GOVERNANCE

March 2020 Issue 307

ARGA legislation – will it ever happen?

'For some reason, the government has been astonishingly vague about ARGA legislation. Nevertheless, it is clear that the FRC strategy under Sir Jon Thompson is to press ahead as vigorously as possible to create and gear up a "virtual" ARGA to the extent that it can without actual legislation.'

Richard Smerdon

Five trends for boards to watch

'There will be no more room for directors who cannot quickly grasp the effects of tech disruption on business models and industry landscapes. Technology has come out of the back office and become a strategic imperative, destined to be woven through every cell in many companies from agriculture to surveillance.'

Diana Wu David

Content

Feature

Five trends for boards to watch

As the world turns to the next decade, what rising conversations will matter to the board community? **Diana Wu David** considers a few wide-ranging trends and key questions to consider around the board table.

Evolution of governance

'The system of making capitalism work well for most people is broken.' Ray Dalio

The last 100 years has shown cyclical swings between shareholder value and stakeholder value. Early organisations petitioned the state for a charter. There followed the rise of incorporation tempered by antitrust. The agency theory and total shareholder return now being tempered by a sense that corporate profits are no longer a singular measure.

Global recognition of the power and responsibility that corporations hold is expanding. The Business Roundtable advocates 'redefining the purpose of the corporation' and the recent World Economic Forum meeting in Davos announced the dawn of a 'better kind of capitalism'. Boards are evaluating what that looks like, how it touches on strategy and what duties companies and boards have to ensure positive stakeholder impact. Some see this as company led reform to stave off regulation, but whether you are cynical or optimistic, this seems to be a more than a cyclical trend to ignore.

Boards need to re-evaluate what measures, including environmental, social and governance, they use to gauge success more broadly?

Stewardship of resources and the planet

'Companies need to consider all their stakeholders – and not only shareholders.' Tim Mohin, GRI

Part of the shift towards stakeholders and shared value is due to the perception that the past decade(s) have been built on unsustainable business practices. Around the world, there is a question about the world we have built and the values that brought us here. Scandals and executive pay are the most notable instances of this overall decline in trust.

As Bank of America Chairman and CEO Brian Moynihan notes, 'Society is best served by corporations that have aligned their goals to the long-term goals of society.' Lofty aspirations aside, there is risk in ignoring the external costs to resources and planet which can lead to tightening of supply or cutting off of supply chains. Will consumer sentiment, regulation,

---

continued from page 9

recruitment drive to get on board sufficient professionals to enforce any ARGA legislation together with an enlarged budget for 2020/21.

Still no announcement from BEIS

The giveaway in the FRC statement quoted above is the third sentence about making [in 2020/21] 'further progress in its transition to a new regulatory body …': Pretty vague stuff and still nothing from BEIS. But there was a clue in a report in the *Financial Times* of 5 February 2020: 'the [FRC] changes come ahead of formal legislation to create ARGA, which is expected to be introduced this year.' Apparently (see FT report 28 February) an announcement is expected in April, but don't hold your breath.

Further clues in February

On 28 February 2020 the FT reported that the FRC had written to the Big Four accounting firms (Deloitte, EY, KPMG and PwC) outlining plans to make their audit operations financially independent businesses, with separate boards led by independent Chairs. The FT further reported that a spokesperson for the FRC had said: 'it does not look like we are going to get any legislation any time soon, so we are moving ahead under our own steam to push firms to make suitable changes to ensure sustainability and transparency in audit'.

Conclusion

For some reason, the government has been astonishingly vague about ARGA legislation. Nevertheless, it is clear that the FRC strategy under Sir Jon Thompson is to press ahead as vigorously as possible to create and gear up a 'virtual' ARGA to the extent that it can without actual legislation so that when and if legislation does appear the transition can take place swiftly. Watch this space!

Richard Smerdon is the author of 'A Practical Guide to Corporate Governance', 1st to 4th editions, Sweet & Maxwell. Former tutor to the Financial Times Non-Executive Director Diploma. Former corporate finance partner, Osborne Clarke. The writer is writing in a personal capacity and none of the views expressed are to be attributed to any of the organisations above mentioned.

1 The three reviews of audit commissioned by the Government in 2018 were: The Independent Review of the Financial Reporting Council, led by Sir John Kingman, published on 18 December 2018; The Competition and Markets Authority's study of competition in the audit market, published in April 2019; and, The Independent Review into the quality and effectiveness of audit led by Sir Donald Brydon, published on 18 December 2019.

Feature

depletion or cost mean that companies must change ways or simply look to new planets or previous frozen seas for new opportunities?

Boards should be asking what externalities previously off-balance sheet have allowed the business to prosper?

A tipping towards Asia and nationalism worldwide

When my previous boss, Dr Henry Kissinger, was asked about the Obama administration's 'pivot to Asia', his quip was, 'I didn't know we'd left'. The dance between West and East continues.

As it rises in power, China is looking to shape the geopolitical, cultural and fundamental values that shape the global status quo, in the same way the US did in the 20th Century. Companies like Haier are pioneering new, decentralised management systems that express an ethos of entrepreneurship, more Silicon Valley than the big American tech titans.

US-China trade tensions are adding uncertainty in global supply chains and encouraging a technology decoupling with broad ramifications. China's growth is slowing (China's economy in 2019 grew at its lowest rate since 1990), with the coronavirus presenting additional challenges. There is a 'creative tension': with China, with governments grappling with its increased global power and an increase in issues putting pressure on domestic social reform.

But it's not just China. Asian economies will be larger than the rest of the world combined by 2030. While China is the juggernaut, South and Southeast Asian economies are booming, fuelled in part by a demographic dividend of young people entering the workforce.

Finally, Brexit, Trump and nationalism in countries around the world reveals a trend towards 'build a wall' politics, ring-fencing anything to make us feel safe from change.

Boards need to consider whether or not they have the expertise to take advantage of Asia's rise and how to de-risk or take advantage of potential changes in regulation due to the rise in nationalism.

Demographics affecting the consumer and talent landscape

The world is aging. China's National Bureau of Statistics just announced that the country's birth rate fell to a record low, dropping to 1.05%, mirroring trends across the developing world. Meanwhile those 55-year-old and older will go from the smallest portion of the workforce to largest by mid-decade, spurring the OECD, World Economic Forum and American Association of Retired People to launch Living, Learning and Earning Longer https://bit.ly/3aJlVEp research to help companies cope. Mercer is pioneering new phases of work for retired but still active executives.

Reskilling, upskilling and outskilling of workers to meet new demands is required and governments and companies are scrambling to figure out who does what. A newfound recognition of multiple generations in the workforce, increasingly catered to by personalised benefits gleaned from data-crunching and AI is transforming the way companies combine technology and labour for competitive advantage.

Employees have risen up the ranks with the likes of yogurt maker Chobani and audio and entertainment company Richer Sounds giving the company to employees and the *Financial Times* calling for employee welfare to be paramount. Vint Cerf and others are calling for a 'people-centred economy' that puts a living wage and meaningful work at the centre of commerce. Does this spell the end of hierarchy and the rise of agile networks or will it go the way of pool tables and free lunch?

Boards need to have a workforce plan to fulfil a future proof agenda.

Tech sense as a Minimum Viable Qualification for directors

'Whoever leads in AI in 2030 will rule the world until 2100.' – Brooking Institute

There will be no more room for directors who cannot quickly grasp the effects of tech disruption on business models and industry landscapes. Technology has come out of the back office and become a strategic imperative, destined to be woven through every cell in many companies from agriculture to surveillance. T-shaped understanding with depth in certain aspects of technology or innovation and a broad knowledge of the drivers affecting change will be imperative. This may see a shift to less senior directors, but with more recent experience in up and coming disruptions coming down the pike.

Understanding issues of data, machine learning, privacy and security are vital to all companies no matter their size or industry.

In the Age of Acceleration, that I wrote about in my book, *Future Proof*, technological disruption, global shadowboxing and an always-on workplace have left us with a sense that we have run out of road and need very much to find new, sustainable ways to prosper.

Boards need to ensure they are prepared for what lies ahead.

Diana Wu David is head of faculty for the Financial Times Board Director Programme in Asia and author of Future Proof: Reinventing Work in the Age of Acceleration available on Amazon at https://amzn.to/3aJmNc9 . www.dianawudavid.com

GOVERNANCE

www.governance.co.uk

Subscription form

Please complete this form and send by mail to:

**Subscriptions Department Governance Publishing and Information Services Ltd
The Old Stables, Market Street,
Highbridge, Somerset, TA9 3BP, UK**

**Tel: +44 (0) 1278 793300
Email: info@governance.co.uk
Website: www.governance.co.uk**

(Please tick one)

- ☐ Yes! I would like to subscribe to Governance for one year
- ☐ Or save with a 2 year subscription

Governance international subscription costs:

	£UK	Euro	US$
1Yr	325	450	490
2Yr	585	790	855

Governance can accept cheques in other currencies but an administration fee of £15 will be charged.

☐ I enclose a cheque/bankers draft for	
Currency	Value
☐ Please invoice me	
Specify currency:	
Order reference:	
Title:	
First name:	
Surname:	
Position:	
Company/Organisation:	
Address:	
Postcode:	
Email:	
Tel:	
Fax:	

What our subscribers say

'*Governance* is a great publication that I look forward to reading.'

'I have found *Governance* to be a good resource for identifying and elaborating on emerging corporate governance trends.'

'*Governance* provides a very useful summary of key issues.'

'I enjoy *Governance* very much. The comprehensive range of topics covered keeps me up to date on corporate governance matters.'

'*Governance* is a useful means of keeping up to date on developments in a field which is assuming greater importance by the day.'

'*Governance* is the leading monthly publication covering major corporate governance issues. A most valuable source of information for investors, financial advisors, corporate board members and executives.'

Index

Designed and printed by WithPrint
Riverside Studio, Gills Lane, Rooksbridge, Somerset, BS26 2TY
www.with-print.co.uk

ISSN 1358-5142

Governance Publishing and Information Services Ltd
The Old Stables, Market Street, Highbridge, Somerset TA9 3BP, UK
Tel: +44 (0) 1278 793300
Email: info@governance.co.uk Website: www.governance.co.uk