

A NEW DIRECTION
Companies need strong leaders to survive and thrive



Who's gonna drive you home?

Board directors are in the driving seat, making the final judgement calls on behalf of the companies they are appointed to serve – decisions that not only affect the shareholders, but also the wider ecosystem of stakeholders. But are our business leaders on top of new realities in the corporate world – or just hanging in there?

The last few years, digitalisation has been the hottest topic for boards, while focus is

Times of uncertainty and rapid change call for a new approach to leadership

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now shifting towards the company's purpose and role in society, corporate culture, values and ethics.

Driving this change are the UN Global Compact Sustainable Development Goals (SDGs), which are at the heart of 'Agenda

2030' – a plan adopted by all 193 UN member states for achieving a better future for all. The SDGs aim to end extreme poverty, fight inequality and injustice, and protect our planet. Businesses play a crucial part in achieving these ambitious goals.¹

The heat is on – corporate directors

Larry Fink, CEO of BlackRock, the world's largest institutional investor, is among those calling for action at the top floors of the corporate world. He's asking CEOs of BlackRock's investee companies 'to demonstrate the leadership and clarity that

will drive not only their [clients'] investment returns, but also the prosperity and security of their fellow citizens'.

Large asset managers, such as Norges Bank Investment Management – better known as Norway's oil fund, puts it this way: "We aim to identify long-term investment opportunities and reduce our exposure to unacceptable risk."² Companies that do not comply with the oil fund's investment policies are quickly removed from its portfolio.

Echoing these trends, the US-based not-for-profit Business Roundtable recently launched its new Statement on the Purpose of a Corporation signed by CEOs of the 181 largest companies in the United States.³ They commit to lead their companies for the benefit of all stakeholders – customers, employees, suppliers, communities and shareholders.

Some say it's sweet talk and window dressing but, instead of looking for answers in the rear window, it's always a better idea to watch out for bumps and turns on the road ahead,⁴ such as the armada of Millennials out there, demanding that companies stop operating at the cost of the environment, human rights, child labour and so forth.

On top of that, consumers are becoming more discerning and have the power to influence regulations affecting a company's operating model directly.

Which implies that reality is not what it used to be, and the business of business is no longer just business. Long gone are the days when board directors' responsibilities were only to the company's shareholders. Today, corporate leaders are expected to be accountable to the society in which they are licenced to operate.

This is a mega shift that requires a whole new set of skills and, even more important, a shift of mindset on the part of those in charge. The fundamental question is how and by whom should our companies be governed in the future to ensure long-term value creation for all?

Boardroom overload

Board agendas are already packed, and a large number of issues are fighting to be on top. An article last year by Erik Kutcher, senior partner and a global leader of hi-tech in the media and telecoms practice at McKinsey, indicates that boards suffer from flaws; time constraint, lack of diversity and expertise, including lack of comprehension of the companies they were appointed to serve.⁵ Kutcher holds that: "These flaws limit the effectiveness in the board and often lead management to limit interactions with their board by trying to manage through meetings, rather than viewing the board as a

helpful source of new ideas and expertise and a sanity check on strategy."

Furthermore, a recent survey among European board directors, conducted by Board Agenda and Mazars concludes that sustainability is high on the boards' agendas and that the risks and opportunities are well understood.⁶ However, board directors are not up to speed with regards to integrating sustainability thinking in their overall strategies, and they have a hard time measuring and communicating the results. And, even more worrying, a gap seems to exist between what board directors think they are doing and what they actually do.

So, how do we fix it?

While national rules and regulations, ownership structures as well as culture and traditions shape our perceptions of what is to be considered good corporate governance, change is imminent. Most business activities are reaching across national borders and so should our understanding of good business conduct.

According to the to the rock star of corporate governance, professor Mervyn E. King, the answer lies in integrated thinking. As chair of the King Committee on Corporate Governance for Southern Africa, and an international thought leader in this field, the good professor has strongly influenced corporate governance around the world.⁷

The 4th edition of the *King Report on Corporate Governance for South Africa*, which has been cited as 'the most effective summary of the best international practices in corporate governance', was published in November 2016. King holds that: "It's a question of value creation. If you have scarce natural resources and you just focus on short-term profit and concentrate on trying to get more dividends to shareholders, you're going to destroy the company."⁸

His visionary ideas led to the creation of the International Integrated Reporting Council – of which he is now the chair emeritus – and the development of the Integrated Reporting (IR) framework.⁸ The idea is to help boards see the bigger picture and to better detect risks and opportunities by seeing the company's financial and non-financial capitals in unison.

Corporate leaders must rethink their responsibilities, to whom they are accountable, and how they can ensure that the business is understood by all the

company's stakeholders. This requires new perspectives on the board of directors' role and responsibilities, as well as the way they operate.

As an example, is the Norwegian corporate governance model with entirely non-executive directors sustainable? Will a group of people that meet for a couple of hours once a month or less, be able to comprehend the rapid changes that are taking place inside and outside the company? Or will they be back-seat drivers?

New people in power

Back in the day, board directors were generalists, whether they were recruited on the basis of their good sense, or their good connections. Lately, the need for specific expertise have resulted in more specialist appointments to boards of directors. Digital disruption and other developments are seen to add to the urgency, as have government regulations that place specific responsibilities on specific board committees and their members. And even if the gender balance on corporate boards is improving, most boardrooms worldwide

are still filled with men aged 60-plus, most of them previous CEOs, because experience is regarded a key qualification for board members. But, we know that individuals with too much shared background and experience – AKA 'the old boys' network' – may lead to groupthink, which in turn may lead to disastrous consequences for your company, as well as society.

While there is no silver bullet, nor a magic wand, it's quite clear that we need new people in the drivers' seat: wise women and men – both young and experienced – with insight and foresight, diversity of minds and perspectives, as well as the courage to speak up to ensure that your company will survive and thrive in the 21st Century.

So: 'You know you can't go on thinking nothing's wrong. Who's gonna drive you home tonight?'"⁹

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¹<https://www.unglobalcompact.org/sdgs> ²<https://www.nbim.no/contentassets/67c692a171fa450ca6e3e1e3a7793311/responsible-investment-2017--government-pension-fund-global.pdf> ³<https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans> ⁴<https://www.ft.com/content/fff170a0-e5e0-11e9-b8e0-026e07cbe5b4> ⁵<https://www.linkedin.com/pulse/corporate-boards-need-facelift-eric-kutcher/> ⁶<https://boardagenda.com/resource/leadership-in-corporate-sustainability-european-report-2018/> ⁷<http://www.caccaglobal.com/zw/en/member/member/accounting-business/2016/09/insights/king-revolution.html> ⁸<https://integratedreporting.org/> ⁹Lyrics from 'Drive' by The Cars, which reached number three on the Billboard Hot 100 in 1984 and the band's biggest international hit.