

# Old Game, New Rules

How boards of today are  
preparing for tomorrow

The Harvey Nash / Alumni Board Report 2017/18

In Partnership With **London Business School's Leadership Institute**

**Alumni**



**Leadership  
Institute**



# Introduction

Volatility and uncertainty appear to have become a steady state for organisations today. The vote for Brexit in the UK and the election of Donald Trump as US president are notable disruptions, but volatility – it seems – is everywhere. In Europe, Italian banks have needed bailouts, the Nordic countries are beset with high household debt ratios, despite topping the charts of some measures of success, and the French have been slow to regain their economic credibility. For Asia, the US withdrew from the Trans-Pacific Partnership and North Korea's ability to launch intercontinental ballistic missiles now holds a dark sway over its neighbours and the possibility of conflict. These are economies that are barely recovering from one crisis before having to deal with the next.

How are the governing boards of companies responding to this almost constant state of unprecedented flux? Are corporate leaders having

to forecast the unforecastable? Digital disruption, transformation and issues around cyber security have become business as usual, further accentuating the need for keeping pace with change. Without doubt, those who can discern emerging trends and act swiftly before their peers are better positioned to succeed in the current volatile global operating environment. The best antidotes to unpredictability are robust strategic planning processes that align leadership and stakeholders around a common view of alternative futures, creating the will to adapt with agility to the future that emerges. This will require continuously testing new initiatives, reappraising their effectiveness and changing them if necessary.

In this fourth annual research report from Harvey Nash/Alumni we have partnered with London Business School's Leadership Institute to investigate how boards are responding to this world of dramatic shifts and disruption.

## About the Respondents

Our quantitative research this year is more far-reaching, with a quarter more respondents this year (826) compared to last (650) and with contributions from chairs and non-executives from all across the globe. A panel of 50 experienced chairs and non-executives provided in-depth interviews for their qualitative insight.

We have more female perspective in this year's research than in last year's report: four in ten respondents are women compared with only a third last year. The age range of our serving board members continues to be broad but we have a similar proportion of 'younger' respondents (42 per cent aged 55 or under) in our survey compared to last year (44 per cent).

The profile of our board research respondents also shows a small broadening in the range of ethnicity, with fewer identifying as white – 88 per cent compared with 93 per cent last year.

A broad range of industry sectors continue to be represented from many geographies. This year, Financial Services, Technology and Manufacturing are particularly well represented. More than a third of our respondents this year have had tenures of less than five years; the majority hold only one board position but we also have a proportion of 'career non-executives' who hold seven or more roles.

## About Harvey Nash's / Alumni's Board Practice

Our global board practice (Alumni in the Nordic region and Harvey Nash in all other parts of the world) helps some of the world's most forward-thinking companies attract, assess and develop their board. We are experts at building rich, diverse teams and look beyond the norm to find the exceptional. We provide two key service offerings: evaluation – reviewing the effectiveness of existing boards; and recruitment – finding exceptional talent to add strength to the boardroom team. Find out more at [www.harveynash.com/board](http://www.harveynash.com/board) or [www.alumniglobal.com](http://www.alumniglobal.com)

## About London Business School's Leadership Institute

The mission of London Business School's Leadership Institute is to have a profound impact on the world through supporting the generation and application of path-breaking research on leadership. The Institute places the generation and curation of high-quality research at its core, creating multiple platforms to illustrate how evidence-based research can help inform effective leadership practice. Our research produces rigorous, independent thinking from a multi-disciplinary group of faculty to offer fresh perspectives on leadership.

[www.london.edu/leadershipinstitute](http://www.london.edu/leadershipinstitute)

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# Key Insights

## 4 The Changing Board

Non-executives are required to be more involved in delivery, and digital skills will be the most required specialist competency for non-executives over the next five years. Candidates who bring specialist expertise and experience of emergent technologies will be in high demand and short supply.

- Widen the talent search for non-executives
- Incorporate digital onto the risk agenda
- Clearly identify skills gaps in the boardroom



"Too many boards are focusing on the company's fiscal accounting instead of its management accounting and reporting.

The latter offers an opportunity to better understand and control the business."

*Sven-Christer Nilsson, Non-Executive Director, CEVA, Inc., Sweden*

## 6 What Makes a Good Chair?

Soft skills such as emotional intelligence, diplomacy and listening are rated as far more necessary qualities in an effective chair than the traditional traits of authority, industry experience and leadership. Fostering a supportive, listening culture in the boardroom ranks as the number one skill chairs should seek to develop. Chairs must:

- Model inclusive behaviours
- Be digital aware
- Strengthen bonds with principal executives



"Board members should be fearless when asking questions. Sometimes the most obvious questions are never asked."

*Matthew Jones, Chair, Strategy and Leadership Consultant and former CEO, UK*

## 8 Facing Up to Digitisation

Boards have an ever-increasing need to understand, anticipate and mitigate for disruptions beyond those of simple cyber security but also business transformations and technology spending.

- Recognise and plan for digital vulnerabilities
- Widen the search for digital talent
- Acknowledge that taking digital risks can bring great rewards



"This is a key strategic issue for every board. Boards do not necessarily need a digital expert but they need to be satisfied that expertise is in the company and be open about their level of knowledge and keen to understand the issues"

*Andrew Allner, Chair, Go-Ahead Group plc, UK*

## 10 The Inclusive Boardroom

Organisations need to think bigger and educate leaders to draw from the richness of perspectives that diversity brings. Diverse expertise can be found with the right approach to fostering development and well-connected executive search partnerships.

- Create an inclusive organisation, starting with the boardroom
- Acknowledge that demonstrating inclusion starts at the top
- Develop, retain and support diverse talent at all levels of the organisation



"Boards need to start from the ground up – we don't need to go around educating about why diversity is good, we need to take action to ensure diversity, and people will see the good results."

*Vimmi Singh, Vice Chair of the International Alumni Council at London Business School*

## 14 Measuring the Effectiveness of Boards

Boards have made no real commitment to broadening their reach to a wider pool of talent when it comes to new appointments since last year. They are also no more likely to conduct independent evaluations of their effectiveness.

- Seek talent beyond known networks
- Introduce board evaluation gradually
- Use mentoring and on-boarding to widen the talent pool of executives



"As a new non-executive, make sure you do an on-boarding programme. Watch and listen, then – in time – share your observations on what you see and hear."

*David Pyott, Professional Director, former Chair and CEO, Allergan Inc., UK*

# The Changing Board

**Key finding:** Non-executives will be more involved in delivery due to increased business demand and legislation. Digital skills will be the most required specialist competency for non-executives over the next five years.

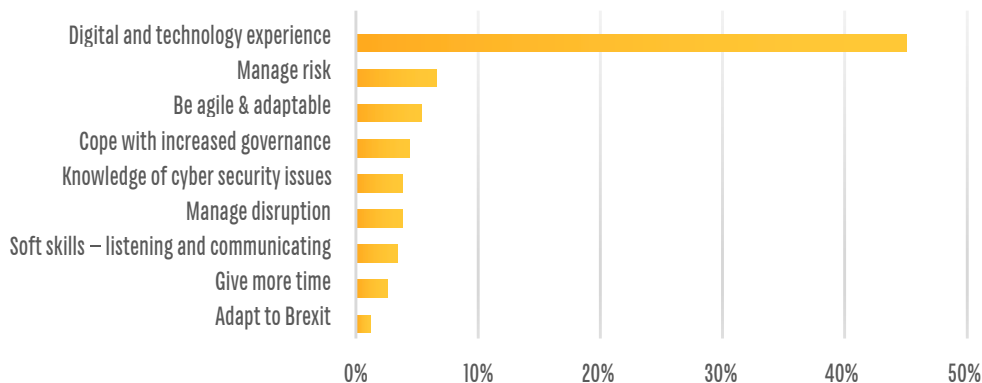
The skills required for non-executive directors are evolving in the face of a challenging business environment. There is an increased focus on tightening risk management procedures, managing corporate governance, complying with tighter regulations, increased public scrutiny and an uncertain geopolitical landscape threatening economies. Boards must navigate companies through these challenges and perhaps this is driving boards to be more involved in the delivery of strategy in addition to being responsible for its oversight? As the nature and the complexity of the issues shift, it is inevitable that the role of the non-executive will have to change too.

Digital is continuing to disrupt a wide range of functional areas across organisations and sectors, in some instances radically transforming them. Alongside digital transformations that require keen oversight in order

to not become costly mistakes, companies must now contend with the threats and risks related to cyber crime and compliance with data protection standards. Cyber security is moving relentlessly higher in terms of priority. Each new corporate or political breach of that internet security underlines the need not just for corporate vigilance, but also proactive action. In light of this, more focus is being placed on picking up non-executives with a strong suite of experience and training in technology.

Of the 480 board members who responded about where they thought non-executive behaviours and competencies would be shifting over the next five years, interestingly only 3 per cent of our respondents were from a digital background, but the frequency of their free text responses was overwhelmingly towards a need for in-depth digital knowledge.

## Non-executives with digital skills are in high demand



Looking to the next five years, which new behaviours, competencies or skills will non-executives need?

## View from Board Members



“In the tech sector the market moves so rapidly that non-executives are increasingly hands-on in strategic thinking, picking up on risk, the value proposition and the defensibility of the offering.”

**Simon Jones, Chair, Energy Market Intelligence, UK**



“If the CEO is doing a good job then non-executives can be more confident and hands-off. If there isn't evidence of action, recognition of risk or improvement

then non-executives need to become more interventionist and give advice.”  
**Maria Darby-Walker, Board Governor, University of Central Lancashire, UK**



“Too many boards are focusing on the company's fiscal accounting instead of its management accounting and reporting. The latter offers an opportunity to better understand

and control the business.”  
**Sven-Christer Nilsson, Non-Executive Director, CEVA, Inc., Sweden**



## Board members are required to advise and challenge executives



*How important are these roles that non-executives enact?*

However, the ideal digital non-executive director (D-NED) isn't simply a youthful entrepreneur with a flair for gadgets and tech but a seasoned business professional with a broad range of business skills combined with a deep understanding of how digital can transform, improve, disrupt and threaten in today's fast-paced commercial world. Furthermore, they must have the credibility to be able to upskill an entire board who are jointly and separately responsible. Our research shows that chief digital officers and D-NEDs are being appointed, taking the place of outside consultancies and experts in the boardroom to add real bottom-line value to the organisations they advise.

Non-executives need to be independent in order to stand up to dogmatic leaders on the executive team, balance competing interests and provide oversight without getting involved in the detail. However, the constant change, and speed at which businesses need to make agile strategic decisions, appears to be blurring the traditional lines between the non-executives and the executive team in terms of getting involved in execution as well as defining strategy.

Now, more than ever, the role of non-executives is important in growing successful organisations. The best non-executives bring experience, wisdom and strategic perspective. They sense-check big decisions, help avoid major mistakes, stand up for investors and provide counsel for the executive board. It would appear that the looming increases in accountability of the board, particularly for serious cyber breaches, economic performance and external scrutiny and governance, are also driving the board to be more involved in delivery as well as strategy. Almost three-quarters of our respondents (74 per cent) consider the constructive challenging of senior management to be a very important role for non-executives. More than three-quarters (76 per cent) also believe that it is important that the board members advise senior leaders on the executive team on their own areas of expertise. Our research shows that in general, as the size of the organisation grows, the need for hands-on advice decreases slightly. More than a third of family-owned (36 per cent) and partnership-based non-executives (38 per cent) give advice to their senior executives in their particular area of expertise but this falls to only 19 per cent for those working within PLCs.

## Harvey Nash / Alumni say

### Widen the Talent Search

The talent pool for digital non-executives has evolved. In the past it has been mainly composed of people from technology companies, but there are now more candidates with digital experience gained at traditional companies and subsequently with a broader spread of expertise. Does your board have the digital skills it needs now that technology is business as usual?

### Manage Digital Risk

A cyber security breach can have dire consequences for companies, including regulatory investigations, loss of intellectual property and financial risk from fraudulent transactions. Many boards only focus on cyber security once there has been a breach, which is clearly too late. Is your board reviewing cyber security with the robustness of the rest of the risk agenda?

### Clearly Identify Skills Gaps

Before considering a new appointment to the board, the chair should be clear about understanding the future strategic imperatives of the organisation. They will then be in a position to review the current strengths of the board, identify the skills gaps and appoint to meet this new requirement.

## London Business School's Leadership Institute says

In times of uncertainty, threat and change, people look for a strong leader and strong boards to guide them through rough waters, fear and the potential scarcity of resources. Being perceived as 'strong' is critical to being seen as a leader in the current climate, as well as to keeping the leadership role once you have it. What does it mean, though, to be perceived as 'strong'? If you ask stakeholders of all types about strong leadership, they will typically talk at a high level about a leader's character and competence. Some might even argue that they know a strong leader when they see one, but what does it mean for the board and the chair to exhibit the 'strength' people want to see? Research in organisational behaviour has, for decades, conducted research to determine what it means to be viewed as 'strong' enough to ascend to and succeed in the face of change. There are four signals a board needs to project: strong values, being robust in the face of challenge, acting with conviction once decisions are made, and – most importantly – being inclusive. Strong boards need to hear many points of view.

# What Makes a Good Chair?

**Key finding:** Soft skills, such as emotional intelligence and diplomacy, are rated as essential qualities for being an effective chair. Fostering a supportive culture in the boardroom ranks as the primary expertise chairs should seek to develop.

Last year's qualitative research from non-executives showed some strong opinions on chairs not being invested into bringing diversity into the boardroom as, in their opinion, it made chairing meetings and arriving at a consensus more difficult. Given that supporting diversity must be a key skill for an effective chair, this year we broadened our research in order to see what other key abilities and behaviours define a good chair.

A directorship, and particularly the position of chair, is a complex, almost distinct, profession which comes with clear expectations about competence, ethics and behaviours. All directors, whatever their age or level of experience, are bound by strict regulation and legislation, backed by severe penalties for the most serious transgressions. If you've chosen to dedicate valuable time to serving as a chair, you will have a requirement to refine certain skills and learn new ones. It can be difficult to figure out exactly which skills you should cultivate to make more impact in your company.

In order to identify the most essential skills chairs need in order to be successful, almost 500 non-executives and chairs answered our research question:

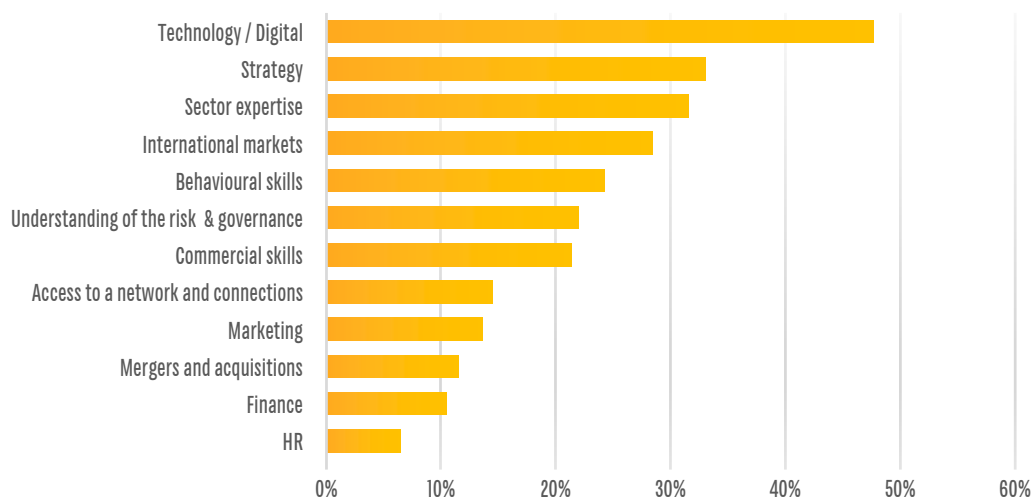
*"Which skills, behaviours or competencies do you consider are essential for a chair?"*

Unsurprisingly, there is not a 'one size fits all' prescription for what makes a great chair. Their level of

engagement with the company will vary considerably by organisation and where they are in the business cycle, but whatever the level of commitment required, our respondents made it clear that their time should be spent listening, not talking. The soft skills – emotional intelligence, supportive listening, empathy and fostering inclusive cultures – were viewed as more than twice as important as any of the more traditional chair skills of value creation and building strong relationships with investors and lenders. It could be that knowledge of governance, strategic thinking and leadership qualities have been taken as a given but it is equally likely that our respondents, with their vast wealth of board experience, have distilled the qualities of the effective chairs that they have encountered in their careers.

Our research also shows that an under-appreciated role for the chair is that of coach or mentor to the CEO. A great coach asks questions and helps identify different perspectives: they help see problems and solutions that may not have been identified and encourage the individual to look beyond the immediate horizon. This ensures actions are considered, thought through, not reactive and are strategically aligned. Chairs, therefore, should be good listeners, offering the CEO a sounding board to test their ideas and concerns.

## The competencies that are desirable for improving capability



*Which competencies would you wish to add to the board to improve your capability and meet future strategic demands?*

"Be strategic rather than tactical, build partnerships and engage with the business."

"Be comfortable about knowing what you don't know."

"Listening and summarising, getting a feel for the conversation, challenging the whole board."

"Excellent influencing and persuasion skills; ability to get key questions identified, asked and answered."

"Listen. Be wrong, say 'I don't know', drop the ego, have confidence without being brash."

"Regulation/risk/governance expertise, and access to network and connections."

"Take into account both executive and non-executive directors' experience and opinions. Be provocative."

"Clarity of mission and vision, the ability to square sometimes competing views on strategy and performance between board, shareholder and management team."

"Create a free and open conversation in the boardroom."

"Develop a robust working relationship with the CEO."

"Ability to deal with change and challenge. Commitment to doing business the right way and providing clear board leadership on culture, values and behaviours."

## Harvey Nash / Alumni say

### Model Inclusive Behaviours

Are you inclusive when it comes to diverse thinking? Many boards have failed in the past due to their inability to overcome 'group think'. One of the key purposes of a chair is to introduce a range of perspectives into the boardroom and allow fresh ideas, opinions and quieter voices to be heard.

### Be Digital Aware

Is your board fit for purpose in a fast-changing digital world? As chair, you may need to increase diversity in terms of age and technical expertise. This may mean accepting that moving slowly is no longer the safe option.

### Strengthen Executive Bonds

Are you listening to your CEO? A robust and effective relationship with the CEO will allow you to coach and mentor them, in order to make your relationship supportive but challenging. A good relationship at this level filters down through the board and the executive team.

## London Business School's Leadership Institute says

In these times of uncertainty and change, people look for strong leaders. But don't mistake strong leadership for authoritarianism. If you ask most employees about being perceived as a 'strong' leader, they will emphasise the need to have a clear point of view and solutions for pressing problems. But does having a strong point of view necessarily exclude listening to and encouraging other points of view? Traditional notions of leadership confound these two ideas – a leader who has a point of view is typically assumed to be actively excluding other perspectives. And the leader who listens is assumed to not have a point of view of their own. Professor Randall Peterson's research (1997)\* looks at this confusion and shows that having a point of view and being inclusive are two different sets of activities. Leaders can be outcome directive (i.e. have a preferred solution), for example, and also be process directive (i.e. actively gathering alternative views) at the same time. The best outcomes happen when the leader is strong on process, regardless of whether they have a point of view. In short, research shows that an effective chair listens, above all else.

\*Peterson, R. S. (1997). A directive leadership style in group decision making is both virtue and vice: Evidence from elite and experimental groups. *Journal of Personality and Social Psychology*, 72, 1107-1121. doi 10.1037/0022-3514.72.5.1107.

# Facing Up to Digitisation

**Key finding:** Boards have an ever-increasing need to understand, anticipate and mitigate for disruptions beyond simple cyber security. Boards are more likely to look internally for digital answers than to external experts.

Digital is still shaking up boards with its all-pervasive creep into the way business is conducted. It can be a powerful force for driving performance. Technology oversight is now another responsibility for boards that wish to enhance long-term business growth. Increased opportunity brings increased threat, and this year's high-profile cyber security breaches highlight how the financial burden of a simple software upgrade can lead to vulnerabilities. In June, a virus exploded across the world. It caused serious disruption at firms including the advertising giant WPP, French construction materials company Saint-Gobain, and Russian steel and oil firms Evraz and Rosneft. It shut down computers, affected banks, closed hospitals in the UK and brought operations at a Cadbury's factory in Australia to a standstill.

A greater number of non-executives are aware of the disruptive nature of digital than ever before. Of our

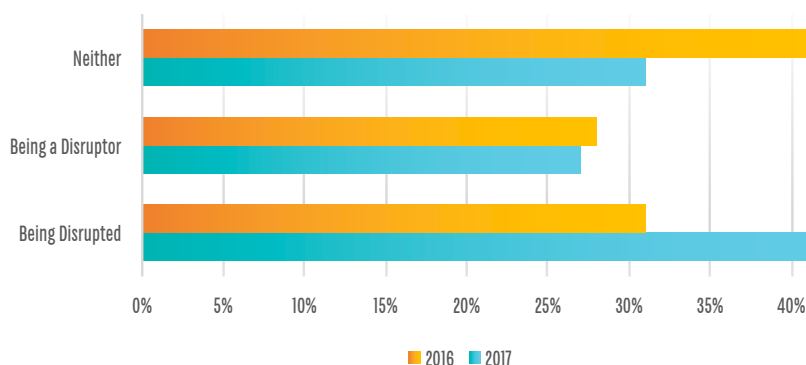
respondents, 41 per cent believe that their organisations are being disrupted compared to 31 per cent in our previous survey, and the swing is entirely from those organisations that felt they were neither being disrupted nor a disruptor. This highlights the pace of change and the seriousness of the threat landscape.

Just over half (58 per cent) of our respondents feel that they have the correct skills in place to drive digital transformation. Just over a quarter (27 per cent) consider their companies active disruptors within their industry sectors.

Respondents recognised that digital expertise is largely vested in young people and that older board members may need to set aside usual patterns of thinking or learn more about the threats and opportunities that digital brings. Non-executives must be digital savvy.

Our previous year's research highlighted the

## More disruption from digital is acknowledged by board members



*How is the digital landscape challenging you?*

## View from Board Members



"Technology offers a tremendous opportunity to improve customer experience and we want to be at the forefront of making that happen.

Increasingly rapid digital changes coupled with a blurring of industry lines require us to foster a culture that allows greater agility and speed of decision-making. The CEO and leadership team must be a good cultural fit for this to happen."

**Andrew Byrne, Chair and CEO Asia, Aegon, Hong Kong**



"It is important that boards put effort into defining their digital strategy. Should the company be an early leader or should they follow others?"

Also important is to identify the risks involved. Great opportunities can be missed if digital disruption is not managed effectively."

**Karin Moberg, Founder and Managing Director, FriendsOfAdam, Sweden**



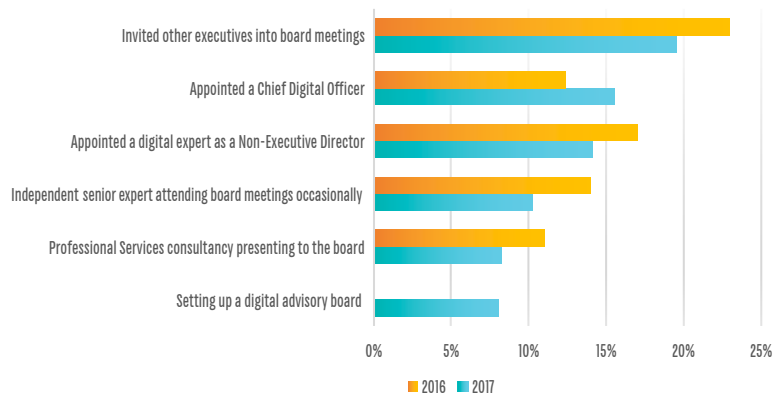
"Boards need to push their companies to look at a multi-layered approach to digital, investing in innovation centres, sponsoring research projects with local universities, silicon-valley study trips including the

board, and tech-hub engagement. Boards need to be more outwardly focused in response to the international business landscape. Putting the right management in place will attract talent in a globally competitive market."

**Gail Pemberton, Chair, Melbourne IT Group and Onevue Holdings, Australia**



## The appointment of chief digital officers has increased



*What has been the most effective approach your board has implemented to manage digital?*

importance of ownership for digital being spread across board members and not relinquishing responsibility solely to the member with digital experience. This year shows that respondents still haven't found one solution that solves the issue of managing digital, but definitively shows they are less likely to be inviting external digital experts from outside the organisation into the boardroom. This is probably a wise change of strategy, given that outsourcing approaches can frequently lack accountability and misjudge an organisation's competencies, but could also lead to a further challenge in ensuring that there is leading-edge thinking. Our research shows that the most popular approach to reaching across the digital divide is an internal appointment. Fifteen per cent of respondents have appointed a chief digital officer and 14 per cent have appointed a non-executive digital expert (D-NED). Most boards remain concerned with what digital can achieve for the organisation and not how it works. There is a need to focus on the operational importance of technology in respect of growth, revenue, market differentiation and risk mitigation.

When asked about the blocks that exist on digital transformation, more than half of Technology and Telecoms respondents (51 per cent) said that there were none. This feeling was echoed to a lesser extent in the Energy and Property sectors. Nearly half (48 per cent) of Government and Charity (47 per cent) focused respondents reported that a lack of technical skills was their biggest barrier and so too did Business Services (44 per cent), where skills might initially appear to be more accessible. Our research shows that financial constraints stifle digital transformation in the Healthcare (54 per cent) and Education (53 per cent) sectors but are also seen as a limiter for the Advertising industry (67 per cent), which is surprising given the importance and growth of digital marketing and social media. Board members representing Nordic organisations rate a lack of urgency as their biggest block (34 per cent), the UK feels the pain of financial constraints (34 per cent) and Europeans cite a lack of skills (28 per cent) as their major barrier.

Our panel highlighted in their qualitative interviews that the digital journey is now a constant for their boards; some respondents even had it as a permanent point on the agenda. Risk has always been a hot topic but the new landscape of risk and opportunity associated with technology innovation looks set to be firmly embedded as a governance issue for all of our respondents. In the words of Ola Erics, Chair of Midsona AB, "Having a digital strategy is a nonsense but a strategy for a digital world is crucial."

## Harvey Nash / Alumni say

### Recognise Digital Vulnerability

Boards need to get familiar with the technology threat landscape – not only from disruption but also the vulnerabilities of their critical data and applications. How quickly could they be recovered in the event of corruption or destruction through technology failure?

### Seek Out Digital Talent

How successful is your organisation at recruiting and developing the digital expertise it needs to succeed? Do you need to diversify your approach to building a talent pipeline by working with business partners to recruit the skilled resources you need?

### Taking Digital Risks Can Bring Rewards

How well does your board truly understand what technology means for your company in terms of risk and reward? Is there sufficient digital expertise at board level given that digital is now so pervasive as to be business as usual. If there isn't then how do you plan to on-board that skillset?

## London Business School's Leadership Institute says

Becoming digitally literate is no longer a specialist topic. It is for everyone now. Gone are the days when digital was a nice addition to the business; for most organisations, it IS their business. The same applies in the boardroom now. Rather than seeking specialist help for digital, everyone needs to understand how digital affects their business and their responsibilities on the board. Research by Professors Amanda Ferguson and Randall Peterson shows that the best way to get digital effectively embedded in the organisation is to invite experts into the boardroom, rather than sending individuals out to learn. That could mean adding experts to your board, but it is more likely to mean bringing experts into your discussions on a regular basis.



# The Inclusive Boardroom

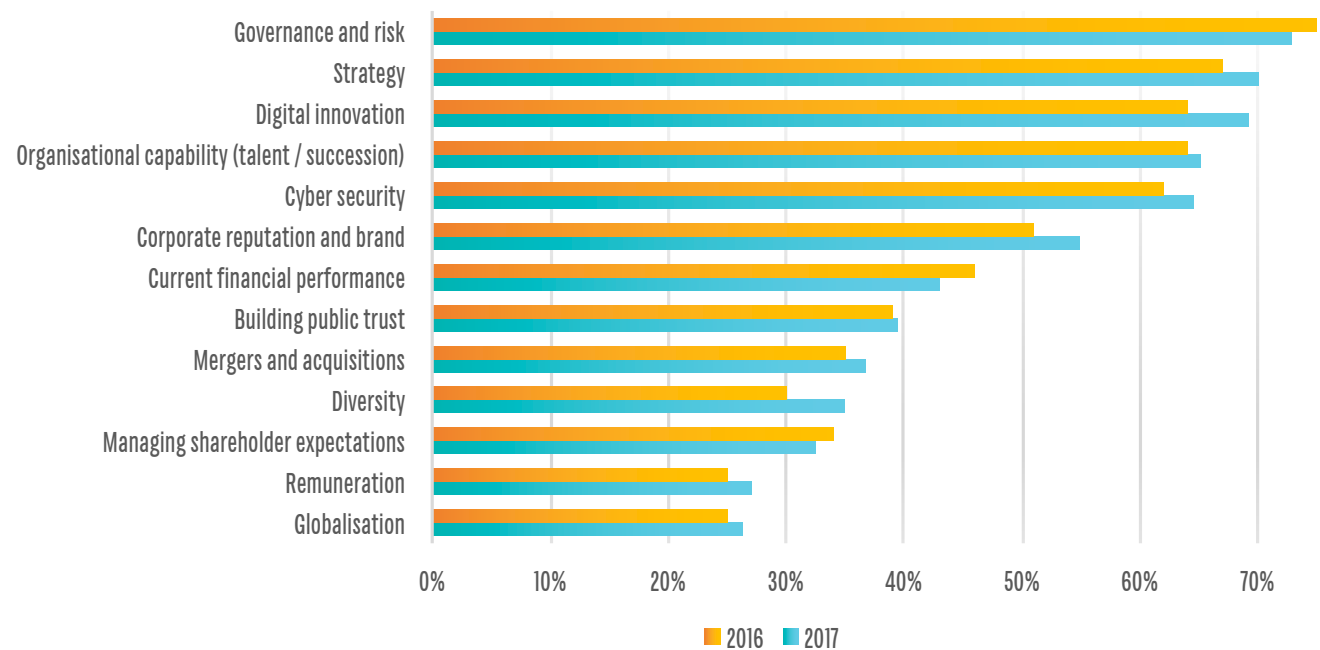
**Key finding:** Functional diversity is taking precedence over diversity by protected characteristics such as gender and ethnicity. Diverse expertise can be found through fostering development and executive search partnerships.

Diversity – the measuring and reporting of protected characteristics – and inclusion – the culture, practices and behaviours that support diversity – appears to be no longer a peripheral issue for organisations. This year the British Standards Institute launched recommendations on diversity and Intel, IBM and Pfizer promised to invest \$300m in women-led businesses. In a bold move, Deloitte US stepped away from diversity groups for minority employees and is creating ‘inclusion councils’ to draw

more of their employee majority into the discourse.

Half of our respondents felt that diversity on the board itself was a concern but there is increasing recognition that diversity can help drive exceptional business results. More men on boards (45 per cent) appear concerned about diversity compared to last year (40 per cent). Our qualitative research shows that boards are significantly concerned about the pipeline of available diverse candidates. They are looking at appointing from other

## Boards discuss diversity more than last year



To what extent do you discuss the following more in board meetings compared to 3-5 years ago?

## View from Board Members

industries where applicants may bring fresh perspectives. Contributors highlighted that there was a dilemma between appointing to deliver on targets of characteristics such as gender and ethnicity, as opposed to appointing purely on the expertise required. If diversity isn't within the executive team, it may be because the talent isn't there. In such instances, boards may be preventing diversity from being successful by not looking in the right places or working with the right executive search team that has connectivity and inclusive practices in place.

Last year our report, 'The Ethnicity Gap', showed minority ethnic leaders believe that executive teams are not currently supporting ethnic diversity. Our research this year shows that diversity has been the topic pushed the furthest up boardroom agendas, with 34 per cent discussing it this year compared with 30 per cent in 2016. The types of diversity being pursued show interesting changes over the past year.



"I believe that diversity is a critical aspect of board constitutions today. In India there is a mandatory requirement to have at least one woman director on the board of public

listed companies. In today's competitive and dynamic world where digital transformation is in play, it is beneficial for boards to bring in people from varied backgrounds who can think differently and challenge existing views."

**Rajesh Narasimhan, Non-Executive Independent Director, TVS Motor Company, Singapore**



"The characteristics we seek in a candidate's skillset override the priority of diversity quotas. It is always about putting together the best team. If experience from a

specific ethnicity or sexual orientation is beneficial to the business then it becomes important."

**Viveka Ekberg, Chair and Director of listed and private companies, Sweden**



"All kinds of diversity should be included and no diversity is more important than another. The battle against gender discrimination has just started and it

may be too soon for LGBT, as people don't know how to talk about LGBT. But it should nevertheless be just as much on the [diversity] agenda."

**Charlotte Valeur, Governor and Director, University of Westminster, UK**



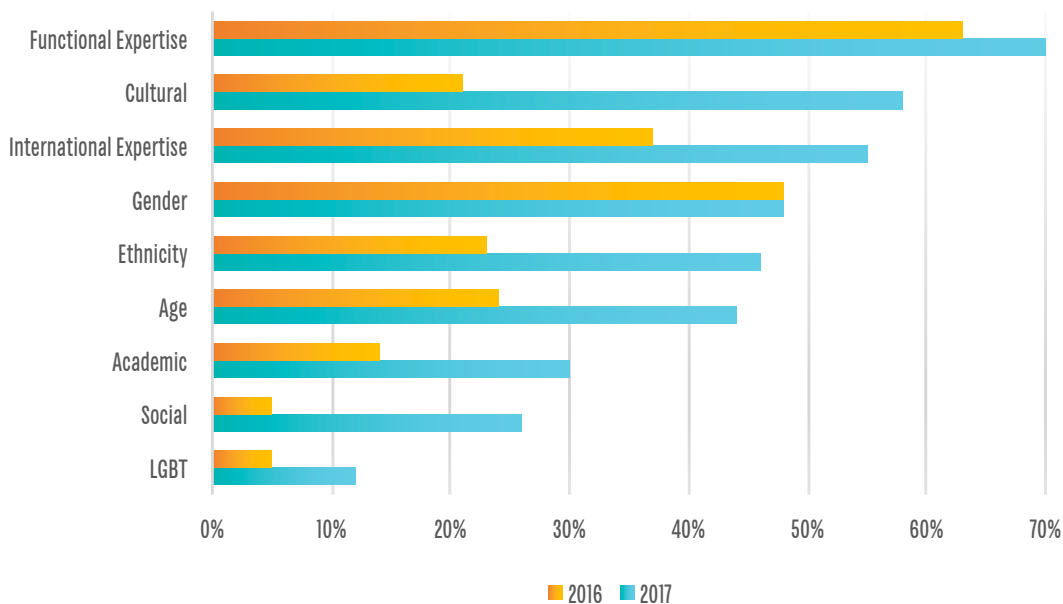
# The Inclusive Boardroom *continued*

Nearly all types of diversity have seen an upswing in their considered importance. Gender diversity remains unchanged from last year at 48 per cent. Seeking out social diversity is much greater than last year (26 per cent compared to 5 per cent in 2016). This could be because many respondents see social diversity intrinsically linked to ethnicity. There have been high-profile reports on ethnicity recently and a growing media focus that is prompting boards to take notice. Diversity in culture (58 per cent compared to 21 per cent last year) has also

shown growth, perhaps due to the uncertainty of the current geopolitical landscape as well as increasing global migration.

Whilst there is global momentum to increase the presence of women on boards, APAC companies are being left behind in moving women into leadership roles. Of the APAC countries we surveyed, our Australian respondents were the most concerned with gender diversity at 72 per cent. According to a recent report by Corporate Women Directors International, women hold

## Boards discuss a broader range of diversity characteristics




*What types of diversity are being pursued in your organisation?*

## London Business School's Leadership Institute says

Getting the right people around the boardroom table is a serious challenge, but is actually only the starting line for becoming an inclusive board. Research by Professor Aneeta Rattan and PhD student Oriane Georgea clearly shows that to gain from diversity, everyone needs to feel they belong, including, and especially, those who have not traditionally been represented in the boardroom. Think about a time you were sitting in the room, but did not feel fully included, when you questioned whether you really

belonged there – perhaps because you were new, perhaps when the rest of the group seemed so much more qualified than you, perhaps you simply did not know what the rules of engagement were. That is what happens to almost all of us when we join our first board. And is particularly acute for those who are different from most of the people in the room. What do you do to make those people feel they belong in the room?





only 12.5 per cent of seats on the boards of Asia's largest public companies. Encouragingly, women's share of board seats in Singapore listed companies has breached the 10 per cent mark for the first time, a small increase from 9 per cent in 2016, according to the Diversity Action Committee (DAC), but falling short of their 20 per cent target.

It appears that it is no longer enough to hire people of different nationalities, genders and sexual orientations – everyone needs to feel like they are included, free to express themselves and can see how their efforts contribute to achieving the organisation's goals. Diversity of sexuality is certainly more high profile now than ever, but our respondents remain uncertain about how to address it as a topic. Developing inclusion for this group is more of a concern than counting their numbers. Few respondents consider LGBT diversity a boardroom issue (12 per cent) but this more than doubles its importance compared with 2016 where only 5 per cent were discussing it more in the boardroom. Openly promoting LGBT values remains difficult in APAC regions. A large Muslim organisation, Perkasa, in Malaysia recently joined its counterpart in Indonesia, Muhammadiyah, in a call to boycott giant coffee chain Starbucks over its support for LGBT rights.

Inclusion ensures that all employees are connected with equal opportunity. According to research by the Confederation of British Industry, when people are comfortable and can express themselves freely they are more likely to perform better.

## Harvey Nash / Alumni say

### Creating an Inclusive Workplace

Equality and diversity can bring with them many challenges, so to promote workplace inclusion, you need to consider how your staff will work together as policies alone are not enough. At its best, inclusion fosters a sense of belonging and increases engagement and allows for the organisation to tap into a more extensive talent pool.

### Inclusion Starts at the Top

Since McKinsey & Co published their study 'Diversity Matters' in 2015, it is recognised that companies with broad diversity experience above-average financial returns. Leaders should strive to create an atmosphere where multiple voices are heard, and opinions are valued both in the boardroom and throughout the organisation. Is your board listening?

### Retaining & Supporting Diverse Talent

Many organisations now have a plan in place to recruit a diverse workforce but how many are looking at retention programmes? Diversity needs to be nurtured through inclusive practices to produce the results it is capable of. How does your organisation plan to give diverse employees a sense of belonging that will stop them jumping ship?



# Measuring the Effectiveness of Boards

**Key finding:** Boards have made no real commitment to broadening their reach to a wider pool of talent when it comes to appointments. They are also no more likely to conduct evaluations of their effectiveness.

An effective board guides and challenges leaders on the executive team and promotes its collective vision for the organisation, including the cultures, values and behaviours it wishes to promote, whilst working within any legislative or regulatory frameworks required. The board's primary function is to monitor the performance of the company and provide advice on strategic issues. A board's effectiveness in these functions depends on, among other things, directors' company-specific and industry knowledge which increases with their tenure and hence equips them to ask the right questions and appropriately challenge executives on strategic issues.

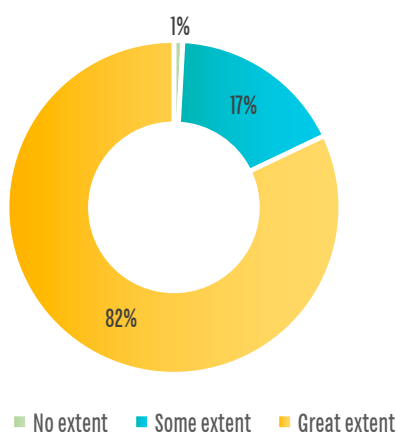
Scandals in high-profile companies hitting the news over the last two years have done little to show boards of directors in a good light, demonstrating failures in corporate responsibility. Their examples should give cause for thought to directors and employees of all

companies guided by a board, as well as the customers of such organisations.

Our research shows that board members recognise that ineffectiveness in the boardroom comes at a great cost to the business, be it social, environmental or financial. The overwhelming majority of our respondents (82 per cent) recognise this fact with only 1 per cent believing it has no effect. So what steps are boards taking to improve their effectiveness?

The appointment and selection process, applied to new and successive board members, is key to getting the correct profile and skillsets required to achieve the necessary diversity to drive board effectiveness. Our research shows an encouraging trend towards more rigorous assessment of candidates, with 62 per cent of our respondents having been through a formal assessment process, up from 57 per cent last year. However, the talent

## Ineffective boards have a cost to the business



To what extent do you think that an ineffective board has a cost to the business?

## View from Board Members



"It is important to have a robust recruitment process to select people with the right qualities for board positions. Organisations need to be clear about what they are

recruiting for and why. It is important to do a gap analysis before hiring."

**Alison Chappell, Non-Executive Director, Elexon plc, UK**



"Most non-executives are not trained on how to perform their role effectively. Detailed, structured on-boarding and external training will allow them

to transition and learn the skills that are necessary when moving from an executive position."

**Frank Bennett, FRSA, Non-Executive Director and Board Adviser, UK**

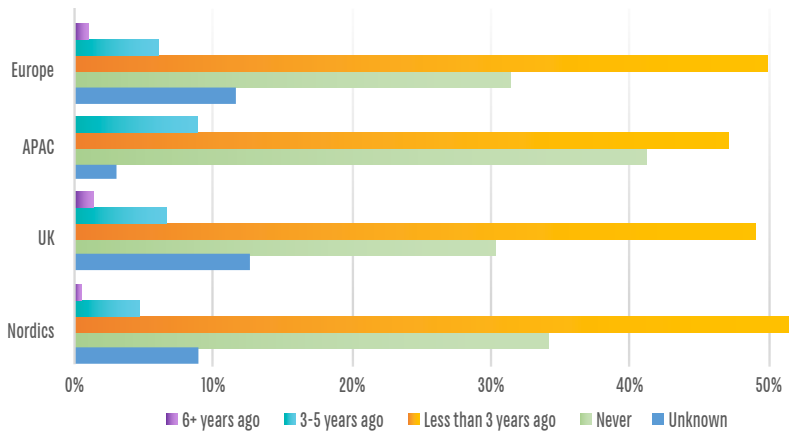


"Greater consideration should be given to the legal responsibilities of board members and the potential penalties that failures in governance might lead to. This would

serve to increase boards' focus and commitment to becoming more effective within the business."

**Zarina Naqvi, Director, Maxima Associates, UK**

## More boards are subject to evaluation



*When was the last time an external board evaluation was conducted on your board?*

pool is increasingly being limited to candidates already known to the organisation (59 per cent) in comparison with last year (57 per cent). This would suggest that companies are not doing enough to seek out untapped talent and are falling back on networking as a means of bridging the gaps – a strategy that may not enable them to be the best that they can be.

As we have promoted in previous years' research, an effective board should welcome evaluation of how well it is performing as part of its commitment to continuous improvement and best practice. All boards, and their committees, can benefit from properly conducted evaluations that contribute significantly to performance improvements for the organisation, the collective board and individual directors.

Our research shows that, whilst the percentage of companies that have never had a board evaluation remains unacceptably high, there has been encouraging momentum for organisations across the regions analysed for more recent evaluations. Our research this year shows that half of board members surveyed had been subject to evaluation in the last three years. The Nordic respondents were slightly ahead of the curve at 52 per cent and APAC boards behind at 47 per cent. Across all regions, the percentage of boards that have been evaluated at one time or another stands unchanged since 2016 at just over half (57 per cent). Only around a third of private (34 per cent) and family-owned businesses (30 per cent) have committed to board evaluation, and public sector (64 per cent) and PLCs (58 per cent) are twice as likely to comply with recommendations.

One of the main goals of board evaluation is to enable boards to purposefully identify and surmount the barriers that impede their effectiveness; when completed properly they can identify areas of strength and weakness, leading organisations to make changes that positively impact performance and shareholder value. Done well they can provide independent and impartial advice, objectivity and rigour, especially if facilitated externally. Establishing an effective process for board evaluation can also send a positive signal to the organisation that board members are committed to doing their best. Unfortunately, our research shows that a large proportion of our respondents' companies are still not submitting themselves to best-practice independent board performance evaluations (32 per cent).

For those boards that are being evaluated, the majority (42 per cent) are using a specialist provider and a further 23 per cent use an independent consultant. Least popular providers are accountancy firms (8 per cent).

## Harvey Nash / Alumni say

### Seek Talent Beyond Known Networks

Are you building a talent pipeline from the broadest and most diverse candidate pool possible? Or are you falling back on networking and pulling up through the ranks? Broadening your search could help considerably in finding a non-executive with the correct fit of skills and diversity necessary to improve the effectiveness of your board.

### Introduce Evaluation Slowly

Many boards perceive evaluations as remedial and disruptive. However, evaluation can be implemented using a phased approach to gain its acceptance as an exercise in continuous improvement. This approach may start with someone facilitating board discussions before moving on to interview and feedback processes. Once the concept is embraced, robust evaluation can be implemented through an external provider.

### Effective On-Boarding Widens the Talent Pool

Boards should be bold when seeking out new appointments. They shouldn't just consider familiar networks. They could perhaps look at appointing a talented executive director with the aptitude to be a non-executive and ensure a thorough on-boarding and comprehensive development programme to make them comfortable and effective in their new role.

## London Business School's Leadership Institute says

It seems obvious to say, but the effectiveness of an organisation is typically dependent on the effectiveness of its board. Our respondents agree overwhelmingly with that sentiment in this research. So we followed with an open-ended question about how an ineffective board might affect the organisation, and the top three themes were: 1) reputational damage to the whole organisation, 2) poor strategy, and 3) financial inefficiency as a result of ineffective oversight. All of this is confirmed in research (Peterson et al., 1998)\* showing the clear linkage between the quality of group process and outcomes for all types of groups, from simple work teams, to consulting engagement teams, to boards. Get the process right, and the outcomes are highly likely to be good.

\*Peterson, R. S., Owens, P. D., Tetlock, P. E., Fan, E. & Martorana, P. (1998). Group dynamics in top management teams: Groupthink, vigilance and alternative models of organizational failure and success. *Organizational Behavior and Human Decision Processes*, 73, 272-305. doi 10.1006/obhd.1998.2763.

# Spotlight on UK

As if terror attacks, a general election with a surprise result, and a devastating tower block fire in London were not enough, this year the UK government is tasked with brokering an exit from the EU at the same time that its economy is faltering and economic growth figures almost flatlining. Despite rising inflation and a falling pound, the European Chamber ranked the UK fifth in their report 'Best European Countries for Business 2017', based on their annual report into business environments considering both short- and long-term elements.

## About the Respondents

Of our UK respondents just over half (53 per cent) hold non-executive positions, 11 per cent act as chairs and nearly a third (29 per cent) perform both roles; a further 7 per cent defined themselves as holding 'other roles' including ex-board members, company secretaries and board advisers. Boardroom duties are most likely to be a career choice for the UK with only a third (31 per cent) also having a full-time position in addition to their board role(s). The UK respondents indicate a somewhat ageing board; the under-45s were the least well represented of any geography at only 5 per cent and a fifth were aged over 66. Just over a third of respondents were female (34 per cent).

The UK respondents feel that their most important role on the board is to debate the strategy of their organisation (86 per cent).

## Their Appointment

Networking remains popular in the UK, with more than half of our respondents already known to the board prior to their appointment. The UK is the region most likely to formally assess its candidates, with 71 per cent having undergone a thorough assessment process. Of these, more than a fifth consider that they underwent a very rigorous assessment.

## On Diversity & Inclusion

A recent report from the Chartered Management Institute (CMI) and the British Academy of Management finds that only half of FTSE 100 leaders are seen to be actively championing greater diversity in their companies. Less than half of UK respondents (44 per cent) consider diversity a concern. For those that do feel there is need to increase diversity the top three areas they prioritise are: functional expertise (68 per cent), ethnicity (59 per cent) and cultural diversity (57 per cent), being sensitive to behavioural cultural differences.

When asked how their organisation publicly makes the case to promote demographic diversity, the majority focus on the moral and fairness aspects of diversity, in terms of offering equal opportunities and inclusion to all (44 per cent), as opposed to the business case, which focuses on the benefits of diversity for organisations' bottom line, including financial performance, creative thinking and problem solving (40 per cent).

## Hot Topics for the Board

Unsurprisingly, given the fragile status quo of the UK economy, UK boards are the most likely to be talking more about governance and risk (75 per cent). They are also focusing inwards and the least likely to be talking about globalisation (21 per cent). Financial performance is higher up their agenda than our other surveyed

## View from Board Members



"If you were to analyse the boards of today, except for finance, they will not be overly representative of functional skills when for most companies technology and

personnel are particularly important. So, there would be no problem finding someone to chair a finance committee but if there was a need for someone to chair a technology committee, it may well have to be somebody who lacks the relevant experience."

**Lorraine Baldry OBE, Chair, London & Continental Railways Ltd, UK**



"There needs to be a deeper understanding at board level of just how important consumers are: particularly given the exponential rise of social media and

how this can be used to directly tap into the customer base."

**Dr Chris Masters CBE, FRSE, Non-Executive Director, UK**




"I am amazed at the number of companies that are not considering digital disruption. What is the digital opportunity for your business? If there isn't one, then what

is the digital threat? You need to keep a close eye on what your competitors are doing."

**Michael Stevens, Chair, Stratophase Ltd, UK**





geographies (48 per cent) and they are the least likely to be considering mergers and acquisitions at this time (31 per cent).

### Board Efficiency

Less than half (49 per cent) of our UK board members have been subject to a board evaluation in the last three years. Almost a third (30 per cent) have never had one. Board evaluations are mostly undertaken by a specialist provider (41 per cent).

Our UK respondents feel that their boards would benefit from more digital skills (43 per cent), strategy skills (33 per cent) and soft behavioural skills such as emotional intelligence, influencing skills and judgement (31 per cent). Luckily a large majority (70 per cent) are satisfied with the pool of talent being offered for non-executive roles.

### Good Business

We define 'good business' as an over-arching term for a commercial entity also taking responsibility for having a positive impact on broader society. Almost all of our UK board members (94 per cent) feel that doing 'good business' should be on the boardroom agenda. Their reasoning is that it is 'the right thing to do' (71 per cent) and that it increases employee engagement and brand reputation (70 per cent). More than two-thirds (78 per cent) believe shareholders are demanding it from organisations and their boards. In terms of what constitutes good business, our UK respondents believe that transparent reporting and anti-bribery policies are key (92 per cent), followed by having robust whistleblowing policies in place (87 per cent). Fewer than a quarter believe that having worker representation on the board is good business.

### Digital Transformation

The digital sector is one of the most dynamic and innovative elements of the economy of the UK. More than a third (38 per cent) of our UK respondents believe that they are facing digital disruption within their organisation. More than half (57 per cent) believe that they already have the right skills on the board to manage digital transformation; this contrasts with almost a third (30 per cent) of respondents who feel that a lack of technical skills is a significant block to the process.



# Spotlight on APAC

The Asian Development Bank recently raised its growth outlook for the Asia-Pacific region based on stronger than expected export demand in the first quarter of 2017. This is despite the US withdrawing from the Trans-Pacific Partnership. Although there were fears that this might spell the end for the initiative other leaders are committed to trying to salvage the deal, meaning that organisations might be feeling more confident about their future. There is an unusual trend in the Australian economy where business confidence is strong but ordinary people are feeling under financial pressure from rising costs. This is largely due to a simple reality: companies are making solid profits but people's wages are going nowhere.

## About the Respondents

Of our APAC respondents more than half (58 per cent) were non-executives and almost four in ten (38 per cent) hold chair positions as well as non-executive roles. More than half hold a full-time position in addition to their board role(s). The ages represented were reasonably well spread with 8 per cent under 45 and 8 per cent over 66. More than a third (36 per cent) were female.

APAC respondents feel that their most important role on the board is to monitor organisational performance (82 per cent).

## Their Appointment

This geography is the most likely to use networks to appoint new board members, with a staggering 86 per cent already known to the board at the time of their appointment. Only half were formally assessed as part of the hiring process and of those, just over one in ten (11 per cent) consider that their assessment was very rigorous.

## On Diversity & Inclusion

Our APAC board members are the least likely of all our geographies to be concerned with diversity (31 per cent). This is in direct contrast to the fact that more than half

(56 per cent) of respondents say that they are talking more about diversity in the boardroom. There is an outward-looking theme in the top three areas of diversity that they feel they could do with more of: cultural diversity (70 per cent), functional expertise (72 per cent) and international skills (58 per cent).

When asked how their organisation publicly makes the case to promote demographic diversity, only a small minority focus on the moral and fairness aspects of diversity, in terms of offering equal opportunities and inclusion to all (19 per cent), with exactly half (50 per cent) using the business case, which focuses on the benefits of diversity for organisations' bottom line, including financial performance, creative thinking and problem solving.

## Hot Topics for the Board

When it comes to the subjects that are dominating the boardroom agenda, our APAC respondents are the most likely to be talking about cyber security (71 per cent), putting it ahead of digital innovation (69 per cent). They are least likely to be talking about governance and risk (67 per cent) and building public trust (33 per cent).

## View from Board Members



"Increasingly the board has a role in ensuring that the business upholds a culture and set of values that form the 'licence' to operate in the community. [We are] seeing

a growing number of examples where businesses have operated outside the community's accepted standards, either in culture or treatment of employees, and are now paying the price of community backlash and significant impact on shareholder value."

**Andrew Byrne, Chair and CEO Asia, Aegon, Hong Kong**



"Strategy needs to be more agile and as such boards need to have more oversight of strategy execution. It is not so much three to five year plans, it is more iterative, constantly

assessing the forces of change ... do we need to refine, adjust or reprioritise?"  
**Gail Pemberton, Chair, Melbourne IT Group and Onevue Holdings, Australia**



"Digital transformation put simply is business transformation supported by technology and enabled by data."  
**William Payne, CIO, Boral, Australia**

## Board Efficiency

With no significant movement from last year's survey, just under half (47 per cent) of our respondents are aware of a board evaluation having been conducted in the last three years. Our responding APAC board members are the most likely, of all the geographies, to have never had a board evaluation at all (41 per cent). Where board evaluations are conducted less than half (45 per cent) have used a specialist provider to deliver the evaluation.

The top three competencies being sought by our APAC boards in order to increase their effectiveness are: digital expertise (56 per cent), networking and connections (33 per cent) and strategy skills (29 per cent). More than half of respondents (55 per cent) are satisfied with the pool of talent they are being offered for non-executive roles.

## Good Business

All of our APAC respondents believe that good business should be on the boardroom agenda. They believe that the prime drivers for doing good business are increasing employee engagement and improving brand reputation (79 per cent), increasing profitability (68 per cent) and because it is 'the right thing to do' (68 per cent).

The vast majority of respondents (88 per cent) feel that their shareholders demand good business from themselves and the organisation. They feel that the most important elements for achieving good business are transparency of reporting and anti-bribery policies (100 per cent), having a diverse board (85 per cent) and diverse executives (82 per cent).

## Digital Transformation

Apple announced in July that it will open a data centre in China. This is a first-of-its-kind action by a major United States tech company since the passage in June 2017 of strict new Chinese digital commerce regulations. They require foreign companies with operations in China to store users' data in the country, which could threaten to disrupt the free flow of information over the internet. More than a third of our APAC respondents (38 per cent) are facing digital disruption. Happily, APAC board members are the most likely of all geographies to feel that they have the right skills on the board to manage technology transformations (77 per cent). Just over a fifth (21 per cent) feel that a lack of digital skills is a significant impediment to their plans.



# Spotlight on Nordics

The European Chamber recently presented its annual report, 'Best European Countries for Business 2017'. This report ranks the European countries based on their business environment considering both short- and long-term elements. The Nordic countries were ranked in the top four, with the UK coming fifth – indicating a good level of optimism in their economic potential at a time of uncertainty for Europe in general.

## About the Respondents

Of our Nordic respondents, just under half (47 per cent) are non-executive directors, one in ten (11 per cent) act solely as chairs and more than a third (36 per cent) hold both roles. Almost half (46 per cent) hold a full-time position in addition to their board role(s).

Nordic board members had the broadest spread of ages of any of our regional groups; the under-45s were the best represented of all the geographies, at 10 per cent, but there were also one in ten respondents aged 66 or over. Almost half (49 per cent) were female.

They said overwhelmingly (84 per cent) that their most important role was to select and manage the chief executive.

## Their Appointment

With their smaller markets the Nordic countries often experience a more exhaustive talent pool of non-executive candidates; as a result of this, networking is alive and well in the Nordics with more than two-thirds (67 per cent) of their respondents known to the board at the time of their appointment. Of these, less than half went on to be formally assessed as part of the process and less than one in ten (9 per cent) felt that the process was very rigorous.

## On Diversity & Inclusion

A large proportion of our responding Nordic board members are not concerned with diversity (42 per

cent) and only a third are talking about it more in the boardroom. Where there is a desire for more diversity it goes further than intrinsic demographics such as gender and ethnicity. Our Nordic respondents would like to see more functional expertise (72 per cent), international experience (64 per cent) and cultural diversity (31 per cent) represented on the boards.

Nordic boards are more likely to use a sound business case (40 per cent) for extending diversity but an equal number use no justification at all, most likely since diversity is considered business as usual.

## Hot Topics for the Board

The hottest topic in Nordic boardrooms is digital innovation (79 per cent) but, interestingly, they talk the least about cyber security than all surveyed geographies. However, in the wake of a government IT scandal that hit Sweden this summer, a perceived naïveté around these issues is most likely lost. Unsurprisingly given their relatively small populations, Nordic boards talk a great deal about talent pipelines and succession (70 per cent) and they talk the least about remuneration. Our Nordic respondents are also pushing strategy discussions further up the boardroom agenda.

## Board Efficiency

More than half of responding board members have undergone a board evaluation in the last three years and a third of these used a specialist provider to deliver

## View from Board Members



"It is vital that the board has a digital humbleness while also being willing and able to take a risk – with the potential to fail. Norway has the benefit of being a highly digitalised

country and Norwegian companies must take advantage of these national investments."

**Tomas Settevik, Non-Executive Director, Norway**



"There is a generational shift in how boards operate these days. In the past boards were more focused on reactive follow-up and governance. These days the demands

on board members are much higher and you need to bring operational knowledge to the table. Boards that create value for owners must be willing and able to support and challenge management, as well as work closely together as a team. The demands are higher and the board members are getting younger as up-to-date skills are required."

**Per Sjödel, professional Chair, Sweden**




"Risk management has become increasingly important for non-executives. They must consider how many, and what type, of risks they are willing to take within

their strategy. They must also see that taking risks can lead to rewards."

**Maaret Heiskari, Managing Director and Founder, Oljamaipalvelut Oy, Finland**





it. More than a third are yet to experience a formal evaluation of their effectiveness.

More than half (56 per cent) would like to see more digital talent in the boardroom. But nearly two-thirds are satisfied with the pool of non-executive talent that they are being offered.

In a typically out-facing approach to business, our Nordic respondents are the most likely to be also seeking sector experience and international skills.

### Good Business

Almost all of our Nordic respondents feel that good business should be on the agenda (98 per cent) and a corresponding number believe that their shareholders expect it of them. In their opinion doing good business is justifiable by increased profits (80 per cent) and improvements in employee engagement (76 per cent).

As to what constitutes good business, they echo the other geographies in placing transparency of reporting and anti-bribery at the top. In a departure from all other geographies they also cite improving human rights and environmental care (both at 92 per cent). A recent report from the Nordic energy ministers called for stronger coordination between the countries in order to secure a sustainable transition to renewable, clean energy systems in the decades to come.

### Digital Transformation

The European Commission annually evaluates member states' progress in the integration of digital technology in a ranking called the Digital Economy and Society Index (DESI). In DESI 2017, the Nordic countries retained their pole position.

Less than half (46 per cent) of our Nordic respondents felt that they were facing digital disruption but this was the largest proportion of the geographies surveyed. More than half (56 per cent) feel that they have the right skills in the boardroom to manage digital transformation. Only a quarter felt that a lack of technical skills in the pipeline could prove to be a significant block to such transformation.



# London Business School Conclusions: *The Role of Research in Supporting Board Effectiveness*

The Leadership Institute at London Business School (LBS) is delighted to partner with leadership services firm Harvey Nash/Alumni to conduct and promote research on boards.

Boards play a crucial role in the private and public sectors, from start-ups to multinationals. They also have critical decision-making authority. As research repeatedly shows, groups on average make better decisions and fewer mistakes than individual leaders.

To increase odds of success, make a group rather than an individual accountable. But boards are not your typical group – given the extraordinary demands they labour under as well as the power dynamics between the players.

So how well do modern boards actually perform against this ideal? And do they deliver the expected results? Answers to such questions are critical to people's health, wellbeing and prosperity. Rigorous research on boards creates value by separating truth from conventional wisdom and current best-practice from dogma or blind faith.

## Appointing Diversity is Not Enough

One of the key pillars of the LBS Leadership Institute is Diversity: Return on Inclusion. Research being conducted by Professors Raina Brands, Isabel Fernandez-Mateo, Herminia Ibarra, Randall Peterson and Aneeta Rattan all focus on how to get real return from inclusion in groups of all types. The lessons from their research for boards is instructive.

First and foremost, the research confirms why recruiting diverse is hard. Recruiting a diverse board is a challenge for many reasons, not least of which is that when we think about leadership roles, most of us, men and women alike, envision men rather than women. Additionally, most leaders' networks favour those who are most like us. This means that the network of most board members tends to be from the ethnic majority and male because most board members are from those two categories.

But appointment is just the start of the journey for effective and inclusive boards. Once those groups are appointed, they need to be made to feel they belong. Once they feel comfortable contributing, there is a high likelihood of miscommunication and coordination failure, as what they say does not always fit with the prevailing wisdom of the board. That is their potential value as they see things that others do not see, but it is also where communication breakdowns get in the way of effective board decision-making.

All in, being an inclusive board is a multi-stage process from appointment to active inclusion, careful listening, and working through the very real challenges and disruption that diversity creates in the boardroom. Where is your board in this journey? What can you do to move your board further along that pathway?

## How Much Does Leadership Matter?

This is an age-old question. One of the key findings in this report is that effective chairs need to listen more, have emotional intelligence and be a good leader. Research findings from Organisational Psychology (Fiedler, 1964, 1967)\* shed some light on this question, but find that the answer depends on the situation. When things are going well, the environment is relatively benign and the organisation is stable, the quality of leadership is not that important to understanding how well the organisation does. But volatility and threat make the quality of leadership central to predicting how well any organisation will do in the future.

The environment is more unstable now than it has been in decades, which points to the importance of boards, and especially the quality of leadership coming from their chairs. We highlight board chairs in this report because they are more important than ever before. And we wholeheartedly agree that listening is at the heart of what it means to be a good chair.

We also highlight board ineffectiveness here in this report because we have been experiencing an epidemic of corporate and political scandals over the last decade. One might ask why this is happening. That same leadership research gives us important clues as to where to look. One possibility is that the quality of leadership has diminished over time. But this research would suggest that the better explanation would be that the level of volatility since 2007 has simply exposed the relatively poor quality of leadership that has existed in many organisations for some time.

This interpretation would suggest that we need better leaders than we have had in the past, or we need to reduce volatility, which would seem extremely difficult to do in the absence of strong leadership. In short, both pathways lead back to the importance of strong and effective leadership on boards. Chairs matter more today than they have in a very long time.

At the broadest level, boards are at the centre of almost all political and economic systems. They need better leadership now than at any time in generations. In short, we make a plea here that all of us need to invest in board effectiveness now more than ever.



### **Randall S Peterson**

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Professor of Organisational Behaviour at LBS  
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\*Fiedler, F. E. (1964). A contingency model of leadership effectiveness. *Advances in Experimental Social Psychology*, 1, 149-190.

\*Fiedler, F. E. (1967). *A theory of leadership effectiveness*. New York: McGraw-Hill.

# London Business School Conclusions: *Board Effectiveness*

It would be hard to argue with the overriding sentiment expressed in this report. But what does an effective board really look and feel like? First and foremost, it is critical to remember that a board's effectiveness cannot be examined or discussed in a vacuum. In light of this, we believe our findings have shed light on several steps boards can take to bolster their effectiveness 'in context' – both at the strategic and operational levels.

Additionally, there are two further areas worth paying attention to where there is often misalignment, and which can lead to operating at a sub-optimum level. The first is in understanding the role of the board, and understanding when the board is 'crossing the line' and starting to usurp the role of the CEO and/or the top management team. Boards have three broad purposes: 1) to monitor the decisions of the executive, 2) to provide advice and guidance in areas of deep expertise, and 3) to provide stability in times of punctuated change (e.g. selecting a new chief executive, external shock, etc.) (Boivie, Bednar, Aguilera & Andrus, 2016)\*.

The second is a conscious appreciation that the board may need to operate in different ways, at different points of time – depending on the organisation's strategic aspirations, integrated risk profile, people capabilities, shareholder profiles, and other internal or external realities. In the words of Irvine O. Hockaday Jr, former CEO and President of Hallmark Cards and an individual who currently holds board appointments with a number

of global organisations: "Boards should sit down annually, and say OK, what are we really doing here, what really is our role given the situation of this company at this time, what are we doing to incarnate that role, how are we going to function with the lead director, and what are our priorities?" (Charan, Carey & Useem, 2014)\*\*. I would go as far as to say that at the beginning of each financial year, it is worth boards creating the time and space to discuss these questions, and align around the answers.

To address both of the issues presented above requires effective information sharing, which sounds simple, but is actually quite difficult to achieve. And whilst it is recognised there are additional factors that can lead to ineffective information sharing (Boivie et al., 2016), addressing the two areas above can help in providing insight on a board's 'profile' in the other areas relating to effective information sharing, board monitoring and ultimately overall board effectiveness.



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*Diverse information, perspective, values, etc. are required for world-class board performance. However, diverse boards are also more likely to experience coordination **failure** very early – coordination failure is problems integrating a team's informational resources that arise from unanticipated differences in perspective.*



\*Boivie, S., Bednar, M. K., Aguilera, R. V. & Andrus, J. L. (2016). Are boards designed to fail? The implausibility of effective board monitoring. *Academy of Management Annals*, 10, 319-407.

\*\*Charan, R., Carey, D. & Useem, M. (2014). *Boards That Lead*. Cambridge, MA: Harvard Business Review.



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