

BEYOND THE LOOKING GLASS... WHAT COULD ‘FIT-FOR-FUTURE- PURPOSE’ GOVERNANCE OPERATING MODELS LOOK LIKE IN THE FUTURE?

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How to cite: Blomson, D. (2021). Beyond the looking glass... What could ‘fit-for-future-purpose’ governance operating models look like in the future? In S. Hundal, A. Kostyuk, & D. Govorun (Eds.), *Corporate governance: A search for emerging trends in the pandemic times* (pp. 54–58). <https://doi.org/10.22495/cgsetpt9>

Received: 25.04.2021
Accepted: 29.04.2021

Keywords: Operating Models, Board Governance, Board Structures

JEL Classification: M10, L20, G34

DOI: 10.22495/cgsetpt9

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Abstract

This study builds further on the paper presented at Virtus Corporate Governance Conference in May 2020¹, which explored the suitability and current relevance of board operating models. That paper highlighted challenges relating to the suitability of prevailing board operating models and posited some alternative board governance models as a provocation. While a considerable amount of academic and commercial research focuses on current board issues, performance drivers, etc., there is little apparent futuristic thinking, i.e., consideration of the broader changes that will be likely that could inform, modify, accelerate or possibly negate current thinking on what boards should be doing to be effective.

1. INTRODUCTION

This investigation draws heavily on joint research conducted with EY in Australia (via their Global Centre for Board Matters), with Dr Dean Blomson as the lead researcher. The research itself was conducted between July 2020 and January 2021 and involved board members of EY’s clients, some of the largest companies on the Australian Stock Exchange (ASX). The sample covered close to 100 interviews conducted

¹ “Corporate Governance: Examining Key Challenges and Perspectives”, May 7–9, 2020

outside of and within EY². The focus of the study was on board operating models of the future — taking a much longer-term perspective, more specifically to identify and postulate what ‘fit-for purpose’ board operating models could look like in 2030 and beyond. The full report will be released in due course to EY clients and then the public; and the extensive leverage of those insights in this analysis is acknowledged.

The research focused on *board operating models*, in particular, six elements: board structures, key governance processes, management systems and frameworks, e.g., board charters, technology/systems, participants and skills, and ways of working.

The report considers:

- the interviewees’ current challenges/realities and impacts on their governance operating models (the ‘*as-is*’ findings);
- trends we identified that provide clues about what governance could be dealing with in 2030 and the implications those trends could bring for the governance operating context in 2030; and consequently
- what key changes we can or should anticipate to the six operating model elements for boards (the ‘*to-be*’ design implications).

This is not a study of ‘what is’ but of ‘what should be’.

For scholars in the governance research community, the research aims to challenge more deeply conventional wisdom about boards’ roles and how we understand what is ‘fit for purpose’ and why we should be moving beyond the current ‘one size fits all’ approach for operating models.

From there it is hoped that deeper targeted research, analysis and ensuing debate may ultimately lead to the formulation of alternative governance operating models that are better suited (depending on circumstances) to governance oversight of enterprises operating in a more VUCA (volatile, uncertain, complex and ambiguous) world.

Ultimately, however, it will be up to *the non-executive director community*, thought-influencers and ‘peak bodies’ amongst it, to encourage boards to implement more viable options, where needed.

For the governance practitioner community, the aim of this study is to agitate, i.e., to raise awareness and debate about the efficacy of the current ‘last century’ model and a largely one-size-fits-all approach. More specifically, it is intended to encourage board members to think more deeply and critically about their operating models, to develop the courage to break away from the herd in selecting board operating model elements that are far more bespoke for their needs.

² The researcher interviewed non-executive directors providing coverage of 64 publicly listed companies and 29 private companies, including from six (6) of the top 10 ASX companies, plus executive directors (CEOs/CFOs) from 15 major institutions — ASX top 200 and large mutuals.

2. SETTING THE SCENE

As a working definition, ‘operating model’ will be taken to mean the specific set or mix of management/control systems, processes, technology and data, participants and their skills, structures, and ways of working that are assembled (deliberately, one hopes) and applied to provide the necessary enablement of a particular strategic intent (enterprise operating models being the enablement or delivery vehicle of corporate strategic intent).

The conventional wisdom for operating model design (of the enterprise variety), is that it should be fit-for-purpose. The going-in assumption is that the same axiom should apply to board operating models. If so, two key questions are: What purpose? How do we define that? The research that follows addresses both questions.

Before doing so, to set its context, this study will lay out the kinds of pressures that boards of larger, listed and more high-profile public enterprises tend to operate under in a VUCA environment (broadly speaking). This will draw on the findings of the EY research report into the ‘*Board of the Future*’ by considering the *current ‘as-is’ issues* arising from extensive director interviews and then, possible responses for the future, beyond simply tomorrow (the ‘to-be’ model).

The investigation will then lay out a set of trends affecting enterprises and the future *milieu* or context their governance systems may need to be conducted within, based on how these trends may play out to 2030 and beyond. From these trends, a set of ten predictions/assertions will be laid out, about the future operating context for those enterprises and their board governance systems. This is the *future state (‘to-be’) environment*. It is this ‘to-be’ context that provides the background for likely operating model challenges and changes — if they are to be fit for future demands.

Having set the context for *future governance*, the study then points to a set of likely operating model changes — across the various elements of the operating model definition. Crucially, the research finally explores what being ‘fit-for-purpose’ is and how it should be determined by each board, given that each board’s and enterprise’s context is different. The investigation suggests the unpacking of “three P’s”, namely: *purpose* (grand or noble purpose); *priorities* (of the strategic kind); and *persona*, i.e., the dominant board *persona* and how it views its *raison d’être* and the parameters it should operate within. It is through the addressing of these “three P’s” in a disciplined manner and the triangulation of responses to specific questions, that ‘fit-for-purpose’ will be clarified.

The analysis asserts what should be self-evident, namely that governance is an idiosyncratic matter and therefore that heterogeneity of board operating models should be far more evident in the future, rather than the largely homogenous models we see today.

Boards are operating in a wider context of “entropy” but are not showing the necessary system adaptiveness or operating model adjustments. We know from the laws of nature that static systems (stasis) cannot survive in an environment of entropy. A range of operating model responses, including structural ones, are posited that will enable boards to be more ‘VUCA-prepared’ and change ready. These include the need for sense-making mechanisms (metaphorical ‘listening posts’, data decoding and interpretation capabilities) and the ability to tap into multiple constituencies. A networked board is just one possible structural response. Other structural options have been postulated at the 2020 Virtus Governance Conference and in the EY research report.

3. CONCLUSION

In conclusion, it is argued that boards are stuck in the nexus between not just the outside pace of change moving faster than they are, but also the inside pace of change (within management/the organisation) moving faster than they can respond. The structures and capabilities on boards as a generalisation are not reflective of the shift *within organisations*; and boards are hampered from keeping up with the pace of changing expectations *on the outside*, with the arduous regulatory and reporting landscape. Boards are effectively experiencing a double whammy.

Hence the relevance of the much-quoted Jack Welch comment: “If the rate of change on the outside exceeds the rate of change on the inside, the end is near”.

Boards (not all) are facing perhaps not an existential crisis (yet) but one where their relevance and effectiveness is greatly impaired — and a case for change needs to be developed. Herd immunity or a herd response will likely come at a price: waiting for other boards to demonstrate reform and then simply mirroring their responses does not seem to be a wise (or even defensible) governance choice for each board, especially if you accept the premise that ‘governance needs to be fit-for-purpose’.

As a group of governance theoreticians (and sometimes practitioners), we need to build on the debate and come up with better solutions than the initial ideas that have been postulated.

Let’s have a constructive debate and exchange — but let’s not simply ‘admire the problem’ or build a better mousetrap.

“All truth passes through three stages. First, it is ridiculed. Second, it is violently opposed. Third, it is accepted as being self-evident” (Arthur Schopenhauer, 1788–1860).

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