Are Boards Forward-Thinking Enough in this Disruption Era?

By Ron Soonieus , INSEAD

Seven recommendations for boards to recalibrate their strategies and skill sets.

The old assumption that the past informs the future no longer holds true in an era marked by unparalleled speed and deep-rooted uncertainty. Corporations today face an environment that require boards to recalibrate their governance approach.

Indeed, our collaborative board **research** with BCG, Heidrick & Struggles and INSEAD has identified significant challenges in long-term strategic planning. For example, while directors generally recognise trends and potential shifts in areas like sustainability, only 10 percent believe it will impact medium- to long-term financial results. We see a general tendency to underestimate the influence of external trends on the future of organisations. Such trends include generative artificial intelligence (GenAI), factors linked to trade, geopolitical disruptions as well as climate and sustainability.

Each of these issues presents its own set of challenges and complexities, and the business implications of these external trends cannot be considered in isolation, particularly over the long term. Furthermore, it's reasonable to anticipate this list will keep changing. Echoing this sentiment, the chair of a Fortune 100 company told us: “This is definitely one of the most challenging times companies have ever faced – and it’s not likely to change any time soon.”

Boards are now called to weave major global trends into the very fabric of their strategic decision-making. In practice, this means boards must adopt a more **forward-looking** mindset. The nature of boardroom discussions must evolve, encompassing a broader array of issues than ever before. The problem is that board members often feel ill-prepared, both in terms of their skill set and the traditional board agenda.

The forthcoming 2024 BCG, Heidrick & Struggles and INSEAD global directors survey is designed to explore how boards are governing in this uncertain world. We look forward to sharing these insights. Meanwhile, here are seven recommendations for boards to recalibrate their governance strategies and skill sets to navigate at unparalleled speed amid deep uncertainty.

1. Don’t delay getting your bearings

While observing competitors and waiting for more clarity may appear wise, it can heighten risks and result in lost opportunities when it comes to securing new advantages and industry leadership. The clearest danger lies in inaction.

We advise boards to refine two critical lists. The first should detail the most significant external uncertainty factors as well as the strategic and operational questions that come with them. The second should capture the relevant areas where the board feels its actions, knowledge or understanding are lacking.

2. Update and upskill your board’s expertise

Once the board has documented the gaps in its actions and knowledge, a skills matrix exercise can identify the discrepancies between the board's existing skill set and its ideal composition. This matrix aids in pinpointing areas for the upskilling of current directors, or in recruiting directors who bring a different expertise. Advisory boards might be an effective way to bolster the board’s competencies.

3. Recognise that disruption is an ongoing strategy reality

Just as climate change and sustainability gradually became mainstays on the board's agenda, the potential of GenAI as well as trade and geopolitical tensions are starting to dominate the discussion. The speed and impacts of these trends will undoubtedly disrupt business models, corporate portfolios and ways of working.

The board should start by stress-testing management's approach to speed and uncertainty. How is the firm intending to capitalise on disruption to improve its competitive advantage and value creation?

4. Go deep on sustainability and GenAI regulatory requirements

There is no shortage of new regulations poised to impact companies. Among these are the European Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CS3D), the European Sustainability Reporting Standards (ESRS) and anticipated regulations from the US Securities and Exchange Commission.

These regulations present direct risks for boards as well. For instance, boards must sign-off on transition plans for aligning corporate strategy with the goal of limiting global warming to 1.5°C. They must also disclose comprehensive details about their governance processes, such as how (and how often) the board is informed about sustainability issues.

Instead of perceiving these requirements as burdensome or troublesome, boards should view them as a chance to surpass mere compliance and standard box-ticking routines. Since many of these new legislative mandates are also driven by future risks and opportunities, boards can build on the resulting insights to guide long-term strategy. Similar requirements may crop up around GenAI as the technology progresses.

5. Employ dynamic strategic scenarios planning (DSSP)

Companies can't afford to prepare for a singular future. In addition, the typical three-to-five-year strategic review cycles may be too short.

We recommend comprehensive and imaginative dynamic scenario planning. This involves exploring a **range of possible outcomes** and their specific challenges and opportunities. Boards can thus better grasp how long-term trends could affect the future value and operations of the business. Only **34** percent of board members believe their companies have a full understanding of these dynamics. Even fewer are confident that their company is prepared for transformative changes or able to identify where business shocks might arise.

6. Go hard on driving innovation

Disruptive times challenge a company’s innovation capacity, and that capacity, next to a strong balance sheet, can be the difference between seizing advantage and being competitively displaced.

The board has a critical role to play in probing the extent and quality of the company’s innovation capacity. It must assess where and how innovation initiatives are influencing the company’s products, business models and ways of working.

7. Revamp the board agenda and pace

Given the pace of developments, it is smart to fully review the board agenda, the roles of committees and the frequency of board meetings.

The board agenda must be dynamic and agile, regularly incorporating new trends and risks. Frequent scenario planning sessions (as described above) should be added to the board's routine activities. New trends may involve adapting existing committee roles or creating new ones. Lastly, meetings might need to be held more frequently.

In this era of disruption, boards must adopt a more forward-thinking mindset. By revising their governance strategies and acquiring relevant expertise in key external factors, boards can aptly steer their companies through these turbulent times.

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Corporate Governance

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