Introduction

There has never been a greater focus on corporate boards than what we see today; from how they are composed over the influence they carry to how they perform, attention is attracted from politicians, public authorities, media, investors and all the rest of the business environment.

Global financial turmoil followed by corporate scandals and investor activism are all ingredients which have put further pressure on time spend on boards, on the individual contributions to the board and the overall performance by the board and what that means to the company in question. The number of operational activities and the detail of these to which the board is expected to be familiar with is growing rapidly. Directors' responsibilities are expanding and the implied liabilities are being scrutinized in an increasingly litigious environment.

Take all this – and add the exponentially growing haste in technology innovation, business model development and shortened supply-chains that our businesses are facing – and you have the new paradigm that corporate boards all have to acknowledge and deal with: *Boards in a Disruptive Age.*

Context

InterSearch – Worldwide Organization of Executive Search Firms and **Board Network** – The Danish Professional Directors Association have together performed this Global Board Survey 2015 during February – April 2015 among 582 global corporate chairmen and boardmembers from 43 countries on all populated continents.

Several trends stand out loud and clear across countries, industries and company size and turnover when reviewing the results;

- Effective board work requires more time spend, both preparatory and at the board meetings and committee meetings, compared to the past
- While boardrooms are still heavily populated by men, there is a high attention to diversity demands for the future, competency-wise as well as in respect of gender and internationalization
- Boards are increasingly tapping in to the expertise of external advisors and experts instead of purely relying on the reports and analysis provided by executive management and other in-house resources
- Boards are aware of, however not necessarily sufficiently equipped to handle, the (expected) forthcoming disruptive scenarios bound to meet the company
- Boards express an optimistic and confident view on the economy in the future

While boards in 2005 widely were duplicates of their predecessors of 1995 on all important parameters, this image has changed dramatically over the past decade up to 2015. Whereas the 2005-boards looked to have the same composition, same competency profile, spend the same amount of time, followed the same agenda, carried the same influence and power over the executive management team and had the same balance of the overseeing risk & control items vs. the strategic & leadership-oriented items on the agenda as in 1995, the 2015-boards are definitely stepping up to the challenge.

Most countries were only taking their first steps in to the unknown territory of Corporate Governance in the period 1995-2005, yet with the bursting of the dot-com bubble, the Millennial corporate scandals in the US and the subsequent introduction of the Sarbanes-Oxley legislation, the global financial crisis and further corporate scandals and bailouts especially in the financial sector with the subsequent introduction of the Dodd-Frank Act in the US and the CRD IV-directive in the EU, the boards of 2015 have had to move closer to operations and daily management, while now under much stronger spotlight on their own performance than ever before.

If I had asked people what they wanted, they would have said faster horses
(Henry Ford)

The pace of change in business models and offerings affected by increased digitalization and globalization has entailed new demands on boards. On top, the global business community has seen increased regulation, more sustainability-focus, pressure for diversity and geopolitical risk changes, of which all are adding to the complexity that boards have to engage under nowadays. These include requirements for new competencies, new ways of organizing board work and new means to inspire the board's decision-making.

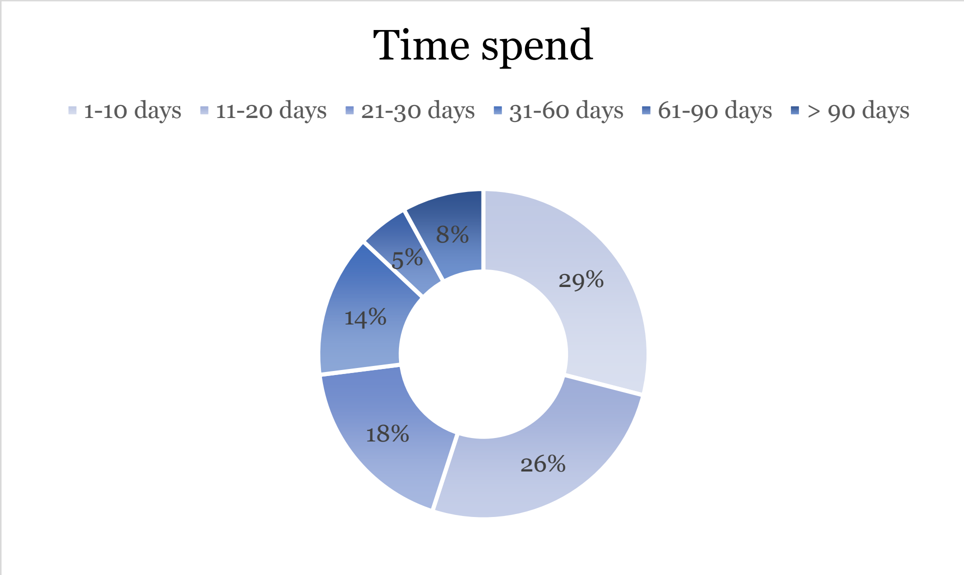
Where size used to be one of the market leader's greatest strength, agility is today a much more important factor. And the ability to ask the right questions are more important than to give the most answers. Like Robert F. Kennedy once said, paraphrased from George Bernard Shaw: **There are those that look at things the way they are, and ask *why*? I dream of things that never were, and ask *why not*?** That is most probably the most advantageous starting point for corporate boards today.

Those who will be able to think beyond the expectations from the outside world based on habitual thinking, will be those who will win in the future. And boards will play a crucial role in this. They alone can formulate the tone at the top and set the pace for the organization in defining a culture that goes further than the attempt of defending market share on existing products in existing markets. Innovation has to be at the organization's heart if one's own company shall not meet the fate of Nokia, Eastman Kodak and Lehman Brothers – once dominant market leaders, a few years later a mere shadow of themselves or down right broken to pieces.

Global Board Survey 2015 – the analysis

Time Spend

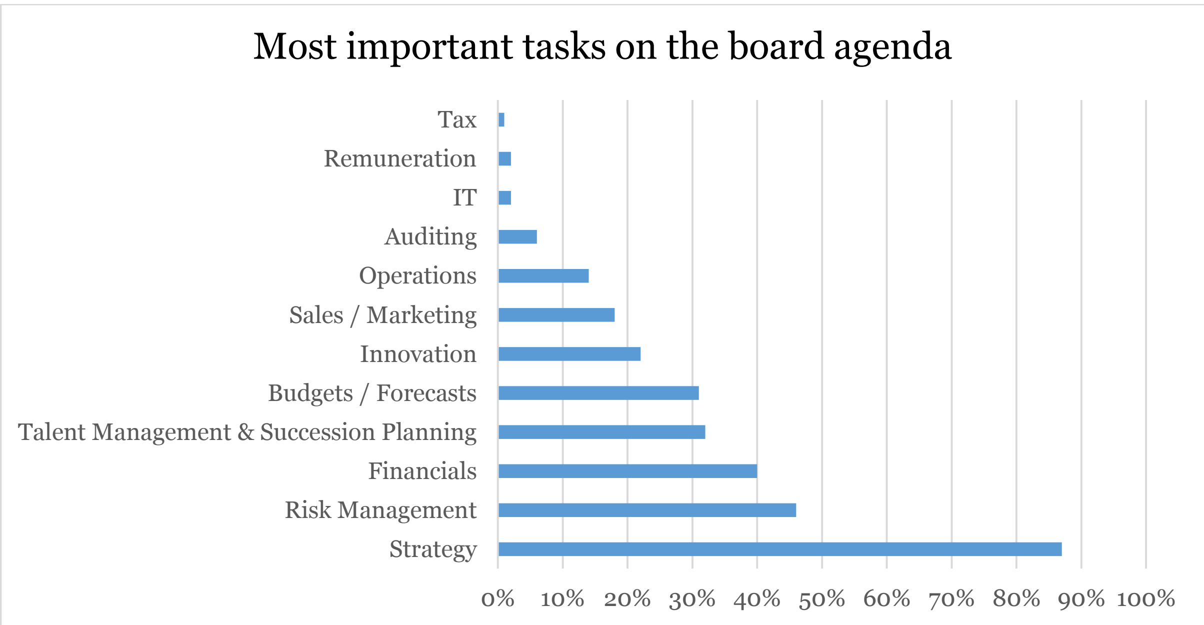
Boardmember's time spend per year, incl. preparation:



Hence, almost half of all respondents spend in excess of 20 full working days per board position. In a comparison between the last 12 months to the previous 12 months, 42 % of the participants reported that time spend had either increased slightly or significantly. We have no doubt that the work pressure on the boards will continue to grow.

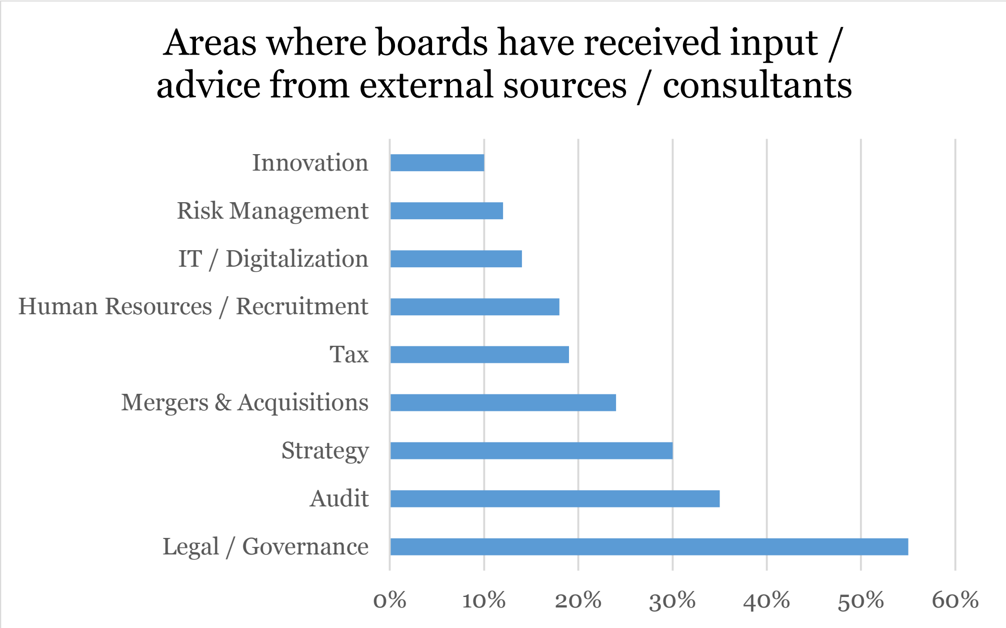
On the Board Agenda

When asked to list the 3 most important tasks on the board agenda, one item stand out above all; strategy! And where boards previously would simply assess and approve of the strategy plan presented by executive management, boards are today deeply involved in the formulation of the strategy plan themselves. Boards prioritize their tasks the following way:



(Respondents were asked to choose the 3 most important board tasks, why percentages add up to > 100 %).*

We further asked the boards if they had received input / advice from external sources over the past 12 months. A staggering 82 % said yes. Of those having received input from outside, most had received advice on 'hard matters' e.g. legal and tax issues etc. The most important matters were:

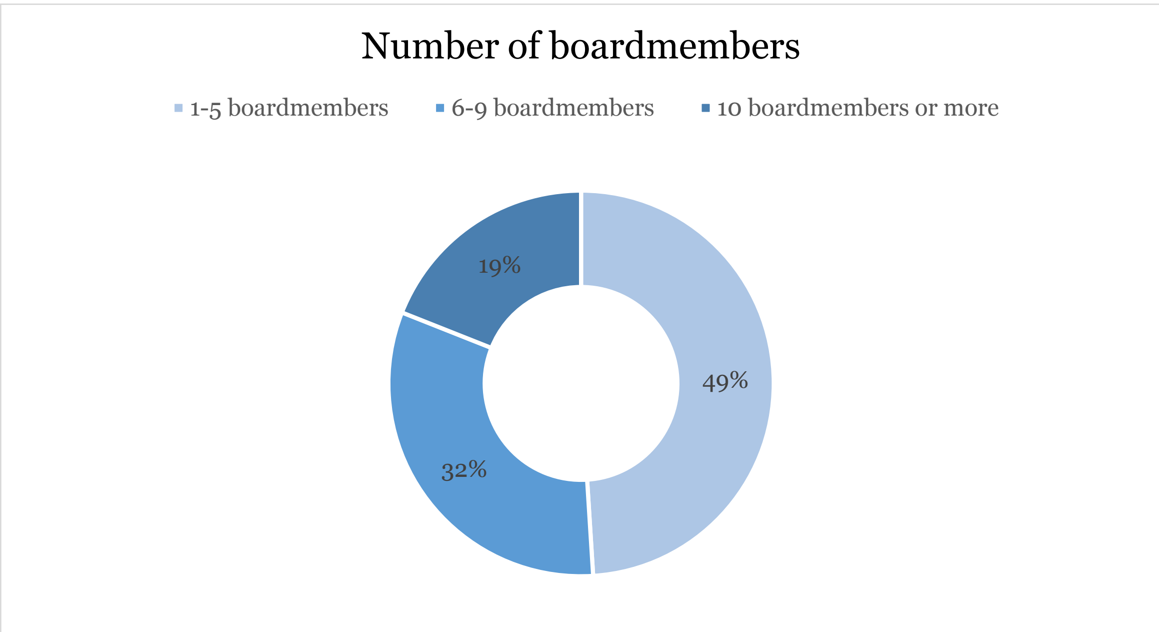


Less than 10 % had received input or advice within one or more of the following areas: Remuneration, Public Relations, Marketing, Sales, Crisis Management, Sustainability / CSR, Public Affairs.

(Respondents were asked to identify all issues on which they had received input, why percentages add up to > 100 %).*

Board Composition

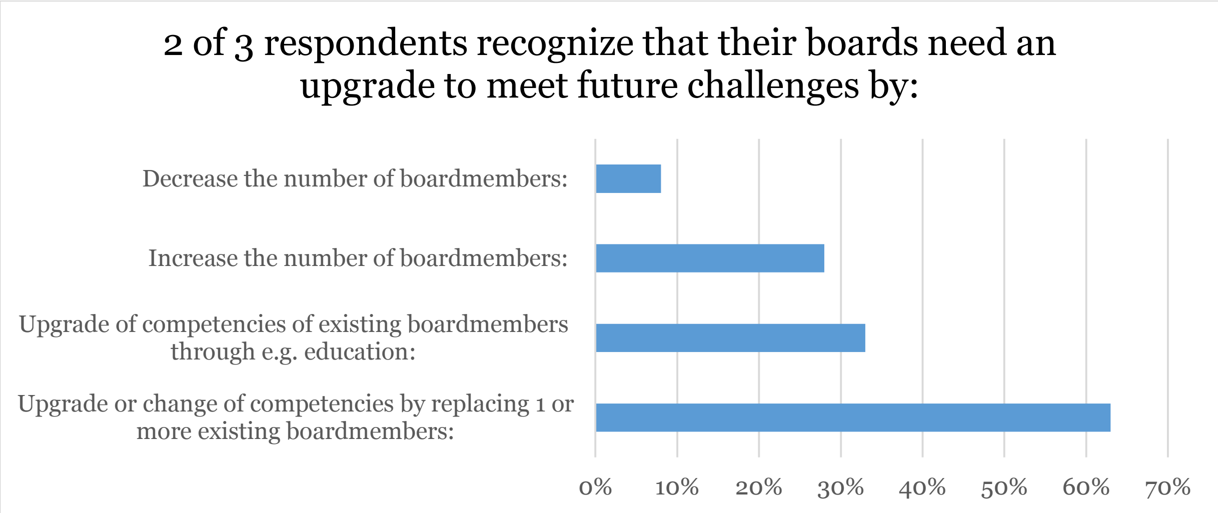
Of the surveyed population just below half reported that they served on boards with a total of 5 boardmembers or less. One third served on boards with 6-9 boardmembers, and a sixth served on boards with 10 boardmembers or more.



Cross-referencing, we see a close link between the size of company and size of board as well as between ownership structure and size of board. Thus, there is a clear majority of smaller boards in family and otherwise privately held companies with a larger presence of larger boards in public listed companies. Similarly, companies with an annual turnover < USD 25 M are usually the ones with boards consisting of five people or less.

63 % said that they were on boards that also had executive directors. 37 % were on boards that are independent of daily management. We note that in some countries surveyed, executive directors are prohibited by law or at least unlikely due to corporate governance guidelines. However, the relatively large proportion having executive directors on their boards likely reflects on a number of the other survey questions.

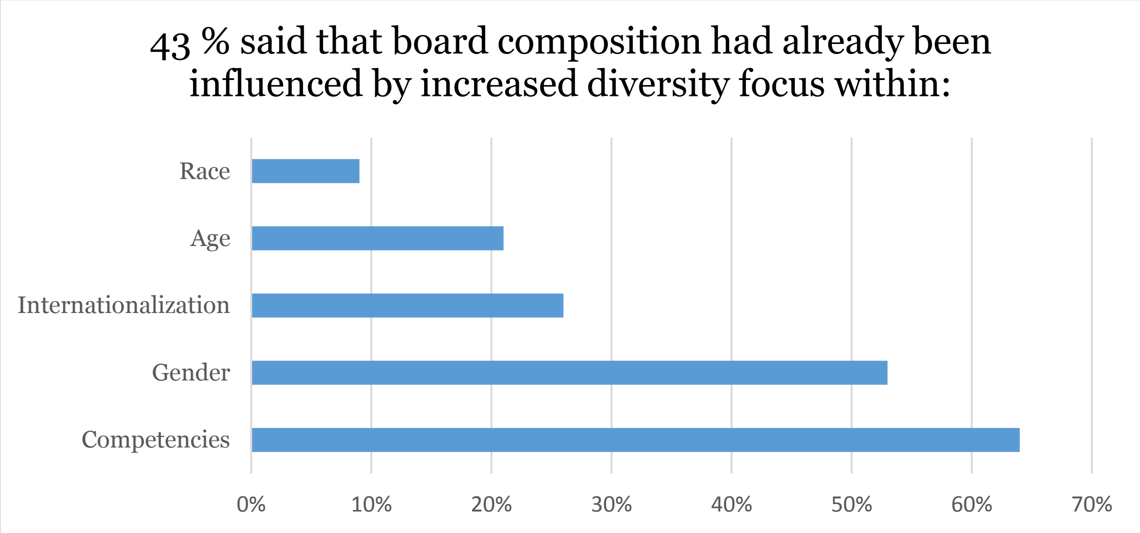
When looking into the future, 2/3 of all respondents recognize that their boards need an upgrade to meet future challenges. Of those confirming, the expected upgrade would be:



(Respondents were asked to name all the options they were considering in terms of expected upgrade of competencies, why percentages add up to > 100 %).*

In terms of how board recruitment is done, only 28 % said they have a formal process (e.g. mandatory use of executive search) in place. With increasing documentation requirements from e.g. the EU in relations to how gender equality is tracked and measured, we expect this number to increase drastically in the future among all listed companies as well as all publicly owned entities.

Responses further show that pressure for diversity has already set its mark. 43 % says that board composition has been influenced by increased diversity focus. Of those confirming this, 64 % says that diversity in competencies has been a driver, 53 % says that gender diversity has been a driver, 26 % that internationalization has been sought, while 21 % has looked for greater age diversity. 9 % has looked for greater race diversification.



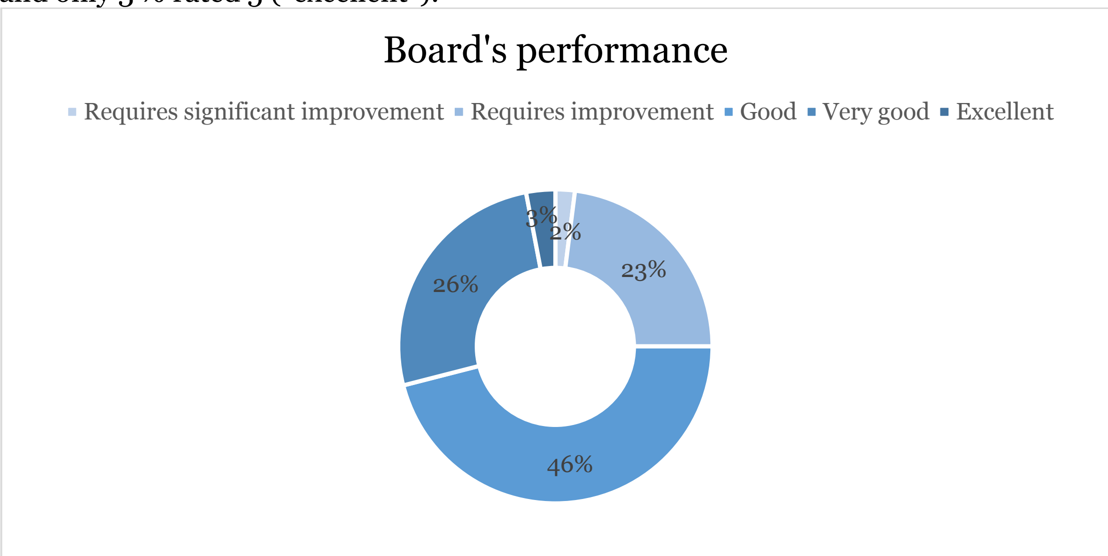
(Respondents were asked to name all the diversity considerations they had gone through, why percentages add up to > 100 %).*

So how is the actual gender equality progressing according to the Global Board Survey 2015? Undoubtedly, the survey's broadly widespread population across geographies, size, industries and ownership structure reflects that only little progress is achieved on this subject. Where we in most countries see a very high level of recognition of the urgency needed on the matter amongst the larger companies (typically stock exchange listed), the acknowledgement of the value of greater gender equality is very often simply not there amongst SMEs. Thus, our survey show a poor 18 % female representation amongst the survey participants.

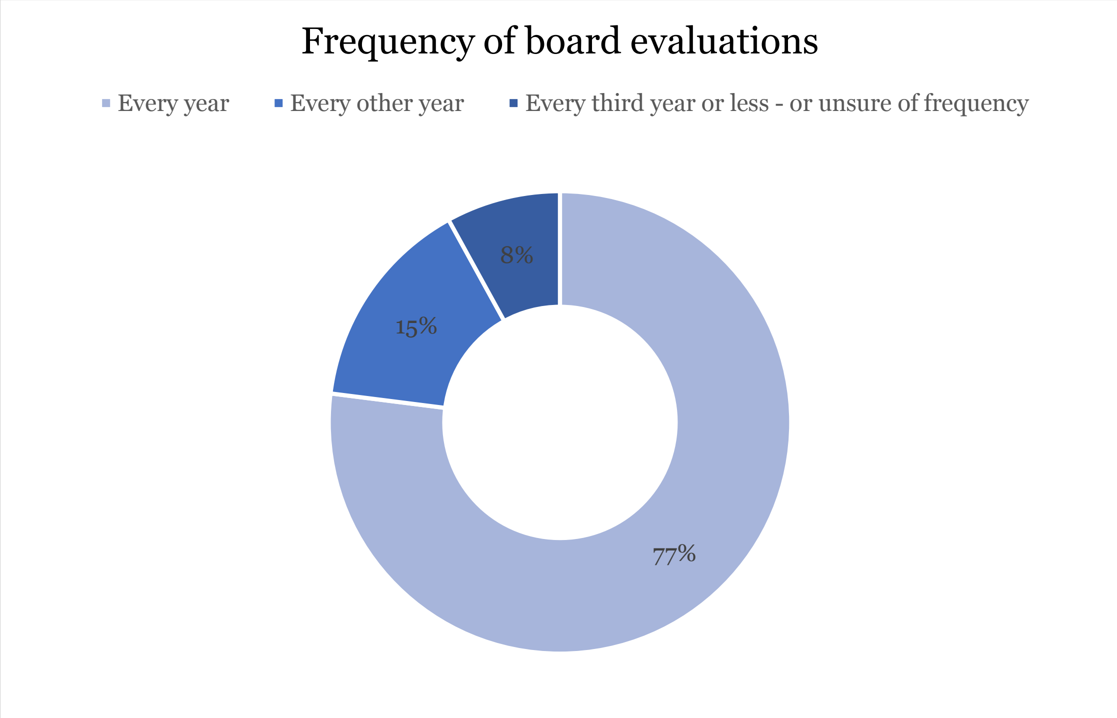
These 18 % are despite the high level of media attention, the governmental equality initiatives ongoing across most of the globe, the worldwide statistics that shows that more women than men now achieve higher educational degrees, and the large number of empirical data from trustworthy sources like McKinsey & Co, Credit Suisse, Catalyst a.o. which prove that companies with more diverse leadership teams and supervisory boards generally perform better financially than the more homogeneous ones. However, as with most governance and leadership trends, development typically starts with the larger, more mature and more sophisticated organizations, and we do not doubt that this is one of the areas in which boards in the coming 3 years will develop the most.

Board Effectiveness

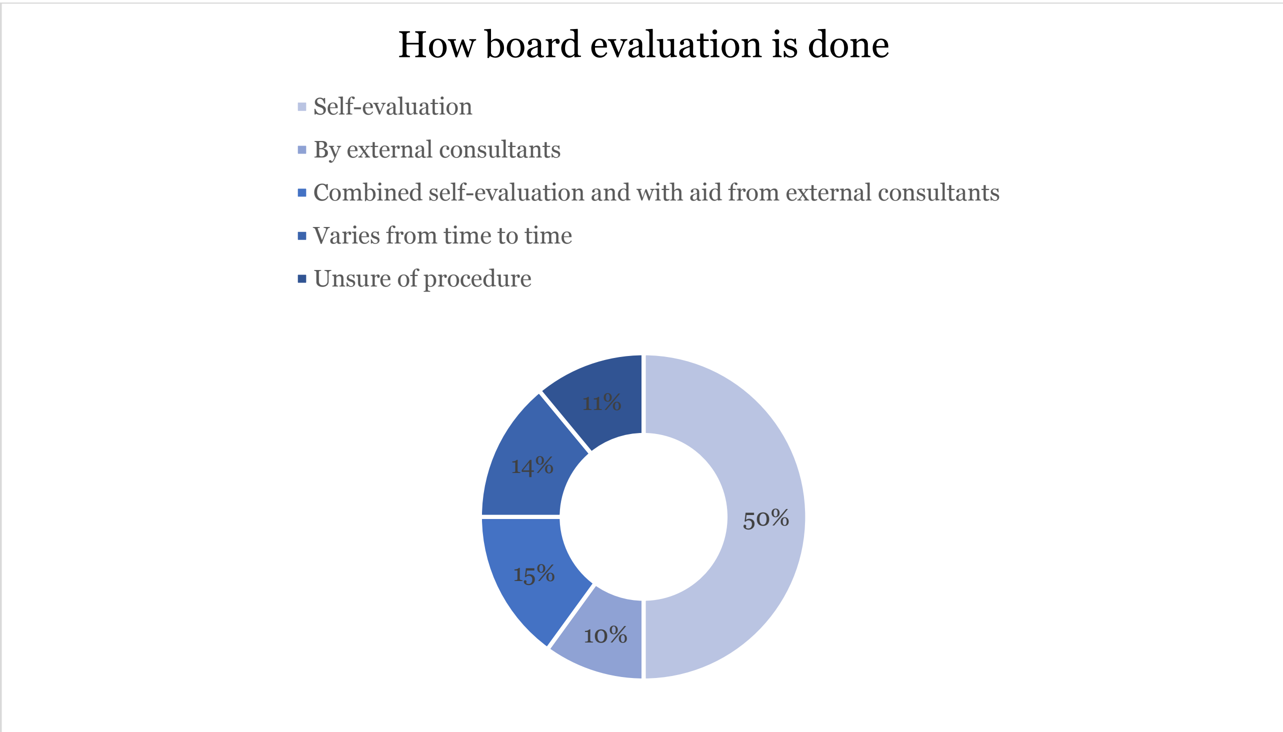
We asked respondents to rate the quality of the board's overall performance. The great majority with 46 % (as well as the average and the median) of boards received the rating 3 ("good"). 2 % were rated as 1 "requires significant improvement" and 23 % as 2 ("requires improvement"). 26 % rated 4 ("very good") and only 3 % rated 5 ("excellent").



With these numbers in mind, one might find it surprising that still only 47 % of all boards perform regular board evaluations. This is definitely expected to change in coming years. However, of those performing regular evaluations of board performance, a strikingly high 77 % perform the evaluation every year with 15 % doing it every other year, while the remaining 8 % either could not tell for sure or do them every third year or less.

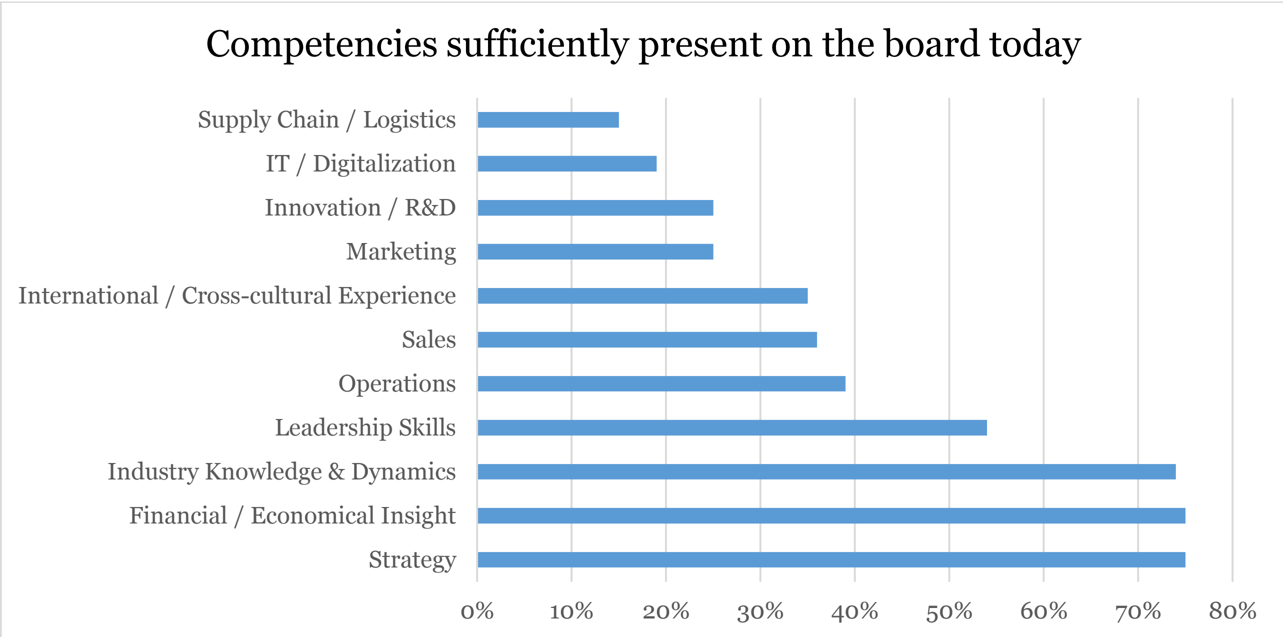


Exactly 50 % of those measuring board performance, do so as a self-evaluation with 10 % having external consultants helping them, and another 15 % doing the evaluation as a combination of the two. 14 % said that it varies from time to time, and 11 % were unsure of how the evaluation is being performed.



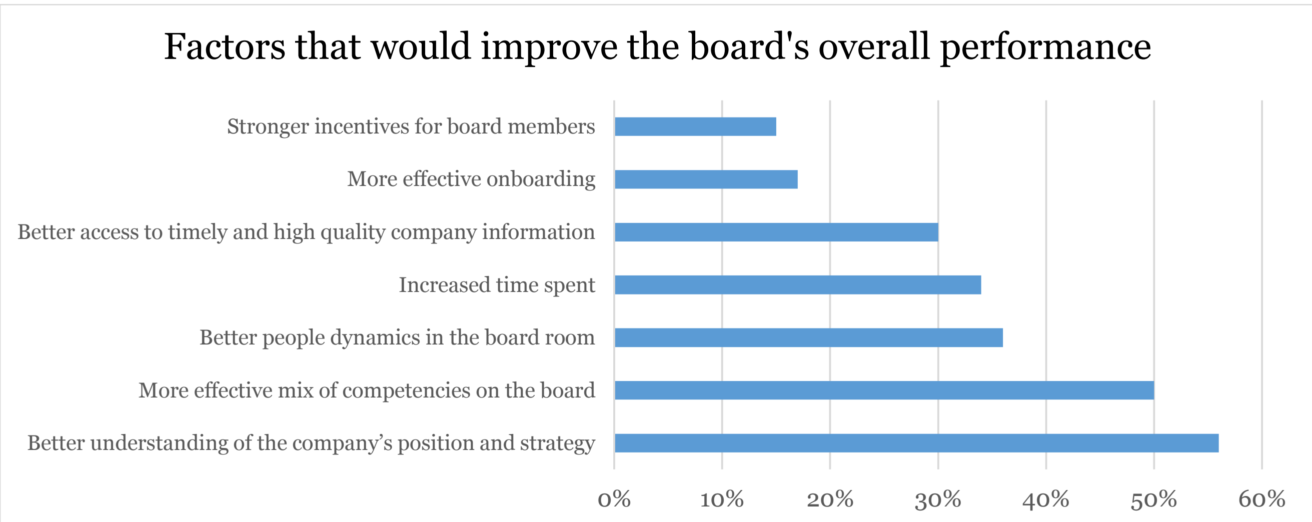
We also asked respondents to name which competencies they found sufficiently present on the board considering the company's strategy and financial situation right now. 75 % said that Strategy was covered, and another 75 % that Financial / Economical Insight was sufficiently present. 74 % judged Industry Knowledge And Dynamics to be covered, and 54 % that Leadership Skills were sufficiently present. 39 % felt comfortable with the skills of Operations, while 36 % said the same about Sales. 35 % confirmed that International / Cross-cultural Experience was covered, and another 25 % that Marketing was sufficiently represented – at the same level (25 %) of Innovation / R&D. However, only 19 % thought IT /Digitalization to be reasonably covered and a poor 15 % were satisfied with the board's combined competencies within Supply Chain / Logistics.

The last two seem alarming considering the increasing globalization with much more complex supply chains to follow as a result, as well as the broadly accepted expectations to the future that all companies face increased digital challenges as well as opportunities. These are the two areas within which we expect much greater focus in the years to come when it comes to identifying new board members' competency profiles.



(Respondents were asked to name all the competency areas they found sufficiently present on the board, why percentages add up to > 100 %).*

Finally, we asked respondents to name the 3 factors that in their opinion would best improve the overall performance on their board. The results were as follows:



(Respondents were asked to name 3 factors that could best improve the board's performance, why percentages add up to > 100 %).*

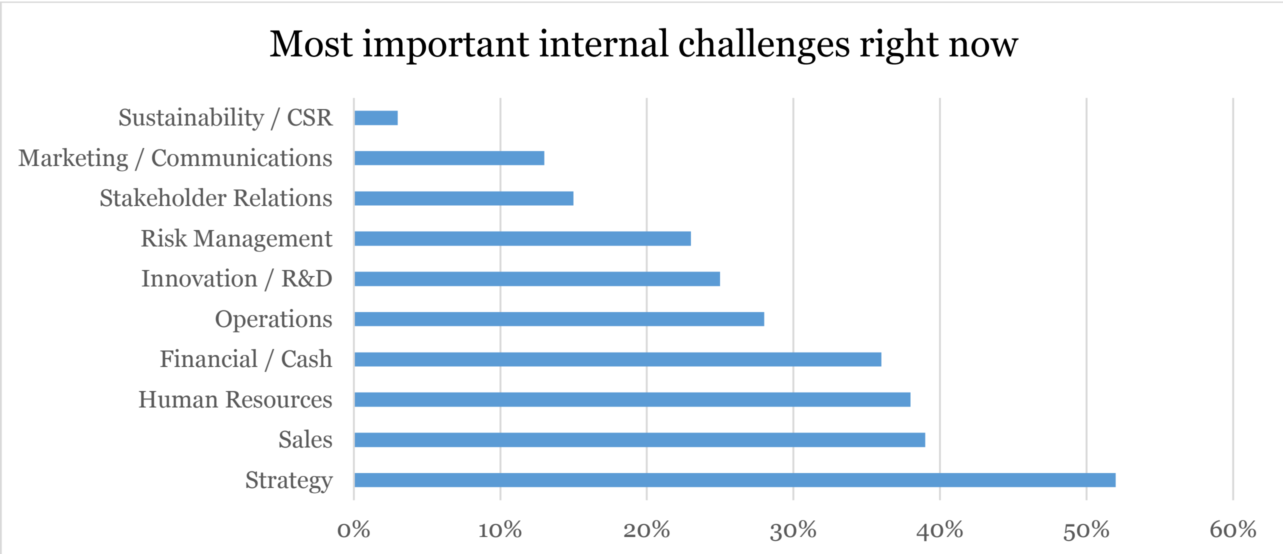
It seems striking that 56 % look for a better understanding of the company's position and strategy – not least taken in to context that a majority feel well positioned to be more optimistic for the future compared not only to the performance of the company in the past but also to the expected performance of the closest competitors (ref. below).

The other numbers from this question may also challenge a bit what has already been evidenced elsewhere in terms of e.g. the need for upgrading of competencies and how well functioning (or effective) they judged their boards to be. However, this might be a result of respondents not necessarily being dissatisfied with their boards but rather how they could see their boards going from good to great.

Challenges and Disruptions

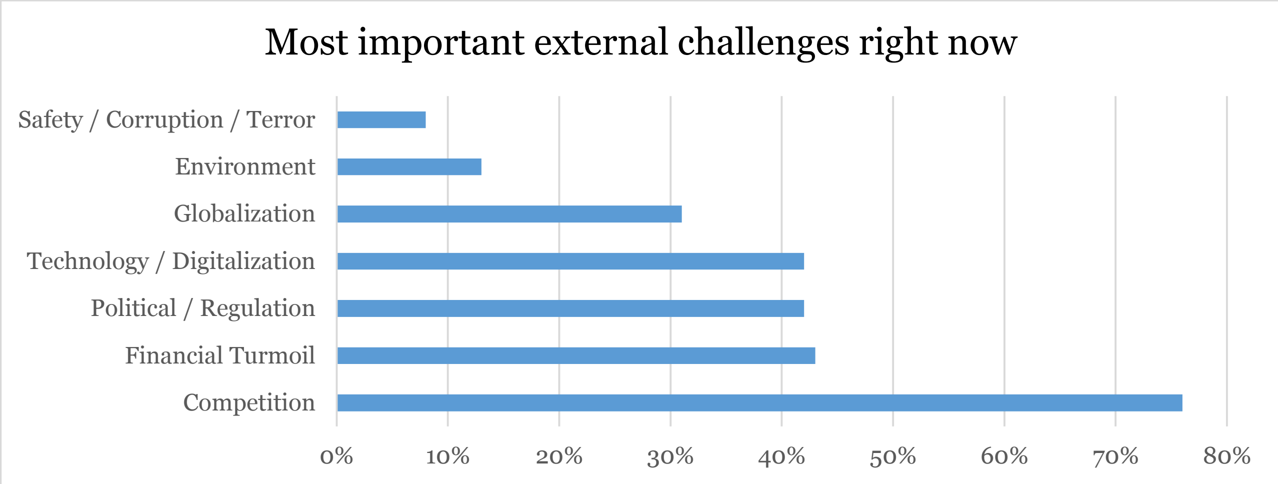
Respondents were asked to identify both the 3 most important internal challenges and the 3 most important external challenges that the company is facing right now.

On the potential internal issues, the 4 classic operational tools come out over everyone else: Strategy, Sales, People and Cash-flow rank highest. The total results were as follows:



(Respondents were asked to name the 3 most important internal challenges, why percentages add up to > 100 %).*

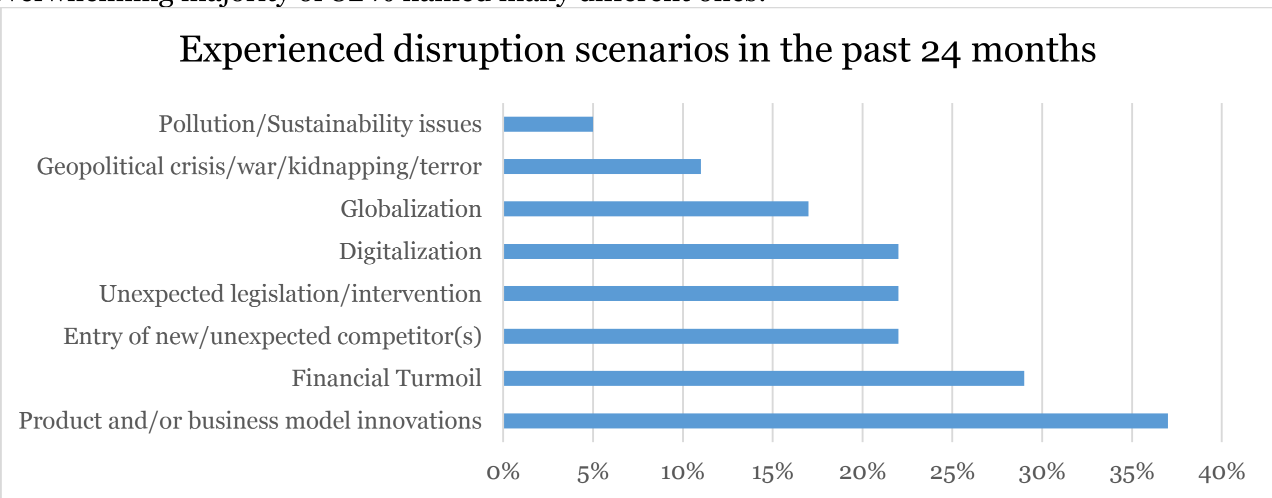
On the potential external issues, another 4 usual suspects appear; Competition, Financial Environment; Legal & Political Issues and Technology are the drivers that respondents find most challenging for their companies. The total results were:



(Respondents were asked to name the 3 most important external challenges, why percentages add up to > 100 %).*

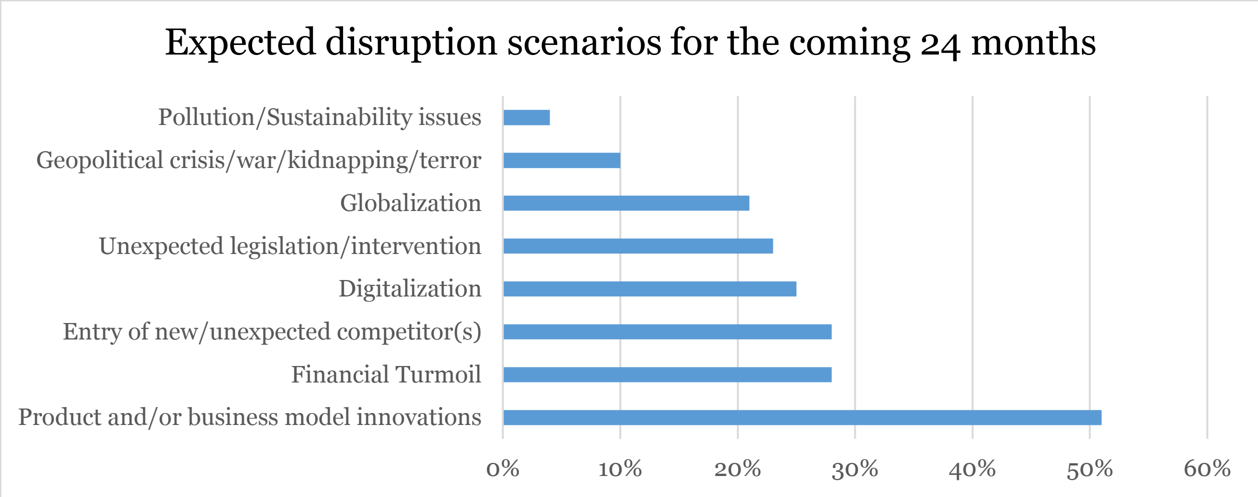
As mentioned in the introduction above, these are disruptive times for companies and their boards. A number of disruption scenarios have surfaced while others will surface in the future. This put a special demand for agility on the boards and the executive management teams in order to keep their ships afloat during the turmoil and for the best performers; to take advantage of the implied opportunities in front of their competitors.

We asked what kind of disruption scenarios that respondents' boards had already had to deal with over the past 24 months. Only 18 % said that they had not been facing any disruptions, while the overwhelming majority of 82 % named many different ones:



(Respondents were asked to name all the scenarios they had faced, why percentages add up to > 100 %).*

Not less interesting were the responses to the question of what kind of disruption scenarios that respondents' boards are expecting/preparing for having to deal with over the coming 24 months. On this question, only 12 % said that they did not expect any disruptions in the future. The remainder 88 % said they expected one or more of the following scenarios:



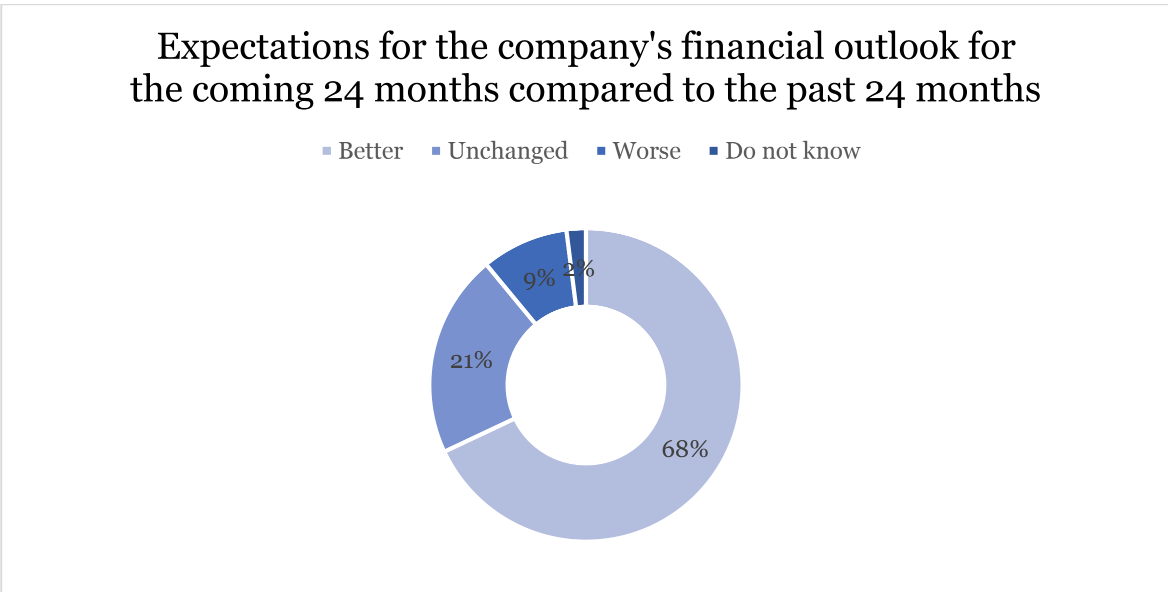
(Respondents were asked to name all the scenarios they were foreseeing, why percentages add up to > 100 %).*

On almost all parameters, more respondents expect to face disruptions in the future than those who have already seen them in the past – most significantly within the area of Product and/or business model innovation. Hence, even though most respondents seem optimistic for the future (ref. below), there are significant issues to map, analyze and prepare for – either in terms of risk transfer/risk financing/risk mitigation – or in terms of leveraging on the opportunities that can and will arise when technologies, business models, companies, markets and industries are suddenly facing disruption. Agility, flexibility and divergent thinking will be the prerequisites – and once again this appeals to further boardroom diversity.

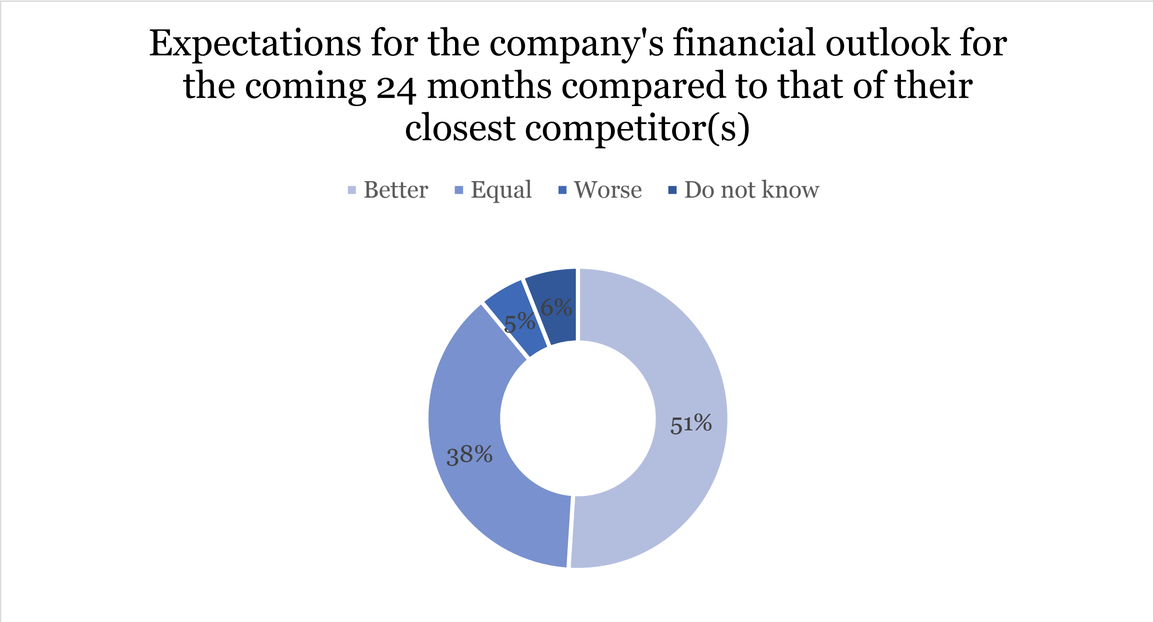
Expectations for the Future

Whether or not, companies today are acting proactively or reactively – or more bluntly put; with their own strategy as their headlight or rather trying to adopt to market conditions, their pattern of behavior in the boardroom as well as their expressed expectations for the future are strong indicators of what the future beholds for all of us; growth scenarios or economies in distress?

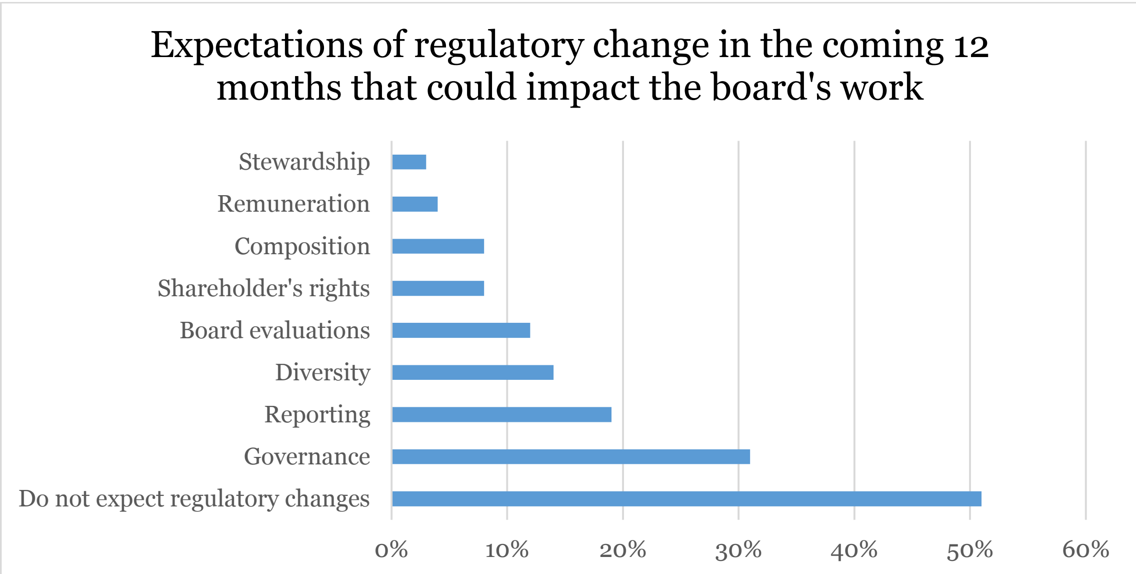
We asked our survey participants what their expectations are for the company's financial outlook for the coming 24 months compared to the past 24 months. A strong voice of 68 % expressed an optimistic "better", with 21 % at "unchanged" while only 9 % expected the situation to get "worse". 2 % did not know.



Further, we asked them what their expectations are for the company's financial outlook for the coming 24 months compared to that of their closest competitor(s). Again, the majority were optimistic with 51 % expecting to do "better" than their peers. 38 % deemed the outlook as "equal" to the competitors while only 5 % expected to be doing "worse". 6 % did not know.



In terms of expected regulatory initiatives that could impact the board's work in the coming 12 months, 51 % had no such expectations. 31 % expects legislation/regulation to come re. governance, 19 % re. reporting, 14 % re. diversity, 12 % re. board evaluations, 8 % on shareholders' rights, 8 % on composition, 4 % on remuneration and 3 % on stewardship.



(Respondents were asked to name all the options they were foreseeing in terms of expected legislation/regulation, why percentages add up to > 100 %).*

Conclusion

Accepting a board position today, be it as Chairman, Vicechair, Senior/Lead Independent Director or as an ordinary boardmember, assuming the role will be on a different mandate than a decade ago. Across the globe, board work is rapidly undergoing professionalization that entails enlarged responsibility, increased liability, more time spend and a closer involvement with the company, its executive management and the rest of the operation. It is no longer a mere honorary position, but a real job to accept the election to a board.

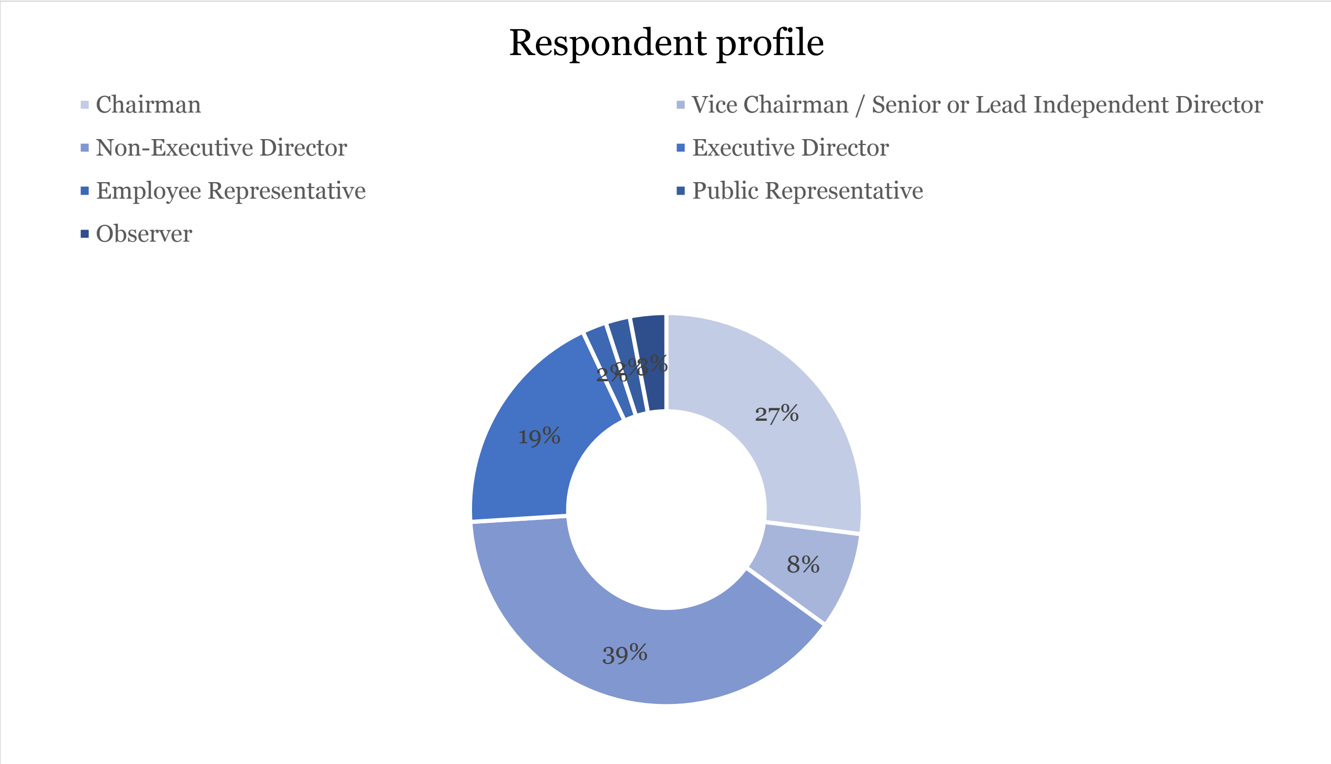
Where in the past, your training as a board member was through "apprenticeships" where you would seize your inspiration and education from your chairman and your peers, today formal board educations are available as executive education modules in most countries. Professional directors' associations are established in a vast number of countries and there is an extensive collaboration going on between the institutes from country to country.

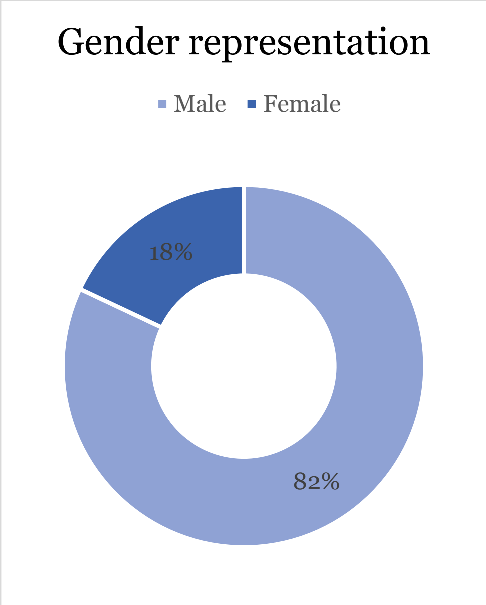
Finally, there is a very wide and genuine recognition on what the future beholds of demands to the boards. Regulation and legislation will increase, shareholders are getting more active and demand full transparency, new stakeholders expect to be heard too, and business is changing at an never-ending accelerated pace. New technology, more interconnectivity, greater transparency, more complex supply chains means that your cutting edge product of today can very easily be surpassed by the introduction of a new service tomorrow. Just think of a telephone answering machine a few years ago – today such product no longer exists but is available as a service via our phone subscriptions.

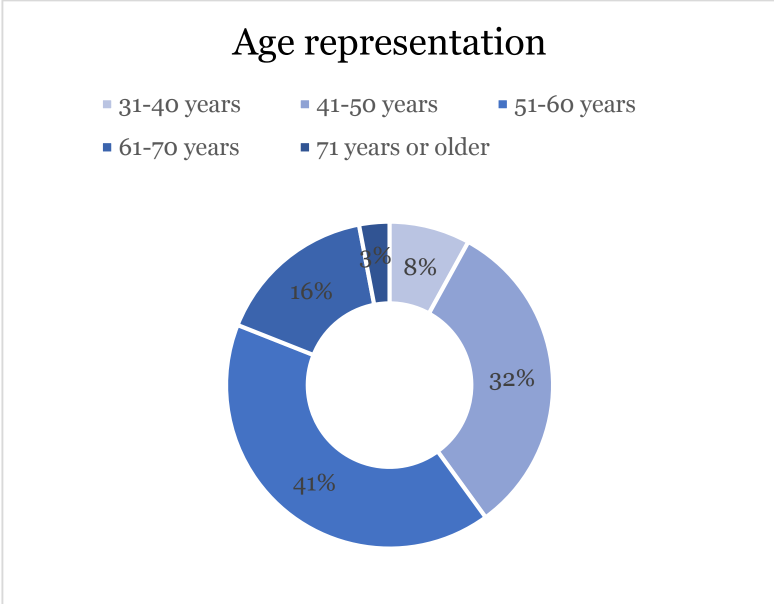
We have no doubt that heterogeneity in the boardroom will prevail, and leave the homogeneous old-time boards behind. Diversity in competencies, in age, in nationalities and in gender are crucial for the boards to suit up for the future demands. It is a new time and a new agenda. It is *Boards in a Disruptive Age*.

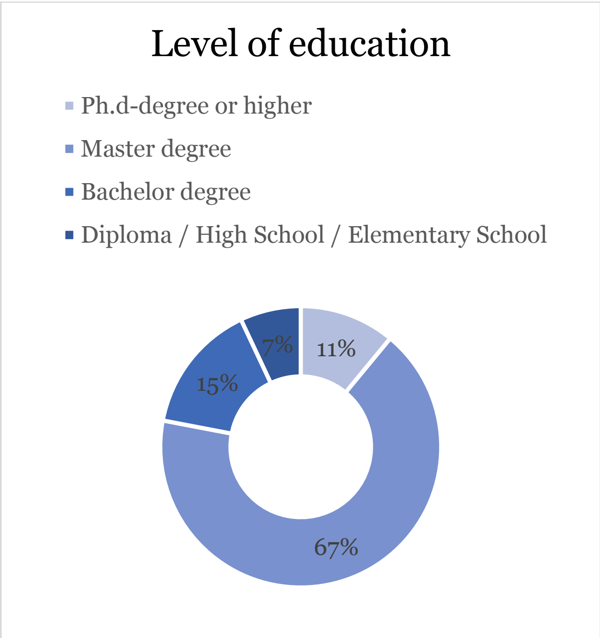
Survey Population

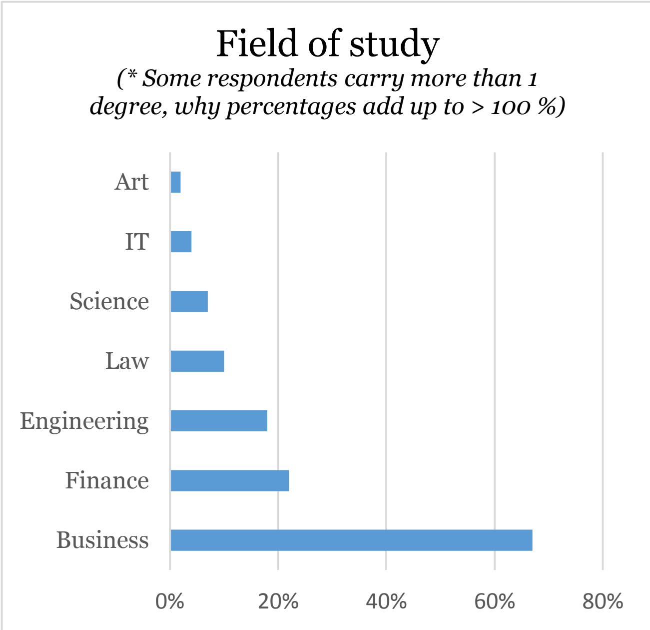
As referenced above, the Global Board Survey 2015 has had a very widespread respondent population with 582 people participating from 43 countries on all populated continents.

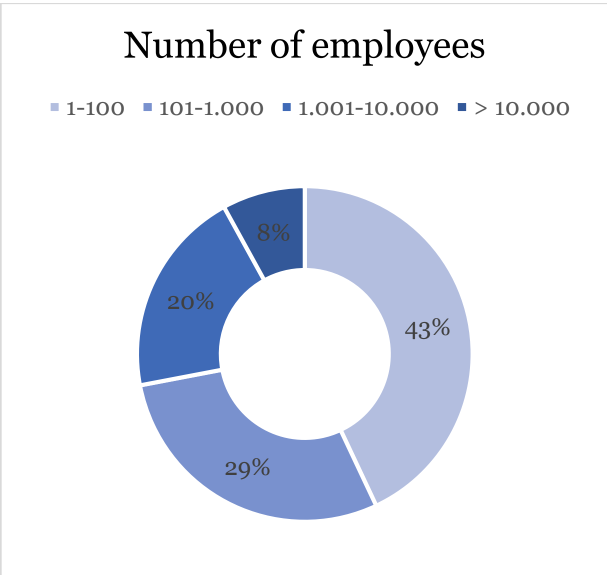


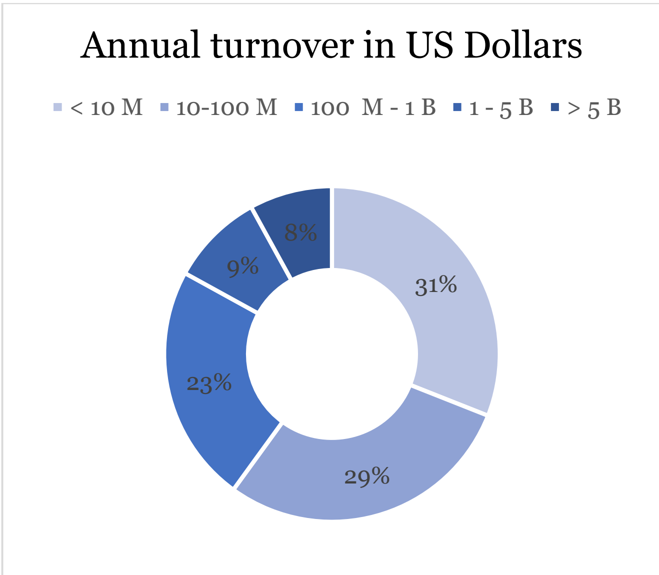

Gender representation
Male
Female
18%
82%

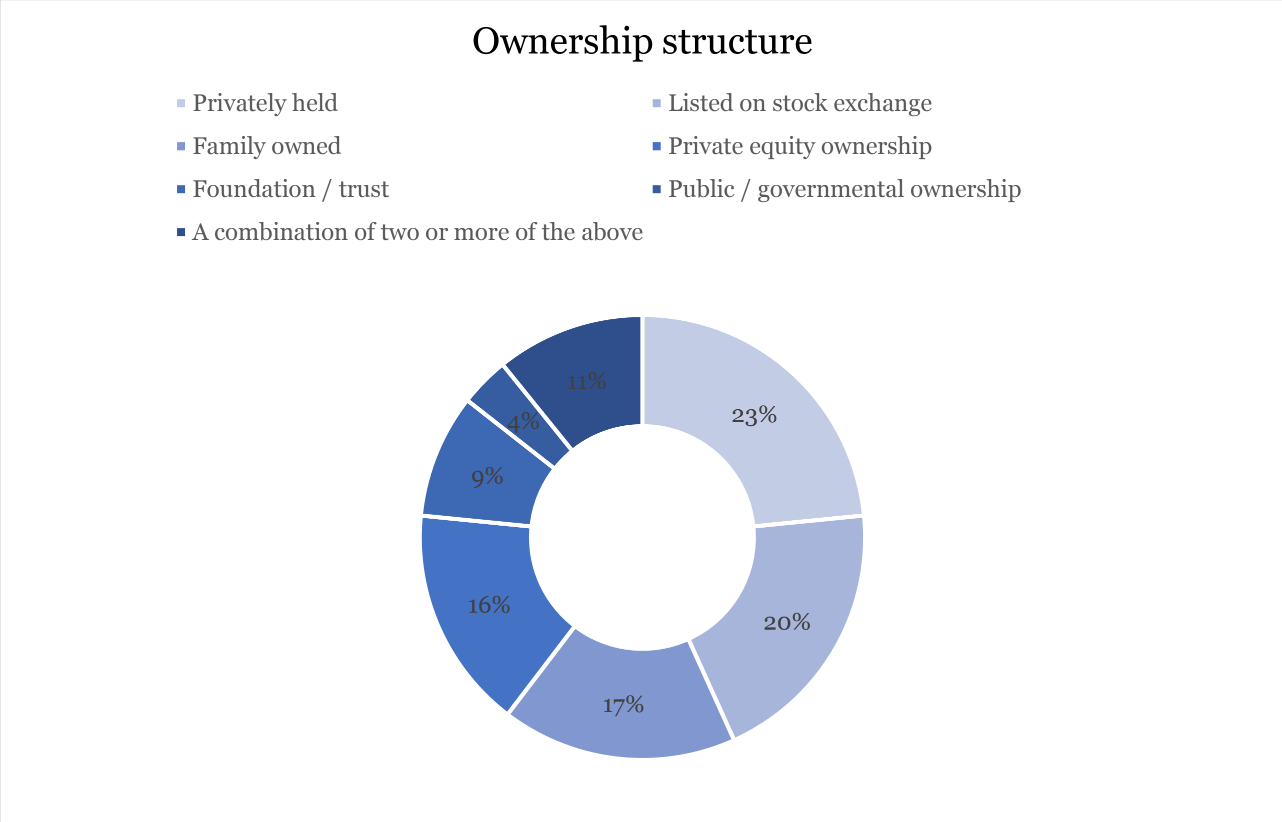

Age representation
31-40 years
41-50 years
51-60 years
61-70 years
71 years or older
3%
8%
16%
32%
41%

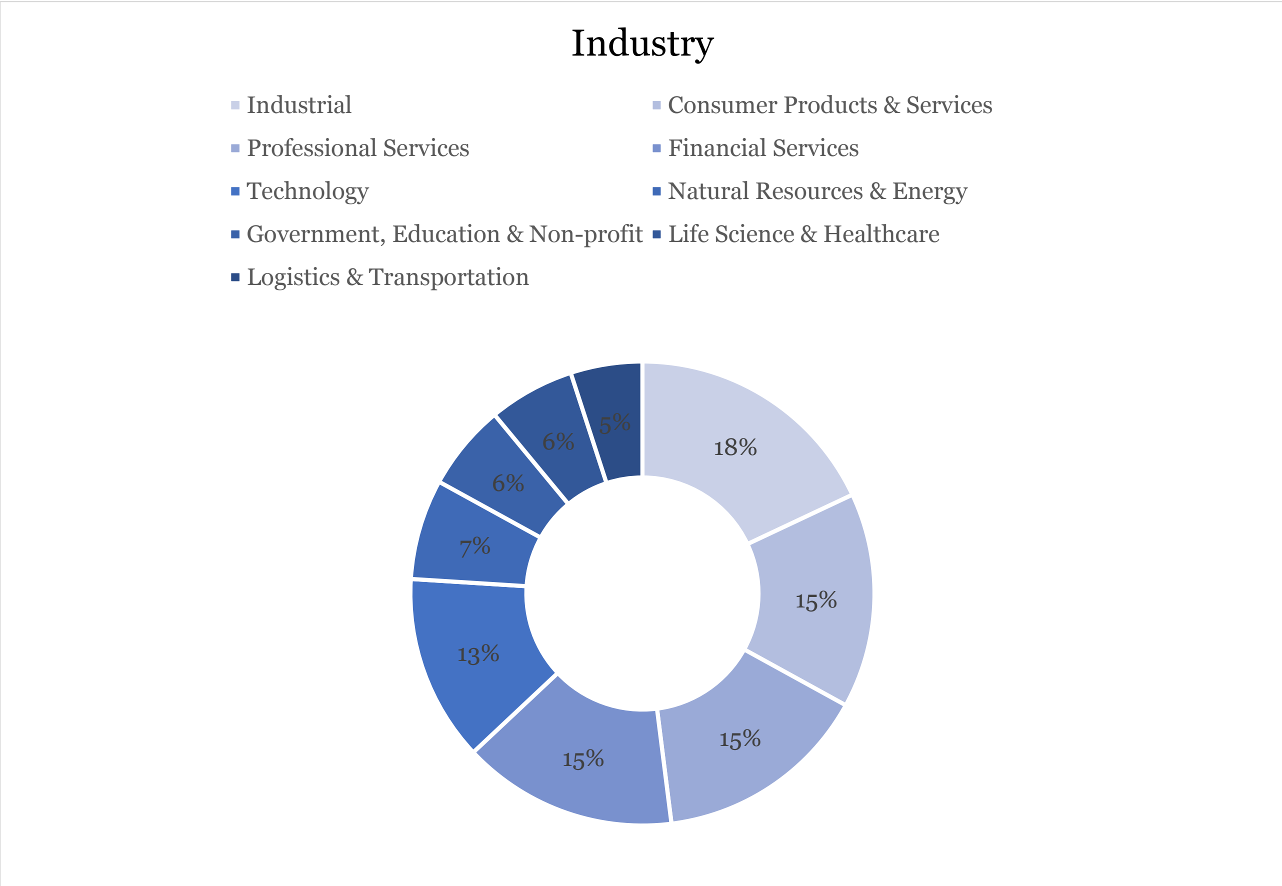

Level of education
Ph.d-degree or higher
Master degree
Bachelor degree
Diploma / High School / Elementary School
7%
11%
15%
67%


Field of study
(* Some respondents carry more than 1 degree, why percentages add up to > 100 %)
Art
IT
Science
Law
Engineering
Finance
Business
0%
20%
40%
60%
80%


Number of employees
1-100
101-1.000
1.001-10.000
> 10.000
8%
20%
43%
29%


Annual turnover in US Dollars
< 10 M
10-100 M
100 M - 1 B
1 - 5 B
> 5 B
8%
9%
31%
23%
29%


Ownership structure
Privately held
Listed on stock exchange
Family owned
Private equity ownership
Foundation / trust
Public / governmental ownership
A combination of two or more of the above
23%
20%
17%
16%
9%
4%
11%


Industry
Industrial
Consumer Products & Services
Professional Services
Financial Services
Technology
Natural Resources & Energy
Government, Education & Non-profit
Life Science & Healthcare
Logistics & Transportation
18%
15%
15%
15%
13%
7%
6%
6%
5%

Thank you

We would like to express our deep gratitude to all survey participants whom have willingly shared their experiences and opinions on the latest trends in the boardroom.

We hope the findings in the Global Board Survey 2015 help inform your thinking about board leadership and governance in the highly competitive, global marketplace. We welcome the opportunity to discuss these issues further and to help you strengthen your organization's global impact.

You are welcome to quote the analysis with a clear reference to "*Global Board Survey 2015 by InterSearch and Board Network*".

Questions are very welcome. Please contact Jakob Stengel, Managing Partner and Global Head of Board Practice, InterSearch at js@caserose.com / +45 21 28 28 82 or Ditte Kirstein Brammer, CEO, Board Network at dkb@boardnetwork.dk / +45 40 12 33 12.

Copenhagen May 2015