Boards and value creation

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In an age of disruption, businesses now more than ever need to find creative solutions to the challenges brought about by transformation in the forms of new technology, evolving business models and customer expectations. In times of uncertainty, where the pace of change is chaotic, innovation is likely the key to managing potentially existential threats for enterprises.

Boards need to be more than a required governance mechanism. Great boards that innovate with diversity can create value and help their enterprises differentiate, and succeed. Innovation can be an instrument of strategic value creation for the enterprise, and can take many forms.

Such value-creating boards tend to have an innovation committee, private equity mindset, and a focus on talent management and sustainability.

Innovation committee

Value-creating boards prioritise the application of technology to radically improve every process of the company, beginning with board governance itself. That starts with a board that advocates for strategic transformation of the company by fully embracing digital technology in the boardroom. The transformative and disruptive nature of technological innovation, and the threats of lapses in cyber security, all demand that boards think in new ways about how global enterprises are managed and governed.

One response is for the board to form a technology or innovation committee comprising of members with a strong grounding in both technology and

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market trends, combined with transformative attitudes about how the former impact the latter. Another trend is the induction of board members who do not possess a traditional industry background, but rather bring to the board skills and ideas related to innovation and disruption.

This trend is seen, for example, in the areas of banking and finance, where financial technology is a key enabler for innovation. Many banks, such as DBS and Standard Chartered, have set up innovation committees which have in place key senior resources with deep technology backgrounds spearheading these initiatives and leading the innovation committee.

Private equity mindset

Boards can learn something from directors of private equity ventures, with their relentless focus on key metrics, performance goals and leadership execution. Private equity boards, which are often made up of proprietors or their representatives, tend to be more aligned and focused, with better access to information through their close engagement with management.

Metrics is a key priority, and private equity boards invest more resources in dashboards and instrumentation to develop and act on both historical and real-time data. Private equity boards tend to be smaller and more hands-on, and with “skin in the game”, board members of private equity groups are incentivised to make fact-based decisions quickly. Such an insistence on key metrics contributes to a fast-paced, value-creating mindset that would be well emulated by every board.

Public boards, on the other hand, are dominated by independent directors who are part-time and dependent on company management for information and also influenced by short-term stock price movements as a measure of managerial performance. Access to resources necessary to make an informed assessment of the company’s detailed operations and management are critical.

Talent management

Boards should prioritise succession planning, particularly the job of preparing for CEO succession. Value-creating boards take this responsibility to the next level with a coordinated focus on building an organisation that can endure and

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be sustained for generations. For such boards, succession planning covers the entire senior management ranks and often one layer below.

While the CEO properly owns the talent development process, the board must be responsible for overseeing and evaluating its execution. Talent is a critical resource which distinguishes an organisation from its competitors. Without the right people to execute and deliver the organisation’s strategy and objectives at all levels of the organisation, the business will fail to reach its full potential.

The board can guide the organisation’s ability to attract, develop and retain talent by supporting the planning for succession, overseeing talent-related risk, increasing management accountability for talent as well as factoring in impact of demographics and diversity in overall talent management.

Sustainability

Sustainability, which encompasses environmental, social or governance (ESG) concerns needs to move closer to the top of board agendas. Companies are beginning to realise how central sustainability is to corporate competitiveness and to value creation. ESG risks are business risks that can threaten a company’s competitiveness and license to operate and hence must be addressed. Those boards and companies that take a leadership role should realise tangible competitive advantage in a variety of ways – capital markets, customers and talent.

Focus on value creation

The good news is that value creation and focus on sustainability is gaining increasing importance in boards.

In earlier stage enterprises funded by private equity, the focus is more sharply on value creation and less on compliance. As the enterprise evolves and eventually lists, there is greater pressure on boards to meet the requirements of regulators and expectations of institutional investors and shareholders. In challenging times, however, with a more urgent need to differentiate and succeed, companies have no option but to innovate at the board level.

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