Transitioning the Board from Custodian to Steward

BY **BRYAN TAN** and **TONNY LOH**

Corporate responsibilities are shifting as society increasingly expects businesses to address global challenges, from social justice to climate change. Boards must adapt to this evolving landscape by transitioning from custodianship to stewardship.

In recent years, corporates have faced mounting pressure to address pressing social and political challenges. Labour disputes, social justice movements, geopolitical tensions, and the lingering impact of Covid-19 have reshaped expectations of businesses.

Environmental, social and governance (ESG) issues show no sign of letting up. Climate risk and technological advancements continue to transform the business landscape. Meanwhile, geopolitical conflicts such as the Russia-Ukraine war, Gaza hostilities, and rising US-China tensions contribute to economic strain and surging cost of living.

Evolving expectations of boards

The board's remit is expanding and diversifying. Stakeholders are calling for increased accountability from business leaders. Some countries have set regulations around the liability of senior leaders (including boards), and investors are demanding more transparency.

In uncertain and unpredictable times, the board's ability to constantly adapt will be key. Today, the board must operate with agility and a long-term perspective – adapting to rapid twists and turns in global competition, talent trends and technology shifts.

The transition from custodian to steward requires boards to lead in four key areas: sustainability, DEI (diversity, equity and inclusion), culture and succession planning.

Leading for the future

In these uncertain and unpredictable times, the board's ability to pivot quickly and constantly adapt to meet ever-evolving challenges, competition, talent needs and technologies will

1. Sustainability: Turning risk to opportunity

Climate change, a central concern for businesses worldwide, is a critical factor reshaping the role of the board. The Glasgow Climate Pact of 2021 saw nearly 200 countries agree to strengthen targets for cutting greenhouse gas emissions. Despite commitments, progress has been slow, and COP29 has faced criticism for perceived greenwashing, where allegations of unfulfilled pledges and lack of follow up have dogged proceedings.

The private sector holds the key to unlocking the vast amounts of capital required to effectively curb emissions and combat climate change. Forward-thinking boards recognise that proactively addressing sustainability can help transform these challenges into opportunities for innovation and growth. Companies that lead in sustainability not only mitigate risks but also position themselves strategically in the marketplace, often gaining a competitive advantage.

A 2023 survey by Heidrick & Struggles (H&S) conducted with INSEAD and BCG revealed that while 79 per cent of board members recognise sustainability's strategic importance, only 29 per cent feel equipped to challenge management on these issues. This gap underscores the urgent need for boards to enhance their competencies in climate-related matters. To bridge this gap, boards should consider actionable steps, shown in the box, "Effective Board Sustainability Governance".

Effective Board Sustainability Governance

Boards can integrate climate considerations into governance by taking these steps:

Integrate climate expertise: Include climate expertise in the board's competency matrix. The board must be aware of what climate change means for the business, as well as how they will play their part.

Diversify perspectives: Prioritise appointing directors with technical knowledge and the ability to influence peers. Different perspectives can enhance discussions and inform decision-making.

Allocate time: Dedicate more board agenda time to sustainability discussions and align risk, strategy, and operations. Our research shows that 90 per cent of respondents believe that sustainability metrics should be integrated into the board agenda, while only 70 per cent say that this is done.

Anchor climate strategies in purpose: Embed climate goals into organisational purpose and strategy to build trust and motivation. This will accelerate progress towards the goals.

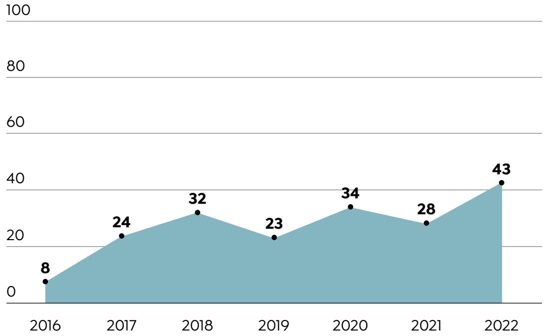
Align executive compensation with climate performance: Tie executive pay to climate objectives, creating a clear chain of accountability.

2. DEI: Driving social impact

Diversity, equity and inclusion (DEI) significantly impact employee engagement, talent attraction and retention, and succession planning. Greater expectations of corporations to address social needs, coupled with employees' desire to work for values-aligned companies, have led to a heightened focus on DEI at the senior leadership level.

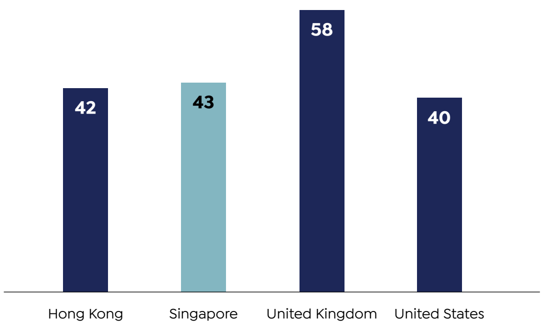
In Singapore, a record increase in the appointment of women directors over the past years showed significant progress in gender balance on STI 30 boards (see "Gender Trends in STI Board Appointments, 2016-2022 (%)"). However, challenges remain. While Singapore's figures are promising compared to Hong Kong and the US, for example, we still lag behind the UK, which boasts a remarkable 58 per cent of women non-executive directors (see "Share of 2022 Board Appointments to Women, by market (%)").

Gender Trends in STI Board Appointments, 2016-2022 (%)



Source: Board Monitor 2023, Heidrick & Struggles

Share of 2022 Board Appointments to Women, by market (%)



The UK is set to go a step further, asking for clearer representation in roles of influence as well as for representation of ethnicities.

However, identifying and taking effective actions is hard. One reason is fatigue: DEI efforts are among those where progress can be hard to see, and resistance is more common, leaving leaders overwhelmed. Other reasons are that companies are in very different stages of progress on DEI, facing different regulations and working with a unique culture.

To build diverse and inclusive organisations, boards should:

- Define clear DEI terms to ensure alignment across the organisation.
- Foster unified cultures that balance the perspectives of new hires and long-tenured employees.
- Leverage enterprise-wide systems to track progress and ensure accountability.
- Actively engage stakeholders to demonstrate commitment to DEI efforts.

3. Culture: Aligning purpose with performance

Organisational culture has become a priority for leaders in recent years. Even before the Covid-19 pandemic, many executives leading in a quickly changing business environment with an evolving talent pool were seeing that a thriving, inclusive culture could provide a competitive edge in innovation and agility, helping with employee attraction and retention.

As boards seek to guide companies in a volatile environment with intense competition for talent, linking organisational purpose with day-to-day work in a way every employee can feel and participate in is key. Ensuring this level of leadership on the board and from CEOs is now arguably the board's most important responsibility.

Boards set the tone for the whole organisation. The most effective boards focus on working through differences to create sustained long-term value across competitive, cultural, geopolitical and societal boundaries. In addition, communication with stakeholders has to be timely, direct and authentic.

An H&S survey of 500 executives worldwide found that a growing share of CEOs (between 2021 and 2023) believe that culture is among the top three most important influences of financial performance. However, the same survey showed a disconnection between the elements of culture the CEOs think are most important to improved financial performance (such as having direction and purpose and a mindset of agility, growth and innovation) versus the elements that are actually most prevalent in their companies today.

Boards must reinforce the links between purpose, culture and performance wherever they can. Amid all the other goals companies have in today's uncertain world, internal efforts such as culture can sometimes be treated like an afterthought. Research, however, shows that companies that link culture to strategy and focus on people first show better financial performance.

Boards can start by implementing the following steps.

- **Cultivate purposeful leadership:** Make culture impact (including DEI, environmental and community-facing responsibilities) a significant element in CEO succession planning.
- **Encourage and explore personal change:** Regularly review culture metrics and integrate them as a performance metric for the executive team.
- **Build broad engagement:** Set high-level culture aspirations for the company and communicate them clearly to both internal and external stakeholders.
- **Ensure systemic alignment:** Conduct regular pulse surveys on culture and engagement to overtly link culture and business performance.

4. Succession planning: Preparing for the future

CEO and board succession planning are among the most important responsibilities of the board. However, it is common for companies to overlook formal, written succession planning processes. Many board candidates are found through long-standing networks and simply waved through an election process. In such uncertain times and with so much at stake, organisations cannot afford to neglect what is necessary to ensure they will have the leaders to take them into the future.

In recent years, there has been an increased push for gender and ethnic diversity. We have also seen a call for directors with digital transformation and cyber security experience. And boards need to continually assess their technological and digital acumen to ensure they are in the best position to make decisions in an increasingly digital and technology-dependent environment.

However, while the experience of board members must diversify along with the board's growing remit, boards must be cautious that they do not entirely forego traditional management experience for specialised experience. Boards can no longer afford to reduce "succession planning" to a reactive, short-term project employed to address a near-term likely vacancy or crisis.

Boards may consider, for example, adding these members with narrow but deep expertise to bring the entire board up to speed rather than as a permanent addition to the board's skills matrix.

With a long-term mindset, the board will be able to move forward equipped with the knowledge it needs, moving from a reactionary, catch-up playing mindset to a more proactive, consistently prepared state.

When done well, succession planning forces prioritisation around those issues, which are most material to each company and the community that surrounds it. This builds a process to develop the knowledge, governance structures and leadership capabilities needed to meet those issues. In addition, proactively cultivating board and CEO talent, refreshed across multiple time horizons and strategic scenarios, reduces risk and builds confidence that the organisation will be governed well in any new environment.

be key to organisational success. The board must be willing to innovate, expand its capabilities and become comfortable with uncertainty and ambiguity.

In other words, boards must function with agility, resilience and a long-term outlook.

This article is adapted from "From Custodianship to Stewardship: Considerations for European Boards" by Alice Breeden and Tobias Petri, first published in heidrick. com by Heidrick & Struggles on 1 June 2023.

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