

# Board *Effectiveness*

**Courage in the boardroom:** Winning in uncertain times

The Leaders' Circle | Sharpening your edge | **September 2016**

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**Seven key themes** that  
will drive the big winners in  
this world of uncertainty



**Deloitte.**

Through its Centre for Corporate Governance, and the Audit Committee Effectiveness series, Deloitte has been surveying Australia's top audit committee members on sentiment, priorities and trends since 2010.

Our intention has been to assist them in recognising trends and predicting changes across their sectors, and in developing the skills and capabilities needed to deal with these challenges.

In 2016, uncertainty, as a catalyst for creativity and innovation, is the theme.

We conducted a series of workshops around the country with over 50 of Australia's most senior and experienced audit committee and board members – drawing on their insights and practical advice on managing through, and ultimately embracing, uncertain times. In addition, we asked them to complete a survey, and this report captures those results.

What emerged was an engaging and highly informative debate between Directors on what an effective board really looks like in today's uncertain and complex environment.

The issues and ideas discussed clearly impact not only the audit committee but also the wider board. As a result, we've re-branded our report *Board Effectiveness*.

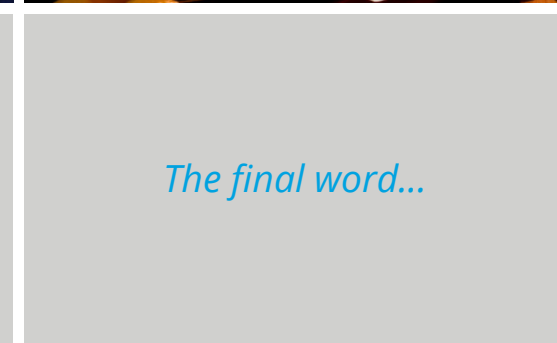
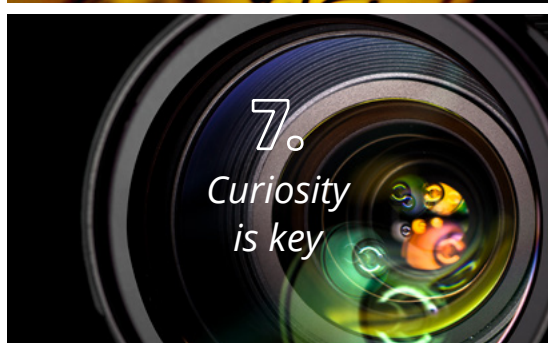
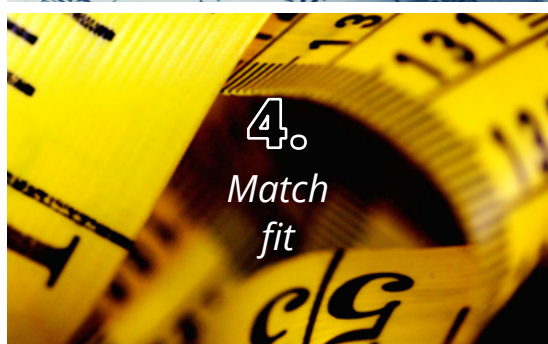
# Uncertainty isn't new, but...

New technology, economic and business model disruption, ever increasing volumes of data and high speed information flow across borders means that uncertainty is more complex and relentless. As a result, business is operating under increasing levels of pressure never experienced before.

*"There will be really big winners and really big losers."*

Board Director

Following group discussions across Australia with leading company Directors, we share seven key themes that emerged as drivers of board effectiveness and success in this world of uncertainty, as well as the results from a survey of workshop participants.





# 7

Key themes that will drive  
the big winners in this world  
of uncertainty



1.

*Bold, decisive  
leadership*





“The most powerful people at the board table are those that can imagine and seize the future.”

Board Director



## What's going on?

While uncertainty in itself isn't new, the speed and impact of change is faster than ever before. With advances in digital technology and infrastructure empowering global connection, flows of knowledge, talent, and capital are more rapid. Business ecosystems are expanding and, as a consequence, the number of decisions required are growing in response to both the rate of change and the broadening range of issues.

In the face of this uncertainty, it's easy to hesitate, to watch and to wait, then weigh up the risks of acting now versus waiting for clarity. But historically, there's never been a perfect data set that can inform the right decisions, and navigating imperfect information is not new for boards or businesses.

## Why does it matter?

Quantity and quality of data is growing at ever increasing rates. Data can empower good evidence-based decisions, but its granularity can be a double-edged sword, making it more challenging to see the story in the bigger picture.

The lifecycle of decisions is shortening in response to the increased pace of change. The way businesses are making decisions is also evolving and the ability to defer decisions is decreasing. Leaders who act decisively – to identify and capitalise on the opportunities – are the ones who will win.

Bold and decisive leadership is needed to:

- Shape the composition of boards and how they work with management to drive better decisions
- Challenge the idea that more data is always better – it's important to understand who is translating the story behind the data and how it is used in decision making
- Better connect the organisation to a wider range of stakeholders to inform the right decisions in the pursuit of financial and social returns.





## The Directors' perspective

- It's important to have a strong strategic framework that facilitates better and faster decisions and outcomes
- While it's hard to anticipate unexpected or crisis events, responses need to be fast
- Clarity of purpose is core to the organisation. Based on a clear position and understanding, board members and management should then work together to build the strategy from which decisions and choices will flow
- Boards can't just look backwards. Directors need the right forward-looking information about strategy, culture, people and customers that cuts through the noise and enables decisions.

*"Decision-making is hard and uncomfortable but we need to keep making them."*

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*"There is no shortage of information for boards, but better understanding data insights is a challenge."*

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2.

*Opportunity  
mindset*



“We need to rediscover the Australian mindset when it comes to embracing risk and pursuing opportunity.”

Board Director



## What's going on?

Boards are often inundated with the high demands of risk management, governance and compliance. This can make shifting the focus onto identifying and capitalising on the opportunities more difficult.

Directors were vocal around the perception of failure, and there was a shared view that it was impossible to have innovation-led growth without some acceptance of failure. There was also a view that the markets were becoming less tolerant of failure. The 24-hour news cycle, where mistakes were often played out in the media, had the potential to reduce risk appetite for untested opportunities.

Yet, those that will 'win big' in an environment of uncertainty are those that seek and create opportunities before others get to them.

## Why does it matter?

Enabling board members to bring their best thinking to support new opportunities is important. Boards can also help set the tone for an opportunity mindset within an organisation by giving clarity around 'acceptable failure' on the road to innovation and growth. Meaningful risk appetite statements, written and delivered well can support an innovative, creative organisation. Likewise, when delivered as a compliance activity, they can squash it.

By deeply understanding risk, and correctly pricing for it, the board can set the boundaries for management to actively pursue growth and opportunity.

Both Directors and management need to have the space to fail in order to seize competitive advantage. The challenge is to fail quickly and cheaply.



## The Directors' perspective

- Time needs to be carved out for Directors to focus on opportunities, such as through good risk appetite statements and clear communication of risk capital and risk pricing
- Boards have a role in ensuring that if an organisation takes a risk, the rewards are sufficient
- The board needs to be clear on its appetite for innovation, and for expected failures along the way
- The board's role in driving a culture that encourages and understands failure as part of the innovation process needs to be understood ([see #5 Culture, culture, culture](#)).

*“As board members, we are constantly being sucked down into the weeds. The part of our job that is to monitor, be in control and manage crisis response leaves no time for long-term planning.”*

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*“If we are to thrive in uncertainty, we need to transform as an organisation and as an economy. We need to look with a clear eye at what prevents innovation in this country and address it.”*

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# 3.

*Ecosystems  
are crucial*



“The world is smaller.  
There are fewer boundaries,  
so you really need to understand  
your ecosystem.”

Board Director



## What's going on?

Broader groups of stakeholders – the ecosystem – are increasingly connected globally and can respond faster and in greater numbers through digital channels. As a result, brand risk, and the way in which businesses communicate and respond to stakeholder concerns is changing and increasingly critical.

The ecosystem's understanding of how businesses bring value is also shifting. Value is becoming broader than just shareholder return, and the ideas of profit with purpose and shared value continue to gain resonance. Customers are more discerning of not only the product they buy, but the values of the organisation that makes, markets and sells it. Organisational brands are powered by underlying values, not just profit and shareholder returns.

## Why does it matter?

Many boards are now applying this wider lens to their decisions and risk assessments. Seeking to understand ecosystem risks beyond traditional stakeholders and extending this to employees, suppliers, the environment and wider communities can build brand loyalty and organisational resilience through difficult market conditions. Information moves quickly, as does capital, with the markets making quick judgements as to where the money flows. Engaged ecosystems can give businesses the buffer they need to weather storms and more time to navigate uncertainty.

Boards should not underestimate the ecosystem's expectation for transparency and good practice, which has never been higher with the ongoing evolution of prolific and instantaneous communication channels.





## The Directors' perspective

- 'Doing the right thing' can create conflict and uncertainty for boards in balancing the demands of the customer, government, employees and society
- It's important to develop trust-based relationships with policy makers to educate them on the impact of policy on businesses and, ultimately, value
- Building valuable, open relationships across multiple stakeholder groups can build brand trust and organisational resilience.

*"This mythical creature called 'the markets' is a very diverse thing, and it changes what's considered to be wise or good practice very quickly."*

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*"We want to do the right thing, but the challenge is defining what 'right' is."*

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4.

*Match fit*



“It’s so important that any business be exceedingly match fit. Strategic opportunity can’t work with lead in the saddle bags.”

Board Director



## What's going on?

In this era of faster, more aggressive change, the concept of incrementalism – ‘to do what we currently do, but better’ – is no longer enough. Customers are more demanding and businesses must respond quickly to understand un-met needs and turn them into opportunities.

Company Directors are looking to lead paradigm shifts, with increasing focus on disruption and new business models. To do this, the board and the organisation need to be agile.

An agile mindset means organisations are able to experiment and change course quickly. This is a critical part of being ‘match fit’ – and being able to capitalise quickly on opportunities as they arise.

## Why does it matter?

The old approach of incremental change and slow processes to agree and approve ‘tweaks to current state’ won’t match the pace of new disruptors challenging incumbents. Organisational agility will need to embrace multiple concept development concurrently, learn from rapid prototyping, empower employees to drive positive change and build strong sensing mechanisms attuned to key stakeholder voices. Failing quickly and cheaply in order to learn and find new business ideas that will stick and drive value past horizon one can enable agility, possibility and drive future successes.

To be agile, boards will need the right information at the right time to make good decisions. Business models need to be flexible to adjust to rapid, unforeseen change.



## The Directors' perspective

- Boards want agility in decision making. They need to ask more hard questions of management, and demand faster responses
- The ability to seize an opportunity depends on how nimble the systems and processes of a business are. Boards have a role to play in challenging these
- Boards are looking to manage the tension of the new models threatening the existing ones. To do this, the board and the organisation need to be agile and open
- Directors are cognisant of the pressures being placed on their executive and take seriously the responsibility to look out for the wellbeing and resilience of their team.

*“The challenge for us is to try and grow, be creative and competitively differentiated against the backdrop of a regulated environment where everything is prescriptive, standardised and bland.”*

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*“Asking business people to disrupt their own business is quite a challenge.”*


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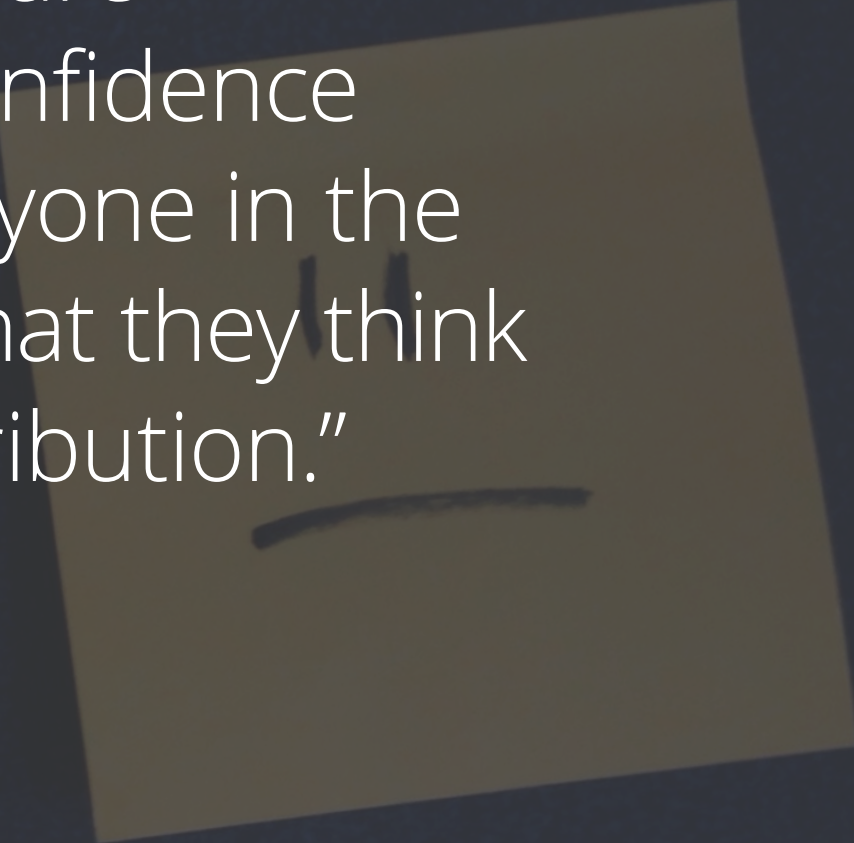
5.

*Culture, culture, culture*





“The right culture means a level of confidence that everyone and anyone in the organisation can say what they think without fear of retribution.”



Board Director



## What's going on?

People make an organisation work. They are the heart of the business and will drive it forward, or hold it back. Strong businesses consist, not just of technology and process, but also the people who work in and around them.

Within an effective culture, employees buy into the vision and purpose of the organisation and as a consequence, make decisions more aligned with that vision and purpose.

Organisations can learn valuable lessons from mistakes to build corporate resilience. Personal resilience is easier to embed than organisational resilience because it is hard to extend the lessons learned beyond those that experienced it.

In a strong culture, founded on an inclusive mindset, diversity of thought leads to better employee and customer outcomes. Personal mistakes can also be shared as a way of making teams, processes and customer experiences better.

## Why does it matter?

A culture where people feel confident and empowered to call out bad behaviour, offer a different view and own their mistakes allows risks to be managed before they have serious consequences. People at the coalface are closest to what's happening and often have the best ideas to fix a problem. Boards need to systematise ways to hear and develop these ideas to make both culture and operations stronger and more resilient.

The right culture is one where:

- Responsible risk is encouraged and there is a safe space for employees to take risk ventures (see #2 Opportunity mindset)
- High level vision and purpose are clear and understood by all employees
- There is a culture of personal responsibility and openness.





## The Directors' perspective

- The right people are needed who can calmly and quickly work through left-field events
- Shaping a culture of 'doing the right thing' with an ethical filter process can balance the demands of broader stakeholders against shareholder return
- Boards can lead a good culture by demonstrating the importance of accepting failure without blame and systematising how to learn from it
- Organisational learning needs to be systematised and embedded into the processes and corporate knowledge of how the business runs.

*"If we accept that uncertainty and instability are more common than stability, then we need to design or redesign organisations that can operate in this context."*

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*"We need to take the stigma out of failure and truly encourage entrepreneurship and creative thinking."*

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# 6.

## *Cracking the diversity code*





“Directors need to be open in asking: Are we being significantly lateral in our input to decision making? Have we really tapped the ideas that might be relevant?”

Board Director



## What's going on?

Organisations are challenged to solve more, increasingly complex, problems than ever before. Rising to meet these problems through the best blend of broad, deep and different perspectives, both of board and management is a hot topic for Directors.

Balancing the need for an effective board that can really challenge management and make decisions effectively with the need for diverse thinking and domain expertise is a conundrum. But convening expertise across every possible challenge a business faces would crush a board under its own weight and severely impede its effectiveness.

## Why does it matter?

Breadth, depth and versatility of experience are key to covering the multiple challenges businesses face in uncertain times, while still balancing the need for an agile board. A strong, effective relationship with the CEO and management is critical to effective governance and value flowing both from the board to the organisation and vice versa. This can be challenging given the nature of best practice around board independence.

There's a need to better understand what genuine diversity looks like around the board table. Truly diverse thinking is not only cultural but includes age, gender, skills, experience, background and more. Bringing such diversity of thought can drive competitive advantage, but is challenging to achieve in practice.



## The Directors' perspective

- The board of the future must consider dynamic renewal, bringing fresh perspectives and diversity of thinking at a functional as well as cultural level. Domain expertise must be balanced with continuity and knowledge transfer
- Global organisations should have a board that represents the global cultures that the organisation serves
- Directors need to accelerate the process of enriching board thinking through gender, educational, cultural, global and experiential diversity
- The quality of the interaction between board with management is crucial in enabling effective, strategic impact.

*“Bring the customer back into the boardroom. Some boards have no-one on them who understands their customers or can approach strategy from a customer perspective.”*

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*“Ego – you don’t get to have one of those!”*

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7.

*Curiosity  
is key*



“I set myself one big new thing to learn every year, and I set everyone else around the table that challenge too.”

Board Director



## What's going on?

It's clear that Directors have an insatiable thirst to keep learning. Organisations are becoming more globally connected and the Australian experience won't always provide all the answers. With new emerging technologies, different subject matter experts are also emerging, so Directors' taking personal responsibility to find out how they could impact the organisation is important.

Bringing together different lenses to understand the combined impact of risks and scenarios is important, but hard to do in practice where risks and opportunities tend to be considered 'line-by-line'.

## Why does it matter?

While Directors aren't expected to have all the answers, advisors can be called on to fill specific gaps. However, the board does need to ask good probing questions that drive better thinking and empower decision making.

To be more effective board members, Directors need to deepen and widen their own personal learnings across geographies, domains and technologies and bring this thinking to the table.





## The Directors' perspective

- Directors should get out of the 'same old' boardroom, and even get out of Australia to learn from approaches in different companies, different industries and different countries
- The board needs to challenge management and advisors to deliver the tools they need to imagine, inspire and deliver better outcomes
- Directors need to combine multiple risks/opportunities and question what the compounded impacts could be
- New skills and insights are constantly emerging and should be sought to create the questioning and challenging environment needed. Complacency can be a killer.

*"The day you stop being curious is the day you should consider leaving the board table."*

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*"Boards need to know what they don't know."*

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“There are fantastic Directors and Boards doing great things in Australia. What was inspiring about the workshops was the optimism, creativity and commitment that the Director community brought to the discussion. These seven focus areas will drive the winners of tomorrow.”

Richard Deutsch  
Deloitte Directors' Program Leader,  
Managing Partner, Assurance & Advisory

# Survey results

“More focus on business risk and uncertainty in a global context.”



As part of our national workshop series, we asked participating Directors and audit committee members to complete this year's survey. Insights from their responses are below.

## Uncertainty

Uncertainty is the underlying theme when it comes to the top concerns of our survey respondents. Operational risk and strategic risk remain high on the agenda, along with cyber security and changing business models.

## What takes time?

Not surprisingly then, board members' time is most significantly spent on evaluating risk and in discussion with management. While not specifically called out in the survey, a common theme arising from the workshop discussions was Directors' desire to 'lift out of the weeds' and find time to focus on shaping the opportunities available to the business ([see #2 Opportunity mindset](#)).

## Where do Directors want to spend time?

There's clear desire for Directors to be forward looking and spend time addressing the waves of change impacting business. Responses on the significant changes for audit committees to consider included (in respondents' words):

*“Regulatory risk and how to manage it in the context of a fast changing environment which regulators don't understand or are too late in looking at.”*

*“Greater focus on technology risk/disruption – lots of companies ignore the signals.”*

*“The audit committee should have oversight of development of business plans, annual financial budgets and forecasts.”*

“The impact of disruption on business.”

“Hopefully a heightened focus on strategic risk.”



## A tale of two committees

The workshop discussions revealed differences of opinion around whether the audit and risk committee should be combined or separate. One view was they should be separate as the risk committee was forward looking but the audit committee backward looking.



According to the survey results, increasing separation of committees came through strongly when it comes to the question:

[What do you believe will be the most significant change for audit committees?](#)

In the words of respondents:

*“The trend of separating risk considerations into separate committees.”*

*“Increased responsibility for risk assessment. If something goes wrong, there may be an increased spotlight on the role the risk and audit committee played in assessing that risk.”*



## The way we do things around here

Also in the discussions with Directors, the importance in the boardroom of 'doing the right thing' was resoundingly (see #5 Culture, culture, culture) clear, and, this was echoed in survey commentary in response to the question:

### What does conduct mean to you?

*"Behaviours beyond mere legal requirement – cultural and ethical norms that are non-negotiable from the top to the bottom of the organisation."*

*"In carrying out your business, a culture of ethical and moral behaviour matching business and community expectations across all areas e.g. treatment of customers, employees, all stakeholders."*

"Conduct consistent with not only corporate values but accepted business and moral standards. It is an ethical and hence a moral paradigm."

"The way we do things around here: ethics, morality, equity, diversity, inclusiveness. More importantly, how incidents are dealt with."

"Conduct at an operational level is more compliance with values and policies. At the next level, conduct impacts culture which is highly important to the board."



## The final word...

In conversation with Directors around Australia, one thing was clear – there's no fear of uncertainty. In fact, most Directors welcomed it as a driver of innovation and opportunity.


The Directors were unanimous in their personal drive to add value to the boards they sit on. There was a strong desire to move beyond just working through the 'simple' and compliance based risks and to create space necessary to deal with more complex, strategic decisions.


This is where Directors felt their experience could have the biggest and most valuable impact for the business.

There was a genuine sense of optimism that we were yet to see the best of what boards and corporate Australia could do.

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