

Modernizing Board Governance for Today's Risk Environment

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Intro: You are listening to C-Suite Perspectives, a podcast by The Conference Board.

Barbara Mendes-Jorge: Hi, welcome to C-Suite Perspectives, a signature series by The Conference Board. My name is Barbara Mendes-Jorge and I'm a sustainability communications expert based in Brussels, Belgium, and the guest host of today's episode. In this episode, we'll be talking about board readiness. More specifically, how can boards move beyond current functioning to provide effective oversight and guidance in an uncertain global environment?

Joining me to discuss this topic is Susan Stenson, founder of Sustainable Boards. Sustainable Boards is an independent advisory practice for chairs and boards, working together with clients on a range of governance issues, including governance framework reviews and redesign, externally facilitated board and committee performance reviews.

Based in Brussels, Susan has worked alongside chairs, CEOs, committee chairs, and company secretaries of listed, regulated, and family-owned companies across Europe for over 20 years. Before founding Sustainable Boards, Susan was CEO of Independent Audit, a leading specialist governance consultancy. Before that, Susan spent two decades at Euroclear as group head of governance, investor relations, and corporate secretary.

And earlier, she was a corporate lawyer at Linklaters in London and Paris. Susan has also sat on boards as a director. She says, "The gap between a board that functions and a board that genuinely performs is rarely about structure or process. It's more often about having dynamics, decision quality, and the conversations nobody is quite having."

So on that note, welcome, Susan. I'm looking forward to discussing board readiness, governance, and the conversations boards need to be having more frequently.

Susan Stenson: Thank you, Barbara. It's really nice to be here with you today.

Barbara Mendes-Jorge: Good to have you. Susan, I'd love to start this interview by hearing about what led you to found Sustainable Boards. What road did your career take and what gap do you feel that Sustainable Boards is filling?

Susan Stenson: For me, it was really all about making good decisions. That's the line that carries through from my early career as a solicitor at Linklaters, started off by advising big blue-chip companies on major transactions and got a feel for how important it was to get those decisions right. The consequences of getting them wrong are quite phenomenal.

Working with the board at Euroclear for 15 years or so, seeing what it took to make a good decision, all the work that goes on in the background, all the work that goes on in the room when you're debating pros and cons, the structures that you can have in place to make sure that those decisions go well—or at least give yourself the best chance of the decisions going well.

It really is that focus on what it takes to make a good decision and the consequences of decisions when they're not made well or not structured well. That led me to the boardroom, which is obviously where the ultimate decisions in the organization should be made and usually do get made and looking at the boardroom from two different perspectives that really interest me personally.

One is the process side. That goes back to my early career as a lawyer, making sure you get that process and procedure right so that when things get to the level of the board, they've been through the right frameworks and the right governance.

The second part of it is the part that really appeals to my own kind of human curiosity, the dynamics in the room, how people act as a team, how everybody comes together to debate things constructively and improve decision-making. I really think it's a mixture of those two things, like the process side and the human side, that really attracted me into this space.

What I believe we really bring as Sustainable Boards when we advise clients, it's that dual focus on those two aspects of being a good board and operating good governance processes and systems. It's both of those sides of the coin that is really unique in what we do. If I add to that, a really good dose of human empathy and understanding and real-life experiences that have shown that a lot of the issues that boards face in terms of their own functioning and effectiveness are really quite sensitive and sometimes quite hard to get your arms around.

The level of kind of understanding and empathy that we approach every client with is just as important as everything else.

Barbara Mendes-Jorge: It's really nice to hear you talk about empathy in a business context. So important and so underdiscussed. So is your, let's say, passion for

decision-making the reason why you decided to focus on governance as the main pillar of your career, the apex of where the decisions are made?

Susan Stenson: Yeah, I think it's decision-making but it's also what I was saying there, Barbara, about that kind of human quality. Like just watching a group of very clever, very experienced, very senior people in a room grappling with really difficult issues, making very consequential decisions—for me, there's nothing more exciting than that.

And maybe that brings out a kind of geeky quality in me. If I can help in any way to smooth that process and to make those decisions better and ultimately to make the organization more sustainable—and that's where the sustainable in the name comes from—then that's the kind of impact that really excites me and that's where I want to be playing. That's what's led me to the boardroom.

Barbara Mendes-Jorge: That's great. The Conference Board recently ran a roundtable discussion that you participated in and it was discussed that boards recognize geopolitical disruption and risk but many are not yet governance ready because many boards still operate through structures designed for a more stable environment. Could you expand a bit more on this point?

Susan Stenson: What I see is that the awareness has arrived in the boardroom. You need to really have your blinkers on not to see what's happening in the world around you. The awareness is there. Boards are completely cognizant of the fact that there has been a paradigm shift in terms of geopolitics and the stability and trust that exists on the world stage.

The trust point there is really important. What are boards doing about it? Many boards are having conversations about it, are talking about how it touches their strategy, how it touches risk appetite and business model.

My view is that's not enough because changes are happening so rapidly, things are so unstable that the classic board sequence of, be it a quarterly meeting or a bimonthly meeting where you sit and you go through an agenda, the structure of which was probably set five, 10 years ago and hasn't changed. You receive management reports that tend to include a lot of backward-looking data and very little looking to the future. Where you receive reports that are delivered on a functional basis—you'll have your CEO report, you'll have your chief financial officer (CFO) report, you might have a chief risk officer report.

It just is not fit for the world that we live in today, where there is very fast-changing, a highly interconnected nature of risk and opportunity that's out there, where we know the technological advances that we see outside the boardroom are hitting the boardroom or hitting management reports. Information that is at your fingertips and available and analyzed within seconds.

And yet we still sit with boards who are looking at quarterly reports or monthly reports and

expected to make decisions on that basis. The system that we have in place for boards is not serving the purpose that is needed to govern and to steward organizations in the kind of environment that we're living in today.

Barbara Mendes-Jorge: Thank you very much. That's something to think about. Are there any other areas that you think boards need to currently involve beyond the traditional way of doing things?

Susan Stenson: It's easy for me to say the boards aren't fit for purpose but I've thought very deeply about how to change that and what needs to change and how we can make these broader changes that will impact how boards govern.

It's really hard, if I'm honest. What I try to do with Sustainable Boards is start with practical and achievable steps that will get you closer to that, even if that's not the framework that's in place for today. What do I mean by that? The first thing is I would always encourage the board chair and the CEO to have a real conversation around what the priorities are for the board time for the year ahead and not to be driven by, "Oh, we've always done this in February and that always comes up in September and we always have the chief customer officer come in July." No. Sit back and really decide together, okay, what are the five or six things we absolutely have to nail this year? And many of them obviously will be related to the strategy. Some of them could be governance.

For example, you might have a chair succession coming up or you might have a CFO succession. You need to get that baked into the calendar. You may also have a review of remuneration policy. To really have an understanding and an agreement between the chair and the CEO of what are the key things we need to do this year and how, therefore, will we use the board time properly to do that?

Now, it sounds so obvious, Barbara but lots of boards just don't do it.

Barbara Mendes-Jorge: What I've been thinking is it's helpful sometimes to have those anchors of the quarterly board meetings, etc., because boards are often time poor, right? So if you have something that's in place because it's always been like that then people know they have to achieve. But what you're coming in to say is you think that might be efficient but you're not reacting fast enough to what's going on in the real world, right?

Susan Stenson: You're not serving the purpose, which is what are the key things that we need to do this year and how do we go about doing them? Why don't we just have that conversation upfront? Obviously you remain agile and you flex as the year goes on and things change, because we know things are changing.

But you have in your mind these are the key things that we need to do. The reason I feel so strongly about this is I see boards who are still working in silos. As I've mentioned before, you'll hear from the chief financial officer and then you might hear from a business lead in an overseas jurisdiction. Who is pulling together the common threads on things like supply chain, for example, that is relevant across those two things but actually is not

discussed as a theme? It's discussed as a thing in finance and a thing in Africa, let's just say.

In that conversation between the chair and the CEO, it's an opportunity to draw out those themes. Is there a theme for us this year around supply chain resilience, given what's going on in that key supplier that we have there? Or given that we have a concentration risk on this supplier? Those kind of conversations that are overarching and that break the silos but are highly relevant when you're in the boardroom, when you're talking strategy and key risks for your organization.

That's one practical thing and one really easy thing to do, right? Doesn't cost anyone anything. It's just an hour or maybe two between the chair and the CEO. Then you go back to the board with what you've agreed. You get everybody's buy in and then the whole board knows what to expect over the course of the year and has a view on what's coming down the line.

So as a board director, you're not sitting there thinking, "Oh, I wonder when we're going to talk about the supply chain." Because you know it's been agreed and that's going to be seen at X point in the year and that the executive team have their arms around it and have sight of it. That's one that can really actually transform how the board works and it's one that's really easy to put into place.

The second one, and I write a lot about this, and again, it's something I feel quite strongly about, is thinking in scenarios. Because when things are so shaky and the world is changing so much, it's just not enough to think in terms of black and white. I would encourage all boards to have a base case scenario for their strategy but then also a worst case, almost taking it to what would it take to kill us?

It's been done in financial services for a long time and it's relevant in all businesses. Really forcing yourself to think how can we mitigate that never happening? And then obviously on the opportunity, on the upside, what's the upside scenario that we should be considering here? And actually, is there something that we could do to get ourselves there as well?

That kind of scenario thinking, and I would encourage every board to, when they're looking at their strategy, have a couple of—maybe three, four—scenarios in mind and to keep coming back to them.

The third thing I would say, and again, so I'm trying to give you, Barbara, things that are easy to put into place. I will continue thinking about how do we shake up this whole board framework and make it more suitable for the modern world. But just in terms of the listeners, things that they might be able to take away and do immediately. The third one relates to technology and AI. And so quite obviously, AI is hitting the boardroom as well as everywhere else.

What I see is a lot of boards who are just not ready both in terms of how they oversee AI

in the organization and its rollout and the opportunities and risks that AI might present within the organization. How do they embrace AI as a tool that can make them better as a board and make their governance more effective?

I've heard all sorts of horror stories like directors uploading full board packs into ChatGPT and asking for analysis and I'm like tearing my hair out just like, how can that be happening? Or one director who very proudly announced that they had created their own chatbot to engage with on, and on a public, consumer-grade LLM.

Barbara Mendes-Jorge: Wow.

Susan Stenson: Yeah, I know. There's a long way to go in terms of board understanding and board learning on AI and technology. I don't know if you saw, I just put up on LinkedIn yesterday, the 10 things every board needs to think through before they actually start engaging with AI in the boardroom as a tool in the boardroom.

Some of them are simple things like I just said, like no consumer-grade LLMs. Some of them will require a little bit more thought. Have you really thought through how this impacts your legal and fiduciary responsibilities? How do you show me you've exercised independent judgment when you've just put your board pack through AI to ask AI what it thinks?

What's the extra layer that you add to that in terms of demonstrating that you are still exercising independent judgment? That would be my third area, that whole thing. How is the board both embracing AI because there are, I think, incredible opportunities for AI to help in terms of governance efficiency.

Embracing AI and making sure that's done in a safe and responsible manner for the organization. It's a big black hole for now in many organizations and it's one that's needing to be filled very rapidly.

Barbara Mendes-Jorge: Thank you very much, Susan. We're going to take a short break and be right back with more insights from Susan Stinson.

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Barbara Mendes-Jorge: Welcome back to C-Suite Perspectives. I'm your host, Barbara Mendes-Jorge, a sustainability communications expert based in Brussels, Belgium. I'm joined today by Susan Stenson, founder of Sustainable Boards. We've discussed how Susan works with companies to strengthen governance and why it's important for boards to keep up with geopolitical issues.

I'd love to get Susan's take on environmental, social & governance (ESG) legislation and talk about trust in a little bit more detail. Susan, in part one, we talked a little bit about how governance frameworks have evolved and we talked about it in the context of geopolitical instability and how important it is for them to consider this. Is there any other governance architecture that you feel may need updating for boards?

Susan Stenson: Yeah. The board committee structure is one that I encourage boards to look at every year because things just change, particularly given the kind of risks that we're seeing now and the rapid development of technology and how that's been adopted in the boardroom, governance architecture, and particularly the committee structure.

There's lots of boards considering, okay, where do we put technology risk, for example, in our committees? Who's doing the deep dive on that? Is it an audit committee? Do we have a risk committee? Do we have a technology committee? So that's one aspect.

The other is with regard to sustainability. Lots of big companies set up a sustainability committee a couple of years ago. With that kind of changing landscape and the reluctance, I think, among some corporates to talk about sustainability in the same way, is the sustainability committee still valid? Do we keep it? What's its role? Is sustainability well enough incorporated into the overall strategy now that we don't need it and we just monitor at board level? They're the kind of questions around government frameworks and architecture.

The second part is in terms of composition and expertise. Do we still have the right people around the table for the organization that we are today? What are the skills and experience that we need for us to give ourselves the best chance of realizing our strategy? How does that all fit together in terms of the personalities we have around the table? That whole kind of composition piece is really important when we talk about governance frameworks.

Barbara Mendes-Jorge: Great. Thank you. We did talk about trust briefly in part one. Related to that, I'd love to talk about trust in the context of company culture, in the context of governance structures. Is company culture and trust maybe linked to your quote that I read out at the beginning about the conversations that no one is quite having? And if not, could you expand on this quote?

Susan Stenson: Yeah. It is but not entirely. Obviously if the culture is not what it should be and trust is damaged, that's most certainly a conversation the board should be having.

The whole premise of the board and the board functioning well is trust. The shareholders

trust or the investors trust the board to oversee the running of the company. The board trusts the management to run the company. The management trusts the board to challenge it and improve its decisions. The whole thing is premised on trust. Trust I feel, in general in the world, is damaged.

To keep trust alive and well and healthy in a board context has become more difficult and requires more open and direct conversations between the management and the board.

That's what I try to encourage, and that's conversations around when, as a board, do you expect us to escalate things? When, as a board, do you expect us to come with a decision? There are reserved matters lists and there's documented the board does this, the management does that, but there's a lot of nuance in between the two. And so having the conversations around what's your expectation, how do we meet that expectation, is just going to reinforce trust.

Again, it's a very simple thing. It's a very worthwhile thing because some of the incidences around trust that I've seen have been to do with reputation or social media or where something leaks out really fast and all of a sudden the whole world knows and the board doesn't know what happened there.

There is more potential for that trust to be damaged unknowingly and unwillingly, and therefore the direct conversations around expectations have become more important. So that's on the trust thing.

My quote about the conversations that boards aren't quite having, I had something a little bit different in mind. My experience is that it's a very human thing. Boards find it hard to have difficult and sensitive conversations. The ones that I have in mind in particular are around CEO succession, around remuneration policy—although, there is a kind of framework for that with remuneration committees but still the real nuts and bolts of remuneration—around do we know what it would take for our strategy to fail? Some of the really difficult conversations that the board should be having are not generally happening in the way that they should. How do you create an atmosphere where people feel not just able but almost obliged to put those things on the table in the boardroom as part of the overall oversight of an organization? And feel obliged to come up with some sort of an agreement as to how we're going to have that conversation in a real way that will be impactful in terms of the decisions that we make for the future?

That's what I mean about the conversations that are not quite happening. There is still an ick and a queasiness around certain conversations in the boardroom, and that's just not okay because they are the really consequential, impactful decisions, and there needs to be a better way to have them.

Barbara Mendes-Jorge: It's super interesting because it's almost like it's difficult to put the sensitivity and trust into practical practice, right? There are things that boards know need to be discussed but if it's not written down or if there is a lack of trust or that's just not so much in the company culture to talk about things so openly, then things can really escalate where there's no need to, right? You can put things in place to be able to have

those conversations.

Susan Stenson: Yeah. Part of it is trust, Barbara, and then part of it is this kind of, again, human reflex of we'll deal with that when it happens. So the CEO will tell us when she is intending to leave or we will see when the strategy's not quite working.

But actually you need to prepare for those things. As a board, you need to be looking around corners and you need to have an action plan for the eventualities. Not every but the eventualities for the key things that you're overseeing as a board.

CEO succession is one, strategy execution is another. And knowing what your key risks are and what the scenarios are around those key risks, I would say, is another. There are certain things that as a board it's not okay just to wait and see and to hope for the best. You need to have proactive conversations on them.

Barbara Mendes-Jorge: Great. Thank you. As a governance expert, I'd love to briefly hear your thoughts on evolving ESG legislation. I imagine you are very focused on the "G" part of ESG.

Susan Stenson: Yeah. Obviously we saw the Omnibus, was it one or two this year, which watered down a little bit on Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD), as it's known.

I was really curious to see how that would play out in boardrooms. I'm heartened by what I see, which is the kind of due diligence and disclosure requirements that had been in the old forms of the regulation have actually been incorporated into how organizations are operating and embraced as just a better way of doing business.

For the large part, I haven't seen a big move away in corporates from the original intent of the regulation and in some cases the actual old regulation. Now, we'll see at the next cycle of annual reports whether that plays out or not. But I do have a very strong sense that boards and executive teams understand that these things are the right thing to do and have incorporated them into just being good at business and I think that's great. There will obviously be some who are not quite there or who do it slightly differently but that for me is the overriding sense. I really hope that I see that continue played out next year.

Obviously just from a governance perspective, the EU revision of the Shareholders Rights Directive will be really important from a big corporate perspective. From a start-up and a scale-up perspective, the 28th regime, as it's been called in Europe—which will just make it easier to do business across borders—is going to be a really important development as well. Overall, all the measures that fall under that savings and investment union discussion are really important in terms of the competitiveness of corporate Europe and the capital markets in Europe.

I always watch those with interest with my old financial services hat on. I find the whole kind of supervisory piece very interesting as well. Plenty happening there to keep us

busy.

Barbara Mendes-Jorge: Absolutely. Thank you. To finish up our conversation, I usually like to ask guests to provide advice to our listeners. Could I ask you, what final piece of advice would you give to any companies, big or small, who are beginning the journey to critically analyze and strengthen their governance processes?

Susan Stenson: You've probably picked up, Barbara, I like to be really practical and keep it simple. So I will keep..

Barbara Mendes-Jorge: That's what we like to hear.

Susan Stenson: ...It simple, too. So first, I would say, is your board agenda really fit for purpose? Don't be afraid to shake it up. If it hasn't changed in the last three years, it's probably needing a bit of a dust down. That's my number one. Number two is, do you really understand the geopolitical impacts on your business and do you really understand and know enough about AI to know how it's going to impact your business?

If you don't understand either of these two things, just reach out and ask for help. Get training. Plenty of boards are doing it and it's absolutely vital. That whole thing of train yourself up, don't wait until an expert is brought in the form of a non-executive director. That would be my second one.

The third one is the thing we've all learned and that is equally applicable to boards. Expect the unexpected and expect plenty of change because it keeps coming. Join the dots on the risks of the organization. Think in terms of scenarios and do a crisis preparation exercise with your board.

Barbara Mendes-Jorge: Fantastic. Thank you very much for that wrap-up, Susan, and thank you for joining me today. Thanks to all of you for listening to C-Suite Perspectives. I'm Barbara Mendes-Jorge, and this series has been brought to you by The Conference Board.

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AUTHORS



Susan Stenson
Founder
Sustainable Boards



Bárbara Mendes-Jorge
Sustainability
Communications Expert

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