Board Leadership Centre

In the hot seat

Exploring the evolving role of the board

December 2024

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Foreword

To better understand how boards are responding to today's volatile business landscape, we surveyed over 120 board leaders and conducted a series of interviews with some prominent directors. The results are instructive and should give cause for careful reflection.

Our research finds that the pressures felt by directors – including a sense of rising personal liability – negatively impacts their ability to be as strategic as they (and shareholders) would like them to be. It also adversely affects governance and oversight, according to many.

Two-thirds described today's regulatory environment as challenging and stressful and over half have said that regulatory responsibilities have increased markedly. However, accountability to broader stakeholder groups was the key challenge which had grown the most in recent years. This rise in accountability and liability has stymied their ability to set business goals and many said it had had a negative effect on their ability both to challenge, and contribute to the development of company strategy.

There are more encouraging findings too. Directors remain passionate about their roles and it's clear that most take up a position on a board to add value in a company sector they know and understand. The desire to 'give something back' outweighs monetary incentives.

But while 8 out of 10 non-executive directors (NEDs) think director remuneration is fair and adequate to attract top talent, they acknowledge that this is based on proposed directors already being financially self-sufficient. This, in turn, may be reducing the pool of candidates and, thereby the ability to diversify boards. Managing the twin pressures of increasing diversity while also keeping the right balance between broad skillsets and incorporating specialist expertise in areas like AI will be an ongoing challenge for boards in the future.

The rise of ESG continues unabated. Social issues such as environmental and human rights were 'always' considered by 41% of boards, and 'often' by 42%, according to those surveyed. A large majority (88%) believed boards would come under increasing pressure to take a proactive stance on social issues going forward.

These demands add to the strains felt by directors – and echo the findings of KPMG's recent CEO Outlook survey, in which a quarter of chief executives stated that failure to meet ESG expectations posed a serious threat to their continued tenure.

Overall, our feedback from surveying and speaking with directors finds the expectations of regulators, and stakeholders more broadly is lifting the level of intensity, expertise and time required to fulfil director roles.

While most directors still feel able to manage their workloads, there is a belief that this increased intensity could affect the attractiveness of ASX boards and result in the desired skills moving towards roles in privately owned companies.

Our research seeks to capture the pressing issues faced by directors and how they feel these challenges can be best addressed as boards adapt for the future. We hope you find this paper thought-provoking.

Martin Sheppard
National Chairman
KPMG Australia

Key findings AT A GLANCE

Q: Which best describes your view of how the current regulatory landscape impacts the experiences of directors?

39% say it is increasingly challenging, but justifiably so

29% describe it as a continually difficult and stressful experience

Q: Which of these challenges do you think has increased the most for directors in recent years?

62% say accountability to non-shareholding stakeholders

55% say regulatory responsibilities

22% say personal liability

Q: Do you think increased accountability and personal liability for directors has had a positive or negative impact on governance and oversight?

42% think this has had a slightly negative, or very negative impact

44% think it has had a somewhat positive or very positive impact

13% say it has had no impact

Q: Which of these directors' duties do you think is being negatively impacted by an increase in accountability and personal liability, if any?

46% think the increase negatively impacts their ability to plan long and short-term goals for the company

43% think the increase negatively impacts their ability to challenge and develop strategy

Q: What factors attract individuals for accepting a board/NED position?

70% say interest in the subject matter relevant to the company

43% say the opportunity to 'give back'

31% say an interest in building director skills and experience

Q: Significance of remuneration

10% of NEDs say remuneration was the key reason for accepting a board position

8 in 10 NEDs believe remuneration is fair and adequate to attract top talent

17% however, say it can be a barrier for senior executives joining boards

Q: Do you feel board members have, or have access to, the required skills to effectively navigate technological and regulatory disruption and future trends?

24% Yes, to a significant extent

69% Yes, to a moderate extent

7% No, not at all

Q: To what extent do the boards you sit on consider social issues, such as environmental and human rights issues, within its decision-making processes?

41% Always

42% Often

15% Occasionally

2% Rarely

Q: Over the next decade, do you expect ASX boards will be more or less likely to consider social issues, such as environmental and human rights issues, within its decision-making processes?

7% It will stay the same

31% Slightly more likely

62% Significantly more likely

Q: In the next decade, which of these do you think will happen to corporate boards?

56% think technology will play a greater role in the delegation of certain governance processes

36% believe technology will assist more in the delegation of certain director responsibilities

36% foresee a mandatory cap on the number of board roles an individual can hold

36% predict the average age of ASX company directors will be below 60

Note: some figures may not add up to 100% due to rounding or respondents having the opportunity to provide responses to open questions.

Analysis

How boards are evolving: three key challenges

Using the survey responses, including open questions, and the views provided in a number of personal interviews held with directors, this report seeks to offer key insights for boardrooms. We have identified three key challenges facing boards today that will impact their readiness for the future. These challenges are summarised here before being expanded on.

01

The role of the board – adapting to thrive

Boards must adapt to thrive amid heightened regulatory scrutiny, changing stakeholder expectations, and the blending of social issues with corporate governance. Directors we spoke to floated the idea of exploring new governance models, which may include separating management and supervisory functions to ensure clarity in roles, amidst growing demands for accountability and transparency.

The feedback suggests that without this delineation, directors will become more risk-averse in the future as their personal risk appetites are challenged by changing stakeholder and regulatory requirements. There are concerns that this may affect the attractiveness of ASX boards, leading to a shift towards roles in privately owned companies.

02

Cultivating agility – building new skillsets and expertise

The increasing complexity of risks and emerging technologies, including AI, necessitates boards to introduce further diversity in expertise while maintaining board cohesion. Succession planning and external advisory channels are key to keeping boardroom skillsets and knowledge relevant and sufficiently comprehensive. AI also introduces opportunities to assist directors in more quickly and better understanding complex information, enhancing data-informed strategic decision-making.

To support board access to new skills and experience, some in the survey raised the issue of mandatory terms for NEDs, although there was also uncertainty about how this may be received by proxy advisers, who might favour seasoned professionals over less experienced individuals. But there was agreement by respondents on the importance of succession planning.

03

Evolving directors' pathways, portfolios and compensation

Directors are facing intensifying workloads and scrutiny, prompting a re-evaluation of their board commitments and the effectiveness of current remuneration. Experience on large corporate boards is valuable, but there is also a need for new thinking, diverse backgrounds and potentially revised compensation models to attract the range of future-skilled talent required to manage emerging organisational challenges.

There is a general belief that diversity in board composition – including age, gender, and skills – will increase. However, there is also a concern that this might not necessarily translate into diversity of thought and background without remuneration structures being adapted to enable those who are less financially independent to also take up a NED role.

CHALLENGE 1

The role of the board

Adapting to thrive

Regulatory hurdles vs strategic oversight

Feedback from directors reveals there is an increasing expectation from regulators for the board to have greater visibility and detail across a range of compliance areas, in their view limiting the board's ability to engage in more strategic conversations.

With the ability to contribute to the strategic direction of organisations a key driver for individuals pursuing NED roles, the heavy compliance load risks director roles becoming less desirable.

> **'It makes the relationship with management much harder because they are frustrated by the board's risk appetite and will generally say the board is more conservative than they need to be, less strategic than they need to be, and spending way too much time on compliance than they need to be.'**
>
> **DIANE SMITH-GANDER AO**

According to the KPMG survey,

62% of respondents indicated accountability to broader stakeholder groups.

55% cited regulatory responsibilities as the challenges that have most increased for boards and directors in recent years.

68% of those surveyed described the current regulatory landscape as increasingly challenging or as a continually difficult and stressful experience.

Managing heightened expectations – balancing shareholders and stakeholders

Survey answers indicate that the expectations of regulators are lifting the level of intensity, expertise and time required to fulfil director roles. Open responses in the survey highlighted concerns about the pressure boards are under to address agendas from proxy advisers and activist shareholders, potentially at the expense of wider shareholder value. While the need for boards to appropriately balance shareholder and stakeholder interests is undisputed, many argue that for a listed company, the ultimate social responsibility is to make a profit.

According to the KPMG survey,

98%

of boards and committees consider social issues such as environmental and human rights issues within their decision-making process.

77%

of directors say their decision-making is predominantly driven by the interest of shareholders, but with consideration of broader stakeholder interests.

'There is a social value consideration in all the approvals. Does it require more work? Yes. But it probably leads to better decisions as a result. You will often have conflicts balancing the demands and the needs of all of those stakeholders, but we just have to find a way to navigate through that.'

MICHELLE HINCHLIFFE

Directors reflected that the increased regulatory load, combined with how boards respond to various important issues playing out on the public stage means that directors are becoming increasingly personally visible through the media cycle, government inquiries and social media.

Those interviewed shared a belief that there is a common misconception about the role of the board and there needs to be a greater understanding of the limitations of what the board is, and is not, able to do.

Reclaiming stewardship

Some directors we spoke to suggested that radical changes to the current governance structures of large corporate organisations are unlikely. Instead, they believed boards will need to better understand the real drivers of their business, articulate their risk appetites, and turn these into a reality.

When asked how this could be achieved, those directors agreed that this would only be possible through a reduction in the time spent by the board on compliance. When considering the next decade and how boards could reclaim their role as stewards, some ventured that there would likely be a need to devolve authority so that much of the oversight taking place in board committees could be redistributed to management teams.

'Boards need to start thinking about the future 50 years from now and where they want to go. That's true sustainability at the end of the day – and we're not only responsible to the shareholders, but we're also responsible to the company and its sustainability and I think we need to take that to heart.'

DIANE SMITH-GANDER AO

Getting involved with social issues

'I don't agree with some that say you shouldn't be involved (in social issues). You should be involved – but you should only be involved in issues that relate to your enterprise, which is your staff, your customers, and your shareholders.'

DAVID GONSKI AC

Directors we spoke to agreed that over the next decade, boards will continue to see stakeholder pressure increase, creating challenges as they navigate conflicting perspectives. Many pointed to the need to consider incorporating regular connection points with employees and community groups as a mechanism to get a greater diversity of views and inputs.

When considering the board's approach to social issues, directors agreed that it was crucial to consider the relevance of the issue to the organisation. If relevant, then these issues should be integrated into the organisation's strategy and tied to its potential for future success.

CHALLENGE 2

Cultivating agility

Building new skillsets and expertise

Accessing specialist skills

Our survey showed a divergence in the views of directors concerning appropriate access to specialist skills. Many referred to boards' ability to appoint external advisers on specialist issues, while others saw value in having these skills reflected around the table.

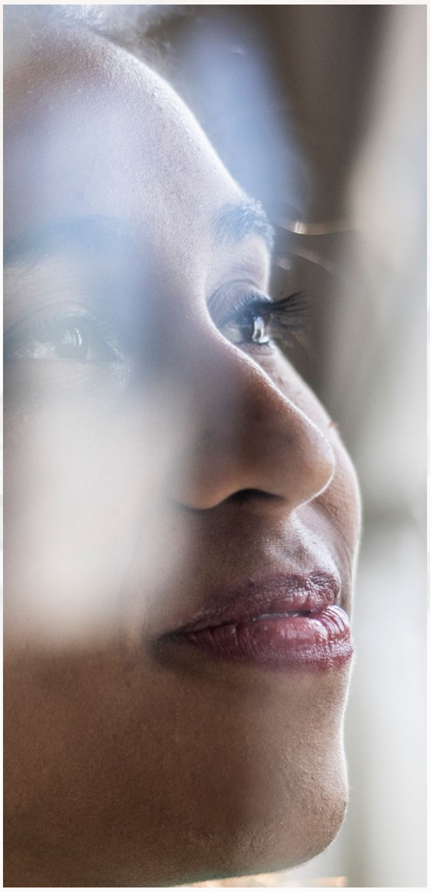
Those interviewed highlighted challenges in the number of additional directors needed to appropriately represent all the issues affecting an organisation and that the pace of change we are experiencing would likely result in a higher turnover of directors as new issues emerge. This introduces fresh challenges, as boards look to maintain continuity and institutional knowledge.

'There's no way that you can have a board big enough that you can have someone that's bringing all of those things. We'd have 80 people sitting around the table.'

DIANE SMITH-GANDER AO

Interviewees noted that appointing deep domain experts can impact board dynamics as other members tend to defer to the expert on issues where they hold expertise, reducing overall engagement.

Further, there is a risk that those with deep specialist knowledge may not have the broader knowledge and/or expertise needed for a board position, limiting the expert's contribution on other matters.



'The most important reason that we're sitting around that table is we're bringing our judgement. It's judgement brought from our own experiences, training, and perspectives. It's the conversation amongst us, to get to the right decision, that can never be relegated to AI or technology.'

DR NORA SCHEINKESTEL

Balancing technology with the value of human conversations

When reflecting on the COVID-19 pandemic and the adoption of virtual board meetings, directors interviewed said that in a post-pandemic world, their boards are increasingly exploring hybrid meeting models, which balance decision-making and dialogue.

'We [NAB] took the step of bifurcating our meeting schedule. So we have fewer but more intense meetings in person and then we would have certain designated meetings that would be online.'

PHILIP CHRONICAN

Directors highlighted that the rise in regulatory responsibility and in management's appetite to escalate issues to the board has led to more detailed board papers, which demand an increase in directors' time to enable personal analysis and informed decision-making. Directors we spoke to saw the benefits AI can have to assist in analysing the papers, supporting data-based decision-making and even assisting with the questions to ask management so as to allow more time for strategic thinking.

But they were concerned about bias and the need for this to be addressed before widespread use. When considering AI's role in decision-making, directors emphasised the importance of ethical and cultural considerations and agreed that while AI can be a valuable tool, human oversight is essential.

'At the moment, board papers are too dense and there are too many of them. I can see the tension because management feels they have to share everything, but then it's hard to synthesise that in a way that makes it easy for the reader.'

PHILIP CHRONICAN

'AI has got enormous productivity potential for our companies generally and I think it will be phenomenal. It's about working out how to use it safely. At the moment, it's the safety bit that's holding us back.'

DR NORA SCHEINKESTEL

Suggestions in using AI well led to the concept that potentially an AI agent (or persona) unique to each director, and only available for their use, could be a useful approach in combating bias by providing alternative points of view across the same material using the unique perspective and skills that the particular director brings to the board.

'If you can have three lines of defence, where the second line of defence is an AI, I'm probably pretty happy.'

DIANE SMITH-GANDER AO

CHALLENGE 3

Evolving directors' pathways, portfolios and compensation

KPMG's survey of directors showed that the primary motivations for serving on a board are a connection to the company's ambitions and a desire to 'give something back'. When deciding whether to join a board, individuals tend to consider several factors, including the opportunity to leverage their skills, and a sense of duty.

For 90%, remuneration was not a key factor in attracting individuals to NED roles. Our interviewees similarly emphasised that their financial independence is essential for maintaining objectivity and making decisions in the best interest of the organisation. Some interviewees mentioned that directors should not join a board primarily for financial reasons, as they must be prepared to make decisions that may potentially put their directorship and related income stream at risk

'I've yet to find a director who does it for the money because if you did, you just wouldn't do the role.'

MICHELLE HINCHLIFFE

Managing director workload

On average, directors surveyed said they dedicated 14 hours a week to their role, outside of board meetings (which can range from two hours to two days). However, those interviewed referenced the additional commitment required as a result of growing regulatory demands and the rapid pace of change. Directors highlighted the importance of maintaining 'surge capacity' to navigate and respond to crises, major transactions, and periods of high activity.

'You certainly have to go into NED roles with your eyes wide open as to what the demands will be and the challenges that might arise. So, as you're thinking about constructing your board portfolio, have you got the right skills to contribute, and have you got the time availability to apply to those circumstances?'

PETER NASH

Responses in our survey indicated there is a growing expectation that shareholders will pay closer attention to the workload of directors, while remaining reluctant to increase remuneration. The question is whether this is fair, given the increasing time commitment of directors.

'Ultimately, you value what you pay for.'

ANDREA HALL

While two-thirds (67%) of NEDs surveyed rated their remuneration as being adequate for them, and attractive to future talent, feedback suggested a general sentiment that the remuneration for NEDs is not commensurate with the level of risk, responsibility, and time commitment associated with the role. This is particularly highlighted in the context of ASX-listed board roles.

'For people at earlier life stages, a portfolio career involving a number of non executive roles can be a serious alternative to a full time executive career, even though, typically, this will attract far lower remuneration. It was for me. If either restrictions or workloads increase such that this is no longer possible, it may well be that remuneration would have to increase to continue to make it a viable alternative.'

DR NORA SCHEINKESTEL

16%

said remuneration can be a barrier for senior executives joining board roles.

Balancing risk and remuneration

Directors surveyed indicated that the growing regulatory burden, coupled with increased personal liability and reputational risk, is likely to make directors more risk averse in the future. Sentiment suggests that the appeal of ASX boards may decline, leading to a shift towards roles on advisory boards of private organisations or unlisted companies.

'There is a risk that qualified people will not want to be on ASX boards because of the increased risk, negative exposure, impact on reputation and inappropriate remuneration.'

SURVEY RESPONSE FROM A NON-EXECUTIVE DIRECTOR OF AN ASX 200 COMPANY

Analysis by corporate research firms OpenDirector and Yellow Folder reported that the average salary of an ASX 300 director in 2023 was

A$190,000 compared with A$2,700,000 for their CEO counterparts.

While ASX director remuneration is modest compared to that of senior executives, historically, directors have felt the cumulative financial benefit of holding multiple director roles. ASX director remuneration is also modest when compared to their US counterparts

with an average S&P500 director salary of US$321,220

for the same period as reported by Spencer Stuart.

> 'I don't think we pay non-executive directors enough for what they do, and we are reliant on the fact that most people who pick up non-executive work in the big, listed space are doing it because they've got that sense of duty, sense of giving something back and they've already had a successful career.'

SURVEY RESPONSE FROM A CHAIRMAN OF AN ASX 100 ORGANISATION

Diversifying perspectives and experience

Those interviewed suggested that increasingly boards are looking to recruit directors from less traditional career paths. However, directors agreed that by limiting NED roles to those who are financially established, this pathway is not necessarily open to those who have not had the same financial success in their careers but still have the qualities and skills to be an effective director – particularly those from government, education, and not-for-profit backgrounds.

Directors we spoke with reiterated the need to enhance boards' diversity in thought, background, and experience. Boards may need to evaluate whether restricting positions to financially established individuals limits true diversity.

Directors we spoke with suggested ways of increasing the number of external executives on the board, in order to bring diverse, often younger, perspectives. They also agreed that they have seen benefits within their organisations where senior management gain external board experience. However, there was some hesitation regarding executives' ability to balance full-time executive careers with external board commitments, especially during times of crisis.

'While I think there is a certain amount of experience and gravitas required to be an effective NED in a large enterprise, I don't subscribe to the view that if you have not been a CEO, you're not relevant, because I think that limits diversity too much.'

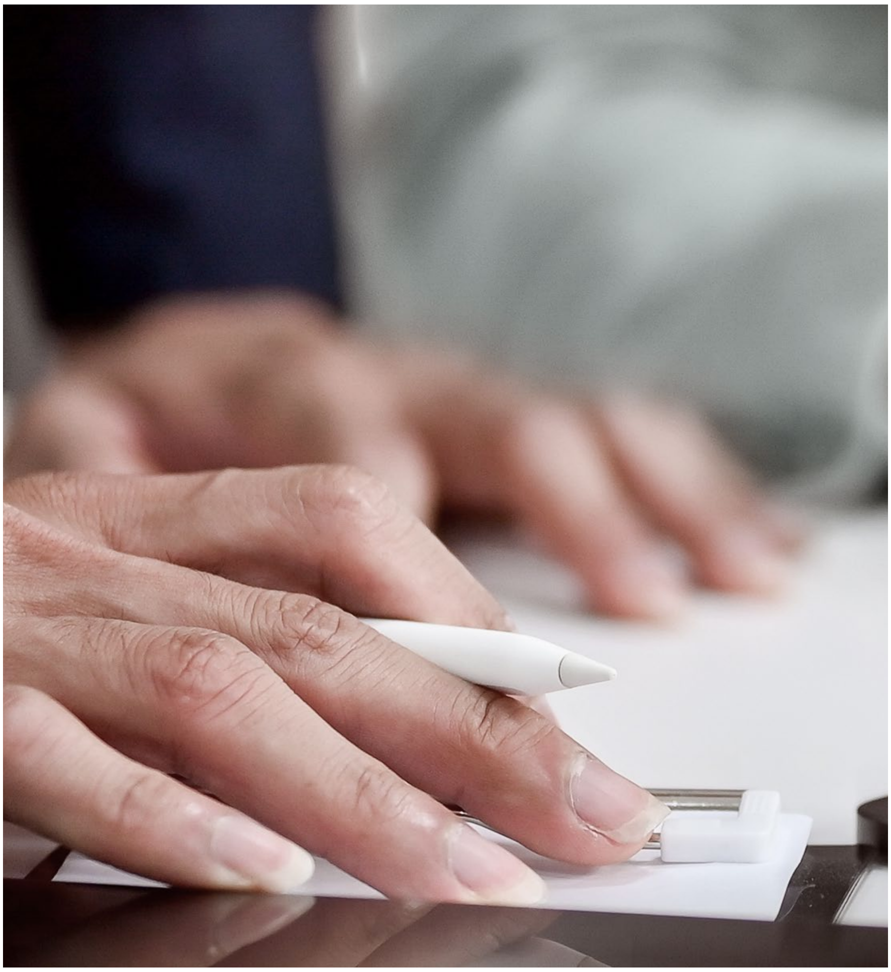
DIANE SMITH-GANDER AO

'I would encourage senior executives to pick up non-profit board positions, as is common in some offshore markets. I don't think it's easy in the current environment to be a full-time senior executive in one commercial organisation and on the board of another.'

PHILIP CHRONICAN

'They (the CEO) need to think about the whole of the economy and that means doing other things. Being involved in too much can be a problem, being involved in too little is also a problem. I've watched so many CEOs develop beautifully when they've got an outside interest.'

DAVID GONSKI AC



LOOKING AHEAD

A board of the future

Trends that will define the next 10 years

Focusing on the 'G' in ESG; and embracing the technology challenge

In terms of modern governance, it is imperative to reflect on the evolving role of the board and its future trajectory. The insights gathered in this report underscore the pressing need for boards to adapt in response to an increasingly volatile business landscape.

The traditional board structure, while robust, is being challenged by heightened regulatory demands, the rapid pace of technological advancements, and shifting societal expectations. Directors are now expected to possess a diverse skillset that encompass not only strategic oversight, but also a deep understanding of emerging technologies such as AI and cyber security. This necessitates a re-evaluation of how we approach board composition and director pathways.

Organisations that can implement and monetise AI will be at a potential advantage in terms of cost efficiency, customer experience and delivery effectiveness. But over-hasty implementation comes with the risk of customer harm, reputational damage, yet more legacy tech environments and increased regulatory responses. In the boardroom, there is the potential to use technology to assist in creating more effective meetings and greater stakeholder transparency. Whether AI will be an active participant in the board remains to be seen. Currently, the view is that AI is a tool to be harnessed.

The technology revolution demonstrates how the diversity of skills and experience required to effectively govern and steward a modern organisation has grown. One of the most significant findings from our research is the growing importance of balancing specialist skills with the value of human judgement.

While AI and other technologies offer unprecedented opportunities for enhancing decision-making processes, they cannot replace the nuanced understanding and ethical considerations that human directors bring to the table. It is this blend of technological acumen and human insight that will define the board of the future.

More generally, the increasing personal liability and personal reputational risks faced by directors are reshaping the attractiveness of board roles. There is a clear need for boards to offer competitive remuneration and development opportunities to attract top talent, particularly from diverse backgrounds. This will not only enhance the board's effectiveness but also ensure that it reflects the communities it serves.

Our report also raises the question of potential benefits of exploring alternative governance structures, such as separating management and supervisory functions. This could provide the clarity needed for effective governance in today's complex environment, allowing directors to focus on strategic issues while ensuring robust oversight of regulatory and compliance matters.

The board of the future must be agile and equipped to navigate the evolving challenges of modern governance. By embracing technological advancements, fostering diversity, and rethinking traditional governance models, boards can continue to add value and drive sustainable success for their organisation.

About this report

KPMG Australia designed and implemented a two-stage research program between 10 May and 12 August 2024 to uncover insights from board Chairs and non-executive directors (NEDs) from large public, private and not-for-profit organisations in Australia into the current challenges corporate boards face in executing their duties, motivations for building NED portfolios, and how the expectations of the board are evolving to meet future needs.

The first stage was a bespoke online survey, which was completed by 122 Australian respondents. Survey participants were sourced from KPMG's Board Leadership Centre database. The second stage consisted of one-on-one interviews with seven Chairs and NEDs to more deeply explore the main themes emerging.

Surveyed directors represent a variety of organisations

Publicly listed company ASX 1-200	Publicly listed company ASX 201+	Private company	Not-for-profit	Government	Charity	Other (eg. Superannuation)
69	38	48	41	31	13	19

Directors interviewed

Andrea Hall
Non-Executive Director: Perenti, Evolution Mining, Western Power Corporation, Commonwealth Superannuation Corporation

Peter Nash
Chairman: Johns Lyng Group; Non-Executive Director: Westpac Banking Group, Mirvac Group, Australian Stock Exchange

Philip Chronican
Chairman: National Australia Bank; Non-Executive Director: Woolworths Group

Diane Smith-Gander AO
Chairman: Perenti, HBF Health Ltd, Zip Co, CEDA

David Gonski AC
Chairman: Sydney Airport, Levande; Chancellor University of New South Wales

Dr Nora Scheinkestel
Non-Executive Director: Qantas Airways, Origin Energy, Westpac Banking Group, Brambles Ltd

Michelle Hinchliffe
Non-Executive Director: BHP Group Ltd, Macquarie Group Ltd, Santander UK Group

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