Governance Challenges for Boards - Looking Back to Look Forward

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Morning and Evening Briefings Series: Kindly Sponsored by Mazars

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Welcome

Webinar Focus:

- The importance and relevance of boards looking back to look forward, as they endeavour to maintain and improve their standards of governance, and to ensure sustainable businesses.

- The range of behavioural, operational, processual and strategic governance related issues.

- Governance challenges of operating in a virtual world and what positives boards can take from this as we move forward.

A Year Like no Other in the Boardroom and Beyond

From this...

...to this!

"You're on mute Margaret"

What We Have Dealt With

Remote Working	Pandemic and/or Lockdown Impact	Rapid Digital Transformation
Operational Resilience Tested	Complete Closure: Loss of Revenue / Retention of Costs	On-line Offering
Increased Operational Risk	Changes to Business Model: Responding to Context and Customer Needs	Facilitating Work from Home
Employee Isolation and Fatigue	Health and Safety Implications: Staff and Customers	Benefits and Limitations of Virtual World
	Redundancies	

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Increased Risk…..and Opportunities

What Might This Mean for the Future?

Remote Working

Pandemic and/or Lockdown Impact

Rapid Digital Transformation

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New Paradigm for Working Life?: Employee Expectations/Fears

Future of Office / High Street

Training/Mentoring /Socialisation/PM

Culture / Tacit Knowledge lost

Remote Working

What have we learned?

How should we embrace it post COVID?

Remote Working: New Paradigm of Working?

Niall Eyre, CIPD People Management Magazine, December 2020

- Studies indicate that in most European countries, between 70-80 per cent of employees are interested in pursuing some element of remote and flexible working, post-covid.

- The challenge for businesses is to reach the point where there is balance between the needs and requirements of employees, while considering the impact on business performance.

- If all employee requests are agreed to, this will challenge the viability of some businesses.

- Difficult business decisions will need to be made and to be explained with clarity and compassion. Not all organisations will succeed in achieving these goals.

- Businesses will also face the challenge of changing aspects of work culture and adapting to new legal (right to disconnect) and social norms.

https://www.peoplemanagement.co.uk/voices/comment/remote-and-flexible-working-will-be-the-new-normal

Remote Working: New Paradigm of Working?

Standford's Professor Nicholas Bloom's 2015 Study Pre-COVID on WFH (Chinese Company Ctrip):

Key Take-Aways:

- The firm improved total factor productivity by between 20% to 30% and saved about $2,000 per year per WFH employee

- About two thirds of this improvement came from the reduction in office space and the rest from improved employee performance and reduced staff turnover

- One surprising finding: more than half the volunteer group changed their minds about working from home 100% of the time - they felt too much isolation.

- Bloom recommended embracing WFH but enabling it just a few days a week versus its being a constant

Remote Working: New Paradigm of Working?

Bloom's "In-COVID" perspective:

"Everyone assumes I would be gushing over the global rollout of working from home. Unfortunately, not." (Nicholas Bloom, [Productivity Pitfalls of Working from Home in the Age of COVID-19,](#) March 2020)

Bloom cites:

- **The physical challenges of working from home: space/environment, family interruptions, internet access**

    - "Many people I have been interviewing are now working in their bedrooms or shared common rooms, with noise from their partners, family or roommates," (Bloom, 2020)

Remote Working: New Paradigm of Working?

Bloom's "In-COVID" perspective:

Bloom cites:

- **The importance of in-person collaboration**
  - In-person collaboration is necessary for creativity and innovation
  - Bloom's research has shown that face-to-face meetings are essential for developing new ideas and keeping staff motivated and focused
  - "I fear this collapse in office face time will lead to a slump in innovation. The new ideas we are losing today could show up as fewer new products in 2021 and beyond, lowering long-run growth." (Bloom, 2020)

Remote Working: New Paradigm of Working?

Bloom's "In-COVID" perspective:

- **The Benefits of Social Company**

  - [From the working-from-home research:] After nine months of allowing those employees to do their jobs at home, Ctrip asked the original volunteers whether they wanted to keep working remotely or return to the office. Half of them requested to return to the office, despite their average commute being 40 minutes each way.

  - Why was that? "The answer is social company. They reported feeling isolated, lonely and depressed at home. So, I fear an extended period of working from home will not only kill office productivity but is building a mental health crisis." (Bloom, 2020)

Remote Working: New Paradigm of Working?

Bloom's "In-COVID" perspective:

Bloom suggests a few things that can help stem the productivity decline he fears:

- Regular check-ins between managers and their teams;

- Maintaining schedules that strive to separate work life from family life; and

- Collaborating with colleagues on video calls rather than phone calls.

Remote Working: New Paradigm of Working?

Professor Claire Gubbins, DCU – Tacit Knowledge

- Between 70 and 90 per cent of learning in the workplace occurs through what people experience on the job and informally
  - This is because 90 per cent of the knowledge on which performance in real-world settings is based is tacit knowledge or knowledge that is not on paper or in manuals, but embedded in people's heads
- During the post Celtic Tiger recession, organisations lost vast amounts of this tacit knowledge and suffered noticeable consequences
- Covid has forced many companies to make people redundant and a deep reservoir of knowledge has gone with them
- Organisations have also been reconfigured with knock-on implications for where knowledge is held and how it is shared
- Big migration to remote working that's really threatening the tacit knowledge base: "What's happened with remote working is that people with valuable tacit knowledge are no longer co-located and there is no informal access to the traditional social interactions at work that enable sharing and thus learning. Tacit knowledge is central to organisational competitiveness. Without it they suffer." (Gubbins, Irish Times, Dec 2020)

What Might This Mean for the Future?

Remote Working	Pandemic and/or Lockdown Impact	Rapid Digital Transformation
New Paradigm for Working Life?: Employee Expectations/Fears	Business Viability	
Future of Office / High Street	New Business Model: New Opportunities	
Training/Mentoring /Socialisation/PM	Efficiencies / Cost Savings	
Culture / Tacit Knowledge lost	Purpose?	

What Might This Mean for the Future?

Remote Working	Pandemic and/or Lockdown Impact	Rapid Digital Transformation
New Paradigm for Working Life?: Employee Expectations/Fears	Business Viability	Continued Investment
Future of Office / High Street	New Business Model: New Opportunities	Operational Risk Management / Internal Controls
Training/Mentoring /Socialisation/PM	Efficiencies / Cost Savings	
Culture / Tacit Knowledge lost	Purpose?	

Backdrop

■ **UK Corporate Governance Code:**

Principle 1B: The board should establish the company's <u>purpose</u>, <u>values and strategy</u>, and satisfy itself that these and its <u>culture</u> are aligned.

■ Increased emphasis on companies environmental and societal footprint (ESG)
   ■ Social Considerations, EG:
      • Purpose of the company: role within and investment in society/community;
      • Equality, inclusiveness, fairness;
      • Workforce conditions; Labor relations;
      • Investment in human capital;
      • Socio-economic influence.

Purpose   Culture   Strategy

Challenge Yourself

Social Considerations:

- Consideration of work from home into the future: work-life balance or productivity or cost-cutting objectives?
- How you have treated your employees – What would they say? Zero contract hours?
- How you have treated your supplier network – Did you pay them when things were tough?
- How has your customer base evolved? How well have you served them during the crisis? [Anyone still waiting on an airfare refund?]

Purpose   Culture   Strategy

Challenge Yourself

What else have you learned?

- Decisions you have made as a board under pressure...benefit of hindsight???
- Operational Resilience of Business – How would you score?
- Risk profile of the Business – Have you assessed it?
- Impact on Company Culture: gains / losses?
- Tacit knowledge lost through remote working – Have you considered this? How will you manage employee expectations?
- Liquidity? "Turnover is vanity, profit is sanity, cash is a reality" – What was your reality in March? Now?

- **Reflect – Prioritise - Action**

Virtual Board Fatigue

Virtual Board Fatigue

- Corporate governance

  - About human behaviour not structures

  - We are social beings!

- Board as a working group

- Effective strategic decision-making required

- Dependent on:

  - Independence of judgement and very specific competencies and behaviours of individual directors

  - Effectiveness of the Chair of the board

  - Ability of the board to work together: **cohesive team**

(Leblanc, 2004, p.440)

Virtual Board Fatigue

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**Particular
Challenges for
Chair of Board**

Virtual Board Fatigue

Loss of personal interaction: importance of the informal engagement

Particular Challenges for Chair of Board

Virtual Board Fatigue

Loss of personal interaction: importance of the informal engagement

Contribution Challenges: Chair dilemma

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Loss of personal interaction: importance of the informal engagement

Tiring Environment

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Challenge of Socialisation Process for new directors

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Executive / Snr Management Fatigue

Virtual Board Fatigue

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Particular Challenges for Chair of Board

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Executive / Snr Management Fatigue

Virtual World: Better as the exception rather than the rule!

Challenge Yourself

What have you learned about yourself?

What has the Board learned about itself?

What are the positive things you can take from this experience?

What will you be glad to leave behind?

2020 Q4 Game Changers .... 2 out of 3 so far

COVID Vaccine Development

- At least 4 to 5 viable vaccines will be available in early 2021.
- Huge impact on GDP/ Profits / Wages/Employment
- Gap from K to V shaped recovery ????

US Presidency

- Democratic Presidents have provided the best long term market returns and more stable economy
- Tackling COVID as a priority
- Regulation around climate change
- America recovery and leadership
- Impact on Ireland ? (MNC)

BREXIT DEAL/(NO DEAL?)

- Deal on the horizon?
- Threat of Q1 cliff effect to be removed?
- Damage but better than worst case?

- 3% of GDP / 45K jobs dependent on Brexit

Source: Mr Kevin McConnell, Specialist Advisor, Think Governance Ltd

Thank you for listening!

Any Questions?

Reading:

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