

Is the board of the future being held back by the past?

Board of the Future research findings.

Reframe your future.



The better the question.
The better the answer.
The better the world works.



Building a better
working world

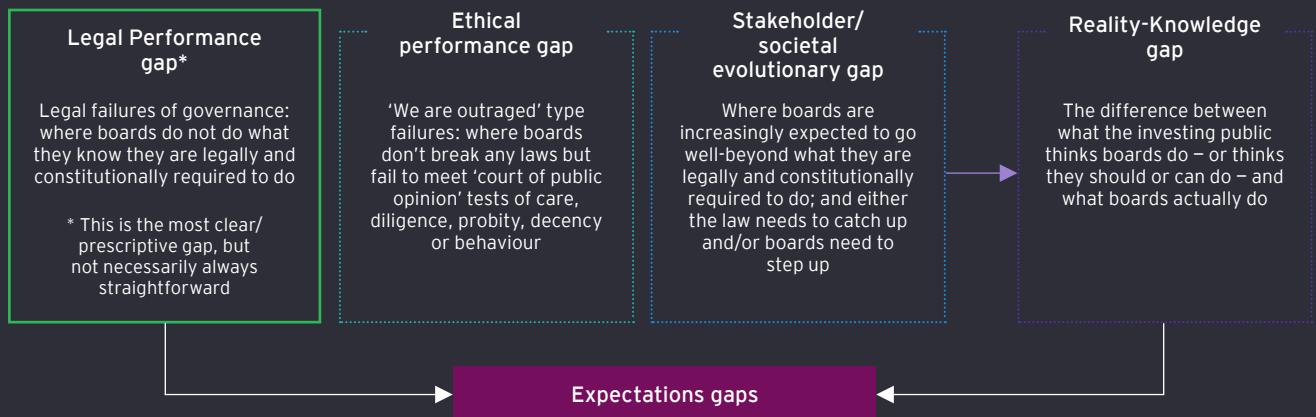
Australian boards are under pressure. Our latest research drawing on ASX boardroom leaders and observers shows that being fit for a more uncertain future will require fundamental changes to governance operating models: skillsets, structures, ways of working and use of technology.

Key challenges

1

Growing regulatory and risk burden

Risk, compliance and regulatory overload are distracting boards from strategic conversations that add real value. An increased threat of personal risk exposure also means Australian boards may struggle to attract top talent. Rapidly expanding expectations means directors need to be alert to a widening set of gaps:



2

Outdated operating model

'High touch, low tech' boards face mountains of historic data and content with limited use of digital tools to interrogate and unlock value from their data. This leaves them with less time for meaningful strategic conversations, and a lack of actionable insights to guide better decisions and respond effectively to volatility.



3

Looming gaps in skills and behaviours

Most boards have an emerging gap in digital literacy, as well as in 'soft skills', such as behavioural science, that are critical to successfully running today's organisation. Diversity in its broadest sense also lags. The recognition that divergent thinking that will be vital to better decision-making, innovation and value creation is still maturing.

4

An identity crisis around stakeholder priority and ESG

Boards are working out how best to meet public and investor expectations on sustainability and long-term value; and to square this with short-term demand for earnings. The shift to more inclusive stakeholder capitalism has begun for some but, by no means, all. Though for many of those making the shift, it is an early and sometimes uncomfortable transition. Deciding how best to 'walk the talk' rather than 'talk the talk' is an evolutionary process.

98% of investors evaluate non-financial disclosures.

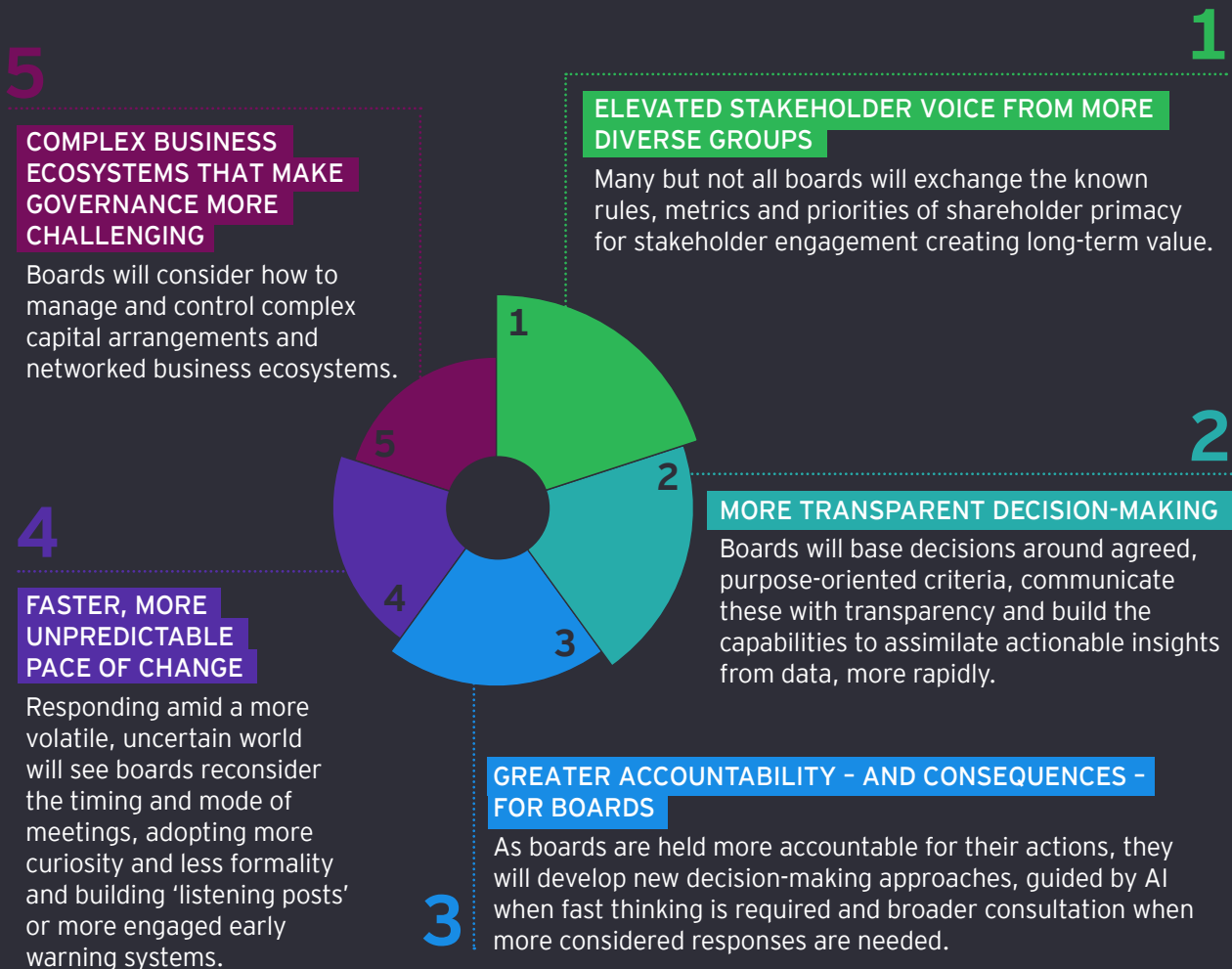
Source: 2020 EY Climate Change and Sustainability Services Institutional Investor Survey

So what?

Without the right skillsets, tools and awareness of the forces reshaping their organisations, board members risk being ill-equipped to help build the enterprise resilience, stakeholder trust and growth mindset critical to building long-term value.

This research predicts the board of 2030 will operate in an environment shaped by five key governance trends:

Based on these trends, all key elements of a classic operating model are expected to change, leading to less uniformity. The 'comply or explain' which has supported homogeneity will need to be overcome. Boards will need to have the courage (and be encouraged) to stand out from the herd if they really want to create fit-for-purpose governance.







How can boards be fit for the future?

Three areas of focus can help boards reshape to meet the challenges of today and more adequately prepare for a different tomorrow.

01. Technology and transformation

Board members don't have to be technology experts, but they must better understand the opportunities and risks of data and digital tools; and consider how to access expertise when needed. This means:

- ▶ Deploying Artificial Intelligence (AI), Robotic Process Automation (RPA) and other technologies to lift the burden of procedural oversight, liberate time and deliver insights for more strategic conversations.
- ▶ Developing creative ways to close the digital skills' gap to support boards with scarce, 'hot' expertise that can guide better decisions around digital transformation.
- ▶ Ensuring robust assurance processes govern the technology used to deliver the information underpinning boards' key decision-making processes.

Key questions to guide change:

- ▶ Where can we improve the quality of analysis and critical thinking we apply to our decisions?
- ▶ To carry out our core responsibilities more effectively, have we thought hard enough about the delineation of boundaries between ourselves and management? And have we really engaged them in constructive dialogue on this?
- ▶ How do we gain and maintain trust in tools, data and relationships?



02. Formulating a meaningful, actionable and authentic Environmental, Social and Governance (ESG) agenda

Boards have an opportunity to become wider change agents that create value for an expanded group of stakeholders and respond to their increasing demands. This will require:

- ▶ Understanding mentally, emotionally and financially how creating longer term value for a wider range of stakeholders can support sustainable value creation, and does not come at the cost of profitability.
- ▶ Identifying societal and/or environmental issues most relevant to your business and cultural DNA, necessary for a genuine and actionable commitment to stakeholder issues.
- ▶ Developing more transparent reporting and communications to ensure investors and other stakeholders understand governance choices.

Key questions to guide change:

- ▶ Are we thinking critically enough about what we do as a board and why we do it? Is what we have today best practice, or just common practice?
- ▶ Based on our organisation's strategic intent, are we clear as a board on our strategic priorities and parameters?
- ▶ As a board, are we aligned with the executive on a common purpose for our current governance model (our 'why')?

03. Reimagining ways of working

Future-ready boards will create a roadmap to build the right skillsets, mindsets and behaviours; rewards and structures, for successful governance in a world that could look quite different in 10 years' time. This means:

- ▶ Creating a board that includes 'soft skills' and diverse thinking, while building a succession plan to increase a 'board-ready' talent pool.
- ▶ Challenging whether current practices, including the frequency and format of board meetings, are sufficiently agile for an increasingly fast-paced, uncertain world.
- ▶ Considering how to build more effective sense-making and sense-checking mechanisms in a world where emerging issues are increasingly prevalent, including a strategy and analytical tools for more effective insights.
- ▶ Moving to a long-term view of financial performance that directly links board members' remuneration to sustainable financial and non-financial outcomes, without sacrificing balance and objectivity.
- ▶ Assessing whether a non-traditional operating model variant would offer more effective governance - e.g. more open or networked governance.

Key questions to guide change:

- ▶ As a board, are we sufficiently differentiated in areas that really matter?
- ▶ What are our behavioural blind spots: bias, lack of curiosity, unconventional thinking, excess collegiality?
- ▶ As strategy shifts, how does our board ensure culture is redefined to incorporate new behaviours required to drive long term value and growth?
- ▶ In designing our skills matrix, have we thought about how we source and nurture hard-to-find skills needed beyond our 1-3 years plans? And have we considered whether it will still be fit for purpose in 2030?

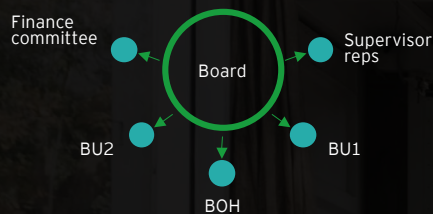


Exploring alternative operating models

If we were to design a new model, would what we arrived at be quite different to what we have today? How?

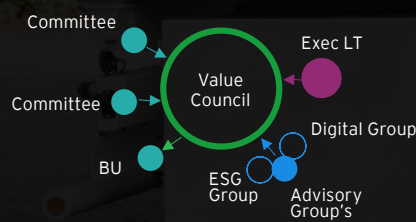
If the traditional 'unitary' board structure is no longer fit for purpose for some organisations, three alternative models may enable better governance:

Hybrid, moderately devolved governance



- ▶ Mixes classic and new board structures.
- ▶ Aligns committees to business units where most value and/or upside and risk lie.
- ▶ Allows inputs from other key stakeholders.

Hub and spoke - hard core, soft edges



- ▶ Board is still the epicentre but the workload is more widely shared.
- ▶ Ideas are raised and resolved around, as well as within, the board.
- ▶ Non-traditional committees support big value creation, advisory groups help with topics such as ESG.

Networked - more virtual



- ▶ Instead of an omniscient epicentre, the board is a steward responsible for monitoring and facilitating long-term value.
- ▶ Satellite structures pick up stakeholder issues and feed them up to sense-making 'nodes'.
- ▶ Board delegates more decision-making to the nodes (closer to where the emergence and point of impact is) on key responses.



Let's continue the conversation

These findings are based on deep discussions with Australia's boards and governance experts, but they don't claim to provide all the answers. The research team want to hear your thoughts and ideas, welcome your feedback and are keen to continue the conversation. Is your board thinking about its own future and what it will need to do differently to remain fit for purpose?

If these predictions are correct, what needs to change today so we're ready for the future and not being held back by the past?

Join the conversation #BoardMatters

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