

# Australian Governance Summit 2024

## Keynote Presentation – Catherine Livingstone AC FAICD*Life*

### I Introduction

Thank you, John, and good morning, everyone

As John has said, the theme of this Conference is 'At the Forefront' -anticipating, understanding, and responding to change

Certainly, the consensus view is that the turbulence we're currently experiencing on the geopolitical, technology, climate and demographic fronts is actually the expected state, and that the relative peace and predictability of the past five or so decades has been the exception.

What is the nexus between this turbulence and the concept of Governance?

Well, with apologies to Paul Krugman, Governance isn't everything, but it's almost everything.

I despair every time I see the ESG acronym, which effectively consigns Governance to being a compliance subtext to the E and the S. The acronym should actually be reversed to read GSE...

This defeaturing ignores the fact that true governance is anchored in strategy and purpose. To what end are great processes and policies without direction? They create little value in and of themselves...even that deep repository of policies and processes, the Risk Management Framework, starts with the organisation's Strategy.

I will explore Governance through 3 lenses: The What; the How; and the Who, and then make a closing comment on National Governance.

I emphasise that these are Personal perspectives, developed, often through very hard lessons, over those 5 decades of relative calm ...hopefully contribute to better governance ...as we face of the return of turbulence and high uncertainty.

### II What

Governance is one of those concepts subject to myriad interpretations.

I always go back to the OECD definition wherein Governance is defined as providing Direction and Control, to which I then add Capability

The three legs of Governance are therefore Direction through a clear Strategy and Purpose, Control through an executable Business Plan, and capability through People

I should clarify the meaning of control – it draws on the engineering concept of being 'in a state of control' , not perfection, but within predetermined tolerance ranges; it does not mean micro managing, quite the reverse, it means understanding and agreeing on the tolerance ranges for key aspects of the organisation's activities – and expecting management to intervene if tolerances are exceeded.

Abstracting the elements of governance in this way is not intended to make governance sound simple or simplistic.

Having a workable Strategic Plan is not easy, and a 50 slide deck and annual offsite is not the answer; similarly the monthly P&L is not the vector through which to assess whether the Business Plan is being delivered: at best it is a lag indicator and its aggregated view can often mask concerning underlying dynamics until it is too late; and maintaining strong people capability in an organisation demands daily attention.

At its core Governance is anchored in Strategy not Compliance; its centre of gravity is judgement, rather than process.

Which is why it is central to the role of a director ....

In a time of multidimensional and accelerating change, directors are increasingly being called upon to form judgements, enabling the organisation to be, - to use that overused word, - agile, and able to adapt.

A director cannot know all of the facts all of the time, nor in enough time, to make the decisions required from the Board – remembering that not making an active decision is a decision by default

In short, a strong governance framework with the elements of - clarity of strategic intent and purpose, relevant indicators for the Business Plan, and capable people, underpins the ability of directors to form judgements in the face of ambiguity, and thereby discharge the accountability of their role.

### **III How**

Turning to the How... and two areas of observation..

First to Strategy: Strategic Plans are, at best, a base case; they represent the direction if nothing else changes, so when change does occur, they provide a reference point against which to consider options.

Strategy needs to be a continuous conversation between Board and Management. There may well be one or two occasions during the year where time is set aside to focus solely on strategy, but there must be a thread from those discussions through every Board meeting, with specific time on every agenda identified for strategy.

Ironically, the greater the degree of change, the less complex Strategic Plans should be. Never underestimate the power of the One Page View, because to be effective, a strategy must be able to be communicated throughout the organisation so that, at all key decision points, it provides context, and guidance on prioritisation.

If the strategy can't be captured on one page, then 50 pages of detail is not going to help. Few are going to read those 50 pages, but they may remember the one page when having to make a decision

in situations when the answer is not clear. Of course there will be detail, but the OPV should be debated and agreed on first.

The quality of this process of debate really matters. Instances where I have seen debate work best are those which involve the Board, the senior team, and their direct reports ie CEO-2 cohort.

The discussion among this wider group is more broadly informed, and enables better questions to be asked, with a focus on whether the right questions are being asked, and avoiding the process moving too quickly to the 'first right answer'. There is always a 'second right answer'...

This is the essence of Design thinking, and Design Led strategy, which in itself is a strategic capability. It forces a focus on the real problem to be solved, and the key questions to be asked on the path to solution. It encourages experimentation as a way of test and learn.

I fear that Australia has a blind spot when it comes to the value of Design and Design thinking. We tend to think of it only in the context of a product or fashion, but it is so much deeper and extends to service design, software design, process design, value chain design, business model design – and strategy design. And dare I say, policy design. But more on that later.

Design thinking is hard, but pays enormous dividends, and, with the increasing velocity of change, as a capability, will be a critical success factor. It drives simplicity from complexity, providing a rigour which enables more resilient strategic thinking.

In Tesla, Design is represented in the senior team...in Apple, the first iPhone was the result of design thinking, as was the BTE speech processor for cochlear implants ... in all cases the impact was strategic disruption in the sector...yes, they are all good looking products, but they are so much more when you consider the problem they *anticipated* and solved, and the business model value created by being so far ahead of the rest of their sector.

My second area of observation under the 'How' is the Business Plan...

The Business Plan must draw from the Strategic Plan, otherwise there will be a Governance gap.

This line of sight must be clear, and the Plan must be executable, with whatever degree of challenge is agreed between the Board and management. I say agreed, because unless this meeting of minds is achieved, the disconnect of expectations will also lead to a break in governance: the Strategy will be adrift and management demotivated, compromising the delivery of the Plan. No degree of good processes and policies will compensate for this failure of governance.

As I intimated earlier, evaluating the performance of the business Plan only through the aggregated P&L runs the risk of missing early warning and/or opportunity signs.

For example, the current revenue may be a good lead indicator of performance if the business is one which operates on a very short business cycle time –or it might be very much a lag indicator for a business which makes investment decisions on 20-year time frames.

Every Board should have a good grasp of the key elements of the organisation's business model, and, from that, identify the vital few key lead indicators, both financial and non-financial, which will reflect the health of the business.

This is not as easy as it sounds, but deconstructing the business model into its key elements is an important governance step.

#### IV Who

Turning to the who...

Again two perspectives here...Execution capability in the business; and the role of Directors

First to Capability: I deliberately combined the word Capability with People when describing the elements of good governance earlier, because our environment is now one of pervasive AI: we have moved rapidly from the basic *Algorithmic* phase of AI, to, more recently, with generative AI, the *Augmentation* phase. The next possible phase is that of *Autonomy*, where, according to a recent survey of 3000 AI experts, there is a 50% probability by 2050 of Artificial General Intelligence (AGI):by definition, AGI is able to beat humans at cognitive tasks. We should take careful note of the Nvidia announcement of its new and very powerful Blackwell AI chip.

There is a dedicated Keynote session on AI tomorrow morning which will explore these issues and implications. However, what I would highlight from a Governance perspective, is that AI demands that Directors understand the Decision Architecture in their organisation – and be very clear on *who* or *what* holds the decision rights at any level, or any point in time; and whether those decisions are consistent with the Values of the organisation. Regulators will not accept excuses for not knowing, ( we have seen the trend in the BEAR and now FAR legislation); Courts will not accept excuses; and the Community certainly will not accept excuses. The Robo Debt experience has made that very clear.

Now to the role of a director: a Director's role is no longer limited to diligently reading Board papers and attending Board meetings. The rapidly changing landscape requires more time to be spent outside of meetings, understanding, and being immersed in the organisation's strategic and operating landscape, particularly the technology landscape.

Directors must have strategic situational awareness; they need to be looking for patterns and those soft signals in the ether, to avoid falling into the trap of path dependence thinking ie believing that doing more of the same is the best strategy, especially when all is going well.

Back to the question of AI, In preparing for this address today, I came across a 1988 editorial in BRW ( is anyone here old enough to know what BRW was?) and I quote: 'Artificial Intelligence will have an impact on corporate organisation for which the introduction of the mainframe computer is the only contemporary parallel'. We were given notice, over 30 years notice, but cycle times now are much shorter, and as Directors we need to be much more alert.

That is why Diversity on a Board is so crucial.

While a Skills matrix is helpful, we also need to overlay this with consideration of individual thinking and interpersonal styles.

Diversity of thinking, together with the ability to contribute, are key attributes– and may result from factors such as experience, qualifications, age, gender – but may not; gender diversity is a very necessary, but not sufficient condition: there is an important distinction between *difference* and *diversity*: you may have a gender balanced board without enough diversity of thinking; you may have a range of experience around the table but not enough ability of those directors to contribute to the specific needs

of the organisation. We risk too much ticking of the box, and not enough thought, around the question of diversity on Boards.

Tenure: this then raises the question of tenure. Two generations/40 years ago, it was not uncommon for directors to be on a Board for 15-20 years; one generation/20 years ago tenure limits of 9,10,12 years became widespread, and directors generally do, and expect to, serve for their full tenure.

Perhaps it's now time to evolve our thinking again.

Every seat around a Board table counts – so it may be appropriate to balance corporate memory and diversity, with continuing ability to contribute, and comparison against the changing needs demanded by the organisation's strategic context.

There may be individuals who would be great directors, but do not wish to commit to 9 years, nor be seen to let the organisation down by leaving after three or four years.

Perhaps we should consider whether 6 years could be a more appropriate balance point. This is not to suggest that 6 years should be a tenure limit, rather that the fixed tenure limits being a lower bound as well as an upper bound results in an unhelpful rigidity.

Nevertheless, above all, Boards need directors who are systems thinkers, who can think beyond the traditional simple systems and grasp the reality of the complex adaptive systems emerging from the prevailing rate and extent of change.

## **V Conclusion**

Good governance is so much more than quality Board papers and attention to policies and process.

An organisation has a persona, which can be nurtured and grown and guided through change, supported by the three streams of strong governance.

Rewards are huge – both through value creation, and enabling an organisation that can contribute to economic and social wellbeing.

Which begs the broader question of the role of Boards in contributing to national governance; to contributing to informed and better designed policy by providing continuous sectoral context, not just when there is a problem.

National governance is a team effort – community, business, academia/research sector, the public service, and elected governments. We need to ask ourselves as directors, are we doing enough as national governance team members -is engaging only when there is an issue, either through the media or lobbying behind the scenes .. is that really the best way? Would a systematic engagement with public servants, as well as elected representatives, be more constructive?

We know that Australia has a growth and productivity challenge.

Several in the audience today would have heard leading UK economist, Professor Mariana Mazzucato, during her recent tour of Australia.

Many have been taken with her concept of Government shaping the economy, by embracing bold Missions and, together with Business and the Community, co-creating our future.

Now, without wishing to explore the future of Economic Theory or of Democracy itself, the ability to choose the Missions, and execute for a beneficial outcome, requires a comprehensive level of systems understanding of the current economic, sectoral and social landscape of the country.

At the risk of contentious generalisations:

Neither at the State nor Federal levels, do the public service and elected officials have the level of experience of the system, or the horizontally integrated way of working, which is needed to underpin a Mission led growth agenda.

Similarly, Business is not adequately engaged in the process of policy design, often assuming a level of knowledge on the part of the public servants/Ministers and engaging only with a self-interested sectoral perspective.

Again, I acknowledge that these are possibly unfair observations in individual cases, but they are not unfair at the whole of economy level. Our narrow economic base, our low growth rate, our tax system not being fit for purpose, our educational outcomes falling, and our youth suffering from a mental health epidemic...

These are evidence of the National Governance team not working as it should.

In a recent speech, the BCA President, Geoff Culbert, called for the need to identify the big issues which will define our future, and for all key stakeholders to work together in a rational depoliticised space and agree on long term plans.

This will mean hard work, and if we are to have Missions, they need to be strategically linked to these big issues, with an executable National plan to deliver outcomes, based on well informed systems thinking and a horizontal way of working. Missions must not be cherry picked thought bubbles: ambition is good; co-creation is essential; but unilateral choices and token consultation would only serve to compound our problems.

While the BCA has led a call to action, the AICD and other industry and community bodies cannot do all of the heavy lifting to bring this National approach to fruition.

So, I conclude by leaving each director with the challenge...are we, as our Board, as our sector alert to the responsibility to engage with policy makers, both elected and public servants, to ensure informed, systems based, policy design in the National Interest?

CB Livingstone

20 March 2024

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