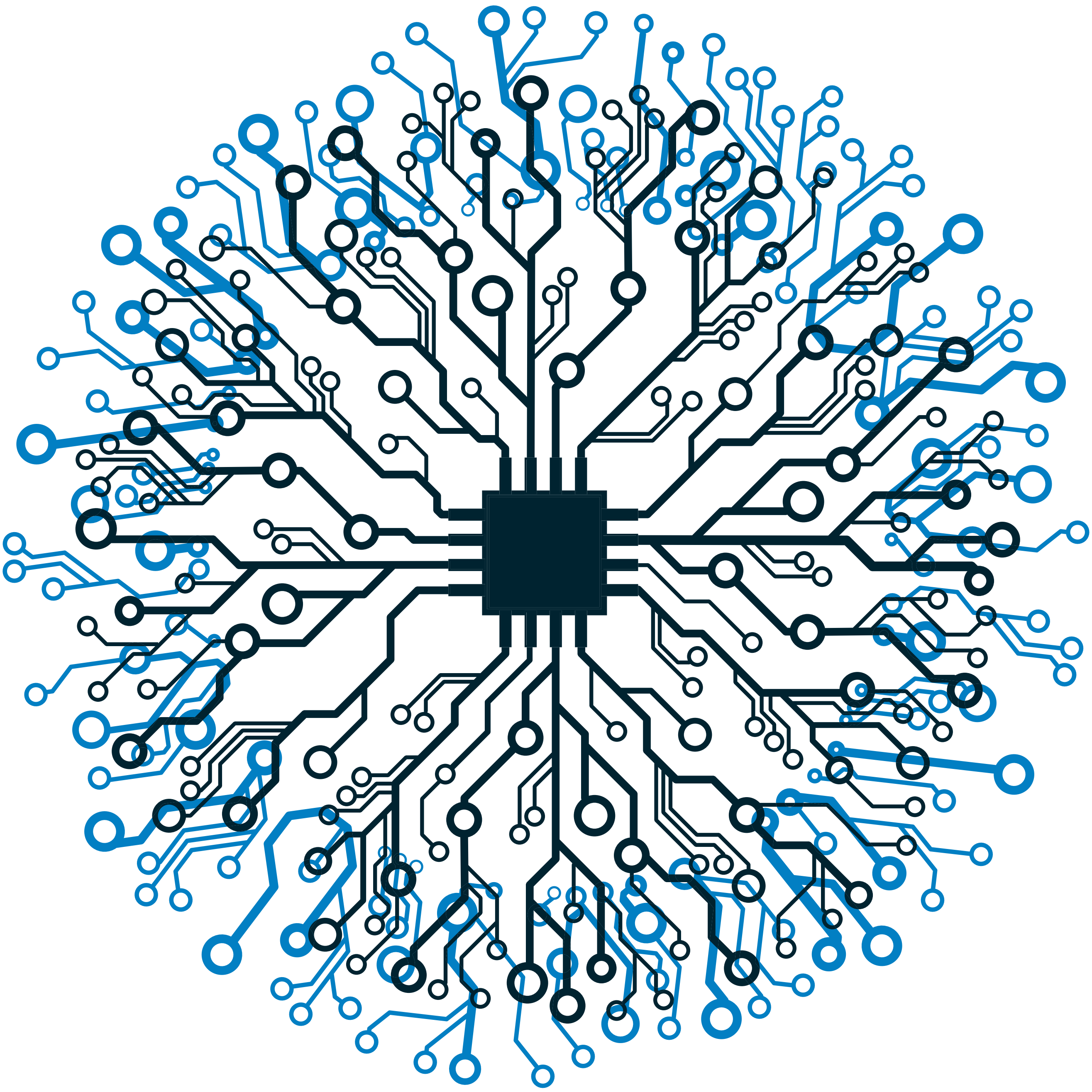
The Governance Institute

The Future Board

Getting in Shape for Tomorrow's Challenges



The Future Board: Getting in Shape for Tomorrow's Challenges

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Introduction

Board members could be forgiven if they sometimes feel that they are living in a state of siege.

Boards are being bombarded by new regulatory requirements. Individually and collectively, directors are criticised by politicians and the public as being out of touch with society, sometimes justifiably but often not.

The list of people to whom they are expected to be accountable continues to grow, as does the list of issues on their agenda, including many that simply didn't exist until relatively recently. Over the same period there have been enormous changes in the way organisations and individuals work.

All this is happening while boards are trying to steer their organisations through challenging and rapidly changing times and doing their best to equip them for a future that is hard to predict.

Arguably, for typical boards, their structure, functions and ways of working have not changed at anything like the pace of the organisations they lead or the world in which they operate.

The purpose of this report is to ask: is the traditional model of the board capable of meeting the expectations we now place on it, and is it the most efficient way of doing so? And is there a need for radical thinking about what boards do and what they look like to equip them for the future?

The first part of the report identifies some, although by no means all, of the trends and developments to which boards in all sectors are having to respond. The second part looks at some of the ways in which the role, structure and composition of boards might potentially evolve in the future. The report ends by posing a series of questions that we would encourage boards to consider.

The case for saying that the board as it currently operates is broken and that it needs to be reinvented is not at all conclusive. But, equally, it is hard to say with certainty that a 'make do and mend' approach to the challenges and expectations facing boards and their organisations will suffice.

I am grateful to Chris Hodge for writing this report which will, we hope, stimulate discussion about what can and should be done to ensure that we have the boards we need to meet the challenges of tomorrow.

Sara Drake, CEO
ICSA: The Governance Institute

Part 1: The challenges facing boards

This section of the report attempts to summarise some of the main trends that have affected boards in recent years, many of which are likely to continue or even accelerate in the future. In broad terms, what we have seen is that:

- boards are expected to take responsibility for a greater range of issues;
- boards are also expected to be more accountable, and to a broader range of stakeholders; and
- technological developments and innovations in the way organisations and individuals work are having a significant impact on how boards provide leadership and exercise oversight.

Responsibility

Over the course of the last ten years or so, the list of matters for which boards are expected to be responsible has grown longer and longer. Boards are now expected to be capable of dealing with a broader range of issues, and to be directly involved in their organisations to a much deeper level, than was once the case. Some commentators are concerned that the cumulative effect is that boards are now becoming just one more layer of management.

The rationale for the board becoming more directly responsible for a particular issue is often understandable, and it is appropriate they should do so. One example is risk. In many sectors, risk management was for a long time largely focused on the risks internal to the company and was therefore seen as primarily a function for management.

The combination of the financial crisis and a series of environmental events and corporate scandals in the years that followed (for example, the Icelandic volcano and the Gulf of Mexico oil spill, both in 2010) brought home to boards that they needed to be much more involved in assessing external risks that could undermine their strategy and future prospects, and in setting the organisation's risk appetite. Subsequently, issues such as political, reputational and cyber risk have become a more important part of the board's agenda.

A similar process has taken place in relation to culture and ethics, with the recognition that if the board's role is not just to set the 'tone from the top' but to ensure that the right values and behaviours are instilled throughout the organisation. This requires a greater degree of operational oversight.

The most recent edition of the UK Corporate Governance Code,[1] for example, gives the board responsibility for reviewing workforce remuneration and related policies to ensure that incentives and rewards promote the desired culture, and for overseeing the development of a diverse talent pipeline. In some sectors, boards are expected to take responsibility for the well-being of the workforce.[2] These are all matters that were once seen solely as the preserve of management.

In parallel, there have been regulatory moves to make boards more directly responsible for ethical behaviour throughout the organisation by introducing offences of 'failing to prevent' misconduct (as opposed to participating in it).

Examples include the Criminal Finances Act 2017 offences relating to tax evasion, the guidance on which makes explicit that the aim of the legislation is to hold the boards of large organisations to account: 'In large multinational organisations decision making is often decentralised and decisions are often taken at a level lower than that of the board of directors, with the effect that the relevant body can be shielded from criminal liability.'[3]

Similar motives underlie the trend to impose individual responsibilities on designated board positions in addition to the collective responsibilities of the board as a whole.

The best-known example is perhaps the Senior Managers and Certification Regime in the financial services sector, which sets out specific responsibilities for the chair, CEO and audit committee chair amongst others. Similar requirements are found in other sectors as well, for example in education where academies and Foundation Trusts are required to have an Accountable Officer (usually the CEO), while the Care Quality Commission can take action against directors of NHS Trusts if their organisations breach its Fundamental Standards.[4]

1 'The UK Corporate Governance Code'; Financial Reporting Council; 2018
2 For example, the Department for Education's 'Governance Handbook' for academies, multi-academy trusts and maintained schools was updated earlier in 2019 to give boards responsibility for policies and processes to cut unnecessary workload
3 'Tackling tax evasion: Government guidance for the corporate offences of failure to prevent the criminal facilitation of tax evasion'; HM Customs & Excise; 2017
4 CQC quoted in 'CQC reveals 'alarming' new route to prosecute directors' article; Health Service Journal; 2019

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The view that the board collectively, and board members individually, should be on top of everything that happens within their organisation and everything that impacts upon it is not perhaps a realistic one, but rightly or wrongly that is the expectation that organisations are trying to meet. Attempting to do so has had a number of practical consequences.

One is that the size of board packs – the papers the board discusses at its meetings – continues to increase. As boards become directly responsible for more and more issues, the greater the volume of information they require in order to take decisions, exercise oversight and obtain the necessary assurance.

An analysis of data provided by users of the online 'Board Reporting Calculator', developed by Board Intelligence and ICSA carried out in January 2019, found that board packs had increased in size across all sectors and all sizes of organisation. The average pack size for organisations with a turnover of more than £500 million was over 300 pages, compared to 250 in 2017.[5] It is increasingly difficult for board members to tell the wood from what used to be the trees.

Closely related to this is the impact on how boards are spending their time. Board members frequently complain that they spend too long in meetings on compliance and operational detail at the expense of strategy – in effect, on the agenda that is being set for them by regulators and others rather than on their own agenda. The same research found that 65% of respondents felt that the papers did not enable the board to have a focused conversation, with many saying the papers and agenda were too operational and backward-looking.

The increased workload of the board and committees also impacts on the time commitment expected of directors. This is particularly an issue for board members who are not full-time employees (for example, non-executive directors or trustees).

Increased time commitment can have the effect of reducing the pool of potential candidates as some will not have the required availability; it may perhaps have a disproportionate impact on women and certain socioeconomic groups, undermining efforts to achieve more diversity on boards.

5 Research by ICSA: The Governance Institute and Board Intelligence, published in the March 2019 edition of 'Governance + Compliance' magazine

Anecdotally, it has become more difficult to recruit board members (both executive and non-executive) for board positions or sectors that individuals believe will expose them to greater personal liability or reputational risk, including – in an increasing number of sectors – public opprobrium about their pay.

In listed companies, the greater time commitment is also contributing to an increase in the fees paid to non-executive directors – 42% of listed companies increased fees in 2018.[6] In the voluntary sector, there is a perennial debate about whether or not it would be desirable to remunerate previously unpaid positions in order to attract the calibre of board members required.

Some commentators have raised concerns that continuing increases in the time commitment expected of non-executive board members and the fees they receive could begin to impact on their independence, arguing that if the point is reached that the fees represent the major part of a board member's income that individual's ability to remain entirely objective must be called into question.

Accountability

Over the last few years, there has been considerable debate in the UK about to whom boards of directors should be accountable, and whose interests they should be expected to take into account.

While the debate has focused primarily on the boards of listed companies, it has implications for all organisations, many of whom are operating in sectors that are already further down this particular path. All boards have to consider the interests of, and impact on, a range of different stakeholders – for example, funders, donors, supporters and different clients in the case of charities. There are movements in the charity and education sectors arguing for more stakeholder participation in governance, and greater local accountability is one of the aims of the NHS Foundation Trust model.

6 'Guide to Directors' Remuneration 2018'; KPMG; 2018

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The Government's 2016 consultation on corporate governance reform took as its starting point the view that while 'companies and their boards recognise the wider societal responsibilities that they have and the benefit they gain through wider engagement around their business activities… examples of poor corporate practice where the views and needs of key stakeholders have not been given appropriate consideration have raised concerns'.[7]

The welcome outcome has been a greater awareness on the part of many boards of the need to consider the impact of their decisions on all their key stakeholders – as set out in Section 172 of the Companies Act 2006, which applies to the directors of all companies, not just listed ones. This has been reinforced by the introduction of new reporting requirements, and by changes to the UK Corporate Governance Code (for example, in relation to workforce engagement and the need to 'contribute to wider society'[8]).

Interestingly, the debate about the rights and wrongs of 'shareholder primacy' is taking place at a time when there are signs of greater alignment than may have been the case in the past between the interests of at least some shareholders and those of other stakeholders. Increasingly, some investors are asking boards to explain their position on environmental, social and ethical issues, as well as quizzing them about their strategy, performance and governance.

In part this is being driven by client demand. Investors interviewed by ICSA in 2018 were clear that this was the main reason why they had increased levels of stewardship activity and broadened the agenda over the previous five years.[9] Globally the impact investing market is now valued at over USD 500 billion,[10] and in June 2019 the UK announced the establishment of a government-backed Impact Investment Institute to support this growing segment.

7 'Corporate Governance Reform: The Government Response'; Department of Business, Energy and Industrial Strategy; 2017
8 'The UK Corporate Governance Code'; Financial Reporting Council; 2018
9 'Shareholder Engagement: The State of Play'; ICSA: The Governance Institute; 2018
10 'Sizing the Impact Investing Market'; Global Impact Investing Network; 2019

This changing focus is also being driven in part by regulators, who appear to be using investors as a vehicle for promoting public policy. While this is not new – for example, successive governments have strengthened shareholders' voting powers in an attempt to assuage public criticism of levels of executive pay – the expectation is now becoming more explicit. In the consultation version of the revised UK Stewardship Code, published in January 2019, the Financial Reporting Council proposed a new definition of investor stewardship that included a responsibility 'to create sustainable value for… the economy and society' as well as for their clients and beneficiaries.[11]

Some regulators are also intervening more directly themselves in a way that goes beyond the traditional standard-setting and supervisory roles.

Again, this has always been the case in certain sectors where it has been considered necessary to protect the public interest, such as financial services and some parts of the public sector. However, 'regulatory creep' appears to be becoming more pervasive, and consciously or not the concept of 'the public interest' is being redefined to justify greater intervention by regulators in matters that have previously been seen as the sole preserve of the board.

In the education and health sectors, for example, the regulatory authorities have powers enabling them respectively to remove trustees and impose an administrator to take over the functions of the board.[12] In 2018, the Kingman report on the Financial Reporting Council recommended that its successor body should have the power to commission and publish a 'skilled person review' of a company's financial position or governance arrangements (amongst other new powers).[13]

Finally, all organisations are increasingly held to account by public opinion, as expressed through social media and other channels. The timeframe over which a problem becomes a crisis is now measured in hours and minutes rather than weeks and days, and boards are having to become more responsive and nimble as a result.

11 'Proposed Revision to the UK Stewardship Code'; Financial Reporting Council; 2019

12 The Secretary of State's powers to remove board members or trustees of academy trusts are summarized in 'Academies' Financial Handbook', Department for Education, 2018; while Section 174 of the Health and Social Care Act 2012 gives NHS Improvement powers to appoint a special administrator to exercise the functions of the governors, chair and directors of NHS Foundation Trusts.

13 'Independent Review of the Financial Reporting Council'; 2018

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While greater responsiveness on the part of boards to a broader range of views or interests is very much to be welcomed, it presents considerable challenges.

One is the danger that the board loses control of its own agenda or allows its priorities to become distorted. As noted, boards often have overcrowded agendas, with the result that something has to give.

The power of regulators, for example, can mean that boards worry about where the pain is coming from and how to ease it, rather than dealing with the strategic objectives of the organisation. The same applies when the organisation finds itself on the receiving end of the public's attention, which may not always be focused on the most important issues facing the organisation, and may not understand the nuances of a particular situation.

When ICSA asked its members which external parties had the greatest influence over the standards of behaviour in organisations, 44% said that it was regulators. While only 11% said that the public had the biggest influence, this was three times the number of members who felt that directly affected stakeholders were most influential. The concern was expressed that 'the stakeholder voice is being drowned out by other commentators with a weaker connection to the organisation'.[14]

One view is that the answer to this dilemma is for organisations to have a clear sense of purpose. This is reflected, for example, in the Charity Governance Code[15] and in the Wates Principles for large private companies which state that 'a well-developed and defined purpose will help companies of all sizes and structures articulate their business model and develop their strategy, operating practices, workforce, and approach to risk'.[16]

While a defined purpose can certainly provide a framework for the board's decision making, and may reduce the danger of it being pushed off course, it does not in itself eliminate some of the practical challenges that boards face in attempting to engage with their stakeholders and ensure that they understand the impact on them of their organisation's activities.

14 'Next Generation Governance'; ICSA: The Governance Institute; 2018
15 Charity Governance Code; 2017
16 'The Wates Corporate Governance Principles for Large Private Companies'; Financial Reporting Council; 2018

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The impact of technology and organisational innovation

It is not possible to discuss the future board without also considering the future nature of work and organisations. As the organisation that the board leads and oversees changes and adapts, so must the board itself.

Many of the changes are driven by technological innovation. Mobile communications and the Internet have completely transformed the way we work over the last thirty years, just as AI and blockchain are doing now.

The scale of the impact varies. In extreme cases, we have seen the emergence of some major businesses with few of the features one traditionally associates with large organisations – a large permanent workforce or a physical presence in local communities, for example. This is not yet the norm, and may never become so. But almost all organisations have been affected to some extent.

Technology has had and will continue to have many positive benefits in terms of how boards function. It has the potential to enhance decision making by enabling deeper and faster analyses to be carried out, and to facilitate shareholder and stakeholder engagement.

It can also have a significant impact on the support boards receive, including from the company secretary or governance professional. Nearly two-thirds of ICSA members expect to see further reductions in the time spent on administrative tasks previously carried out manually,[17] freeing up their capacity to undertake activities that arguably generate greater value for the board and organisation.

Technology has also resulted in new issues being added to the board's agenda – from disruptive business models to data management and GDPR – and consequently has had an impact on the skills and expertise the board requires. A recent survey of company directors found that nearly half did not believe their boards have the appropriate resources to navigate the disruption caused by emerging technology.[18]

17 'Next Generation Governance'; ICSA: The Governance Institute; 2018
18 'How Boards Are Governing Disruptive Technology'; Corporate Board Member and EY; 2019

Arguably more fundamentally, it has had an impact on the board's accountability and risk exposure – as discussed in the previous section – and on the way that organisations are structured and operate. Trends that have been facilitated by technology, even if it is not necessarily always the main driver, include:

- The creation of entirely new operating models, and the consequent demise of some traditional businesses and sectors.
- The extensive use of outsourcing in both the public and private sectors. The value of the UK IT outsourcing market alone was estimated at £2.2 billion in 2018.[19]
- In the private sector, the 'off-shoring' of back-office and customer service functions – in addition to the many UK companies that have global workforces, and the many more that have global supply chains.
- In the public sector, an increased use of alternative models of service delivery. For example, in 2018 there were over 500 instances of local authorities providing shared services.[20]
- The rise of the 'gig economy'. As of 2017, an estimated 1.3 million people in the UK were engaged in 'gig work'.[21] This figure includes people who provide services in their own name as well as those who do so in the name of third parties (for example, Uber).
- Flexible working patterns and practices such as part-time working – which now accounts for over a quarter of total UK employment[22] – and remote working. In 2014 an estimated 1.5 million employees worked from home.[23]

Individually and collectively these trends have generated many benefits for the organisations concerned, including increases in efficiency. Many of them have also benefited customers, employees and other stakeholders.

19 ISG Index; January 2019
20 'Local government: alternative models of service delivery'; House of Commons briefing paper; 2019
21 'To gig or not to gig: Stories from the modern economy'; CIPD; 2017
22 'Good Work: The Taylor Review of Modern Working Practices'; 2017
23 'Characteristics of Home Workers'; Office for National Statistics; 2014. According to the ONS data, there were a total 4.2m home workers, of which 34% were employed by an organisation).

However, they have also created new risks and challenges. For example, outsourcing or sharing functions and services makes the organisation partially reliant on third parties for its performance and reputation and reduces the board's direct oversight without reducing their responsibility. Instilling a common purpose and culture also becomes more difficult, as it does with a physically dispersed workforce. How do you 'walk the floor' when there is no floor to walk?

When ICSA surveyed its members in 2018 about what they saw as the biggest obstacles to effective internal oversight in the next 10–15 years, 25% said it would be the growth in the size and complexity of organisations, and 12% the difficulty of supervising remote working and other autonomous arrangements.[24]

Summing up

Taken together, these trends are having a significant impact on boards, and in some respects are pulling them in different directions. It could be argued that the demands being placed on boards are increasing at the same time as their ability to meet those demands is diminishing, and that the increased centralisation of responsibilities on the board runs counter to the desire to have more stakeholder input.[25]

Much good work is being done across all sectors to help boards get to grips with some of the specific challenges highlighted in this section. For example, ICSA has developed cross-sectoral guidance on the practicalities of stakeholder engagement[26] and board reporting,[27] as well as a considerable number of sector-specific initiatives.

Given the number and variety of these challenges, it is understandable that boards and those advising them may not have the time to take a step back and ask themselves: Are we really building for the future or simply fire-fighting?

24 'Next Generation Governance'; ICSA: The Governance Institute; 2018
25 One example of this tension is discussed in 'The Future of Sports Governance: Beyond Autonomy'; ICSA: The Governance Institute; 2019
26 'The Stakeholder Voice in Board Decision-Making'; ICSA: The Governance Institute and the Investment Association; 2017
27 'Effective Board Reporting'; ICSA: The Governance Institute and Board Intelligence; 2018

Part 2: The future role and structure of the board

There have been enormous changes in the way organisations and individuals work over the last 25 years, but the structure and function of boards have not changed at anything like the pace of the organisations they lead. Some of the faces around the table are different; there are more women and, in the listed sector, fewer executive directors. But in most respects boards look much the same as they did in the mid-1990s[28] and – technological developments aside – most are working in much the same way.

Many of the most successful businesses today are those that have developed entirely new business models, for example by using technology to transform the way in which they work rather than simply automating their existing processes. When it comes to the role and functioning of the board, though, we are arguably still at the 'automating existing processes' stage.

Debate about the structure and composition of boards has tended to be about who needs to be around the table (for example, the debates on diversity, independence and workforce representation). These are important discussions, but there has been a tendency to treat the typical board structure in the sector concerned as a fixed point.

Is the traditional board capable of meeting the expectations we now place on it? Has our thinking about the board been too constrained by structures and systems that were designed in what now seems almost a bygone age? Is there a need for a more fundamental rethink of how boards are structured, what their role should be, or both?

28 'A View at the Top'; ICSA: The Governance Institute and London Business School; July 2019. The average FTSE 100 board size in 2017 was 11, compared to 12 in 1996; The average percentage of executive directors has fallen from 50% to 26%. The average age of directors was 59 in 2017, compared in 56 in 1996. The percentage of female directors has increased from 4% to 28%.

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When contemplating possible future models for the structure and role of the board, there are perhaps four overlapping considerations to be borne in mind:

- **Capacity** – how much time does the board need to carry out its responsibilities, and how can use it most effectively? If the board does not have sufficient time to do all the work that is expected of it, is the answer to increase the time commitment or reduce the workload?

- **Capability** – what skills and information does the board need, and where does it get them from? Do you need all the relevant expertise and all the different perspectives around the board table or can they be obtained more efficiently in a different way?

- **Control** – what visibility does the board have over the organisation it leads, and what levers can it pull to influence behaviour and performance? Are they sufficient?

- **Closeness to the issue concerned** – is the view from the top necessarily the best view? Is the boardroom the best place in the organisation to deal with all the issues currently on the board's agenda?

In the rest of this section, we consider in broad terms some of the approaches to balancing these different considerations that we believe are deserving of further debate.

Devolution of responsibilities

As shown in Part 1 of this report, the tendency has been for more and more responsibilities to be elevated up to the board. Sometimes this has been initiated by the board itself, sometimes not. While in many cases this elevation is justified, cumulatively the burden and expectation now placed on boards may be more than they are able to bear.

Is there a case for saying that the process should be stopped, or even reversed, and a better balance sought between centralised and devolved authority within organisations?

There are two main arguments put forward in support of this view. The first is, that by reassigning responsibilities within the organisation, you would enable boards to focus on their core functions, the things that they alone are qualified to undertake.

The second is that the board is simply not the right place for certain responsibilities to rest because it is too far from the 'front line'. It is argued that better decisions would be made if the distance between the source of authority and the shop floor, or the point at which the organisation engages directly with its stakeholders, was reduced.

In principle, a greater degree of devolution of authority within all organisations ought to be achievable. More difficult is identifying what gets delegated and to whom, and what if any accountability the board then has for those decisions.

Boards would understandably have concerns about delegating matters that they are directly responsible for in law, and perhaps also those that have the potential to impact significantly on their organisation's performance or reputation – particularly boards that have been burnt previously.

Division of responsibilities

The functions of most boards can be grouped under a series of broad headings, for example: organisational purpose and culture; strategy and risk; operational oversight; and governance.

In the UK corporate sector, at least, the unitary board tends to be treated as sacrosanct. When it works well – as it very often does – it can be an extremely effective model for leading an organisation. But there may be arguments for saying that the different functions need not be inextricably linked, and that the same group of people may not always be best placed to lead on all of them.

There are other models, both within the UK and overseas, that may be worth studying to see whether they could be adopted or adapted for other sectors. In general, these models tend to separate out some or all of the 'organisational purpose and culture' and 'governance' functions from the strategic and operational ones. Examples includes:

- the 'two tier' board found many parts of continental Europe. Typically this consists of an entirely non-executive Supervisory Board and an entirely executive Management Board;

- bodies that have a specific remit to protect the public or some other interest or to act as the conscience of the corporate purpose. Examples include the Co-op's elected Members' Council which 'acts as the guardian of the Co-op's purpose, values and principles, and the society's constitution' and the 'public interest committees' that have been set up by some audit firms in accordance with their governance code;[29] and

- unitary boards where some functions that would normally be carried out by the board have been delegated or assigned to other bodies. For example, in Italy, listed companies must have a separate Board of Statutory Auditors, directly elected by the shareholders, which is responsible for the functions typically delegated to the audit committee in the UK.

29 'Audit Firm Governance Code'; Financial Reporting Council; 2016

Broader input to decision making

One potential benefit of distributing board functions between more than one governing body is that it creates opportunities to bring a more diverse range of skills, perspectives and interests into the governance structure rather than having to 'trade off' between them.

Inevitably, even the best balanced boards are unlikely on their own to be able adequately to address all the issues for which they are now expected to be responsible and accountable.

That said, there are potentially other ways in which organisations can reconfigure their governance structures to broaden the pool of people inside and outside the organisation that are able to contribute to the board decision making.

There are many models already being used and tested, including: hybrid board committees (with a mixture of board members and others not on the board who can bring specific expertise or represent a particular group of stakeholders); advisory committees (at different levels of the organisation); and inviting individuals or groups to participate in board meetings when a particular issue on which their input would be valuable is being discussed.[30]

Another idea that might be worth exploring is whether the annual general meeting should be given a new purpose. Potentially the AGM provides a forum for bringing together all the company's key stakeholders – including the shareholders – and giving them the opportunity to engage not just with the board but with each other. This is an approach that some charities, including Global Giving UK and Parkinson's UK, have already adopted.

For organisations with shareholders or members with voting rights, such a forum could perhaps be used to 'test out' some of the draft resolutions that will subsequently be put to them, to enable the board to assess wider stakeholder sentiment before they do so.

30 More information about these and other ideas can be found in 'The Stakeholder Voice in Board Decision-Making'; ICSA: The Governance Institute and the Investment Association; 2017

Shared decision making

Some commentators argue that organisations should not just devolve or broaden inputs to decision making, but move to a model of shared decision making. This was the conclusion reached by the Civil Society Futures inquiry, for example, which believes that organisations supporting individuals and communities need to adopt 'shared and distributed models of decision making and control.'[31]

This may not be practical or appropriate for all organisations as their main operating model, and it may be an approach that is better suited to some sectors than others. However, the growth in outsourcing and shared service delivery highlighted in Part 1, and the increased use of blockchain and other distributed ledger technologies in which authority is decentralised, suggest that it may affect at least some activities of many organisations. The implications of this for boards and for governance more broadly are perhaps not yet fully understood.[32]

Increasing the board's capacity

In 2018, the boards of the UK's largest listed companies consisted of an average ten members and met on average seven times during the year. Average board size was the same as ten years previously, and the meeting frequency had actually fallen slightly.[33] In the charities sector, the average board has six members and the majority of boards meet between four and six times a year.[34]

These figures do not take account of the significant amount of work now being undertaken by board committees, or the many hours that some board members put in between meetings, but nonetheless they do beg the question: Is the collective and individual commitment of the board members adequate in absolute terms to deal with the task in hand?

31 'The Story of Our Future'; Civil Society Futures; 2018
32 The potential impact of blockchain for boards in discussed in 'Futureproofing: Technological innovation, the company secretary and implications for corporate governance'; The Institute of Chartered Secretaries and Administrators; 2018
33 'Spencer Stuart Board Index'; Spencer Stuart; 2018. FTSE 150 boards met on average eight times in 2008 and seven times in 2018.
34 'Taken On Trust'; Charity Commission, Cass Business School and the Worshipful Company of Management Consultants; 2017

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Data from the US shows that the average time commitment for directors of listed companies has increased 18% in the last ten years.[35] In some sectors, and for some roles, the increase has been significantly higher. For example, during 2018 the chairs of UK listed banks devoted on average an estimated 64 days solely to preparing and participating in board and committee meetings, over 20% more than had been the case two years previously.[36]

Without some reallocation of responsibilities or a reduction in the board's workload, it seems likely the trend will continue, at least in large and complex organisations. Is it time to consider making some non-executive roles full time positions?

There are some obvious and immediate concerns raised by that suggestion. One is the impact on the independence, or at least the perceived independence, of those board members; this is particularly important in 'supervisory' positions such as the audit committee chair, which tend to be the ones under most pressure to commit more time.

Another concern is that it could reduce the pool of available candidates, both in terms of numbers and variety, undermining efforts to build more diverse boards – although there may be ways of balancing that through some of the ideas discussed earlier. In addition, there is a danger that increasing board members' capacity might simply exacerbate the trend to load them up with more and more responsibilities.

35 Data from the National Association of Corporate Directors, quoted in 'Are Board Directors Going Overboard?'; Korn Ferry Institute; 2018
36 AKTIS; 2019. The data was prepared specifically for this report.

Making the board more nimble

A related issue is whether the fact that in most organisations the majority of the board's business is still carried out in more or less regular meetings leaves them exposed. As the pace of change affecting their organisations continues to accelerate, are boards able to respond quickly enough?

This is an issue for which technology could potentially have a transformative effect. Rather than having the ability to carry out their role constrained by being reliant on information from management that is received only at fixed points in the calendar, board members could in principle receive real-time information on a wide range of issues and from a wider range of sources.

Handled with care, there could potentially be some real benefits. Providing board members with access to real-time information on, for example, key performance indicators and 'red flags' might enable them to respond more quickly to emerging problems. It may also help to offset some of the challenges resulting from changes in working practices or devolving responsibilities identified earlier in this report, giving the board a clearer line of sight.

Handled poorly, though, continuous access to an even greater volume of information could either leave board members feeling swamped or encourage them to second guess or usurp management. Striking the right balance could be challenging.

Questions for consideration

The most frequently used mantra when governance is being discussed is that 'one size does not fit all', and that is as true of the role, structure and operation of the board as it is of all other aspects of governance. None of the ideas suggested in this report are likely to be either suitable or necessary for all organisations.

However, we believe that boards cannot afford to be complacent in the face of the challenges they are already grappling with and the accelerating pace of change. We would encourage all organisations to ask themselves these questions:

- Is the devolution of some authority further down the organisation desirable? What sort of responsibilities and decisions could be devolved, and to whom? And what safeguards would the board need to put in place to ensure it could meet its responsibilities?

- Would a division of the board's functions and responsibilities between different bodies bring any benefits? If so, what split would be appropriate? And how would you ensure the different bodies work together constructively in the best long-term interests of the organisation?

- Can better use be made of existing governance structures at all levels of the organisation to get broader input to the board's decision-making process? Are there additional structures or mechanisms that could be beneficial? How can you ensure that doing so results in the board getting better quality information and not just a greater volume?

- Could the annual general meeting be reinvented as a forum to provide stakeholder input to the board's decision-making processes? Are there practical or legal obstacles that would need to be overcome?

- How well suited are existing governance systems to shared decision making? Is there a need to develop new models of decision making and control for these activities? If so how would they fit into an organisation's overall governance framework, including the board's oversight role?

- Is it necessary, practical or desirable to have a mix of full-time and part-time non-executive board members? If independence and diversity could be built into other parts of the governance structure, would that compensate for any adverse effects on the balance and breadth of the board?

- How can the information and support the board receives be developed to enable it to be more nimble and responsive?

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