



## Executive Summary

# Governance in the Digital Age: A Guide for the Modern Corporate Board Director

The dramatic impact of technological innovation and disruption, unpredictable economic and social climate, intricate government regulations—these and other factors have made today’s board governance increasingly more challenging. Despite the many obstacles, corporate board directors are expected to respond instantly and precisely to any situation no matter how complex.

**Governance in the Digital Age** is a guide to the new approaches and technological processes that can help make a board’s demanding job more manageable. The practices outlined have the power to improve, in an extraordinary manner, how boards function, enhance director engagement, and ultimately, lead to greater results.

Learn about board profiles, tactics to try, questions to consider, and more in ***Governance in the Digital Age: A Guide for the Modern Corporate Director***, available April 16, 2019 from:

- [Wiley](http://Wiley.com) (Wiley.com)
- [Barnes & Noble](http://Barnes&Noble.com) (bn.com)
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**Diligent**

## From Robert's Rules of Order to Moore's Law: Governing in the Digital Age

For decades, the work of a governance professional has been defined by thoughtful deliberation and facilitated by time-honored structures like Robert's Rules of Order. Digital transformation, globalization, and other sweeping trends are changing this picture.

Technology now evolves in a cycle of months rather than years. New business models like streaming content and task-sharing and online platforms like Uber and AirBnB are disrupting "business as usual," as are highly public scandals related to cyber breaches, sexual misconduct, and beyond. Board members have more on their radar and on their plates, with activist investors and a demanding market and public leaving little tolerance for hesitation or error.

In the 21st century, the challenging job of corporate governance just became significantly more difficult. Thanks to a confluence of forces, board members are at a crossroads, with one foot in the past, one in the future, and great concern about successfully making the leap into the future.

Can processes purposefully designed to be deliberative keep pace with today's speed of business? How can leaders steeped in 20th century experience navigate a world of increasing unpredictability?

Boards are starting to shift their approaches and processes. Some have rethought meetings and shareholder engagement. Others have adopted tools digital tools to work more productively.

But efficiency is just one small part of the equation. As governance undergoes a major transformation, governance professionals are hungry for new ways to stay ahead of change and gain advantage.

*Governing in the Digital Age* addresses this thirst for knowledge. It compiles strategies, guidance and stories from the latest books and trade publications as well as in-depth interviews with senior executives and global corporate directors.

This paper draws from the book to highlight six key areas where board roles, responsibilities, and processes are evolving: value creation, resilience, risk management, strategy, sustainability, and personal accountability. It also introduces the concept of board behavioral profiles, governance "personality traits" which can change over time and in response to specific situations.



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## Creating value

Companies with longevity know what products to develop, how to adapt to customer behaviors, where to allocate capital, and more. As board members contribute their leadership and guidance to these ends, they grapple with weighty questions: How can the company make—and keep—itsself valuable to customers, investors, and the overall marketplace? How does it invest in long-term innovation and sustainability in today's environment of disruption and digital transformation?

The right answers result in a corporate success story like Netflix, which not only maintained but grew its shareholder value during its transition from a DVD rental company to a content creation giant. Failure results in companies that are no longer listed on the stock exchange because they no longer exist.

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Shareholders are demanding a more involved board role in this vital area of value creation, and board members are evolving their practices to keep up. For example, boards are moving from a caretaker approach of corporate stewardship to the sharp, opportunity-focused view of a private equity investor. They're keeping themselves more closely in touch with change, so they're better equipped to talk about—and act upon—new developments and trends. Many are recruiting fresh perspectives from different industries and with expertise in emerging digital areas such as blockchain, AI, and VR.

“You need at minimum two digitally savvy directors to understand the rate of change, technology, and how to use technology to bring costs down, take friction and steps out of the customer journey, and truly understand future differentiated business models,” said Betsy Atkins, CEO and Founder of Baja Corporation, who serves as a Director on the Boards of Directors of Cognizant, Wynn Resorts, SL Green Realty, Schneider Electric, and Volvo Cars.

Directors from all backgrounds are educating themselves through tactics like site tours, customer visits, and expert speakers in emerging tech areas.

Boards are also strengthening how they work together as a whole. This means replacing periodic PowerPoint presentations with open and ongoing discussions peppered with thought-provoking questions. Digital age collaboration also entails carving out time for big questions and long-term thinking about innovation. Some boards are creating committees specifically dedicated to value creation, and others are pairing up directors from different backgrounds. The goal: Richer, deeper conversations for sharper, faster decision-making.

According to Margaret Whelan, who serves on the boards of directors of TopBuild and John Burns Real Estate Consulting: “It's important to set the right tone and standards from the top, establish a growth plan through the CEO, have a board that is fresh and refreshed, and create an innovation strategy to think about things outside the box.”

### Value creation tactics to try right now:

- **Decide how your board will keep its finger on the pulse of corporate culture. Identify potential red flags and design your warning system.**
- **Assess the technology-related skills your board may need to recruit in the years ahead. There are many different kinds of “technology experience,” which will require an ongoing assessment of strategy and composition.**
- **Use metrics and dashboards to focus in on what really matters**

### Value creation questions to consider:

- **What kind of data does your board need to govern effectively? What's the best way to collect and visualize this data for board discussions?**
- **Are technology budgets reflecting strategic priorities?**
- **How does your brand strategy and business model compare with peers and new market entrants? Does either need a refresh?**

## Maintaining resilience

The ability to create value, manage risk, and guide a company into an uncertain and unpredictable future requires exceptional skill in communicating and connecting the dots, supported by strong and appropriate governance processes and an atmosphere of trust. All these elements acting in consort add up to the crucial competitive differentiator of resilience.

Board resilience may be best illustrated by what happens in its absence. Take, for example, sweeping fraud that costs a corporation billions in fines, revenues, and lost reputation. Offending behaviors go unnoticed at the board level due to a lack of oversight, unacknowledged due to conflicts of interest, and unaddressed due to poor decision-making and governance structures.

Or picture a sweeping breach of customer information. Such a crisis happens on the board's watch because directors don't have the right information at the right time and lack the background, confidence, and candor to confront the threat in a direct, informed, and timely fashion.

How does a board bolster its strength in such a critical area? For many, resilience starts with the right people. To line up the expertise and perspectives they'll need, many boards are developing formal and informal matrices of desired skills and proactively networking through new channels, such as alumni groups and venture capital communities.

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To facilitate more timely decision-making, some boards are streamlining management reports to bring the most salient information to the fore. One key tactic is simply asking directors what they want to see. Other boards are using online tools to facilitate document exchange, scheduling, searching and more.

But perhaps the most important tool for board resilience is intangible: candor.

"It's important to be agreeable but you don't have to agree all the time. I find that what's most beneficial about the two corporate boards that I'm on is that people really challenge each other," Merline Saintil, who serves on the boards of Banner Corporation and Nav, Inc. "You come out of some meetings feeling exhausted because you've been on your toes for hours, but that's the way it should feel."

For this reason, security, anonymity, and trust are vital for a resilient board. "If there is a community component, it needs to be absolutely confidential and directors can't be identified by their comments," said corporate director Nora Denzel, who serves on the boards of AMD, Ericsson, and Talend Software.

### Board resilience tactics to try right now:

- **Examine your board culture to ensure it strikes the right balance between collegiality and "respectful skepticism."**
- **Consider alternate meeting structures and tools to make board discussions more interactive and effective.**
- **Approach the board evaluation process as an opportunity for improvement—not a check-the-box exercise.**

### Board resilience questions to consider:

- **How well are you encouraging and accepting constructive criticism?**
- **Through what channels are you seeking diverse opinions?**
- **What measures is your board taking to remain open to change?**

## Managing risk

A state-of-the-art malware attack exposes millions of customer accounts. A key executive faces accusations of sexual misconduct. Regulatory violations spur damaging lawsuits and stock losses.

Recent headlines like these have upped the ante for boards in the area of risk management. When directors neither know about a potential crisis nor act upon it in a timely and informed fashion, such ignorance and inaction can devastate both a corporation's bottom line and a board member's reputation.

But how many red flags can a governance professional realistically keep on their radar, given that even the best of leaders have only 24 hours in each day?

According to Laurie Yoler, who's served on the boards of Tesla, Church & Dwight, and Bose, "You don't necessarily need to know the derivation of every phishing attack, but you need to know what phishing is."

In high-risk, mission-critical areas such as cybersecurity, boards worldwide have been employing multiple tactics to achieve this knowledge. They're educating directors on the latest threats and training them on practices, such as secure digital communications, for mitigation.

Boards are keeping in closer communications with management, driving the information-gathering process through requesting regular reports on threats and security measures. They're using technology to make this information timely and swiftly digestible. And they're making time on the meeting agenda for risk discussions.

Nelson Chan, board chair with Adesto Technologies and board member for Deckers Outdoor Corp, related his experiences. "We have a review of cyber risk and tech issues at every board meeting. We're looking at a dashboard that shows incidents related to cyber security, like phishing attempts, the success rates of those attempts, and how we're mitigating them."

Some boards are forming dedicated committees for risk, equipped with a mission to dive deep into the details on the full board's behalf. Such a risk management committee might meet with experts about security benchmarking and assessments, emerging threats, new technologies, and more. Members then present their findings and recommendations in board meetings, where decisions can be made on a course of action.

Boards are also imagining for themselves what happens and how they would respond if and when things go wrong—say, for instance, a communication system is hacked or a sensitive email leaked. Some are using publicly available resources to develop and test their own cyber crisis response plans.

Whatever a board's strategy for risk management, candor is key. "Don't try to sugarcoat or spin a situation for the board," technology executive Ralph Loura advised. "Be fair, be candid, let them understand what you've done, where you still have risk, and why the risk still exists. Maybe it's intractable, maybe it requires more resources. Your role is to make the company better, not the board happy."

### Risk management tactics to try right now:

- Consider recruiting directors with expertise in risk areas like cybersecurity and decide how the full board will be brought up to speed on these emerging topics.
- Give the management team feedback on its cybersecurity reporting—including how the presentation of data could be improved.
- Examine the communication tools your board is using to ensure they meet the highest cybersecurity standards.

### Risk management questions to consider:

- Does your board have a dashboard indicating overall cybersecurity health and red flags?
- What tactics are in place to monitor and review risks?
- What's your plan for crisis response?

## Shaping strategy

Remember MoviePass?

The subscription-based movie ticket service began with a promising premise. But a shifting strategic direction, tensions with partner theaters, and customer-annoying glitches hindered its progress—even though a marquee product from its film financing division noted a dubious claim to fame: the first-ever zero-percent rating on Rotten Tomatoes.

In July 2018, leadership decided to borrow \$5 billion to pay its bills while cutting its subscription price by more than half. How has MoviePass fared since then? On February 22, the company laid off its entire business development team.<sup>i</sup>

Digital transformation has been generating interesting, often dramatic, stories of success and failure. In retail, some companies—think Sears and Circuit City—are dead while others are not only thriving but pioneering exciting new technologies. IKEA is one example of the latter. The Swedish furniture giant is using virtual reality to treat customers to state-of-the-art tours and bought a job-sharing platform to make it easier to connect to trained furniture assemblers after the purchase.

As these examples demonstrate, vision is only one part of bringing a great business idea to life. Companies must also effectively execute upon this vision by mastering the tactical decisions—in other words, strategy. Here, as in value creation and risk management, stakeholders looking to governance professionals for leadership and guidance.

Yet according to McKinsey,<sup>ii</sup> many boards only address strategic vision once a year, without sufficient debate or in-depth information. The consulting firm also reported directors overall spend up to 70 percent of their time on quarterly reports, audit reviews, budgets, and compliance, rather than matters critical to the future direction and health of the business.<sup>iii</sup>

Many boards are trying to rectify this situation. For example, they're encouraging directors in self-guided learning to stay ahead of macro trends in their industries and from unexpected areas. Data sources range from industry reports to competitor earnings calls to events within and outside of a company's core line of business.

Many governance professionals are stepping out of the board room and away from their computers to see the changing business environment first hand. They're touring facilities and talking face to face with management, customers, key investors, partners, and other stakeholders.

And they're plumbing the resources and connections of professional associations to keep up with areas of innovation like cryptocurrency.

Internally, boards are recognizing the need to track progress after a strategy has been set. How well is management performing against objectives? Is it time for a change in course?

Technology is helping directors get the information they need, when they need it. Several varieties of dashboards have emerged on the marketplace for setting benchmarks and charting performance. Governance professionals are also recognizing the potential of solutions from other industries, like the comparison tools used in asset and fund management and revenue forecasters in technology sales.

Given the pace of innovation, these tools are just the beginning of what's possible—for the companies equipped to support them.

"In 15 to 20 years, boards will have access to real-time data and know how to read and interpret it," said corporate director Anastassia Lauterbach. "This will require a robust cloud strategy, IT architecture that maps to business demands, and the right talent, both employees and freelancers."

### Strategy tactics to try right now:

- **Outline a board education plan for emerging technologies.**
- **Bring outside expertise into the boardroom to explore alternate perspectives.**
- **Adopt a mentality that encourages the board to 'disrupt itself.'**

### Strategy questions to consider:

- **What emerging business models offer potential for innovation—or pose a potential threat?**
- **What kind of talent will we need to recruit to achieve our three-, five- and ten-year goals?**
- **How will we define—and measure—success? How will we communicate this to our investor base?**

## Operating responsibly and sustainably

For publicly traded companies, good corporate citizenship has become a business imperative. Investment companies like BlackRock, J.P. Morgan, and Vanguard have started factoring environment, sustainability and governance (ESG) metrics into investment decisions, creating ESG-focused indices and funds, and emphasizing the importance of ESG in communications to corporate leaders.

The benefits of prioritizing ESG are quickly becoming apparent—as are the detriments of neglecting it. Signatories to the UN Principles for Responsible Investment, who integrated ESG analysis into their investment strategies, reported substantially increased assets—from \$6 trillion to nearly \$60 trillion in the last ten years.

On the flip side, today's globally connected world leaves little place to hide when an ESG practice is considered suspect. When Walmart for the first time changed the rules for voting on issues like wage transparency, activists launched a website that asked: "What is Walmart hiding?"

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Corporations are recognizing the need to put ESG objectives on their radar and chart their progress against them. They're using resources like State Street's ESGX tool and the online Knowledge Hub by the Task Force on Climate-related Financial Disclosures to assess their carbon footprint as well as effectiveness in areas such as diversity and responsible labor practices. They're also empowering board members to serve as information-gatherers and ambassadors.

"One of our executive directors goes around talking to our councils and our unions, employee groups like LGBT groups, diversity councils, apprentices, and graduates," said Rolls Royce Company Secretary Pamela Coles. "She's been out in Europe listening to employees and their concerns, picking up on the culture, and feeding that directly back to the board."

As ESG standards and metrics evolve, how can a board "think bigger than itself" in a way that also satisfies stakeholder and bottom-line demands?

According to Colin Low, who chairs the board of the Singapore Investment Development Corporation. "The company should be making a positive impact in the community it serves, creating goodwill, creating benefits, and so on. Every resource should be used at an optimum level, say generating fewer greenhouse gases or using less water, and every organization should fundamentally think this through."

### ESG tactics to try right now:

- For guidance prioritizing ESG issues, look at other companies as models
- Consider what kind of board technology could make collaborating, information sharing, and decision-making more transparent
- As ESG metrics become more standardized, keep up to date on requirements and best practices for ESG reporting and disclosure.

### ESG questions to consider:

- Is your board's ESG commitment structural or cultural—and which is most important?
- What ESG issues matter most to your investors? What is the board doing to address these?
- How is your company making a positive impact in the community?

## Escalating and enforcing personal accountability

Good behavior isn't just a priority for corporations. The executives who lead these entities are increasingly concerned about doing the right thing as well—especially as they experience heightened scrutiny and increasingly serious consequences for their roles in data breaches, sexual harassment, discrimination, and other crises.

With more responsibility, less room for error, and stakeholders, investors, and the media watching every move, what are governance professionals doing to up their game, play by the rules, and play together as a team?

They're being more proactive in monitoring the landscape: increasing meetings from quarterly to six to eight times a year and reaching out directly to employees, customers, and investors. They're using dashboards, scorecards, and KPIs to chart progress and effectiveness—with the recognition that metrics and models will change in today's evolving business environment. And as “questioners-in-chief,” they're asking different types of questions and seeking different kinds of information.

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Susan Forrester, an Australia-based governance professional who serves on the boards of several public companies, has several suggestions. These include the need for “more accountability, information flowing to the board in a more timely and transparent fashion, and elevation of trust, high-quality relationships, and candor, with dissent rather than ‘group think.’ ”

Furthermore, personal accountability should be stressed from Day One, with ample time and attention given to new board members.

“When you're onboarding people and helping them understand what the norms and expectations are for their behavior—like coming to meetings prepared—this can remind everyone on the board what they should value,” said Priya Cherian Huskins, Partner/SVP and a Director of the Boards of Directors of Woodruff Sawyer, Realty Income Corporation, QBIS Insurance Solutions, and an Advisor of the Board of Advisors of the Rock Center of Corporate Governance at Stanford University.

## Personal accountability tactics to try right now:

- Use your corporate secretary and general counsel as a strategic asset.
- Examine the board's current policies and procedures to ensure they don't pose unnecessary liability risk.
- Go above and beyond to reach out to new board members and communicate expectations.

## Personal accountability questions to consider:

- What are you and your fellow board members doing to develop trust with the CEO?
- Are you communicating candidly in board meetings—and maintaining confidentiality outside of them?
- Are you communicating securely through your board software vs. unencrypted channels like email?





## Emerging board “profiles”

You know you’re working with a Catalyst Board when you see passionate and extensive debate, a hunger for data and education, and an obsession with growth—with the occasional temptation to court risk in this pursuit. Meanwhile, a board that spends the bulk of its time poring over compliance reports and GDPR regulations is likely to be a Structural Board—or operating in a structural phase.

Profile systems like the Myers-Briggs Type Indicator have long guided the understanding of behavior traits within individuals: introversion vs. extroversion, sensing vs. intuitive, thinking vs. feeling, and perceiving vs. judging. A similar construct may hold true for boards.

Diligent, over 15 years working with 14,000 organizations and 450,000 directors worldwide, has identified four board behavioral profiles: Foundational, Structural, Catalyst, and Futuristic. These profiles are defined by several factors: adoption of technology, approaches to meetings, governance processes, and more.

A Catalyst Board, for instance, is more likely to have a separate chairperson and chief executive officer, rather than the same person serving in both roles. There’s an emphasis on collaboration, on bringing in a wider diversity of perspectives, and on board members delivering their own insights and opinions to management, rather than following the strategic direction set by management.

Board profiles aren’t necessarily static either. In keeping with a business and technology environment that’s constantly in flux, they can change over time and depending on the situation. Foundational boards, for example, are often seen in start-ups, and catalyst traits often emerge for a board after a crisis or during a transformation. No profile is inherently good or bad; but rather, certain profiles may be more typical during certain periods in a board’s evolution and thus deliver certain strengths.

### Want to learn more?

Learn more about board profiles, tactics to try, questions to consider, and more in *Governance in the Digital Age: A Guide for the Modern Corporate Director*, available April 16, 2019 from [Wiley](#), [Barnes & Noble](#), [Amazon](#), and wherever books are sold.

This executive summary provides an overview and study guide for the book, *Governance in the Digital Age*, by Brian Stafford, CEO, and Dottie Schindlinger, VP of Thought Leadership, Diligent Corporation, © 2019, published by John Wiley & Sons, Inc.

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