

THE FUTURE BOARD

A growth agenda for business schools?



EXECUTIVE SUMMARY

In autumn 2016, ABIS – The Academy of Business in Society and Mazars, a leading global accounting and audit firm, organised two high-level roundtables to explore the stewardship role to be played by boards of directors in creating long-term sustainable corporate success. These considered the macro trends and challenges facing business from different strategic, leadership and governance perspectives, as well as the innovation prospects for business schools in terms of research, executive development programmes, post-graduate curricula and wider corporate engagement.

This short paper is underpinned by three main objectives. Firstly, it seeks to frame the case for business schools to take a more active role in responding to emerging board-level agendas and needs, not least through new interdisciplinary knowledge generation and professional training and development. Secondly, it aims to inspire business school decision-makers to reflect on how greater board-level engagement might inspire new development and learning opportunities for their faculty and students alike. Thirdly, and by no means least, it raises a number of critical questions for deans and the senior management of business schools to consider in assessing their school's current capabilities and readiness to respond to the issues at hand.

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THE NEW COMPLEX GLOBAL BUSINESS CONTEXT

Adapting to technological change

Business is in the early stages of a profound technological transformation, implying an extended period of rapid and disruptive change. For many established incumbents, it will be crucial for their leadership to understand, and seize the positive opportunities offered by, digitalisation and technology while also responding effectively to the threats posed by it, including those related to cybersecurity. Recent work by Accenture Strategy has highlighted five dimensions of digital transformation that are raising critical challenges for large companies and their boards of directors¹:

- New sources of competition
- Pace of disruption
- Impacts on society
- Increased transparency
- Potential to accelerate change with regards to existing sustainability-oriented products and services

Responding to climate change and societal challenges

International action on managing issues connected to global warming, biodiversity loss and natural resource depletion, as well as public health, demography and social exclusion, has started to move forward both through the COP21 climate accord and the launch of the UN Sustainable Development Goals. While environmental risk mitigation and social system pressures will significantly affect multiple industries, both also present huge opportunities for business to innovate in core products and services and to strengthen engagement with governments as the lines of responsibility for framing and delivering solutions become increasingly blurred.

Shifting societal and regulatory expectations

Collective trust in business and political institutions remains at very low levels in the aftermath of the financial crisis. New technologies and social media have empowered citizens, NGOs, regulators and institutional investors to look more deeply into corporate activities leading to unparalleled demands for transparency on issues such as tax, corporate pay, human rights, lobbying and diversity. Firms like Unilever have suggested there is a profound shift in consumer attitudes underway with a potential 'tipping point' towards a much sharper focus on corporate purpose. Meanwhile, the social and environmental track records of companies are rapidly becoming a key factor for 'millennials' in their choice of future employer and a defining issue in the 'war for talent'.

The globalisation of business with a shift eastwards and southwards

Many multinationals have sought to increase their global reach in recent years but nearly all, despite a focus on a group-wide culture, remain essentially anchored in one country or region in which their origins lie. As the world shifts eastwards and – to a lesser extent – southwards in terms of population growth and share of world GDP, there is growing pressure on this to change. New leading brands are emerging from Asia to challenge western incumbents while cross-border mergers and acquisitions originating in the East are escalating, often with political support. Whilst such trends seem likely to continue, longer term uncertainties remain around, for example, the pace of China's future development together with the extent of population, health, demographic and environmental developments in many emerging and developing markets.

¹ Accenture Strategy, 2016. *Tuning your GPS: Redefining the rules of competitiveness in the digital age.*

STRATEGIC IMPLICATIONS FOR BOARDS OF DIRECTORS

Anticipating and preparing for uncertain futures

The business challenges discussed above raise far-reaching issues for boards which are likely to be beyond their 'comfort zone' and current competencies in many instances. Whilst some of the trends are fairly predictable, others are subject to substantial uncertainty which is amplified by their complex and interconnected nature. There is a clear need for boards to ensure that they are sufficiently adept and agile in navigating this complexity, supported by alternative scenarios related to the long-term development and competitive positioning of their businesses which are informed by robust external analysis and guidance. In parallel, boards must become more comfortable with addressing 'unpalatable truths' and asking difficult questions about the future trajectory of the company and its industry sector(s). They will also have to determine how to balance long-term value creation with short-term volatility and an unprecedented rate of disruption to a firm's *modus operandi*.

Seizing the right opportunities while managing risks

In periods of significant change when risks and uncertainties are at an unusually high level, the same holds true for innovation and growth opportunities; thus it is essential that boards are able to identify, assess and seize major strategic opportunities through ensuring the organisation has an innovative culture and the capability to introduce successfully new services and product lines and new ways of working.

Embracing fundamental changes to the business model

A number of the strategic challenges identified could have major effects on the predominant business models in many industries, whether through the emergence of new competitors, external pressures such as climate change, or a loss of market share for failing to address the trend towards a more responsible approach to business. Inevitably this will raise challenges for boards and they will have to be willing, and able, to lead and oversee fundamental change within their businesses if they are to be sustainable in the longer term. Successful change will require the board to ensure the business has an inspiring purpose and clear values, the development of a long-term strategy, effective engagement with and the fair treatment of all its key stakeholders, a strong innovative capability in the business, and the board being very conscious of the reputation of the business and its licence to operate.

Increasing the board's ability to deal with technology issues

Many boards are uncomfortable dealing with technology issues which have significant implications for current operations such as redesigning production systems, providing new routes to market via online sales, inventing new goods and solutions, increasing stakeholder engagement and transparency, and managing risks, in particular those related to cybersecurity. The issue, therefore, is how boards can best ensure they have the necessary collective skills and expertise to deal with the wide range of relevant technology issues they need to be able to address.

Coping effectively with geopolitical uncertainty

Today's global business environment is shaped by high levels of geopolitical risk and uncertainty with a growing list of "known unknowns": the UK's anticipated exit from the European Union, the rise of protectionist pressures in the United States, the future growth path of the economies in China, Russia and Japan, the outcome of institutional crises in Brazil and Venezuela, OPEC's future responses to the slump in oil prices and more. Boards require a deep understanding of the political dimensions affecting their key markets and how the relevant issues may interact with each other. They will also need to consider how their businesses should best engage with regulators and policy-makers across different jurisdictions, especially where settled approaches may significantly change, e.g. as a result of Brexit and its impact on the UK and the EU.

Diversifying the composition of boards

Our discussion of the industrial, political and societal changes facing boards highlights that they will need to become more diverse in their composition and to have greater regard to diversity across a number of dimensions, including gender, ethnicity, international background and their skills base. Crucially, pressure is increasing for diversity to be strengthened amongst the senior executive team as well as the non-executive directors and this implies significant changes in the way that leadership talent is identified and developed in leading businesses. Diversity on boards is vitally important in ensuring the company is treating its employees fairly and enabling each to achieve their full potential. It is also essential if there is to be diversity of thought and approach within the boardroom and if directors are to be able to raise difficult questions that challenge the status quo and then successfully address them. Whilst a more diverse board reduces the risk of group-think, it does, however, require more conscious efforts to ensure that it is cohesive.

Changes in board roles and structures

Change may also occur in the functional roles represented on boards with, for example, the finance role possibly broadening into a measurement one, reflecting the need for a wider range of KPIs to assess the achievement of sustainable success for the benefit of all stakeholders and wider society. In some cases, new executive roles linked to technology, stakeholder engagement or the stewardship of corporate culture may also emerge more prominently. In addition, more major companies may set up board committees to deal with stakeholder issues and/or with ethics and issues related to their undertaking business in a responsible fashion.

The central importance of the chair's role

The importance of the issues to be considered by boards in the coming years and the changes facing them mean the chair's effectiveness will have a vital impact on the overall success of the board in leading the company forward. Understanding what constitutes exemplary chairmanship, e.g. building consensus and shared vision, empowering critical voices, working effectively with top management in times of uncertainty, and steering the board to have the courage and wisdom to seize the right opportunities, will therefore be very important. It seems that there is little research currently available on this topic and only limited high-level training programmes.

Stronger focus on director formation and ongoing development

Against the backdrop of the significant changes facing boards in the coming years, the growing complexity of the environment in which they are going to have to operate and the likely increase in boardroom diversity, with more members coming from non-traditional backgrounds, there will be a much greater need for structured programmes to support the formation and development of board directors. Given the nature of learning and development required, business schools have a potentially significant contribution to make in this area.



ASSESSING FUTURE PROSPECTS FOR BUSINESS SCHOOLS

Strengthening the relationship with the boardroom

The ABIS – Mazars roundtables highlighted that business schools have not generally paid significant attention to boards of directors *per se*, with most research and teaching having focused on executive leadership and management. Yet, institutionally, they would seem to be well placed to provide some of the kind of independent, expert guidance on current and future trends that could effectively help to frame inputs to board-level decision processes and to provide cutting-edge development programmes. Stronger relationships with corporate boards would also hopefully provide greater opportunities for publishable research and for contributions to wider public debates.

With the pace of change accelerating, there will be an ever greater need for professional development for current and prospective board directors – not least within a school's existing alumni base and especially through part-time/blended learning models. There may also be a potential increase in demand for joint courses leading to both professional qualifications and postgraduate degrees for board members.

Broadening the curricula

The issues discussed in this report also suggest a window of opportunity to broaden current curricula and disciplinary approaches/frameworks, with deeper integration of themes such as digital transformation, international relations, macroeconomic trends, corporate governance, boardroom culture and capabilities and more. This automatically raises two strategic questions for business school deans and leadership teams: first, how can current programmes be modified to integrate such themes in a manageable way? And second, do current faculty members have the expertise and credibility to teach these topics well with reference to current boardroom developments?

More faculty with business background

To deepen the understanding of business schools on boardroom issues, there is also likely to be a need for more faculty members with significant executive and/or non-executive experience at the interface between boards and top management. Schools could become far more proactive in creating late career transition opportunities from business to academia and in promoting more movement generally between the two sectors as part of a longer-term faculty development strategy. This may also involve encouraging faculties to undertake more applied research on boards, stewardship and sustainable value creation, and/ or to spend periods of time within companies as a key route for experiential learning and career development.

A more interdisciplinary approach

To respond effectively to the changing needs of boards, and to leverage this as a potential area for growth and development, business schools will have to rethink a number of current approaches. The complex long-term nature of board-level challenges will require a more interdisciplinary approach to research and teaching, including executive education. This creates an opportunity for business schools to act as a connecting hub within the university drawing on other faculties such as those related to environmental science, international relations, technology and the science and economics of innovation.

KEY QUESTIONS FOR DEANS AND SENIOR STAFF

Research

- How many faculty members are currently involved in research relating to boards of directors?
- Does the business school support research into future scenarios and macroeconomic and political trends, including on sustainability-related issues?
- Do you have any interdisciplinary research or learning partnerships that address major themes in governance, policy, regulation and wider business in society issues that reflect board-level agendas?

Curricula and teaching

- Does the role of the board and strategic dimensions of corporate governance feature in core EMBA, MBA and relevant Masters curricula?
- How many faculty members do you have with expertise advising or serving on corporate boards?
- Do faculty members bring board/non-executive director perspectives and insights into the classroom?
- Are your graduates trained to understand and engage at board level?

Executive education

- Does your Executive Education department offer any open or customised development programmes for boards of directors (chairs and directors)?
- Does your Executive Education team include instructors with board-level experience?
- Do you discuss board-level needs and interests with key corporate partners?

Faculty capabilities and development

- Does your business school employ/engage with any current or former board chairs and/or non-executive directors as practice fellows, lecturers or professors?
- Do current faculty members engage with boards as providers of external expertise?
- Do you have any development programmes for the faculty to empower them to engage at board level with corporate partners?

Relations with alumni on boards/other board members

- Does the business school seek to maintain links with alumni on major boards?
- Does it involve alumni/other board-level contacts in roundtables/guest lectures with faculty and students to discuss current issues?
- Does the business school have relevant advisory boards with board members to discuss board issues and consider how they should be integrated into the teaching and research life of the school?

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