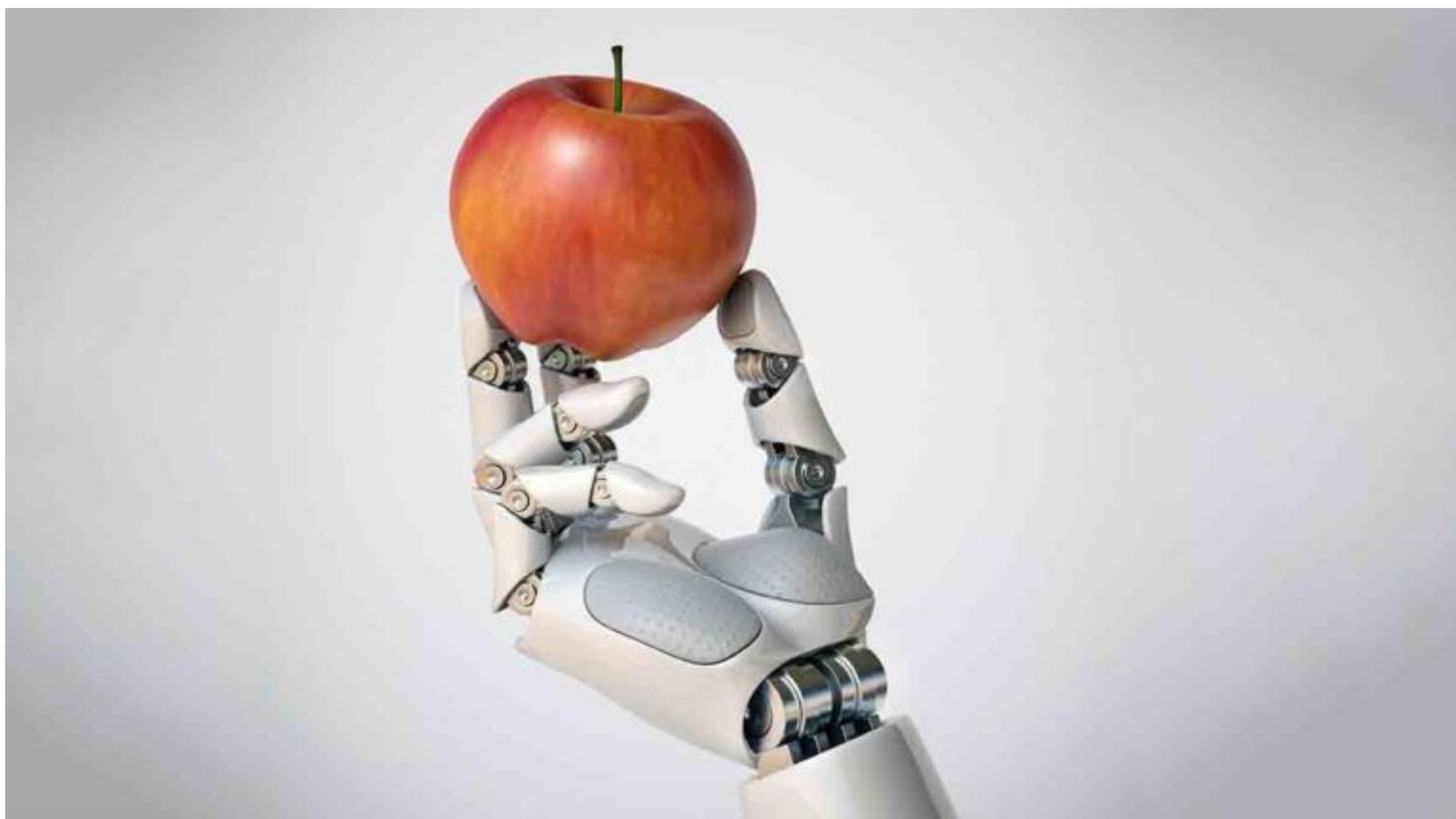


BOARDS

Can a Board Member's Job Be Automated?

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The role of a Non-Executive Director (NED) is to represent and safeguard the long-term interests of shareholders and broader stakeholders, including employees, customers, society, and environment. As stewards of the company, the Board and its NEDs, have two primary governance responsibilities:

- Ensuring regulatory conformance: compliance with relevant rules, regulations, accounting standards, disclosure requirements etc.
- Driving company performance: guiding management and ensuring that the company's resources are deployed efficiently and productively.

However, continued advances in artificial intelligence, robotic process automation (RPA), and distributed ledger technology like blockchain could bring about a completely new way for the Board to exercise its responsibilities. Ensuring data veracity could be instantaneous and decentralized, allowing for processes such as reviewing company accounts, financial reporting, and auditing to be real-time and immutable, requiring minimal effort on the part of NEDs.

Against this backdrop of change, we applied the methodology in our book *Reinventing Jobs* to reinvent the role of the NED. First we identified all the key activities performed by NEDs. We then categorized them based on whether they were repetitive (think rules-based, routine work) versus variable (think of work requiring creativity and innovation with limited to no rules or precedent) and identified the percentage of time spent on the activities. From this we identified the appropriate role of automation, should it substitute the human NED's efforts to improve efficiency and effectiveness, or should it augment the human NED's efforts to improve impact. Some key examples include:

Verifying financial statements and satisfying reporting requirements: *likely will be substituted via distributed ledger technology and smart contracts*

Given the asymmetry of information held by management and shareholders, processes such as internal and external audits, Board dashboards, and reporting requirements are assumed to reduce the likelihood of management pursuing their own interests or performing poorly.

However, distributed ledger technology and smart contracts could take over the role of ensuring conformance with regulations and reporting requirements. For example, with distributed ledger technology, company accounts could be instantaneously verified anywhere in the world; likely rendering the audit, compliance, and reporting activities of the Board redundant. Companies also may not need annual shareholder meetings to adopt financial accounts and to vote on key resolutions. Advances in technology may allow for highly decentralized decision-making, wherein all stakeholders – be they shareholders, customers, employees – could exercise their preferences using real-time voting platforms.

Reviewing management's proposals and participating in Board deliberations: *likely will be augmented by AI.*

Traditionally, NEDs have reviewed information provided by management and exercised judgement in making decisions. However, with the continued democratization of information and machine learning, access to real-time insights for decision making has become much easier. Instantaneous tracking and reporting of performance data coupled with predictive analytics can augment board decision making. For example, DKV, a Hong Kong-based venture capital fund, has an algorithm called Vital which has a seat on its Board and is responsible for guiding investment decisions. It is not inconceivable that all boards of the future might have at least one member which is an algorithm; which can keep up with boardroom discussions, contextualize the premise, reference past discussions and historic context, and provide real-time insights and recommendations as required.

Setting the strategy and vision of the company: *will continue to mainly rely on human NEDs.*

A key role of NEDs is to provide independent judgement and advice on issues of strategy, vision, performance and standards of conduct. NEDs need to constructively challenge, influence, and help the company set its strategic priorities. Given the highly variable nature of this work and the significant premium placed on experience, we posit that human NEDs will continue to play this role, albeit aided by better data and insights.

As seen in the above examples, the responsibilities of NEDs in the new world of work could be fundamentally different. Based on our analysis, about 48% of the activities currently performed by NEDs could be augmented by AI and automation and about 25% of the activities could be substituted.

What might this mean for the future role of NEDs? How might they spend time that has now been freed up? Might they be able to engage more deeply in the “more human” tasks like setting strategy? We foresee a shift away from traditional fiduciary responsibilities to a more advisory role. NEDs could likely spend more of their time as internal consultants and advisors to the CEO and management. NEDs will need to have a strong understanding of business models and customer preferences while industry and geographically-diverse experience, business networks and connections will be at a premium. NEDs would also need to acquire new skills related to cyber-security, gig-economy governance, tech-ethics, behavioral economics, up-skilling and re-skilling employees, reputation management, and stewarding a purpose-driven organization.

It is only by achieving the optimal balance between humans and machines that Boards can navigate the future of work. Indeed, companies in the new economy will continue to need strong NEDs; albeit with a different mandate, serving a different role, and with different skills. As one senior NED eloquently puts it, “you can’t come up with an algorithm for experience.” Maybe so... just don’t mention that to AlphaGo.



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