ARTICLE

Governing with Intention and Purpose: Boards Reinvent Themselves Amid the Evolving Societal Landscape

*Nasdaq Center for Board Excellence 'Board Best Practices' Insights Council

The business world of today calls for a fundamental reinvention—a foundational reset—of how boards are structured and led, how they govern, and how they can be more forward-looking. Society has experienced changes, such as the transition to remote work, the use of technology, a new sense of inclusivity, and a comprehensive focus on shareholder and stakeholder expectations. So, how are boards keeping pace with a rapidly changing business world—one which includes the objective of greater diversity and new critical areas of expertise and perspectives to drive their companies into the future?

It is time to reimagine the roles of the board and how directors can come together to provide intentional, strategic governance.

An Antiquated Approach to Corporate Governance

Corporate governance has its roots firmly planted in delivering shareholder value, with its beginnings dating back to the 16th and 17th centuries. In the last century, the concept of corporate governance has been focused on the intersection of the board of directors, the CEO, and shareholders.

The financial crisis of 2008 was the last major incident of board reform when boards' collective feet were held to the fire to change. The threat of collapse, government bailouts, and persistent public outcry called for a refocus on financial health and reinterpretation of performance. Across the developed world, people wondered, "What is the role of the board, and how could or should they have provided oversight to prevent these incidents?"

Boards Are Faced with Challenges and Uncertainty

Faced with mounting pressure and uncertainty, boards can no longer only focus on overseeing the internal management of the company; now, they must respond to mounting external pressures, including business and societal shifts, to ensure sustainability. Companies are being asked (and expected) to take a stand. We are living and operating in the age of social movements, the climate crisis, a global pandemic, an employee-driven job market, and a prospect of international conflict. And this is all occurring in an era where timely news and information are at stakeholders' fingertips.

According to an article by the Institute of Directors (IoD), boards were designed to "ensure the company's prosperity by collectively directing the company's affairs, while meeting the appropriate interests of its shareholders and relevant stakeholders" to make broader decisions critical to the strategic vision and performance of the company. Yet, many boards are unprepared for this dynamic environment where societal pressures are growing louder, and new risks continue to emerge. The unprepared are sitting in the eye of the storm, some wondering if there will be a return to formerly known environments.

Rethinking the Roles and Structure of the Board

To respond to the changing company demands, it is important for the roles of the board to evolve too. An antiquated structure that places executive authority over accountability has often been perpetuated by passive board refreshment and the absence of diversity of any type. This has facilitated a propagation of the status quo and arguably laissez-faire complacency around matching skills and experience to critical roles. Boards must ask themselves what is missing, what may be needed in the future.

Long gone are the days when boards can be isolated from the rest of the business. There is a real and compelling expectation from stakeholders that directors be in tune with the business and the needs of different stakeholder groups, embody its brand and desired culture, and understand risk in all forms, all whilst maintaining appropriate independence from the day-to-day.

Savvy directors are rethinking what duty of care means: to be well-informed, educated, and meaningfully engaged. They are walking the factory floor, meeting with shareholders, mentoring leadership teams, championing key issues, and observing operational leadership meetings. There is a vast opportunity to determine how the board can best understand the company's strategic differentiators, performance, and risks and exercise high-quality, independent oversight. The board's structure is key to its independence from the CEO and management. It is a critical mechanism for overseeing management's pursuit of ethically-achieved performance and promoting the company's long-term sustainability and success for the benefit of all stakeholders.

Innovative boards are considering how the creation of new committees may allow them to better exercise oversight. Research and development, innovation, sustainability, diversity, equity and inclusion, and people and culture are some examples of matters on which boards pursuing excellence have focused on the creation of dedicated bodies. Committees are diving deeper into key topics and requesting further analysis, research, and advice to accelerate understanding for the benefit of the wider board and the company's stakeholders. It is not unusual to see board directors sitting in on meetings for committees they are not a part of, purely to absorb information and learn from them. And increasingly, board members are engaging with executive management teams on strategic issues driven by interactions that came from new committee structures.

Bringing In Diverse Perspectives

Diversity is intrinsically tied to business performance. Regional policies, such as the California Women on Boards Mandate (SB 826) in the U.S. and the Capital Requirements Directive in the EU, are a start in shifting the mindset of boards towards advancing diversity and embracing inclusivity as the means to their own performance. But advancing diversity in the boardroom goes beyond the numbers. To help ensure diversity of perspectives, it is important for boards to create a sense of belonging and a culture of respect.

According to research published in 2021, women make up 75% of CHROs (of Equilar 500 companies) and 47% of CMOs (according to a CMO Tenure Study by executive search firm Spencer Stuart), and black professionals occupy only 3.2% of senior leadership roles at large companies in the United States. Bringing in new perspectives from people who have held valuable leadership roles beyond the CEO and CFO may naturally allow for more diverse perspectives. With these perspectives, varied experiences, and broadened levels of intellectual curiosity sitting around the boardroom table, boards can be more dynamic and robust in their thinking, as well as more informed in their decision-making.

The Urgency to Act

The first step for boards is rethinking their own corporate governance arrangements, such as leadership roles that support the board's independence and committees that enable the board's focus on strategically important topics. There is a tangible benefit to leveraging third parties to help guide the board evaluation and refresh process and to consider the wider corporate governance impact. Refreshment and restructure planning should be an ongoing discussion. It should also be embedded in discussions around strategy, business planning, and performance, purposefully and thoughtfully evolving to meet the needs of the company rather than solely at points of director departure.

Ultimately, the role of the board has evolved—with higher stakes, higher pressure, and greater responsibility. Forward-looking companies will consider a diverse board as a strategic advantage and an investment in the longevity and sustainability of the company.

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