How governance must pivot in the face of accelerating change.

Boards are left with no option but to evolve. The confluence of macro-economic uncertainties, geopolitical tensions, climate change and digital disruption has led to unpredictable risks, a polarising society and more activist stakeholders. At the recent INSEAD Directors Forum, experts discussed how governance must transform to meet these persistent challenges head-on.

In his keynote address, Gilbert Ghostine, Chairman of Sandoz, envisioned a future marked by “more” – more green initiatives, more digital transformation, more local and responsible consumption and more stringent regulations. This “world of more” will fundamentally change the way companies are run.

Boards can't effectively guide this change by simply reacting; they must be forward-thinking, flexible and proactive. They need to step up their game. Here are ten vital insights from the forum – key factors every board should consider.
1. Get comfortable with uncertainty
Navigating uncertainty is not about coping with the unknown; it's about actively seeking opportunities within it. As highlighted by INSEAD Professor of Strategy Nathan Furr, it is imperative for leaders to actively cultivate what he terms their “uncertainty ability” – the capacity to deal with and thrive in ambiguity. Boards should encourage this capability within their organisations, sending a clear message to management that uncertainty is not only a threat, but also a gateway to unexplored possibilities.

2. Pay more attention to obsolescence risks
Boards frequently miss the signs of a company’s vulnerabilities, especially in volatile environments. They fail to understand when obsolescence risks emerge, how they grow and what they truly consist of. In their book, Value Creation for Owners and Directors, Massimo Massa, Kai Taraporevala and Ludo Van der Heyden argue that obsolescence risks need to be brought to the forefront of strategic discussions. Making these risks more visible is essential to effectively address this “silent killer” of companies.

3. Redefine value creation and balance stakeholder interests
Boards need to find a new balance between the focus on shareholder returns and a stakeholder-oriented approach, considering the interests and concerns of employees, customers, suppliers, communities and the environment. The key is to align owners, board and management around a clear mission which takes into account the various interests of these stakeholders and strikes a balance between their needs. According to Ghostine, our obligation as leaders and boards is to prove that sustainability and profitability are compatible.

4. Rethink incentive structures and KPIs
Remuneration committees must review and possibly revise how management is incentivised and which metrics are used to measure their performance. A much more critical view is needed on how a remuneration policy truly leads to long-term value creation. The selection of KPIs is not a technical task for a remuneration committee, but a strategic exercise for the whole board.

5. Appoint ‘holistic’ board members
Building a truly effective board requires a holistic perspective on the whole
team in view of future challenges. During the forum, Jens-Thomas Pietralla, Managing Director and Chairman, Board & CEO Advisory Partners, Russell Reynolds Associates, explained that boards need to consider leadership experience and ethical mindset - not just skills - when appointing board members. According to Pietralla, good ingredients don’t guarantee a good meal, but you can’t even begin to make a good meal with bad ingredients.

6. **Invest in capabilities and diverse thinking**
Boards need to invest in their own capabilities to oversee risk and anticipate the changing landscape. Relying solely on the information provided by the company is insufficient. Boards must actively seek perspectives and insights from experts and from people who think differently in order to challenge and stimulate management thinking.

7. **Sharpen role clarity**
There is going to be an even greater need to distinguish between the role of the owner, the directors and the executive team. In our discussion at the forum, Chaired Professor of Corporate Governance Ludo Van der Heyden explained that owners leading companies need to be responsible for framing the mission of the firm. The mission then needs to cascade down to the board and executives. In the world of listed companies, this process is more complex. Ensuring alignment among these three levels is pivotal for effective value creation.

8. **Balance the broadening role of the board**
The board’s function is becoming much more nuanced, requiring a delicate balance between traditional oversight and expanded roles such as guiding management, sharing expertise and acting as a sounding board. It's crucial for board members to remain objective and keep each other sharp.

9. **Prioritise versatility and reflection**
Boards must be able to adapt and change their way of working as circumstances demand. This requires constant reflection on what is working and what isn't. In his keynote address, Tim Rowley, INSEAD Corporate Governance Centre Distinguished Fellow, underscored the importance of agility. He stressed that boards need to consciously switch between different roles depending on the specific decisions they face. They should constantly question the diverse roles they should assume to remain effective and relevant.
10. Ensure healthy, trust-based debates
Healthy, inclusive and constructive debates are essential in any decision-making context, but especially so in a fast-changing, complex environment. Embracing the principles of fair process leadership, which include active engagement, transparency and objective evaluation, is a powerful tool to address and overcome inherent biases. This approach enhances the quality of decision-making processes, ensuring fairness and effectiveness.

By embracing these ten key insights, boards can cultivate strong, forward-thinking governance that stands resilient in the face of any challenge.

Find article at
https://knowledge.insead.edu/leadership-organisations/ten-ways-boards-need-transform

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