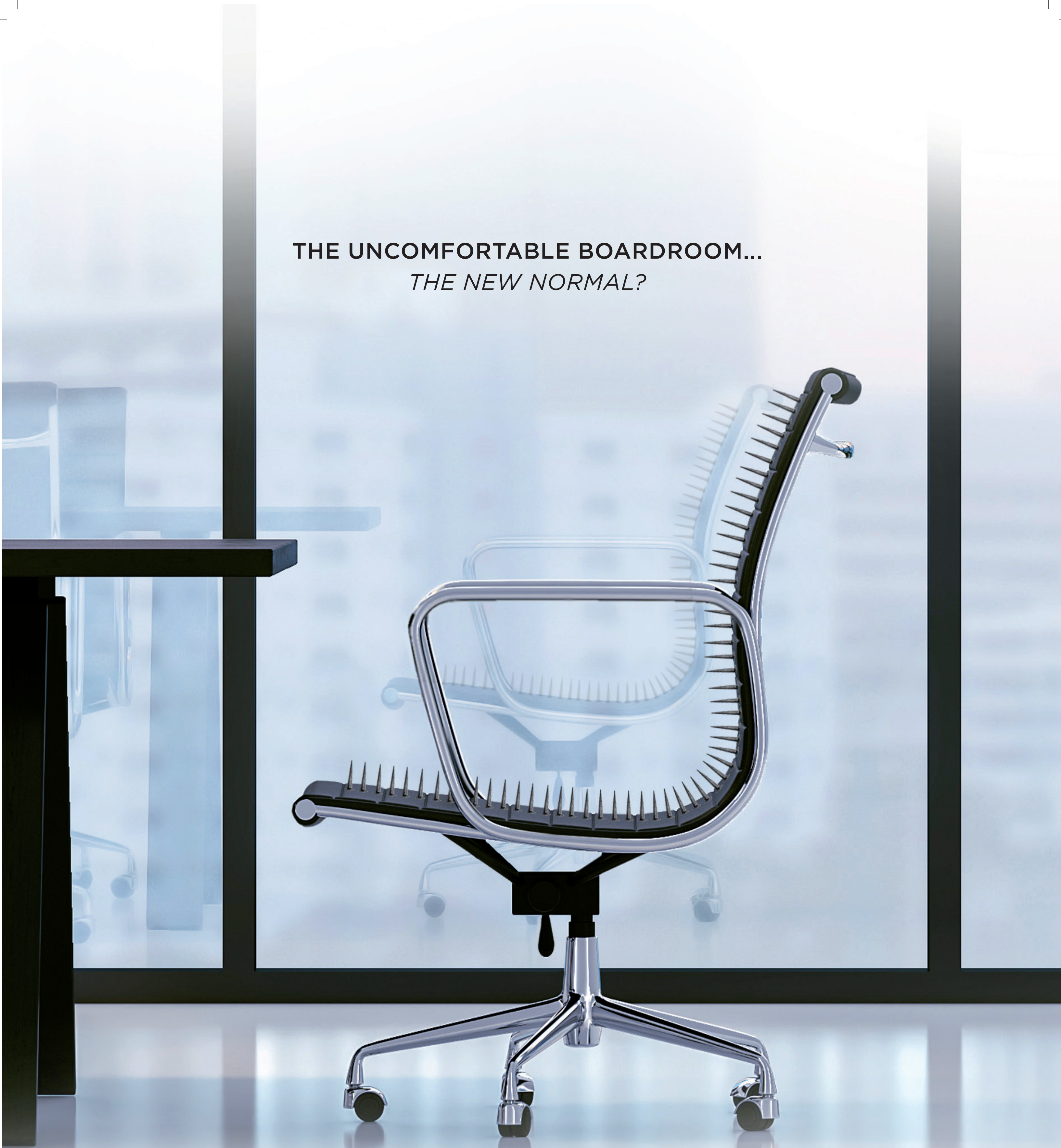
THE UNCOMFORTABLE BOARDROOM...
THE NEW NORMAL?



THE HARVEY NASH / ALUMNI BOARD REPORT 2018/19

IN PARTNERSHIP WITH LONDON BUSINESS SCHOOL'S LEADERSHIP INSTITUTE

Alumni

HARVEY NASH
The Power of Talent

London Business School
Leadership Institute

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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**

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The Uncomfortable Boardroom... *The New Normal?*

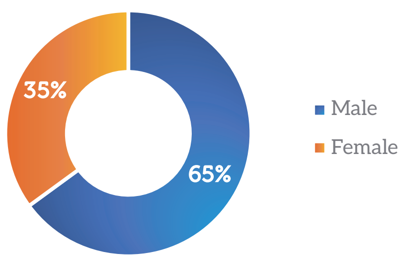
Welcome to the fifth edition of our International Board Research Report created in partnership with the London Business School's Leadership Institute. With its wide-ranging qualitative and quantitative input from chairs and non-executives operating within organisations of all sizes, including all ownership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

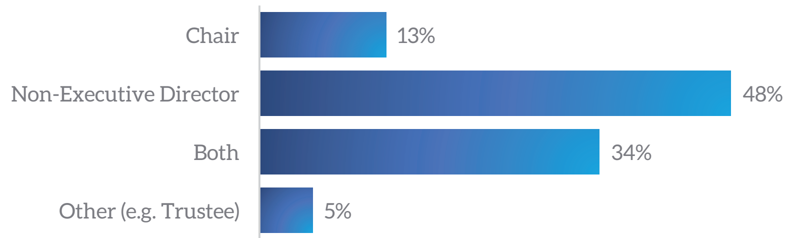
This year we have supplemented our ongoing insight into the effectiveness of boards, diversity and digital enterprise transformation with an examination of the cause and effect of informal discussions between board members: those conversations that happen more often over coffee, lunch or on the golf course than within the minuted confines of the boardroom. We also look at how seriously organisations are taking their requirement to report on the financial risks that may arise due to climate change and their awareness about the impact of such changes on the entire supply chain. With its high-level research on key subject areas and detailed regional analysis for the UK, US, APAC and Nordic regions, we hope you will find this research insightful and thought-provoking.

About the Respondents

Our quantitative research this year is comprised of contributions from 674 chairs and non-executives from across the globe. A panel of 68 experienced chairs and non-executives also provided in-depth interviews for their qualitative insight. More than a third (35 per cent) of contributors were women. The age range of our serving board members continues to be broad, with 5 per cent of respondents being aged under 45 and 22 per cent aged over 66.

Almost two-thirds (63 per cent) hold no other positions other than their board role(s) and almost a third (31 per cent) are career non-executives with four or more board positions. Sixty-six per cent have held their non-executive position for more than six years.





Executive Summary

The impact of digital on organisations continues to dominate the board agenda

Disruption from digital is apparent within all sectors and embracing change as the new normal is an ongoing issue. Security and good governance implications resulting from the pervasion of technology ensure that digital strategy and cyber security remain top of boardroom agendas. Greater regulation encourages boards to adopt more responsibility and millennial mindsets further challenge traditional boardroom dynamics. In addition, failures in governance are now widely broadcast across the media and bring potentially catastrophic damage to reputations and revenues alike.

- Cyber security has jumped to first place on the agenda from fifth place last year, with 72 per cent of boards discussing it more now than three years ago.
- Board discussions around globalisation have fallen from 26 per cent last year to 18 per cent this year.
- For the past four years governance and risk has taken first place on the agenda and this year it is in third place behind cyber security and digital innovation.

Digital enterprise transformation is accelerating

This report looks at digitally enabled enterprise transformation, quite separately from large-scale channel or systems implementations. We examine the power of digital technology to transform business processes and the extent to which there are barriers to that transformation. Skills shortages remain a problem for the majority of respondents and the most frequently stated barrier to success. However, having the digital knowledge and awareness at board level can dramatically alter the success of enterprise-wide digital and boards continue to seek to enrich their technical knowledge.

- 30 per cent of respondents state that a lack of skills is a barrier to digital enterprise transformation.
- 70 per cent of the Retail and Leisure sector respondents feel disrupted by digital.
- Manufacturing is the least likely sector to feel disrupted.

More talk and more action required on climate change

Our research this year looks at the level of attention being given to climate change. Are the catastrophic implications of the predicted rise in global temperatures provoking strategic thought in the boardroom? With its capacity to affect entire supply chains, it is no longer a matter of increased governance and green energy initiatives. It requires more awareness at board level today in order to comply with the requirement to report on the financial risks.

- 92 per cent of Nordic respondents understand that shareholders demand 'good business' from them compared with just over half of those from the UK.
- 77 per cent of Nordic respondents understand that good business will drive long-term profitability but only 11 per cent of APAC and 13 per cent of US respondents agree.
- 56 per cent of respondents never discuss climate change in the boardroom – even within Manufacturing 33 per cent have spent zero hours and Energy 41 per cent.

Diversity is a way of thinking not a box-ticking exercise

There was a time when taking on a chair role was considered the first step towards a comfortable retirement, but increasingly the role of the chair is becoming more complex. Boards are slowly moving away from appointing new members moulded in their own image. With more perspectives and increasing diversity of thought within the boardroom, they (as the Financial Reporting Council's new UK Corporate Governance Code says) should not necessarily be comfortable places to be. Differences in gender, social backgrounds and cognitive strengths not only enrich protected characteristics but also bring new ways of thinking and strategic planning into the boardroom.

- More than half of UK respondents are concerned with diversity in the boardroom compared with 36 per cent in the US.
- 62 per cent of Nordic respondents are concerned with diversity of the executive team compared with just over half in the UK.
- 29 per cent of respondents are dissatisfied with the pool of talent they are offered for non-executive appointments.

Allowing a voice for and embracing others' opinions make a more effective board

The effectiveness of the working relationship between key members of the board and the executive team can be a persistent issue for businesses. This can lead to conflict within the board and result in low-level lobbying, discussion and decision-making taking place outside the boardroom; this has the potential to harm board integrity. There is a need to educate both CEOs and chairs on best practices to encourage a more balanced, vibrant and functioning board.

- Almost 1 in 10 respondents admit to often or always making decisions offline and outside the boardroom.
- 97 per cent feel comfortable raising the question of ethics in the boardroom.
- 77 per cent of our respondents would resign if they were unhappy with the standards of governance, despite any legal obligation to correct issues.

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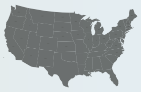
31% have **never completed** an **external board evaluation**

97% of respondents feel **comfortable** with **raising questions of ethics**

30% say a **lack of technology** skills is the **biggest hurdle** to digitisation

56% of respondents have spent **zero hours discussing environmental impact**

49% are **concerned about diversity in the boardroom**



London Business School | Leadership Institute

Board Evolution

Key insight: Digital strategy and cyber security issues are dominating the agenda and boards are addressing their governance standards with more frequent evaluations as scrutiny in their behaviour grows.

The relationship between business and its customers has always relied on trust but following high-profile data breaches and technology failures, companies and their governing boards are being viewed with increasing suspicion. Customers, workers, investors and the wider society are beginning to demand better; the best practice for boards would be to listen and respond with exemplary codes of conduct and standards of behaviour. In our past years' research, governance and risk has always been at the top of the agenda but in a significant fall this year it appears in third place with only 64 per cent citing it as a priority. However, less than a third (31 per cent) are placing building public trust on the boardroom agenda.

That said, it could be argued that boards are taking a more literal stance, with 72 per cent placing a topical emphasis on cyber security. In fact, cyber security has jumped to first place on the agenda from fifth place in last year's research – most probably in response to high-profile breaches and the start of General Data Protection Regulation (GDPR) in the European Union. It is a good place to start but it should be recognised that consumer trust will always be built on more than the safe handling of customer data.

Boards appear to be remaining reactive to ongoing geo-political instability, with more introspection and consolidation in organisations that are suffering from uncertainty on the direction of travel of the current economy. For example, globalisation of their organisation as a boardroom topic has fallen from 26 per cent last year to only 18 per cent in this year's research. Mergers and acquisitions are also being discussed less, down from 37 per cent last year to just 29 per cent.

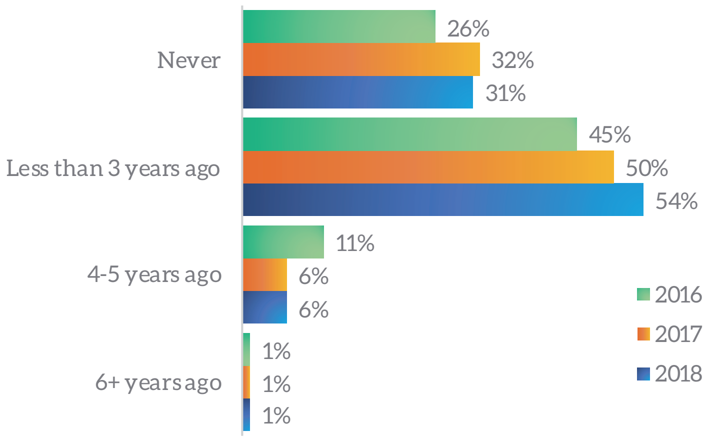
View from Board member

The type of board evaluation governs its effectiveness. Simple check-box forms do not make for a meaningful evaluation. Interview-based evaluations can be very beneficial where each member gets a chance to give their opinion openly.
Viveka Ekberg, Non-Executive Chairman and Director

Cyber security and digital innovation are top of the agenda

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

The number of external board evaluations occurring at recommended 3-year intervals is increasing



When was the last time an external board evaluation was conducted?

Trust-based relationships are bi-directional and meeting standards of governance is an important step towards safeguarding stakeholder confidence. This includes boardrooms being receptive to scrutiny and critique in order to continuously improve. Most corporate codes, across most regions, include the stipulation that external board evaluations should be conducted every three years. Despite this, our research shows that 46 per cent of PLC boards have not completed an external board evaluation within this time frame and almost a third (31 per cent) have never completed one. Our qualitative research illustrates that this may be in part due to a fear of having board vulnerabilities highlighted but also a perception that evaluations are a box-ticking exercise as opposed to a tool that can bring fresh perspectives, insight and improvement to the boardroom. Generally, a clear majority (87 per cent) of our respondents still feel that external evaluations can improve board effectiveness.

31%
have **never completed** an **external board evaluation**

Harvey Nash / Alumni say

Prepare to justify the means to an end
There is only one direction of travel for levels of scrutiny over boardroom decisions and, in order to comply with both increased regulation and public interest, boards should be prepared to create a culture of openness and justifiable due diligence over the decisions that they are making.

Recognise the value of constructive feedback
Understand that the results of an external, therefore independent, board evaluation provide valuable feedback and insight. Viewing them merely as a tick-box exercise, with no intention to effect change and continuous improvement of the board's effectiveness, will render them less valuable and less engaging despite being best practice. More should be expected of your external partner.

Digital skills in the boardroom require nurturing
Technology decisions are becoming increasingly important in the boardroom with the infinite opportunities and increasing threats that digital brings. Ensuring that the talent pipeline for new non-executives fosters individuals with both digital and governance skills should be a priority for the board.

London Business School's Leadership Institute says

Boards are dealing with more complex issues than ever before: cyber security, digital innovation, risk in a volatile environment. This complexity is increasingly challenging the traditional notion of a board as a group of experienced generalists with a broad view of the business and its environment. How can anyone hold all of the relevant information on these complex and interrelated topics to make informed decisions and effectively set strategy?

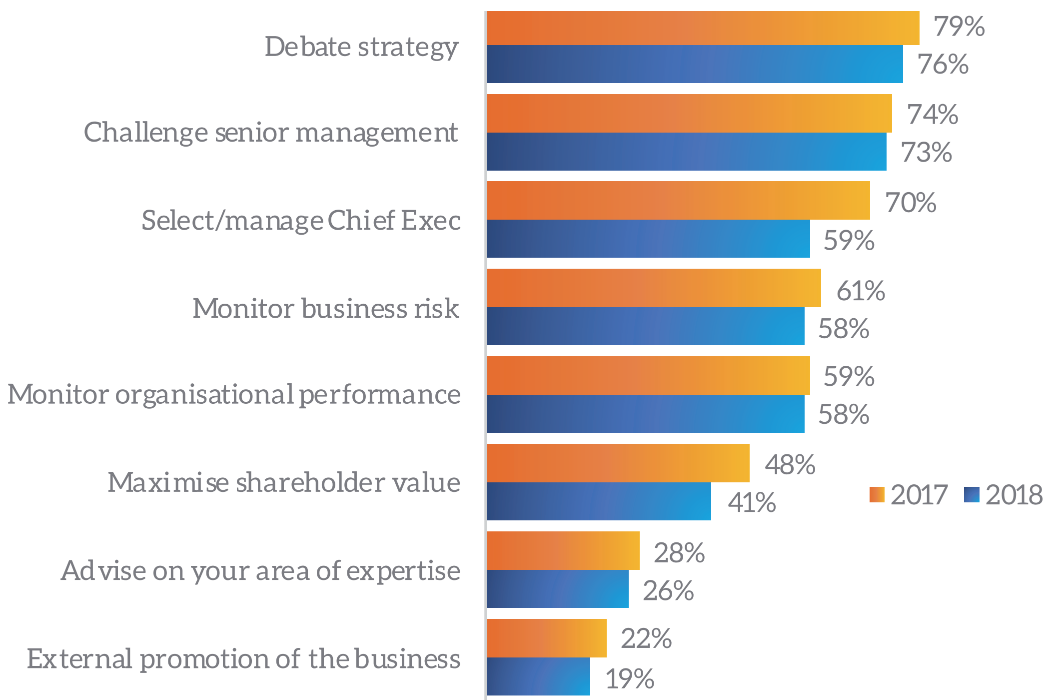
Boards are increasingly turning to specialist advisory boards, expert consultants, and even appointing specialist board members. At one level this is an extension of boards needing to have broad representation of knowledge and skills at their fingertips. At another level, this is a fundamental challenge to the way boards operate. It raises key questions about the role of the specialists* – to take the specialist decisions, or educate the rest of the board? Should the specialist board members have some form of veto power over areas of their expertise?

**Peterson, R. S. (2018). Majority rule voting in the boardroom is an unnecessary risk. Strategy+Business.*

Board Evolution *(continued)*

More than three-quarters of respondents (76 per cent) believe that debating strategy is the most important role for the board and a similar number (73 per cent) believe the role to be more challenging of the senior executive team. Just over a quarter (26 per cent) feel that advising on their area of expertise is an important role. This could be symptomatic of boards still being comprised of individuals who are spending time getting involved in execution rather than remaining strategic. Unfortunately, desire for board cohesion drives out good debate and problem solving. Board members risk becoming frustrated and disillusioned, resulting in a loss of board effectiveness and more groupthink.

Debating strategy remains the top boardroom priority



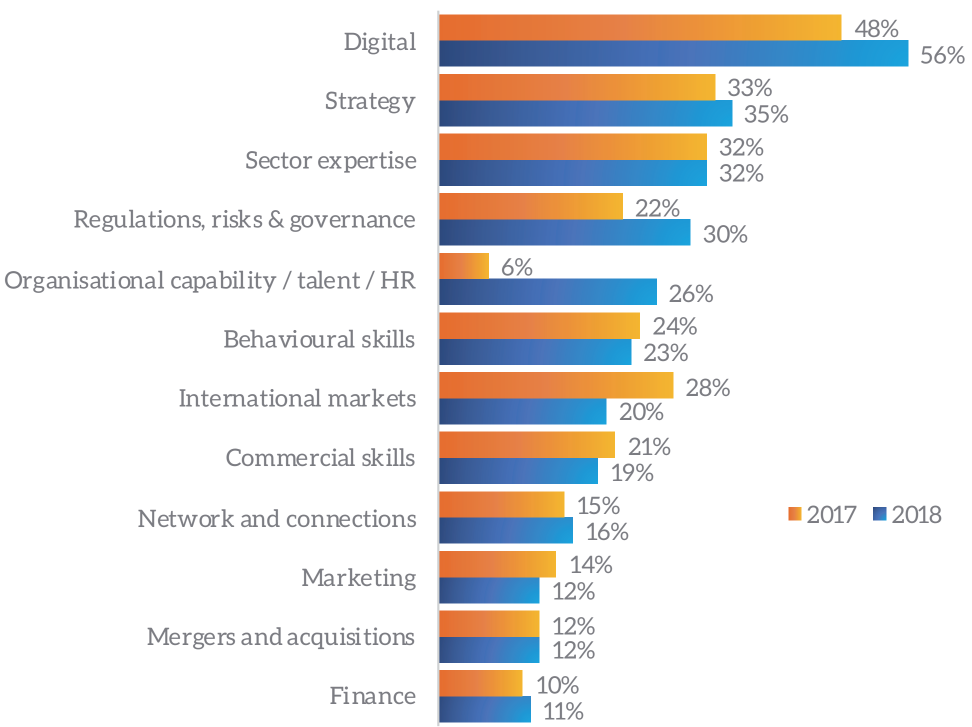
How important are these roles that non-executives enact?

In essence, board members should bring three competencies into the boardroom: governance skills essential to all board roles, technical skills that will assist the business with sector or specialist knowledge, and behavioural skills that allow them and others to use these attributes and competencies in an effective way.

When asked about the specific competencies respondents would wish to add to the board in order to meet future strategic demands, more than half (56 per cent) would like to have more digital experience in the boardroom – a 17 per cent rise on last year's research findings. In another reflection of ongoing geo-political uncertainty, and US administrative policies and Brexit in the UK, experience of international markets is the biggest faller in desired competencies compared with last year – down by 29 per cent.

Interestingly, in last year's research we only specified the broad term 'HR' as a competency and at 6 per cent it sat at the bottom of the list in terms of desirability. We expanded the option to include organisational capability and talent in this year's question and more than a quarter (26 per cent) put it on their wish list. It may be that the term HR is perceived as operational and not strategic, although we believe that the concept of HR is increasingly seen as a strategic capability. Given the levels of disruption to business models, talent and digitisation are as important as fostering digital skills to ensure organisations can adapt and change to business uncertainty and changing dynamics. Only 1 per cent of our respondents report as being from an HR background, which could imply that HR professionals are not in the boardroom. However, all board members will have experience of developing human resources to deliver the business agenda, so this should not be a limiting factor.

Digital expertise remains a priority



Which competencies would your boards wish to add to meet future strategic demands? Select top three

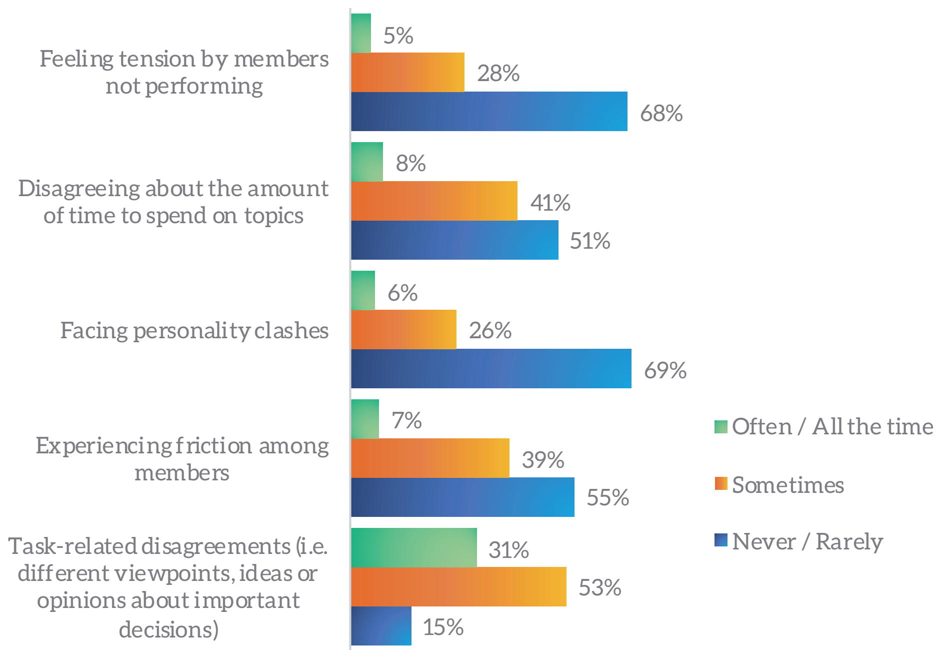
Board Relationships

Key insight: Conflicting opinions in the boardroom are positive if handled correctly. Encouraging disparate viewpoints may well avoid necessitating unproductive offline conversations.

Boardroom dynamics govern how effectively a disparate group of intelligent, high-achievers come together and work as a team. Members can, and often do, reach different conclusions and may struggle to let go of their own vision and logically founded perspectives. According to Adam Grant's book on groupthink, *Originals*, an effective board member should "argue like you are right and listen like you are wrong".

This year's research shows that the most common source of disagreement in the boardroom occurs around task-related issues, with just less than a third (31 per cent) of respondents stating that they happen often or all the time. Levels of tension over other members' performance or interpersonal friction are the least likely to occur.

Task-related disagreements are the most prevalent source of clashes



How consistently do you see these levels of disagreement, debate and discussion in the boardroom?

View from Board member

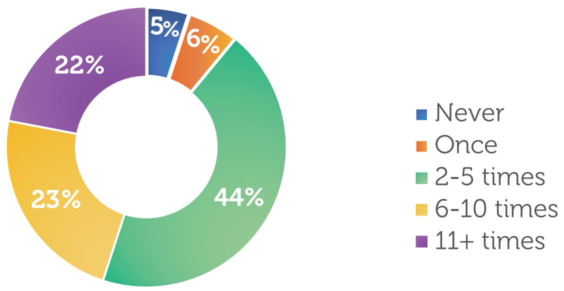
Conflict and different opinions are a natural part of any board and management situation. Do you have the courage to pursue your own beliefs and standpoints? If people avoid critical issues, crucial business opportunities will be lost.

Bodil Rosvall Jönsson, Independent board member

Differences of opinion can split the board but if the governance apparatus fails due to boardroom disagreements then the organisation could find itself with serious issues. In addition to the legal requirement to do so, there are good practical reasons for having boardroom discussions accurately recorded in minutes: not least because they show that members took their decisions properly in accordance with their obligations – this is especially important if the decision might be called into question at a future date. Despite this, 9 per cent of our survey respondents state that they are often or always making decisions offline and our research shows that more than one in five of our respondents (22 per cent) have taken boardroom discussions offline often in the past year and only 5 per cent have never done so.

The main reasons cited for these offline discussions are 'to be prepared for a future decision' (66 per cent) and 'to build relationships with other members' (65 per cent). Almost half (47 per cent) are 'giving or receiving feedback' and almost a third (30 per cent) are 'venting and reality checking'. Not-for-profit, private companies, public sector and state-owned enterprises are more likely to have an offline conversation to build relationships with individual board members rather than preparing for a decision to be made. It may be fine to seek information and discuss issues outside the boardroom but the final debate and decision must take place within it to ensure that all members' voices are heard and decisions are not pushed through by just one or two individuals.

Discussions are taking place outside the boardroom



How often in the last year have you discussed board-related topics with other board members offline, outside the formal board meeting?

Boards are responsible for the governance of risk and ensuring that management maintains a sound system of internal controls. Since corporate culture has a significant effect on behaviour, boards must create the correct culture to help steer management and employees clear of corruption and inappropriate activities. Happily, the vast majority of our respondents (97 per cent) feel comfortable with raising questions of ethics in the boardroom, highlighting that such cultures are dominating. However, more than a quarter (26 per cent) are unclear whether they have the correct information available to allow them to scrutinise the actions of executives. Seventy-seven per cent of our respondents would resign if they felt unhappy with the standards of governance.

An effective way of creating a positive culture is to sign up board members to a code of conduct that is aligned to the values of the organisation. This enables the tone to be set from the top and filter down through the organisation in beneficial ways.

97%
of respondents feel **comfortable** with **raising questions of ethics**

Harvey Nash / Alumni say

Good chairs enable other voices to be heard

It is important for chairs to remember that board members are not their direct reports. By allowing individual voices to be heard and no one voice to dominate, including their own, a culture of ideas and fresh thinking can be created to steer the organisation more effectively.

Resignation may not be the best approach

It may be a tempting moral stance to resign when faced with blatant failures in governance. However, the board has a legal and moral duty of care to act in the best interests of the organisation, which includes all stakeholders, shareholders, staff and customers. Staying and seeing through changes may be the correct thing to do.

Offline but not off message

Many board members both conduct and see value in the offline conversations they have with their cohort. To comply with governance legislation, these should be strictly focused on building stronger relationships or fact finding and not used as a divisive way to influence the decision-making process.

London Business School's Leadership Institute says

Task-related debates and discussions are core to the purpose of boards to debate strategy and challenge senior management. And yet, the level of task-related disagreements reported by boards in our survey suggests 15 per cent rarely or never experience such debates, and the clear majority (53 per cent) report this only 'sometimes'. So if many boards are not having these debates on a consistent basis, where are real decisions being made?

More than a third of our respondents (35 per cent) report making decisions offline (i.e. not just having offline conversations) in the past year and 25 per cent report that misunderstandings in the boardroom occur 'often' or 'all the time'. These data suggest that between a quarter and a third of boards don't debate in the boardroom and/or make decisions outside official channels.* This seems a strikingly large percentage of boards that are not meeting basic expectations.

**Gardner H.K. and Peterson, R. S. (2018). How Side Conversations Help and Hurt Boards.*

Onboarding Digital

Key insight: There is an increasing sense of urgency that is removing many of the blocks to digitally enabled transformation within organisations. Change is now the new normal.

"Digital transformation is the coupling of granular, real-time data (smart devices, mobile commerce, video surveillance, etc.) with modern technologies (cloud-native apps, big-data architectures, AI, blockchain, etc.) to enhance products, processes and business decision-making with customer, product and operational insights."
Bill Schmarzo, former CTO, Dell EMC Services

Bemused looks on the faces of those attending the Senate hearing of Mark Zuckerberg in spring 2018 highlighted how ignorance of the technologies that dominate current economies and consumer behaviours can lead to organisations failing to take strategic decisions early enough to stay ahead of the curve. Profits are not only affected by a lack of competitive advantage but also through punitive penalties for failures in data governance and brand reputation through security breaches. Surely it has never been more important to have digitally competent non-executives on the board? Digital is not just another channel to market but can transform business processes wholescale through technologies such as cloud, AI and automation. Getting the right data, extracting insight and using it strategically are transformational. Every company should consider themselves a data company.

This year's research shows that more than half (53 per cent) of respondents feel their board has the correct skills to drive digitally enabled business transformation.

Twenty-nine per cent believe that they have no blocks to digital enterprise transformation, up slightly from 26 per cent last year. At 30 per cent, a lack of technology skills is the most frequently stated obstacle and this continues to rise every year. Respondents stating that a lack of urgency is a major stumbling block have fallen 25 per cent since last year. Perhaps this is down to more frequent incremental implementations and agile cloud-based changes taking the place of the big bang, waterfall approach of previous years.

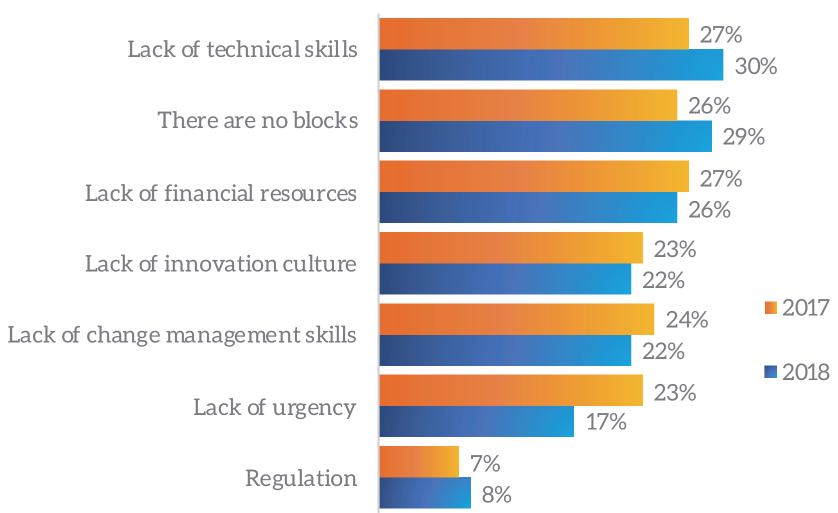
Clearly, few executives would dispute the pervasion of digital within their organisations, and most leadership teams may believe they have a collective commitment to a strategic response to its threats and opportunities. Yet, for many the question of what is really needed to position the business for success, and where the real priorities are, can become a source of disagreement. Despite this, 42 per cent of our respondents feel that they are neither a digital disruptor nor being disrupted.

30%
say a **lack of technology skills** is the **biggest hurdle** to digitisation

View from Board member

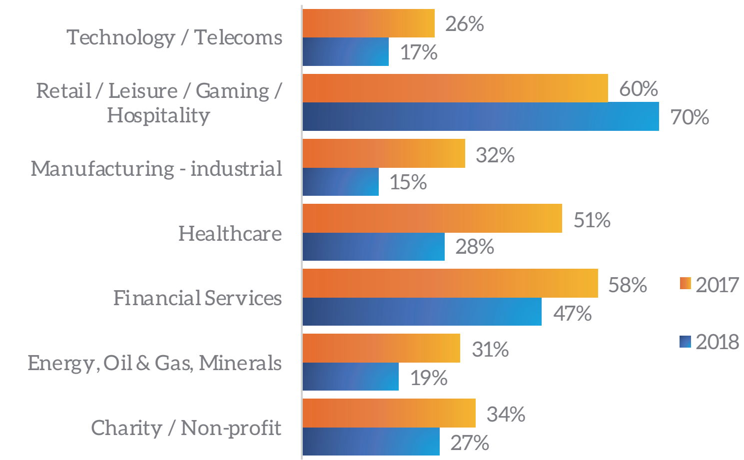
Many companies are too afraid of testing digital, preferring to do things the way they have always been done. Testing digital shouldn't cost a fortune, think a few steps ahead – all processes could be digitised but the question is where to start?
Bengt Engström, Board professional, Nordics

Lack of technical skills remains the biggest hurdle to digitisation



What, if any, are the blocks to digitally enabled business transformation for your selected organisation?

The Retail sector remains the most digitally disrupted sector



Organisations that feel disrupted by digital innovation and new technologies

Our research shows that the Manufacturing sector has become the sector least likely to feel disrupted by digital despite manufacturers worldwide looking to digital projects and technologies like artificial intelligence (AI) to increase efficiencies and avoid disruption from industry newcomers.

The millennial workforce embraces a digital workplace culture and enjoys engaging in this way – they are digital natives. Should the same enthusiasm be expected from CEOs and other members of the management structure? Will they even share the knowledge of the digital age? Or is it a world they fear, necessary but at the same time totally unfathomable?

Boards need to have a degree of humility when it comes to predicting the skills that they need for the future. They can already identify the convergence of the physical and digital worlds, which means that whatever sector they are in – from Oil and Gas to Automotive – if it does not have a major digital component, it is very likely to have one over the course of the product life cycle. Hands-on engineering will require digital skills to an extent it did not in previous years.

It is almost guaranteed that in the future of business, anything that is a process can and will be run by AI. In this new economy, a digital assistant will handle the sales process. A customer will talk to their Google Home or Amazon Alexa, among others, and ask for whatever they want. The assistant will use preferences and previous history to deliver personalised offers. In this future world, the point of sale has moved entirely onto a digital platform. It is no surprise then that 70 per cent of respondents from the Retail and Leisure sector are feeling disrupted, up 17 per cent from last year. The Manufacturing sector shows the biggest fall in disruption but – with CAD, and digitised supply chains maturing – perhaps the sector is used to embracing technology changes that affect the entire organisation?

Fewer respondents from the Technology sector (65 per cent) state that they are disrupting their industry this year, down 10 per cent on last year. Are early adopters being caught up by other players in the market or are industries working faster to level the playing field? Whatever the reason, it is imperative that boards have a thorough understanding of the strategic and operational requirements of the digital age.

Harvey Nash / Alumni say

Do your homework

Even if you are not a digital expert, as a board member it is imperative to keep up with digital platform economics. Swathes of sources are available from podcasts and industry publications through to external board advisers. Keeping current with the disruption landscape can only make strategic decisions better informed.

Digital trials for competitive advantage

Recognising that failure to adopt and implement digital technologies will leave their organisations at a competitive disadvantage is increasingly apparent in the boardroom. Trialling new digital processes in small-scale iterations can lead to determining levels of investment required with minimal disruption. Waiting for a major system migration, such as that delivered by TSB in the UK, can lead to failure in delivery and loss of competitive advantage.

Onboard digital

In order to upskill the talent pipeline for digital, executives who have current technology experience will also need to be prepared for the strategic decision-making processes and responsibilities peculiar to the boardroom. The two capabilities must converge to create candidates capable of maximising the opportunities of digital.

London Business School's Leadership Institute says

Digital has gone from being a nice add to the core business, to being a core business, to now transforming how we work and live. How many of us understood a few short years ago that photo journalism would be disappearing, not because photos do not matter, but because almost everyone would have a professional camera with them at all times?

So now consider that one of the biggest trends on YouTube is the 'unboxing video' where people unwrap a product and share their impressions. So will anyone watch your next marketing video when they can watch a fellow consumer unwrap and use your product for the first time? Who is in control of whether a consumer buys your product? Probably not your marketing department, or not for very much longer. And according to the World Economic Forum, artificial intelligence has already replaced more jobs than those lost to outsourcing. In a nutshell, every board needs digital experts, and every director needs to be digitally literate.

Business and Society

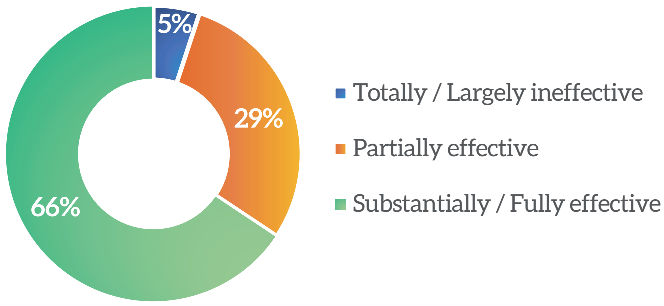
Key insight: To their detriment, boards are spending only minimal time discussing 'good business' issues such as climate change that could ultimately affect their entire supply chain.

Extract from a letter to CEOs
"To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate."
Larry Fink, CEO, BlackRock Inc.

Disruption is surging through markets, technology and demographics and the response in development and values is changing the world at an extraordinary speed. With mounting pressure from consumers, employees, investors and activists and with the United Nations' 2030 Sustainable Development Goals little more than a decade away, organisations must rethink what it means to do 'good business'. Good business has a broader remit than traditional corporate social responsibility activities and encompasses how the organisation delivers positive economic, social and environmental impact in the world.

Our research shows that while the majority (65 per cent) of respondents feel that they are substantially or fully effective at promoting the long-term sustainable success of their companies, many feel they are not. Ultimately, embracing the notion of doing good business will be driven by the perception of what taking such a stance will create for the organisation. Eighty-eight per cent of respondents understand that it is the role of the board to set the culture and tone of the organisation and 82 per cent understand that their shareholders demand good business from them. The discussion of ethics is often detached from organisational realities. It is mainly argued in terms of 'doing the right thing' with little evaluation or quantification of how it could at the same time generate greater business performance. Seventy-seven per cent of respondents recognise that to do so will increase employee engagement and improve brand reputation but fewer (60 per cent) understand that it will drive long-term profitability.

More than a third of boards are only partially effective, at best, at promoting their success to the wider society



How effective is your board at promoting the long-term sustainable success of the company, value for shareholders and contribution to the wider society?

56%
of respondents have spent **zero hours discussing environmental impact**

The Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures, established by the G20, is an industry-led body that has developed recommendations for voluntary climate-related disclosures that are consistent, comparable, and provide useful information to investors, lenders, insurers and other stakeholders. As such, corporate responsibility and sustainability require the board to design strategies that not only provide financial returns but also generate returns for society and the environment. For example, new business models are being developed to ensure the long-term efficient use of resources and energy. Current climate projections for world warming will be disastrous for both business and society.

View from Board member

"The progressive approach adopted by Swedish organisations tends to ensure that the issue of good business is taken seriously; to ignore it would be to risk damage to brand reputations. When you do good business, the results are quite easy to measure through increased margins and employee happiness."
Christer Nilsson, CEO, Vestadil

Harvey Nash/Alumni say

Societal purpose, plan and culture

There are many reasons for pro-sustainable development policies in business. Having a societal purpose beyond profits can enable your organisation to make a substantive positive difference to the world. Creating a plan to achieve this will embed sustainability throughout the business and delivery of the plan should be supported through a culture that is empowering, open and accountable.

Supporting employees

Understanding the importance of employee wellbeing to the value of the business is one of the first steps in creating a culture for 'good business'. There are a number of practical ways in which an organisation can take care of its workers, including: flexible working, resilience coaching, non-screen time, fitness programmes, and financial and health services.

Opportunity knocks

Organisations have many opportunities to get ahead of the 'good business' curve and build their brand reputation and loyalty from the millennials – who demand work/life balance and ethical and environmentally friendly employers. Identifying strategic initiatives that not only make sound business sense but also have a positive impact on the wider society should be placed firmly on the boardroom agenda.

London Business School's Leadership Institute says

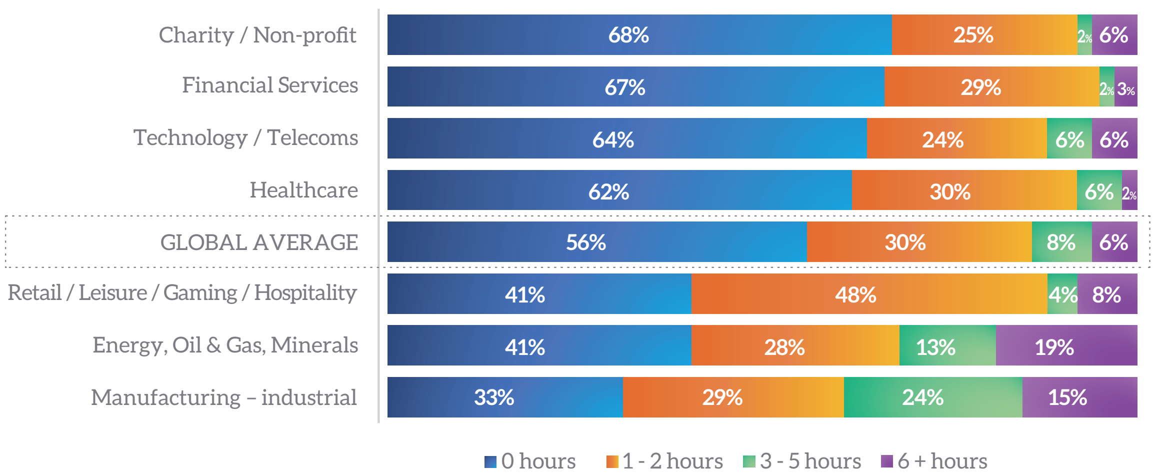
Good business is good business. More specifically, doing business with a multi-stakeholder lens considering climate change, customers, shareholders, etc. makes it more likely you will see threats and opportunities around you, which typically results in better financial performance. Research by my colleague Professor Ioannis Ioannou* and others provides solid evidence that this is true and rules out the argument made by the cynics who argue profitable companies can afford to do good things for the environment.

Ironically, those companies that focus only on profits are less profitable on average than those who do take a broader view of the role of business in society. It not only builds brand loyalty, it changes the way you operate your business for the better.

**Eccles, R.G., Ioannis, I. and Serafeim, G. (2014). The impact of corporate sustainability on organizational processes and performance, Management Science, November 2014, Vol. 60 (11): 2835–2857*

Business and Society *(continued)*

Climate change rarely discussed in the boardroom



How much time has your board spent discussing climate-related risk, its impacts and disclosure in the last 12 months? By sector

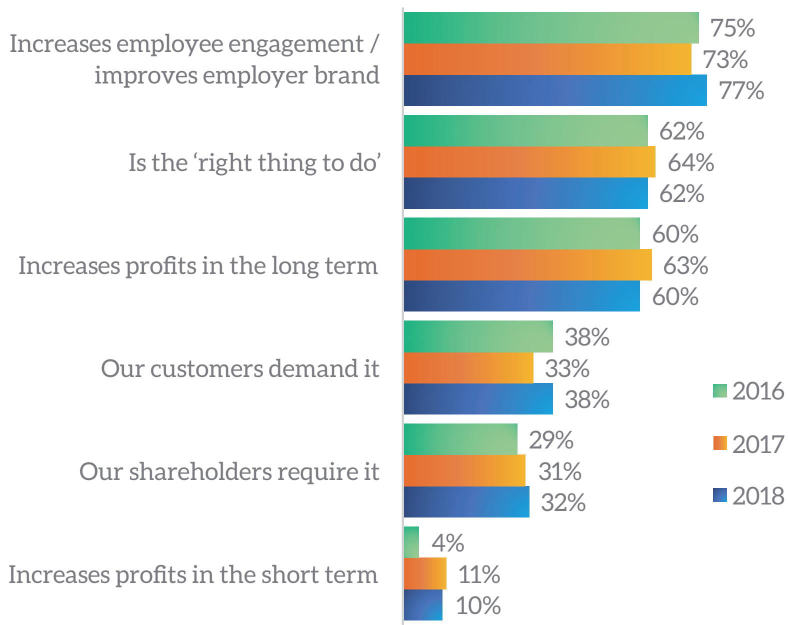
Many countries, including Canada and those in the European Union, have developed national policies that stipulate that before signing any trade agreement, environmental impact assessments must be carried out. That means that any country that signs trade agreements with those countries must also automatically sign environmental cooperation deals. However, more than half (56 per cent) of our respondents have spent zero hours discussing it in the boardroom and less than a third (30 per cent) of respondents have spent an hour or two discussing it over the past 12 months. A third (33 per cent) of respondents from the Manufacturing sector spent zero hours discussing climate-related issues in the boardroom and, unsurprisingly, the Energy sector is discussing it the most.

It is difficult to touch or feel climate change as a tangible, although increasingly unpredictable and extreme weather events provide some clues, so it poses a problem for boards that may not action a data-driven concern until the debate becomes personalised. Take, for example, the current plastics furore – this was sparked by a documentary broadcast in the UK but has galvanised an unprecedented societal reaction in millennials who are demanding positive change.

"Climate change action is more urgent than people think. In simple terms the planet will continue to warm until we reach a global net zero carbon economy. This will affect all aspects of business: manufacturing, retail, the supply chain, food production and travel, not just energy and mining companies. While most recognise climate change is real, directors lack true understanding about its impact on their organisations. How to set targets, what scenarios to debate and how it affects strategy need to be discussed in the boardroom sooner rather than later."
Julie Baddeley, former Chair, Harvey Nash
Non-Executive Director – Ebiquity Plc

Organisations can choose to be part of the problem or part of the solution but to ignore the issue would be unwise, as climate change and resource shortages will affect every step of the supply chain. Encouragingly, many businesses are taking positive steps to get ahead of the curve. For example, Gatwick in the UK recently became one of the world's first airports to achieve carbon neutral status by opting to go for 100% certified renewable electricity, helping to reduce UK carbon emissions. Norway, in a concerted effort to develop full-scale carbon capture and storage by 2022, recently asked businesses to submit bids to use subsea reservoirs to store carbon dioxide near the country's largest oil and gas field in Troll. Customers, investors and shareholders also have the power to effect change and boards must understand this when planning their decision-making agenda.

Many board members recognise that 'good business' will help drive long-term profitability



For your selected board, what reasons would the organisation have to embrace 'Good Business'?

Diversifying Diversity

Key insight: Ensuring you create an environment of acceptance, where diversity and points of difference are celebrated, ultimately stimulates innovation at every level in the business.

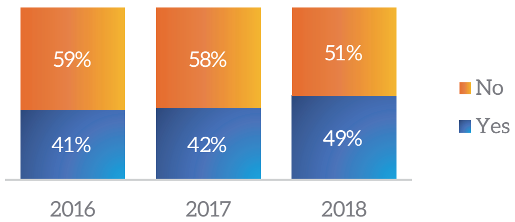
While diversity has become an increasingly important topic for boards, the focus of it has traditionally been quite narrow, often limited solely to gender diversity or at best other protected characteristics over the past few years. It could be said that this is rapidly becoming old news. The true value of increasing gender diversity lies in recognising that women bring cognitive diversity and alternative perceptual awareness to the boardroom. Smart boards will be looking at how this diversity of thought can be gained through embracing other skills, cultures and experience in the boardroom. When a truly diverse range of thinking patterns and styles are engaged, gender diversity will be a natural result rather than a product of conscious creation.

Our research shows that diversity is a concern that continues to grow year-on-year, both within the boardroom and in the pool of talent that exists for new non-executive director (NED) appointments. Almost half (49 per cent) of respondents are concerned about the diversity in the boardroom and even more (55 per cent) with the diversity of the executive team. The latter has grown 10 per cent since our research last year.

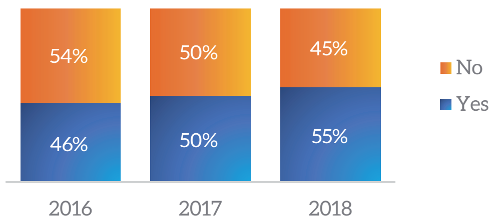
Evidence enough for companies to push for progress should have come from the 2018 McKinsey research on the correlation between greater diversity in executive and board make-up and financial performance. It found the strongest correlation between financial gains and gender where there were women in the executive team. Despite this, our research highlights that while boards may have initially responded to diversity targets they are in danger of flatlining or even backsliding given the lack of diversity in the pool of upcoming non-executive director talent.

Respondents from the Healthcare sector report significantly above-average worries over diversity at board level, with 69 per cent registering concern compared with the global average of 49 per cent. This concern is mirrored within executive team diversity, with 62 per cent concerned compared with the average of 55 per cent. Diversity advocates argue that because the board is the most public face of the hospital or system, it is vital that those individuals look like the people who are being served. Not only does this allow the community to relate better to the institution, but the institution has a greater chance of understanding and meeting the needs of its patient population.

Concern around the diversity of existing and potential board members continues to rise



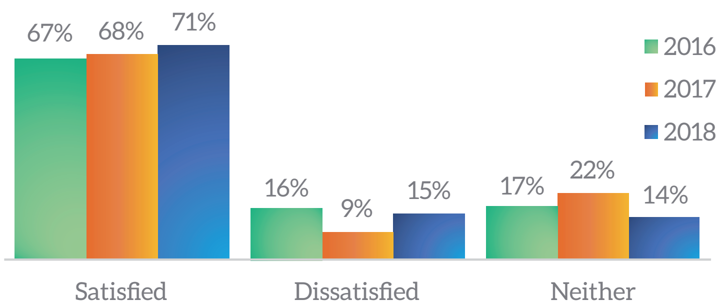
Is the diversity of the members of your board a concern for you?



Is the diversity of your executive team a concern for you?

Despite this, more respondents (71 per cent) appear to be satisfied with the candidates that they are being offered for new NED appointments. Respondents from the US report the lowest levels of satisfaction with upcoming non-executives, with less than two-thirds (65 per cent) expressing satisfaction.

Upward trend for satisfaction with non-executive director talent available



For the last two appointments, how satisfied were you with the pool of non-executive director talent that you have been offered?

Harvey Nash / Alumni say

Accountability through results

Businesses claim to champion diversity without promoting measurable goals of what they intend to accomplish. But do they culturally support or retain those people by creating paths to leadership? Firms boldly set revenue and profit goals to ensure business accountability; if diversity is one of your business imperatives, then where are the corresponding targets to track cultural change?

Inclusion means valuing others

And if diversity targets get people into the business then inclusion is what will keep them there. Inclusion is about elevating, respecting and listening to marginalised groups. Effective boards will be creating a culture that incorporates their point of view from ideation to the implementation of products. Inclusion means valuing the voices of everyone within the company.

Doing things differently

Chairs and NEDs have to be genuine in their acceptance of tactical styles that are atypical of their industry. Leadership must be open to challenge what is taken for granted, the way things have always been done, and understand the cultural factors that prevent them fostering a diverse workforce. The end result can be stronger, more resilient organisations formed through purposeful inclusiveness and diverse thinking.

London Business School's Leadership Institute says

We need to think more deeply about diversity. Most of the conversations in the boardroom are about surface-level diversity – race and gender in particular. But for diversity to have substantial positive impact, we need greater deep-level diversity, the stuff we don't see – values, personality, social class, etc. When was the last time you had a conversation in your boardroom about deep-level diversity and encouraging differences in perspective to the surface?

Be aware, of course, that deep-level diversity creates debate about the best way forward. On the one hand this can be perceived as disruptive. But it is also the core ingredient to innovation and creativity. The fine line between innovation and disruption is not always easy to see in the moment, but as long as everyone is focused on what is right for the organisation, deep-level diversity promises to deliver results.

Diversifying Diversity *(continued)*

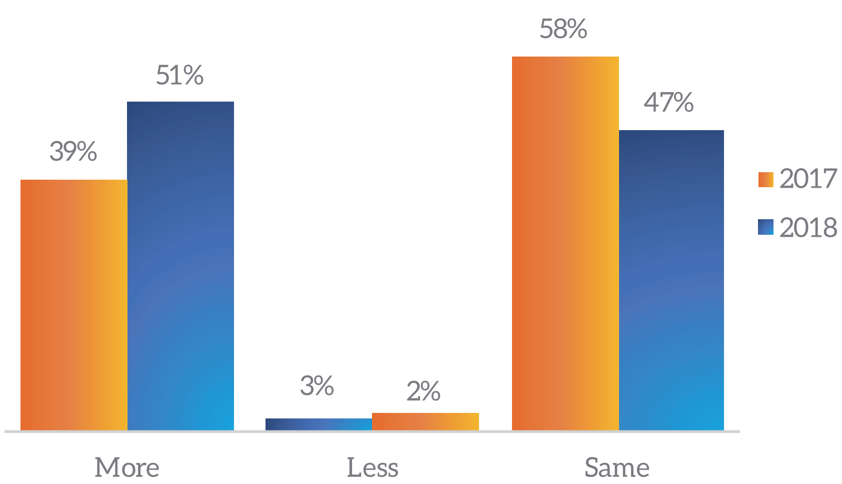
Ideas around what truly constitutes diverse thinking are also broadening. In some proactive organisations, the debate has moved from simple protected characteristics such as gender and now can encompass characteristics such as neurodiversity, where alternative thought processes are quite literally the desired characteristic. Auticon is a leading employer of people with autism across the globe since recognising that employees on the spectrum often possess traits that are beneficial in the IT and technology field, including pattern recognition, error detection, fraud prevention and logical analysis. The company was founded in Germany six years ago by Dirk Müller-Remus, a former software developer who had a son diagnosed with Asperger syndrome. He was appalled by the often dismal opportunities available to autistic people, but also well aware that some people with the condition have an array of traits, such as the capacity to concentrate on a single task for long periods, an appreciation of systems and patterns, an amazing facility with IT, that sets them apart from the so-called 'neurotypical' majority. Similarly, there is increased recognition that the creative energy that drives inventors, entrepreneurs and marketing experts is often characterised within individuals diagnosed with attention deficit hyperactivity disorder (ADHD). Virgin's Richard Branson and IKEA founder Ingvar Kamprad have two things in common: they both have ADHD and are extremely successful. It is possible that ultimately these traits of the neurodiverse will actually be seen as more of a benefit within both boardrooms and executive teams as opposed to a disability.

49%

are **concerned about diversity in the boardroom** and even more **(55 per cent)** with the **diversity of the executive team**

Recently, Amazon, Alphabet and Facebook have announced updated diversity policies for selecting new directors. Rather than simply selecting the best candidate, each company will interview a female and an under-represented minority for each open board spot. Our research shows that almost a third more respondents are doing more to address diversity this year compared with last year – 51 per cent compared with 39 per cent in 2017.

Doing more to address diversity is more of a concern this year



Are you doing more or less to address diversity this year than you were last year?

View from Board member

I don't think that just by putting women in the boardroom you make the board diverse. To me effective diversity is cognitive diversity, the diversity in the way people think and the way they make decisions as a result of that. I look for diversity of thoughts and ideas when I am building boards.
Debbie Hewitt MBE, Chair, The Restaurant Group plc

Spotlight on APAC

About the respondents

Of our APAC respondents, 49 per cent were non-executive directors, 11 per cent were chairpersons and 23 per cent covered both roles. Almost half (48 per cent) have held their board position less than five years and almost a third (30 per cent) hold only one board position. An impressive 54 per cent of respondents were female.

Hot topics for the board

With tech giants such as Huawei in China and Samsung in South Korea, APAC is becoming a centre of attraction for major digital investment. For example, the region is expected to hold the largest proportion of the mobile Artificial Intelligence market in five years' time. APAC respondents are firmly placing digital innovation further up on the boardroom agenda, with almost three-quarters (74 per cent) discussing it more this year compared with last. Strategy at 59 per cent and governance at 56 per cent come a significantly distant second and third.

In terms of growth and outward focus 29 per cent of APAC respondents, the highest of all the regions in this research, are talking more about globalisation this year compared with last and more than a quarter (26 per cent) are discussing mergers and acquisitions in the boardroom.

Board behaviour

Family-owned and -run corporations such as Samsung and Tata Group have contributed far more than any other type of business to Asia's growth over the past few decades. However, it can be difficult for family-run corporations to manage corporate governance measures effectively. APAC respondents are the least likely of the regions to have conducted an independent board evaluation in the last three years, only 43 per cent, despite 87 per cent of respondents believing that they improve board effectiveness.

APAC respondents are the most likely to conduct their business inside the boardroom, with only 17 per cent stating that they have conducted offline conversations with other members more than 11 times in the past year. Eighty per cent of APAC respondents feel that the most important role of the board is to debate the strategy of the organisation. Monitoring their organisation's performance and managing the CEO, both at 70 per cent, are the next two priorities.

Digital enterprise transformation

APAC respondents are the most likely of all regions to be feeling disrupted by digital, with 44 per cent stating that this is the case. Customer demands for instant, digital, new services are driving innovations across all regions. In response the majority of the top 250 banks in Asia Pacific are expected to deploy open APIs in the next two years. They recognise they need the right infrastructure to respond to the demand for new digital services for their customers.

View from Board members

"If you are in a consumer-based industry then you will be misrepresented if you do not have a diverse board. If you put the egalitarian question of there being enough women, etc. to one side (although extremely important), not representing other types of diversity at board level is not a sensible approach to business."
David Holmes, Chair & NED, Caradvice

"I believe that people expect more from organisations than they may have in the past. Institutional investors are definitely astute and looking for profit, but also transparency, compliance and how risk is managed. While making up a small percentage of total investment, Mum and Dad investors are looking more and more at ethical behaviour, culture and commitment to 'good business'."
Susanne Tegan, NFP Chair/NED and Government reform committee member, Hon. Austrian Consul

"What we are seeing locally in the APAC region is not just the realisation of the need for digital enterprise transformation, but a conscious proactive move towards ensuring we have the diversity of skills and experience on boards to make it possible. The majority of organisations have made enterprise-wide commitments to customer and employee centricity, given the critical need for relevant products and services in order to remain competitive; equally the engagement and retention of top talent and leadership are essential to make truly enterprise-wide digital transformation a success."
Bridget Gray, MD, Harvey Nash APAC

Seventy-three per cent of APAC respondents feel that their board has the correct skills to drive digitally enabled business transformation. The top reason cited as a block to this (27 per cent) is a lack of financial resources. According to a 2018 transformation survey by Fujitsu, the finance industry is the furthest advanced, with an estimated 90 per cent of respondents in this sector already engaged in digital enterprise transformation. In addition, 30 per cent of companies in finance as well as retail already have delivered successful outcomes from their digital enterprise transformation deployments.

Diversity and inclusion

The Tokyo Stock Exchange this year updated the corporate governance code it adopted in 2015, urging listed companies to make their boards more open to women and people with international backgrounds. However, less than half (47 per cent) of APAC respondents are concerned with the diversity of their boards and 57 per cent are concerned with the diversity of their executive team. More than half of APAC respondents (53 per cent) are doing more to address diversity this year compared with last and 40 per cent consider themselves leaders in building diverse and inclusive cultures.

Qualitative research shows that the search for talent in the APAC region is still largely network based, with interviews on the golf course common practice. Despite this, 82 per cent of APAC respondents are satisfied with the talent pool of non-executives that they have been offered in the last year. The Australian Institute of Company Directors' quarterly gender diversity progress report reveals that for the first time, women account for 30 per cent of board positions across the ASX 100.

Good business

Every APAC respondent felt that good business should be on the boardroom agenda. Australian wealth manager AMP became embroiled in scandal this year after it emerged during royal commission hearings that it had lied to the regulator and doctored a report into its charging nearly 16,000 customers fees for services they did not receive. This not only caused a massive fall in share price but has also led to senior-level candidates for executive and non-executive positions to decline the opportunity for a role within the organisation.

The International Energy Agency estimates that US$2.5 trillion will be needed to boost Southeast Asia's energy infrastructure by 2030. Despite this, only 11 per cent of APAC respondents have discussed climate change for more than six hours in the boardroom. While low, this was the highest percentage of all the regions in our research.

	APAC	Nordics	UK	US
Board behaviour				
Discussions outside the boardroom 11 > times a year	17%	20%	26%	22%
Have had a board evaluation in last 3 years	43%	61%	53%	47%
Satisfied with pool of NED talent	82%	74%	71%	65%
Digital				
Would like more digital skills in the boardroom	43%	57%	56%	70%
Board members well versed in digital transformation	45%	47%	41%	50%
Digitally disrupted	44%	33%	31%	23%
Digital disruptors	33%	21%	25%	50%
Good business				
Discussed climate change 6+ hours last year	11%	8%	6%	0%
Diversity				
Concerned with diversity of board	47%	44%	52%	36%
Concerned with diversity of executive team	57%	62%	52%	49%

highest *lowest*

Spotlight on the Nordics

About the respondents

Of our Nordic respondents, 43 per cent were non-executive directors, 12 per cent were chairpersons and 43 per cent covered both roles. Just over a third (34 per cent) have held their board position less than five years. Only a small proportion (13 per cent) hold only one board position. An encouraging 44 per cent of respondents were female.

Hot topics for the board

Our research shows that digital innovation tops the agenda for topics being discussed more in the boardroom, with 73 per cent listing it as a priority. For example, the innovative Nordic region has become an ideal platform for banks such as Nordea, Danske, SEB, Handelsbanken and others to enhance their digital reach regionally both in Europe and globally. They plan to invest heavily in technology to reduce operational costs as previous investments in digital services start to deliver.

A challenge to these plans comes in the form of ongoing talent shortages, particularly for IT professionals. Sixty-three per cent of our respondents are discussing organisational capability more in the boardroom compared with last year.

Board behaviour

Seventy-eight per cent of Nordic respondents firmly place debating strategy as the most important role of the board. Selecting and managing the CEO comes in a close second, with 76 per cent of respondents highlighting its importance.

The Nordic respondents are the most likely to have conducted a board evaluation within the last three years of all the regions (61 per cent) but just over a quarter (26 per cent) have never had one, despite 91 per cent of respondents believing that they increase board effectiveness.

Only 20 per cent of Nordic respondents use offline conversations more than 11 times a year and almost two-thirds use this type of conversation to prepare for a decision to be made in the future. Almost all our Nordic respondents (99 per cent) feel able to challenge unethical practices in the boardroom and 77 per cent would resign if they felt unhappy with the current standards of governance.

Digital enterprise transformation

A third of Nordic respondents (33 per cent) feel that they are being disrupted by digital. However, our research shows that almost half (47 per cent) of our respondents feel that their board is well versed in digitally enabled business transformation and almost two-thirds (63 per cent) believe they have the right skills on the board to drive it. Despite this, 57 per cent of respondents would like to see more digital awareness in the boardroom. A quarter of these respondents invite other executives into board meetings to cover any digital gaps in knowledge and 18 per cent have appointed a digital director.

The Danish government predicts Denmark will need 19,000 more IT specialists by 2030, while Statistics Sweden estimates there will be a shortage of 30,000 engineers in Sweden by the same year. This demand for IT professionals is a major driver behind businesses looking to become attractive places to work. Our research shows that despite this, 29 per cent of respondents say the biggest barrier to digital enterprise transformation is a lack of change management skills.

View from Board members

"We are moving away from corporate responsibility being a way of being a good citizen towards it having a positive business impact. In today's world natural disasters have a measurable impact on our companies. Therefore, driving good business is not just about being kind, it has a direct impact on our corporate revenues."
Alf Rehn, Professor, University of Denmark

"I consider it essential for every board to conduct self-evaluations on a regular basis. The objective is to enhance the board's practices and to support board members' development. The results must be analysed and discussed together."
Kirsi Nuotto, SVP Human Resources, VTT Technical Research Centre of Finland Ltd

"Boards should be humble about the future – be tech curious, spend time understanding customer behaviour and the workforce of tomorrow – the millennials. Curiosity will get you far, and having fun even further."
Bodil Rosvall Jönsson, Independent board member

Diversity and inclusion

When it comes to gender diversity, it is hard to compete with the Nordics. According to the World Economic Forum, the region is home to the world's three most gender-equal nations: Iceland, Norway and Finland. Less than half of our Nordic respondents (44 per cent) are concerned with the diversity of their board, less than the global average (49 per cent), highlighting that the development of diverse boards is more mature in its progress within the Nordic regions. More (62 per cent) are concerned with diversity at the executive team level. Almost three-quarters (74 per cent) say that they have been happy with the pool of non-executive talent that they have seen over the past year.

The Nordics are home to corporate giants such as Spotify, Skype and King that are regarded as leaders in sponsoring diversity initiatives by the rest of the world. Qualitative interviews indicate that diversity of thought and experience is prioritised as highly as protected characteristics and 99 per cent of Nordic respondents are doing the same or more to address diversity this year compared with last.

Good business

Nearly all Nordic respondents (98 per cent) feel that good business should be on the boardroom agenda and more than three-quarters (77 per cent) draw a direct link between it and long-term profits. Two-thirds feel that they are substantially or fully effective at promoting the long-term sustainable success of the company, value for shareholders and contribution to the wider society.

The vast majority (92 per cent) recognise that shareholders in general demand good business from their organisation's board and executive team. Nordic countries are actively promoting the need to phase out the massive and harmful fossil fuel subsidies provided by governments all around the world. The cost of the energy transition required to achieve the Paris Agreement has been valued at $1 trillion, so Nordic cooperation continues to place a strong emphasis on the potential of making the switch – from subsidising fossil fuels to investing in renewable energy and energy efficiency. Despite this, 45 per cent of our Nordic respondents have not discussed climate change in the boardroom.

	APAC	Nordics	UK	US
Board behaviour				
Discussions outside the boardroom 11 > times a year	17%	20%	26%	22%
Have had a board evaluation in last 3 years	43%	61%	53%	47%
Satisfied with pool of NED talent	82%	74%	71%	65%
Digital				
Would like more digital skills in the boardroom	43%	57%	56%	70%
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Good business				
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Diversity				
Concerned with diversity of board	47%	44%	52%	36%
Concerned with diversity of executive team	57%	62%	52%	49%

highest *lowest*

Spotlight on the UK

About the respondents

Of our UK respondents, 47 per cent were non-executive directors, 14 per cent were chairpersons and 33 per cent covered both roles. Almost a third (31 per cent) have held their board position less than five years and a similar number (30 per cent) hold only one board position. Twenty-seven per cent of respondents were female.

Hot topics for the board

Cyber security continues to make headlines, with the virulent WannaCry and Petya attacks leading the way. Now new data protection rules in Europe also put organisations on the line for penalties up to €20m, or 4 per cent of global turnover, whichever is greater, if their data is hacked. Businesses also have to report breaches to regulators within 72 hours of discovering them. The UK government is also applying pressure having recently issued a joint warning with the US about Russia targeting internet infrastructure. It comes as no surprise then that our research shows that in the UK 77 per cent of respondents are talking more about cyber security in the boardroom compared with last year. Governance and risk, which has traditionally been the hottest topic, has been pushed into second place with only 67 per cent of boards discussing it more.

Our qualitative research also reveals that Brexit continues to cast a shadow of uncertainty over strategic planning; for example, Dominic Cameron, Chair of Blaize.io, said: "Brexit is causing chaos among digital investors and backers and this is exacerbated in the fintech space by future regulatory uncertainty." Only 13 per cent of UK respondents are discussing globalisation as a topic in the boardroom more than last year.

Board behaviour

Eighty-one per cent of UK respondents state that their role is primarily to constructively challenge the senior management and 78 per cent to debate the strategy of their organisation. Increasing regulatory demands are encouraging UK boards to take on more responsibility and the growth of millennial mindsets is further challenging the traditional dynamics of a boardroom. The Financial Reporting Council (FRC) has gone so far as to say that boardrooms should not necessarily be comfortable places.

When it comes to measuring board effectiveness, just over half of UK respondents have had a board evaluation in the last three years, despite it being FRC best practice guidance, and 29 per cent have never had one. UK directors are also the most likely of any region (26 per cent) to be conducting offline conversations more than 11 times a year, largely to prepare for decisions to be made in future meetings, despite 43 per cent recognising the dangers of confirmation bias that might occur through doing this.

Digital enterprise transformation

Respondents in the UK are the least likely to feel that their boards are well versed in digital enterprise transformation, with only 41 per cent stating that they are. More than half (56 per cent) would like to see more digital skills in the boardroom and only 17 per cent have appointed a digital director.

View from Board members

"I'm a great believer in board evaluations, particularly when they case study specific strategic decisions and look at how the board dealt with it, what papers came to the board, how they were discussed, how the board reached conclusions and how each individual member contributed. I think that can be a very meaningful way of doing board evaluation and discussed openly can help raise board effectiveness."
Debbie Hewitt MBE, Chair, The Restaurant Group Plc

"A positive dynamic in the boardroom relies on how facilitative members are in terms of absorbing other opinions and how open they are to alternatives and options. A boardroom that is running well is more open to ideas, whereas boards under pressure often close down alternative viewpoints more quickly."
Alan Braithwaite, MSc08, Founder LCP Consulting, now part of BearingPoint

"The chairman, particularly, needs to be taking an independent view about what is in the best interest of the company. An independent view benefits all stakeholders, including shareholders, employees, customers, and the community in which the business operates. It is very important to do that."
Gerry Brown, Chairman, Novaquest Capital

More than a third (39 per cent) state that a lack of digital skills is the biggest barrier to digital enterprise transformation in their organisation and there are signs of UK businesses responding to this with direct action. Retailer Marks & Spencer recently launched a Data Academy to digitally invest in its staff and raise digital literacy and qualifications. Steve Rowe, CEO, stated: "Transformation of our business is key to survival and a huge part of this lies with our colleagues. We need to change our digital behaviours, mindsets and our culture to make the business fit for the digital age."

Diversity and inclusion

Our research shows that the UK had the lowest levels of female respondents (27 per cent) of all the regions and this reflects a recent study by Cranfield University*. According to the study, the representation of women in FTSE 250 boardrooms has fallen since last year from an already poor 38 to just 30. It also shows that women in executive roles has flatlined for the fourth year in a row.

UK boards would appear to be aware of this as our research shows that just over half (52 per cent) of UK respondents, the highest figure for all regions, are concerned with the diversity of their board and the same number are concerned with diversity of their executive team. However, only 51 per cent of respondents are doing more to address diversity this year and only 17 per cent consider themselves leaders in building diverse and inclusive cultures within their organisations.

Good business

The new FRC Code issued in July 2018 highlights that the direction of travel is towards more focus on the responsibility of the board for setting the tone and culture of the organisation: more specifically, on-purpose, long-term decision-making and the organisation's impact on broader society. Almost all (92 per cent) UK respondents think that good business should be on the boardroom agenda and more than half (52 per cent) believe that it will help to drive long-term profits.

In terms of climate change, the UK has a formal, but currently voluntary, reporting framework – the Taskforce for Climate-related Financial Disclosures, which looks at the implications of a 2°C rise in global temperatures. Forecasting is currently predicting rises of more than double this in the next twenty years, which would have catastrophic consequences, but despite this 61 per cent of our respondents have not discussed climate change in their boardrooms.

**Female FTSE Board Report 2018, Cranfield University*

	APAC	Nordics	UK	US
Board behaviour				
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Digital				
Would like more digital skills in the boardroom	43%	57%	56%	70%
Board members well versed in digital transformation	45%	47%	41%	50%
Digitally disrupted	44%	33%	31%	23%
Digital disruptors	33%	21%	25%	50%
Good business				
Discussed climate change 6+ hours last year	11%	8%	6%	0%
Diversity				
Concerned with diversity of board	47%	44%	52%	36%
Concerned with diversity of executive team	57%	62%	52%	49%

highest *lowest*

Spotlight on the US

About the respondents

Of our US respondents, 56 per cent were non-executive directors, 10 per cent were chairpersons and 26 per cent covered both roles. Just over a third (36 per cent) have held their board position less than five years and a similar number (37 per cent) hold only one board position. An impressive 59 per cent of respondents were female.

Hot topics for the board

Home to Silicon Valley and innumerable tech giants, it is unsurprising that almost three-quarters of US respondents (74 per cent) place digital innovation as the topmost topic being discussed more on the boardroom agenda. Sixty-two per cent are discussing cyber security more and 61 per cent are talking about organisational capability and the talent pipeline.

Anti-globalisation sentiments are heating up in the US, despite it once being the strongest architect and proponent of globalisation in the world. This is resulting in uncertainty and a near stalemate for the North American Free Trade Agreement, steel and aluminium tariff hikes and a potential trade war with China. Our research reflects that US respondents are the most inwardly focused of the regions with only 3 per cent discussing globalisation more this year compared with last.

Board behaviour

Three-quarters of US respondents feel that the most important role of the board is to debate the strategy of the organisation, while 70 per cent think that it is to constructively challenge senior management. More than half (59 per cent) believe their role to be maximising shareholder value.

Almost half of US boards (47 per cent) have had an independent board evaluation within the last three years, but 44 per cent have never had one – despite 82 per cent believing that they have a positive impact on board effectiveness.

More than a fifth (22 per cent) take their boardroom conversations offline more than 11 times a year and the most commonly cited reasons for doing so are to prepare for future decisions and build relationships with other members. Forty-four per cent of US respondents recognise that offline conversations allow others to manoeuvre and manipulate other board members.

Digital enterprise transformation

US respondents are the least likely of all regions to feel that their organisation is a victim of digital disruption, with only 23 per cent stating that this is the case. Exactly half believe that they are doing the disrupting. US respondents are the most likely to believe that their board is well versed in digitally enabled business transformation (50 per cent) and more than a

View from Board members

"Chairs must tackle tough issues head on but have the patience to listen and encourage all board members to contribute. The chair isn't there to drive his or her agenda, but to facilitate a discussion and drive reaching conclusions around the critical issues that the company faces."
Nigel Andrews, Vice Chairman, Victory Funds

"We are looking at the consumer journey. It is about really being able to serve the customer whenever, wherever, move at their pace and really help to educate and make them feel informed about the process."
Li Christine Lin, Head of Organizational Development, American Honda Motor Company

"There's a lot of interest on US boards around artificial intelligence, blockchain and digital disruption. When I interview technology people for a board position my questioning is both offensive – 'how do we change the world?' – but also defensive – 'how do we tighten up cyber security?'"
David Pyott, Lead Director, Avery Dennison Corp.

fifth (21 per cent) have appointed a digital director to the board leading to the positive belief of 67 per cent of respondents that their board has the correct skills to drive digitally enabled business transformation. However, US boards clearly want more, with 70 per cent wanting more digital skills in the boardroom.

A third of US respondents believe that they have no blocks to digital enterprise transformation, but more than this (37 per cent) cite lack of financial resources as their major hurdle.

Diversity and inclusion

Only 30 per cent of our US respondents consider their organisation a leader in building diverse and inclusive cultures. They also have the lowest satisfaction levels with the pool of NED talent that they are being offered, with only 65 per cent stating they are happy.

Just over a third of all our US respondents (36 per cent) are concerned with the diversity of their boards and just under half (49 per cent) are concerned with the diversity of their executive team. Despite this, only 53 per cent are doing more to address diversity this year compared with last.

As just one example, Facebook's latest diversity report, released recently, shows strides in boosting the ranks of some groups who have been under-represented from the beginning, but a closer look reveals that women of colour are being largely left out of any progress. There are only six black women who work as senior managers or executives at Facebook in the US, accounting for less than 1 per cent of 769 jobs. The next layer of managers at Facebook is not any more diverse: 34 out of a total of 2,816 roles, or 1.2 per cent.

Good business

Ninety-three per cent of US respondents believe that good business should be on the boardroom agenda. Less than two-thirds (63 per cent) link good business to driving long-term profits. When it comes to advocacy, 60 per cent of US respondents feel that they are substantially or fully effective at promoting the long-term sustainable success of their organisation. This is despite Facebook seeing the biggest one-day drop in its share value to ever hit a company when it was discovered to be doing business that was considered less than 'good'.

The US appears to be slowly drifting away from the climate change fight, in part because of the anti-globalisation inclinations of Donald Trump. He pulled the US out of the Paris Agreement on climate change in keeping with his anti-globalisation rhetoric during the 2016 US election campaign. More than two-thirds (67 per cent) of US respondents have not discussed climate change in the boardroom and not one has discussed it for more than five hours in the past year.

	APAC	Nordics	UK	US
Board behaviour				
Discussions outside the boardroom 11 > times a year	17%	20%	26%	22%
Have had a board evaluation in last 3 years	43%	61%	53%	47%
Satisfied with pool of NED talent	82%	74%	71%	65%
Digital				
Would like more digital skills in the boardroom	43%	57%	56%	70%
Board members well versed in digital transformation	45%	47%	41%	50%
Digitally disrupted	44%	33%	31%	23%
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highest *lowest*

London Business School Conclusions
Focus on Boardroom Culture and Behaviour

The Leadership Institute at London Business School is delighted to continue to partner with leadership services firm Harvey Nash/Alumni to conduct and promote research on boards. We share a common commitment to improving the practice of boards globally, as well as across sectors. Where we have found particular common cause is in highlighting the importance of how directors interact in the boardroom. There are a range of sources for better understanding the role of the board, the importance of the board in setting the culture and standards of the organisation, and for understanding the roles and responsibilities of boards. But there is much less available highlighting how directors ought to interact in the boardroom to improve chances of success and reduce chances of failure in the boardroom.

Board relationships matter

One of the core findings of the social sciences is that how we interact matters – when we share information and put our collective heads together, we achieve things that no one individual could have ever achieved. When we coordinate our individual efforts we achieve more than the sum of the parts. Any complex human endeavour demonstrates these basic principles – the construction of a great building, sending a person to the moon, and managing the operation of a large organisation. These are activities that no one individual can manage, and is fundamentally why boards came into existence, and persist to this day.

This report highlights how boards are doing out there in managing relationships and coordinating efforts. Thankfully, most appear to be doing well as they are reporting that they are having constructive arguments, not experiencing excess personality clashes, and generally working together in a well-coordinated fashion. But there are a substantial number of boards that report either no debate (31 per cent), excessive interpersonal conflict (31 per cent), or having to backtrack and revisit decisions often (33 per cent). This suggests a substantial percentage of boards where behaviour is dysfunctional.

Action required

We can take some reassurance that most boards appear to be functioning as expected, but our data suggests that upwards of one-third of boards are dysfunctional in how directors interact. This is where urgent action is required. Board assessments need to address board culture and interactions. Directors, not just chairs, need to take ownership to address these problems and ensure that considered debates are de rigueur, that side conversations are informational rather than taking decisions outside of official channels, and that deep-level diversity is included and integrated in decision-making.

Boards are too important for any of them to be dysfunctional. Each dysfunctional board represents the next scandal waiting to be revealed. The constant newsfeed of boardroom scandal over the last decade supports this notion. That is why we make the plea here for greater attention to boardroom culture and behaviour.

Randall S. Peterson
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Professor of Organisational Behaviour at LBS
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London Business School Conclusions
Our Continued Quest

We continue to delight that our collaboration with Harvey Nash provides a platform to continue to contribute deepening understanding of the behaviours and mindsets required to increase board effectiveness.

As a consultant, board member and adviser, it is encouraging that well over three-quarters of non-executives surveyed believe their role is to constructively challenge senior management. We are equally encouraged that an overwhelming majority of respondents believe external evaluations can improve board effectiveness. The needle is moving in the right direction in regard to evaluation activity, but we challenge those commissioning and undertaking audits to ensure they couple their efforts with definitive, time-bound development recommendations. This means using a process that not only focuses on how 'task-factors' can be improved, but also how effective group and individual behaviours can developed over a 12- to 18-month period.

When this type of guidance is given, and committed to, we have known the effectiveness of certain boards to improve radically. It is this knowledge that has prompted the Leadership Institute to begin work on developing a board competencies framework, similar to our London Business School Leadership Framework used in degree and selected Executive Education programmes, as a way of making the research we are doing on board effectiveness more accessible. We are also on the cusp of offering support to selected boards, board groupings and board members that allows them to practise developing their behavioural competence in a safe, supportive and confidential environment: because, in our experience, you have to act your way into developing competency, not just think your way into it.

We continue to appreciate that many insights and recommendations we offer are seen by some as 'difficult' if not 'frightening' to consider addressing. But we feel it is business critical, responsible and ethical to commit to work on the issues raised. Developing an effective board is a process – which starts with the commitment to exploring what strategies, processes, insights, conversations and commitments can help to create a more effective board.

Lastly, I had the pleasure of being invited to be a panellist during a session at this year's ISCA Annual Conference. Months later, I am still struck by the response to a question that I asked to over 400 participants: "How many of those of you in the room use evidence-based insights/research to inform your board effectiveness efforts?" From the stage I could only see one raised hand. That said, I was delighted that following the session, I was approached by three individuals working in well-respected organisations in the UK, asking for guidance on how do you judge what credible academic research looks like and how can it practically be applied. The root of their interest, they all stated, was the desire to ensure the initiatives/recommendations emanating from, and within, the board are informed by evidence-based research insights.

This leaves me encouraged that our efforts in raising the importance of, and sharing, the results from robust research on board effectiveness continues to be of interest to the business community.

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