THE DEBATE

JOIN THE DEBATE:

Start a discussion in the AICD member group

Post a comment on AICD's Facebook page

Mention @AICDirectors

The year ahead

What are the "sleeper" governance issues facing directors in 2016? Three industry figures share their views.

Bruce Linn FAICD
CHAIRMAN, ANGLICARE SA; ERESEARCH SA; IPMO

> Consumers are voting with their feet, leaving the industry looking like a dinosaur.

A sleeper governance issue for 2016 is responding to rapidly increasing global disruptive forces. In particular, accelerating technological and market disruption that will affect a large number of organisations, big and small, not-for-profits (NFPs) and government.

Many boards are under-prepared and ill-equipped for this rapid, devastating and sometimes completely unexpected disruption. Many believe it won't happen to them or their industry sector. They are wrong. A good example of technological and market disruption is the rapid rise of Uber, a Silicon Valley startup that has taken the global taxi industry by storm. In June 2015, after just three years, it raised capital at a $US18 billion valuation and in November 2015 was valued at $US35 billion.

Uber was virtually unknown in Australia a year or so ago and has come under fierce attack from a well-organised, tightly controlled industry and, through powerful lobbying, from governments across the country who are considering measures to outlaw or regulate Uber on the grounds that their regulatory powers (and revenues) were also threatened.

Both the industry and governments underestimated the disruptive power of rapid and widespread consumer support, through mass social media campaigning, for what consumers believe is a better service at a better price. Consumers are voting with their feet, leaving the industry looking like a dinosaur fighting against its inevitable demise and governments looking powerless and out of touch with public opinion. Another example is the rapid rise of Netflix, which is now seriously threatening both Foxtel and the TV networks. Netflix has now come to Australia but it has been disrupting the industry for a couple of years through the use of virtual private network (VPN) technology. This is relatively cheap and easy for consumers to use and allows them legal access to purchased content in the US at the time of release rather than waiting for Foxtel and the networks to screen it later.

If powerful, organised, well-established traditional consumer businesses like taxis and TV networks can be so quickly and effectively disrupted, so can almost any business. If it can be, it will be, and soon.

Diane Smith-Gander FAICD
CHAIRMAN, BOARDSPECTRUM; NON-EXECUTIVE DIRECTOR, WESFARMERS; PRESIDENT, CHIEF EXECUTIVE WOMEN

> Everything written about our companies, true or otherwise, is out there in real time, unverified, hashed and re-hashed.

Disruption around environmental, social and corporate governance (ESG) issues is hardly a sleeper issue. But is the work at the core of a board's responsibility being second-guessed as never before? Might it be a good thing? Sometimes yes, but not always.

Activists have called on [industrial services company] Broadspectrum to repudiate a contract with the Department of Immigration and Border Protection. They want us to stop providing welfare-led services to asylum seekers on Manus Island and the Republic of Nauru. Why do they feel justified in making these calls? At the heart of the matter, these activists seem convinced they possess a better understanding than our board of the outcomes of our work and the appropriateness of the contract we have entered. Indeed, they seem disinclined to concede that a corporation might act responsibly. They reject uncritically our explanation of values, codes of conduct, whistleblower protections and diligent board oversight. They have formed a view that fulfilling our contract will do irreparable damage to our brand. They also think they know corporate Australia better than we do. They contend that if Broadspectrum was to reject this work no other company would step forward to take our place. Actually, it is the ill-informed claims and misrepresentations of activists that could potentially do the damage.

The enabler of ESG activism is social media. Social media has given us an enormous cultural gift – allowing levels of transparency and connectivity never before possible. Everything we do around corporate governance is available for perusal and comparison with the practices of others. The double-edged sword is that bullets fired via this mechanism are accessible and open to interpretation and misinterpretation. Everything written about our companies, true or otherwise, is out there in real time, unverified, hashed and re-hashed.

Boards must move past feeling compliance processes provide protection against allegations of wrongdoing. Boards must own the sharing of their work. This means finding ways to communicate the culture of the company and the real status of their licence to operate.

John Barrington FAICD
CHAIR, PERTH INTERNATIONAL ARTS FESTIVAL; FOUNDER, BARRINGTON CONSULTING

> The activities played out every day at site are the manifestation of good governance and coherent strategy.

As boards hover helicopter-like over an ever-expanding landscape of responsibilities, the legislative demand and claims on directors' time continues to grow. Traditionally most of those claims have occurred in and around the boardroom. But today, amidst all else, is that sufficient? Perhaps not. The knowledge that comes from reading a board pack is two-dimensional. A third dimension is necessary if directors are to truly understand their organisation and what is occurring day to day. This can best be gained by leaving the boardroom and meeting frontline personnel in the work environment.

The activities played out every day at site are the manifestation of good governance and coherent strategy. As Harvard strategist Michael Porter says, activities are the basic unit of competitive advantage. Observation and interaction with those delivering the strategy can demonstrate to directors how it is being implemented at ground level. The benefits of regular site visits are manifest. As one experienced director says: "It puts meat on the bones of the board pack." Directors gain deeper insights and send a strong signal to staff that they care about how day-to-day operations are being conducted. The board's interest can encourage management to share best-practice ideas and ensure consistency of approach across geographic and cultural boundaries. Management also benefit as a result of the more informed board debate that can be had on strategy, risk, health and safety and compliance. Leaving the rarefied atmosphere of the boardroom is also an indication to external parties of a board's diligence in oversight.

While some boards undertake regular visits, it is all too easy for them to slip off the annual calendar. Some have gone further by assigning individual directors the responsibility of visiting specific locations and competitors. A visit by one director elicits different insights from those gleaned where the full board arrives in a mini-bus. To be effective, visits should be coordinated with appropriate briefings, which may include relevant questions about staff activities and what prevents them from doing their job well. The information, insights and intuition gained all form valuable inputs to future board discussions.