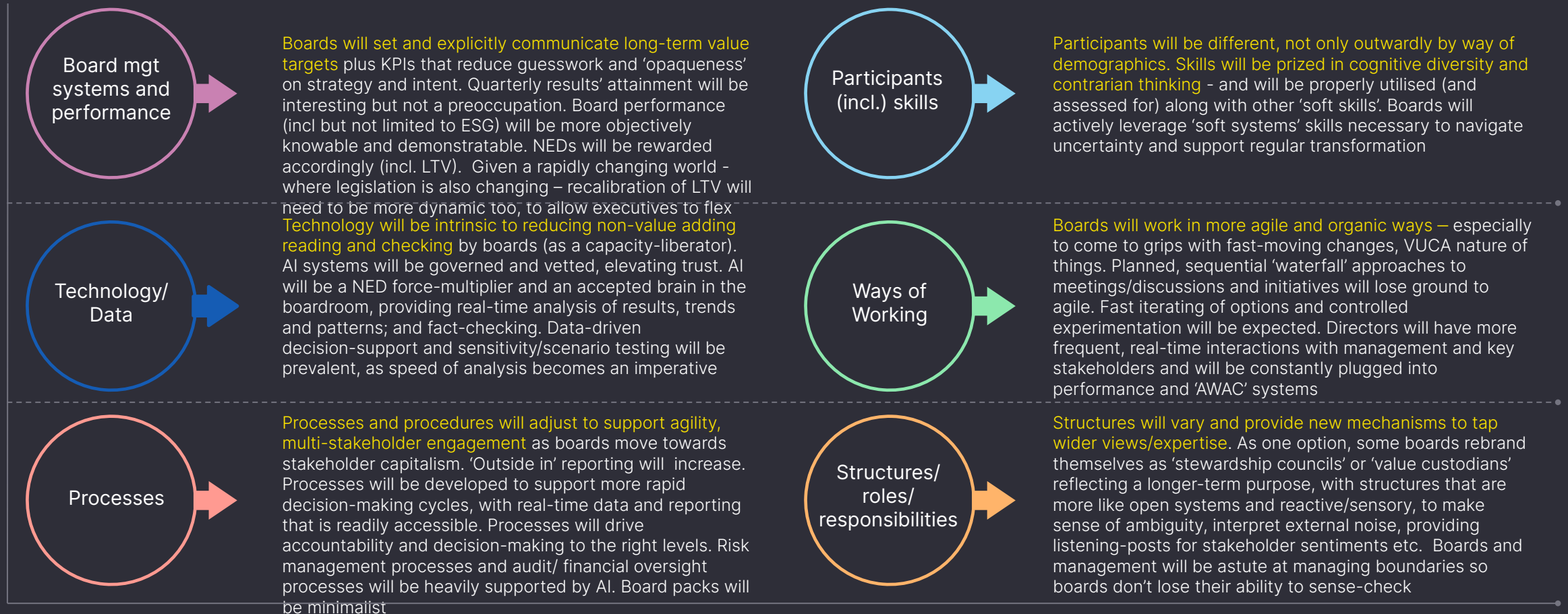
- Deploy mechanisms (data flows, structures, processes) for multi-directional relationships
- Establish/maintain trust and multi-directional communications (the 'oil' of networks)

The How: board operating models will change, in light of our findings



Based on the preceding trends and pressures, all key elements of a classic operating model can be expected to change somewhat, depending on specific context – as a consequence we should see less uniformity

Six elements of operating models will be impacted

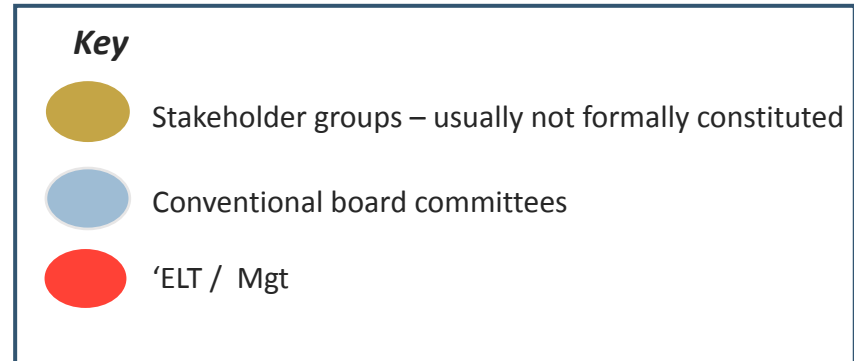
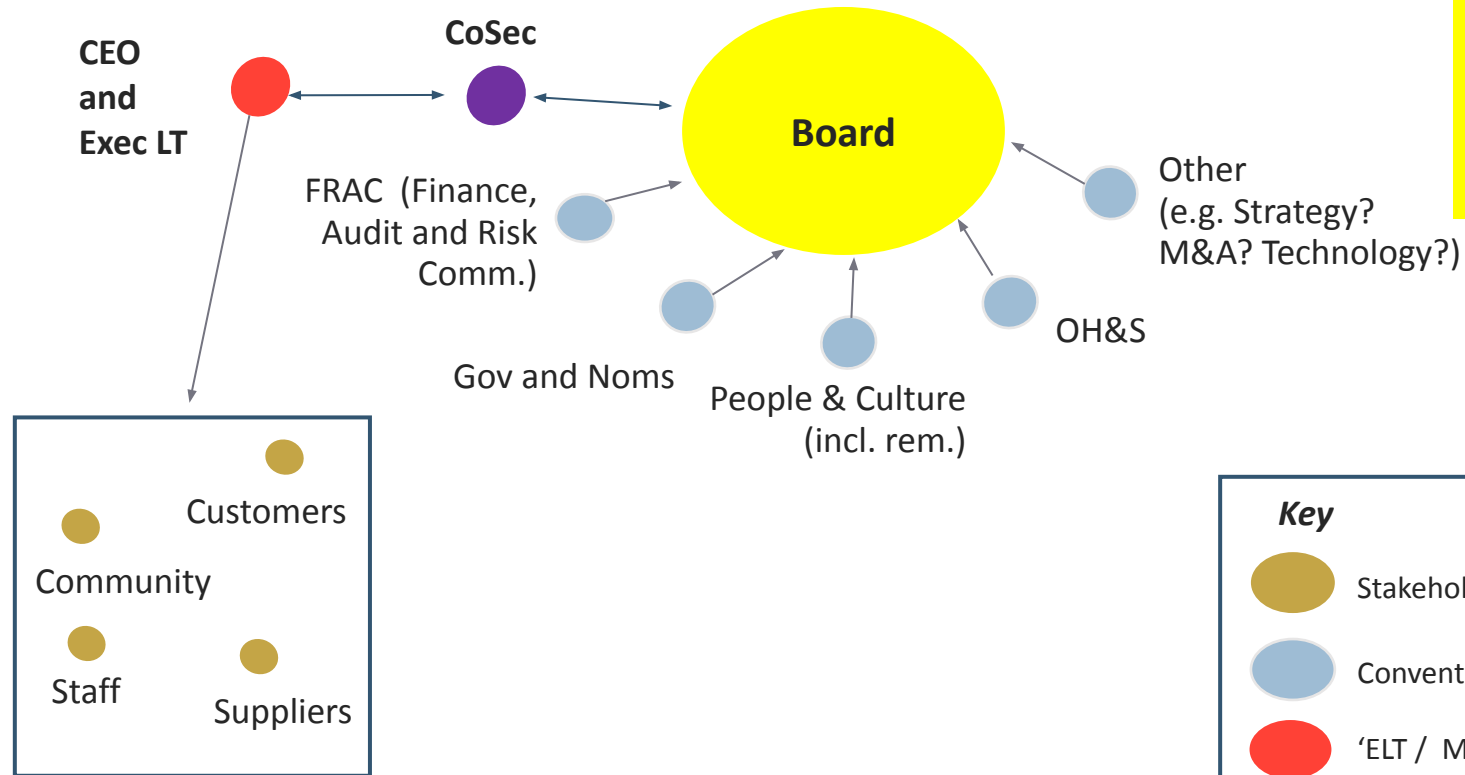


Let's run a quick poll

0. The classic unitary board is a closed system that is both linear and insular

0

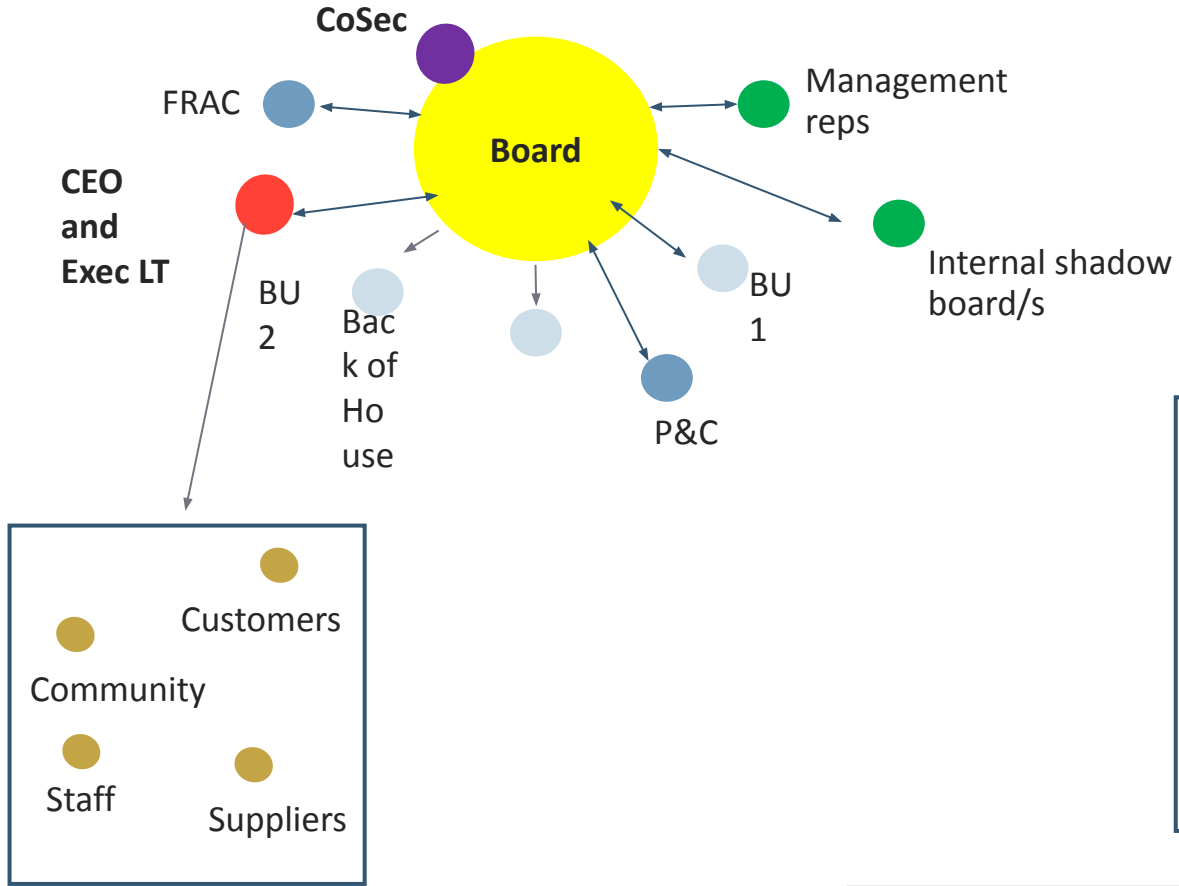
Conventional unitary board set up – hub and spoke - mostly closed and with devolved decision-making



Source: Sextant Consulting (Blomson, D.)




1. Revised models could range from hybrid models to more 'expansive' models, requiring boards to recalibrate and/or share some roles

1 Hybrid model with mix of standard and non standard committees / structures, for moderately expanded and shared governance (but still centralised decision-making)



**Generalised - Illustrative only
– noting that structural
arrangements /changes are
only one part of a solution**

Key

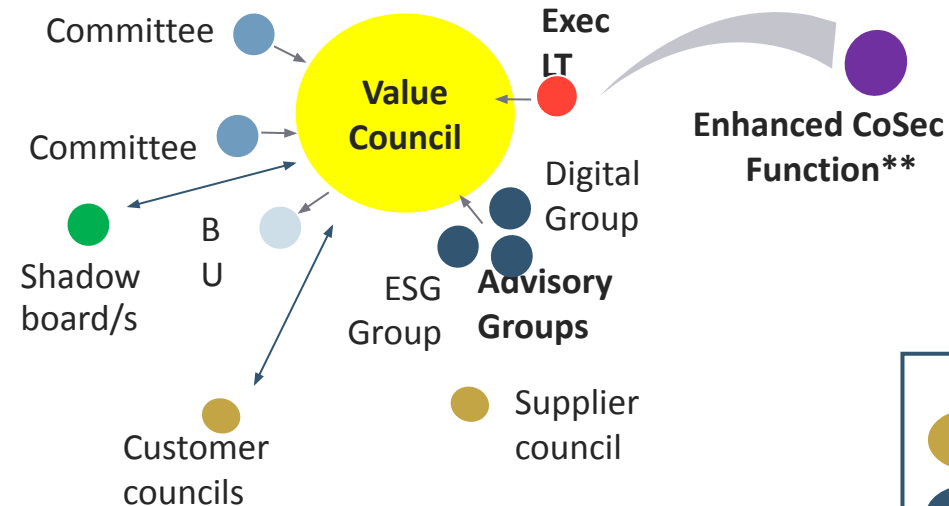
-  Board committees aligned to centres of value generation
-  Conventional board committees
-  ELT / Mgt
-  Alternative option e.g. EU' Two-tier board features - Mgt/labour reps

Source: Modified from joint Sextant Consulting and EY research into Boards of the Future, 2021

2. Revised models could range from hybrid models to more 'expansive' models, such as an augmented /supplemented board that is more open

2

Expanded, open, hub and spoke, with augmented contribution to value creation



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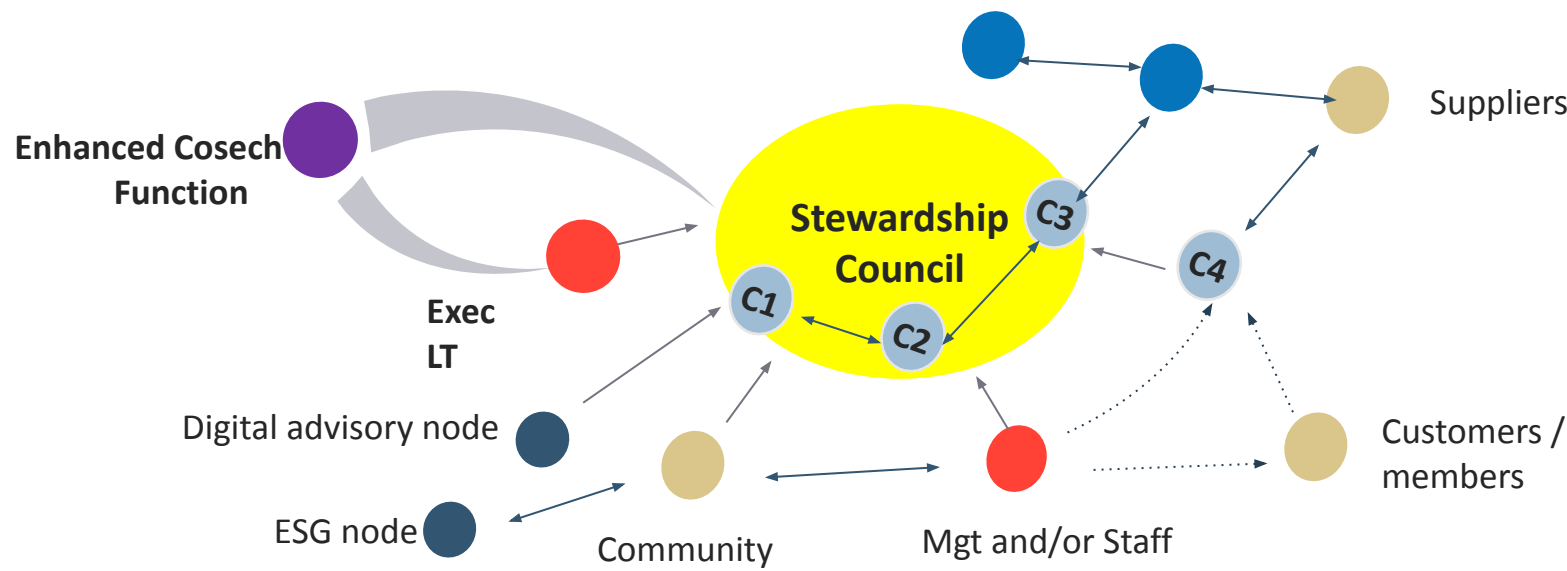
Key

- Stakeholder committees
- Advisory boards
- Conventional board committees
- Bolstered CoSec function to link more groups, coordinate comms flows etc.

Source: Modified from joint Sextant Consulting and EY research into Boards of the Future, 2021

3. A networked board model is a far more 'expansive', open model with distributed decision-making and a 'mother node' in the centre

3 Networked (more virtual) with distributed decisions and multi-directional flows via nodes (may also include features of other models)



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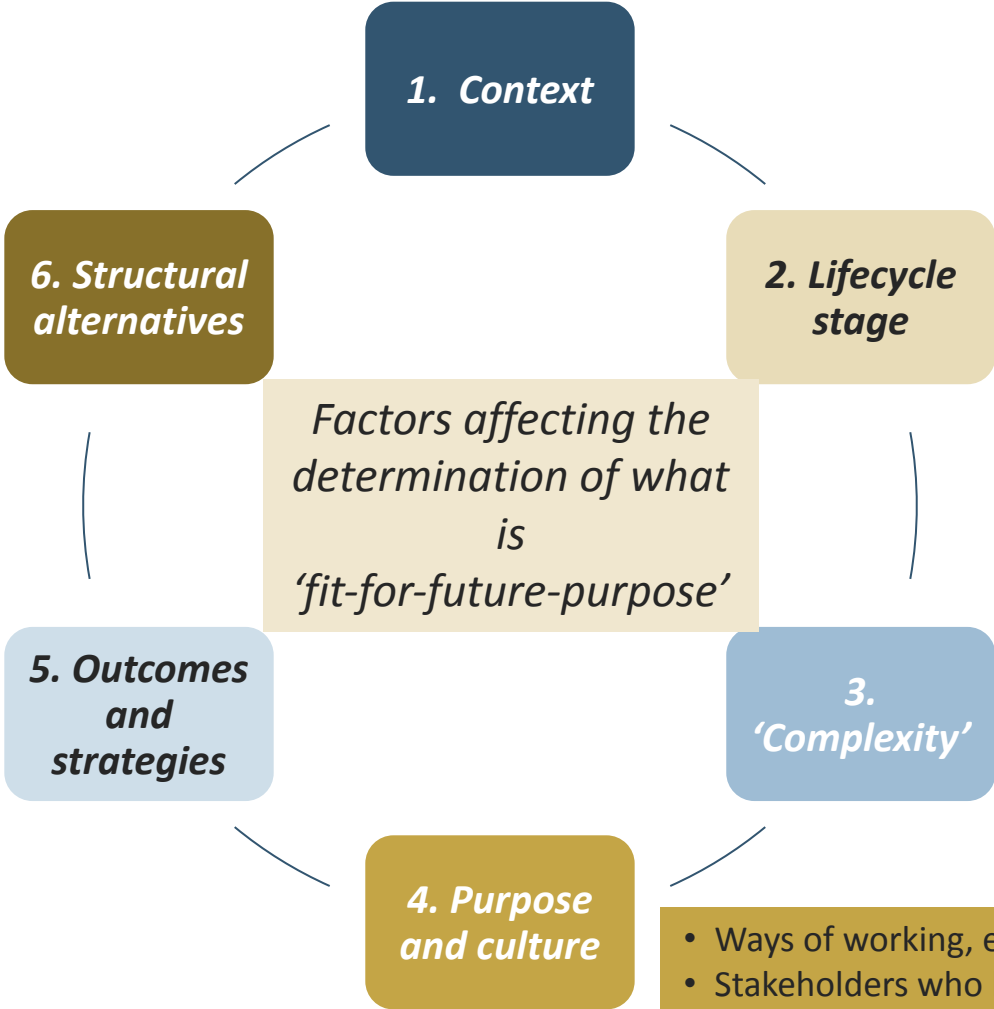
- Business unit or market specific committees
- Sense-making nodes incl Stakeholder nodes
- Advisory boards
- Conventional board committees
- 'EU' Two-tier board features - Mgt/labour reps

Source: Modified from joint Sextant Consulting and EY research into Boards of the Future, 2021

There are six key factors that should influence the selection and design of what is called a 'fit-for-future-purpose' operating model

- Consideration of forums, interface points, seamless connectivity
- Options considered for organising roles, responsibilities, reporting lines, delegations of authority and associated decision-making rights
- Form and function of reviewers / reviewing bodies

- Implications for required: knowledge (sectoral and SME), skills, experience, cognitive diversity etc.
- What critical elements of outcomes and strategies need to be most closely monitored? What are the associated implications for where, who and how to monitor these?
- What else will the strategy demand of the governance systems? (start with the end in mind)
- Implications for the kinds of decisions to be made, how regularly./routinely ("battle rhythm") or periodically; and who is best placed to make these, the locus of control, etc.



- Includes variety of different constituencies, share-register and ownership structure, key expectations
- VUCA'ness and speed with which events could unfold and responses have to take place (responsiveness)
- Competitive milieu / heat

- How advanced, sophisticated is the entity?
- How fast growing is the business (rate of evolution) i.e. before it outstrips the current governance arrangements?

- 'Complexity' of the businesses -
 - sociological/behavioural,
 - systems and technological complexity, process and structural dimensions
 - product and channel portfolio interplay etc.

- Ways of working, ethics /values, incl. to live out the Purpose
- Stakeholders who have legitimate say in the purpose - how are they best engaged?
- Implications for behavioural dynamics e.g. how decisions need to be made, how accountability is wielded/held etc.

Links to related materials for those interested

EY report

- https://www.ey.com/en_au/board-matters/five-trends-that-will-the-shape-the-board-of-the-future
- https://www.ey.com/en_au/board-matters/board-of-the-future

Commercial (short version) style version/article:

- <https://bit.ly/governance4-0>

Full length academic version/article:

- *Risk Governance & Control: Financial Markets & Institutions / Volume 13, Issue 3, 2023, Virtus Press*

<https://doi.org/10.22495/rgcv13i3p3>



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Webinar Schedule

Mar - April 2024

71.	Setting the strategic board agenda	On Demand
72.	Setting the tone at the top: Leading with board culture	On Demand
73.	Options for board evaluations that actually work	On Demand
74.	The first 100 days - The 4 key elements of board induction	On Demand
75.	How to break into the boardroom (part 1 of 2)	On Demand
76.	Does governance need a reboot? Time to think about Governance 4.0?	On Demand
77.	The foundations of governance (Masterclass)	Mar 12
78.	How to work practically with AI in the boardroom (Masterclass)	Mar 19





Thank you

