



A Corporate Governance Paradigm Shift

Directors need to prepare for board renewal and transformation on many levels.

The sustainability of conventional corporate governance models has recently come into question. Directors are living in the midst of intense competition in a business environment disrupted by shifts in technology, macroeconomics and geopolitics. As a result, some of the critical questions that boards need to confront are: What transforms the business environment today? What are our risks and opportunities? Can directors continue to be effective without considering recalibration and renewal?

With warnings about the need for change at multiple levels, board chairs, directors, senior executives and academic experts came together at the 2019 INSEAD Directors Forum on our Europe campus to discuss transformations that will affect corporate governance and boards.

INSEAD faculty continue to research what **boards are like** and what the **future** may hold for them. In our current environment, transformation – from **personal** and **organisational** change to **digital innovation** – is a vital topic of study. Building on our academic expertise, the forum was the ideal platform to ask a fundamental question: What is the role of the board and the chair in the transformational journey?

Irène Mia from the Economist Group provided a clear picture of the geopolitical playing field,

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describing weak growth as “**slowbalisation**” with an overview of the global “democracy deficit”. These are phenomena boards must carefully grasp in order to make informed decisions and strategic moves.

Informed boards

How board members learn was one question in the 2018 **Boardroom Digital Transformation Survey** presented by INSEAD **Professor Andrew Shipilov**. The survey uncovered that the most common ways board members learn is by listening to speakers and reading. However, a striking result was that nearly a third said they just didn’t learn about innovation. Without information, rumours and myths grow.

Shipilov **debunked** four myths around disruption, based on research done in collaboration with INSEAD **Professor Nathan Furr**.

1. The first myth is that transformation means total disruption. In fact, it does not have to be; transformation can be another wave of change. “The key difference is the speed and intensity of change,” explained Shipilov.
2. The second myth is that all businesses will move online. The leading disruptor and most successful online business, **Amazon**, has developed brick-and-mortar spaces.

3. Another common misconception about disruption, the third myth, is that moving into digital equals the rapid acquisition of start-ups. Not all businesses can work this way, naturally. Fitting a small, agile company with digital natives into an established multinational could prove complex in terms of organisational culture, for example.
4. The fourth myth is that digital transformation is only about technology. Shipilov explained that transformation needs to be integrated at the organisational level. Opportunities for innovation should be spread out across the firm. “Revolution and disruption are not the way for transformation. I believe in evolution,” he commented.

Returning to the digital transformation survey, Shipilov concluded that whilst 81 percent of board members saw digital as an opportunity, there was a clear preference for alliances rather than growing digital transformation capacity in-house.

Building on these findings, INSEAD **Professor Theos Evgeniou** described how we have arrived at the era of AI, with its attendant all-encompassing disruption. AI is now capable of increasingly complex decisions and may soon even surpass human creativity. He explained the shift from Symbolic AI, where a human fed a machine with rules and data to produce an output, to Statistical AI in which the machine itself learns from the output and produces its own rules.

Needless to say, humans must adapt their approach to AI. Evgeniou emphasised the necessity of a **holistic approach for directors** to understand the organisational change implicit in AI. They should take into consideration factors from IT infrastructure and management to the philosophical principles at stake and the regulations AI potentially disrupts.

The governance transformation journey

According to INSEAD Professor **Stanislav Shekshnia**, the role of the executive committee entails risk taking and value creation. The role of the board and chairs, however, is either to lead and oversee change or to “remain an island of stability”. At the forum, he led a panel with chairs who discussed their own transformation experiences at the board and firm levels.

Managing change is a core activity for boards. **Anat Bar-Gera**, Chair of Cyverse AG and board member of the Bank of Cyprus, pointed out possible detrimental outcomes if the board does not accept a rapidly changing marketplace. She made reference to recently collapsed **Thomas Cook** as an example of a board unable to see the writing on the wall.

Claus Hemmingsen, Chair of DFDS A/S

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and Maersk Drilling, explained that if a board is reluctant to discuss transformation, action might be in order: “If you cannot change board behaviour when, for instance, transformative change in the company is deemed necessary, you may need to change board members.”

Thierry Sommelet, former Chairman of Soitec and Chairman of the supervisory board Greenbureau, added that board members had a “need for reverse mentoring”. Less established directors had talents that were not always present in members who had been on the board for a long time. This could be an issue of tech savviness, but also in other dimensions, such as “emotional intelligence”.

Once a board understands that change is necessary, what are the next steps?

Liselotte Engstam, a chair and non-executive director for both listed and private companies, and an advisor on digitalisation of corporate governance to the European Commission, confessed that she was “afraid of missed opportunities”. She recommended the use of temporary committees, combining the board, the executive team and external contributors for a deep dive when necessary.

In another session, INSEAD **Professor Loïc Sadoulet** spoke about the critical role of good governance and better information: “We need to have better investment in what the future’s going to be.”

Sadoulet described how the global economy is at “a delicate moment”. Increased inequalities lead to more populism and more risks, he explained. Boards in particular must steer their companies away from “what they do” towards well-defined business models.

He shared a definition of VUCA from West Point where it describes a leadership stance. At the US Army’s leadership academy, instead of volatility, uncertainty, complexity and ambiguity, the acronym stands for vision, understanding, clarity and adaptability. A vision is defining the desired future and planning for it. “If the world is uncertain,” he said, “we have to start developing a clear understanding, not only the transactional aspect of change, but the transformation aspect of change. If the world is complex, we need to build clarity, in the sense that we need to have open eyes, read mixed signals and make sense out of this.”

Talent management

At the organisational level, a talent transformation has arisen in recent decades. INSEAD **Professor Jennifer Petriglieri** described how both partners in most couples enjoy productive, fulfilling careers

rather than the old model of one spouse trailing after another. These dual-career couples are left out of the **current talent management paradigm** with the expectation of a high potential jumping at any new position they are offered. Firms need to adjust their expectations and strategy to retain the best talent that they themselves have often nurtured.



Boards have to understand this change and encourage a culture that accepts and invests in a “plurality of paths to the top”. They need to consider and adapt to the equality of ambition present in dual-career top management and executives.

Boards’ renewal

Finally, **Professor José Luis Álvarez**, Academic Director of the INSEAD Corporate Governance Centre, shared a preview of his findings from a **recent report** on board renewal. There is a movement towards professionalisation; directors desire more in-depth and further engagement in directorship roles. In recent research, 78 percent of directors declared they wanted board work to be their main occupation. Nevertheless, getting onto a board continues to be difficult, despite the increasing popularity of search firms to find the right fit, culture and expertise. Álvarez reminded the participants that networking (both at the professional and personal level) remains the key to unlock the door to a board position. According to the study, 61 percent of directors found their board position through these networks.

However, Álvarez’ main message was about how holding a seat on the board in these times of renewed expectations, transformation and greater scrutiny is not easy. It requires dedication and full commitment to overcome the global and interpersonal challenges directors face.

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