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Globally, boardrooms are evolving. Heightened scrutiny, empowered investors, rising competition, regulation and technological disruption have combined with the record pace and unpredictability of change to dramatically alter how boards are comprised and how they operate. This perfect storm is shaking up board composition, expanding and redefining what is expected of boards, and fundamentally changing what it means to be a director.

What is different? The requirements of board members have expanded to include greater involvement in strategy, investor engagement and CEO succession planning. This is due, among other factors, to greater transparency, stricter governance, and demands for change from institutional investors.

Allan Marks, Managing Partner, Boyden Australia and Regional Leader of the CEO & Board Services Practice for APAC says, "There is a greater focus on boards to assess the capabilities they need and try and be sure that there is a balanced portfolio of expertise within the boardroom. Some of that is related to the industry the organization might be in, and some of that is related to skills in other areas such as technology disruption. So it's changing in that context."

Boards are broadening the range of skills and experience that they are seeking. More careful attention is being paid to board recruitment overall, and boards are more concerned with developing candidate profiles and recruiting for relevant attributes. In contrast to the old rolodex pattern of board members recruiting and electing people they know, more boards are aligning strategy with board composition. There is also a recognition that higher turnover among board members can lead to improved performance assessment.

Much is said about technology, disruption, and the role boards can play in preparing for transformative products, services or processes. But “disruption” isn’t strictly a business activity. Bill Gates said “We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don’t let yourself be lulled into inaction.” Disruption can come from other quarters – such as climate change, which is having an impact on risk management, to cite one example.

A major event in Japan, where boards are likely to be traditional and comprised of inside directors, was the Japan Corporate Governance Code, which in 2015 introduced changes to the way boards of publicly traded companies operate. Established by the Japanese government in response to calls from foreign shareholders for more transparency, the Code focuses on the appointment of external non-executive directors, and evaluating board effectiveness.

Board service is also changing for individual directors, who are getting more involved in the business. This exemplifies how boards overall are taking a greater interest, becoming more hands-on, and having more interaction with the executive team.

## The Drivers of Change

Regulation, disruption, social pressure and business needs are driving much of the change seen in recent years. “In Australia, for example, there is market and stock exchange pressure for transparency and gender diversity on boards and in management,” Marks said. This is the case across industries, particularly with regard to technological disruption.

In addition, as Marks points out, “Boards are under increasing pressure to deliver results. There is pressure on boards now for performance – company performance. Boards have to have a certain amount of accountability around that, as well, because they select the CEO.” Boards are in a position to drive positive change in company performance, as well as diversity, transparency, and aligning culture with strategy.

## Board Tenure and Succession

There is widespread belief among board members that length of tenure on a board does not affect its autonomy. However board tenures in the US, at least, are getting longer, not shorter. Longer tenures are partly a result of the retirement age moving up. This trend runs counter to the notion that higher turnover is beneficial, infusing the board with experience that is current and relevant.

Of course, having outdated skills does not necessarily mean that a director cannot be a valuable contributor. Considering attributes like institutional memory, measures such as performance and ability to contribute, rather than age and tenure, could be more useful in determining whether a director should step down.

“If you’re not doing well, it may be time to move on,” Marks suggests. Then again, “One of the more difficult decisions for a group to make, even for people who make difficult decisions their entire careers, often, is saying goodbye to a director who is not working out. It is more usually done around the time of re-election,” he said.

A slow pace of board retirement can limit opportunities for board diversification. In the UK, the accepted corporate governance best practice limits executive tenure to three terms of three years each – the “nine-year rule.” Such limits encourage boards to be more proactive about board succession planning and board evaluation. It also allows more opportunities to incorporate board diversification into the plan.

## Governance and Board Committees

Government regulations and stock exchange rule changes, perceived risks, and investor pressure are having a significant impact on board governance globally. Debate swirls around the issue of board independence. For example, whether the CEO and Chairman roles should be separated, and whether board chairs need to be independent. In some regions boards have few, if any outside directors. In others, boards are mostly comprised of non-executive directors.

Japan's Corporate Governance Code is a key example of investors prompting significant changes to board governance. In Australia, relatively new laws expose corporate boards to significant investor influence. According to the Financial Times, the 'Two Strike' rule refers to a 2011 law stating "if more than a quarter of shareholder votes are cast against a company's remuneration report for two years in a row, it triggers a further vote – on a straight majority – requiring all directors to face reelection." Activists are using this rule as a touchpoint for seeking change.

This level of investor influence is complicated. The rise in influence of activist investors and their supporters has made directors increasingly accountable to them, and obliged them to dedicate more time to addressing their demands. Yet not all activist investors are created equal. Their intentions may or may not be good, and their focus may be on the short or long term.

In addition, corporate boards in several countries are addressing uniquely 21st-century challenges through their committee structure. In Marks' experience, "I don't see a particular change around core committees, but I do see them being more rigorous and effective in what they do, and more accountable. The skills that are required to chair them are increasingly complex."

However, the nature of risk is evolving. The need to manage risk has grown in the financial services sector, for example, and cybersecurity has emerged as a major concern globally. Such developments are leading boards to add risk committees. These are assuming oversight of cyber risk, previously the domain of audit committees. Not surprisingly, demand for directors with technology expertise is on the rise.

Board governance is also changing in response to changes in business as well as society. Greater transparency and accountability has made boards more conscious of risks to reputation and culture. This can be seen in boards' increasing attention to corporate social responsibility.

The impact of these changes could be immensely positive. They encourage businesses to regularly evaluate and re-evaluate their business model, and boards are getting more involved in the process. As a result, governance is becoming more integrated.

## Board Composition, Representation and Inclusion

What does good corporate governance look like, amid the uncertainty created by the economic slowdown in China, political events in the US and Europe, and the humanitarian and environmental crises we see around us? Many would argue that good boards look sharp. They have a breadth of skills and experience to draw upon, and the ability to adapt, see opportunities and make decisions from a broad range of perspectives.

High-performing boards know that diversity is a business imperative. It has been demonstrated repeatedly, for example, that board effectiveness improves when there is greater gender diversity. Seeing the positive influence of women on boards, institutional investors are calling for more gender diversity, making it a pervasive goal.

Yet in many cases board diversity is still more aspirational than real. In her keynote address at the Corporate Governance Network Annual Conference in June 2016, US Securities and Exchange Commission Chair Mary Jo White said, "Minority directors on the boards of top 200 companies on the S&P 500 have stagnated at 15% in the last several years." She also said of the pace at which women are joining boards, "At the current rate of growth, the [US Government Accountability Office] estimated it could take more than 40 years for women's representation on boards to be on par with men's."

In the UK, the move to increase gender diversity is focused on developing a pipeline. The Hampton-Alexander Review, begun in 2016, is a government effort to improve representation of women on FTSE 350 boards and amongst the C-suite. Further on, it will expand to racial and ethnic diversity.

In New Zealand, 40% of listed companies have 25% or more female representation on boards. State sector boards have reached upwards of 45%. Finding female board candidates in Japan, on the other hand, is more challenging. This stems from not enough women getting the opportunity to advance to the executive level and gain the necessary business experience. Some companies are starting to address institutional barriers to advancement, for example by providing support for women with children.

In terms of board composition, there is also growing demand for digital capability and experience with new technologies like IoT, big data and data analytics. Such individuals are better suited to making decisions related to technological disruption and transformation. However they tend to be much younger than the typical director, and their lack of experience is a concern for some.

## Board Assessment and Effectiveness

Shareholders globally are demanding transparency and accountability, and organizations are increasingly making commitments to evaluate the performance of boards, and in many cases, individual directors.

How do organizations identify effectiveness? Marks says, "Different stakeholders have different views of how effective a board is. It's something more and more boards do. Some boards do it through internal process, others get assistance from a third party." Honest self-reflection isn't always easy but, Marks says, "It's easier if they have an open, transparent culture. And it is the hallmark of a good chair, who is open to doing that as well."

Whether the increased attention on board assessment and evaluation will have an impact on future board performance remains to be seen, but another element of board assessment is related to alignment: the inventory-taking of skills and experience, and making sure the board has what it needs to fulfill its responsibilities.

## Changing Practices in Board Search and Advisory Services

If it affects the client, it affects the advisor. Firms involved in board work are seeing their practices changing as the priorities and needs of their clients change. Due to newer requirements for long-term CEO succession planning, consultants are hearing from boards looking for CEOs much earlier.

In Japan, where new rules require outside board members, qualified directors who are not already engaged on a board are becoming harder to find. As a result, consultants are seeing much higher demand for non-executive directors. There has also been a shift from having less direction and guidance from clients to receiving highly robust and well thought-out candidate profiles. The direction is clearer; however the requirements are narrower, which can be challenging.

## Imagining the Boards of the Future

What's next? We invited several board search and advisory experts to speculate on what boards of directors will look like in 2025.

### Board terms

**Shorter.** Longer careers, later retirements and term limits worldwide notwithstanding, board tenure will be shorter, because of the growing emphasis on refreshment. What it means to be on a board will change, and the expectation of semi-permanence will change too.

**Deliberate.** Boards are taking succession from reactive to strategic. No more drag & drop; boards will be balancing skills, building diversity and creating a successful team based on the company strategy.

### Composition

**Diverse.** The business case for diversity has been around, studied and measured for a long time. It's hard to say why organizations aren't farther along, though some parts of the world are doing significantly better than others. If public outcry doesn't demand it, the drive to be competitive may.

**Younger.** It's not simply that Baby Boomers are retiring and their places in businesses and boards are transitioning to the next generation. Shareholders and business leaders are recognizing the value of a younger perspective, and demanding it.

### Trends

**Relevant.** Boards are becoming more than a governance body, and directors are increasingly required to contribute meaningfully to strategy, and engage in decision-making with perspectives that are relevant and connected to business realities.

**Engaged.** Boards traditionally keep some distance from the companies they serve, but passive non-executive board directors may become fewer as the levels of transparency, public scrutiny and accountability continue to rise.

## Conclusion

What comes to mind when most people think about boards? Most likely the image of a lot of men who have been together a long time, in a stale room, behind closed doors. But the world is changing, and companies – and the boards that serve them – are changing, too. With increasing transparency, a growing appreciation for the competitive advantage of diverse perspectives, and a rising degree of engagement from non-executive directors, boards are becoming more open, diverse and agile.

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## Boyden's Global CEO & Board Services Practice

Driving value and growth means aligning the board to the business. In an era of on-going activism, boards are under more pressure to deliver corporate results, maintain strong compliance and protect all stakeholders. Our corporate governance experts draw on years of board membership and leadership to optimise board effectiveness and company performance, recruit directors, and bring in the next great CEO.

- **Board Consulting:** An effective board is the bedrock of a high-performing company – and a major competitive advantage. Boyden provides comprehensive board evaluation and assessment, as well as CEO succession planning.
- **CEO Search:** CEO selection is the board's primary responsibility, and a specialty of Boyden's Board Services Practice. Our experience and rigorous process help boards choose wisely, expedite succession, and minimise leadership risk.
- **Director Search:** We help clients to optimise their governance, from acquiring outstanding individuals, to creating high functioning boards.