

Unprecedented challenges for Boards: 9 pillars for the next decade

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The Covid-19 pandemic burst suddenly without previous notification. The severity of the impact on human lives and on the economy will not go away with the same speed as it arrived. Corporate boards are coping with unprecedented challenges. Governance is presided by vulnerability. Most of the companies will need to adapt their business models to some extent. All the efforts done on scenario planning and contingency arrangements at times seem just useless as new variants of the virus are emerging and the pandemic seems to be out of control despite promising improvements with vaccines.

Covid-19 has supposed a transformation in relationships and responsibilities between boards and executives with a time pressure that makes overlap functions, and rush decisions. Hundreds of reports from the most important consultancy firms of the world, from pundits and prestigious institutions are trying to shed some light on 'what' should be done to cope with the pandemic. It is true that companies that were diversified before the pandemic are suffering less than those that were not diversified. It is also genuine to consider that not all sectors are equally

affected by the economic recession caused by Covid-19 and surprisingly some sectors are expanding substantially due to this pandemic.

We are starting to evaluate the impact of this scenario on consumer behaviour. Consumers are looking for financial stability, safety and are developing new patterns of behaviours that probably are here to stay. It is possible that board members have learnt a lot during this time or it is also possible that they have not learnt anything at all. Nevertheless, what seems clear, is that it has been a lesson of humility for everyone. And the truth is that no one becomes humble just by being humiliated. Therefore, Covid-19 will not make us humble per se unless we personally want to develop authentic humility. If this pandemic helps us to achieve authentic humility and to become aware of our own limitations, which could be an excellent starting point to face the next decade.

At this historic crossroads where we find ourselves, there are some interesting questions that need urgent reflection: How can firms have stronger boards? How can they get them better prepared for the huge and unforeseen challenges

of the decade? What should boards' members focus on? Obviously, there is not a simplistic answer to these intriguing questions and no magic wand can be trusted in real life, but, in my view, I would suggest nine pillars for board members: **Humility, Prudence, Artificial Intelligence, Interfunctional coordination, Adaptability, Digital Innovation, Diversification, Sustainability and Ethics.**

Humility

A good way to understand a phenomenon is to look at its opposite. So let's think about the profile of a person who is not humble: someone arrogant, who does

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not listen, who does not ask for forgiveness, who does not accept feedback, who does not allow anyone to contradict him/her, who is never wrong, who does not practise justice, who is not self-controlled, who lies. These are clear evidences of lack of humility.

Humility is a very important human quality that brings leaders to a higher level of service and puts human dignity at the core of their strategies. Success is not only about 'oneself' or about the use of power in their own interest. Humble board members will seek the development of their teams and organisations before the reward of their own egos. How can we be more humble? I would suggest four drivers to humility:

1. **Knowing yourself.** The starting point of humility is self-knowledge. This was expressed in the forecourt of the temple of Apollo at Delphi "know thyself". Self-knowledge allows us to identify our own strengths and weaknesses. This also occurs at the organisational level, because the humble leader is more open to value contributions from their collaborators.
2. **Dealing with truth.** A second element closely related to building humility is truth. It is impossible to build a solid logical claim based on lies. Similarly, it is complicated to develop a business strategy based on falseness. If our product is not good enough, sooner or later the market can punish our company. If our closer competitor is better than us in some aspects, we can ignore or even deny it, but how this attitude will help us to win the competition? Using sincere dialogue with reality implies an open mind towards consensus, but also towards the acceptance of some values that are permanent regardless we like them or not.
3. **Active listening.** Humility can also be achieved by active listening. Henry Kamen, in his biography 'Philip of Spain', shows an interesting example of active listening. Charles V, Emperor and King of Spain met every morning with his son

Philip II. Before Philip went to play or hunt, Charles systematically dedicated precious time on a one to one session to prepare him for his future responsibilities. One of the pieces of advice that he used to give him was: when you are in informal gathering with different groups of people, don't isolate from them, don't keep distance, allow people to get close to you and do not just talk to them, but mainly try to keep silence and let yourself be 'talked' by others. This is crucial as we can gather relevant information from the most unexpected individuals and probably the solution to our problems can be found in those who surround us.

- Knowing yourself
- Dealing with truth
- Active listening
- Say sorry when needed

How do we listen systematically and professionally to our customers? How do we listen to our employees and, in particular, to the key professionals of our firm? How do we listen to our providers? How do we listen to our business partners? How do we listen to other stakeholders and, in particular, to other board members when they express their ideas or concerns? Do we allow anyone to speak freely? In this sense, a recent article published in Harvard Business Review discussed the importance of clearly reminding directly that everyone can speak freely rather than assuming that this permission is already there.

4. **Say sorry when needed.** This can be tricky as many could claim that acknowledging our mistakes could undermine our authority and potentially hinder our career. But, in most cases, if we honestly face the situation and say sorry when it was our fault, probably it will reinforce our prestige and people will trust us more on future occasions.

Prudence (practical wisdom)

Professor Ikujiro Nonaka, in his article, 'The wise leader' in Harvard Business Review, discussed the concept of phronesis (practical wisdom). Going back to basics, 2,500 years ago Socrates proposed the great question: how to live (areté) and the concept of virtue as moral excellence. He considered the chief virtues as Courage, Justice, Temperance and Wisdom. Aristotle suggested the four cardinal virtues: Prudence, Justice, Fortitude and Temperance. Cardinal comes from the Latin word 'cardo' which means hinge. The other virtues are supported by these four cardinal virtues. The concept of virtue is rooted in the ancient Greek philosophy and refers to a stable habit in individuals that facilitates making right decisions that lead them to achieve eudamonia (flourishing in ancient Greek) a life of excellence. This framework of four main virtues was later developed by Cicero and used in the Roman Empire and adopted by Augustine of Hippo and further introduced into the Christian and Western tradition by Thomas Aquinas.

Prudence can be considered the virtue of leaders. Prudence (practical reason) is the other side of the same coin (wisdom). Wisdom means to know what the right thing is here and now, while prudence is to do the right thing here and now. The context is crucial and that's why I introduced the expression "here and now", because in another place or in a different timing what now is a "prudent" decision can become "imprudent" or with a new piece of information the same decision can become useless. Knowing and doing are clearly related, but obviously are not the same. Sadly, we have experienced many times that people know what to do, but they don't always finally do it for several reasons. Probably the most frequent one is what Greek philosophers named as akrasia (weakness of will).

Prudence has three internal steps in

classic Latin: *deliberatio, decisio, actio*.

1. *Deliberatio* refers to all the process to identify the information, checking facts against opinions, classifying the information, processing the data to convert them into knowledge, suggesting different alternatives /solutions and proposing criteria to assess the diverse alternatives to address the problems. This is the phase of rigour in the information, creativity in the alternatives/solutions and honesty in the choosing of the most appropriate criteria. But we should not forget that deciding in each case what we regard as a specific problem and what is not a problem is a crucial activity and part of the *deliberatio* phase. In this stage, it is also important to introduce the timing because there are problems that the mere passage of time will solve, while others will be aggravated unless an urgent decision is made. This phase should be presided by counsel. Being accurate and honest with data and asking for professional advice with active listening becomes crucial at this *deliberatio* stage.

2. *Decisio* is the phase of solutions and criteria. All the proposed alternatives/solutions require to be assessed against the right criteria. The criteria need to be filtered and weighted according to the firms' strategy and later applied to the different proposed alternatives to rank the more suitable one. For instance, assessing alternatives using criteria of profitability probably will not be the same as using criteria of sales volume. Things become complicated when we are using multicriteria. There are techniques to apply multicriteria analysis, but, at the end of the day, we should not expect that an Excel sheet will find the optimal solution by itself.

3. *Actio* means the implementation of decisions. An excellent decision made on the noble table of a board becomes useless without a good put into practice. In the book 'Execution: the discipline of

getting things done', Bossidy and Charan provide an interesting frame work for this important dimension. Normally, action stands at the executive level and also with middle management. But if boards provide clear guidance and indications about the expected execution strategy and do the proper follow-up, probably their decisions will be more effective, even though 'apparently' they should stay at a more "strategical" level. I use quotation marks because there is no strategy without implementation.

The correct integration of these three phases, *deliberatio, decisio* and *actio*, will facilitate to make "prudent" decisions on the basis of evidence and logical reasoning and not just on mere opinions or whims. Logic is defined by philosopher Grayling as valid and sound reasoning.

Artificial Intelligence

The virtue of prudence in board members can be boosted using Artificial Intelligence (AI). Sudar Pichai, Google CEO, said that "*Artificial intelligence is one of the most important things humanity is working on. It is more profound than, I dunno, electricity or fire.*"

AI will expand human intelligence with fascinating opportunities. In his book, 'Superminds: The Surprising Power of People and Computers', Professor Thomas W. Malone (founding director MIT Center for Collective Intelligence) develops the concept of collective intelligence. Almost all our important problems are solved by groups of people rather than by individuals alone. He claims that we will need to use AI in combination with humans who provide whatever skills and general intelligence the machines don't yet have themselves. In the next future the challenge is to create groups of people and computers that, together, are far more collectively intelligent than was ever possible before.

AI helps to automate human cognitive functions or processes. This automation allows predictions, recommendations, or decisions to achieve specific objectives. It does so by continuously learning about its environment or results. There are many technologies propitiated by AI, such as: speech recognition, machine translation or chatbots, also known as natural language processing; visual diagnostics, face or image recognition, also known as computer vision; fraud detection or risk analysis, also known as anomaly detection; analysis of emotions or behaviours, also known as sentiment analysis; forecasting, price optimisation and decision-making using machine learning algorithms; process or equipment optimisation using artificial intelligence; recommendation and personalisation engines using artificial intelligence to produce; customised recommendations, via matching algorithms or information retrieval; process automation using artificial intelligence, including warehouse automation or robotics process automation (RPA); autonomous machines, such as smart and autonomous robots or vehicles; and creative and experimentation activities, such as virtual prototyping, data generation, artificial music or painting. Although there are many benefits of AI, a recent study in the European Union showed that there is a low use of AI, because only 25% of firms are using it; small firms are not using at least two AI technologies.

Quite interestingly, Professor Vegard Kolbjørnsrud and his co-authors in the article 'How Artificial Intelligence Will Redefine Management' published in Harvard Business Review, found that managers spend 54% of their time on tasks that are administrative and control. This can be a waste if we consider that these tasks are precisely those that can be more easily automated by AI.

Inter-functional coordination

When business functions work in silos, this hinders the cross-functional coordination and makes more visible the phenomenon named as structural insularity. In a recent study about inter-functional coordination and the role of digitalisation in a B2B context that we recently had published with some research colleagues in the Journal of Business and Industrial Marketing we found that, if business units work without coordination in different directions, this can generate conflicting goals and make the units, in fact, working as silos. This situation can generate visible clashes, but also there is a risk of invisible problems in the form of hidden costs and negative implications for customers. We identified the main barriers, enablers and benefits of adopting interfunctional coordination.

1. **Barriers:** control of power, department as silos, low exchange of information, lack of processes for interfunctional coordination. Deliberate conflict of interest (risk of suboptimisation).
2. **Enablers:** we also found that main enablers of interfunctional coordination are: technology, digitalisation, specific-processes for interfunctional coordination, culture of collaboration, shares incentives (for several departments) and management by projects.
3. **Benefits:** interfunctional coordination has many benefits: agility, flexibility and customer orientation amongst others.

Adaptability

Following Darwin's simile, the companies that have more chances to survive are not the largest or the strongest, or those with the greatest competitive advantages, but rather those with the most developed capacity to adapt.

Adaptability can be developed by:

1. Permanent observation of the environment: to detect risks, but

also opportunities.

2. Quickness in finding solutions: agility.
3. Execution, as Bossidy and Ram Charan named it, is the discipline of getting things done. Putting into practice what has been decided.
4. Change management: the ability to make the necessary changes to adapt.

Digital Innovation

For many years, the Olympic technique of high jump was progressing incrementally, but very slowly and with a clear limit. Suddenly the whole world was surprised at the 1968 Summer Olympics in Mexico when Fosbury broke in with a disruptive innovation. Since then, the Fosbury flop has been adopted by all athletes. Openness to change and to make things in a completely new way to improve, should be one of the main capabilities of business leaders.

Very often, organisations are focused on merely 'innovating' what can mean to unnecessarily reinvent the wheel. But they probably should start by firstly asking themselves: how can we use cheap and available innovations to my business? For instance, something as simple and basic as the use of QR codes is free and can provide very interesting opportunities of generating traffic to our products or services and interacting with customers. The use of the Internet of Things can be very cost-effective and with many possibilities. Free metrics on social media, video content channels, Virtual Reality, Augmented Reality, chat bots, customised offerings, dynamic pricing and a long etcetera. Innovation is more a process than a particular technique and it is mainly regarded as a mindset. Permanent focus on digital innovation should shape new business models.

Board members can continually lead by example and foster digital innovation at all levels of the firm and not exclusively

focus on product innovation. It is also expected from them to inspire the executives of their companies to expand innovative design and delivery of smart products and services.

Diversification

It is true that specialisation can bring many benefits to companies and that growth can be enhanced by developing new markets with current products or even penetrating the current markets where companies operate. But Covid-19 has also emphasized the weaknesses of many companies that neglected diversification and have found overnight that everything they achieved, collapsed unexpectedly precisely because they had not prepared for a viable alternative.

Having diversification on the board's radar is something that can help considerably to minimise risks and what is more important to address interesting business opportunities.

Sustainability

There is a global consensus that we must take care of the planet and leave it to future generations in better condition than we found it. By addressing pollution, waste management, responsible consumption, circular economy, recycling practised, universal access to quality water, electricity and the Internet, organisations contribute to improve mankind.

It is also important for companies to recognise the importance of taking care of animal species (flora, fauna) and how these translate as well into responsible practices that promote synergies instead of destruction. Human beings are the central element in this equation but that is true for both the benefits but also the consequences to the environment that surrounds us. However, desperate societies/humans assume that they have no time to deal with sustainability concerns and therefore that's why business leaders

need to first focus on people to then be able to collectively focus on environmental concerns.

Ethics

Therefore, all sustainability efforts must be presided over by giving primacy to the dignity of the human person from the moment it is conceived until the last moments of their life without any type of discrimination and providing to everyone equal opportunities. Without forgetting the disabled people or those who have other abilities that are perhaps less valued. There should be a special compassion for refugees, immigrants and the unemployed as well as a special attention to the elderly generations who, with effort and generosity, have helped to bring prosperity to our societies and we cannot leave them stranded or to make them feel useless precisely when they need us most.

It is important to praise the valuable role of women in organisations as a result of their merits and not of mere quota policies.

Beyond all consequentialist ethical theories and models (utilitarianism and the egoism of Adam Smith) and non-consequentialist (ethics of duties and ethics of rights) there is a new stream of

research on virtue ethics centred in the character of individuals and, in our case, of board members who need to understand and respect multicultural and multi-ethnic atmospheres where people from different traditions work together.

Conclusion

The next decade arrived with Covid-19, economic recession and with the risk of authoritarian regimes. But what is also very worrisome is the effect on trust, fear and mental health. In this context, board members need to inspire in others optimism and trust in the human capacity to take care of the planet by first taking care of human beings.

Lockdown, isolation and fear are present in our daily lives. For that reason, with their strategies, board members have the noble responsibility to alleviate that uncertainty, disappointment and fear for the future of the partners of their organisations, focusing always on the big picture.

And what is fascinating is to consider that companies, together with universities and other stakeholders, can contribute to the training and updating of their professionals for jobs that have not even been created yet.

As a conclusion, based on the nine

pillars proposed here, a practical way of addressing the challenges of the next decade is to appoint board director, permanent and non-permanent, who try to be more humble and prudent every day, who capitalise the understanding and applying Artificial Intelligence in their organisations, who foster Inter-functional coordination and adaptability, who champion digital innovation, who ponder diversification, and who oversee and promote sustainability and a high quality ethical standards in the organisations where they serve. ■

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