

THINKING OUTSIDE THE GOVERNANCE BOX TO THE BOARD OF THE FUTURE: EXPLORING “FIT-FOR-FUTURE-PURPOSE” GOVERNANCE OPERATING MODELS

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Abstract

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The research aim was to explore whether the dominant style of board model used in Australia was reaching its use-by-date and if so, what more future-ready model/s or features could be considered. This paper represents original thinking and research to generate a new set of “working hypotheses”. We have followed a “grounded research” (an inductive methodology) to produce an emergent theory. We have used semi-structured and qualitative interviewing techniques. The research has generated an initial “theory” and point of view that is directional (not empirical). 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. By examining possible solutions through an operating model lens, the study has taken a system’s view of boards, going well beyond the constraints of current siloed, domain-specific research. The findings clearly point to a model that for larger and/or more complicated enterprises is under considerable strain. It is fast approaching its use-by-date, especially in the light of 1) a shift toward stakeholder capitalism and 2) the need to operate effectively in faster-moving, less predictable, and significantly more complicated environments than the existing board models were designed for. Having set the context for future governance, the recommendations focus on six elements of board operating models, board structures, key governance processes, management systems, and frameworks, e.g., board charters, technology/systems, participants and skills, and ways of working. The relevance of the paper is that at a time when directors are doubling down on what needs to be done, there is a general absence of consideration of 1) what “fit-for-purpose” governance should be and 2) whether the governance system as we know it in Australia is approaching a breaking point for some major enterprises (not all companies).

Keywords: Operating Models, Board Governance, Board Structures

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1. INTRODUCTION

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.

This paper draws heavily on joint research conducted with EY in Australia (via their Global Centre for Board Matters), in collaboration 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 outside of and within EY¹. The full report² will be released in due course to EY clients and then the public and the author acknowledges the extensive leverage of those insights in this paper.

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 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. With the board operating model as the frame, the main focus of the research was to consider whether the predominant, classic board operating model has passed, or is fast approaching, its use-by-date (for some boards, not all); and if yes, then what changes or options should be considered to make boards more future-ready?

To address these questions, the research study considered:

- 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”.

This foundational research was designed to address a few evident literature gaps:

1. Governance as a system or an operating system receives limited attention — most research is driven by specific disciplines (economic, financial analysis, behavioural science, sociological, etc.) and

by a sectoral focus (financial sector governance, health sector, etc.).

2. The focus of research is on the past and present, not what will be demanded of governance further into the future.

3. More specifically, how the two governance systems — board governance and enterprise governance — can and should be more effectively interfaced, is not being adequately considered.

4. While there has been extensive comparative research into the virtues of one board “system” versus another, e.g., Anglo unitary versus two-tier, this doesn't consider other variations that don't exist today (and further, is often a structurally-driven exploration, not a whole-of-system consideration).

5. Lastly, and crucially, there is a significant deficit of consideration as to whether governance (as we currently know and practice it) is still a highly suitable system; and if not, what are the key required changes, options, etc. to make it suitable for future purposes.

Governance literature is deep, extensive, and growing. Searching for specific topics, for example ESG, diversity and inclusion, risk, linkages to various financial performance (dividends, executive compensation systems, etc.), ethics, purpose, etc. will yield a deep vein of research.

Search for topics, however, relating broadly to the future of governance systems and one will discover a significant deficit. Combine this with the largely discipline-based governance research that is symptomatic of a fractured field, and one observes significant gaps in research about broader, forward-looking changes required to governance systems as a whole.

To address some of these gaps, this research deliberately uses the “operating model” as a frame or construct to address the systems' thinking deficit in literature around board governance. Specifically, this research intends to address the key gaps in knowledge and thinking in points 1, 2, and 5 above.

It also aims to raise consideration of two other anomalies and deficiencies in research, namely that while enterprise operating models may be 1) be unique to each company's circumstances and 2) in a state of constant change (transformation), the same does not appear to be the case with board operating models. These observations have not been explored in-depth in this paper but will form the foundation for a separate study.

There are three primary aims:

1. *For scholars in the governance research community*, the paper 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 a board operating models.

From there it is hoped that deeper, more 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 the governance of enterprises operating in a more VUCA (volatile, uncertain, complex and ambiguous) world.

2. *For the governance practitioner community*, i.e., boards and board members themselves, the aim and hope are to encourage boards to debate, evaluate and implement more viable options, where needed. More specifically, it is intended to encourage

¹ 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 EY Board of the Future Report is to be released in July 2021.

board members to develop the courage to break away from the herd in selecting board operating model elements that are far more bespoke for their needs. This hope embraces the research of Shipilov, Greve, and Rowley (2010) and their theory of multi-wave diffusion of practices.

3. For “peak bodies”, regulatory authorities, governance think-tanks, and thought-influencers, the aim of this paper 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 — and to take a more balanced, pragmatic view that encourages 1) governance outcomes (substance) over outward appearances (form) and 2) tailored or customised approaches over consistency (or uniformity) of adoption and approach.

The structure of the paper is as follows: context setting is presented in Section 2; current state findings and the case for change are outlined in Section 3; future trends in governance are provided in Section 4 that point to some of the potential realities facing boards in 2030; and consequently, based on those assertions/predictions, key areas of impact and change for governance operating models are described in Section 5. Then, in Section 6, the paper offers a set of considerations for determining what “fit-for-future-purpose” looks like that each board can assess itself against; and concludes in Section 7 with some reflections of the nature of transformational changes that boards need to consider to maintain their relevance and adaptiveness.

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) as capabilities. These capabilities are 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 arise: *What purpose? How do we define that?* The paper that follows addresses both questions.

Before doing so, to set its context, this paper will lay out the kinds of pressures that boards of larger, listed, and more high-profile public enterprises tend to operate under. This will first 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. Having considered current realities and challenges, we then postulate possible responses for ten years into the future, deliberately going beyond incremental changes that may be good enough for tomorrow (the “to-be” model).

The paper then lays 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 paper then points to a set of likely operating model changes — across the various elements of the operating model definition. Crucially, the paper 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 paper 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.

Lastly, the paper concludes that boards are stuck in the nexus between two shifting tectonic plates: 1) the outside pace of change moving faster than they are; and 2) the inside pace of change (within management/the organisation) moving faster than they can. The structures and capabilities on boards are not reflective of the shift within organisations and the boards are hampered to keep up with the pace of changes on the outside: with rising societal expectations and the arduous regulatory and reporting landscape.

The paper next lays out key findings under the broader working hypotheses (or assertions) that board operating models are broken or sub-optimal, in the main, for today’s realities.

3. GROUNDED RESEARCH POINTS TO KEY FINDINGS

The research points to a number of current state challenges. Firstly, not only enterprises but boards too are struggling to keep up with a multiplicity of issues and growing expectations: the board agenda is becoming more crowded as more topics get added, and the detail (not just strategic but also operational) being provided to boards is arguably growing to unmanageable levels. The topic list is growing: ESG, D&I, cyber, etc. This comes on top of significant compliance and regulatory oversight load. There is a limit to what can be packed into an already constrained and creaking model, without something breaking or changing.

Governance requires both oversight (e.g., on policy and compliance matters or “conformance”) and stewardship. We are seeing a significant tilt towards compliance in many larger enterprises today, for a variety of reasons. Additionally, oversight is too often dealt with in a proceduralised, rules-based way (not necessarily an explorative/inquisitive or “strategic” way).

Secondly, the unintended consequence of many board agendas being risk- and compliance-driven, is a tendency for board packs to be overly detailed and with operational information. This removes the opportunity and “oxygen” to explore forward-looking “strategic” conversations. Stewardship is suffering, as boards are increasingly conflating governance and compliance; and are underplaying their crucial stewardship roles (a sub-hypothesis of

the research). As one interviewee stated: *“The nature of the conversation at the board table is so dictated by governance and regulation and the requirement for supervision that the board can’t actually focus on what it needs to focus on, which is the strategy”*.

Thirdly, overlaying the first two findings is a prevailing concern amongst non-executive directors (NEDs) on the ASX’s larger listed boards that the risk: return balance is increasingly unattractive. Scrutiny levels, not just by regulators but also by the broader public, activist investors, proxy advisers, etc. are getting increasingly hard for boards to address; and concomitantly, litigation (class actions supported by litigation funders) is fuelling a greater sense of exposure.

Why would seasoned corporate executives and other senior professionals wish to run the risk of personal brand impairment, not just financial ruin? Directors and officers (D&O) cover in Australia is a lead indicator of this exposure, more costly than almost all other jurisdictions. If this assertion is correct, one argument is that the ability to attract the best and brightest to listed boards will reduce, and private companies and private equity (PE) firms will be the primary beneficiaries.

As a consequential effect of this, the question is where will the next wave of emerging talent come from? If diversity of experience, thinking, etc., is prized, plus new skills are needed, what is the value proposition that will entice a generally younger, currently employed, less monied cohort onto listed boards?

Lastly, as a consequence of these and other factors, our research indicates anecdotally that we are witnessing a “frog in the pot” syndrome with non-executive directors (especially of larger listed entities) “manfully” pushing on, hoping that this will pass and things will improve.

The next part of the paper largely debunks the hope that things will improve.

3.1. The “me-too”, look-alike approach to governance and its consequences

Interwoven in the conclusions are important observations that there is a significant degree of *sameness/homogeneity in board operating models across sectors and even geographies*, despite different regulatory regimes. There are several apparent causes that could be postulated and explored, e.g., the adoption of governance codes, cross-directorships of influential directors causing “cross-contamination” and a viral spread of standard practices, etc. The reality, however, is that a standard governance operating model does not serve the notable differences that exist between enterprises and their different operating contexts.

Additionally, “bureaucratization and rationalization” have been powerful driving forces: “...we will contend, bureaucratization and other forms of organizational change occur as the result of processes that make organizations more similar without necessarily making them more efficient” (DiMaggio & Powell, 1983, p. 147).

If we accept that 1) operating models need to be fit-for-purpose and that 2) purpose is distinct, surely board operating models should show notable distinctions too?

So, for example, we can see predictable, formulaic approaches to governance mechanisms and structures. Committee structures (as one part of an operating model) are a paramount example. Most companies have an integrated Finance, Audit and Risk Committee, Governance and Remuneration Committee, and maybe a Strategy Committee. There could be other variants, e.g., oil and gas enterprises tend also to have a Safety Committee.

The level of structural conformity is startling, and we need to understand why this is and what risks (if any) it brings. It runs, however, beyond homogeneity of structures, to the pool of boardroom participants, to the similarities of “governance management” processes boards follow, through the technology they use for managing board papers, even to “governance in a box” approaches followed by law firms, etc.

It is argued that while this outward homogeneity in operating models may provide some comfort to investors, the unintended consequence of this uniformity is a *failure to recognise that not all enterprises and their boards are created equal*. Put differently, unique circumstances require distinct governance solutions.

This leads to three anomalies/incongruencies:

1. If one accepts the assertion that different boards are dealing with quite different dynamics and risks, then proper consideration of each enterprise’s unique context demands a more nuanced, more “bespoke” or fit-for-purpose response in the board governance operating model design from one company to the next. We do not see much evidence of that.

2. Additionally, as each enterprise is (for the most part) distinct, and generally, therefore, has specific, heterogenous enterprise operating models, it would appear to make little sense that their governance systems do not generally share or mirror those distinctions. Instead, governance systems are more or less consistent across enterprises (what the author had termed the “square lid on a round jar” syndrome).

3. Of significance too is that board operating models have not kept pace with changes in society, business, etc. Governance models are a creation of a different century and for the most part, are caught in a time warp from an era when information arrived by train or steamship or telegraph; technology was non-existent or moved at a different pace; where regulatory oversight and controls were few and litigation was extremely rare/limited.

Today, capital is highly mobile and no longer patient; information is instantaneous and overwhelming; investment is democratized (in theory via superannuation ownership in Australia or 401k’s in the US, for example) and does not come just from a few monied (and presumably astute) individuals or families; and broader stakeholder demands and expectations are rampant and hard to predict.

Consequently, board governance systems have for the most part also not kept pace with the transformation of the enterprise operating models themselves over which they govern. Enterprises adopt and transform their own operating models, often holistically, at regular points, depending on new strategic imperatives (e.g., digital transformation, customer transformation, operational efficiency, etc.).

The question is “Why are their boards not responding similarly to stay properly ‘in synch’ with their enterprises?” We need to also recognise that contemporary organisational models — whether digitalised or virtual or networked enterprises — and “stateless” or multi-jurisdiction enterprises of the FANG (Facebook, Apple, Amazon, Netflix, and Google) variety, bring significant governance challenges and do not fit into traditional models. Where has been the concomitant evolution in their governance models?

This question leads to Section 4 of this paper, in looking to what the world will likely demand of enterprises and their governance systems, 10 plus years from now.

4. KEY GOVERNANCE TRENDS

While the internal and external context of each enterprise is different, a set of related and mutually reinforcing trends are being observed that will have profound and long-lasting impacts on the probable operating environment for boards in 2030:

Trend 1: The increasing voice of stakeholders; the need to optimise value for expanded stakeholder groups, which requires a mental pivot in thinking, away from shareholder primacy above all else. A sub-trend is that some boards and CEOs moving from being shareholder agents and enterprise leaders to broader business and societal leaders (which requires a different appetite to lead as well as maintaining high levels of trust).

A key implication of this trend is that not only management but also boards (to ensure their independence and vigilance) will need to build sophisticated stakeholder engagement competencies, mood-monitoring, and listening mechanisms.

Trend 2: As a consequence of the first trend, “transparency” of decision-making is being demanded by shareholders, employees, and other customers/community groups. This has a range of impacts on engagement mechanisms and decision-making parameters/systems. Stakeholders expect to have a say (although not always legitimately) and consequently want optics to be in place to provide confidence about certain decisions boards are making. For example, “Why did you invest there?” (market x or geography y), “How will this decision affect these communities?”, “Why with this technology?”, “Why was this executive appointed given his previous track-record on (racism? sexism? environment?)”.

A key implication of this trend for governance operating models will be agreeing on board decision-making processes and optics where criteria are also purpose-oriented, more transparent, and where data is rapidly deployed and assimilated. Consequently:

Trend 3: There are greater demands for accountability and a stronger tendency to pursue recourse. Boards are making decisions in front of critical audiences where media sentiment moves much faster than boards can react. Access to litigation funding and class action lawyers offering contingency fee arrangements is fuelling this rise.

A key implication is that boards need to be able to demonstrate not just strategic and financial rigour in their decisions, but a broader awareness and a clear understanding of how certain decisions will be interpreted amongst different stakeholders groups.

Trend 4: The rate, scale, and sophistication of change — advancing faster, further, and less predictably than a “procedures” based or rules-based culture can keep up with. As the rate and degree of change increases, a key implication is that not only business leaders but also board directors should be grappling with how to respond to growing volatility, uncertainty, complexity, and ambiguity. This trend shows no signs of abating, as the rate of operating model digitalisation accelerates, as dispersion and disintermediation of critical inputs, technology, supply chains, workforce, even capital, etc. continues.

So, if one of the key roles for a board is to be a sense checking mechanism, then a key operating model implication of a VUCA world is that boards will need advanced skills in sensing, supported by robust sense-making mechanisms. It also means moving away from checklists and regimented protocols and relying heavily on rules/procedures. Yes, these will still be needed in many instances (more likely for repetitive, predictable activities); but it also means loosening procedures deliberately and being more organic/fluid to cope with the emergence in others. Tangible controls as we know them will be important but not a sufficiency. Volatility will require a far greater variety and speed of response — less “metronome-like” timing to board meetings, less formality, more curiosity, more devolution (or dispersion) of decision-making perhaps.

Trend 5: More complicated business ecosystems and networked relationships across enterprises. A key implication of this trend will be for governance operating models to show greater variety and agility incl. structural arrangements, and the ability to assimilate information from and apply suitable controls over multiple systems.

If Ashby’s Law of Requisite Variety³ was to be applied to board governance and operating models, it would take board control systems down a path where they are likely to grow more and more complicated in an effort to “stay on top of things”, including in dealing with more complicated ecosystems. Complexity by definition means that the rules haven’t yet been developed because the relationships between cause and effect are yet to be uncovered and correlations are still unknown. With complexity, therefore, how does governance benefit where a board adds in further controls, more processes, and procedures?

These trends point us directionally (not precisely) to the new and challenging operating context that governance systems may need to be conducted within, in 2030 and beyond. Given the likely context, we can make a number of predictions of what changes will need to take place around governance.

We make nine generalised predictions for boards:

1. We will observe a more differentiated regulatory regime — regulators are likely to be more nuanced in their compliance requirements (time will tell how this plays out in various jurisdictions including in Australia);

³ Ashby’s Law of Requisite Variety stated, “that for a system to be stable, the number of states that its control mechanism is capable of attaining (its variety) must be greater than or equal to the number of states in the system being controlled” (J. Naughton, personal communication, 2017, <https://www.edge.org/response-detail/27150>).

2. By “not running (unduly) scared” anymore, boards will be more in control of their compliance and risk (and broader board) agendas and with management’s support, will be governing risk and compliance at the right levels;

3. Consequently, strategy and stewardship conversations will be a primary beneficiary, in terms of increased time, focus, and investment in enhanced sense-making and sense-checking capabilities (see prediction No. 8 below);

4. Boards will be advancing sustainability in the broadest sense of the word; consequently,

5. Stakeholder outcomes will be more explicit, with a clear link to short-term and long-term performance (both executives and board members will be rewarded for outcomes — more long-term incentives);

6. Boards will be structurally diverse, i.e., no longer one-size-fits-all (structures will be more suited to their unique circumstances and intentions);

7. Boards will understand, value, and exploit cognitive diversity for better decisions and therefore, boards will be “soft systems” savvy;

8. NEDs will be having data-fuelled conversations — artificial intelligence (AI) will be integrated into the boardroom, supplementing, not substituting directors (i.e., by providing actionable insights);

9. Boards will be more “VUCA-prepared” and change-ready and will be dealing with more regular (or “frequently on”) transformation: as organisations change faster, boards will be dealing with a different tempo and scale of change (and possibly with shorter tenures).

In response to the preceding trends and pressures, and resulting predictions for governance more broadly, the question is “*What likely changes will we therefore likely see in certain operating models?*” We recognise that not all enterprises will need their governance operating models to change (across multiple dimensions or dramatically in particular elements). For some enterprises, the current model could, by and large, suffice for many years. That should be a conscious decision; however, having deliberately evaluated whether what they have will still be fit-for-future-purpose.

For many other listed entities, however, all six key elements of a classic operating model can be expected to change somewhat, depending on specific context — and as a consequence, we should see less uniformity in governance operating models than today.

The above predictions about future governance realities provide important clues as to where and how governance models may change.

5. KEY OPERATING MODEL IMPACTS AND CHANGES

If an operating model needs to be responsive to context, and the preceding predictions directionally are correct (i.e., not explicitly/exactly but broadly), operating model elements will need to be receptive to these changed circumstances. The six key operating elements will be affected in the following ways:

1. *Board management systems and performance:* Boards will set and explicitly communicate long-term value targets plus key performance indicators (KPIs) that reduce guesswork and “opaqueness” on strategy and intent. Quarterly

results’ attainment will be interesting but not a preoccupation. Board performance (including but not limited to environmental, social and corporate governance (ESG)) will be more objectively knowable and demonstrable. NEDs will be rewarded accordingly (including LTV — long-term value) against financial and non-financial metrics including stakeholder outcomes. Given a rapidly changing world — where legislation is also changing — recalibration of LTV will need to be more dynamic too, to allow executives to flex.

2. *Technology/data:* Technology will be intrinsic to reducing non-value adding reading and checking by boards (as a capacity-liberator). AI systems will be governed and vetted, elevating trust. AI will be a NED force-multiplier and an accepted brain in the boardroom, providing real-time analysis of results, trends, and patterns; and fact-checking. Data-driven decision-support and sensitivity/scenario testing will be prevalent, as the speed of analysis becomes imperative. AI will supplement NEDs, not substitute them, and will reduce the procedural checking burden. It is also significant support for sense checking, a key function for boards.

3. *Governance processes:* Processes and procedures will adjust to support agility, multi-stakeholder engagement as boards move towards stakeholder capitalism. “Outside in” reporting will increase. Processes will be developed to support more rapid decision-making cycles, with real-time data and reporting that is readily accessible. Processes will drive accountability and decision-making to the right levels. Risk management processes and audit/financial oversight processes will be heavily supported by AI. Board packs will be minimalist. As one interviewee put it: “*There may be a need for a new type of role on boards, a sort of ‘ecosystem manager’. This role would help identify people/constituencies whose voice needs to be heard at the board level, before cultivating these relationships*”.

4. *Participants including their skills:* Participants will be different, not only outwardly by way of demographics. Skills will be prized in cognitive diversity and contrarian thinking — and will be properly utilised (and assessed for) along with other “soft skills”. Boards will actively leverage “soft systems” skills necessary to navigate uncertainty and support regular transformation

5. *Ways of working:* Boards will work in more agile and organic ways — especially to come to grips with fast-moving changes, VUCA nature of things. Planned, sequential “waterfall” approaches to meetings/discussions and initiatives will lose ground to agile. Fast iterating of options and controlled experimentation will be required. Directors will have more frequent, real-time interactions with management and key stakeholders and will be constantly plugged into performance and “AWAC”⁴ systems

6. *Structures/roles/responsibilities:* Structures will vary and provide new mechanisms to tap wider views/expertise. As one interviewee put it: “*...your simple model of an Audit and Finance Committee, a People and Culture Committee and a Board Governance Committee probably doesn’t do it anymore. So on [Co ABC] we just created a new*

⁴ Airborne Warning and Control (AWAC) System; or Airborne Early Warning and Control (AEW&C).

committee, which is around technological transformation of the business and the platforms; and has genuine subject matter experts on that". As one option, some boards could rebrand themselves as "stewardship councils" or "value custodians" reflecting a longer-term purpose, with structures that are more like open systems and proactive/sensory, to make sense of ambiguity, interpret external noise, providing listening-posts for stakeholder sentiments, etc. Boards and management will be astute at managing boundaries, so boards don't lose their ability to sense-check.

So, how do non-executive and executive directors develop an informed view and agenda on what their need for governance operating model change is?

6. DETERMINING WHAT "FIT-FOR-FUTURE-PURPOSE" LOOKS LIKE

If the preceding predictions are broadly correct, what needs to change? If a design has to be fit-for-purpose ("form follows function"), purpose needs to be the starting point.

Stepping into the future and considering operating model changes, one has to commence with a reaffirmed purpose of the board. While this will to some degree be an idiosyncratic matter for each board to determine, there ought to be a common baseline understanding of a board's role. Perhaps the role and governance purpose should sound like this: to act in the best long-term interests of the enterprise in meeting the legal, ethical, and value-creating expectations of all shareholders and legitimate stakeholders.

It is suggested that boards need to discuss what "fit-for-future-purpose" means for their governance operating models, by considering the intersection point between three *P*'s:

1. As a board, are they aligned with the executive on a common *grand purpose* (our why)? This is a long-term, 5-10 year plus view. This involves having clarity on why the enterprise exists, what key constituencies they (the board and management) are there to serve, and about where and how long-term value will be generated, reported, compensated.

2. Based on the enterprise's specific strategic intent, is the board clear on its *priorities* and other strategic requirements? This is a medium-term, 3-5-year view on what the board will need to pay specific attention to, what skills and competencies, etc. it will require, based on the strategic intent.

3. Are the board members clear on their dominant board *persona* and parameters? Each director brings to the table a different set of expectations of their role. This requires consideration of what the collective view of the directors on how they see their roles (as there could be dispersed views that need to be aligned); and what each board does that is different from what management does, i.e., where is that board additive to management's work and where are the boundaries for decision-making?

Each of these *P*'s requires consideration of a number of sub-questions by the board. It is via the triangulation of each board's answers to these questions, that a board will get clear "design markers" for its operating model: its competencies, its behaviours, its ethics, its ways of working, how it

should structure itself ("structure follows strategy"), its decision-making rights versus those of the executive, its charters, its use of technology to give it the answers it needs to the matters it needs to pay the closest attention to, etc.

In the EY research, specific changes are flagged for each of the operating model elements.

6.1. Considering how structures, for example, may need to change and become less homogeneous

In one key operating model area, namely board structures, the author postulated alternative constructs to consider, as a "provocation". The critical assertion was/is that there should not be a "one-size-fits-all" approach.

Specifically, one does have to consider how, in this day and age, a unitary board can serve the governance needs of increasingly complicated organisations (multiple products, multiple markets, multiple investments, dispersed supply chains, and crucial relationships, etc.) that are operating in complex environments. Put differently, how can a largely "closed" and static board system (i.e., "in stasis", more or less) function effectively in an environment that is "open" and going through entropy?

As one interviewee said: "*Boards hate uncertainty — this is a real issue in a VUCA world: so how to you deal with uncertainty?*". In a VUCA world, with added pressure and expectations on the board, how can a council of approximately 10 wise men and women undertake their governance responsibilities and avoid significant issues? No matter how smart and experienced directors may be individually, and even assuming no time or bandwidth constraints on them as part-timers, there are limits to the board's knowledge and therefore their effectiveness either in:

- "controlling" via checking (part of their oversight function) or
- guiding via anticipating (part of their stewardship function) in the face of volatility, uncertainty, complexity, and ambiguity.

How can one realistically believe that NEDs can reliably 1) sense and interpret what's coming (sense-making); and also 2) sense-check everything that management is putting to the board? (If you believe that sense-making and sense-checking are two critical functions for a board).

As one possible unconventional construct for example, should we explore having a networked or more virtual board model constructs (in certain circumstances)? Networks can be particularly powerful in coping with fluidity and ambiguity. Could such a model have nodes and feelers that work together with different insiders and outsiders on particular governance tasks or tap broader expertise? Could these devolved nodes act as sense-making mechanisms, when supported by data analytics capabilities to interpret/check weak signals that management is seeing or not seeing? Would such a governance ecosystem enable the board to move with more fluidity and agility, by having devolved decision-making to particular "nodes" on certain topics, etc.?

Such a networked board would see itself not as an all-seeing, all-knowing epicentre but more a monitor/facilitator. Its aim would be to be more

responsive to context changes via nodes; responding to emergence, i.e., sense-making and partly devolved decision-making, closer to the action and the edges.

6.2. Adopting a stewardship mindset

Board members should also have the mindset of being stewards of the long-term viability of the enterprise, to meet sustainability and stakeholder imperatives — and to rebalance what is an overweight focus on risk and compliance.

Clarity of focus and purpose would still be critical. Sophisticated competencies would be required in “constituency management” and stakeholder alignment, to cope with the movement towards stakeholder capitalism and a broader number of constituencies. High levels of trust are needed. The key is for the board to not see itself as the “chief comptroller” and orchestrator but as a sense-maker and sense-checker.

And perhaps we should move to stop calling this new governance construct “a board”: not because it isn’t a board anymore but because it is adopting a transformed board model, signifying a new focus and “brand promise”. Oftentimes with transformational change, the use of a new word or meme flags a new intent. So maybe this should be called a Stewardship Council, to signal a new purpose, with intentionality?

A networked board is just one possible structural response. Others have been postulated by the author and in the EY research report.

7. CONCLUSION

Boards are stuck in the nexus between the outside (external environment) pace of change moving faster than they are, and the inside (within management/ the organisation) rate of adaptation. Both external and internal environments are moving faster than boards in the main can (or choose to) 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. Consequently, boards are effectively experiencing a double whammy. This is best summarised by the much-quoted observation from Jack Welch: “*If the rate of change on the outside exceeds the rate of change on the inside, the end is near*” (Allison, 2014).

If we borrow for a minute from the laws of biology, 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 (in stasis) cannot survive in an environment of entropy.

Boards (not all) are perhaps not facing an existential crisis (yet); and for many, their governance models may suffice with minor adjustments for many years to come. Other boards, however, are already dealing with circumstances where their impact and effectiveness are impaired: consequently, a case for change needs to be developed. Waiting for other boards to demonstrate reform does not seem to be a wise (or even defensible) governance choice. Embracing reform *en masse* or seeking herd immunity will likely come at a

price, given how long it could take to build the urgency and courage across multiple listed enterprises to move together.

There are a number of reasons why this paper is important for future research: it represents an emergent theory that goes to the heart of governance, namely its suitability for a fast-changing environment and each enterprise’s unique context.

Board and enterprise governance stand at the centre of public trust in institutions, confidence in the stock market, etc. For too long we have approached the topic of governance improvements incrementally, often spurred by crises as they come along. But generally, this represents an incremental approach: we add a change to a code of conduct here; improve reporting there; recommend new metrics somewhere else.

We are losing sight of the cumulative impact of new requirements: more board topics (D&I, cyber, ES, etc.), more reporting onus, more risk and liability exposure, great expectations and scrutiny, etc. Can all these changes and demands be accommodated with the same, somewhat archaic framework? One metaphor is that working within the limitations of the prevailing board model is essentially like adding more after-market components to an existing car: more dials and electronics, more engine capacity, more gadgets, roof-racks, wider tyres, etc. At the same time, we are expecting the car to be more energy-efficient, safer, and with advanced sensors and “driver assist” functionality, more responsive and carry more passengers. At some point, one surely needs to ask: “Do we need a ground-up redesign of the car?”, “Is the model still suitable for its specific task?”

Herein lies the relevance of this research for later researchers: the focus needs to be on 1) more nuanced responses, 2) holistic thinking and 3) future thinking. This research aimed to break new ground by triangulating all three attributes.

First, at the nuanced research level, we need to consciously consider whether the board governance vehicle, with all its components and the human element (i.e., the car drivers), is still suited for what it was designed. That should not be a uniform “yes” or “no” type answer. Why should my “governance car” look so similar to yours? Research needs to be nuanced; maybe different typologies of governance should be developed: not just Anglo versus European structures, but different blends of control systems, styles, etc. Otherwise, we will continue to mouth meaningless maxims like “governance (and operating models) must be fit for purpose” or “structure follows strategy”.

Second, at the holistic research level, we cannot afford to consider governance changes incrementally by discipline i.e.; by studying it through separate lenses from an economic, or legalistic, or financial domain. Governance is a system and needs a systems’ approach. The answers could lie as much in biology and sociology (network thinking, adaptive organisms, etc.) as they could in classic governance domains. Cross-disciplinary research approaches are needed for a far more complicated governance world. Hence the approach adopted in this research, namely of examining governance via the construct of a board operating model with its various elements.

Lastly, with regards to future thinking, we need to couple a nuanced, holistic approach with the need to recognise and be prepared for future realities: that a rapidly changing world will potentially require

a very different set of sensing- and response-mechanisms. These changes are coming faster than we realise. Academics need to be on the front foot leading the debate, not poring over what has already happened. Examining and extrapolating future trends to provide context for governance model changes was a cornerstone of this research approach. The ten years' out timeframe selected for this research shows that starting now with planning and anticipating necessary changes, is important:

"We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten", Microsoft founder, Bill Gates (Grasshoff & Coppola, 2019).

Consequently, 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 we have postulated. We cannot simply "admire the problem" or build a better mousetrap.

There are a number of limitations to this study: factors that are intrinsic to each board and those that are external to the board itself. In terms of intrinsic factors, one must recognise that governance models will vary by enterprise, across

many if not all of the operating model elements. This study did not intend to consider forensically those elements. In terms of extrinsic factors, however, inter alia and in no particular sequence, the emergent theory could be impacted by: 1) the selective sampling (from EY's largest Australian listed clients), so it may not apply in the same ways to other smaller listed entities and less likely still, to private companies (which may have different governance issues); 2) study participants are challenged in thinking outside the box and well beyond the current state to alternative, future modalities, so views on options may vary; 3) other unique contextual factors could play a role, e.g., industry dynamics, age of the company, the composition of the shareholder register and concentration of ownership; 4) the level of operating model "complicatedness" (e.g., number of channels, products, business and customer segments, business ecosystem, technology platforms and workforce size, etc.) of the enterprise itself. Lastly, 5) the trends identified do not constitute firm or definitive predictions and should be treated as indicative and directional.

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