

# Board of the Future

**Moving toward a more diverse,  
more in tune European board**



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# The changing board

The role of the board is evolving, and purpose, sustainability, culture shaping, and safeguarding reputation will rise on the agenda.



Boards of directors are set to take a more active lead within companies than they have done in the past. Areas of involvement include CEO succession, executive compensation, and forming close relationships with senior management teams to issues that once might have been the purview of management alone, such as reputation and sustainability, and others that are emerging as central to performance, such as establishing and maintaining purpose. This bias toward action is one of the key findings of a Heidrick & Struggles survey on the board of the future, with 55 board members from European companies and 28 investors, complemented by interviews with current European board members.

The survey also shows that boards are increasingly looking to add members with skills that can help them steer their companies through current challenges such as enterprise-wide digital transformation, developing and implementing enterprise-wide talent strategies, and leading organizational change.

In the context of several trends that are changing the priorities of European boards—societal and regulatory scrutiny on board composition (including gender, in particular) and accountability, the prominence of purpose beyond shareholder primacy, unparalleled levels of technologically driven disruption, and socioeconomic volatility—we believe that these shifts in boards' activities and composition are good news for companies. Furthermore, it is within their scope to future-proof themselves by redefining the lines of responsibility between boards and executive teams, embedding purpose and sustainability in their decision-making processes, and building a diverse boardroom with an inclusive culture.

**“Balancing international markets, a changing economy, technological explosion, the politics to find organic growth, and enhancing margins will make making the right decisions more difficult.”**

**Ian McHoul**  
Chairman of the Board, The Vitec Group

# The board's role: A more assertive, busier future beckons

Our survey asked how boards will change over the next five years. The overwhelming response was that the board will need to assume a more active role in several corporate activities—and will spend more time on its responsibilities as a result.



The top priorities for the board remain unaltered, with a large majority of respondents saying that it will continue taking the lead role in overseeing the affairs of the company's executive tier, specifically CEO and C-suite succession, executive compensation, and building a relationship with the executive team.

The significant shifts in focus concentrate on areas that take the long view. We asked directors which areas boards lead today and which they will lead in five years' time, to understand the emerging trends on their agendas. According to respondents, creating long-term value climbs 25 percentage points on the board's agenda in five years, compared with current levels. Respondents also expect significant increases in the board's role regarding corporate reputation, embedding a purpose-driven culture, and horizon scanning and scenario planning. Traditionally, several of these responsibilities have mostly been driven by management, with boards having fairly distant and infrequent oversight.

Corporate reputation offers a good explanation of why boards feel they must now take an active role in such areas. In the age of social media, a negative story can do serious damage to a company's standing within a matter of days. And CEO compensation, fraud, and sustainability issues are all taking on greater importance for consumers and investors alike.

Thus, board members are clearly feeling a growing responsibility to ensure that they think not only about areas where boards have long had clear responsibility or oversight, such as compensation, but also more broadly about factors that can affect reputation.

Embedding a purpose-driven culture is an area growing in importance for both boards and management. Often associated with sustainability and pressure from stakeholder activism, purpose, as we see it, is broader and more important: it offers a constant answer to the question "What are we here for?," providing a strong anchor for organizations when they reformulate their business strategy in times of change.

Indeed, some other recent research from Heidrick & Struggles shows that the task of building an organization that can mobilize, execute, and transform with agility often starts with clarity of purpose.<sup>1</sup> Organizations that are more effective at setting a strong, clear purpose also experience significantly better performance than organizations that have been slow to define purpose. This is because purpose energizes leadership, leads to informed decision making, and creates alignment throughout the entire organization, as well as

helping to attract employees. Given the clear link between purpose and performance, it makes sense for boards to spend time on it.

Although "purpose" can be defined in many ways, for many companies sustainability is an increasingly important element of purpose, as well as a reputational factor.<sup>2</sup> Boards already have oversight over the assessments of environmental, social, and governance (ESG) matters, but as these issues become more important to customers and employees and permeate areas such as innovation, operations, procurement, and even corporate travel, there is a clear need for boards to ensure the management team is taking a comprehensive and proactive view. "The rise of ESGs on the corporate agenda has been a major development, and expectations from companies are only going to increase," says Ian Bull, interim non-executive chairman and non-executive director for FTSE 250 companies. Many respondents to our survey described what they wanted their board's legacy to be from a long-term, sustainable perspective, such as "a sustainable and successful business in the eyes of employees, customers, and shareholders," "value creation for various company shareholders," and "a socially responsible and sustainable business model."

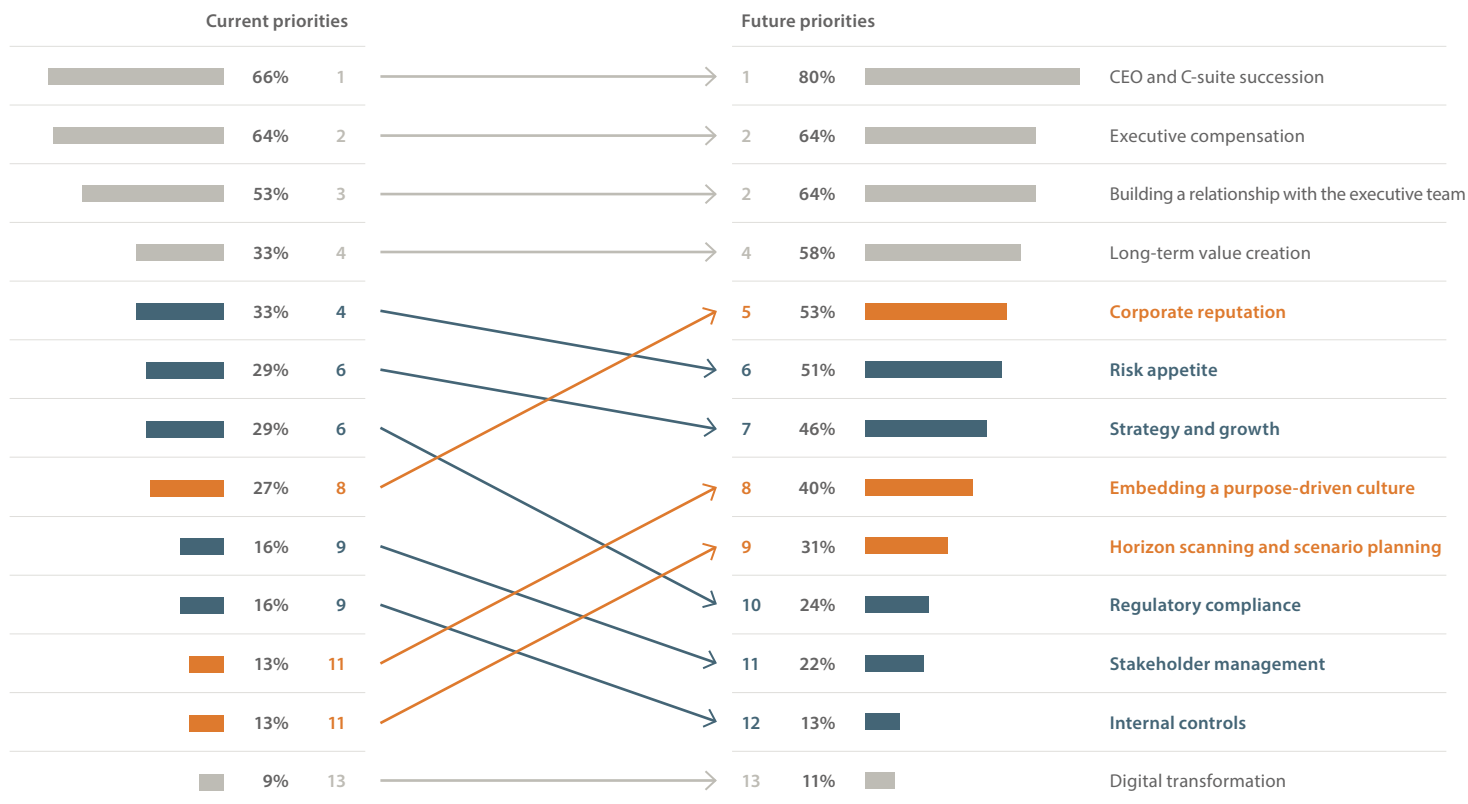
<sup>1</sup> Alice Breeden, Becky Hogan, and TA Mitchell, "Bringing your organization up to speed," Heidrick & Struggles, September 12, 2019, [heidrick.com](https://heidrick.com).

<sup>2</sup> Business Roundtable, "Business roundtable redefines the purpose of a corporation to promote an economy that serves all Americans," August 19, 2019, [businessroundtable.org](https://businessroundtable.org).

## Long-term topics will become increasingly important in the boardroom

Percentage of respondents who selected "Lead" for each topic

■ Unchanged ranking ■ Increase in ranking ■ Decrease in ranking



Note: Board members were asked to describe the current role of their board of directors (Lead/Influence/Approve-Reject/No role) across the focus areas in the graph and describe the role they think boards should play in five years' time; n = 55 directors from European companies.

But purpose goes deeper than brand power; it is shaping companies and sectors. You only have to look at how some of the Northern European energy companies have changed their business models over the past decade. Equinor, a Norwegian-based international company, changed its name from Statoil to reflect its reframed purpose ("Turning natural resources into energy for people and progress for society") and signal a shift toward renewables.<sup>3</sup> And Equinor is not the exception. Neste, a Finnish energy company, has been changing its focus as well to better align with its new purpose ("Creating a healthier planet for our children") and is making a bolder move in the renewables space, aiming to become the global leader in renewables and circular solutions.<sup>4</sup>

And Shell, one of the world's energy giants, is undergoing a similar thinking process and reconfiguring the basics of what it wants to be.<sup>5</sup>

Ebbie Haan, a non-executive director at the engineering company Weir Group and oil and gas exploration company Orca Exploration Group, puts it this way: "I think boards need to move away from their image of being responsible mainly for checks and balances and governance. We should be taking a broader shareholder perspective and a more leading role in the shaping of the company's direction. The question now is whether boards can withstand short-term pressures to do the right thing for the long-term future of the company and its stakeholders in the wider sense, including for its employees and the communities it touches."

**"The rise of ESGs on the corporate agenda has been a major development, and expectations from companies are only going to increase."**

**Ian Bull**

Interim non-executive chairman and non-executive director for FTSE 250 companies

<sup>3</sup> Equinor, "About our name change," equinor.com.

<sup>4</sup> Neste, "Creating a healthier planet for our children," neste.com/en.

<sup>5</sup> Anjali Raval, "Royal Dutch Shell searches for a purpose beyond oil," *Financial Times*, September 26, 2019, ft.com.

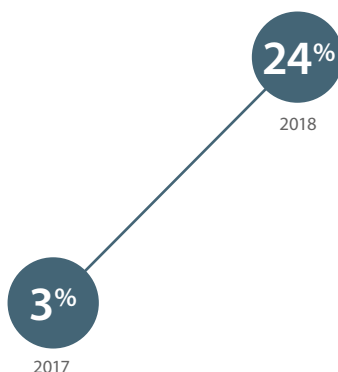
## Influencing digital transformation

Digital transformation is a pressing concern for executives and boards in every industry, yet one in which our survey respondents don't see boards taking a leading role. Indeed, though the increased pace of digitization is cited by far most often as the greatest challenge facing traditional companies (56% say so), followed by talent scarcity at 38% and increased regulatory requirements at 26%, only 11% of respondents in our survey say that the board will take a leading role in digital transformation in five years, while more than two-thirds say it will exert influence instead. The executive team is clearly expected to take ownership of digital transformation, with continual attention devoted to it on an everyday basis, while the board steps in to guide and offer expertise where appropriate. There is a feeling, too, that the board can lack the necessary capabilities and experience to take the lead in what is still a relatively new area.

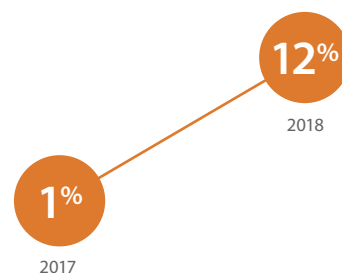
The executive team is in a better position to make decisions on digital transformation programs, as they require day-to-day oversight from people with the right capabilities. But that doesn't mean that boards are not factoring it in their role. Our survey indicates that a large percentage of board members think they should be able to influence the digital transformation strategy—and, indeed, they are bolstering their digital capabilities: according to Heidrick & Struggles' *Board Monitor Europe 2019*, there has been a notable surge of people with digital and social media—and also cybersecurity—skills in the new director appointments to European boards.<sup>6</sup>

## Significant rise of digital and cybersecurity skills on European boards

Digital or social media experience



Cybersecurity experience



Source: Heidrick & Struggles, *Board Monitor Europe 2019*



<sup>6</sup> Heidrick & Struggles, *Board Monitor Europe 2019*, September 25, 2019, [heidrick.com](https://heidrick.com).

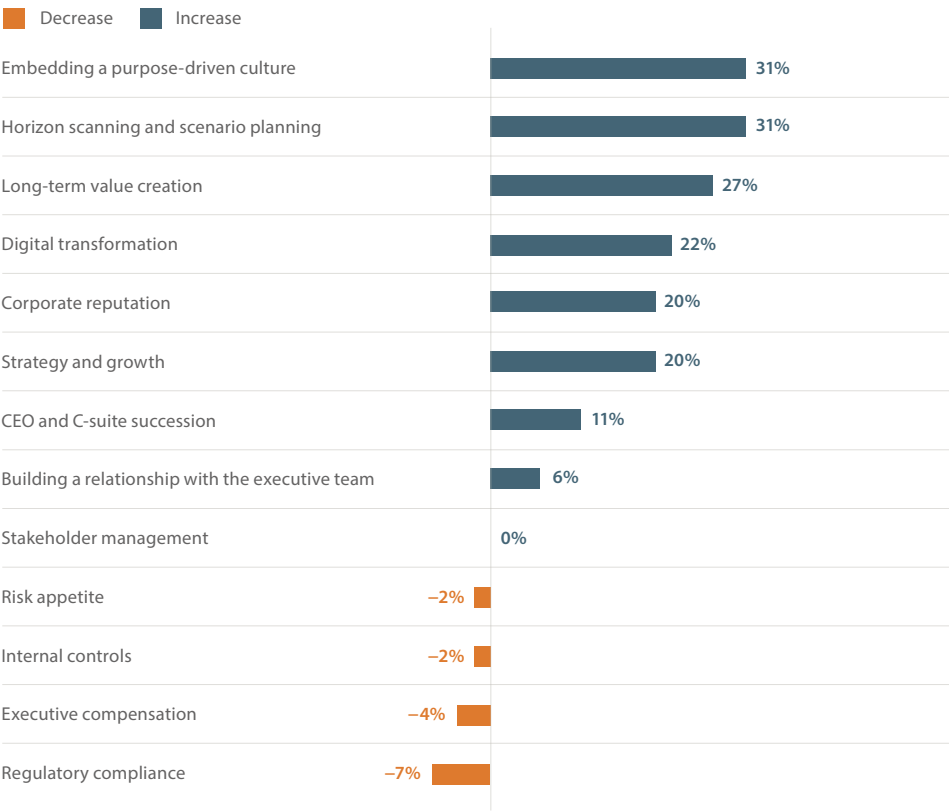
Putting in the time

With these changing and expanding responsibilities, directors expect to devote more time to their role. “The number of things on the agenda will increase, and boards will need to collaborate more with the executive team in order to cover it all,” says Ian McHoul, chairman of The Vitec Group, the broadcast and photographic market services provider, and non-executive director at other FTSE 250 companies.

In addition to the growing number of items on the executive agenda requiring more time, the increasing diversity of boards and the resulting broader range of views typically enriches, but also prolongs, debate before decisions are reached. Indeed, the time burden on boards is expected to increase so significantly that the existing system of holding periodic meetings could soon be called into question and the governance model challenged.

Increased time spent on longer-term priorities

Differences in percentage of respondents saying they will spend significant time on each of these topics in five years’ time compared to today.



Note: Board members were asked what percentage of their time they spend now (Significant/Some/Minimal/No time) across the focus areas in the graph and how much time they thought they will be spending in five years’ time; n = 55 directors from European companies.



The time burden on boards is expected to increase so significantly that the existing system of holding periodic meetings could soon be called into question and the governance model challenged.



# The board's makeup: Selecting for change

A board position may have once seemed to be a comfortable sinecure for a retired executive. Now, with new expectations for performance and expertise, long-term sustainability, and time commitment, a new profile for directors is emerging.



Board members predict that experience with enterprise-wide digital transformation, developing and implementing enterprise-wide talent strategies, and leading organizational change will all be more important to the board's effectiveness in five years than they are now.

Conversely, previous board or C-suite experience, deemed at the moment to be the most vital attribute for a board member (91% of respondents chose the CEO as the C-suite role most suited to the boardroom), is projected to decline quite significantly in importance. The current strong preference for the CEO role in the boardroom is clearly highlighted in *Board Monitor Europe 2019*: almost half (45%) of the new directors appointed in 2018 were current or former CEOs.<sup>7</sup>

Our survey also asked about the relative importance to future board effectiveness of three overarching areas: broad executive experience, specific functional knowledge, and diversity of personal background. Here, too, it's clear that diversity of expertise and background are becoming ever more important.

Diversity of personal background is highly prized, most often because it's widely believed that a broader range of perspectives will enable board members to better support management in anticipating the full span of commercial opportunities and threats. According to our *Board Monitor Europe 2019* report, 38% of new board positions in Europe were filled by women during the previous year, an increase over recent years, driven in part by government quotas but also by the growing realization of the commercial benefit of diversity.<sup>8</sup>

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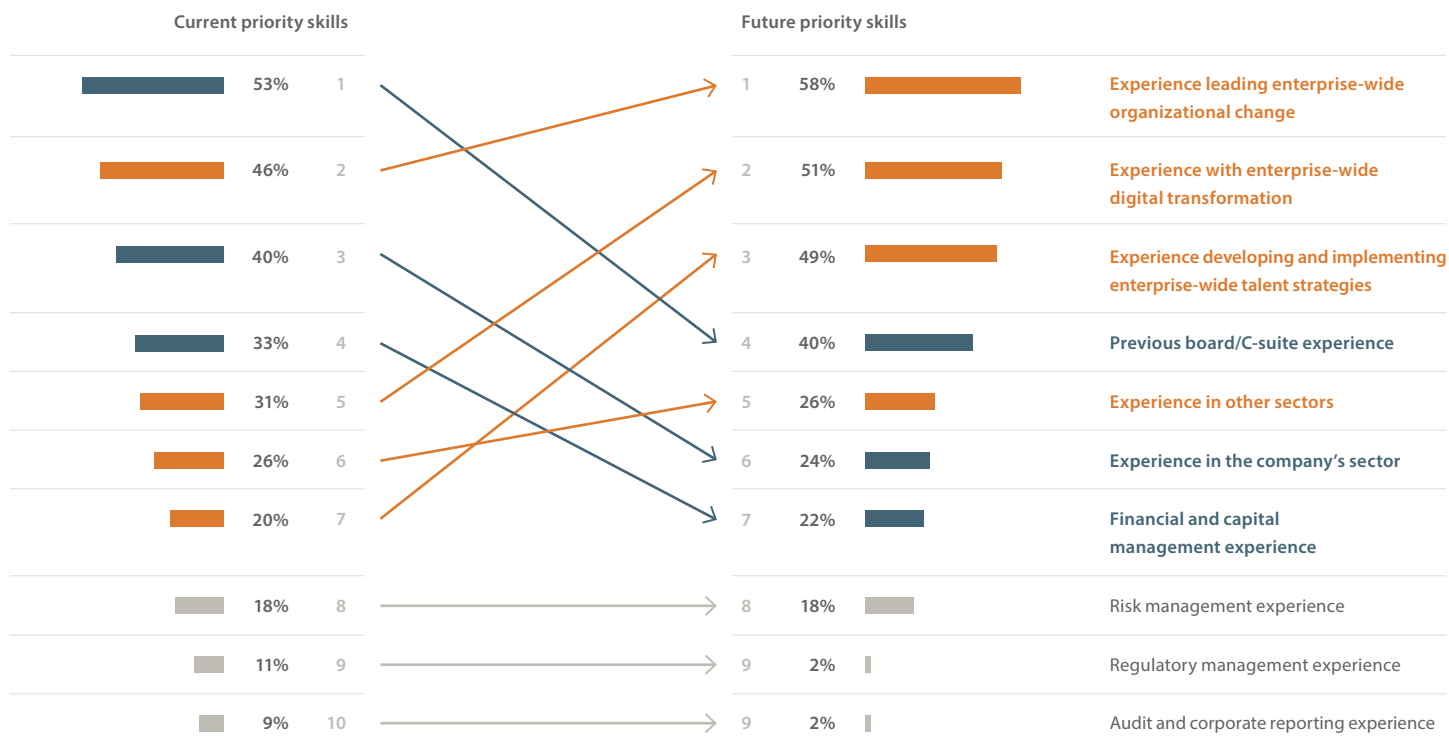
<sup>8</sup> Heidrick & Struggles, *Board Monitor Europe 2019*, September 25, 2019, [heidrick.com](http://heidrick.com).



## Skills and experience considered important for board effectiveness

Percentage of respondents prioritizing these skills. Respondents could choose up to three options.

■ Unchanged ranking ■ Increase in ranking ■ Decrease in ranking



Note: Board members were asked which of the following types of experience, if any, they considered most important to the current board's effectiveness and which they considered most important in five years' time; n = 55 directors from European companies.

Indeed, our analysis of last year's new director appointments in Europe reveals that it is largely female appointees who have come from more atypical career backgrounds. For example, seven out of eight board members in FTSE 250 companies with experience as a chief human resources officer (CHRO) are women; three out of four board members with experience as a chief information officer (CIO) or chief technology officer (CTO) are women; and five out of six board members with experience as a chief marketing officer (CMO) are women. Considering that still less than a third of FTSE 250 board seats in the United Kingdom are occupied by women, these statistics reveal how boards are adding useful experience with an increase in female representation.

Ultimately, however, there is no single right kind of board composition. What's ideal will vary substantially according to the sector and the company's maturity and competitive position.

"Some companies would benefit from having more marketing and digital experts," says Ian Bull. "Others, however, might have more of a need for a chief technology or information officer." Ebbie Haan adds: "The board should be more open to rotating its members to enlighten its perspective on particular issues." Our survey shows, however, that most board members are a little less flexible: only 18% thought the positions should rotate to meet the evolving challenges of the boards.

Board chairs and nominating committees will benefit their boards and companies by mapping out which skills and experiences are critical and may be hard to find and then setting a plan in place to nurture a broader range of relationships to find candidates with the right backgrounds. An alternative tactic is to be prepared to appoint a director with the right skill set and experience once he or she becomes available, rather than when a new seat opens up.<sup>9</sup>

**"The board should be more open to rotating its members to enlighten its perspective on particular issues."**

**Ebbie Haan**

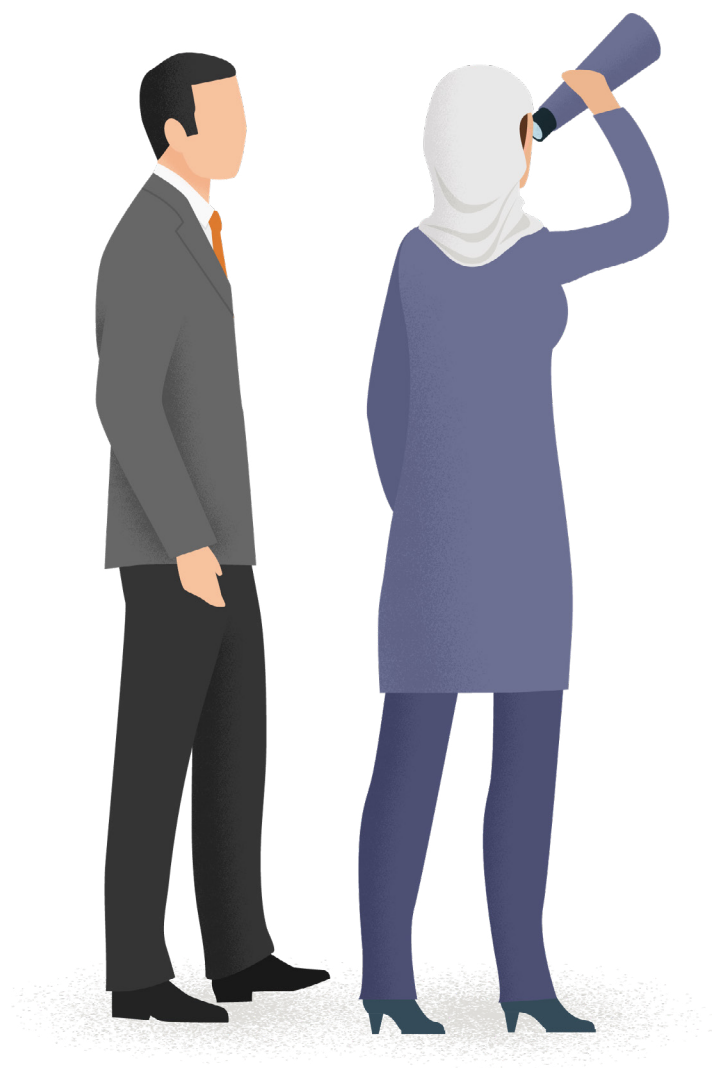
Non-Executive Director,  
Weir Group and Orca Exploration Group

<sup>9</sup> Heidrick & Struggles, "Meeting the demand for women directors," December 5, 2018, [heidrick.com](http://heidrick.com)

## The investors' view on the board of the future

For a different perspective, we surveyed 28 investors from across Europe to understand how they saw the role and the makeup of the board changing. We found that while they largely agree on the priority areas, they have a different perspective on how boards should look to be fit for their future purpose.

Directors and investors largely agree on the board's future priorities but have different views on the skill sets and experiences required for board members.



# The views of directors versus investors on boards of the future

Directors Investors

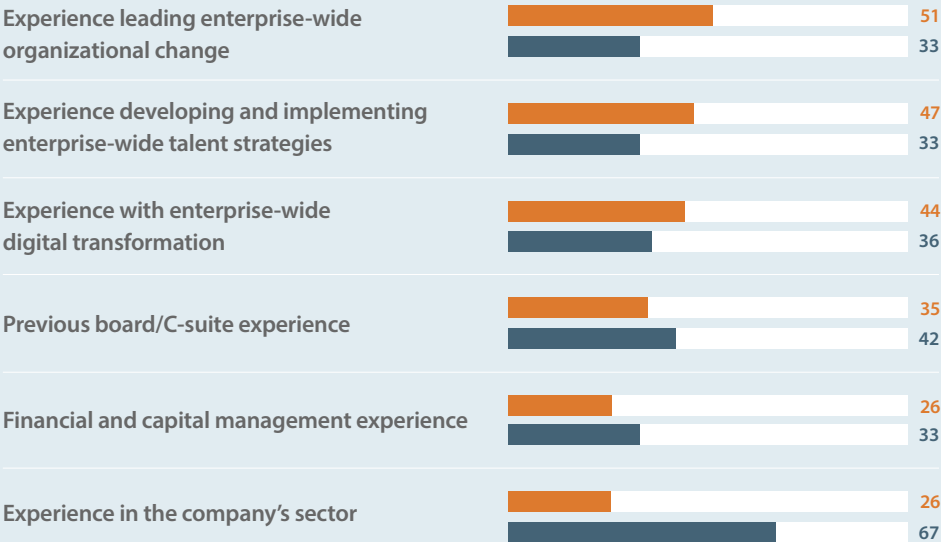
## Directors and investors largely agree on the board’s future priorities...

% of respondents who indicated board should lead focus area

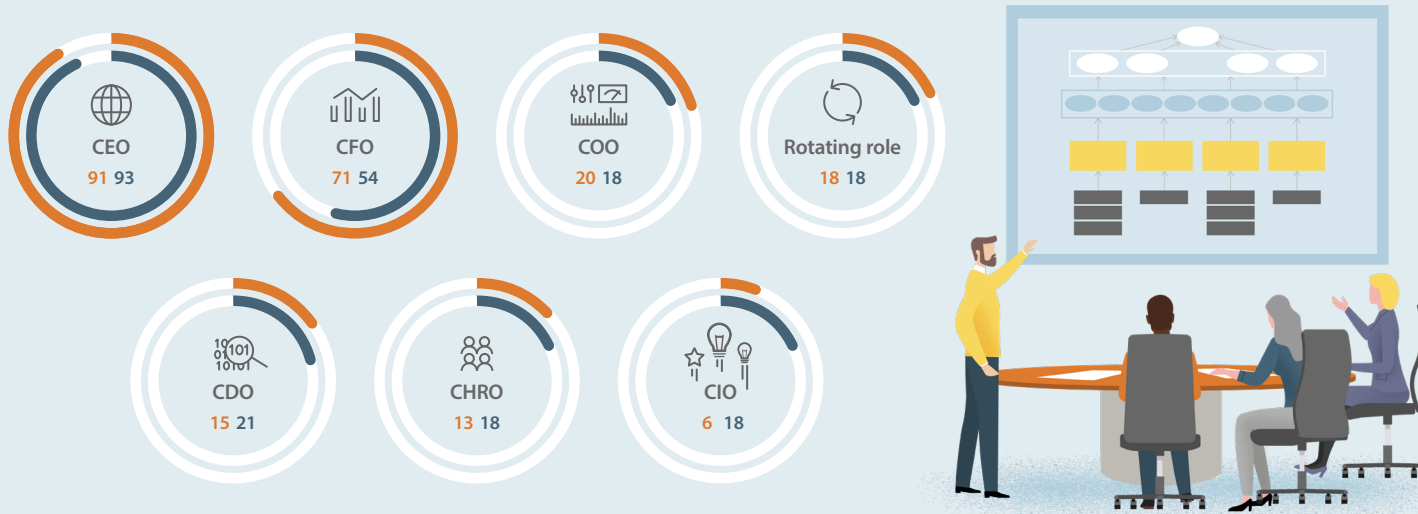


## ...but have different views on the skill sets and experiences required for board members...

% of respondents who indicated skill or experience will be necessary for directors in five years’ time



## ...and which C-suite roles should be represented in the boardroom.



# Making the board effective

Even with the perfect agenda and perfect roster, there is no guarantee that boards will function effectively. However, there are steps that boards can take to improve their effectiveness.



The role of the chairman goes a long way to ensure that organizations get the best out of each of their directors. The chairman orchestrates board meetings to the last detail, not only setting the agenda and goals for the meeting, but also coaching individual directors, particularly new appointees, on how to have an impact.

Another critical element for effectiveness is the availability of the information, tools, and mechanisms that can aid decision making and encourage collaboration. For example, a basic feedback mechanism can go a long way in managing board dynamics and building a more inclusive, more open culture.

Beyond that, there are a slew of methodologies and technologies to help boardroom decision making, from AI-based recruitment

tools to financial investment products to scenario-planning exercises. One company in Hong Kong, for example, introduced an algorithm that is meant to support or direct investment decisions. AI-based technologies have the potential to fill in some of the skills and resource gaps, but they also introduce new technical and, more important, ethical challenges around potential data-driven bias, diverse cultural norms, and making decisions based on an opaque technology.

As boards introduce new tools, their effectiveness will be improved when all board members have a minimal level of digital dexterity, which we define as the mix of leadership and organizational acumen that leaders need to support both the technological and human side of digital transformation.<sup>10</sup>

A basic feedback mechanism can go a long way in managing board dynamics and building a more inclusive, more open culture.

<sup>10</sup> Yulia Barnakova, Steven Krupp, and Scott Snyder, "Building digital dexterity in your leadership team," Heidrick & Struggles, May 15, 2019, [heidrick.com](https://heidrick.com).

# Taking the long view to accelerate performance

The biggest challenge for organizations today is finding the right balance between long-term sustainability of the business and quarterly investors' reports. There are a few things boards can prioritize to put their companies on a competitive trajectory.



## 1. Redefine the lines of responsibility between the board and executive team.

The last decade brought fast-paced change and additional layers of strategic complexity, including digital disruption, purpose, sustainability, new regulations, new business models, and new products and services. The responsibilities and boundaries between the board and the executive team in these areas are not necessarily always drawn clearly—structure has not kept up with strategic change. It is essential that across all strategic areas of governance, the board and the executive team agree on who is driving and who conducts the traffic.

## 2. Embed purpose and sustainability into decision-making processes, and set clear metrics.

All board decisions should pass the purpose test and answer yes to the following question: “Is this action or behavior aligned to our organizational purpose?” Purpose comes as the authentic expression of why the company exists, beyond its financial and business objectives. A company’s purpose speaks to its ultimate goal in various degrees of ambition, from ING’s “Empowering people to stay a step ahead in life and in business” to Cisco’s “Shape the future of the Internet” to Aviva’s “Defy uncertainty” and BMW’s “Enabling people to experience the joy of driving.” Sustainability has been increasingly gaining prominence over other nonfinancial issues companies are prioritizing, and ESG could be a good starting point to introduce a model for assessing, reporting, and embedding nonfinancial matters into board decision making. In the age of social media, any deviation from the company’s purpose and sustainability promise will make a serious dent in the corporate reputation that boards see themselves taking a more active role in protecting.

## 3. Build a diverse boardroom with an inclusive culture.

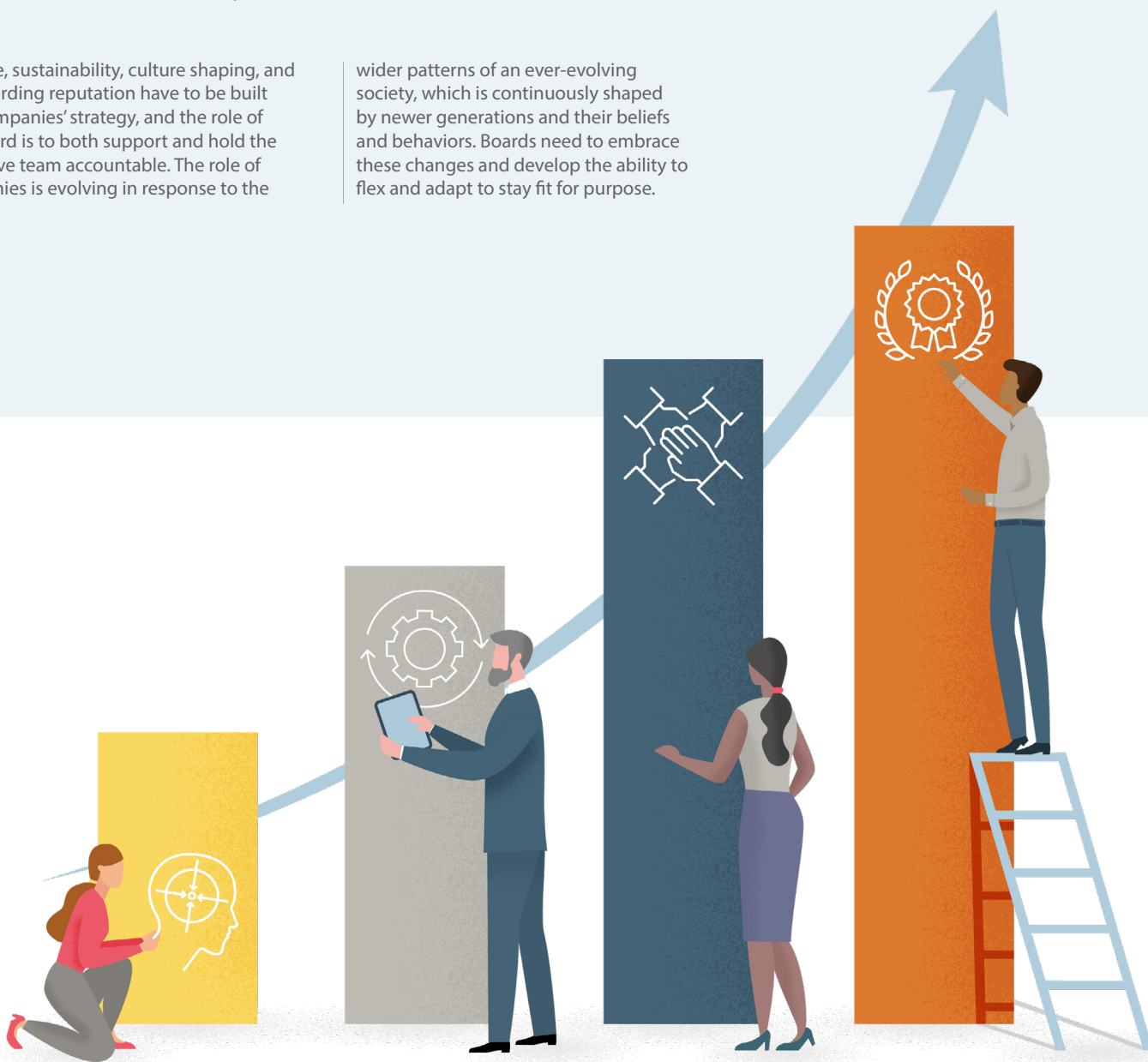
The ideal board is a blend of extensive executive experience and the newer, more diverse perspectives of people of different genders, ethnicities, races, ages, sexual orientations, socioeconomic backgrounds, or disability statuses. Since diversity in the boardroom can bring changes and challenges—in particular, prolonging decision making—it’s crucial for boards to think overtly about their processes and culture to ensure they’re getting the most from diversity. Any perceived lack of a certain type of experience can be easily remedied with strong onboarding programs, mentorship schemes, and immersive, tailored development initiatives. And these interventions are not just relevant for new directors; even the more experienced board members could benefit from upskilling in new areas such as digital, social media, and understanding new consumer trends.

# Conclusion

Future boards need to understand the importance of the long-term factors that will shape performance in the eyes of modern shareholders.

Purpose, sustainability, culture shaping, and safeguarding reputation have to be built into companies' strategy, and the role of the board is to both support and hold the executive team accountable. The role of companies is evolving in response to the

wider patterns of an ever-evolving society, which is continuously shaped by newer generations and their beliefs and behaviors. Boards need to embrace these changes and develop the ability to flex and adapt to stay fit for purpose.



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necessarily represent the views of the companies they are affiliated with.

Ian Bull  
Interim Non-Executive Chairman  
and Non-Executive Director  
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Non-Executive Director,  
Weir Group and  
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Ian McHoul  
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The Vitec Group



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We pride ourselves on being our clients' most trusted advisor and offer an integrated suite of services to help manage these challenges and their leadership assets. This ranges from the acquisition of talent through executive search to providing counsel in areas that include succession planning, executive and board assessment, and board effectiveness reviews.

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ONE LEADERSHIP TEAM AT A TIME®

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