

A large, vibrant handprint graphic is the central focus of the page. The handprint is filled with a dense, multi-colored pattern of blue, green, yellow, orange, and red, giving it a textured, artistic appearance. The background is white with some faint, light-colored splatters.

# BEYOND GOVERNANCE

How boards are changing in a diverse, digital world

THE HARVEY NASH / ALUMNI BOARD REPORT 2016/17

*In association with London Business School's Leadership Institute*



**Leadership  
Institute**

# Introduction

The world at large and businesses across it are increasingly subject to uncertainty. In 2016, the UK began wrestling with the complexities of leaving the European Union, and remaining members were finding their feet in an EU without the UK; Asia-Pacific (APAC) markets are dealing with fall-out from the economic slowdown in China and rising tensions in the South China Sea; and European nations are struggling to manage the effects of migration across their borders. Further uncertainty for business has been created by wide fluctuations in economics and transformational changes in technology. This has left boards needing to be agile in their approach to sudden change, while keeping a steady track towards long-term goals.

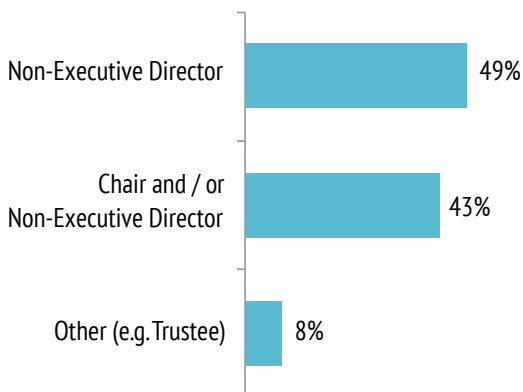
This third annual research report from Harvey Nash / Alumni, in association with London Business School's Leadership Institute, takes into account the impact of this increasing globalisation and uncertainty to purposefully extend its research. With over 650 respondents to our quantitative questionnaire, and in-depth interviews from a panel of 56 experienced non-executives and chairs for their qualitative insight, this report seeks to compare and contrast the major

boardroom issues from not only the UK, as in previous reports, but also the Nordic and APAC regions.

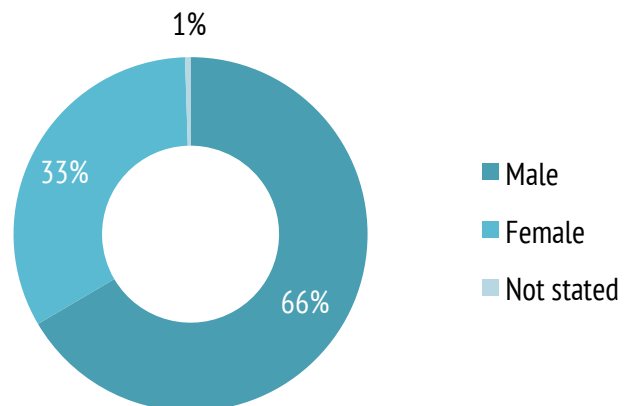
Our respondents include a broad spectrum of organisations in their portfolios and come from a range of backgrounds, including Finance, Corporate Strategy, Marketing and Technology. In alignment with our initiatives towards promoting gender diversity, a third of our respondents this year are female (33%). Our 2016 research still has a high proportion of listed company respondents (24%) but has broadened to encompass diverse ownership, including family- and state-owned businesses, private equity holdings, public and not-for-profit organisations, each with their own different approach on how best to solve boardroom issues.

In 2016, our respondents repeatedly echo the need for gaining new external perspectives in order to deliver boardroom efficiency. We hope that by extending our research to contrast the views and data from different sectors, ownerships and geographies, we are delivering a more outward-looking report this year for our readership. We would also like to thank London Business School's Leadership Institute for their impartial opinions and insights. Their global reach reflects the international ambition and growth of our report this year.

## Current Role



## Gender



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

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

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# Key findings

## 1. DIGITISATION – page 4

Digitisation affects everything within the organisation: from operational efficiencies and revenue generation, to increasing the risks of cyber and security breaches. If you are not a disruptor then you are, eventually, going to be disrupted.

- Actions:**
- Conduct regular competitor analyses
  - Actively seek expert external advice
  - Upskill existing board members

## 2. DIVERSITY AND INCLUSION – page 6

Diversity and inclusion are becoming less about under-represented groups on the board and more about business effectiveness. An effective board requires new perspectives and skills, and board members should expect to be increasingly challenged in their thinking.

- Actions:**
- Assess your existing board capabilities
  - Inject new skills and experience
  - Proactively manage the diversity

## 3. IMPACT ON BROADER SOCIETY – page 8

Businesses need to make a fair financial return on their activities, but they also have a responsibility to drive positive social outcomes, including wealth creation, societal wellbeing and benefit, as a by-product of their activities.

- Actions:**
- Reflect ethics in the boardroom
  - Assess your impact
  - Embed 'good business' throughout your organisation

## 4. BOARD EFFECTIVENESS – page 10

The most effective boards may or may not follow every recommendation in the various codes of conduct, but what distinguishes outstanding boards is ensuring broad participation, robust decision-making processes and clarity of purpose.

- Actions:**
- Undertake regular, rigorous board evaluations
  - Run formal induction programmes
  - Commit to best practice

## 5. UK – page 12

In light of 'vote for Brexit', UK boards have an increased need to operate with a flexible approach to their strategies. Having embraced digital, UK businesses are increasingly focusing on cyber-security and mitigating the effects of negative social media.

## 6. NORDICS – page 14

The Nordic region appears to be more outwardly focused in comparison with other regions. The Nordics place a good deal of emphasis on seeking out diversity in many areas and are particularly interested in international skills.

## 7. APAC – page 16

The diversity of thought and effectiveness of APAC boards is affected by company ownership and through appointments that use personal networks over external talent pools.

## 8. London Business School Conclusions – page 18

Overviews and conclusions on the Harvey Nash research from a panel of experts at London Business School's Leadership Institute.



# Digitisation

**Key insight:** Digitisation needs to be understood and managed at board level because it is affecting everything from operational efficiencies and revenue generation, to the risks of cyber-attack and security breaches. If you are not a disruptor then you are, eventually, going to be disrupted.

Digital strategy stretches across the breadth and depth of an organisation from channels to market and target operating models, to management information and how best to utilise 'big data'. It is also embedded in social media, having an impact on brand reputation, which, on its own, can determine the success or failure of a business. The loss or advantage of digital intellectual property can also have a crucial impact on the success of all organisations, not just technology-led companies.

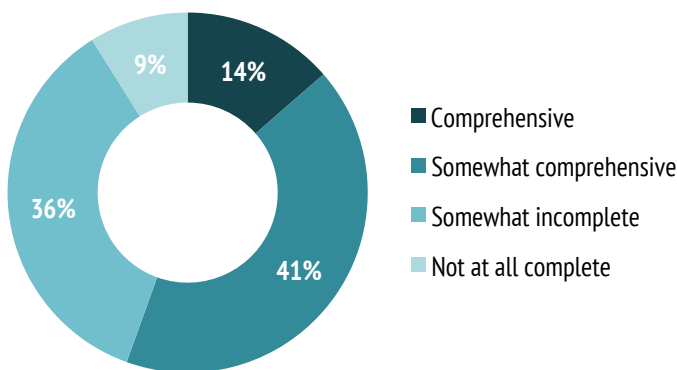
Disruptive innovation, driven by web access, smart devices and the Internet of Things, is now part of the everyday business landscape, breaking up previously dominant business models. WhatsApp has displaced telecoms companies, Uber has rocked the regulated taxi services, and Airbnb is disrupting the travel industry. In what seems like the blink of an eye to those not paying close attention to the competition, digital disruptors can force well-established companies to change the way they all do business.

Despite this, according to our survey, 41% of non-executives interviewed think their businesses are neither disruptors nor being disrupted. Perhaps some of the 41% view the concept of digitisation as 'business as usual' and the disruption as part of the ebb and flow of day-to-day operations. But for other less 'tech savvy' businesses this could be seen as naivety about the impact of digitisation on their bottom lines in the medium to long term.

Digitisation is firmly on the agenda across all geographical regions, coming in at an overall second place only to strategy in board-level discussions. The Nordic region raises it as the number one topic being increasingly discussed in the boardroom, with more than two-thirds of respondents highlighting digital innovation as on the radar. APAC respondents list it as a significantly lower priority in current discussions.

We need only to observe the emergent technologies of the Internet of Things, smart cities, quantum computing

## How comprehensive is your digital strategy?



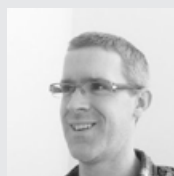
## View from Board members



"Companies have always been disrupted by new technology whether it is digital or

manufacturing from previous years. Existing businesses with a rigid methodology may all have a limited lifetime. The disruption is going to happen."

*Nick Sallnow-Smith, Chairman, The Lion Rock Institute, iNED, Wynn Macau and Board Director, UCP*



"All businesses recognise the importance of developing a digital strategy but many are

behind, in particular when it comes to Mobile. Nearly half of all customer shopping trips now involve Mobile at some point, either to research, compare prices or complete a sale, often when the customer is actually in-store!"

*Ed Williams, NED, Aspinall of London*



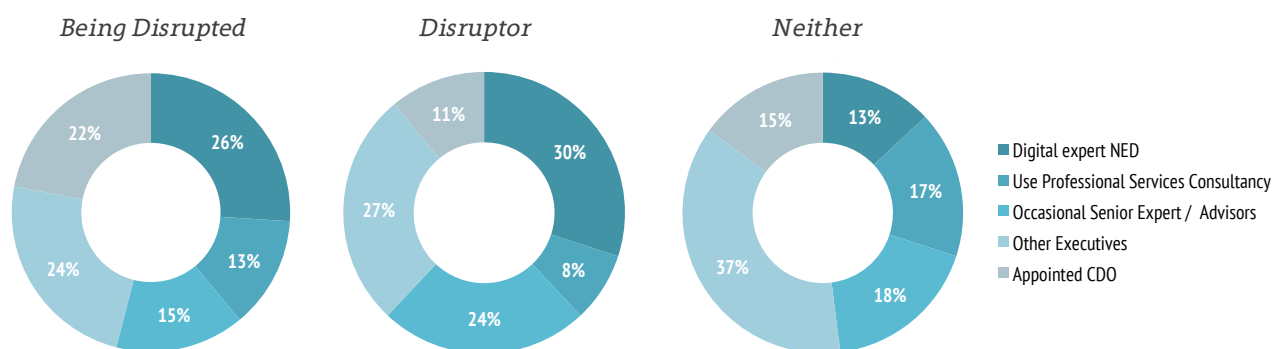
"B2B players could benefit from studying B2C business models to understand the speed and direction

of change of digital disruption. It is more important to create a first embryo of a digital strategy than to be 100% correct from the start."

*Ylva Hammargren, Business Transformation and CRM Manager, AB SKF and Board Member, Nederman Holding AB*

## What is the most effective approach to managing digital?

Segmented by whether the organisation is a Disruptor, Disrupted or Neither



and peer-to-peer collaboration, to see that the march of new technology and the ways of using it are relentless in their innovation and potential disruption of existing business models. Despite such impending revolutions, only 14% of those asked said that the boards that they were part of had a fully comprehensive digital strategy. Just under half (45%) said their strategies were not at all complete or somewhat incomplete. The Technology sector respondents were, unsurprisingly, confident that their digital strategies were fully comprehensive and more than half thought that it was somewhat comprehensive – although, realistically, can a digital strategy ever be deemed to be complete as digital is synonymous with constant innovation and change?

When it comes to managing a digital strategy, our research shows that there is no one-size-fits-all solution. Results are pretty evenly spread for using internal and external resources at board or executive level. This may well be because there is no perfect way of managing digitisation. Our respondents repeatedly show that speed and fluidity of change is the issue. Certainly those respondents with the view that they are disruptors or are being disrupted are most likely to have appointed a digital expert as a non-executive. There is a danger in

this approach that the rest of the board may abdicate responsibility to ‘the expert’, contrary to the board members’ collective responsibility. If it is a matter of upskilling the board, this could be managed by introducing a digital advisory board or through reverse mentoring where board members are paired with and mentored by digitally-savvy employees on topics such as technology and social media opportunities. This not only upskills the existing board, but also means that current trends and technologies are more likely to be on the board’s radar.

Business Services, Financial Services, Retail and Leisure boards are more likely to feel that their digital strategy is somewhat comprehensive; whereas Charities and Manufacturing boards were less likely to feel that their digital strategy was comprehensive, with 61% of respondents feeling that it was somewhat incomplete or not at all complete.

It is safe to assume that business-to-business clients will demand the same level of access and simplification to the supply chain that consumers already expect from retailers. Do these sectors believe that digitisation is less relevant to them or is there naivety about the impact digitisation is already having on all industry sectors?

## Harvey Nash / Alumni says

### Conduct regular competitor analyses:

Are you a disruptor? Or are you being disrupted? If you are neither then you must avoid complacency as changes in digitisation happen at an unprecedented pace. Conducting robust threat and opportunity analyses can help mitigate its effects. Monitoring ongoing competitor analysis activity is also essential, as those you directly compete with change over time.

### Actively seek expert external advice:

Is the board engaging with the advice from its executive team, industry experts or external consultants at an adequate level, in order to understand the bigger picture and see potential obstacles on the business landscape before they arrive?

### Upskill existing board members:

Could your board benefit from upskilling on digital risk and opportunity, with expertise from either within or outside your industry sector? Have you considered reverse mentoring or establishing a digital advisory board? And for those companies with digital skill sets already in the boardroom, is the length of tenure short enough to ensure that knowledge is current? For those inviting external experts into the boardroom, are they really leading edge?

# Diversity and Inclusion

**Key insight:** Diversity and inclusion are becoming less about under-represented groups on the board and more about board effectiveness. An effective board requires new perspectives and skills, and Board members should be expected to be challenged in their thinking and ever more open to alternative viewpoints.

Diversity and inclusion can act as a catalyst for innovation, both in business and society, and in recent years there has been a marked shift in understanding and acceptance of this, with greatest progress made in terms of gender diversity. But how does this relate to the boardroom?

In the UK, the proportion of women on FTSE 100 boards has doubled to just over 26% since 2011, achieving a target set by a government-backed report by Lord Davies. However, data shows that six months after reaching the target the proportion of new appointments going to women had plunged to a five-year low, demonstrating the need for continued pressure. A boardroom without a female member is rare in the Nordic regions, with Norway legislating for 40% women on publicly listed companies. Swedish statistics from May 2016 show that 46% of newly elected non-executives to listed companies are women and the gender balance is improving. In comparison, Singapore,

China and Malaysia boards are currently comprised of less than 9% women. In APAC, only India and Malaysia currently legislate for gender diversity, but Japan recently introduced targets for large firms when hiring and promoting women.

However, our 2016 research shows that gender balance is second place on the board agenda and the main priority is now expansion of board expertise beyond the traditional areas of finance and strategy. This increased priority supports diversity of thought and reflects the need for the board to have a breadth of contributions to the strategic business model. Our respondents acknowledged that constructive challenge, listening more than talking, and having respect for others' points of view are essential features of an effective board and its members that will help break down a tendency towards 'groupthink'.

Surprisingly, half of respondents (51%) didn't think that the diversity of their boards was a concern at all.

## What types of diversity are being pursued by region?

Nordics	APAC	UK	Total
Functional expertise 66%	Functional expertise 57%	Functional expertise 63%	Functional expertise 63%
Gender 57%	International expertise 46%	Gender 46%	Gender 48%
International expertise 47%	Gender 40%	International expertise 31%	International expertise 37%
Age 27%	Ethnicity 34%	Ethnicity 26%	Age 24%
Academic background 21%	Culture 29%	Age 24%	Ethnicity 23%
Culture 15%	Academic background 23%	Culture 21%	Culture 21%
Ethnicity 13%	Age 14%	Other 12%	Academic background 14%
Other 4%	Other 11%	Academic background 9%	Other 10%
Social background 2%	LGBT 9%	Social background 7%	Social background 5%
LGBT 1%	Social background 9%	LGBT 4%	LGBT 3%

## View from Board members



"There is too much 'groupthink' on boards that all come from similar backgrounds, experiences and

sector track records. Our best ever non-executive was a lateral thinker who really pushed his thinking and assumptions in order to produce left-field ideas for the board to consider."

*Miles Graham, CEO, The Operating Partners Group*



"Nordic boardrooms need people with international experience, more diverse functional

backgrounds and different sector knowledge. With fresh perspectives in the boardroom, the discussions shift and you have a broader scope with which to meet challenges."

*Britta Dalunde, NED Chair, Chorus AB, and several NED roles*



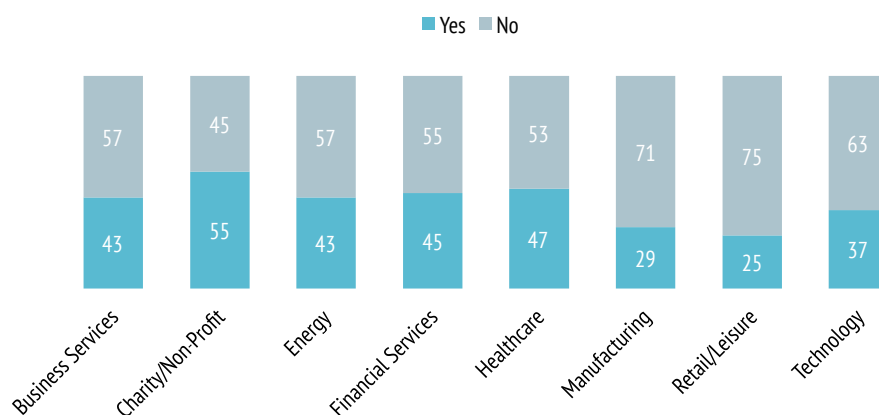
"In Hong Kong it is difficult to address the moral and business imperatives of diversity given a

corporate culture dominated by family-controlled organisations. If diversity cannot grow naturally then perhaps it should be legislated for by the government."

*Dr Dorothy Chan, iNED MTR and Deputy Director, University of Hong Kong*

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

Segmented by sector



However, a similar number were also unconcerned by the diversity of their executive team, which potentially highlights an alarming disregard for the pipeline of upcoming talent, unless one believes that these organisations already have a balanced pipeline but that is not our experience. A greater proportion of the women respondents (58%) across all sectors were concerned about diversity compared with men.

It appears that diversity is being overtaken by myriad other concerns. When questioned about what is important in boardroom discussions now, compared with five years ago, diversity (at 30%) was one of the least likely topics to be discussed with over 60% of boards talking more about governance, strategy, talent and digital.

So how are those who are striving to push diversity higher up the boardroom agenda attempting to address the issue? Less than half of respondents have created internal commitments and initiatives (43%) and around a third (29%) are using external search firms to seek out more diverse candidates. Worryingly, only a third (29%) are creating succession plans focused on populating the 'talent pipeline' with a richer mix of backgrounds and experience.

Several contributors to our study concurred that a significant impediment to board diversity is incumbents needing to feel 'comfortable'. Respondents felt that chairs didn't wish to feel challenged and that having diverse members, with different views and experience, could potentially make a board harder to 'manage'. Allowing greater voice and consideration to non-executives with different perspectives will help the organisation to be more effective and more successful drawing on the diversity of their members' expertise, backgrounds and behaviours. Furthermore, this should be true across geographies, gender, race and experience – to create a whole that is literally greater than the sum of its parts.

Sir Win Bischoff, Chairman of the Financial Reporting Council, the UK's independent regulator for corporate governance, clearly stated: "Diversity of background and experience not only encourages better leadership and governance but also contributes to all round board and management performance." Learning ways to manage the narrative between members with different backgrounds, cultures and experience is crucial to the success of boards of the future.

## Harvey Nash / Alumni says

**Assess your existing board capabilities:** How diverse is your board, is there a need for more varied expertise to respond effectively to regulatory requirements, specific events on the corporate horizon or larger market forces at work? When did you last complete a forensic gap analysis of the current boardroom expertise against future demands and strategic plans?

**Inject new skills and experience:** Can appointments made solely from your own sector lead to stagnation? Looking beyond a company's peer group and more widely to alternative industry sectors can unearth significant non-executive talent. For example, consumer-facing sectors can teach their B2B counterparts a great deal about responding swiftly to change and alternative channels to market.

**Proactively manage the diversity:** Having achieved a board composed of a mixture of culturally and business-diverse capabilities, are these people given the room and voice they need to effect change? Is your boardroom inclusive as well as diverse? Learning to manage the narrative between members with diverse backgrounds, cultures and experience is crucial to the success of boards.

# Impact on Broader Society

**Key insight:** Businesses need to make a fair financial return on their activities, but they also have a responsibility to drive positive social outcomes, including wealth creation, societal wellbeing and benefit, as a by-product of their activities. In fact, there is a growing body of research showing that organisations taking 'societal responsibility' actually improve their profitability.

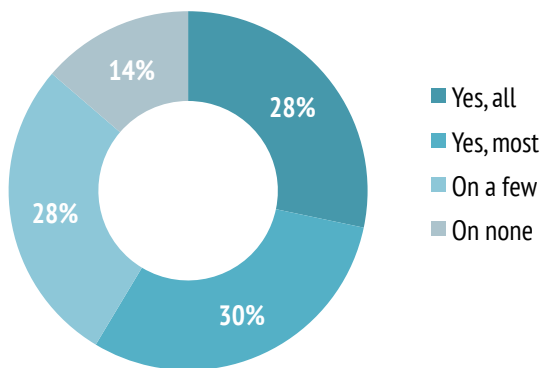
The positive impact of business on broader society, or 'good business', is a well-established principle, albeit with many definitions and practices. The way it is understood and implemented differs greatly for each company and country. Moreover, doing 'good business' addresses many and various topics such as human rights, corporate governance, health and safety, environmental effects, working conditions, and contribution to society and wider economic development and local community. For the purposes of our research we defined 'good business' as an overarching term for a commercial entity also focused on taking responsibility for its impact on broader society, regardless of purpose.

Organisations have embarked on many initiatives in recent years. Ethical supply chains have emerged as a central focus of the corporate impact on broader society. Boards may also elect to make extraordinary

efforts to hire, foster and empower a diverse workforce. They might offer generous paid parental leave, they may sponsor after-school programmes in crime-affected neighbourhoods, fund the clean-up of local river systems or put pressure on elected officials to consider the needs of all citizens rather than simply seeking political expediency. The term 'good business' generally applies to efforts that go beyond what may be required by regulators or environmental protection groups to make a positive impact on broader society.

We asked non-executives what they felt were the top two reasons for companies to do 'good business'. The majority of our respondents stated that it would 'increase employee engagement', 'improve the brand perception' and because it is 'the right thing to do'. Nordic contributors were the exception to this, resoundingly highlighting 'increased long-term profit' as the second major driver behind 'good business'. Certainly, our

## Is 'good business' on the agenda of your boards?



## View from Board members



"We consider the impact of our decisions on not only our customers and suppliers but

with everyone we deal with - are we good to do business with? Outsourced providers are also contractually obliged to deliver on our values."  
*Simon Turpitt, Chairman, St Catherine's Hospice*



" 'Good business' is commonly understood in Nordic companies. Being profitable

is not enough - we must also be responsible. In Finland we have done this well, and it is a given for most boards."  
*Aija Bärlund, Leadership and Business Developer*

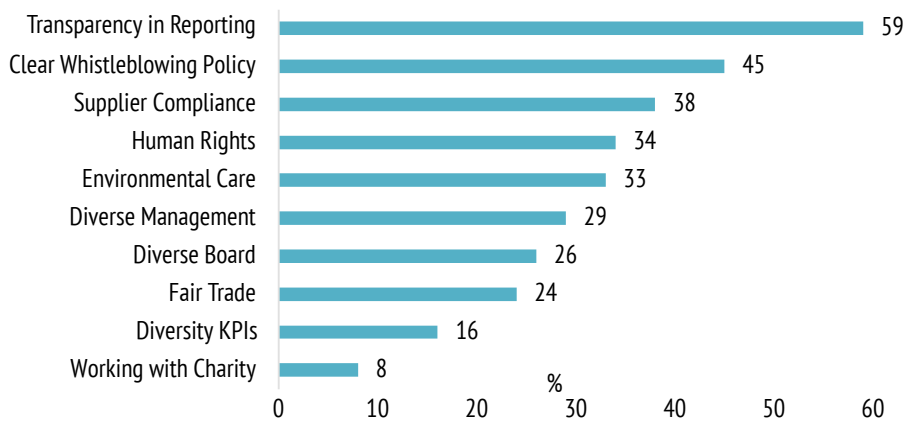


"It is important to hold broader society in mind. Boards can't just focus on the bottom line;

they have a moral duty to all their stakeholders to be a positive force in the world."  
*Richard Greco, Chairman, Edifice Managed Access Limited*



## What are the key features of doing 'good business'?



results showed that corporate reputation and 'brand' are higher up the boardroom agenda than building public trust. Naturally these concepts are interconnected but 'managing brand perception' may be the most controllable of the three and visibly affects profit.

Non-executives serving in the Technology sector are less likely to have 'good business' on their radar, with nearly half saying it was rarely, or never, on the agenda. This is despite research showing that the IT sector has a carbon footprint that has been exceeding that of the world's aviation industry since 2007. This result could in part be down to the size of the organisation and its visibility as a brand – are companies that have a high public profile more likely to focus on their broader impact on society in order to have their companies shown in a good light?

In contrast, more than a third of all Financial Services non-executives said that the concept of 'good business' appeared on the agenda of all the boards on which they served. This could be as a result of the high-profile media coverage of the banking crisis of 2008. This industry relies heavily on trust and they would appear to be striving hard to repair their reputations.

Across geographies, the results were similarly split, but UK boards were more likely to have no agenda for societal responsibility and the Nordic respondents more likely to include it. All regions were in agreement about what was the most important component of 'good business', stating a need for transparency of reporting and robust anti-bribery policies. This, of course, provides heightened scrutiny on appropriate executive pay and tax payments, which are the primary drivers for the public's distrust of big business.

Beyond this, the regions vary somewhat, with the UK focusing more on regulation and process: citing the need for robust whistleblowing policies, a more internal focus. APAC respondents concentrated on diversity, whereas the Nordics support broader society with 'following human rights recommendations' and list this as their second priority, perhaps more in keeping with the wider aims of 'good business' and impact on broader society.

The majority of our respondents clearly indicated an awareness that their impact on broader society is not only 'good business' but is also hoped to be a positive influence on brand image and future profit.

## Harvey Nash / Alumni says

### *Reflect ethics in the boardroom:*

An effective board is responsible for setting the tone and culture within the organisation. What measures can your board take to ensure that the culture and behaviours in the business reflect your ethical values?

### *Assess your impact:*

How far does your company go in terms of managing its impact on broader society both locally and internationally? Does it operate socially responsible investment to maximise a positive impact within its communities? Does the company manage and minimise environmental impact? Who is responsible?

### *Embed 'good business' throughout your organisation:*

Is your 'good business' agenda limited to CSR, charitable activity, environmental impact and diversity? Does your board feel accountable to only shareholders, or to all its stakeholders?

# Board Effectiveness

**Key insight:** The most effective boards may or may not follow every recommendation in the various codes of conduct, but what distinguishes outstanding boards is ensuring broad participation, robust decision-making processes and clarity of purpose.

The board's role is to provide leadership of the company within a framework of effective controls, enabling risk and opportunity to be managed. An effective board promotes its vision and the values and behaviours it requires to ensure that directors meet their statutory and moral duties. An effective board also embraces evaluation of its effectiveness. For the purposes of this research we have concentrated on three key areas of board effectiveness, namely: board evaluations, appointment assessment procedures and managing the talent pipeline.

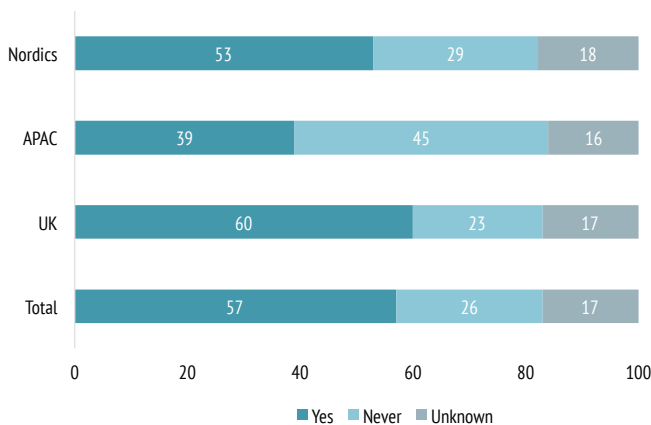
Boards continually need to monitor and improve their effectiveness. Properly conducted board evaluations can bring tremendous benefits and improve performance. Governing and advisory bodies, such as the UK's Financial Reporting Council, Sweden's Corporate Governance Board, and the Asian Corporate Governance Association, now recommend regular, formal board evaluation as best practice albeit through a 'comply or explain' model. Despite this, over a quarter (26%) of all our respondents stated that they had never had an external

evaluation. UK-based respondents were more likely to have had one, with more than half (58%) citing that an evaluation had occurred within the last five years, and the Nordics (52%). The APAC region lags behind, with just over a third conducting evaluations in the same time period.

Looking at the ownership of companies most likely to commit to evaluation, unsurprisingly, shows two-thirds of listed companies leading the way, followed by the closely scrutinised Charities sector. Only half of all family-owned businesses had completed a board evaluation. This corroborates with the low levels of take-up in the APAC region where a large proportion of companies are privately or family-owned.

It is worth noting that the constituent parts of a formal board evaluation are not defined by any of the governing bodies that recommend them. Many of our respondents felt that an effective board evaluation should be more than a process-driven, tick-box exercise and reach into the culture, expertise and behaviours necessary for it to perform to its best.

## Has your board ever had an external board evaluation?



## View from Board members



"There are some terribly stale boards in existence – they are narrowly defined in terms

of history and the capability of individuals. The idea of board appraisal is a good one and an industry I would love to see take off."  
*Ian Roberts, Managing Director, Sutton Capital*



"An effective chair needs to build a strong dialogue between the board and management.

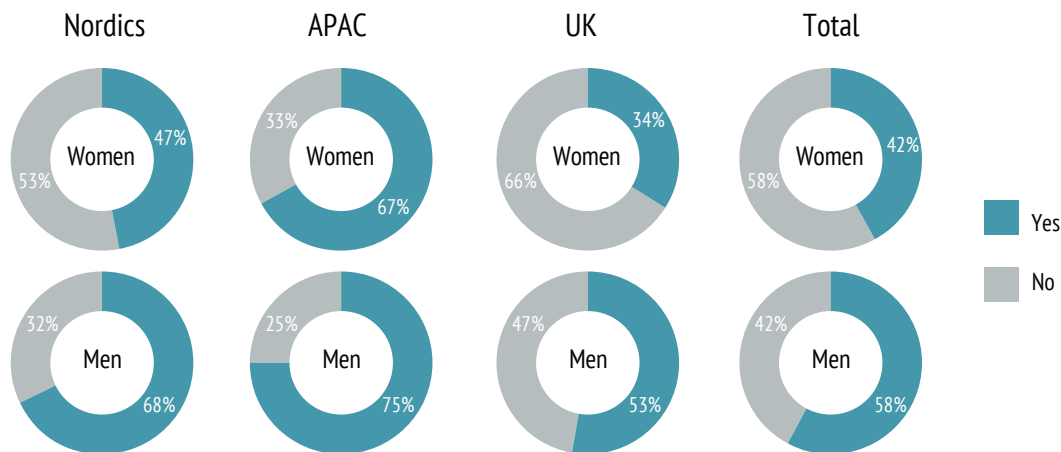
Many management teams see the board as something that needs to be 'gone through' and not as adding value or providing results. Where there are good dynamics the non-executives are used as a sounding board."  
*Pontus Fulke, Partner, Centigo, and multiple NED roles*



"For a board to be effective it needs to be open for criticism. It needs to take on external review

and be prepared and willing to take on a managed change approach."  
*Arshad Khaliq MBA, Vice Chair, YMCA Doncaster*

## Thinking about your latest appointment, were you already known to the organisation or owners?



Our research shows that companies are not always stretching their net wide enough, with just over half of respondents appointing a person already known to the organisation. This is especially true for the APAC region where 69% of all appointments were already known and only 33% subsequently formally assessed. More than half (58%) of male non-executive appointments were already known to the organisation and just over half that number (57%) were then formally assessed. In comparison, only 42% of females were previously known to the organisation, perhaps indicating that firms are becoming more active and using executive search firms to widen the net. Of those, 66% were then formally assessed, which may indicate that men are appointed on a less rigorous basis.

Comprehensive assessment of candidates and analysis of their skills, assessed against the current composition of the board and future strategic demands, is fundamental to board effectiveness. UK companies appear to have tightened up their commitment to formal assessments, with more than two-thirds using this approach even when the candidate was previously known to the organisation. Less than a third of companies in the APAC region can say the same and the Nordics fall somewhere between the two extremes.

Chair respondents appear to be broadly satisfied with

the talent pool available when appointing new non-executives, although a significant proportion, just over a third, were ambivalent or dissatisfied. But as 53% of appointments were made to people known to the business, are boards truly open-minded to diverse candidates?

Historically, financial acumen might have been deemed the most important qualification to have around the boardroom table. Our research shows that a shift has taken place and the current top three competencies viewed as necessary to improve boardroom capabilities were sector knowledge, digital skills, and strategy expertise. This was true for the UK and APAC, with a slight departure to third place going to 'knowledge of international markets' for the Nordics.

Several respondents argue that there is space for a new non-executive competency model to ascertain the expertise and behaviours that lead to successful performance. The right appointment and induction processes are vital in ensuring that any new non-executive becomes effective in the shortest time.

The overall results indicate that in all regions covered there could be significantly more uptake of best practice by boards through using evaluations, assessments, and focusing on the talent pipeline.

## Harvey Nash / Alumni says

**Undertake regular, rigorous board evaluations:** One of the main goals of the board evaluation is to enable boards to purposefully identify and surmount the barriers that impede their continuous improvement and effectiveness. The evaluation process should aim to be objective, rigorous with a scientific grounding and take a concrete development and improvement focus instead of only reflecting the current status.

**Run formal induction programmes:** Chairs should enable the non-executive voices to be heard through setting expectations during a comprehensive induction programme. Developing the humility to allow constructive challenge and consideration of others' perspectives will dramatically improve board effectiveness.

**Commit to best practice:** Comply or explain is all well and good, but a truly effective board will commit to best practice before its principles become mandated through legislation. Have you embedded a culture of open challenge and continuous improvement around the board and broader business?

# UK

**Key insight:** In light of Brexit, UK boards have an increased need to operate with a flexible approach to their strategies. Having embraced digital, UK businesses are increasingly focusing on cyber-security breaches and mitigating the effects of negative social media – an unavoidable cost of operating in a digital world.

The majority (60%) of respondents from the UK were from commercial rather than public sector organisations. The UK was the only region to place ‘governance and risk’ at the top of its current agendas and give it a similar weighting to the APAC region within future discussions. The UK is also the most likely to be talking about corporate reputation and brand.

UK respondents are the least likely to be talking about diversity on current or upcoming boardroom agendas. Like their Nordic counterparts, where they are pursuing diversity it is firstly in the area of functional expertise and, secondly, gender. UK boards are also seeking international expertise at lower levels than the other regions surveyed. Our survey showed that nearly half of all board members interviewed had regional representation on their boards already.

When it comes to digitisation, the UK boardrooms appear to be taking cyber-security seriously; it appears high on both current and upcoming agendas. They are the least likely of any region to be talking about digital innovation although this is increasing. While they may not be putting digital innovation high on the boardroom agenda in comparison with the other regions, two-fifths of UK boards are seeking technology and digitisation skills, in terms of the key competencies sought for new appointments.

When it comes to their reasons for doing ‘good business’, the UK broadly follows the other regions in citing increased employee engagement, better brand image and ‘doing the right thing’ as their drivers. In terms of implementing ‘good business’, the UK prioritises transparency of reporting and whistleblowing policies, very much focusing on the process of governance. UK

organisations were the least likely to have the broader impact of their business on society appearing on their agendas and the most likely to not have it on the agenda at all. Despite the lack of discussion around societal impact, UK boards are the most concerned with their corporate reputation and brand.

In terms of board effectiveness, the UK boards we surveyed are leading the way across the geographies. UK respondents were the most likely to have had a formal evaluation to measure the effectiveness of their board. They are promoting diversity by being the least likely to appoint someone known to the organisation (UK 48%, Nordics 57% and APAC 69%). And of those, two-thirds are subjecting candidates to formal assessment.

Our qualitative research shows that the UK market has taken notice and that diversity and inclusion are on the agenda. While gender diversity has hit the target levels prescribed by the Davies report, there are signs that this is not being pursued with the zeal of past years. Sir Philip Hampton, Chair of the UK’s ‘Women on Boards’ review, has admitted there had been a pause in progress but said that the lull in activity since his appointment in February 2016 had been partly driven by the government’s desire to avoid distractions during the Brexit campaign. The aftermath of the 2008 banking crisis led many businesses to focus inwards and ride the storm with cost-cutting, efficiency savings and restructuring. It would seem that UK boards are starting to lift their heads and indulge in big-picture thinking and think more for the long term. Many of our respondents stated the need to have a flexible board strategy that could deal with crises and opportunity but keep steering towards future goals. Right on cue,

## View from Board members



“If there is to be step change within our sector and a drive for innovation then there needs to be

more diversity. We need younger non-executives with fresh ideas, and we need to offer properly rewarded roles to attract them.”  
*Chris Streater, Chief Medical Officer, HCA Healthcare UK*



“The immediate implications of Brexit are that funding for small businesses and innovation will be


more difficult whilst investors and banks determine what the future financial landscape looks like. For people with a steady, profitable business, it is business as usual.”  
*Henry McNeill, MD, Computerbright Limited*



“Digital was originally seen as simply impacting on the business model in terms of on-line or off-line.

Now digital is just part of strategy with technology being an enabler to doing business. But it has meant that cyber-security holds a new set of potential risks to the core business.”  
*Michael Higgins, Chair, Ebiquity Plc*





the UK has to deal with Brexit. Our survey respondents repeatedly talk of their role to 'calm the wider business' until the economic implications of this monumental change become clearer.

Our qualitative data also shows that many of our UK boards are focused on digitisation. In particular, cyber-security as a sub-category was a recurrent theme, possibly due to the large numbers of high-profile breaches in recent years. Certainly our research implies that having a digitally-savvy board is more likely to create a realistic view of the digital landscape. This is borne out in repeated calls by our UK respondents for younger, tech-savvy non-executives with short tenures to ensure that board skills are as up to date as possible.

It is easy to understand why UK boards may be the most concerned with their corporate reputations; Financial Services, the Charities sector and Telecoms have all suffered high-profile scandals over recent years. As shown with cyber-security breaches, the pervasion of social media has also created an environment where misdemeanours are extremely public and broadcast.

UK boards would appear to lead the way in recognising how their effectiveness is shaped through the behaviours of their individual members. They are undoubtedly the front-runners in accepting that formal assessment and evaluation bring insight into the behaviours that contribute to the group reaching its agreed goals and objectives.

Non-executives have a key role to play in times of uncertainty in terms of leadership: not allowing knee-jerk reactions and keeping the long-term goals in sight. Boards over the next few years not only need to be agile and responsive to sudden external threats and opportunities, for example continuous digital innovation and exchange rate changes, but also create their long-term strategies after a good deal of thought and reflection.



# Nordics

**Key insight:** The Nordic region appears to be more outwardly focused in comparison with other regions. The Nordics place a good deal of emphasis on seeking out diversity in many areas and are particularly interested in international skills. This would seem to be an intuitive approach given the region's comparative size. It is also the region most likely to consider its impact on broader society.

The majority of respondents from the Nordic region were from listed and privately owned companies. Boards in the Nordic region are comparable with the other geographies in their regard for strategy and digitisation as the most important issues on the agenda. Interestingly, they are the least likely to be discussing 'current financial performance' and 'managing shareholder expectations'. They are also the most likely to be discussing 'mergers and acquisitions'.

Diversity of the board is relatively low on the agenda but no less so than in the other regions surveyed. It is possible that a degree of diversification also falls into the category of organisational capability, which appears slightly higher on the current and upcoming agendas than in other regions. Despite this, the Nordic respondents are the most likely of all geographies to be seeking diversity not only in functional expertise but also in age, gender and international expertise. They are less likely to be encouraging diversity through ethnicity, cultural experience, academic or social background.

Nordic boards are the most likely to have plans to represent other regions but not particularly likely to have regional representation on the board.

Their non-executives are highly likely to have digital innovation on the board agenda and most likely to be talking about it more. They are, indeed, the only region to list digital innovation as the main upcoming priority for the board.

Nordic respondents agree with other regions in their view that practising 'good business' will increase employee engagement and improve their brand but, unlike other respondents, are as equally committed to the view that 'good business' will increase profits in the

long term. They are probably, therefore, most likely to have 'good business' on the agenda and least likely to never include it on their agendas.

Looking at definitions of what constitutes 'good business', the Nordics match the other regions' opinion that 'transparency of reporting' and 'anti-bribery policy' are key to 'good business' but deviate from the norm by listing 'following human rights recommendations' as the second principle. The Nordic national traditions of engaging in human rights issues, contributing (beyond the region's relative size) to international organisations, such as the United Nations, can explain why it may be high on the boardroom agenda.

When it comes to examining board effectiveness in more detail, they are the second most likely region to have never had a board evaluation and also to dispense with formal assessments for director appointments. This is consistent with the fact that the majority of non-executives were already known to the board. In a small and well-networked market, such as the Nordics, it is interesting to see that a significant proportion were unknown to the organisation prior to appointment (43%). This is most likely a testament to the push to increase the gender balance on boards, increased intra-Nordic and international appointment objectives, and forcing boards to actively pursue candidates outside existing networks. Formal personal responsibility for board members has also increased throughout the Nordic regions, and with board work taking up more time, the pool of candidates has decreased. External appointments and increased legislation also go some way to explain their relatively high commitment to board evaluations and formal assessments.

## View from Board members



"Strategy questions are becoming more and more about digitisation – clever companies

treat them as one issue."  
*Christer Nilsson, CEO, Vestadil AB, and NED on several boards*



"My experience is that there are significant differences in how boards work between the Nordic

countries. Sweden, for example, follows EU regulations closely, whereas Norway, for obvious reasons, does not. Diversity is not about numbers – it is about attitude. As a starting point for inclusion we need people who have worked in different cultures – the Swedish way of doing things is not the only way."  
*Pia Gideon, Chair, Klövern AB, and NED on several other boards*



"I see Good Business is a risk issue, as simple as that. Boards need to consider 'what is ethically

right?' and manage these risks in a straight-forward controlling system. If the company is pushed to the ropes, be open and transparent – I believe this is right in the long run."  
*Vibeke Krag, Faculty member, CBS Executive, Corporate Governance*



The top three competencies sought within the Nordic region were digital skills, sector experience and, in a departure from the other regions, international market skills. Interestingly, they are the most likely to have plans to represent other regions but not particularly likely to have regional representation on the board. Two-thirds of the board respondents were more than satisfied with the talent pool on offer when it came to making an appointment.

Internationalisation and international growth is a recurring theme throughout our Nordic survey data: how to do it, how to finance it and how to secure the competence needed from non-executives and executives.

Digitisation is an important issue on the board's agenda – of course, what this means in reality varies wildly between companies and industries. For some, digital can centre on operational efficiency; for others, it changes channels to market; and, in some cases, it is the whole foundation of the business. This difference in focus may go some way to explaining why many Nordic companies do not consider themselves either disrupted or disruptors. Digital is just business as usual.



# APAC

**Key insight:** The diversity of thought and effectiveness of APAC boards is affected by the company ownership and through appointments that use personal networks over external talent pools.

The majority of respondents from the APAC region were from privately owned companies or 'not for profit' organisations. Unlike other regions, our APAC respondents were the most likely to be discussing current financial performance and managing shareholder expectations in the boardroom. They were one of the regions least concerned with corporate reputation and brand; 'mergers and acquisitions' were also low on the agenda.

Diversity in the boardroom hasn't been on the agenda up until recently, but is now being given more weight in upcoming discussions than in the other regions surveyed. When it comes to the types of diversity that are desirable, the APAC respondents are less likely to seek either gender diversity or functional expertise than their UK or Nordic counterparts. They place a higher weight on diversity through cultural and academic backgrounds. APAC boards are the most likely to want ethnic diversity and have an above-average desire for international skills. To this end, they are by far the most likely to have regional representation on the board but the least likely to have plans to represent other regions.

When it comes to digitisation, the APAC region is the least likely to have digital innovation on current or future agendas but they are the most concerned with cyber-security.

APAC respondents are the least likely to have their impact on broader society as a concern on every boardroom agenda, though, encouragingly, it features quite strongly on most or a few agendas. According

to our research, APAC boards are also the least likely to be concerned with 'supplier compliance to regulations and policies' and 'following human rights recommendations'.

When it comes to measuring the effectiveness of the board, APAC respondents were by far the least likely to have never had a formal board evaluation (45% vs 26% of all regions). Despite being the region least satisfied with the available talent pool, two-thirds of APAC boards surveyed are appointing new non-executives that are already known to the board. Furthermore, they were significantly less likely to use a formal assessment process when appointing these new members. The fact that a large number of APAC companies are family controlled came up time and again in our qualitative research. This fact alone was raised as a significant barrier to diversity and inclusion. Appointments to the board are certainly largely made through existing networks and with no formal assessment.

It would seem that there is, anecdotally, a lack of consensus within APAC boards about how to handle digital as a business issue. This could be because several of our respondents reported that their boards tend to be driven through the chair's vision rather than a collective effort. Naturally, if the person driving the strategy doesn't have digital disruption on the agenda then this is likely to be detrimental to having a forward-thinking approach. Our respondents also mentioned that boards were less likely to be disrupted through personal opinions and challenges to the current thinking.

## View from Board members



"Board evaluation is an effective tool. Through the assessment process you get a perspective that

you hadn't expected to see. I think this is because external reviews have seen multiple boards which is invaluable experience."

*Nick Sallnow-Smith, Chairman, The Lion Rock Institute, iNED, Wynn Macau and Board Director, UCP*



"We would obviously like more diversity in Asia, but whether a person can work with the family

is an important consideration. Directors are expected to at least agree with the existing basic approaches and philosophy, which in itself is a natural bias to a certain type of candidate."

*Kai Man Wong, Director, Victor and William Fung Foundation*



"The greatest impediment to diversity of thought is that people want to sit on boards where

they don't feel too challenged. When it comes to fresh thinking, appointing through executive search firms means you are confronted with choice rather than having to pick the best person you know."

*Ian Roberts, Managing Director, Sutton Capital*





# London Business School Conclusions

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

Boards play a crucial role in the private and public sectors, from start-ups to multinationals. They also have critical decision-making authority. As research repeatedly shows, groups on average make better decisions and fewer mistakes than individual leaders. To increase odds of success, make a group rather than an individual accountable. But boards are not your typical group – given the extraordinary demands they labour under as well as the power dynamics between the players. So how well do modern boards actually perform against this ideal? And do they deliver the expected results? Answers to such questions are critical to people's health, wellbeing and prosperity. Rigorous research on boards creates value by separating truth from conventional wisdom and current best-practice from dogma or blind faith.

## Doing good to get ahead

Ioannis Ioannou, Associate Professor of Strategy and Entrepreneurship at LBS, examined whether companies with sustainability at their core have a competitive advantage. He demonstrated that, indeed, they do. However, compare that with the key findings revealed in this report showing that prioritising 'good business' is only consistent in 28% of the boards. It suggests that an organisation's impact on broader society is still seen as a 'nice to have' objective. Ironically, boards and their businesses are missing key opportunities for improved profitability by focusing primarily on financial returns. Companies can do better financially by focusing on doing good, rather than focusing exclusively on financial returns.

## Spotting opportunities to increase board effectiveness and impact

Research under way by Isabel Fernandez-Mateo, Associate Professor of Strategy and Entrepreneurship, and by Raina Brands and Aneeta Rattan, both Assistant Professors of Organisational Behaviour, highlights the opportunities relating to diversity. When diversity (in all of its visible and deep-level manifestations) is framed as a business opportunity rather than a moral imperative or a problem to be managed, the outcomes for both individuals and organisations improve. For example, research by Aneeta Rattan demonstrates that if everyone in a workplace – leaders especially – adopts growth mindsets, it will help everyone, but women or any group that is under-represented will especially benefit.

Put these findings alongside some of the key findings of this report and you see that over half (51%) of respondents did not think that 'diversity' on their boards was a concern. The findings and our research suggest that boards are missing vital opportunities today.

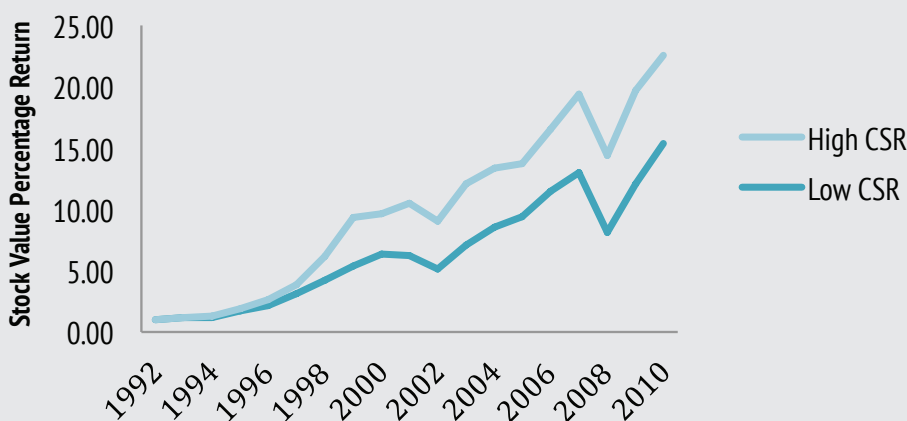
Is the future brighter? Worryingly, it's not guaranteed, since actively ensuring diversity in the talent pipeline appears to be mostly ignored by boards. Only a third of respondents were concerned with diversity as part of their succession plans.

## Effective monitoring of the business

Finally, consider my own research, which shows that group processes such as information sharing, broad participation, cohesiveness, clear decision-making processes and goal clarity, predict group performance.

When board directors collaborate effectively as a group, there are better financial outcomes. Alarming, more than a quarter of board members report never having experienced an external effectiveness review –

## Stock Price for High vs. Low CSR Companies Over Time by Year



Eccles, Robert G., Ioannis Ioannou, and George Serafeim (2014)

## What kind of mindset do you have?



I can learn anything I want to.  
 When I'm frustrated, I persevere.  
 I want to challenge myself.  
 When I fail, I learn.  
 Tell me I try hard.  
 If you succeed, I'm inspired.  
 My effort and attitude determine everything.



I'm either good at it, or I'm not.  
 When I'm frustrated, I give up.  
 I don't like to be challenged.  
 When I fail, I'm no good.  
 Tell me I'm smart.  
 If you succeed, I feel threatened.  
 My abilities determine everything.

*Created by: Reid Wilson @wayfaringpath*

including 41% of private and 50% of family businesses.

The results suggest that many boards do not prioritise how they operate as a group, or are not conscious that this is something they need to attend to. When boards do not operate well as a group, they cannot monitor their business effectively. At worst, low-performing boards can make mistakes that negatively impact results, as well as miss critical opportunities, erode organisational reputation, and/or trigger phenomena that can have negative impact on society and the world at large.

### Brighter boardrooms

There are some pockets of good practice in the boardroom but, largely, boards have some way to go to reach their fullest potential. We hope that this report

will inspire board chairs and directors to continue to improve, by engaging in more of the practices that research clearly demonstrates are effective. For example, when boards view their own team effectiveness and creating an inclusive culture as business imperatives, as opposed to 'nice to have', they can accelerate their role in creating real value, for organisations and society at large.

#### **Randall S Peterson**

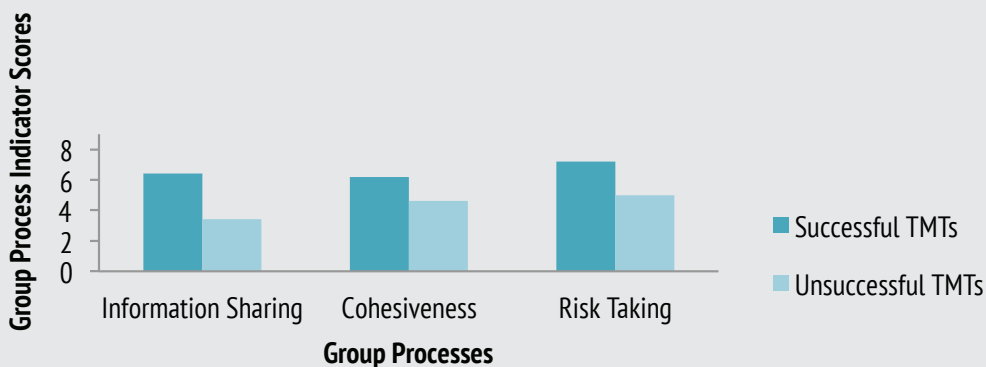
*Academic Director of the Leadership Institute  
 Professor of Organisational Behaviour at LBS*

with

#### **Vyla Rollins**

*Executive Director of the Leadership Institute*

## Successful vs Unsuccessful Top Management Teams



Peterson, R. S., Owens, P. D., & Martorana, P. V. (1999)



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