AGENDA

The Future of Work and Its Impact on Corporate Governance

July 15, 2019 and July 22, 2019

The way we work is undergoing the most fundamental change since the invention of personal computers and the Internet. Digital technologies like artificial intelligence (AI), robotics process automation and the Internet of things are re-creating how work gets done. Imagine a world where regular management reporting is automated, and virtual assistants manage travel itineraries according to your preferences and prioritize your e-mails by "learning" your habits.

Shai Ganu is rewards business leader for Asia Pacific at Willis Towers Watson. Shai is based in Singapore.

Kenneth Kuk is a director in the talent and rewards practice at Willis Towers Watson. Kenneth is based in Washington, DC.

Along with the evolution of how work gets done, talent issues are also becoming high-priority boardroom topics. In jurisdictions such as the U.S., Canada, the U.K., Singapore and Hong Kong, boards are asking more questions about talent management, organizational development, pay fairness, workforce diversity and corporate culture. As the board’s role broadens from fiduciary to advisory, board members are expected to help management with the company’s readiness in business transformation.

Corporate governance is primed for change, driven by forces that boards with a future-focused mind-set will need to intimately understand. This increased responsibility will also reshape the purpose and function of boards as they expand their role into technology and organizational development.

For companies to be successful in the future, they will need to find the right balance between technology enablement and human-centricity. In this article, we explore six themes impacting the evolution of corporate governance models.

1. Gig-economy governance

Digital technologies may fundamentally shake up corporate governance. Processes for financial reporting and auditing may evolve over time as distributed ledger technologies allow for more real-time data on company financials and human capital trends. Companies will need to manage smart contracts, source resources from talent platforms, manage a project-based workflow, and structure co-sourcing arrangements. Through initiatives such as digital residency, countries like Estonia are providing an ecosystem for digital natives across the world to set up businesses, pay taxes and work on projects across the EU. With a globally decentralized and project-based workforce, the board has an important role to ensure conformity with the different compliance, tax, data privacy and regulatory requirements.

2. Tech ethics

Boards must also ensure that digital technologies are not misused. The ethics of digital technologies such as AI and machine learning is widely discussed. For example, if a driverless car hits a person or damages property, who is responsible? What if an AI-based system starts profiling customers based on racial or other demographic traits? In one example involving a global technology company, a bot solution was taken offline almost immediately after launch after generating racist, sexist and anti-Semitic tweets from its AI and machine learning algorithm. Such mistakes could deplete shareholder value overnight. And the potential consequences are already prompting corporate governance experts to recommend establishing AI review boards to evaluate AI-enabled product lines.

3. Cyber security and data protection

To maximize the utility of digital technologies, companies collect a large volume of data from customers, suppliers and other stakeholders in their product and service value chain. Machines get smarter in learning our preferences and recommend purchases we might not even realize we need. Our credit card information is stored for a more seamless online shopping experience. This technology ecosystem is enabled by both the availability of data and the public trust that the data is responsibly processed and stored. Organizations need to ensure appropriate protocols are in place to avoid a breach, and that the right data guidelines are in place to dictate who has authority or access at various sensitivity levels. Consequently, the board has an important role to play to make sure this risk is effectively managed by creating accountability for the responsible use of data, and customer confidentiality and privacy. Indeed, in some jurisdictions (e.g., Singapore) the board can be liable for cyber-security breaches.

4. Focus on skills and organizational development

Automation of non-cognitive work means that a subset of companies' workforces will have to acquire new skills or risk being displaced. Boards should play an active role to ensure that this transition is socially responsible and does not result in business disruption, while holding management accountable in executing a workforce strategy that optimizes how work gets done and which processes are automated. To drive continuous productivity enhancements, boards must ensure that management can articulate the desired skills and competencies needed, and implement training and development programs that support the up-skilling and re-skilling of employees. And that is why we see boards increasingly focusing on organization design, leadership assessments and individual development intervention.

5. Organizational culture and sustainable human capital management

The increasing use of contingent workforce and other forms of nontraditional talent sources (e.g., freelancers) has inevitably made the company-worker relationship more transient, and hence more challenging for companies to maintain compliance standards and build a cohesive organizational culture. Given the need to set the tone at the top, boards are increasingly assuming accountability in this area. Specifically, boards must help management define companies' talent value proposition and minimize the risks of unwanted behaviors related to human capital (e.g., misselling, poor ethics, health and safety issues, etc.). This includes seeking to understand how management ensures that contingent workers live up to the organization's ethical standards and cultural values.

6. From fiduciary to advisory

Boards have a fiduciary duty to shareholders, as directors are elected to ensure that any management action is aligned with shareholders' interests. At most companies, fiduciary duty is primarily undertaken by ensuring compliance with accounting standards and regulatory requirements. However, in the new economy, technologies such as AI, big data and blockchain will render the board's compliance role obsolete, morphing its role from fiduciary guardian to business advisor. Corporate governance will become increasingly democratized, as shareholders gain more real-time information access and vote more frequently to participate in major decision-making. With distributed ledger technology, companies may also form communities within a token-based ecosystem with a more interconnected governance model, serving the greater good of the entire ecosystem. Consider the announcement of Libra, a cryptocurrency to be governed by a nonprofit institution supported by multiple corporate partners.

How Boards Should Respond to the Changes

We are at a tipping point: Businesses are seeking to unlock value with digitalization at an unprecedented pace, and corporate governance is going through a fundamental evolution as a result. As the bridge between shareholders and management at this critical juncture, boards are expected to both ensure compliance and drive company performance.

At the end of the day, boards are responsible for ensuring that resources such as human capital are allocated and developed effectively in alignment with business strategy. As the future of work changes and the talent competition intensifies, the role of compensation committees is expanding to cover a broader set of human capital and organizational development topics.

It is only through the powerful combination of people and technology that boards can unlock incremental value as they guide their companies to navigate the future of work.