Winds of change for the board of directors

What will a typical board of directors look like in the future, amid the global financial recovery, accelerating digitalization and systemic changes in the business environment.

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Executive boards should be smaller and more professionalized, have more female membership and be renewed frequently. Sitting directors must be held more accountable for their actions and must assume more responsibility for their decisions.

This is how IESE's **Pedro Nueno** envisions the immediate future of boards of directors in his book, *The 2020 Board*, available in English as well as Spanish.

Trends for 2020

The winds of change are powered by technological advancements, and particularly digitalization, as well as by the globalization of enterprises and the internationalization of business. The aftereffects of the crisis that began in 2008 have also been significant drivers of change in recent years.

A board's primary objective remains the same as ever, says Nueno: its members should aim "to oversee the company as a whole so as to guide it toward sustained long-term value creation." But as times change, boards must be able to adapt quickly.

Many companies have already begun to examine the composition, dynamics and operations of their boards. With some of these early findings in mind, Nueno predicts the trends that will emerge in the near future, illustrating them with some real cases:

- **Fewer, better prepared board members**. The average board will have eight to nine members, and there will be higher expectations for their preparation. Directors

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will be expected to have a solid understanding not only of the company, but also of the industry and market it operates in. They should also, Nueno asserts, have an "innovative and entrepreneurial mindset," and be prepared to stay current in times of digital transformation and disruptive technology.

- **More women**. The ratio of women will increase, foreseeably to one third of the board's members. Currently, 23 percent of board members in Europe and the United States are women. However the percentage of women who attend MBA programs is now at 30 percent... and rising.
- **Internationalization of the board**. Globalized companies require board members with international experience. "An effective director should feel at ease in the face of international challenges and be able to guide and encourage the company to take the global stage" Nueno writes.
- **Greater responsibility**. There will be more legislation governing business processes, particularly those related to the operation, accountability and transparency of the board of directors. Competency and professionalism will be minimum requirements; future boards of directors also need to be armed with a strong sense of ethics and responsibility.

The end of confidentiality

One of the book's recurring themes is that "in the digital world there is no such thing as confidentiality." Prof. Nueno warns that "something that has been purportedly treated in confidence might be found, 30 minutes later, on social media, generating comments and debate." Details about who is on a board, how long they have been a member, how much they earn, what other boards they are on and any other relevant information can be leaked to the press at any time. In other words, in the digital era, any wrongdoing will be exposed.

This brings added pressure, which Nueno links directly to the reduced number of board members and the greater demand for professionalism.

Evaluating your board

While many companies are beginning to evaluate the contributions of their boards, others still have no processes in place to ensure the contribution of each board member is valuable to the company.

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Valuable assessments can be carried out by independent advisors, a committee or a consulting firm with expertise in this area.

What's important is a detailed analysis of key points, including:

- The makeup of the board (i.e., the number of members, frequency and duration of meetings).
- Member profiles (education, experience, representation of women, etc.)
- The quality of information provided.
- Discipline and group dynamics (attentiveness, commitment, preparation).
- Executive participation in meetings, which includes inviting executives from other areas to inform or give explanations.
- Legal aspects, such as compatibility of the company's operations with current legislation and an analysis of legal risks.
- Board compensation.

Remuneration

When it comes to compensation, Nueno expects board members to regain some of what they lost during the lean years of the crisis.

The author even offers some ballpark figures, based on recent studies, which looks at fixed payments a director might receive based on company size and committee participation. He also covers forms of variable remuneration that some companies have used to stimulate the creation of long-term value and retain their executives and board members.

Nueno reviews and analyzes the changes that boards are living now, drawing from his privileged perspective with experience sitting on many boards in a number of different countries and industries and as a professor teaching tomorrow's directors.

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