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THE IMPORTANCE OF EMOTIONAL INTELLIGENCE IN AN AI WORLD

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The role of the board and the company secretary in an era when companies are facing new systemic risks.

Digitalisation is a reality rather than a trend, with new technologies such as blockchain, artificial intelligence, big data, robotics and the Internet of Things being used to develop disruptive or transformative tools, products and services in all areas of industry. This presents both opportunities and risks, and boards and the companies that they oversee need to be more agile than ever if they are to come out of the race to the top unscathed.

While new technologies can make processes and interactions better, cheaper and faster, industries at the centre of the so-called 'Digital Vortex' face intense disruption. According to the Global Center for Digital Business Transformation (DBT Center), digital disruption – the effect of digital technologies and business models on a company's current value proposition and its resulting market position – is altering traditional competitive dynamics in virtually every industry, with the five most vulnerable industries listed as media and entertainment; technology products and services; retail; financial services; and telecommunications.

The accelerated pace and scale of digital disruption is reflected in the biannual survey of FTSE 350 companies that ICSA: The Governance Institute runs in association with the Financial Times. Some 80% of respondents to the winter 2017 FT-ICSA Boardroom Bellwether survey consider that cyber risk is the fastest growing risk issue facing FTSE 350 companies and 90% are increasing spending on mitigating cyber risk. Similarly, a survey published by the UK Department for Digital, Culture, Media and Sport (DCMS) in 2017 found that 68% of large businesses (those with more than 250 employees) had experienced an attempted cyber-breach in the preceding 12 months and 41% of UK businesses for which online services were not at all core had nevertheless experienced an attack.

While more organisations are now more willing to recognise the impact of digital disruption (three-quarters of executives surveyed by the DBT Center in 2017 recognise the impact of digital disruption as 'major' or 'transformative' compared to just over a quarter in 2015), not all leaders are responding appropriately. Only 31% state in the 2017 survey that they are actively responding, which leaves almost 70% of businesses that are not. Furthermore, despite the fact that no business can ignore the risk of hacking or other type of data breach, the DCMS Cyber Risk Breaches Survey 2017 found that only 40% of large businesses have a board member with responsibility for cyber-security and only 22% have undertaken all ten recommended steps in the UK Government's 10 Steps to Cyber Security guidance.

Digital awareness is not just a matter for the IT team. Given that companies subject to the UK Corporate Governance Code are required to ensure that the board and its committees have the appropriate balance of skills, experience and knowledge to discharge their duties and responsibilities effectively, all directors should be able to display a reasonable understanding of the scope, severity and likelihood of digital risks facing the company. Similarly, boards need to be able to actively appraise and test the financial business case for any transformational digital strategies that management might wish to introduce. This requires a certain level of understanding of the technology and an appreciation of any implementation and internal disruption issues.

Companies need to make informed decisions that can be acted upon quickly in order to respond to digital disruption effectively. If they are aware of their strengths and vulnerabilities, the true value of their services and products to their customers and threats to their market position, they stand less chance of being destabilised by the sudden arrival of new competitive threats. Useful insights can be gained from Big Data and data analytics, but diversity of perspective has a useful role to play, which is why board diversity is key. Organisational culture is also of paramount importance. Companies that are open-minded and ready to embrace change, are more likely to succeed.

The benefits of digitalisation are clear. Software habitually outperforms humans in terms of processing information at speed or harmonising it across different locations. Global entity management and corporate governance software products are now commonplace offering company-wide systems for all of an organisation's governance, risk and compliance needs. Similarly, board portals have streamlined the meeting process, removing the need for board papers to be physically collated, checked, posted out to multiple locations and archived.

The rapid strides being made in artificial intelligence (AI) mean that we are on the edge of a new age of automation with machines now able to undertake tasks previously thought to call for human judgment and experience, such as the deep-learning system created by Oxford University researchers and Google's DeepMind division that can read lips more accurately than human lip readers.

AI is already being used to help businesses understand their customers better or improve operations. Kraft used an AI-enabled big data platform to increase its understanding of consumer preferences before reinventing its Philadelphia Cream Cheese brand, for example. Likewise AI can be used to suggest the best language for triggering a response to an email campaign, and advanced facial analysis can be used to monitor emotional response to advertisements and other digital-media content.

Blockchain, as a secure, transparent, immutable and accurate way to record transactions, has potential applications far wider than the virtual currency platforms it is best known for. Organisations with a large membership base, for example, could use it to create an online voting system or even use it for share registration, an idea which must have custodians quaking in their boots.

Similarly, virtual and augmented reality technology has obvious benefits in the building, construction and architectural industries where stakeholders using VAR headsets can immerse themselves in a building before it is even built. They could play a role in the boardroom as well, providing a more immersive experience for directors attending virtual meetings, both in terms of allowing directors to judge emotional reactions and attitudes, as well as allowing data to be presented in a more visual way.

Rebecca Long-Bailey, the UK Labour party's shadow business secretary, speaking at the September 2017 Labour party conference, claimed a new industrial revolution over the next 20 years could see half of all jobs lost to automation, with many businesses not ready to cope with change. Companies need to consider right now what they can offer and how they will get it to their customer base; how they will engage with their stakeholders; business continuity risks linked to developing and implementing new systems and processes; retraining needs; and how their organisation is structured.

A 2017 Harvard Business Review survey found that 'the bolder the digital strategy, the more likely the company is to have a successful digital transformation.' Where digital strategy was essentially focused on cost-cutting and other defensive tactics, the return on digital investment was usually poor.

Top three digitalisation tips for boards:

1. Ensure that your board has the right mix of skills to understand digital trends and their impact on your industry – get talented, digital savvy directors onto the board, regardless of age AND make sure older board members are willing to learn

2. Create strategies that are fit for purpose in a digital world and monitor all associated risks

3. Cultivate a culture which is agile, customer centric, innovative, empowering, diverse and attractive for new talent.

Understanding developments in technology and their impact on businesses and their clients, as well as the regulation and risks in the digital world, the uses and abuses of Big Data and the competitive advantage it can bring are all areas where company secretaries are able to provide value. If businesses are not yet embracing digitalisation and the opportunities it can bring, it is up to company secretaries to ensure that this makes it onto the board's agenda.

According to Michael Chui, Katy George and Mehdi Miremadi, joint authors of the July 2017 McKinsey Quarterly article 'A CEO action plan for workplace automation', it is becoming more common for software robots to receive a user ID and then to perform rules-based tasks such as accessing email, performing calculations, creating documents and reports, and checking files. The results include built-in documentation of transactions for audit, compliance and root-cause analyses.

While intelligent verification software might mean that the size of company secretarial teams reduces as the more administrative work becomes more automated, there will always be a need for the human touch, from the person who decides which board papers need to be uploaded to the system and arranges for this to happen to the person who can listen to a non-executive director's concerns and smooth out issues with the executives.

Machines lack common sense and cannot always pick up on social and emotional cues, something which is at the core of the company secretarial role. Emotional intelligence (EI) is the one area where humans still pip machines to the post and, fortunately for the profession, EI is, and is likely to remain, one of the prerequisites for performing the role well.

Commercial and ethical decisions still rest with humans rather than computers, as does the management of relationships and boardroom dynamics, and the advisory and problem-solving role that the company secretary enjoys in the boardroom is unlikely to be entrusted to a robot just yet.

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