

## A NEW ERA – THE FUTURE OF BOARDS

**The world is changing, and boards of directors have a whole set of new challenges. KIRSTEN ROSE spoke with Kirsten Patterson of the Institute of Directors about this new era and the unique place of public sector boards.**

It's the day of the board meeting, and seven directors from around New Zealand have convened. There's a catch, though, as none of the directors is physically present. Rather, they are positioned around the country, some even stationed in management offices. This is a virtual board meeting with directors joining the meeting electronically having already read over an interactive board pack sent to their devices. The directors engage in a robust online discussion about the organisation's future and how they can safeguard it against a range of issues from health and safety concerns, upcoming compliance changes, and profit margins.

This is an example of how boards are evolving.

"Despite significant change in the operating environment, boards have been functioning in much the same way for decades," says Kirsten Patterson, CEO of the Institute of Directors (IoD), New Zealand's professional body for directors.



**Kirsten Patterson**

"Today's boards have to consider a staggering array of issues and risks, such as business disruption, new technologies, cyber risk, and climate change. They also need to be responsive

to escalating stakeholder demands and expectations. This is at a time of heightened director accountability and increasing personal liability.

"Given this context, boards' traditional ways of working need to be challenged if directors want to continue to add value and fulfil their governance responsibilities," says Patterson.

### **Becoming a director**

The professionalisation of directorships has shifted according to Patterson.

"The days of someone retiring into a board role as a part-time job have moved on. Boards don't have room for passengers any more. If nothing else, the responsibilities and liabilities associated with being a director is significant now, and it's not something you'd take on lightly without understanding it fully," she says.

### **TODAY'S BOARDS HAVE TO CONSIDER A STAGGERING ARRAY OF ISSUES AND RISKS.**

"What you're really looking for from a great director is someone who's a great curator, who's able to pull together different trends or strands and bring the benefit of that across industries or across experience to their particular operation."

### **Top five issues**

Given this changing world, the IoD has identified key areas of focus for New Zealand directors. This is on top of the foundation stones such as good health and safety practice, ethical conduct, and solvency. These are the top five issues it believes boards need to put at the front of their minds in 2020:

- **Climate action**
- **Governing for purpose**
- **Data and privacy**
- **Reputation and trust**
- **Board leadership**

### **Walk the talk with climate action**

Climate change has been on the IoD's list for three of the past five years, but this year, Patterson says they have "quite deliberately moved the wording from 'climate change' to 'climate action'".

"We've had enough conversations about the science and some of the causes and the impacts on organisations from a risk perspective. Most boards have a level of awareness, but we're still not getting the levels of reporting that we need in this area. According to our latest *Director Sentiment Survey*, only 35 percent of directors said their boards were engaged and proactive on climate change. This is something that boards really need to focus on, and they need to shift to action," she says.

"If a board is serious about these issues, it will be reflected in the people that they recruit at management level, in the performance expectations that they set for management, and in the issues that they prioritise in terms of their investment spending. We'd expect that boards would receive reporting on these issues because that shows they are engaged and they're seeking to hold management to account."

Measuring success (or otherwise) is a challenge for boards of all sizes. Patterson says while larger organisations and state-owned enterprises may have prescriptive reporting requirements, 80 to 90 percent of New Zealand's businesses are smaller enterprises that have reporting requirements but struggle to meet them.

### **BOARDS DON'T HAVE ROOM FOR PASSENGERS ANY MORE.**

"The number of reporting frameworks that currently exists can be really complex and confusing for directors. With integrated reporting, we're seeing some great examples from larger organisations such as New Zealand Post or Sanford, who are early adopters and are showing the way in terms of

reporting, but that can be a lot harder for small organisations to be able to adapt to.”

### **Purpose beyond profit**

For decades, profit has been a leading driver of board decisions. There’s no argument that a good business is a liquid business; however, societal changes have seen organisations looking more at their stakeholders’ interest in addition to their bottom line.

“The expectation from stakeholders (including consumers and employees) is that boards take a more holistic approach. It’s moving from ‘not doing any harm’ to ‘what are you actually doing that is having a positive impact on the community around you?’ and that’s been quite a significant shift for organisations and brings different governance challenges,” says Patterson.

“When you are operating in that manner, your timeframe and your investment horizon change. This is something that state sector boards have always had at their core; it’s always been about purpose, and it’s always had an intergenerational long-term horizon. I guess the commercial community is really only just catching up.”

### **Cyber-attacks and data breaches**

Technology and the internet of things has dramatically changed the way boards operate, with virtual meetings and the introduction of artificially intelligent “robo directors” providing alternative investment decision-making options. But this new technology brings added risk.

## **THE EXPECTATION FROM STAKEHOLDERS (INCLUDING CONSUMERS AND EMPLOYEES) IS THAT BOARDS TAKE A MORE HOLISTIC APPROACH.**

Kordia Research found more than a third of New Zealand businesses have been subject to a cyber-attack in the past 12 months, yet according to the IoD’s *Director Sentiment Survey*, just 41 percent of boards receive comprehensive reporting from management about data risks and incidents, and only 33 percent of directors felt their boards had the right

capability to direct their organisations in digital matters.

“We need to raise the capability of all directors. Just as all directors are responsible for finance, they should all be responsible for cyber. We can’t defer to the one IT specialist on the board. Directors do not need to be digital experts, but digital literacy is essential, including being able to ask the right questions and hold management to account,” says Patterson.

“There are currently not enough full-time director roles filling this void. We need directors who have got good systems thinking and who are connected to trends in different areas, such as digital technology, climate action, cyber and security, in the same way that we need boards who are focused on investment or customer experience or product development. Boards need a combined skill set to help an organisation reach its potential.”

### **Reputation and trust**

In an era of social media, “fake news”, and misinformation, boards have the unenviable task of ensuring their organisation maintains a positive reputation with transparency and accountability.

For the public sector, in particular, boards are facing significant challenges in 2020 with coronavirus, election year politics, omnipresent digital risks, and environmental, social, and governance issues.

“Some risks to reputation and trust can be mitigated proactively, but there will be times when unexpected incidents occur. Boards are responsible for crisis management and related reputation aspects.

“If the first time a board thinks about these issues is at a time when a crisis hits, then the organisation is not going to be prepared and its people are not going to get the leadership they need. Being prepared is critical. Crisis preparedness is something for the 2020 board plan, if it’s not already on it,” says Patterson.

### **Making a difference through leadership**

The fifth issue that should be in the minds of directors, according to the IoD, is board leadership and the need for continual improvement and professional development.

“Being a director and being on a board is an unusual leadership role in that you don’t really exist as an individual directing a company. The board is a

collective unit, and it’s that collective that has a voice and delegation to act. The board has to be aware of what’s happening at every layer of the organisation, which requires directors to be engaging in professional development and to be continually learning because the organisations that they’re leading are changing so quickly and are continually developing and evolving,” says Patterson.

“It’s a challenging leadership role, and the time commitment is significant. Governance is certainly getting more visible, and as a community, there’s a trend for people to want to make a difference. Serving on a board provides a way for people to make an impact socially, economically, and environmentally. It’s a privilege really in terms of the impact that directors can have. We have directors who are very generous with their time, giving back through mentoring, through our Future Directors programme, through observer programmes, and by sharing best practice. I think that’s one of the strengths of the New Zealand director community – there’s a real desire to help improve the quality of governance and to support others into it.”

## **CRISIS PREPAREDNESS IS SOMETHING FOR THE 2020 BOARD PLAN.**

You can read the Institute of Directors’ *Top Five Issues for Directors in 2020* at <https://bit.ly/3bUGWNJ>

### **About the Institute of Directors**

The Institute of Directors is the professional body for the director community. Its members come from a range of boards – from NZX-listed companies and corporate boards through to public sector and advisory boards and those governing not-for-profit organisations, including school boards of trustees. The institute’s goal is to raise governance standards and equip directors with the skills, tools, and resources they need to positively transform their organisations, their communities, and Aotearoa.