

Board Transformation 2021: Leadership in transition, how boards and directors are adapting to a post-pandemic reality

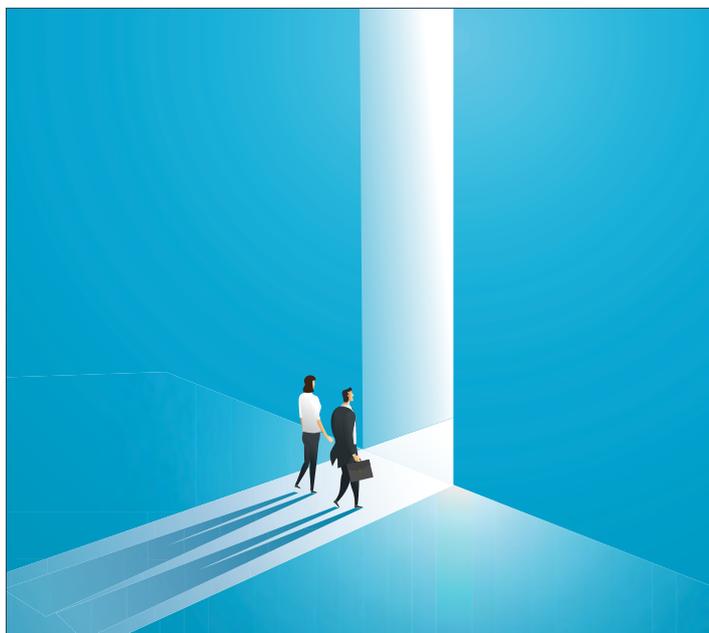
Research report by *Board Agenda* & Mazars in
association with Henley Business School



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Executive summary



MANY KEY FEATURES are emerging as organisations transform themselves and adapt to the new post-pandemic reality. But are boards keeping pace with this transformation? How well equipped are they to deal with changing operational, strategic, technological, financial and ESG issues? How will this new reality influence board priorities and do board directors have the skills to tackle these challenges?

The results of the Board Transformation 2021 report are illuminating. They reveal a boardroom community that is embracing change, increasing oversight of employee issues, focusing on the long-term resilience of the organisation, and giving equal weighting to risk management on the one hand and the opportunities for digital transformation on the other.

Leadership style and culture have come into focus, with a significant number of respondents recognising the need for transformation and to review capabilities. They have also shown themselves to be agile and able to transform at speed, having been forced to work remotely along with the rest of their workforce, as well as witnessing how other family members are coping with their own working challenges.

As one survey respondent puts it: “Board directors are being required to learn, unlearn and relearn—from being familiar with new technology platforms for conducting board meetings to the impact of remote working, remote management and new disruptive technologies.”

Key findings

- Eight out of 10 boards (82%) are strengthening their employee wellbeing policies as a direct result of the pandemic.
- Nearly two-thirds (63%) agree that feedback on engagement with their workforce has improved since the onset of the pandemic.
- More than half (56%) of boards have made substantial changes to the structure or operations of the business while nearly three-quarters have increased its long-term resilience.
- Risk management and resilience topped the board’s agenda alongside digital transformation.
- Some 77% of respondents feel their boards have had the necessary agility to navigate changed priorities, though nearly half (48%) say there needs to be a review of boardroom capabilities.
- 43% are in favour of a change in leadership style.
- Two-thirds (66%) say engagement between board and senior management has been improved.
- 47% say that investor engagement has been improved.
- 58% agree the need for greater emphasis on ESG.
- Half (50%) say they are making changes to long-term liquidity, credit, and capital.

Forewords



Anthony Carey, head of UK board practice, Mazars UK,
and **Alan Frost**, business consulting partner, Mazars UK

BOARD DIRECTORS ARE embracing an unprecedented pace of change. After the disruption of the last 18 months, boards are simultaneously reviewing where they are and asking themselves and their executive teams tough questions while also looking at how to move forward.

Is there a risk, however, that this is happening in isolation? Boards need to know where they are compared with their peers. Where do they stand in their market now, how do they sustain this position and capitalise on it, or indeed how do they recover lost ground and reassert themselves in their chosen markets? Board directors are grasping the importance of a holistic viewpoint—their businesses may have come through the pandemic, but if others have done so to greater effect, then they could have a false sense of success and in fact be falling behind.

In our conversations with board directors, we are finding a growing appreciation of the evolving needs of the organisation and its people. Good leaders will adapt to these needs; they will understand the importance of clear communication, none more so than that between the senior leadership and their employees. This trend is evidenced in our survey findings—with around two-thirds of boards citing both improved feedback on engagement with their workforce since the onset of the pandemic and enhanced communication between the board and senior management. Directors should now be considering how to further strengthen engagement with employees to get the most out of new ways of working. And they should certainly be thinking about how recruitment and development needs to change to respond to the new working environments.

Strong leaders will also know the positive impact that prioritising both environmental and social issues can have on an organisation. But they still need to ask how they can further build on their commitment to sustainability. How can they significantly increase the pace of change—both reducing any harm the business is causing and increasing its positive contribution to society?

Has the board got its own composition right and does it have the skills necessary to exploit the new marketplace within which it is working? The skills within the board may have got them this far, but will they be able to take them further? They may have weathered the storm but as we know, weather patterns have a habit of changing with little or no notice. Areas of particular focus are likely to include those related to sustainability and technology, the latter covering cyber security, the design of goods and services and how businesses sell them. Committee structures and directors' development also need to be reviewed in these areas.

We are hearing that there is a real acceptance that business has changed, and that boards need to transform themselves to stay ahead. We would strongly challenge those that do not see the need for change, and they should expect their stakeholders to challenge them as well.

Boards have told us they have been agile in the face of disruption—pivoting and adapting as circumstances shifted. So now is the time to embrace transformation—today would be a good day for boards to review their strengths and areas for development, for tomorrow will bring fresh challenges and the risk of falling behind their competitors.

Andrew Kakabadse, professor of governance and leadership, Henley Business School and **Nada Kakabadse**, professor of policy governance and ethics, Henley Business School

IF BOARD DIRECTORS were able to walk the shop, office, or factory floor today, would they be surprised by what they see and hear? They would certainly be able to see the impact of transformation, both physically and digitally, on the business. But they would also be able to see the transformation that their workforce is experiencing, the impact that it is having on not just productivity, but also on the wellbeing of their employees.

What they see and hear might not be what they expect. Businesses have been forced to transform at breakneck speed because of the pandemic. Some transformations may have been long predicted and merely accelerated, while others have been unexpected. But all have been disruptive, both positively and negatively.

The boardroom has not been immune from this transformation, whether it is through the adoption of remote working practices or increased access to digital data. And likewise, these transformations can be viewed through both a positive and a negative lens. Access to digital data may have brought the board closer to the business, but remote working may have made the board, well, more remote.

It is therefore not surprising to see that boards are on the one hand embracing the opportunities that digital and operational transformation are able to give them, while also maintaining focus on strategy, governance, and oversight on the other. That's before adding financial sustainability and environmental and social impact to the mix.

But the disruption that they and their businesses are experiencing needs to be understood if it is to have a positive transformative impact—they need to know what the competitive advantages



are, and where the pitfalls lie. So, board directors need to ask if they collectively have the necessary expertise, skills, and judgment among themselves to take on these challenges, reviewing operations and business strategies.

Clear oversight of the enterprise has never been more important—the responsibility for governance, stewardship and compliance remains firmly on the boardroom table. Boards may be transforming, but they need to ensure they retain and enhance the necessary skills to carry out these functions. Having the right roles on the board has never been more important.

If they can understand this, then the next time they are physically able to walk the floors of their business, there should be no surprises.

Introduction



There can be little doubt that the global Covid-19 pandemic has forced corporate boards to embrace significant change. They have had to adapt new ways of working, ensuring corporate resilience, supply chain security, financial stability and the health and safety of their workforce.

Board members will have learnt much from their own personal experiences: forced to work remotely, informal conversations have become less frequent, while the need for clear experience and expertise on the board has become more apparent.

Strong investor and stakeholder engagement has remained vitally important, as has capital and financial management, forecasting and revenue maintenance. Digital transformation has accelerated as firms have pivoted to reduce or avoid physical contact in the workplace and embraced new ways of engaging customers.

But this applies to the whole enterprise. What, specifically, has been the impact on corporate boards? What are the implications for the future: will boards adapt or even reinvent themselves during the period of recovery? Will they transform themselves, or will transformation be forced upon them?

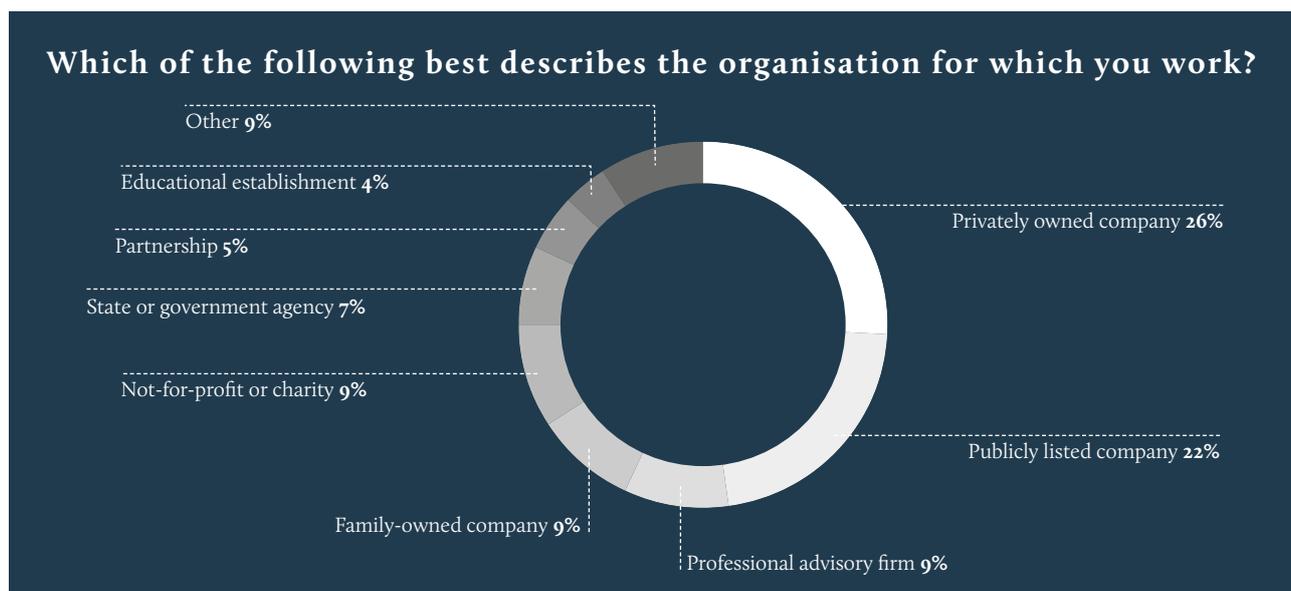
This study aims to answer these and other questions – looking at the focus of attention in the boardroom and the priority issues; whether boards have the right skills to deal with the post-pandemic demands of a rapidly changing business environment; and whether their strategy is robust.

Senior board members and executives give their views on organisational resilience, strategy, digital transformation, capital, and financial management and ESG issues. The answers are illuminating and will help frame the transformation debate.

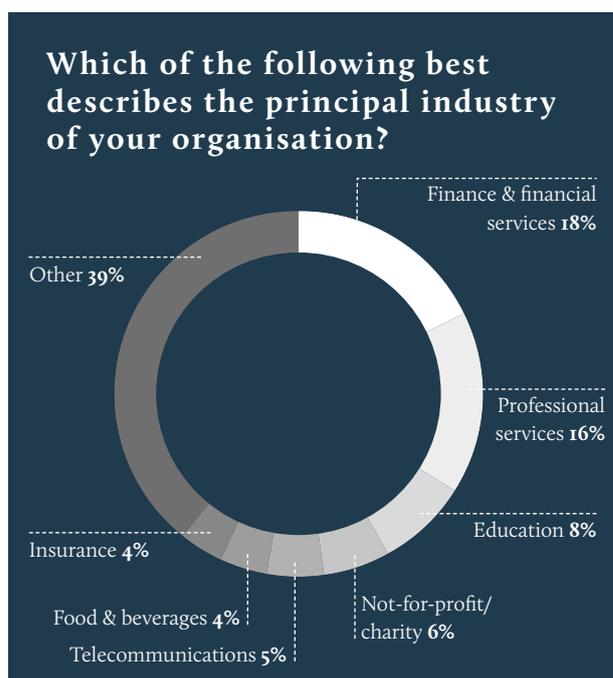
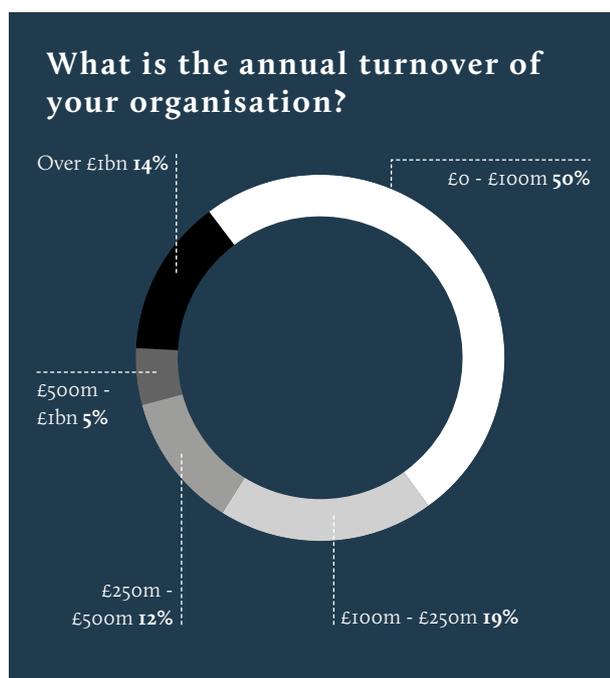
Methodology

The *Board Transformation 2021* survey was undertaken between March and June 2021 among 270 senior business leaders, including board chairs, chief executive officers, chief financial officers, chief operating officers, chief risk officers, executive and non-executive directors, and company secretaries.

The following shows the businesses represented by those completing the survey:



Although respondents from the UK (43%) dominated, there were also sizable contributions from EU countries (16%), North America (13%) and Australia & New Zealand (6%). The remaining 22% came from a wide variety of countries around the world.



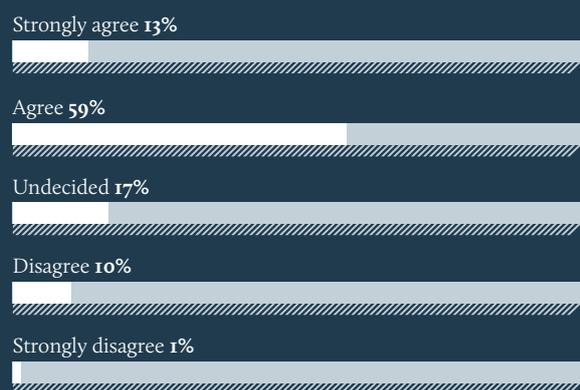
Section one:

Organisational resilience

Organisational resilience starts from the top. Did the board have a clear strategy for managing the events surrounding the pandemic and the aftermath? If so, was that strategy communicated and acted upon?

Traditional business recovery and disaster plans are reactive. They include valuable follow-up instructions, including whom to contact for different services, how to rescue data and records, where to look for temporary facilities, and more. But reactive practices are not enough.

Fig 1: The pandemic has prompted your board to increase the long-term organisational resilience of the organisation



The initial signs from the boardroom are encouraging. According to the Board Agenda survey, nearly three-quarters (72%) agree or strongly agree that the board has increased long-term resilience of the business (fig 1). Only one in 10 (11%) disagreed with this notion, though 17% were undecided.

As one respondent says, they have seen “a greater emphasis on operational robustness and flexibility and testing of disaster recovery and business interruption plans”.

But drilling down further into this result, a split emerges. Overall, more than half (56%) believe their boards have made substantial changes to the structure or operations of the organisation because of the pandemic. However, a third (33%) disagree with this, perhaps through confidence that the organisation’s structures were sufficiently robust to endure the impact of pandemic, or more worryingly because the board lacks the sufficient capabilities to react (fig 2).

As one respondent puts it: “I think that the board has been more focused on getting through the pandemic than seeking to change long-term priorities.”

A further result indicates that risk management and organisational resilience is top of the board’s agenda (53%), with digital transformation a close second (52%) (fig 2). Boards are clearly placing equal weight on not just the threats to the organisation, but also the opportunities that have rapidly emerged for digital transformation and other areas of innovation. Combining risk management and innovative transformation can create a powerful force for ensuring long-term resilience and therefore the sustainability of an organisation.

Fig 2: Your board has made substantial changes to the structure or operations of the company due to the pandemic

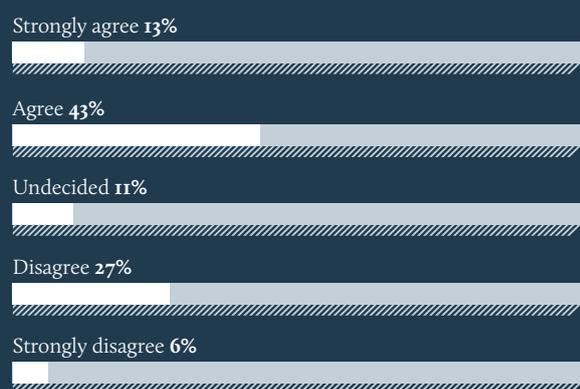
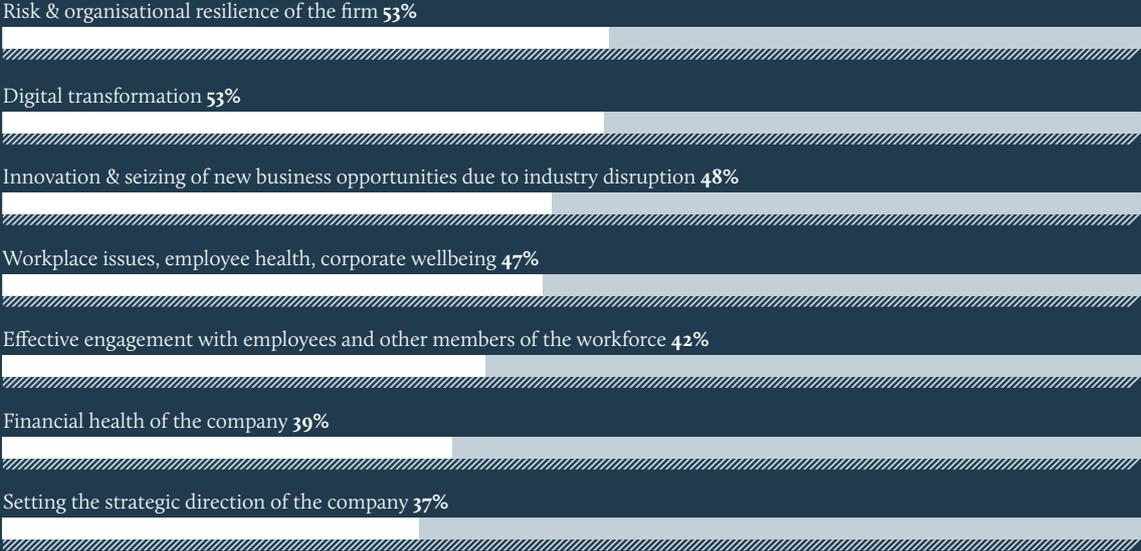


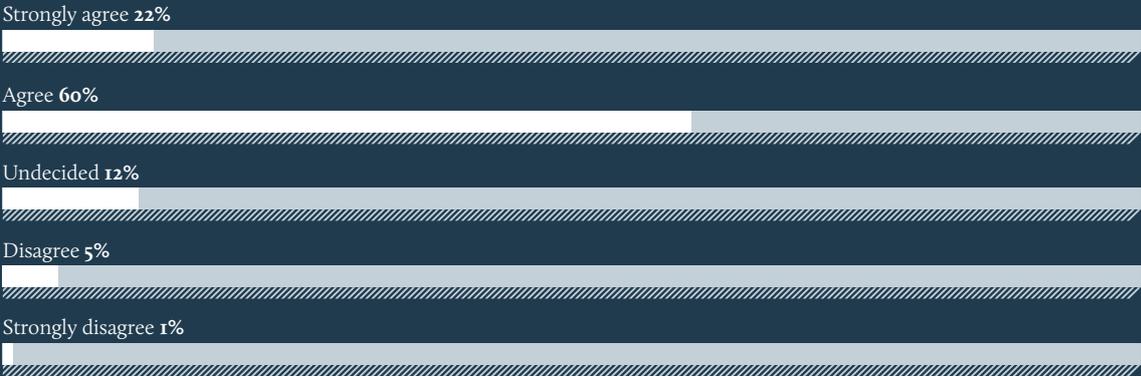
Fig 3: Which board priorities have become more important since the beginning of the pandemic & are likely to remain so for the next 12 months?



As one respondent says: “Board directors [need] to learn, unlearn and relearn. From being familiar with new technology platforms for conducting board meetings, to the impact of remote working, remote management, and new disruptive technologies.”

However, boards are not neglecting their workforce, instead placing significant emphasis on wellbeing policies due to the pandemic. When asked, eight out of 10 respondents say their board is strengthening the oversight of their employee wellbeing policies (see fig 4). This is one of the most significant findings of the survey and illustrates how much boards have shifted in their views on corporate wellbeing—observers in the past might not have expected to see such issues this high on the board agenda.

Fig 4: The board has strengthened its oversight of employee well-being since the pandemic

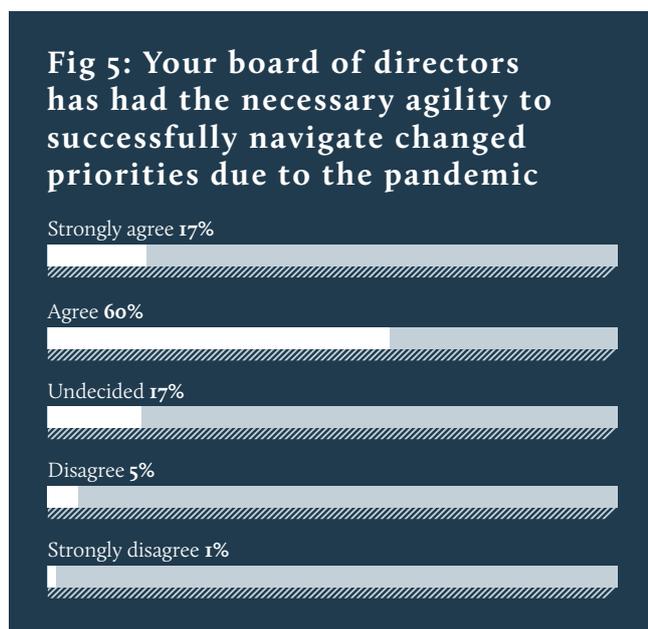


“It will be some time before a consensus emerges on areas such as remote/flexible working, during this time nimble employers will be able to benefit from a competitive advantage to recruit and retain the best employees,” says a respondent.

Boards are clearly moving fast to reset their organisational resilience. They are improving risk oversight while at the same time looking to the future to identify opportunities, which again will have a direct impact on resilience— those that do not adapt will not survive in a changed economic reality. But at the same time, boards are more than aware of the need to address human issues—the impact on their workforce and their suppliers and other stake holders cannot be overestimated.

One respondent says: “Boards must be more aware of employee sentiment and how, if negative, it can deeply impact the company.”

Boards must ensure that not only do they remain in touch with the workforce, but also that they are seen to be so. The opportunity to “walk the shop floor” ahead of a boardroom meeting has been taken away, and even if they still had that opportunity, board members might be surprised with what they find.



So, boards face a balancing act—risk management on the one hand, against emerging opportunities on the other and combined with increasing demands for appropriate wellbeing strategies can pull boards in different directions. As such, it is encouraging to note that boards believe they have shown sufficient agility during the crisis, and that they will therefore be able to move swiftly. When asked, more than three-quarters (77%) say their board has the necessary agility to navigate changed priorities (fig 5).

The rapid adoption of digital transformation has also found a seat at the virtual boardroom table, and what had first been viewed as a necessity is now seen as wholly appropriate going forward. According to the survey, 70% now believe that virtual board meetings will remain part of the mix in the future—this again illustrates how the board itself has adapted to new ways of working, practicing what it might have been preaching to the operational business (fig 6). But, as previously noted, this can have a downside outcome as well—less frequent contact with informal networks and sources of intelligence from the executive floor to the shop floor.



However, by using such techniques, the board is clearly signalling to the rest of the business the importance it places on such methods of boosting resilience, so that it is prepared for the next shock, whenever it comes and from wherever it comes.

Operational resilience is key to creating a sustainable enterprise, but this needs to lie within its overall business strategy, a topic we explore in the next section.

Section two:

Business strategy and boardroom skills

Boards have needed to fundamentally review their business strategies because of the pandemic. But how are boards dealing with these demands, and are they adequately equipped to do so? Is there sufficient expertise around the boardroom table to deal with this magnitude of change and upheaval?

Our survey reveals a mix of responses to changing strategies.

Just over half (52%) of respondents say their boards have reset their long-term business strategy, but over a third (35%) say this has not happened within their own organisation (fig 7). While many have taken the events of the past 18 months as a clear signal for the need to review strategies, there remains a significant minority that have yet to do so, or indeed see no need to do so.

One respondent put it simply: “[There is a] need to improve strategic thinking and implementation capabilities.”

Indeed, when asked to rank how important certain board priorities have become during the pandemic and in the next 12 months, “setting the strategic direction of the company” is only seventh on the list. This could be the result of other issues (see fig 2) outpacing strategy setting in terms of immediate and more pressing importance, rather than a decline in importance of strategy per se; but nevertheless, it is an issue to which board members will need to return if they are not already doing so.

If the board is not reviewing its strategy, then there is a clear risk that it could be left behind by its competition. Past performance during the pandemic should not be mistaken for future success. The business landscape has materially shifted, as has the demand for products and services, and it is highly likely that this will continue. Competitors are reviewing their strategies to take these shifts into account, seizing new opportunities, so all boards should be reviewing their strategies.

Of course, it is possible that capabilities around the boardroom table may have been appropriate in the past but could be lacking in the future. Are there sufficient and appropriate skills on the board today to cope with tomorrow’s demands? Is now the time to review those capabilities?

Nearly half (48%) say it is, agreeing that transformation forced upon the business is prompting the board to review the capabilities and expertise of board members (fig 8). But again, there is a two-way split here, with just under a third (32%) disagreeing that the pandemic has prompted such a review.

Fig 7: The pandemic has led to your board resetting the long-term business strategy of the company

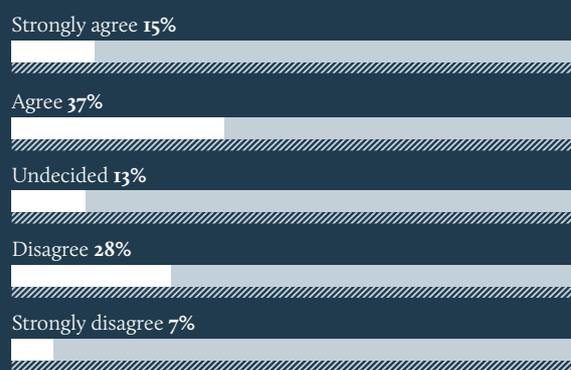
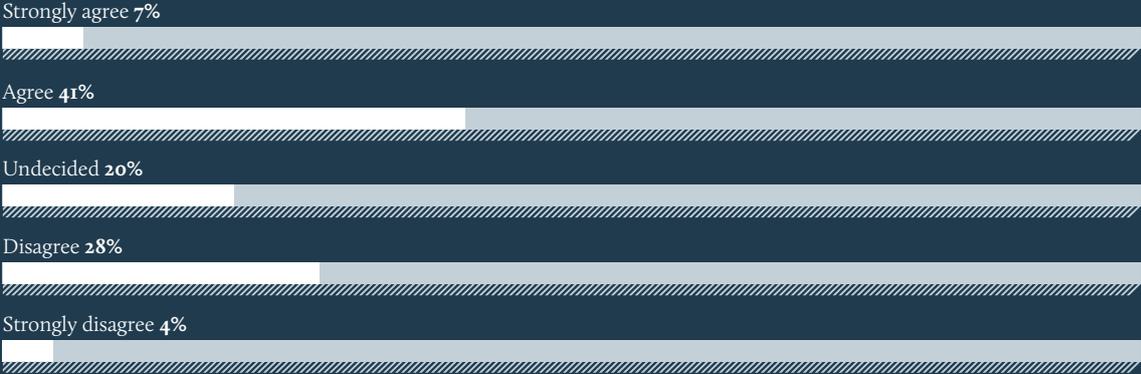


Fig 8: The transformation forced on the business due to the pandemic has prompted your board to review the capabilities & expertise of board members



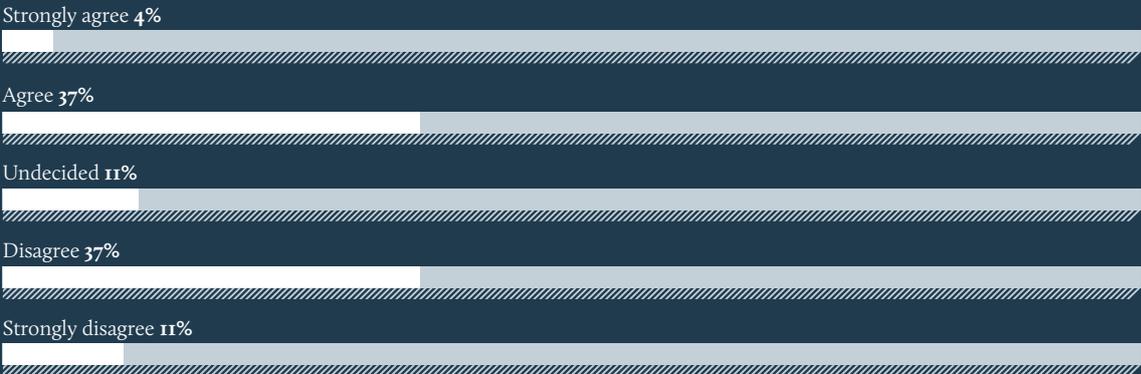
Timing could be a factor. According to one respondent: “In the longer term I think we will review the board’s capabilities. At the moment, so much has needed to be adapted making major changes in this space has been a step too far.”

While some might argue that now is not the time for such an upheaval, others will be saying that now is precisely the right time to review board capabilities. The pandemic and the resulting disruption have come with opportunity: it is a wake-up call for board members. They need to ensure they have the right expertise: it could be that the expertise does not fit with the location of the organisation, but technology has shown that this should no longer be a hinderance.

As one respondent puts it: “Digitisation and acceleration of change in the business to increase agility whilst maintaining the same broad strategy. Ambition to grab opportunities burns more brightly.”

Alternatively, boards can bring in external advisers and support services. A third have already done so (fig 9).

Fig 9: The pandemic has prompted the board to seek external advisory services & support



Section three:

Digital transformation

The pandemic has marked a watershed in digital transformation—the implementation of digital strategies was brought forward to rapid deployment, and the gradual shift to remote working accelerated almost overnight. But with this acceleration has come risk: cyber attacks are on the increase, leaving data security under threat, while the speed of digital transformation risks leaving some organisations and individuals behind.

Markets adjusted so that physical contact was either reduced or eliminated altogether. Organisations pivoted their business models, either by adapting to new ways of reaching their markets, or by developing new markets and services. To achieve this, boards may have desired to accelerate their digital transformation. But has the whole organisation embraced the move? Is there now a clear strategy, or is it still evolving and reacting to events?

As we have already seen, digital transformation is right at the top of the boardroom agenda, sitting just below risk management in the board’s list of priorities (see fig 3). “Digital transformation is key to the survival of the organisation,” confirms one respondent.

Virtual board meetings will remain in place for 70% (see fig 6).

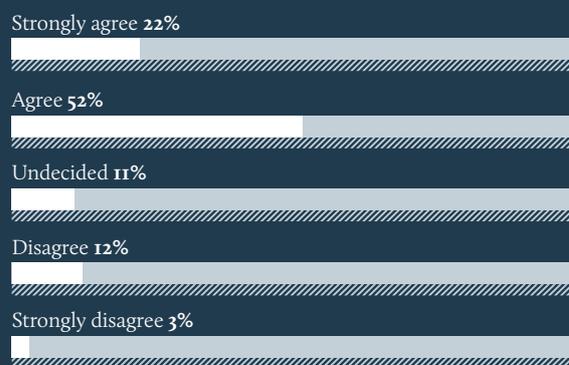
Boards also acknowledge the speed with which this transformation has taken place. Nearly three-quarters agree that the pandemic has prompted the board to accelerate digital transformation (fig 10).

There would appear to be a real acceptance that the way of doing business has changed, whether it is remote working, an increased online presence or increased automation. But equally, there are oversight challenges of working in a remote environment and the need to balance supervision with trust. There are certainly lessons to be learnt from the hybrid model of working, and boards will be keen to ensure their organisation does not slip backwards.

Board directors need to ensure that oversight does not become overbearing—employee wellbeing will not be well served by any growth in a culture of surveillance and digital monitoring. Trust works both ways.

As one respondent to the survey says: “The board is taking more time to focus on digital issues and related risks plus employee health and safety concerns and general ESG and development concerns.”

Fig 10: The pandemic has prompted your board to accelerate digital transformation in the company



Section four:

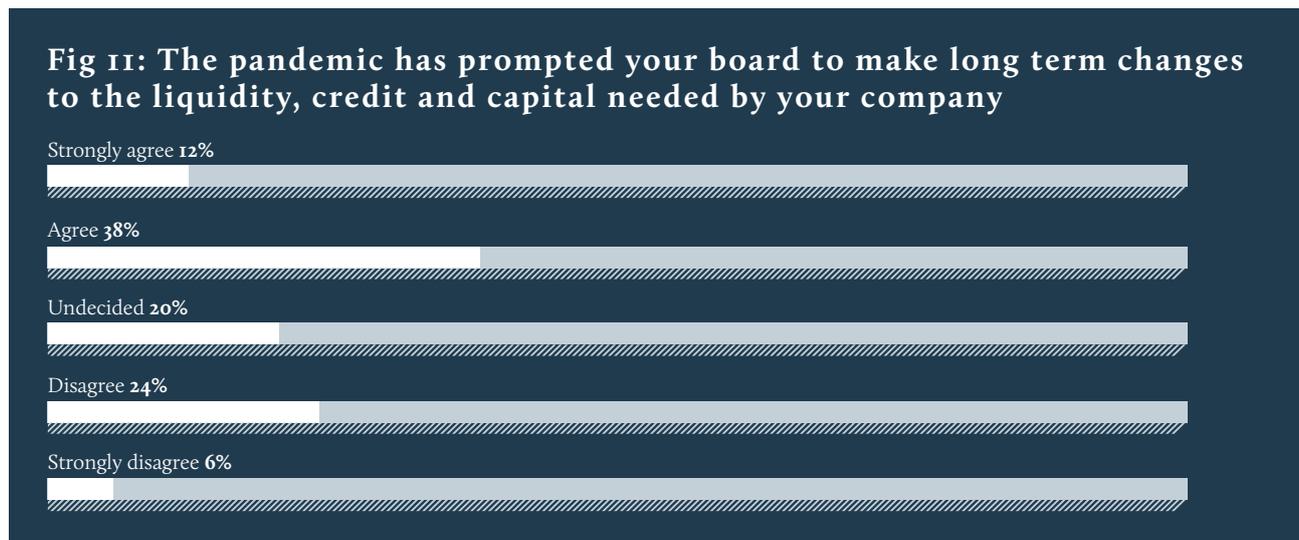
Capital and financial transformation

Capital and financial transformation goes hand in hand with digital transformation. The finance function is now able to use data analytics to capture trends and predict future scenarios, data that will radically transform how boards are able to plan, informing decisions and future strategy.

One respondent says that the board has called for “more extreme stress-testing and downside scenario modelling, to ensure robustness of liquidity and capital”.

Forecasting will need to be more accurate while the use of predictive analytics will transform the board’s visibility of future trends. According to one respondent, this will see the “use of scenario planning; financial management aligned to scenario reviews and thus more agile and stronger prioritisation and phasing of capex”.

Such trends have led to the board to review its financing arrangements, with half agreeing that they have been prompted to make long-term changes to the liquidity, credit, and capital needs (fig 11).



However, boards will need to keep these arrangements under review if they are to succeed in delivery on their future strategies. There is a possible threat of rising inflation, which will have an impact on interest rates, and therefore the cost of capital. Any downturn in consumer demand could have an impact on liquidity: an issue that will become possibly more prevalent as various government support schemes are wound down. Boards will need to assess their vulnerability to such shifts, and the wider impact this could have on going concern statements—an issue that will begin to climb the boardroom agenda as regulatory reform shifts more responsibility on to the shoulders of board directors.

Again, it will be a balancing act between entrepreneurialism and accountability—an issue that is explored further in the next section.

Section five:

ESG and organisational culture

Environmental, social and governance (ESG) issues are now more in focus as organisations look ahead to a post-pandemic world. The phrase “build back better” has real resonance as the pandemic has exposed many inequalities and shortcomings. Perhaps these inequalities were understood prior to the pandemic, but what has changed has been the pace with which these issues are being addressed—either proactively by boards or reactively in response to pressure from stakeholders.

How has the role of the board and its oversight of these issues been transformed by the pandemic? Has it increased its oversight of these areas, and will its focus on these issues during the period of recovery?

The short answer is that yes, 58% agree that boards are placing greater emphasis on ESG issues because of the pandemic (fig 12).

Leadership style and corporate culture are key components of an organisation’s attitude towards ESG. Nearly half (46%) say their board has sought to reset the corporate culture of their organisation because of the pandemic (fig 13).

One respondent can see the need for change in the boardroom, saying: “More agility, more diversity, more focus on ESG factors, different director skills needed.”

However, it is important to note that four out of 10 did not agree with the above statement. It has often been said that an organisation’s culture is set from the top, and there is a strong argument for boards to grasp the opportunity now to reset their culture to be more in tune with the current business environment.

With this in mind, it is encouraging to note that boards have been looking to transform their leadership style, with 43% agreeing that their board has not only reviewed the issue but also changed in response to it (fig 14).

Fig 12: The pandemic has prompted your board to place greater emphasis on ESG issues, such as climate and environmental issues

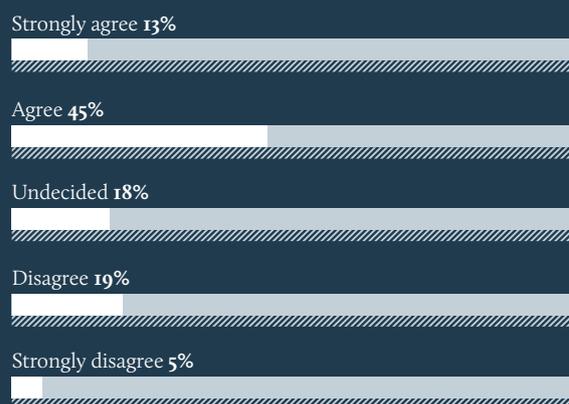


Fig 13: Your board sought to reset the corporate culture of the firm due to the effect of the pandemic

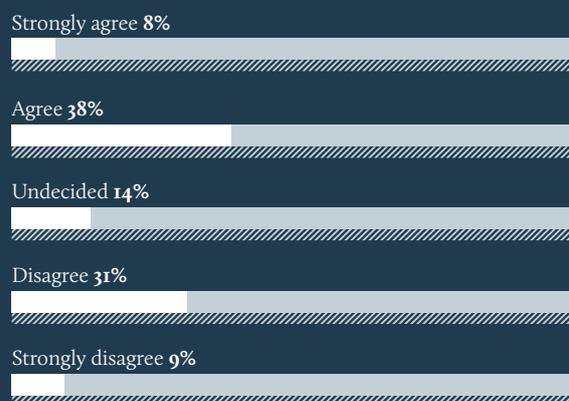
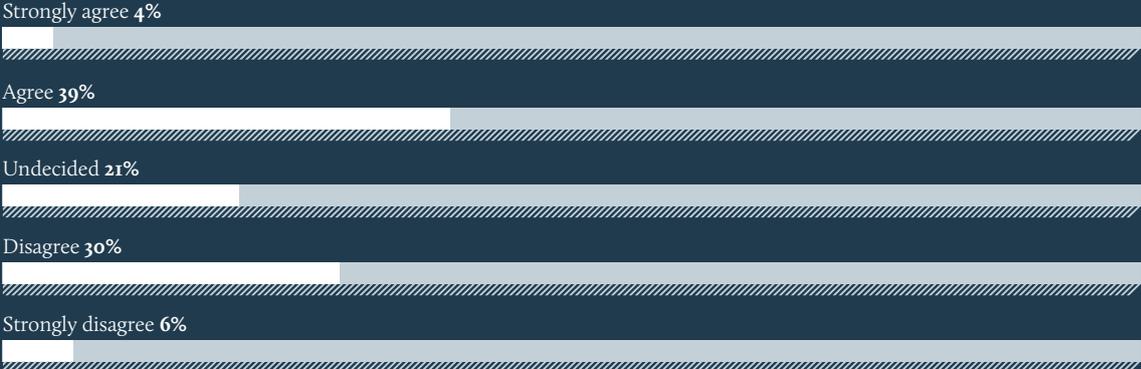


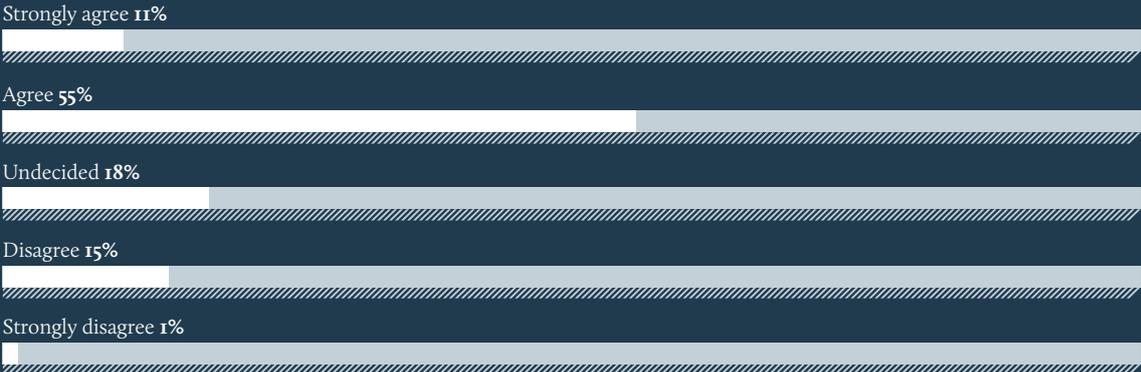
Fig 14: Your board has reviewed and changed its leadership style because of the pandemic



There is a “need to review and evaluate all aspects of the board’s activities with a particular emphasis on good governance,” according to one respondent.

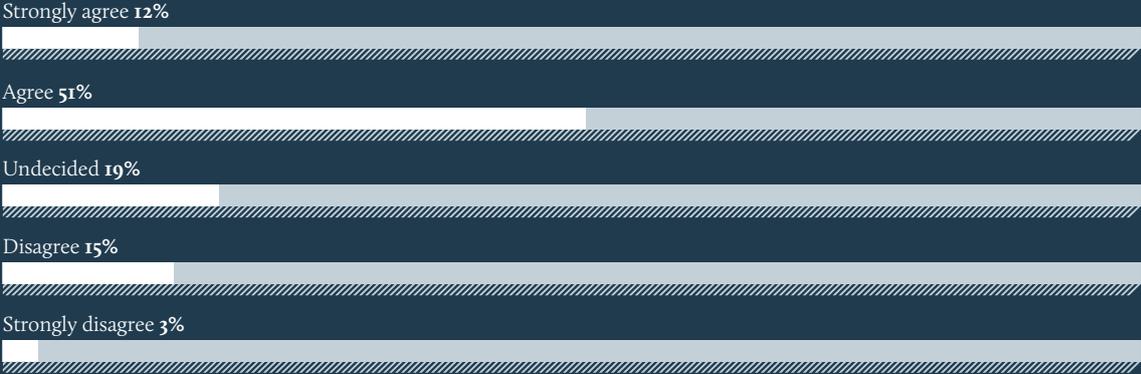
An important ingredient of leadership style rests in the level of engagement that boards have with senior management, employees, and investors. There is growing evidence that boards are placing more focus on these areas—engagement with senior management and a focus on the wider workforce would appear to be going through a period of transformation. Some two-thirds (66%) say that engagement between the board and the senior leadership team has improved during the pandemic (fig 15), and a similar percentage (63%) agree that feedback on engagement with the workforce has likewise improved (fig 16).

Fig 15: Since the pandemic there has been improved engagement between your board and senior management



Within this improving level of employee engagement, there would appear to be a growing emphasis in employee welfare (see fig 4). For this to be truly transformative, this will need to be sustained beyond the pandemic and recovery, to become a permanent feature of the board’s wider attitude towards ESG issues.

Fig 16: The pandemic has prompted your board to improve feedback on engagement with the workforce



“Alignment with fundamental principles of sustainability/ESG is vital. It mitigates risks, supports risk management, and helps spot value-creating opportunities,” says one respondent.

However, improvements in investor engagement have not been so marked—again, as this is very much part of the “day job” of the board, this might be taken as a given, but all the same, less than half (47%) agreed that shareholder engagement had improved (fig 17).

As shown by figs 15, 16 and 17, there would appear to be a hierarchy of transforming engagement, with greater change taking place nearer to the board with senior management, followed by employees, and then investors.

It is an area that boards need to focus on—investors know their companies very well but are also able to make meaningful comparisons with competitors through access to data. Boards ignore transforming their investor engagement at their peril.

Fig 17: The pandemic has prompted your board to improve engagement with investors



Conclusion

Transformation has been a key element throughout the pandemic, and our survey highlights some key issues around capabilities, oversight, and engagement. But one thing is clear: such transformation needs to be sustainable. With transformation happening all around, those boards that fail to grasp these opportunities will find that change will leave them behind.

Key questions for boards

1. Does the board need to review its business strategy to align with a rapidly changing business environment to ensure sustainability and resilience?
2. What are the operational transformations that the board can affect? Do they have sufficient oversight of operational transformation?
3. Is the board reviewing its own capabilities - has the business environment been transformed such that they need additional expertise?
4. Can the board's oversight of employee wellbeing ensure that this emphasis is maintained in the future?
5. Does the board have sufficient understanding of the rapid digital transformation, does it know and understand both the risks and the opportunities?
6. How will financial transformation impact on strategic and operational resilience?
7. Does the board believe it is placing sufficient emphasis on ESG matters or does it risk being one of the minority that are not doing so?

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