

PREDICTING THE UNPREDICTABLE



THE ALUMNI / HARVEY NASH BOARD REPORT 2020
IN PARTNERSHIP WITH LONDON BUSINESS SCHOOL'S LEADERSHIP INSTITUTE

Alumni

Harvey
Nash.



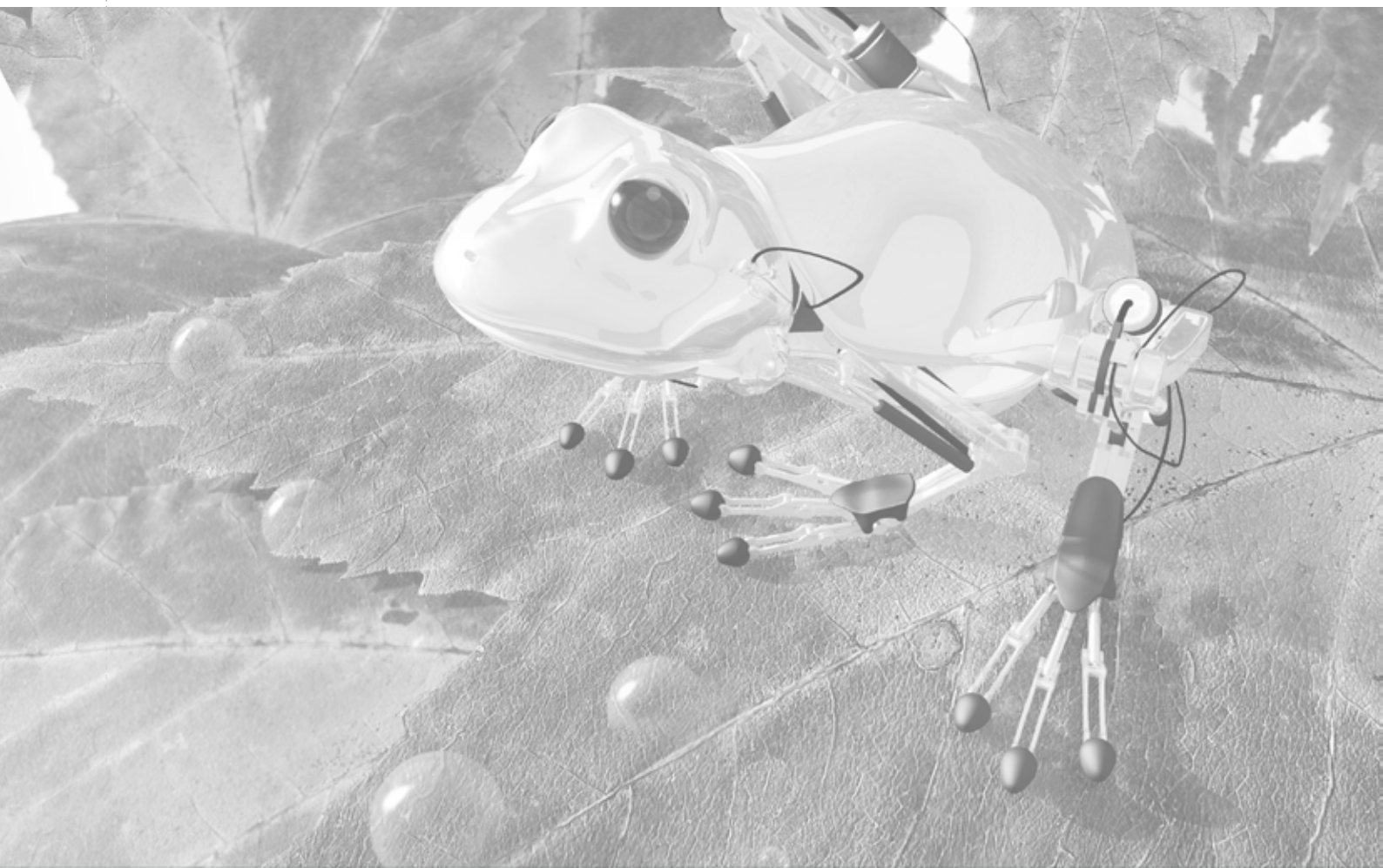
About Harvey Nash's / Alumni's Board Practice

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.harveynashleadership.com or 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



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Predicting the Unpredictable

Welcome to the sixth edition of our International Board Research Report created in partnership with the London Business School's Leadership Institute. With its wide-ranging qualitative and quantitative input from chairs and non-executives operating within organisations of all sizes, all ownership models, from all sectors and industry types across the world, this research aims to be the most authoritative global study on the issues that impact effectiveness in the boardroom.

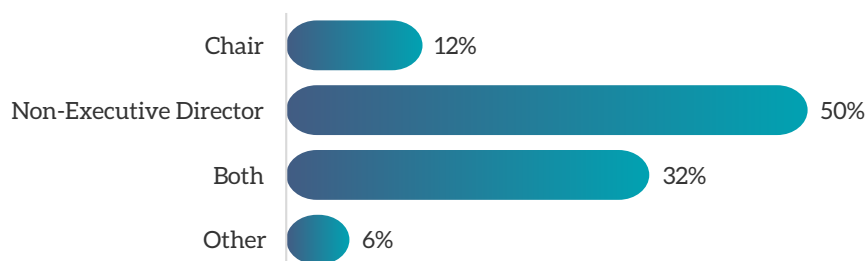
This year we continue to examine the topics that are on and off the boardroom agenda as well as how boards navigate the challenges associated with discussing them. Global economic uncertainty continues to be a key driver for organisations and feeds into our topic on operational vs

strategic focus. Diversity is important to us both as a topic of research and as a fundamental for benefiting our business and that of our clients. This year we see a degree of what looks to be apathy around the issue and we question what this signifies for other kinds of diversity characteristics.

We also look at how boards are managing their responsibilities around climate change given its urgency and importance for stakeholders in all areas. With climate change almost constantly in the headlines, this year we have continued to drill down into how seriously boards are taking their responsibility for its associated risk through conversations, and their ability to influence environmental decisions, and we examine who bears the mantle of responsibility according to our respondents.

About the Respondents

Our quantitative research this year is comprised of contributions from 640 chairs and non-executives from across the globe. A panel of 48 experienced chairs and non-executives also provided in-depth interviews for their qualitative insight. A third (33 per cent) of contributors were women. The age range of our serving board members continues to be broad and is marginally more youthful than last year, with 7 per cent of respondents being aged under 45 and 22 per cent aged over 66. Almost two-thirds (64 per cent) hold no other positions other than their board role(s) and just over a quarter are career non-executives with four or more board positions. Sixty-two per cent have held their non-executive position for more than six years.



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Executive Summary

Boardroom Behaviours

Global economic uncertainty continues to loom large in the boardroom and to influence where and how board members spend their focus and resources. Governance & risk and strategy have been knocked from their traditional top spots on the boardroom agenda. Instead, board members are showing an increased concern around their organisational capabilities such as talent / succession, and digital innovation. This might be understandable if it was limited to the UK with its particular Brexit-related issues, but it appears to be a phenomenon affecting all regions. Are boards being drawn to get more involved in operational matters? And is this because of increased fiduciary responsibility, punitive regulatory penalties or some other reason?

The top five items on the boardroom agenda are:

1. Organisational capability (talent / succession)
2. Digital innovation
3. Strategy
4. Cyber security
5. Governance and risk

Diversity

Our research shows that despite a significant 17 per cent rise in concern around board diversity in 2018, this year shows no notable change in concern about board composition. Diversity has a multitude of dimensions: demographics, socio-economic status, religion, gender, race, sexual orientation, etc. What hope is there for these other types of diversity when the long-standing campaign to improve gender diversity appears to be evolving from a genuine goal to a box-ticking exercise, with the statistics for women on boards flatlining at best? There is little or no open conversation around the subject of neural diversity and with sexuality and skin colour proving difficult enough subjects to discuss, how complex would it be to proactively attract and work with individuals who have, for example, autism spectrum disorder?

Diversity is not just about who has a place in the boardroom or on the executive teams but about how they're engaging with one another and whether they feel a sense of belonging in that space. Inclusion is looking at those behaviours and cultural nuances that make the workplace somewhere people want to be. Are organisations valuing the differences that they're bringing to that space? Delivering true equality is looking at those systems and processes that may have

inadvertently created barriers and degrees of disparity between different groups, particularly marginalised and under-represented groups. Under half of male respondents are concerned with diversity at executive level compared with two-thirds of females.

Good Business

With climate change hitting headlines hard, net-zero emission targets are announced with regularity right now. However, long-term time frames lack the sense of urgency and immediacy that climate change perhaps requires. They answer the why, what and when, but in most cases the commitments tend to skip on the how and, indeed, the who. Half of all respondents point the finger towards the CEO but almost a fifth of our respondents have no clue who is responsible for this crucial area of risk. Encouragingly, fewer organisations are ignoring the issue in comparison with last year (respondents spending zero hours discussing it in the boardroom has fallen to 40 per cent from 55 per cent last year) but this figure still shows an unacceptable level of ignorance for an issue that will affect all organisations, their customers and their supply chains.

The Digital Journey

Our research shows that board members have less confidence in their digital ability in the boardroom this year than before, with under half (47 per cent) feeling they have the correct skills to drive digitally enabled business transformation in comparison with 58 per cent in 2017. According to research, organisations with enough digitally savvy board members make more money,¹ but are boards equipped for digital? Do they have the right profiles in the boardroom and in the upcoming executive ranks?

Businesses that embrace digital and connected solutions can drive a more productive, profitable and sustainable economy. With climate-related risk in mind, research suggests that digital transformation could help the electricity, logistics and automotive industries alone to avoid 26 billion metric tons of carbon dioxide emissions between 2016 and 2025.²

1 <https://which-50.com/cover-story-digital-savvy-boards-drives-profitability-but-few-make-the-grade/>

2 https://www.schneider-electric.com/en/download/document/998-20387771_DTBR/

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Boardroom Focus

Governance & risk and strategy have been knocked from the top spot on the boardroom agenda. Instead, board members are showing increased concern around their organisational capabilities such as talent and succession, and digital innovation.

24%

think more **digital competency** in the boardroom is a **skills priority**



10

Board Dynamics

Chairs have a mandate to manage and intervene in interpersonal conflicts, but where simple differences of opinion occur then the preferred method is talking it out in the boardroom.

31%

prefer that **interpersonal conflict** is **resolved offline**



14

Diversity

The long-standing campaign to improve gender diversity appears to be evolving from a genuine goal to a box-ticking exercise. What hope is there for other types of diversity?

66%

would like **more diversity** in **functional expertise**



16

Good Business

Climate change discussions appear to be gaining traction in the boardroom but progress is slow. A large proportion of our respondents have no idea about who is responsible for this area of risk.

40%

still spend **zero hours** **discussing climate risk**



20

The Digital Journey

The boardroom unicorn with a balance of digital, sector and governance skills is still a much sought-after beast. A quarter of respondents want to see more digital fluency in the boardroom.

47%

have the **correct skills** for **digital business transformation**



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Spotlight on the UK



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London Business School's Conclusions



Leadership Institute

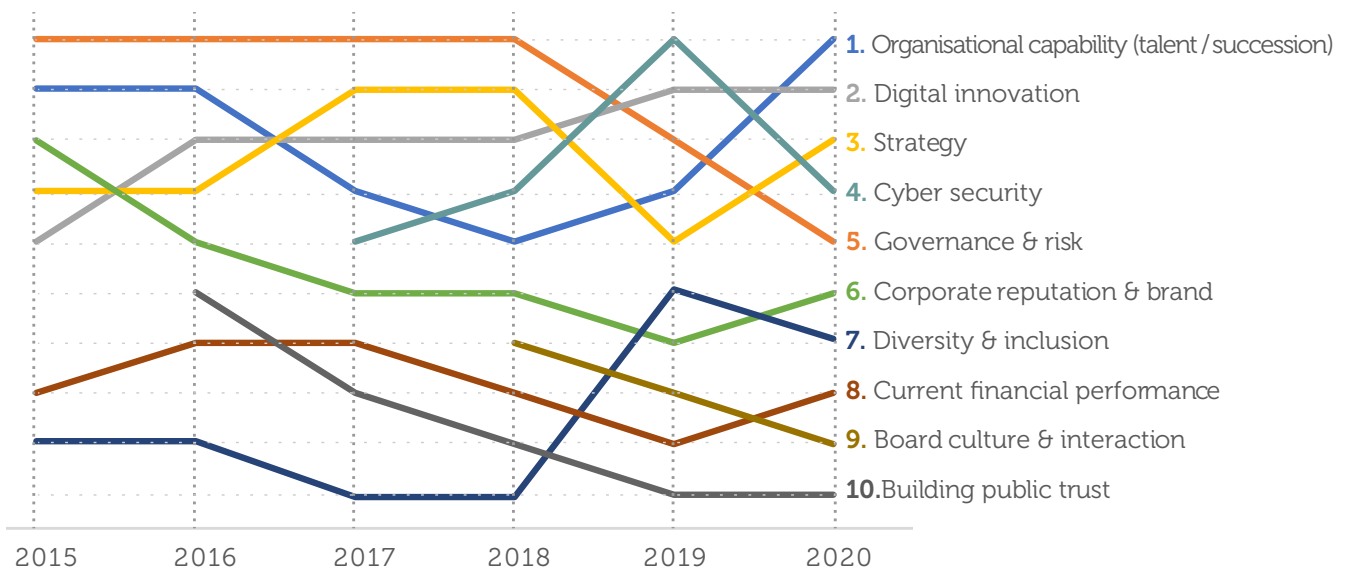
Boardroom Focus

Key insight: Governance & risk and strategy have been knocked from the top spot on the boardroom agenda. Instead, board members are showing increased concern around their organisational capabilities such as talent and succession, and digital innovation.

This year's research highlights several areas where, in a change from their traditionally sharp strategic focus, boards are seemingly being drawn towards involvement with operational matters. Over the past few years the governance expectations of regulators, investors and other stakeholders have shifted. More than ever, boards are being held to account for the effectiveness of their overall governance process. This shift is significant, and likely to amount to an expectation of more active oversight by the board and its committees and to result in greater board involvement in the operational

means by which governance is organised and effected. Simplistically, boards hold management to account and oversee strategy. But with more fiduciary responsibility placed upon the board comes an increased need to take a stronger interest in day-to-day management activities. Our research shows that more than half (57 per cent) feel responsible to a great extent for putting the customer first. However, boards that routinely infringe upon management duties and responsibilities risk disrupting the business, and this potential crossover of a strategic versus operational focus needs to be managed carefully.

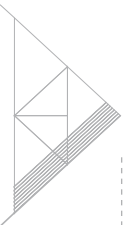
Ranking of topics being discussed more in the boardroom



Continued global uncertainty and the associated economic slowdown are forcing organisations to focus more on organic growth. A struggle to make sense of data and the ongoing shortage of skilled talent are the business challenges that are keeping CEOs awake at night.³

Governance & risk has traditionally held the top spot on the agenda, but last year saw it fall to third place and this year's research places it fifth among the topics being discussed more in the boardroom. Instead, board members are showing increased concern around their

3. PwC Annual Global CEO Survey



“Greater awareness around legal cases where boards have been held responsible has served as a wake-up call. The increased accountability is forcing boards to become more operationally focused and not just leave it all to management. Not all operational issues are brought up at the board but certainly security and technology are discussed in much more detail than before.”

Stine (Christine) Bosse, Board Member, Allianz Germany; Chair, Bank Nordik, TELE Greenland and Nunaoil

organisational capabilities, with talent and succession being the number one topic. Succession planning has traditionally been associated with the most senior of positions. As an example of famously long-term succession planning, Chinese e-commerce giant Alibaba began lining up a deep bench of talent ahead of its chairman’s departure 17 years ago, despite his retirement still not being imminent in 2019.⁴

As talent continues to be in short supply and millennials are more inclined to change role quickly, boards are realising that succession planning is becoming increasingly critical. While these millennials aren’t directly responsible for setting the business strategy, they are the ones tasked with its implementation. Not planning for these roles can weaken the ability of a company to carry out its strategic business goals, as people in these roles are the ones most responsible for charting the path of the company and setting the strategic business goals of the future.

24%

think more **digital competency** in the boardroom is a **skills priority**



4. <https://www.ft.com/content/dc6cd806-9403-11e9-b7ea-60e35ef678d2>

Alumni / Harvey Nash say

In an increasingly competitive and volatile business landscape, regulators and activist investors are swift to seek retribution for any perceived failures in governance. The level of oversight required, coupled with punitive regulations, appears to be driving boards to become more involved in operational matters than was traditionally expected. An effective board must hold senior executives to account and to do this requires more detailed knowledge about operations.

Boards are responsible for directing the long-term success of companies, and their optimal composition over time is of key importance to investors. Therefore, establishing and maintaining company boards with the right competencies and levels of diversity depends on robust board succession planning and inclusive leadership values that ensure each voice is heard and valued. Competency and integrity standards are also key in defining the collective profile of the board over time.

London Business School’s Leadership Institute says

Boards are facing internally more often due to a number of factors. A main one is the regulatory impact on boards. This is a particular issue in Financial Services where boards are increasingly expected to demonstrate oversight of quite operational issues. This risks causing confusion about the board’s role versus management. Regulators seem to want to make directors more accountable for details and it is squeezing time on strategy. Across industries, boards are spending much more time on tech, which would historically have been considered an operational issue. But given that tech is a key commercial issue for most firms, this does not necessarily reflect a less strategic focus, so it’s more nuanced.

Tom Gosling, Executive Fellow of Finance, London Business School (Partner at PwC)



Boardroom Focus (continued)

Discussions around cyber security have fallen 10 per cent since last year, a fact evident in both this research and the CIO Survey⁵ we published jointly with KPMG earlier this year, possibly as GDPR issues forced a focus in previous years that has now subsided.

This year we added in the boardroom topic of ‘choice of auditor’ in response to the audit industry hitting

the headlines for all the wrong reasons. High-profile corporate failures are being blamed on auditors: in the UK, government select committees are berating top audit firms for poor performance, and a lack of competition in the market has been widely reported. Despite this, only 11 per cent of our respondents report discussing the topic in the boardroom but we expect this to rise in future studies.

Board responsibility and its ability to influence

| | Feel responsible* | Feel able to influence* | Difference |
|-----------------------------|-------------------|-------------------------|------------|
| Impact on society | 52% | 32% | 20% |
| Culture of the organisation | 68% | 49% | 19% |
| IT security and privacy | 47% | 30% | 17% |
| Impact on climate | 27% | 11% | 16% |
| Putting customer first | 57% | 44% | 13% |
| Optimising digital | 34% | 26% | 8% |
| Financial governance | 90% | 83% | 7% |

*To a great extent

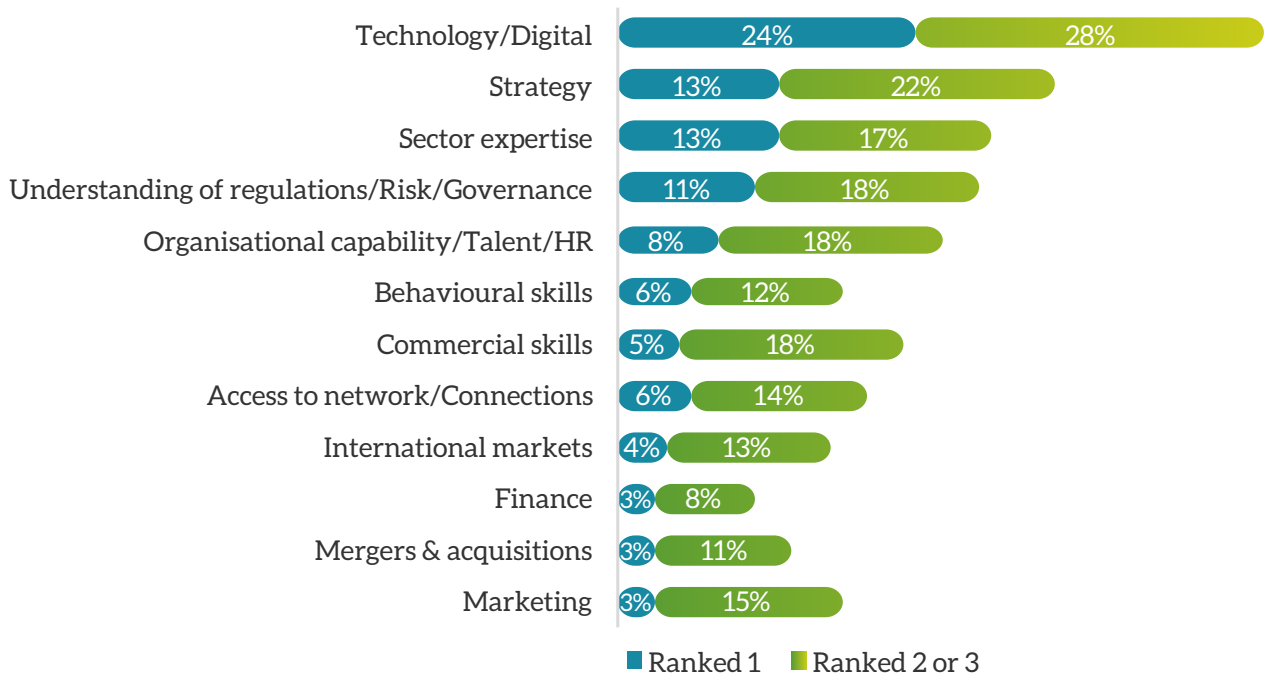
When it comes to responsibility and the influence that the board has for specific organisational issues, the results are interesting. Boards feel that there is a 20 per cent gulf between feeling responsible for their organisation’s impact on society and their ability to influence it. This divide is also significant for culture, IT security and climate issues. Perhaps this is indicative of a shift to more operational influence being exerted by boards in order to maintain fiduciary responsibility? When we examine this by gender, female respondents have a sharper sense of social responsibility than their male counterparts and feel more responsible than men for the organisation’s impact on society, impact on climate, and IT security and privacy. Men feel more responsible for culture in the organisation and putting the customer first, which arguably speaks of a more operational emphasis. In addition, 40 per cent of female respondents feel that they have the ability to influence impact on society as opposed to 28 per cent of males.

In our survey, respondents were asked for the top three competencies they would wish to add to the board to improve their capability to meet future strategic demands. Digital skills came out as the clear front runner. While almost a third of organisations (32 per cent) are talking about mergers and acquisitions more in the boardroom, the demand for additional competency in this area ranks among the bottom of the wish list. There were no significant differences by region. Although sectors are mostly aligned for the top four competencies, we found interesting differences in the top two. Financial Services and Healthcare organisations are the most likely to be looking for digital competency and Retail and Healthcare to be seeking strategy skills. This suggests that despite all of the disruption within Financial Services these organisations have clarity around a strategy and are focused on delivering a digital plan. In Retail, where organisations are confronted with arguably the most digital disruption, new global players and consumers are looking for more – goods enhanced with consumer experiences. Retail appears to be still searching for clarity on the strategy and the way ahead.

5. <https://www.hnkpmgciiosurvey.com/>

“When you look at corporate failures such as those at Carillion and RBS, the culture was a big contributing factor to their demise. The job of the board is complicated enough, especially given the current global economic uncertainty, and it is easy for setting a positive culture to get pushed to the bottom of the agenda. Results, while undoubtedly beneficial, take time and it is all too easy to let short-term firefighting dominate. The irony is that having a positive culture in place will strengthen an organisation’s ability to withstand short-term pressures.”
Gerry Brown, Chairman, Novaquest Capital

Top three competencies sought



Strategy, sector expertise and governance are unsurprising in their appearance at the top of the ‘skills sought’ table, but digital skills ranking in first place shows how the board is striving to achieve fluency with the operational side of the business, where technology pervades.



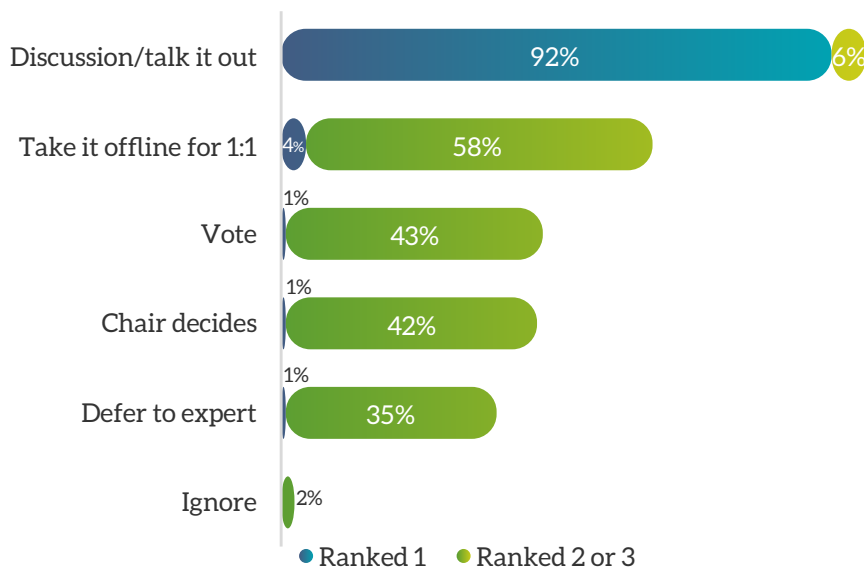
Board Dynamics

Key insight: Chairs have a mandate to manage and intervene in interpersonal conflicts, but where simple differences of opinion occur then the preferred method is talking it out in the boardroom.

In the context of good governance, effective leadership depends on healthy board dynamics. Dynamics can make or break the success of the board. Poor dynamics can paralyse a board as decisions get made and re-made, crucial conversations happen in offline conversations rather than around the boardroom table, and status games silence some board members which stifles innovation and diverse thinking. Ultimately, the culture of an organisation is set at the top, and the positive

effects of a well-tuned board can be felt throughout an enterprise. More than two-thirds (68 per cent) of our respondents feel that the board is responsible for the culture of the organisation to a great extent. On the flip side, unresolved conflicts such as that currently playing out at South African-based insurer Old Mutual between the former CEO and the chair⁶ have a significant effect on shareholder values and can create tension throughout the organisation.

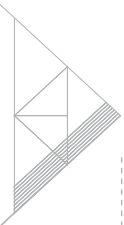
Effective ways to resolve boardroom differences of opinion



We questioned our respondents on the most effective ways to resolve differences of opinion in the boardroom. Healthy discussion and talking it out was the preferred method by far; 92 per cent ranked it first. While the chair

has a duty to assert authority and set signature standards about how the board will run in terms of behaviours and attitudes, our research shows that they have a remit only after talking has failed.

6. <https://www.businesslive.co.za/bd/opinion/editorials/2019-09-10-editorial-no-winners-in-old-mutual-boardroom-battle/>



“There needs to be absolute clarity on the roles and responsibilities of the board and the executive to avoid tensions. It is the job of the chair to maintain a balance effectively, and they need to be comfortable in their own skin and their own judgements. Vision, values, strategy and operations need to be aligned and the chair and board need to find the right balance between these critical factors. Vision and values are matters that the chair and board should be alert to in taking their responsibility for the culture of an organisation seriously. The role of chair is highly complex, and you need curiosity, intelligence and experience to succeed, and although you do not necessarily need to be an expert in the system the organisation is in you do need to understand how organisations, systems and people work and behave. Combining this with a sophisticated and influential style, the chair and board can find the right balance between the operational and the strategic. The role of the chair is more mission-critical to organisations now than it has ever been previously.”
Lord Victor Adebowale, Chief Executive, Turning Point; Chair and Co-founder of Visionable.com; Non-Executive Director, Co-op; Chancellor, University of Lincoln

More than two-thirds (68 per cent) of our respondents feel that the **board is responsible for the culture** of the organisation **to a great extent**

Alumni / Harvey Nash say

Who are we? What do we do? Why do we do it? For whom do we do it? If board members are aligned with the purpose of the organisation, then destructive conflict is less likely. The chair should encourage forceful discussions while ensuring that board dialogue progresses towards positive outcomes.

Individual directors should undergo self and peer reviews as part of regular board evaluations. These evaluations should also investigate group dynamics and the efficacy of the chair in order to identify potential issues before they occur.

Those leaders who seek to build their business on strong governance foundations, improve diversity of thought in the boardroom, take expert guidance and support open dialogue at all levels are more likely to prevent the most damaging conflicts.

London Business School's Leadership Institute says

Even if we assume that most directors are well-intentioned, trying to do what is best for the business, and take their roles seriously, the most dangerous type of conflict is likely to remain – that is, the conflict that comes from directors each trying to optimise and solve different problems.

Too often the board reaches for clarity of purpose only in an annual strategy day, and not often enough in each specific conversation – where the conversation should start with ‘What do we know about this problem?’ or ‘What is the key issue in getting a good solution?’. Last year over a third of respondents reported making and re-making decisions on a regular basis.

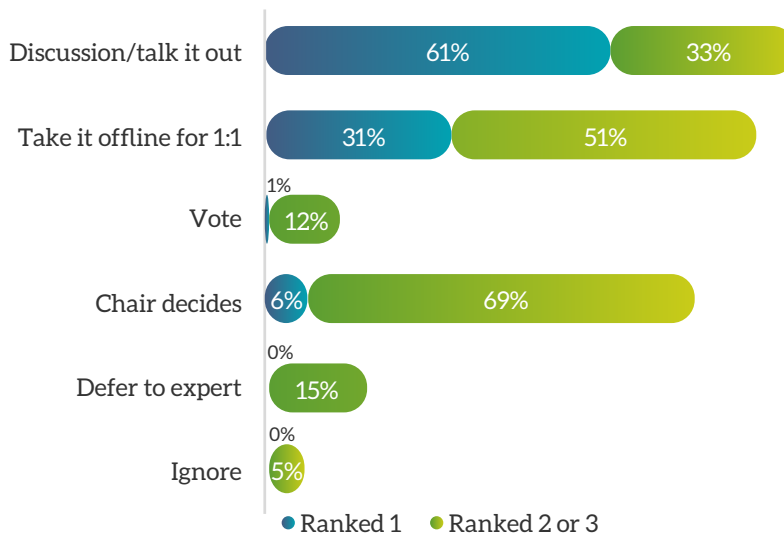
It is rather too easy to read the briefing papers and jump to problem solving. But best boardroom practice is to spend some time framing the problem and issues, answering questions, and then moving to problem solving.

Randall S. Peterson, Professor of Organisational Behaviour, Academic Director of the Leadership Institute, London Business School

Having diversity of thought in the boardroom is widely acknowledged as beneficial⁷ but what happens when there is interpersonal conflict between board members? Although conflicts generally begin between two people, they have a tendency to polarise the rest of the group. If a conflict is starting to escalate and bring in others for reasons other than pure task opinions then it's probably necessary to intervene. Sixty-one per cent of our respondents suggest that discussion

and talking it out is the most effective way to resolve the issue; and taking the dialogue offline is more popular for interpersonal conflicts than differences of opinion, with almost a third (31 per cent) suggesting this as the preferred way forward. The chair would also appear to have more of a mandate to intervene in interpersonal conflict, with 6 per cent ranking this method of resolution as their first choice and 69 per cent as their second or third choice.

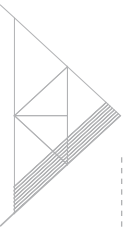
Effective ways to resolve boardroom conflict



31%
prefer that
interpersonal conflict
is **resolved offline**

“Personal conflict isn’t good but passionate discussions can be a very positive thing. It is important that the chair leads to control the tone and ensure respect. If there is a weak chair, a dominant CEO or an absent owner, this can lead to an increased risk of negative conflicts.”
Eva Elmstedt, Chair, Proact IT Group; and Board Member, Addtech, Arjo, Gunnebo, Semcon and Smart Eye

7. <https://corpgov.law.harvard.edu/2018/10/10/director-skills-diversity-of-thought-and-experience-in-the-boardroom/>



“Generally very little of what goes on in a boardroom must be kept secret. Board meetings are there to discuss, challenge and approve the business of an organisation – they are actually mostly fairly benign. There can be some very confidential items, which of course you keep confidential, but generally little goes on in board meetings that can’t eventually be public. Shareholders and other stakeholders should be able to access a summary of which subjects have been discussed and what decisions were made. Ideally, all organisations should publish summaries of board meetings; after all, if a board ends up in court it will be public anyway. We should conduct business in the boardroom as if it was all going to be made transparent.”

Charlotte Valeur, Managing Director, Global Governance Group

Setting up boards for success starts during the appointment process; board members who are tightly aligned to the strategic goals and culture of the organisation are less likely to be entrenched in their own personal perspective. The chair can do much to establish and maintain a healthy balance in director

participation and to rein in potentially disruptive behaviour. An effective chair will encourage forceful discussion but manage dialogue towards positive outcomes. Board evaluations are invaluable in highlighting group dynamics and the way disputes are handled.

An effective chair
will **encourage
forceful discussion**
but **manage
dialogue towards
positive outcomes**

Diversity

Key insight: The long-standing campaign to improve gender diversity appears to be evolving from a genuine goal to a box-ticking exercise. What hope is there for other types of diversity?

Our research shows that despite a significant 17 per cent rise in concern around board diversity in 2018, this year shows no notable change in concern about board composition. Are boards generally satisfied with their composition or are they simply tired of the message? Of course, diversity in the boardroom is about much more than creating a gender balance, but the metrics around this are the most well-established and can be viewed as an indicator for the direction of travel.

The most recent publication of Cranfield University's Female FTSE Index⁸ in the UK reveals that far too few women are achieving substantive roles, despite long-established targets for their presence in the boardroom. 'One and done' is the disparaging phrase being coined for the practice of hiring a woman and then assuming that the relevant box has been ticked. The study shows that women are less likely to be given a senior role on the board and are more likely to have a shorter tenure, half that of their male counterparts, which suggests that they are symbolic rather than significant appointments. But boards beware: the number of proposals filed by shareholders on the topic of board diversity is growing⁹ and major institutional investors have been talking about gender diversity in their voting guidelines - BlackRock has said it expects to see at least two women on the board, for example.¹⁰

Is the diversity of your board members a concern?



ExxonMobil recently faced a proposal that the board reveal both the protected characteristics and the skills, experience and attributes of its board members in a matrix that could be used to ascertain their relevance to the company's business, strategy and risk.¹¹ That the proposal arose highlights the relevance of diversity and competency at the highest level.

Perhaps we might expect a greater level of concern for diversity at the executive level, the talent pipeline for the boardroom? Our research shows that the levels of commitment are broadly similar. Just as last year, just over half (55 per cent) of our respondents are concerned with diversity within their executive teams.

Is the diversity of the executive team a concern?

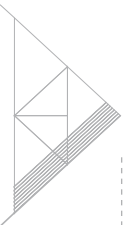


66%
would like **more diversity** in **functional expertise**



"No one does gender diversity better than the Danish. Walk into any office and you will be immediately struck by how balanced the workplace is. This isn't driven by particular business initiatives as much as it is driven by society. In Denmark, there is an assumption that both parents will work, and both will do childcare. Organisations and society not only expect parents to stop work at 3.30pm to pick up the children, but morally judge those who don't. If other countries are not seeing progress with female technology leaders and team membership, then I believe it is due to diversity programmes being unable to deliver their true potential unless society backs them up at a grass-roots level. The diversity of thought and positive results driven by the mixture of approaches that comes with a gender-balanced workplace are well evidenced."
Adam Banks, Global CTO, Maersk

8. <https://www.cranfield.ac.uk/som/expertise/changing-world-of-work/gender-and-leadership/female-ftse-index>
 9. https://www.washingtonpost.com/business/2019/07/17/after-years-glacial-change-women-now-hold-more-than-corporate-board-seats/?noredirect=on&utm_term=.427b75e114d9
 10. <https://www.bloomberg.com/news/articles/2018-11-03/blackrock-is-sick-of-excuses-for-corporate-boards-lacking-women>
 11. <https://www.corporatesecretary.com/articles/boardroom/31578/exxonmobil-agm-include-board-matrix-proposal>



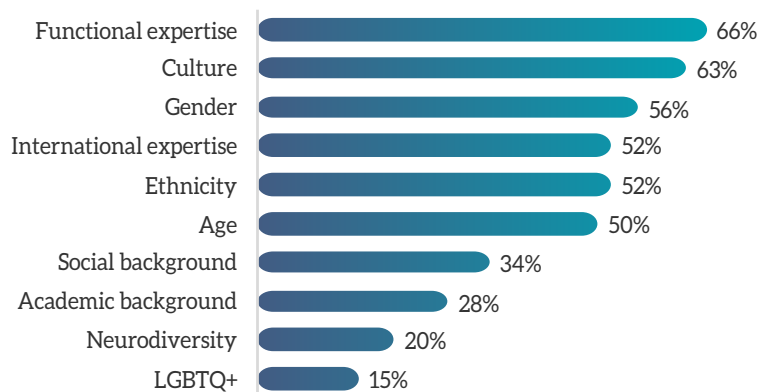
That said, female respondents are seeing the problems in the pipeline with a keener eye. Two-thirds are concerned with the talent in the upcoming ranks compared with less than half of their male peers, and this disparity has widened compared with previous research results. It applies to almost every diverse characteristic that we asked about, with the exceptions of functional and international expertise. Younger respondents were also more likely to be concerned about diversity than their older peers, which hopefully may make more of a difference in future years. The Nordics are more likely than the global average (59 per cent compared with 55 per cent) to be taking the matter seriously but it still leaves over four in ten respondents who are not interested. In our view the current level of commitment is not high enough to make significant change happen.

Sweden has led best practice through its promotion of flexible working, a feature commonly cited as fundamental to creating a gender balance by managing familial responsibilities. On the flip side, the United States is one of the only countries in the world that has not passed laws requiring businesses and corporations to offer the bare minimum of paid parental leave to their employees.

For the last three years we have asked our respondents about the types of diversity gaps they are concerned about in the boardroom. Functional expertise remains at the top of the wish list but has fallen year on year, despite experience with digital business and risk being emerging criteria for an ideal board candidate and investors and activists demanding more core sector experience to be represented on their boards.

When asked what kind of diversity boards are pursuing, the biggest jump this year was diversity of social background – perhaps a sign that boards are moving away from using just the ‘old boys’ network’. However, one area they don’t seem to be pursuing is LGBTQ+, which ranks lowest as a priority, in fact below ‘neurodiversity’ which was a new category this year. Around one in seven of the population (more than 15 per cent of people in the UK) are neurodivergent, meaning that the brain functions, learns and processes information differently. Neurodivergence includes attention deficit disorders, autism, dyslexia and dyspraxia.¹²

The types of diverse board characteristics being sought



12. <https://www.acas.org.uk/neurodiversity>

Alumni / Harvey Nash say

Achieving diversity objectives is an ongoing journey, and a matter of inclusive leadership behaviours that are not addressed by a single promotion or appointment. Board members should give more consideration to actively sponsoring the types of diverse candidates that are absent in the current boardroom.

While mentorships help professionals learn about their fields and roles from senior practitioners, sponsors take a direct role in the advancement of their protégés. Through their guidance and endorsement, sponsors can be a game-changing asset – especially important to minority professionals. When a board opening occurs, shortlists are typically formed from a large pool of highly qualified candidates of both genders. Nomination committee chairs can play an active role in advancing diversity of all types by ensuring that there is a criteria-based role profile to eliminate appointments that are made solely on the basis of culture or personality fit. They might consider a minority-only shortlist, or actively sponsoring minority candidates for the role.

London Business School's Leadership Institute says

Despite heightened scrutiny and the widespread adoption of diversity practices within organisations, steady increases in the number of diverse individuals at the board level have not been forthcoming. The problem of under-representation is necessarily ‘chicken and egg’: without greater representation at the highest levels, fewer diverse individuals will feel like they belong at the board level and aspire to these careers; yet, without greater persistence and advancement of diverse individuals from the lower echelons, it is difficult to significantly increase the representation of these groups at the top. One way to break this impasse is to move beyond the current focus on representation and instead emphasise inclusion. Whereas representation is a numerical count of the identity groups represented on the board, inclusion is about whether those individuals can participate fully. Organisations can foster inclusion even without representation. Indeed, representation will not yield the desired benefits of diversity without inclusive cultures and practices.

Dr Raina Brands, Assistant Professor of Organisational Behaviour, London Business School

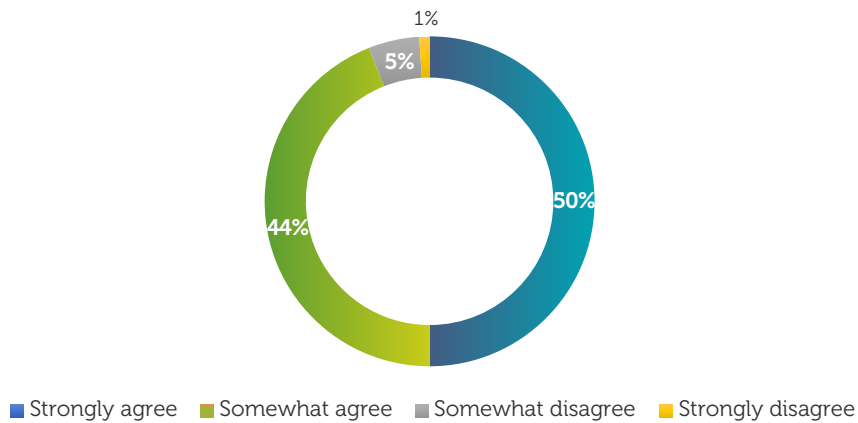
Good Business

Key insight: Climate change discussions appear to be gaining traction in the boardroom but progress is slow. A large proportion of our respondents have no idea about who is responsible for this area of risk.

Corporate culture is the combination of the values, attitudes and behaviours manifested by a company in its relationship with its stakeholders. These stakeholders may be shareholders, employees, customers, suppliers and the wider community and environment that are affected by a company's conduct. With little regional

variation, 90 per cent of our respondents believe that it is the board's role to set the tone for the organisation's culture. A positive culture can boost innovation and competitive advantage. Organisations with cultures that emphasise leadership at all levels significantly outperform others.¹³

Shareholders today demand 'Good Business'



Doing 'good business' is a broader remit than traditional corporate responsibilities and encompasses how organisations deliver not just a neutral but a positive economic, social and environmental impact in the world. Almost all our respondents (94 per cent) agree that shareholders demand it from organisations, boards and management, although we saw previously that female respondents have a greater sense of social responsibility in the boardroom than their male counterparts. Environmental, social and governance (ESG) issues are an increasing priority for organisations. Three-quarters of respondents from state-owned enterprises strongly agree that this is the case, but there is broad consensus across all structures of organisation from listed to private equity. A recent research white paper co-authored by Professor Ioannis Ioannou, Strategy Professor at London Business

School, indicates that the adoption of strategic sustainability practices is shown to reliably, consistently and significantly impact on increased strategic performance.¹⁴ Employee satisfaction has been shown to positively correlate with shareholder returns and while the stock market does not fully value intangibles, certain socially responsible investing (SRI) screens may improve investment returns.¹⁵ Asset managers such as BlackRock and Vanguard are certainly embracing ESG in their marketing of responsible investing, but definitions of ESG-friendly assets are open to interpretation: ExxonMobil and Saudi-backed bonds both appear in ESG funds and whether these could be said to meet the brief is questionable. One more easily defined area of corporate impact and risk relates to climate change. Investors are increasingly asking boards to assess its impact on their business models and asset values.

13. Kotter, J. & Heskett, J. <https://www.amazon.com/Corporate-Culture-Performance-John-Kotter/dp/1451655320>

14. Ioannou, I. & Serafeim, G. (2019) 'Corporate sustainability: A strategy?'. Harvard Business School, Working Paper 19-065

15. Edmans, A. (2011) 'Does the stock market fully value intangibles? Employee satisfaction and equity prices'. Journal of Financial Economics, 101, 421-640

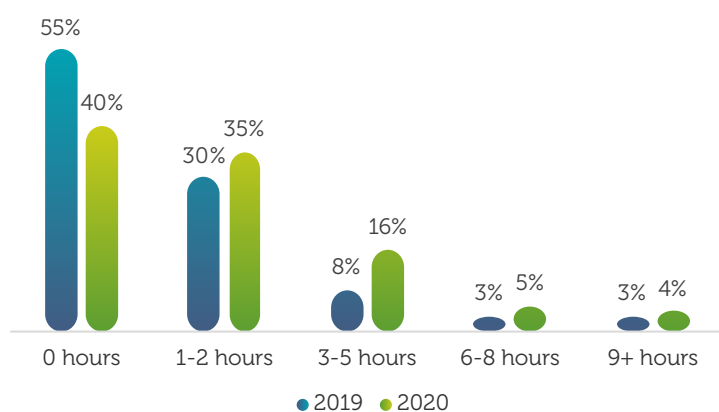
40%

still spend **zero**
hours discussing
climate risk



There is a formal, albeit voluntary, reporting framework, Taskforce on Climate-related Financial Disclosures (TCFD), which looks at the implications of a 2°C rise in global temperatures. Declarations of support for the initiative have almost trebled since its launch in 2017 but still only number around 1,100.¹⁶ Last year we asked our respondents about the amount of time they spent discussing climate-related risk in the boardroom. For more than half (55 per cent) it was zero. Encouragingly, this year's research shows a 79 per cent year-on-year rise on companies spending three or more hours, and those not discussing it at all has fallen from 55 to 40 per cent. Interestingly, male respondents were significantly more likely to underrate their board's responsibility for impacting climate change than females: 30 per cent felt it was the board's responsibility to little or no extent compared with only 18 per cent of females.

Hours spent discussing climate-related risk in the boardroom*



*per year

16. <https://www.forbes.com/sites/tedknutson/2019/06/05/climate-disclosures-improving-but-insufficient-for-investors-charge-michael-bloomberg-led-group/#6b2ec1a1294b>

Alumni / Harvey Nash say

Climate change is challenging and changing the whole premise of capitalism; good governance should be fundamentally linked to this issue. Boards have a responsibility to their investors, customers, employees and broader society. It will take visionary leaders in each sector to act as champions of climate change action, more government regulation and the continual perseverance of millennials to force change from below to establish urgent shifts in thinking.

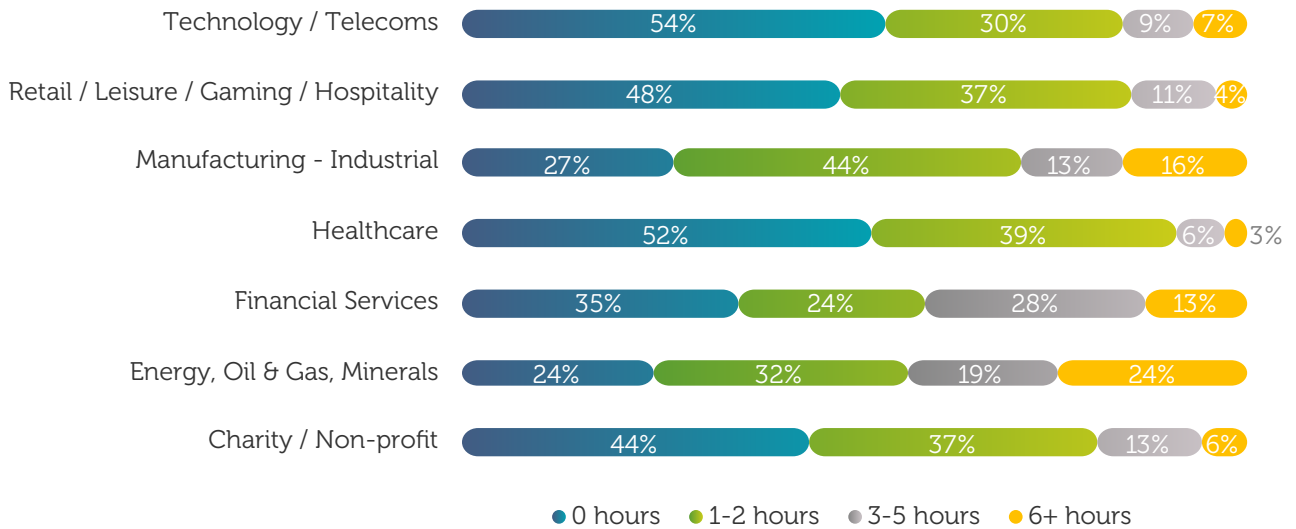
It can be useful to do scenario planning. For example, if legislation was passed to significantly increase tax on air flights or limit the number of flights allowed to be taken each year, what would be the impact on travel businesses and their supply pipeline and support services?

London Business School's Leadership Institute says

To avoid falling into the trap of 'one and done', organisations should focus their internal communications more on their commitment to climate change and good business rather than progress they've made towards the change. Focusing entirely on progress can make people feel that the organisation has sufficient 'climate change credentials' to relax its efforts to achieve more meaningful change.
Daniel Efron, Associate Professor of Organisational Behaviour, London Business School

Good Business *(continued)*

Hours spent discussing climate change in the boardroom by sector



In last year's study, Financial Services, despite being responsible for investing in and insuring all other sectors, was the sector least likely to be discussing the matter but this year that figure has fallen from 67 to 35 per cent. Pressure to become more responsible stewards of the environment comes from all areas – consumers, businesses and legislative bodies.

Organisations must drill down throughout their business in order to address climate change, from manufacturing to supply chains. A recent study¹⁷ showed that just 100 companies are responsible for more than 70 per cent of greenhouse gas emissions over the past 30 years, so concerted change could bring about dramatic improvements.

"The impact of climate change and the transition to a lower-carbon economy deserve board-level scrutiny and governance. Independent research commissioned by HSBC shows that less than a quarter of companies currently disclose their environmental impact. This makes it very difficult for analysts and investors to assess and compare how sustainable these companies are."

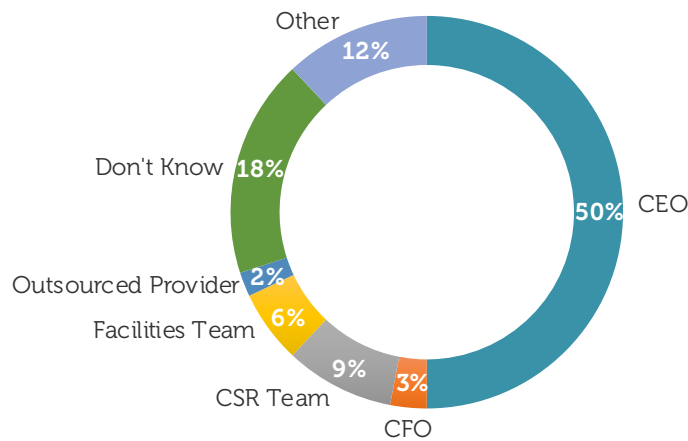
Stuart Gulliver, former CEO, HSBC

17. <https://www.independent.co.uk/news/business/news/100-companies-responsible-71-per-cent-greenhouse-gas-emissions-global-warming-climate-change-shell-a7834031.html>

Once again, the Nordic respondents are leading the regions when it comes to spending time on the matter; only 22 per cent spend zero hours on it compared with more than half of APAC respondents and 40 per cent on global average. Our research asked who respondents

felt was responsible for climate-related risk and environmental impact within their organisations. Half point directly at the CEO but almost a fifth (18 per cent) simply don't know the answer to the question.

Who is responsible for climate-related risk?



Thirty-eight per cent of respondents from the Nordic region feel that the board is responsible for the organisation's impact on climate compared with 23 per cent of UK respondents and just over a quarter (27 per cent) on global average. There is a further disconnect

between boards feeling responsible for, and the reality of being able to influence, their organisation's impact on the climate. Only 11 per cent of our respondents feel that they are in a position to have an effect.

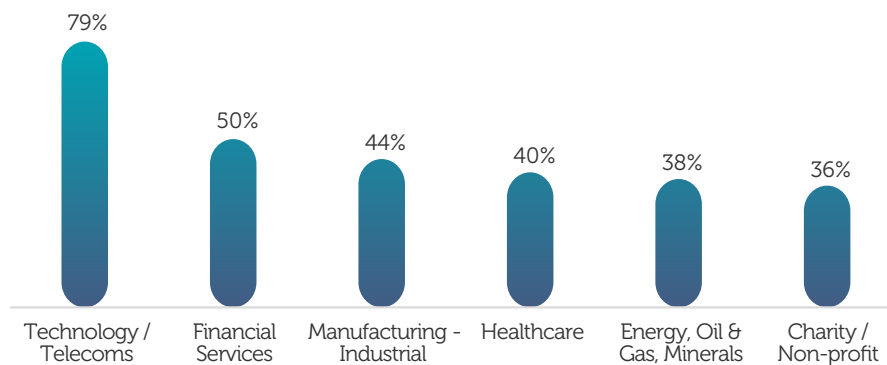
The Digital Journey

Key insight: The boardroom unicorn with a balance of digital, sector and governance skills is still a much sought-after beast. A quarter of respondents want to see more digital fluency in the boardroom.

Our research results reflect that digital is a journey with no end point. Discussions around digital innovation remain important in the boardroom but little has changed year on year. Digital is now 'business as usual'. Being digital savvy at board level can be defined as having an understanding, developed through experience and education, of the impact that emerging technologies will have on businesses' success over the next decade. Given that recent research by MIT Sloan shows that digitally savvy boards significantly outperformed others on key metrics, are boards as attuned to digital as they need to be? The research highlighted that organisations with three or more digitally savvy directors had 17 per cent higher profit margins than those with two or fewer, 38 per cent higher revenue growth and 34 per cent higher return on assets.¹⁸

The percentage of respondents who feel they have the correct skills on the board to drive digitally enabled business transformation has fallen from 58 per cent in 2017 to under half (47 per cent) this year. Are boards losing faith in their own digital skills or is this simply a reality check, recognising that technology is ever changing and that it is a battle to keep up? Technology projects no longer have a start, middle and end: agile methods and cloud services lead to ongoing projects with incremental but significant changes. Digital transformation goals are almost impossible to define through metrics, the landscape is constantly changing, and market and innovative technology disruption a constant. More male respondents (50 per cent) think they have the skills in place than their female peers (41 per cent), and non-executives (44 per cent) are also less confident than chairs (52 per cent).

Organisations with the correct skills on the board to drive digital success



Cyber attacks and data privacy issues are increasingly punitive where failures in governance are perceived. It recently emerged that the UK's Information Commissioner's Office (ICO) plans to fine British Airways (BA) £183m for a leak of personal data.¹⁹ In addition, organisations older than a few years were not 'born' digital and face the additional burden of complex legacy systems. Almost a quarter of our respondents (24 per cent) placed digital skills as the number one competency that they would like to see more of in order to future-proof the boardroom. Could this be considered further evidence of the necessity

for the board to delve deeper into the how and who of operations around digital?

Unsurprisingly, the Technology and Telecommunications sector feels best placed in having the correct skills on the board to drive through digital. Only 40 per cent of respondents from the Healthcare sector feel confident in their digital skill set. This is disconcerting in a sector where artificial intelligence (AI) is an established reality and bringing about major innovations. Advances in machine learning and increasing availability of healthcare data have contributed to this shift.

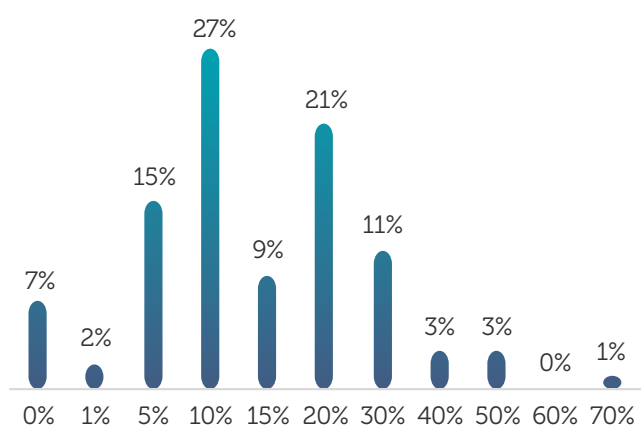
¹⁸. <https://sloanreview.mit.edu/article/it-pays-to-have-a-digitally-savvy-board/>

¹⁹. <https://www.theguardian.com/business/2019/jul/10/gdpr-fines-ba-british-airways-marriott-data-watchdog>

“The digital agenda is the single biggest issue for all my boards in both the public and private sectors, and I believe technology should be on the agenda of every board. This is a hugely positive development and gives us the opportunity to think about how we can do things better and deliver a competitive advantage. The digital agenda is intrinsically linked to the vitally important macroeconomic agenda in the UK, including Brexit and the scarcity of workforce resource. It is an incredibly uncertain time for investment and the most uncertain time I have seen since the end of the Cold War, and technology is the only way we will be able to deliver against these challenges.”

Peter Wyman, Chairman, Care Quality Commission

Estimation of % workforce that could be replaced by AI in next five years



When it comes to the possibility of replacing the workforce with AI, our research shows that respondents estimate that 16 per cent of the workforce on average will be replaced by AI in the next five years. This is broadly similar to the opinion of CIOs according to the findings of our annual CIO Survey where 76 per cent of CIOs held the same opinion. Where respondents' opinions diverge with their CIOs' is when each expects a bigger percentage replacement. Is the bottom line driving this disconnect between the desirable and the possible or are boards simply being naïve? Our hypothesis is that replacing humans with machines is not the most likely outcome of AI pervasion. We believe that roles will be reskilled and redeployed as organisations are cognisant of retaining talent. Manufacturing/Industrial and Financial Services are the sectors that report being the most likely for a greater percentage of replacement with AI. As the architects of the industry, respondents from the Technology sector are the most confident that no proportion of their workforce will be replaced, as are younger respondents who may have a more acute awareness of the technologies involved.

Alumni / Harvey Nash say

Organisations will need to invest in education and training to bridge the digital skills gap. Directors need to get educated about digital transformation and engage with emerging technologies in order to leverage what makes sense for the company and its strategy. The board may benefit from hearing more from those in charge of driving digital strategy, getting more hands-on with technology in their daily activities and keeping up with continuing education.

London Business School's Leadership Institute says

It is no surprise to see digital innovation near the top of the agenda for boards in 2019. With the continuing rise of digital giants like Google, Amazon, Apple and Alibaba, companies in every sector are worried they will go the way of Kodak or Blockbuster. But it is important to remember that there are still plenty of sectors – for example, retail banking, accounting, food and drink, or chemicals – where the biggest companies today are the same as they were 30 years ago. As a board member, you need to simultaneously worry about the threat of digital disruption while also reminding yourself of the deep capabilities, strong customer relationships and powerful brand that you can use to sustain your company through these difficult times.

Julian Birkinshaw, Professor and Deputy Dean, London Business School

47%

have the **correct skills** for **digital business transformation**



Spotlight on the UK

About the respondents

Of our UK respondents, 48 per cent were non-executive directors, 12 per cent were chairs and 35 per cent covered both roles. More than a third (35 per cent) have held their position on the board for more than ten years. Twenty-nine per cent were female.

Boardroom Focus

| | TOP 3 TOPICS ON AGENDA | TOP 3 DESIRED BOARD SKILLS |
|---|---------------------------|----------------------------|
| 1 | Cyber security | Digital |
| 2 | Governance and risk | Sector |
| 3 | Organisational capability | Risk / Governance |

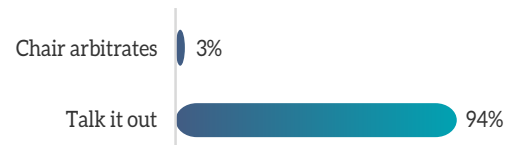
Cyber security and data privacy have become matters of governance – directors are now responsible for these issues and for how their management feeds down through the organisation. In contrast to its peers, the UK places cyber security as the number one topic being discussed more in the boardroom. GDPR has forced organisations to push cyber security higher up their agendas than ever before – that, and the highly

publicised and punitive fines imposed on the likes of British Airways. The UK seeing digital as ‘business as usual’ perhaps explains why digital innovation doesn’t rank in the top three most discussed topics in the boardroom, but boards clearly wish to see more digital expertise in the boardroom. The UK is the only region not to place strategy in their top three ranked discussions or skills gap.

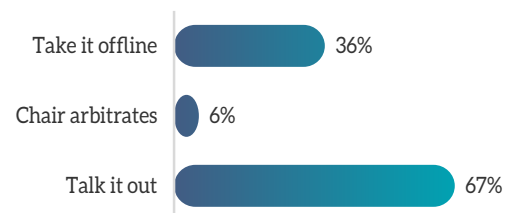
Board Dynamics

UK respondents are close to the global average when it comes to handling differences of opinion or interpersonal conflicts in the boardroom. Talking it out is the preferred method of handling both differences of opinion and interpersonal conflict.

How to handle differences of opinion?



How to handle interpersonal conflict?



Good Business

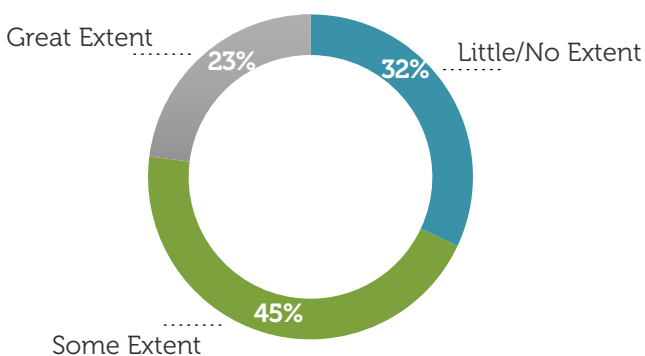
Almost all UK respondents (93 per cent) feel that it is the board's responsibility to set the culture for the business, yet in contrast only three-quarters feel that it is their responsibility to a great extent. Less than half (45 per cent), the lowest proportion of the regions examined, strongly agree that shareholders demand good business from their organisations. The UK is the only region to not list the impact on society as one of their top three responsibilities; instead, two-thirds elect to put the customer first. Does this reflect putting the bottom line before ensuring sustainability and their place in the social order? UK respondents' expectations of their ability to influence match their areas of responsibility more closely than in other regions – perhaps evidence of their pragmatism.

Board's responsibilities vs ability to influence

| Top 3 responsibilities | Have responsibility to a great extent | Have influence to a great extent |
|---------------------------|---------------------------------------|----------------------------------|
| 1. Financial governance | 92% | 88% |
| 2. Culture | 75% | 51% |
| 3. Putting customer first | 66% | 54% |

Climate change is a big topic and any concept of doing good business certainly encompasses sustainability and environmental impact. In recent months, the UK declared a climate emergency and approved legislation in Parliament on a net-zero goal as one of former Prime Minister Theresa May's final policy announcements. Despite this, UK respondents are the least likely of all regions to feel responsible for their impact on the climate; shockingly, almost a third (32 per cent) feel little or no responsibility. Just under half (46 per cent) have spent zero hours discussing it in the boardroom and almost a quarter (23 per cent) have no idea who is responsible for climate-related risk and environmental impact within their organisation.

Is the board responsible for impact on climate?



20. <https://www.ft.com/content/7cfe2c70-ff41-30c9-bb32-512dbe216f48>

London Business School Leadership Institute says

UK respondents' views about environmental responsibilities are markedly out of step with the views of millennials and investors. No board of directors or trustees, whatever the size of its business and footprint, can afford to disregard even the tangential impact that climate change, and their responses to this phenomenon, may have on, for example, water scarcity, economic migration, rising levels of inequality, or political and social instability. A marked change in outlook is needed.

Simon Osborne, Executive Fellow, Leadership Institute and Executive Fellow of Organisational Behaviour, London Business School (former CEO of ICSA: The Chartered Governance Institute)



"A listed asset manager that takes a wrong step faces a risk to its reputation or a hit to its returns. There are different sorts of conversations, because the risk is different. But there are also differences between different companies. Some lead and some follow."
Mike Everett, Governance and Stewardship Director, Aberdeen Standard Investments²⁰

Diversity

In the UK, just over half (52 per cent) are concerned with diversity at board level, the same percentage that is concerned with diversity in the executive team. Our UK respondents clearly feel that their work with gender is complete, as it doesn't feature in the top three types of diversity sought.

Top 3 types of diversity sought in the boardroom

| |
|------------|
| Cultural |
| Ethnicity |
| Functional |

Over the past year the percentage of women on FTSE 100 boards has increased from 29 per cent to 32 per cent so the one-third target set for 2020 is well in sight. That said, according to the 2019 Female FTSE Board Report, women once appointed have significantly shorter tenures and are less likely to be promoted to chair. Furthermore, in the UK, the FTSE 100 only has 11 per cent female representation at executive level and in the FTSE 250 only 8 per cent.²¹ Of course, diversity takes many more forms than gender and mostly in ways that are more difficult to measure.

Digital

According to our research, the UK is prioritising digital in the boardroom. Of our UK respondents, 5 per cent cite themselves as coming from a technical background, which is only slightly higher than the global average. Just over four in ten (42 per cent) believe the board has the correct skills to drive digitally enabled business transformation, which is under the global average. They are the most likely of the regions to be seeking more digital skills in the boardroom, with more than half (52 per cent) listing this as a number one priority against the global average of 46 per cent.

There is certainly evidence of digital investment in many UK organisations. Nationwide, the UK's largest building society, recently announced that it will open a digital innovation hub in London that will house 1,000 of its cutting-edge technology staff. And the UK Government launched a £30 million R&D competition for projects aiming to radically boost the productivity and agility of the UK manufacturing sector.²²

According to research by the AI think tank Fountech.ai, more than two-thirds of people in the UK are worried about losing their jobs to machines.²³ However, our research shows that our UK respondents are the least likely of all regions to be expecting more than 10 per cent of the workforce to be replaced with AI, against a global average of just under half (49 per cent). Digital ethics has been a prominent issue in the UK IT community over the past year or so. In relation to AI, it was brought into focus by a House of Lords Select Committee report on the place of AI in the UK economic strategy, published in April 2018. This argued that ethics could be a specialist area for the UK to concentrate on in the global field of AI, dominated as it is by the US and China.²⁴

21. <https://www.cranfield.ac.uk/~media/files/the-female-ftse-board-report-2019.ashx>

22. <https://www.gov.uk/government/news/uk-advanced-manufacturing-gets-boost-with-new-investment-in-digital-tech-competition>

23. <https://www.prolificlondon.co.uk/marketing-tech-news/tech-news/2019/08/most-uk-adults-fear-ai-will-take-their-jobs>

24. <https://www.computerweekly.com/news/252458332/Tech-UK-Digital-ethics-has-to-hit-the-boardroom-this-year>

“The Gender Pay Gap exercise has focused the mind on equity between genders, but we still have a long way to go in terms of broader measures of inclusion. The healthcare workforce is female dominated but at the upper echelons this falls away in a similar fashion to many other sectors. Overall, although the direction of travel continues in a positive way, I have not seen any particular step change take place and cannot say with confidence that the building blocks are solidly in place for the future. A key part of this will be the focus on a pipeline of talent; however, we are on a slow road. I believe we are seeing a generational shift and for those entering the workforce equality and diversity is inherent in people’s psyche. It is just seen as a natural thing. Overall, the most critical point for equality and diversity at board level is to be seen as a role model for our own organisation and I strongly believe that more diverse organisations, which reflect their staff and the communities they serve, make better organisations.”

Joanne Shaw, Non-Executive Director, NHS England and Vitality Health



| | APAC | Nordics | UK | Global Av. |
|---|------|---------|-----|------------|
| Proportion of your organisation’s workforce to be replaced by AI in five years | 20% | 17% | 16% | 16% |
| Feel that they have the right skills to drive digitally enabled business transformation | 45% | 54% | 42% | 47% |
| The diversity of the board is a concern | 46% | 45% | 52% | 49% |
| Discussion/Talking it out is the best way to resolve conflict in the boardroom | 96% | 96% | 67% | 94% |
| Board impacts climate change to little or no extent | 28% | 14% | 32% | 26% |

Spotlight on APAC

About the respondents

Of our APAC respondents, 59 per cent were non-executive directors, 12 per cent were chairs and 22 per cent covered both roles. Just over a third have held their board position for more than ten years. Thirty-nine per cent were female, the largest proportion of our highlighted regions.

Boardroom Focus

| | TOP 3 TOPICS ON AGENDA | TOP 3 DESIRED BOARD SKILLS |
|---|---------------------------|----------------------------|
| 1 | Organisational capability | Organisational capability |
| 2 | Strategy | Risk & regulations |
| 3 | Digital innovation | Strategy |

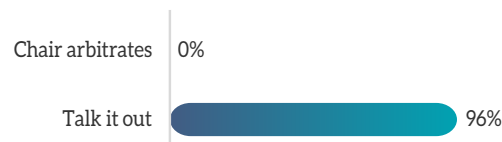
China, India and Japan have been growing exponentially as technology centres for several decades. In doing so, they have created a large talent pool across most digital specialisations to meet the demand from organisations wishing to deploy technologies such as artificial intelligence and big data analytics. APAC is the only one of our examined regions not to place their desire for more digital skills in the boardroom in their top three, despite having digital innovation

ranked in third place as a more talked-about topic in the boardroom. Perhaps their problem lies less with the available pool of talent but more with attracting and keeping that talent in countries that might appear to be less attractive propositions in terms of lifestyle or economic stability; APAC respondents firmly place organisational capability (talent and succession) front and centre of the boardroom agenda.

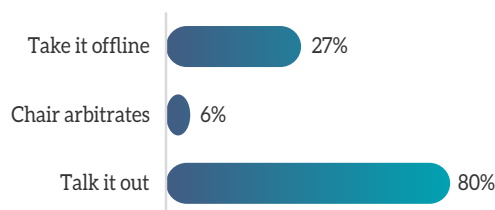
Board Dynamics

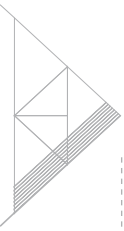
APAC board members are the least likely to expect the chair to manage differences of opinion in the boardroom. Ninety-six per cent of respondents think that should be managed through ongoing discussion. This trend extends to managing interpersonal conflict between board members, with APAC respondents being the most likely of the regions to expect conflict to be resolved through dialogue.

How to handle differences of opinion?



How to handle interpersonal conflict?





Good Business

A fair majority (87 per cent) of APAC respondents feel that it is the board’s responsibility to set the culture for the organisation, but this is the lowest of the regions examined. Just over half (51 per cent) believe they

influence organisational culture to a great extent. More than half (53 per cent) strongly agree that shareholders demand good business from their organisations. Six in ten feel that they have responsibility for their impact on society to a great extent.

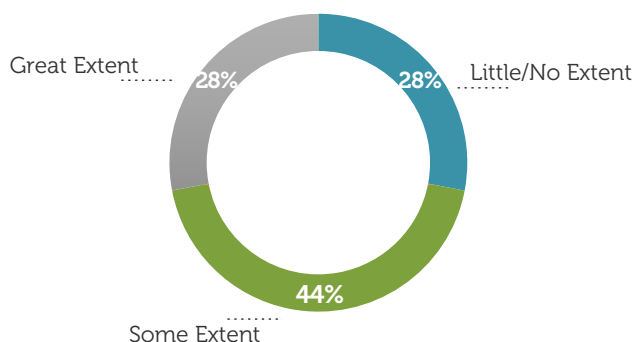
Board’s responsibilities vs ability to influence

| Top 3 responsibilities | Have responsibility to a great extent | Have influence to a great extent |
|-------------------------|---------------------------------------|----------------------------------|
| 1. Financial governance | 92% | 77% |
| 2. Culture | 70% | 51% |
| 3. Impact on society | 60% | 34% |

Whatever else can be measured as part of doing good business, climate change creates a specific risk for all organisations. From shifting weather patterns that threaten food production to rising sea levels that increase the risk of catastrophic flooding, the impacts of climate change are global in scope and unprecedented in scale. Worryingly, more than half (51 per cent) of APAC

respondents spent zero hours discussing climate change in the boardroom over the past year, almost double the number of their Nordic peers. More than a quarter (26 per cent) claim to not know who is responsible for climate-related risk and environmental impact within their organisations – again far more than their peers from other regions.

Is the board responsible for impact on climate?



Diversity

Of our APAC respondents, less than half (46 per cent) are concerned with diversity at board level and just over half (52 per cent) are concerned with diversity in the executive team.

Top 3 types of diversity sought in the boardroom

| |
|------------|
| Cultural |
| Gender |
| Functional |

When it comes to advancing diversity and inclusion in Asia Pacific, a region with more than 4.5 billion people (nearly half the world's population) and that has significant cultural differences from country to country, the journey can be complex. There is some evidence of advancement, some of which is happening at a legislative level. In March this year, China agreed to five of the UN Human Rights Council's recommendations on LGBTQ+ rights. Among them was the adoption of legislation banning discrimination within one year. However, the greater strides are occurring at the corporate level, thanks to some multinationals such as Goldman Sachs and HSBC²⁵ that are taking steps to advance inclusion and diversity within their own organisations and paving the way for other employers within the region. July saw India's first LGBTQ+ job fair supported by Uber²⁶ and broadcasting company Star India has decided to extend health insurance cover to the partners of its LGBTQ+ employees as well as paternity- and maternity-related benefits. In Australia, according to annual figures put together by the Workplace Gender Equality Agency (WGEA), men are still being paid 21.3 per cent more on average than their female peers, which is evidence of how long the journey still is.²⁷

Digital

Forty-five per cent of APAC respondents feel that they have the correct skills in the boardroom to drive successful digitally enabled business transformation. According to our research, APAC board members are the most likely to have come from a technical background, with 8 per cent of respondents claiming to do so. The inaugural Digital Treasury Index survey, commissioned by DBS and conducted in May 2019 by East & Partners Asia, shows that while digital transformation in APAC is still in its infancy, Singapore companies were found to be more digitally ready than their regional counterparts, ranking closely behind Japan. Some 41 per cent of Singapore respondents said they had a clearly defined digital strategy and execution plan in place.²⁸ Our qualitative research shows that instead of tours to historical hubs for innovation, such as Silicon Valley, boards are visiting APAC tech giants such as WeChat, with its 1 billion users, to illuminate the path towards digitisation.

Digital transformation is a hot topic and artificial intelligence (AI) is critical to that objective. Our research shows that six in ten of APAC respondents feel that more than 10 per cent of the workforce can be replaced with AI, the highest levels shown across all regions studied. Unfortunately, with AI being a relatively new territory, existing talent is in short supply. APAC organisations are looking to augment existing skill sets in order to bridge the gap. In order to avoid the challenges posed by the AI talent gap, organisations with global presence – such as Japanese manufacturing company Daikin Industries – are upskilling existing staff by offering to train them on emerging technologies, including artificial intelligence.²⁹

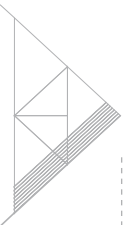
25. <https://www.weforum.org/agenda/2018/11/inclusion-and-diversity-isnt-just-good-for-employees-its-good-for-the-bottom-line/>

26. <https://yourstory.com/herstory/2019/07/uber-india-first-lgbtq-job-fair-bengaluru>

27. <https://www.smartcompany.com.au/people-human-resources/pay-parity-small-business-wgea/>

28. <https://www.businesstimes.com.sg/government-economy/3-in-10-cfos-treasurers-in-asia-pacific-leading-digital-transformation-dbs-poll>

29. <https://techwireasia.com/2019/08/with-salaries-for-ai-talent-soaring-daikin-invests-in-upskilling-staff/>



“In Australia we suffer from this really basic lack of diversity of not having more women and more young people [on boards]. We still have, primarily, older men. Now digital is the next dimension of diversity. Boards are meant to ensure the long-term survival and prosperity of the company, and in that sense digital should be front and centre for pretty much every board in Australia. And I don’t think you can do that if you are not a diverse board.”

Chair, Mobile Payments Company



| | APAC | Nordics | UK | Global Av. |
|---|------|---------|-----|------------|
| Proportion of your organisation’s workforce to be replaced by AI in five years | 20% | 17% | 16% | 16% |
| Feel that they have the right skills to drive digitally enabled business transformation | 45% | 54% | 42% | 47% |
| The diversity of the board is a concern | 46% | 45% | 52% | 49% |
| Discussion/Talking it out is the best way to resolve conflict in the boardroom | 96% | 96% | 67% | 94% |
| Board impacts climate change to little or no extent | 28% | 14% | 32% | 26% |

Spotlight on the Nordics

About the respondents

Of our Nordic respondents, 48 per cent were non-executive directors, 14 per cent were chairs and 34 per cent covered both roles. Just over a quarter, 26 per cent, have held their board position for more than ten years. A third of Nordic respondents were female.

Boardroom Focus

| | TOP 3 TOPICS ON AGENDA | TOP 3 DESIRED BOARD SKILLS |
|---|---------------------------|----------------------------|
| 1 | Digital innovation | Strategy |
| 2 | Organisational capability | Sector |
| 3 | Strategy | Digital |

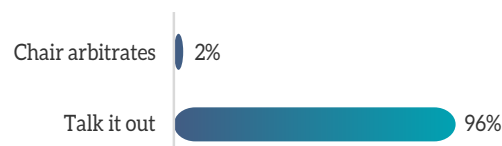
Forward-thinking Nordic respondents place a clear emphasis on the importance of digital innovation and their desire for more digital expertise. One such example of their focus on digital solutions is how countries are eliminating cash at varying speeds. In Sweden the number of retail cash transactions per person has fallen by 80 per cent in the past ten years. Cash accounts for just

6 per cent of purchases by value in Norway. The UK is probably four or six years behind the Nordic countries and the US is perhaps a decade behind.³⁰ Nordea, the largest bank in the Nordic region, is now providing its customers with the option of wearable technology, in the form of watches and straps, to make low-value payments.³¹

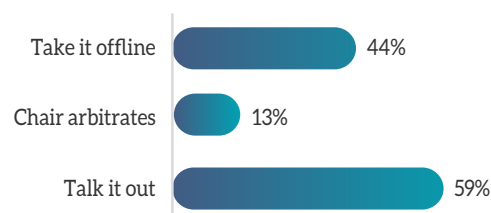
Board Dynamics

The Nordic board members appear to have the least tolerance of interpersonal conflict carrying on in the boardroom; they are the most likely of all regions to give the chair a mandate to arbitrate or have the discussions continued offline from the meeting. Thirteen per cent, more than double the global average, expect the chair to step in and sort out the problem.

How to handle differences of opinion?

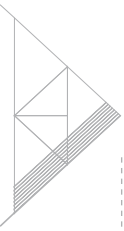


How to handle interpersonal conflict?



30 . <https://www.economist.com/leaders/2019/08/01/rich-countries-must-start-planning-for-a-cashless-future>

31 . <https://www.computerweekly.com/news/252467857/Nordic-banks-move-into-wearable-payment-technology>



Good Business

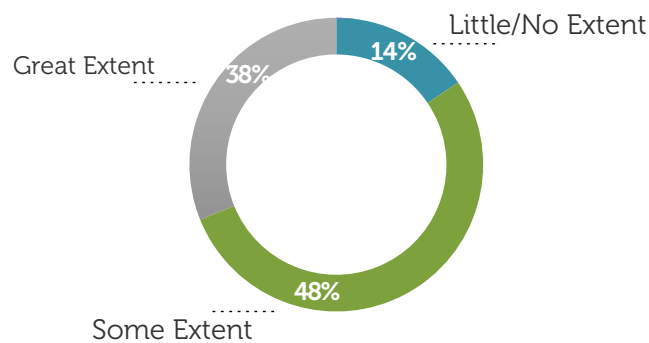
Eighty-nine per cent of Nordic respondents feel that it is the board's role to set the culture for the organisation, but less than half (48 per cent) feel that they have the ability to influence it to a great extent. More than half (56 per cent) strongly agree that shareholders demand good business from their organisations, the most of all the regions examined.

Board's responsibilities vs ability to influence

| Top 3 responsibilities | Have responsibility to a great extent | Have influence to a great extent |
|-------------------------|---------------------------------------|----------------------------------|
| 1. Financial governance | 86% | 78% |
| 2. Culture | 58% | 48% |
| 3. Impact on society | 49% | 29% |

Nordic boardrooms are taking climate-related risk far more seriously than their UK or APAC counterparts. Sweden was one of the first nations to set a net-zero target for carbon emissions – for 2045. In January 2019, Finland, Sweden, Norway, Denmark and Iceland signed a declaration committing to enhance their cooperation to accelerate climate action at national, regional and global levels and to work towards carbon neutrality.³² Less than a quarter (22 per cent) spent zero hours discussing climate change in the boardroom over the last year, compared to 46 per cent in the UK and 51 per cent in APAC. They are also the most likely to have a firm idea of who is responsible for climate-related risk, with only 6 per cent claiming ignorance.

Is the board responsible for impact on climate?



32. <https://sdg.iisd.org/news/nordic-countries-sign-declaration-to-accelerate-climate-action-towards-carbon-neutrality/>

Diversity

Nordic respondents are the least likely of the regions to be concerned with diversity at board level, with under half (45 per cent) citing this as a concern. They are, however, the most likely to be looking at the talent pipeline, with six in ten concerned with diversity at the executive team level.

The Nordics have always led the march on gender diversity at board level; for example, the proportion of women on the management teams of listed Swedish companies rose to 23 per cent this year, from 21 per cent a year ago, according to a report from the AllBright foundation. The boards at the largest Swedish companies could be gender equal by 2020, with 38 per cent women currently; including all listed companies, the proportion of women on the boards stands at 34 per cent.³³

Top 3 types of diversity sought in the boardroom

| |
|---------------|
| Functional |
| International |
| Culture |

The types of diversity that Nordic respondents are looking to increase differ quite markedly from other regions. Number one in their ranking is functional expertise and number two international. This is a further indication that they feel that protected characteristics are having their boxes ticked in boardroom appointments and that they are now focusing on growing their organisation with a global outlook.

Digital

According to our research, Nordic board members are the least likely to have come from a technical background by some margin, with only 1 per cent of respondents claiming to do so. Despite this, they are significantly more likely to believe that they have the correct skills to drive successful digitally enabled business transformation, with more than half (54 per cent) feeling positive about this.

There is some evidence that the reason for this is that Nordic enterprises are turning to IT outsourcing as a way to cut costs, expand their businesses globally and gain access to technology experts with niche skills as opposed to relying on in-house capabilities.³⁴ For example, the world's third-largest brewer, Denmark's Carlsberg, has adopted a single data lake on Microsoft Azure in the cloud to ensure that it now has a single place to work with data from. According to Jawaz Illavia, VP for Global Services, this has led to a mindset change within Carlsberg, with the business now much more aware that data is an asset that can be used to drive business goals.³⁵

Nordic respondents are more likely than the global average to expect that more than 10 per cent of the workforce can be replaced through AI, with 53 per cent citing this as a possibility.

33. <https://www.bloomberg.com/news/articles/2018-10-16/the-number-of-female-executives-rises-in-sweden-in-new-report>

34. <https://www.pnewswire.com/news-releases/nordic-enterprises-seek-digital-transformation-from-data-center-and-cloud-vendors-300889817.html>

35. <https://diginomica.com/brewing-new-business-operating-model-carlsberg>

“As a board member it is your responsibility to speak up. The more healthy discussions with different perspectives and angles in the boardroom are had, the more likely it is that you are progressing towards the best decisions since all members will have had the opportunity to speak from their own perspective. It is also important that the chair summarises the decision in a way that all members can sign it off.”

Anette Rosengren, MD Nordics, Philip Morris; and Non-Executive Director, Altia Plc and Greenfood



| | APAC | Nordics | UK | Global Av. |
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London Business School Conclusions

Final Reflections: The Present is Fraught but the Future Looks Bright

Since our last report, we've witnessed another significant wave of board governance failures. I am also struck by my growing experience of the 'six degrees of separation' effect: knowing clients and/or individuals who have been personally affected by these disasters.

Reflecting back on the extraordinary rise in governance failures of the late 20th and emerging 21st centuries, I acknowledge the commitment to the development of the FRC Code, and can see how even a 'comply or explain' approach has been a catalyst to changing the activities, mindsets and behaviours of many prominent boards. However, as a strategic organisational effectiveness practitioner, I am left wondering: Have we made as much progress as we could in ensuring governance efficacy? Are we focusing on the right areas, using the most effective levers to boost effective governance and governance education? Most importantly, are we getting the balance right in terms of where we are prompting boards to focus their efforts?

More specifically, and looking through the lens of my role of Executive Director of the Leadership Institute, I also frequently ask myself: Are we putting just as much effort into educating and developing the 'next generation' of board members as we are into working to educate and develop the current generation?

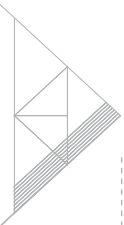
Emile Durkheim, the principal architect of modern sociology, famously stated: 'Each new generation is

reared by its predecessor; the latter must therefore improve in order to improve its successor....'

Interestingly, this year's report shows the age range of serving board members surveyed is 'marginally more youthful than last year, with 7 per cent of respondents being aged under 45'. This finding indicates to me there is a clear opportunity — for educators to focus on thinking differently about what we offer the next generation board member in terms of governance education.

It is these reflections, coupled by a spike in conversations with the School's collaborators, students and customers, that has prompted the Leadership Institute to work more closely with our colleagues here at the School — specifically on boosting the education and development efforts of the next generation of board members coming to London Business School. Not only by more explicitly showcasing how aspects of their studies link to the theme of effective Corporate Governance, but also thinking about how we might create 'next generation' educational offerings for those aspiring to be on boards (either in executive or non-executive roles) in the future. There are a number of ways we have started to do this, within the School's degree and Executive Education programmes. Our most recent effort involved holding a 'Board Awareness' Day for our EMBA and Sloan students and selected friends. It's fair to say I walked away from that day feeling 'the future looks bright', in terms of the





pipeline of aspirational board members who attended. The over 200 questions generated by participants (see my early June 2019 Tweets for a taster) also indicated they were passionate about showing up differently as board members, when taking up appointments in the future. It was clear that many realised if they were to challenge others, on things such as listening, inquiring and self-awareness, that they needed to ensure they were at the top of their game in terms of those things themselves.

As part of the day we also curated a panel, which I had the pleasure to moderate, comprised of past and current CEOs, company secretaries, chairs, board evaluation specialists, LBS Board Fellows, the President of LBS Student Clubs, and the Academic Director of the Leadership Institute. I was left in awe at the extreme candour of each panellist's insights, especially in terms of the personal learning and reflections they shared. They also spoke openly about the challenges of serving on boards, as well as about the personal strategies they've used to work to be as effective as they can be on boards they serve or lead. I smiled to myself when Greta Thunberg stated in April 2019: 'You don't listen to the science because you are only interested in solutions

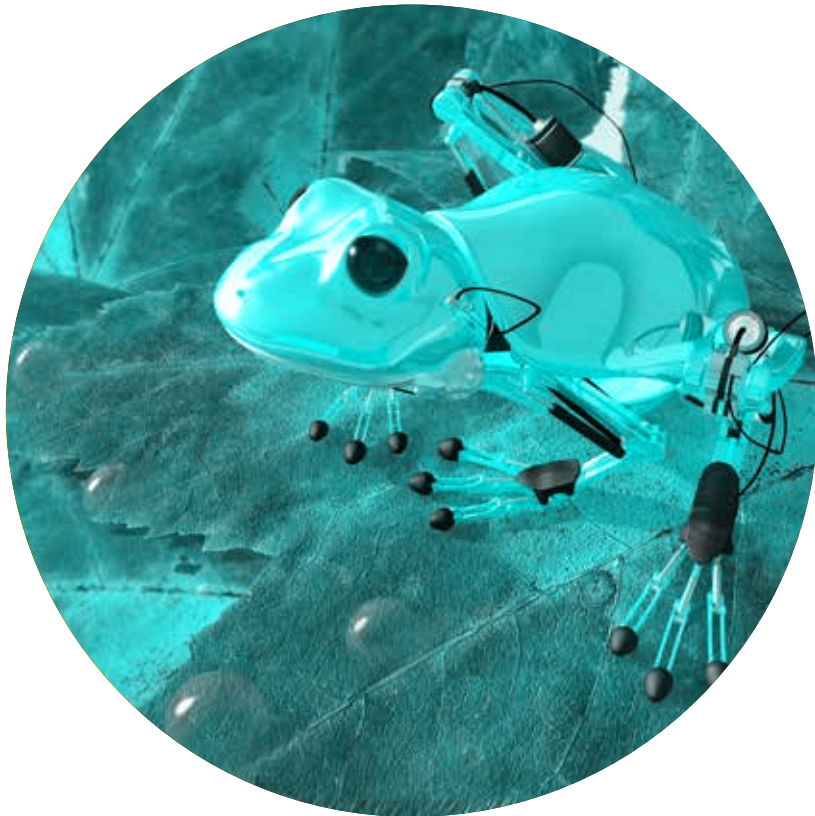
that will enable you to carry on like before.' That same smile emerged as participants strove to understand how they can deploy evidence-based research insights to accelerate their personal effectiveness as well as the effectiveness of boards they may, or currently, serve on.

We continue to take pride in the research and thought leadership the Leadership Institute has produced over the past five years on the topics of board effectiveness, board ineffectiveness, member effectiveness and board culture. And are equally proud at the impact we see this is having on conversations and practices within boards across the world. As well as the next generation of board members.

The present may feel fraught, but I believe the future looks bright given the increasing number of practitioners, advisers and academics dedicated to increasing the efficacy of boards in the UK and globally.

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