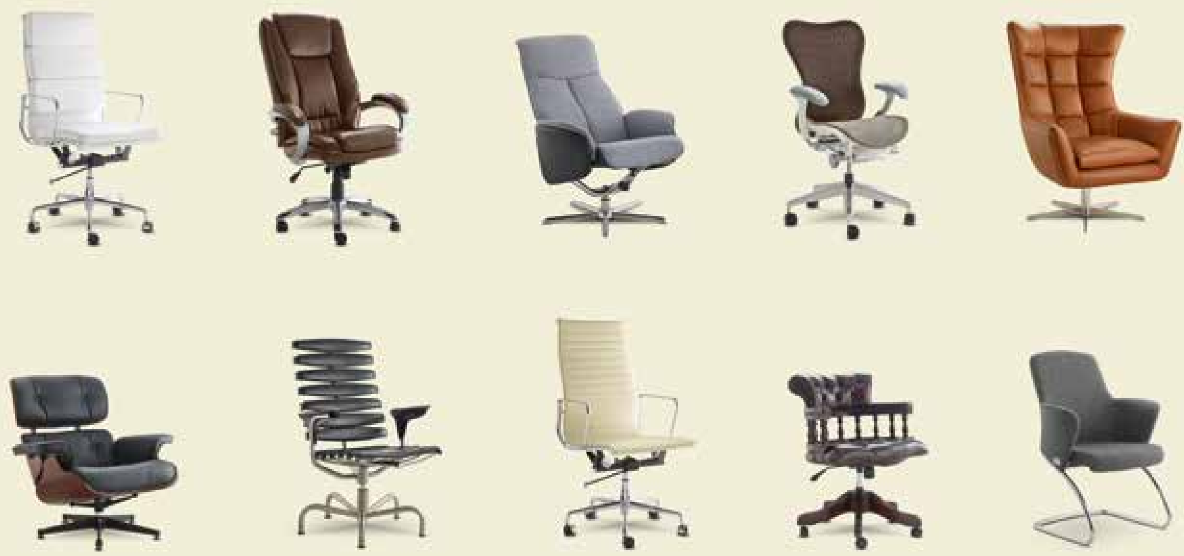
BOARDS OF THE FUTURE:

What next for governance?



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Introduction

WHAT NEXT FOR BOARDROOMS?

Responsible for driving the success of businesses, boards of directors were experiencing increasing pressures on a range of fronts well ahead of the COVID-19 pandemic.

We started this research project at the beginning of March 2020. Through a series of debates and interviews with chairs, executive and non-executive directors and company secretaries in listed and private companies, we considered the challenges facing boards and looked at how they may need to adapt to be properly equipped for effective decision-making and reporting in the future.

In March, future had its simple "a time to come" definition. By the time we were concluding interviews in early April, it was clear that, due to COVID-19, global business and society had changed immeasurably.

By then, some of our contributors had already experienced boardroom work in lockdown. Directors in their fifties and sixties (for example, the average age of a director of a listed company based in Scotland is 59, and 56 for privately owned companies) were suddenly proficient using the gallery view of Zoom or the chat function of Microsoft Teams, or both!

So, what started as an exercise to gather views two years on from the 2018 governance changes* has become a much wider discussion informed by contributors' experiences of remote working. Our sincere thanks to all our participants listed on page 37, representing a wide variety of sectors and businesses from corporate Scotland and beyond.

At time of publication, the future is still uncertain but businesses are adapting. It will certainly be a time for directors to learn from their experiences, to sustain efficient productivity, and to support their businesses and key stakeholders. Future boardroom conversations about climate change; flexible working; health, well-being and safety of employees; culture; and remuneration will certainly be happening against a different backdrop.

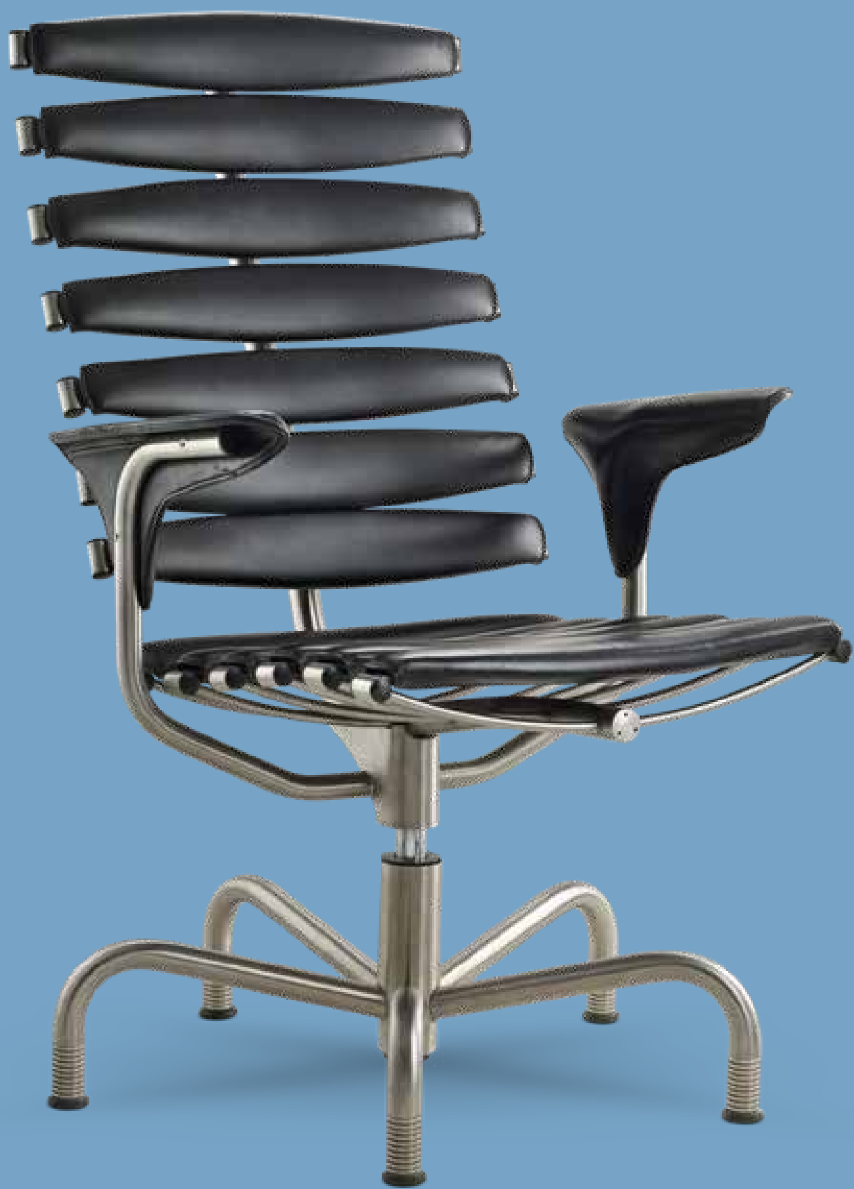
All the challenges discussed with our experienced directors and company secretaries have certainly been amplified in recent months, and equally our resolve to create effective boards for the future must surely have been strengthened.

We hope you enjoy this paper and look forward to discussing how your business is managing these issues.

Walter Clark, Sheelagh Duffield & Gary Gray

*These governance changes included revisions to the UK Corporate Governance Code; rule changes for AIM listed companies; additional wider reporting including for large private companies and the introduction of The Wates Corporate Governance Principles for Large Private Companies as guidance.

“There’s too much time spent looking in the rear-view mirror and not enough time spent looking ahead...”



Part 1

THE CROWDED AGENDA

Already pre-COVID, corporate governance had evolved in the UK, with directors of companies of all sizes and in all sectors experiencing a growing pressure to deal effectively with an increasing volume and variety of issues.

When we consider the new Code definition* of the role of the board, we can understand why the agenda has become crowded. The topics within each of these broad areas are always evolving – wider stakeholder considerations, with an emphasis on the workforce and culture; environment, social and governance (ESG) reporting; cybersecurity risks - these are all issues that have come onto the agenda relatively recently. Undoubtedly, the responsibilities of the board will expand further and adapt as a result of the current economic and social developments. The agenda will only become more congested.

The challenge is balancing the time appropriately between all of the relevant tasks. The overwhelming view of our contributors was that "the volume of governance, compliance and financial reporting requirements results in much less time being spent discussing strategy and ways to build a better business". If boards do not make a conscious effort to look forward and consider stakeholders, there is a tendency to drift into an over-emphasis on compliance, including performance management.

However, it is believed that a board can add its greatest value when considering strategy, and some were frustrated that the volume of compliance activity held them back from that discussion. It was nevertheless interesting to note an opposing view from a company having come through a period of rapid growth. In that company, the board had concentrated on strategy and was now switching its emphasis to governance and compliance.

Why? While strategy might be about growing and developing value, performance management and internal controls are about protecting value. Both are equally important.

It is clearly recognised that all the tasks are necessary and the balance of each will depend on the development of the organisation, but the shared challenge, acknowledged by all participants, is how to ensure that this increasing workload is appropriately covered.

* The UK Corporate Governance Code 2018 (the new Code) states the role of the board as: to promote the long-term sustainable success of the company, generating value for shareholders and contributing to the wider society. The board should establish the company's purpose, values and strategy and satisfy itself that these and its culture are aligned. The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

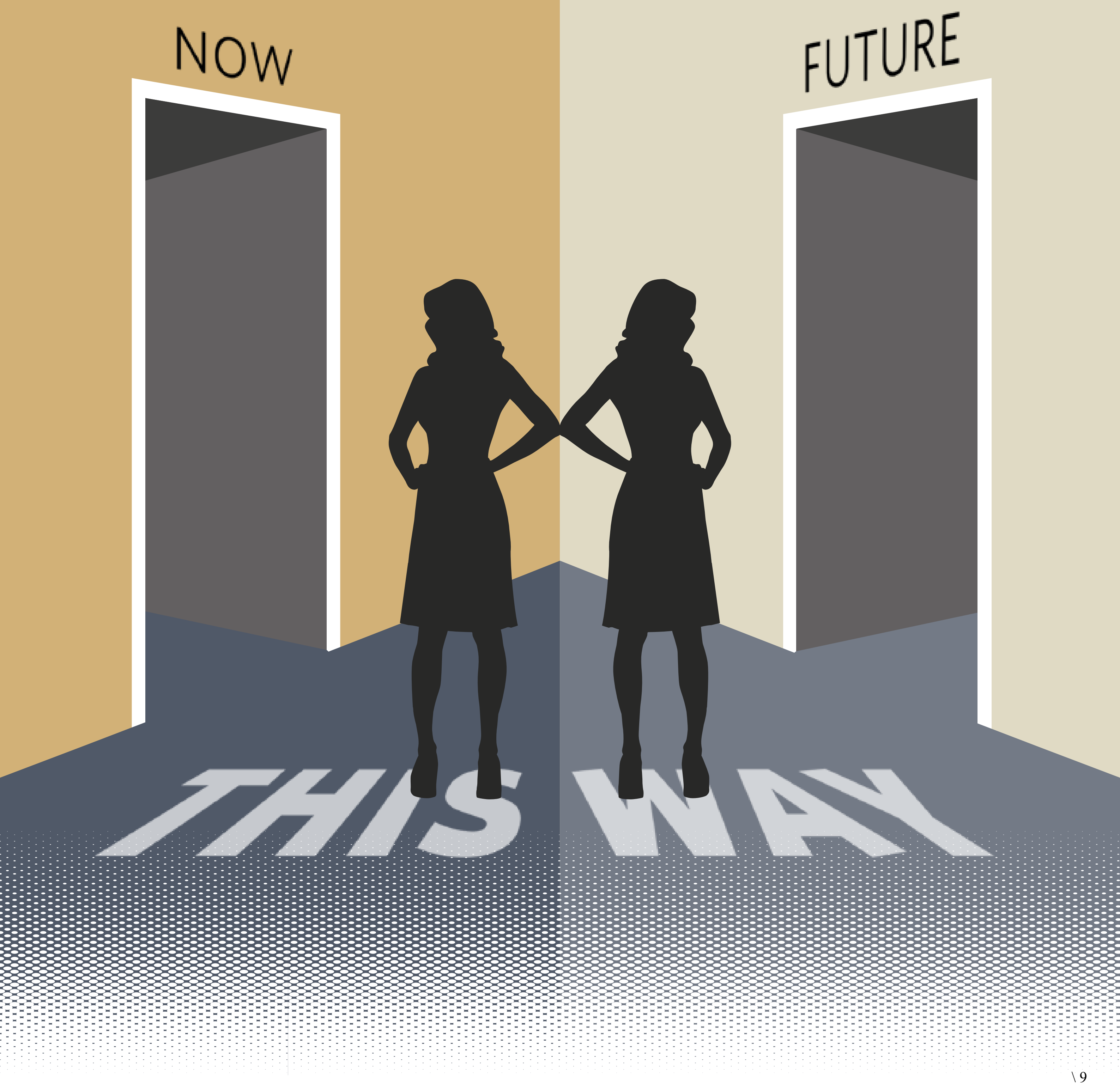
Boards find different ways to alleviate pressure on the agenda:

- Extending the time that directors spend together around a board meeting
  - dinners, breakfasts and site visits. These do not form part of the formal agenda and are described as scene setting, issue framing or for education. These were pre-COVID methods and it will be interesting to see how these are replaced if remote working is extended.
- Board committees (audit, risk, remuneration, nominations, governance and capital/investment, depending on the organisation) shouldering a much greater workload to enable the board to cover all areas in the time available. To work effectively and to ensure the board retains collective responsibility, careful reporting from the committees back to the board is essential to inform final decision-making. Trust in colleagues to perform the committee role is also important to avoid unnecessary duplication of debate in the boardroom.
- Good agenda planning and meeting management by the Chair to maintain the balance between strategy and compliance issues. A regular review of agenda planning by the board is recommended, and alignment of views between the Chair and CEO greatly assists the board spending time on the topics that are most important for them.

These techniques are employed in an effort to free up time at the board for strategic thinking and business improvement, these being identified as areas where the board can add most value. But that in itself was acknowledged as a challenge – how can a board best discuss and develop strategy?

The format for strategic discussions was discussed, with some favouring off-site externally facilitated meetings, suggesting that a different environment and more informal structure assisted the debate. Others were more sceptical about the traditional "board away day" and concluded that such meetings were not sufficient on their own – strategy should be considered more than once a year and become a more regular item on the agenda to consider delivery milestones and ongoing challenges and risks.

"Apply cognitive dissonance to ensure we are dealing with what's directly in front of us but also thinking about the future and what it looks like"



Strategy: Non-executive directors and their part to play

Controversially, an executive director suggested that non-executive directors had a limited role in strategy because they could never have the necessary knowledge to contribute effectively. The debate concluded that non-executives must be involved in strategy and that a good team of non-executive directors brings diverse ideas to the board, looks at issues through a different lens and, however difficult it is, they must be equipped with sufficient knowledge to contribute meaningfully.

Participants shared ways to brief non-executive directors:

- Thorough and tailored induction, with check-in points to discuss development with the Chair.
- Agenda planning to accommodate regular in-depth briefings from each division or subsidiary company.
- The opportunity to hear from the company's principal advisers – lawyers; brokers; communications professionals.
- Non-executives' own work between board meetings, including site visits and sector conferences.
- Regular review of internal and external learning with the Chair and update of the director development plans.
- A "blue-sky thinking" or "blank sheet" meeting to provide executives with ideas to develop a more detailed strategy for further discussion.
- Development of scenarios (with non-executive involvement) for strategic discussions – not just one option to consider.

Managing risk

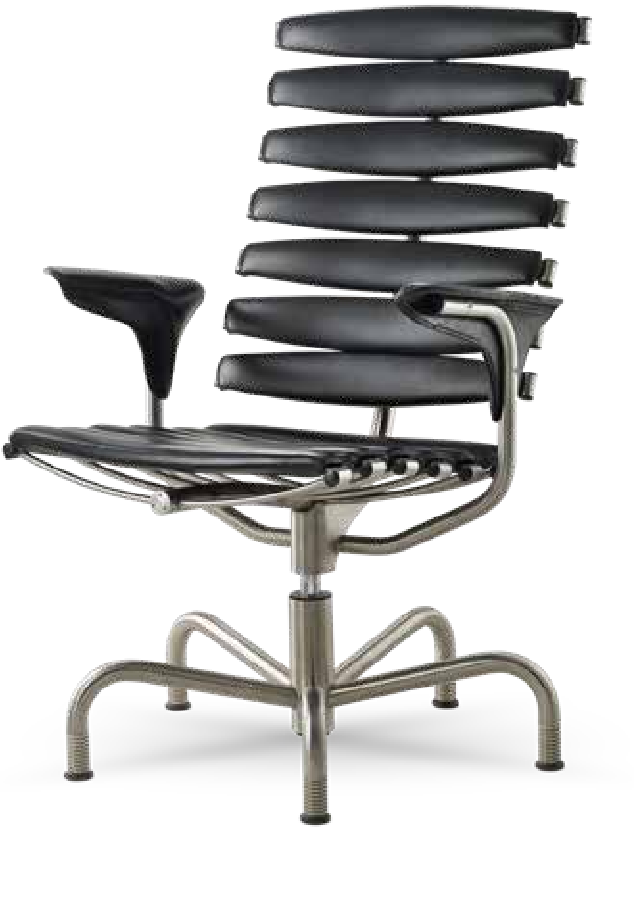
And so we come to risk – yet another responsibility in our crowded agenda. Our discussions highlighted a need for boards to ensure that they concentrate on principal risks that could impact on the sustainability of the company and resist getting caught up in risk matrices with more operational content. The role of the audit or risk committee is important here, but boards should not overlook the importance of the collective review of principal risks.

Private equity funded organisations benefited from shareholder directors with a key focus on macro economics who were well-equipped to horizon scan for principal risks. Particularly when reflecting on reaction to the COVID-19 pandemic, horizon-scanning for major risks is seen in a different context now. Many organisations had robust business continuity or disaster recovery plans that aided them in switching smoothly to home working, and then they adapted day-to-day.

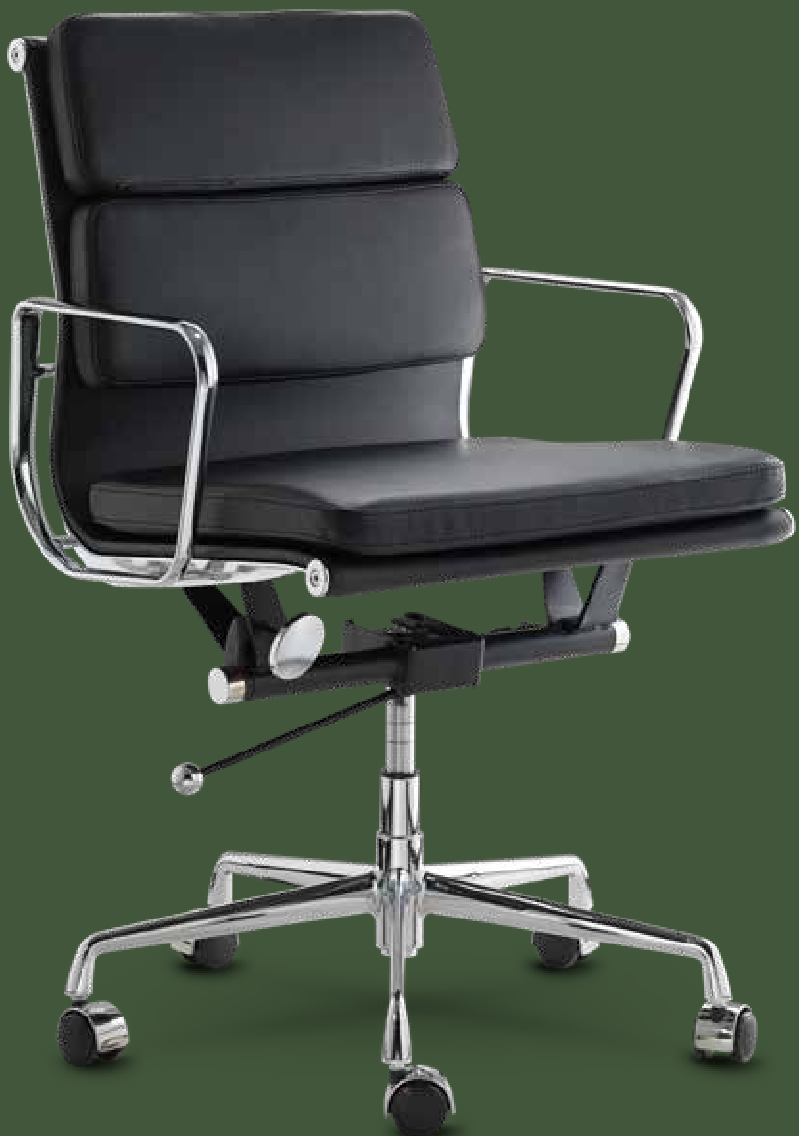
Conclusion

The pressure on the crowded agenda will only increase. Boards need to work exceptionally hard in the current environment to find efficient ways to manage their time together, use good performance management information and have a greater awareness of principal risks to inform the way ahead and maintain focus on a forward-looking vision.

“Risk should be concentrating on areas that would really bring us to our knees.”



“The board is a fragile structure - if one key player is not playing their part, we can quickly see dysfunctionality developing. That can suck the life out of the business.”



Part 2

COLLECTIVE INTELLIGENCE

The effectiveness of the board is largely determined by the capability of the Chair, and the relationship between Chair and CEO is key. These were widely held views of our participants, but the contribution best made by non-executives brought more debate, including on the balance of risk and reward for these individuals.

As an overarching theme, many stated the absolute necessity for the board to operate as a team. Individuals play different roles - and all of them are important and complementary. The team creates the collective intelligence in the boardroom and the secret is to ensure that the different mix of thinking reduces the board's "blind spots". The discussion about diversity was therefore wide-ranging, not limited to gender or ethnicity, but considering the need for different social backgrounds and age diversity on boards to properly understand customers' needs, particularly in the digital age and post-COVID.

Boardroom behaviour can help or hinder:

- The overly defensive CEO not allowing the exploration of other ideas, contrasting with the different environment created by a CEO who is welcoming of challenge and debate.

- The skill of the non-executive director with good emotional intelligence and the ability to ask the excruciatingly difficult question without causing offence or concern. This contrasted with non-executives not holding management to account at all or challenging in a less constructive manner.
- The different skills required for directors of private companies with strong shareholder presence in the room, to influence and add value.
- The ability to digest large volumes of material and to know the business well enough to ask meaningful questions and to act decisively.
- The support given to the Chair by a competent company secretary, structuring an agenda, sharing knowledge and integrating board relationships.

Skills for success

When considering skills, the importance of looking at the board as a whole was recognised. This meant considering the attributes the board displayed currently, planning for talents that would be required to support future strategy, identifying gaps and recruiting accordingly.

The mix of skills described included:

- Appropriate skills for board committees – eg. audit; remuneration and risk.
- Some specialist sector experience.
- Really good business brains.
- Specialist skills for particular organisations or strategies – eg. M&A experience and the ability to test assumptions around value; investor communication experience; stakeholder view.

There was significant debate regarding the level of sector knowledge required compared to general good business and enquiry skills. Some considered that their business was too complex for generalists. Others recognised the increased contribution from directors the longer they were in the role, with the opportunity to learn about the business and through structured development of the individual both being of benefit.

Larger listed companies described training for directors both in-house and through external organisations, with directors disclosing the education in which they had participated. Some cited climate change as an area with a significant impact where training for directors was invaluable. Only a minority of our contributors considered training to be less important because directors came to the role with experience, emotional intelligence and individual personality traits that could not be taught or developed. Some individuals explained that they would not have undertaken a director, and certainly a Chair role, without having engaged in some structured learning.

Recruitment, risk and reward

Having discussed the challenges of the role of the director and the skillset required to create an effective board, attention turned to recruitment. It was considered that there is sufficient suitable talent to fill non-executive roles – but, many people are stepping back from these positions to do other things, with some put off by the increased public interest and high reputational risk associated with corporate failure.

Sophia Harrison

SENIOR ASSOCIATE, DISPUTE RESOLUTION AT BURNESS PAULL

One contributor stated that non-executive directors did not participate for the remuneration but performed the role to add value to the organisation and to get recognition for doing so. Others felt that many potential non-executives consider the risk to be much greater than the reward, particularly because of the amount of work that is required to ensure the role is done well – preparation and meeting time; interaction between meetings; business learning and personal development.

Particularly in the financial sector, the FCA's Senior Managers & Certification Regime is now in force for around 60,000 regulated FS businesses in the UK. The regime imposes greater individual accountability on boards and other senior managers than ever before. The FCA is seeking to shift cultures by setting new standards in personal conduct and professionalism.

Sophia Harrison, Senior Associate at Burness Paull commented:

"The new Senior Managers' regime is all about ensuring that individuals are just as accountable as organisations. The biggest sins of the past in the sector have resulted in relatively few personal casualties, considering the scale of the failings. When advising boards on the detail of the regime and the consequences of personal responsibility, we see a lot of uncomfortable shifting on seats. Naturally, directors are keen to understand how best the personal risks can be mitigated. It remains to be seen whether the attractiveness of board-level financial sector positions will diminish once the regime has bedded in and the FCA's approach to enforcement against individuals is more fully utilised."

The reward for directors does vary across sectors and size of organisation. However, recognising this, there is still a general feeling that the role carries a high level of accountability and, in the future, it may become more challenging to find sufficient people to take on that responsibility. Now may be the time to reconsider the model and address the risk and reward balance.

"Our board is balanced for gender but that's not necessarily the right way in terms of diversity. What about different ethnic origins; different backgrounds, experiences and age? We're all in our 50s and 60s!"

Diversifying diversity

There was an overall sense of disappointment around what had been achieved in seeking to get the best collective intelligence into the boardroom, with many of the contributors recognising the immense benefit of cognitive diversity adding value to decision making and debate. There was a strong sense, however, that regulation has increased the tick-box approach to diversity. Gender and ethnic diversity are easily demonstrated, but the cognitive and personal strengths of directors are more difficult to evidence. By setting gender and ethnic targets for listed companies, have we achieved a diverse mix of thinking, experience and social background to deliver the best collective intelligence for problem solving? There are likely to be improvements from the gender and ethnic mix, but we could still have too many like-minded people around the table.

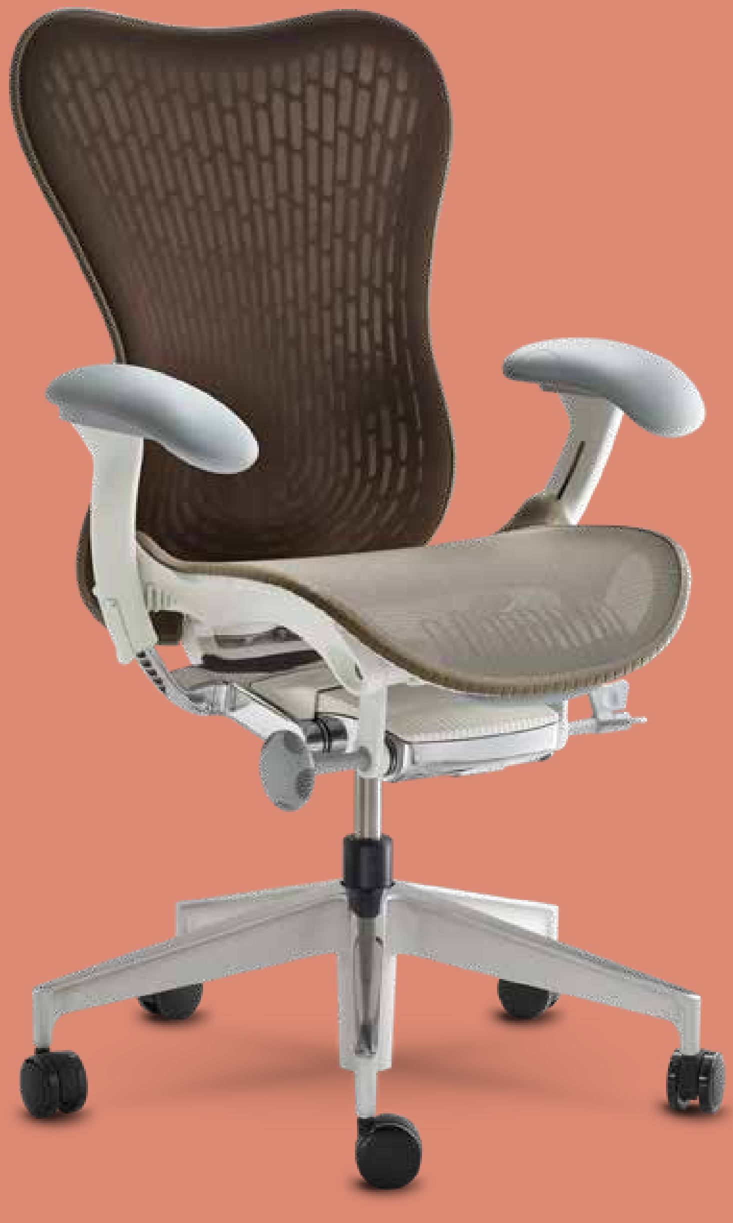
Taking a much wider look at diversity, there was discussion about the benefits of having directors from different age groups. Increasingly, directors are considering issues which highlight the differences between generations - different consumers; different values; different digital capabilities. Only a handful of the participants had experience of directors under the age of 30 on their boards, but all of these spoke highly of the contribution and benefit that was brought to the board. Much of what younger individuals lacked in business and governance experience could be enhanced by training and the fresh insight, particularly representing stakeholder groups, was felt to be extremely beneficial. One director under age 30 did advise that boards need to take care with tailored induction to ensure that skillsets are understood and supported, if necessary, with an experienced "director buddy". Young directors and board colleagues need to remember that directors share responsibility for all decisions and the director is not just there for the "young person's" view on the occasional topic.

There is a need to be smarter about achieving true diversity in the boardroom. While many organisations may have a diverse workforce, this often becomes less so at senior levels and there is a need to nurture that pipeline of talent. Some contributors felt they had a responsibility to coach or mentor future directors from different backgrounds and support their development. Others described using operational boards to develop individuals; or using learning boards where groups of middle to senior managers considered the same board content; or high potential employees observing board meetings. Employers may need to be more willing to release employees for these development opportunities. Perhaps diversity needs to be considered in its widest definition to allow further meaningful improvement to the standard of collective boardroom intelligence?

Conclusion

The director role comes with a high level of responsibility and accountability, and demands wide skills individually and collectively as a board. There are sufficient capable individuals to serve the corporate community, but work needs to be done to ensure that the risk/reward balance is correct and that boards of the future are constructed with the widest definition of diversity in mind.

“We really need to stand back and ask if board papers with a huge volume of information to digest are the correct format.”



Part 3

BEING WELL INFORMED

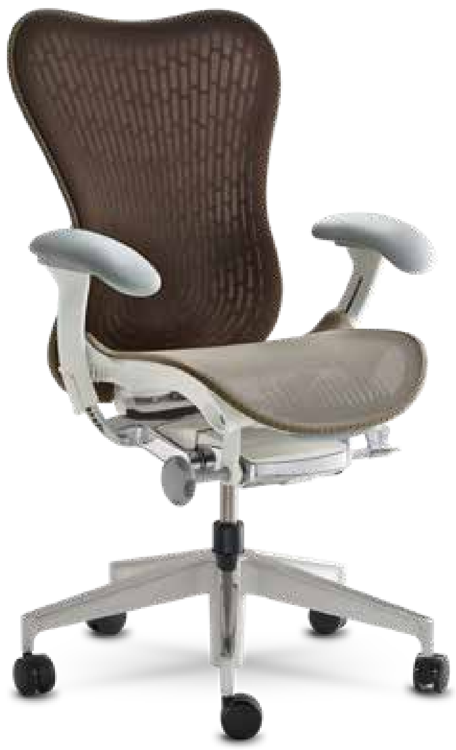
The board pack has been much discussed (and often criticised) through corporate history. It remains a challenge to get quality information into the boardroom. As the pressure on directors' time increases, both in and outside the boardroom, the need for high quality information becomes even more essential.

Executives and senior managers often believe that the effort that goes into preparing for a board meeting is greater than the value gained from the meeting itself. Many non-executive directors complain that papers are still not sufficiently succinct and designed to draw out the key issues for discussion. The board team therefore seems dissatisfied with the process and result.

Many examples of good practice and ideas for improvements to board papers were shared in our discussions:

- Articulation of all options considered and not just a detailed description of the recommended direction.
- Supplementing internal resource with views from advisers and analysts to ensure wide coverage of topics and avoid "blind spots".

- Complex, high value decisions (M&A activity; outsourcing projects, etc.) should be given sufficient lead time and perhaps considered by the board at different stages of the process, to allow for a change in direction.
- Presentations in a champion/challenger format to provide directors with analysis of the debate.
- Complex issues may warrant pre-board discussions.
- Agreeing a set of key performance indicators for financial and management information (MI) and performance against strategic milestones.
- A mix of diagrams and narrative – in a board team, individuals will have different ways of absorbing information.
- Recognising the valuable role the Company Secretary can play in:
    - ensuring that there is appropriate training for those writing papers and understanding what information is useful for directors and why their constructive challenge is important.
    - providing template board papers with a need to state the purpose of the paper; a succinct summary of issues; the decision that is required from directors; headings for consideration of s172(1) Companies Act 2006 requirements.



"The need for shorter, more regular board meetings through the Covid crisis may well drive change in accessibility of information."

There did not appear to be an appetite to move away from board papers altogether, although it was recognised that some companies, particularly in the digital and media space, may have cost effective facilities to impart information in different ways.

Perhaps live and pre-recorded audio and video communication will become more common across all sectors as a result of recent experience of remote working, and be a useful communication tool across organisations including the boardroom.

It was admitted that sometimes the best discussions happen without board papers – during walking tours of facilities; board breakfasts, etc. – but, particularly with limits on using these formats going forward, the important governance role (particularly in regulated companies) of the board papers recording information is hard to overlook. It was recognised that there is benefit in designing MI to be widely used through the organisation and not just for the board, but that allowing directors to have direct access to "live" MI could come with the risk of misinterpretation of assumptions.

Sam Moore, Innovation Manager at Burness Paull agrees there is value in looking at how we share information:

"Making well-reasoned and suitable decisions relies on quality data and information being available, as well as being accessible. With greater adoption of remote working there is a need for faster adoption of digital technologies, and potentially a need for many businesses to fundamentally rethink their data strategies."

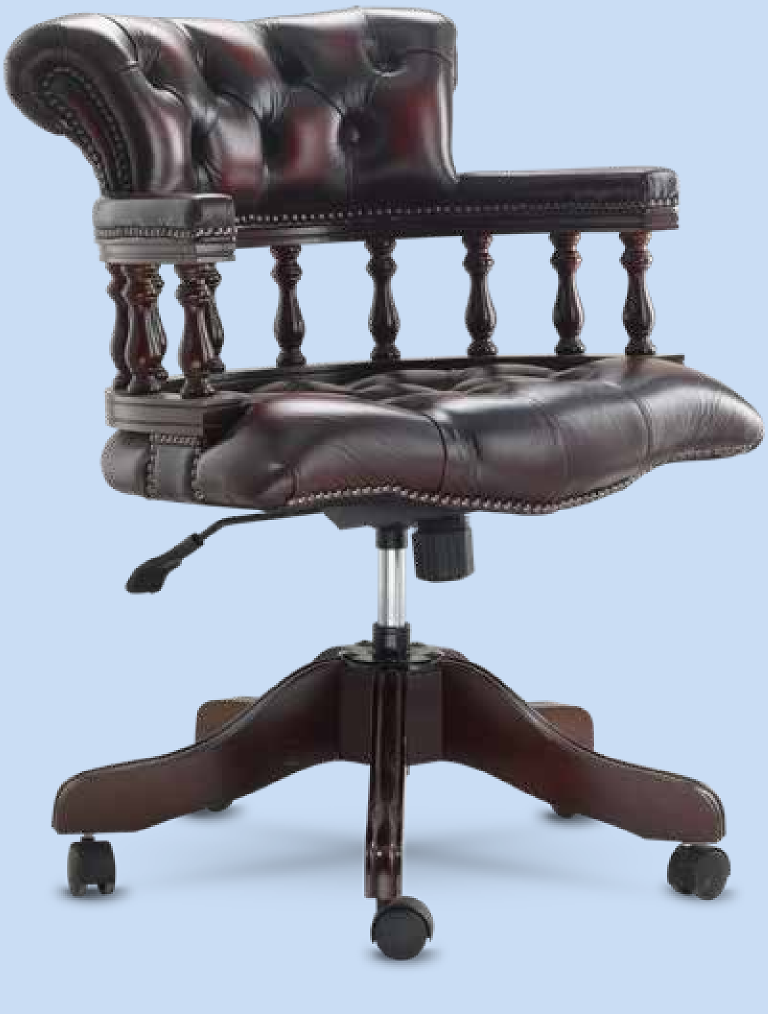
Sam Moore

INNOVATION MANAGER AT BURNESS PAULL

Conclusion

It appears that the traditional board paper is likely to be with us for some time, albeit that there will be a continuing need to ensure that information is of a high quality to facilitate the best debate and most efficient use of directors' time. If there is to be an increase in virtual board meetings, where clear communication of material is an obvious advantage, then boards should ensure they don't overlook new technologies that could assist and invest in them appropriately, or be left behind.

“We are at a point where things really do need to change. The principles of good governance do work – they bring clarity and responsibility. The reporting is the issue”



Part 4

MANAGING REGULATION & REPORTING

An important principle of good governance is that companies are accountable to shareholders and stakeholders. Regulators in certain sectors provide additional oversight to protect consumers. These sound principles are not disputed, but the practical reporting methods appear to frustrate the reporting companies and lack meaning and real value for the investors.

Listed company reporting is still described as highly onerous, with some contributors sharing that significant shareholders value face to face (or equivalent) meetings over reading lengthy reports. Smaller retail shareholders and some stakeholders can be intimidated by reporting leaving analysts, brokers and sector regulators as those most likely to review the detail of reporting and look beyond the numbers alone.

There was scepticism about the ability to explain non-compliance with the new Code provisions, as this attracted criticism from shareholders. While there are fewer principles to apply in the new Code, contributors explained that much time is still spent providing evidence of compliance with provisions. The introduction to the new Code encouraged “boards to use this [comply or explain] flexibility wisely and of investors and their advisors to assess differing company approaches thoughtfully”. We may have some way to go to build trust and achieve that desire. Most companies describe regulatory compliance and reporting as a necessary overhead cost rather than an activity that adds a corresponding value to the organisation.

One contributor encouraged others to lobby government, participate in consultations and try to influence regulation. Regulation will not be removed and is likely to change and possibly increase in the future following a similar pattern to previous years. Once in place, there is little companies can do but embrace regulation and use the financial and governance standards to enhance the way business is performed.

Conclusion

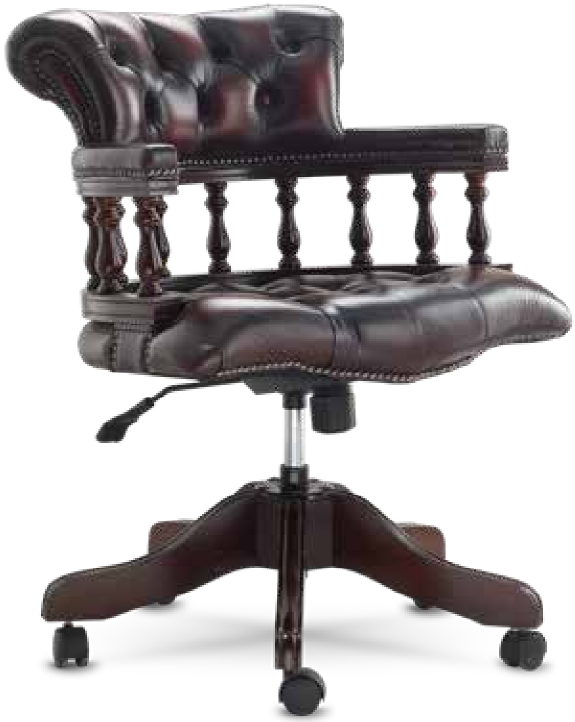
This is a complex area where participants expressed concern about the time-consuming nature of reporting rather than the practical application of principles of good governance which are supported. It appears that more work needs to be done to develop meaningful and efficient reporting between listed companies and their shareholders and stakeholders.

Gary Gray, Head of Governance & Company Secretarial at Burness Paull comments:

"The balance between time-intensive reporting and meaningful output to stakeholders is a definite challenge that all listed companies face, and it's difficult to see how it can be improved without greater innovation and overall time investment in the process – something which companies may be reticent to do when the burden is already substantial. Companies must embrace the challenge of greater stakeholder engagement and make the reporting process more meaningful to all involved, aiming to deliver a report that truly informs."

Gary Gray

HEAD OF GOVERNANCE &
COMPANY SECRETARIAL AT BURNESS PAULL



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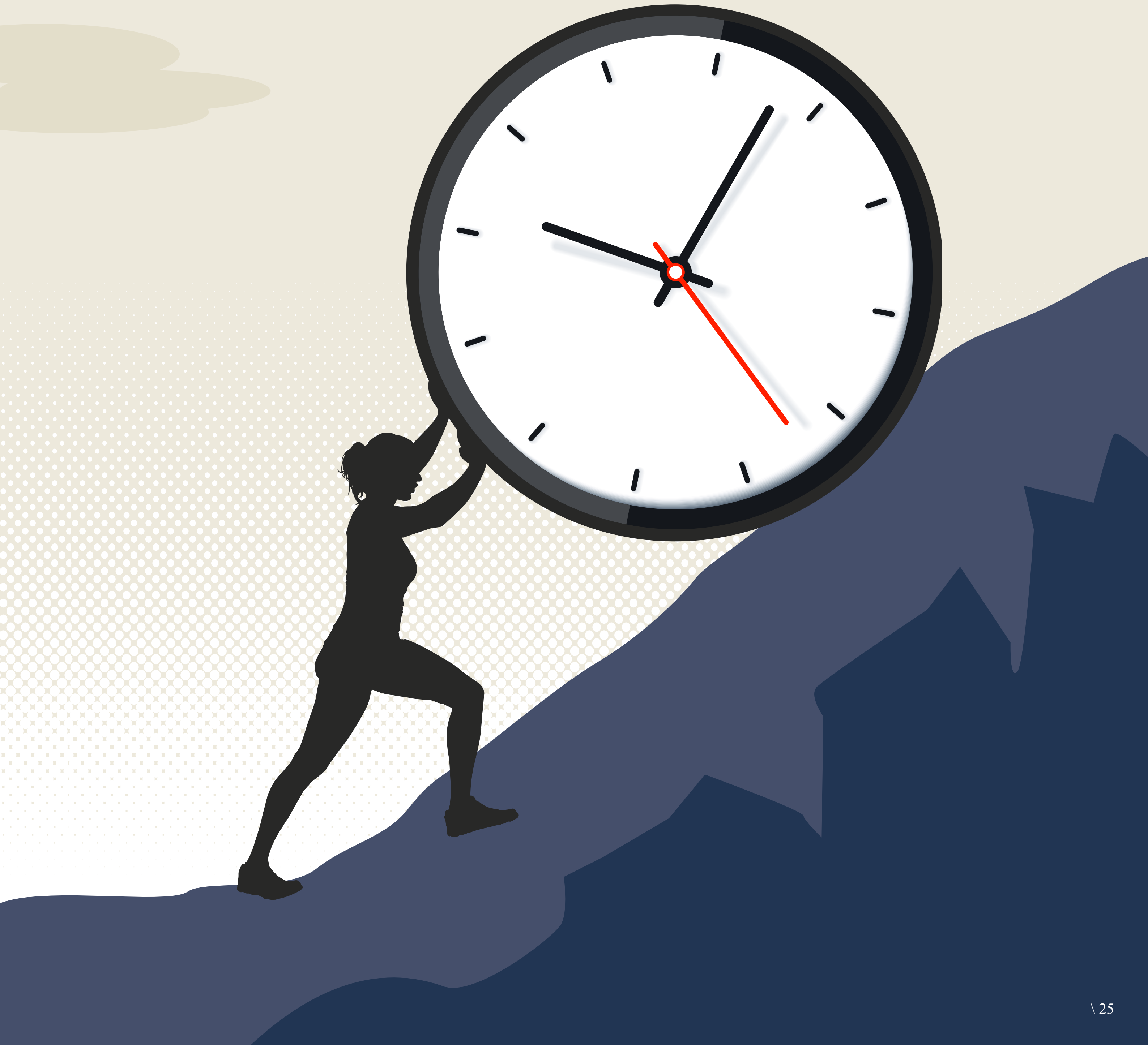
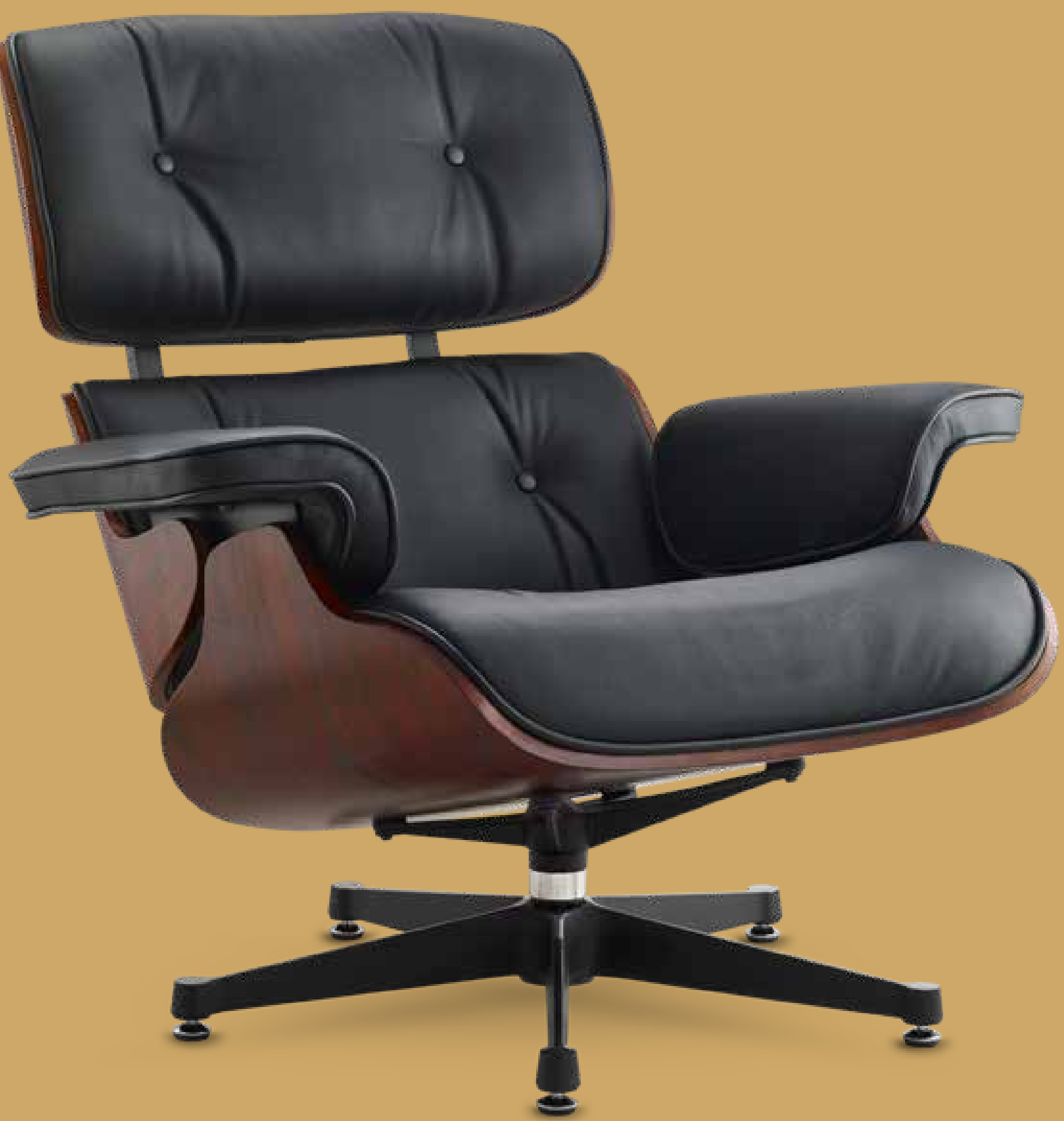


"There's quite a lot of lip service paid to culture – it's easy for the Execs to pull the wool over the eyes of the NEDs."



Part 5

INVOLVING STAKEHOLDERS AND MONITORING CULTURE

Ahead of the seismic shifts caused by COVID-19 in terms of how businesses interact with their employees and customers, directors had already been challenged by recent governance changes*, increasing the emphasis on stakeholder communication in general and workforce communication in particular. Importantly, boards are also required to monitor culture within the organisation.

Through the experience of COVID-19, not only have organisations seen the value of strong stakeholder relationships, but they have experienced the need for boards, staff and working practices to be both flexible and robust enough to cope with extreme change and uncertainty. Strong governance structures are essential in times of crisis when quicker decision-making can sometimes result in unacceptable risk. The "one step removed" non-executive director certainly has a role here.

Even before COVID-19, most of our contributors shared that they found communication with wider stakeholder groups, like regulators, customers, suppliers, the community and environmental groups easy because this was already built into business practice, with stakeholder mapping being widely used. Some, with less obvious environmental issues, considered they still had work to do to satisfy the increasing focus on the environment and climate change.

*Wates – guidance supporting Principle 1: The board, shareholders and management must make and maintain a commitment to embedding the desired culture throughout the organisation.

New Code. Provision 2: The board should assess and monitor culture.

Provision 5: The board should understand the views of the company's other key stakeholders...for engagement with the workforce one or a combination of... [three] methods should be used.

Some examples of effective communication with the workforce included:

- Effective use of technology, allowing more direct communication with directors ("ask the CEO" messaging).
- Non-executive director only sessions with staff over working lunches.
- Effective staff surveys and reporting of employee issues.
- Regular board attendance by senior management responsible for human resources.
- Non-executive led forums for discussions and subsequent reporting back to the board.

Getting to the core of culture

The main challenge appears to lie with the need to assess and monitor culture and if employee communication is sufficient. There was a sense that non-executive directors are reliant on executive directors to advise them openly and honestly about the culture within the organisation. Many acknowledged that regular staff surveys were helpful, but work had to be done outside the boardroom to "get under the skin" of culture and it was considered that a good non-executive director could achieve this.

Some believed that while the board were the custodians who set culture, it was largely driven by the executives. Some considered that the CEO was so closely linked to culture that if a board decided the culture was wrong it may require the removal of the CEO. Certainly, the executives had to be held to account to deliver the desired culture. It was agreed that more mechanisms need to be found for measuring culture to assist boards in monitoring this area.

Interestingly, some contributors shared that communication with remote employees through COVID-19 provided more opportunity for directors to join as observers to witness first-hand the employees' dialogue. Perhaps this is one of many things that will evolve as a result of prolonged remote working, experienced by vast numbers in certain types of workforce. Instead of being the exception, it has been the norm.

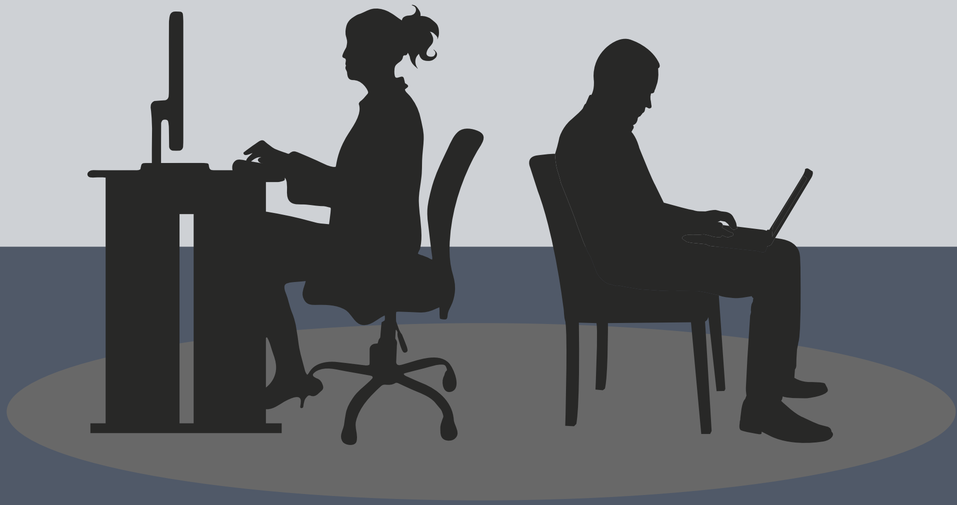
Morag Hutchison

EMPLOYMENT PARTNER AT BURNESS PAULL

Morag Hutchison, Employment Partner at Burness Paull commented:

"It is interesting to look back now to the Conservative party manifesto in 2019, where they committed to making it the default that employees could work flexibly not knowing

“Many of the directors we spoke to have said their organisations will certainly now explore a permanent move to flexible working between home and office…”



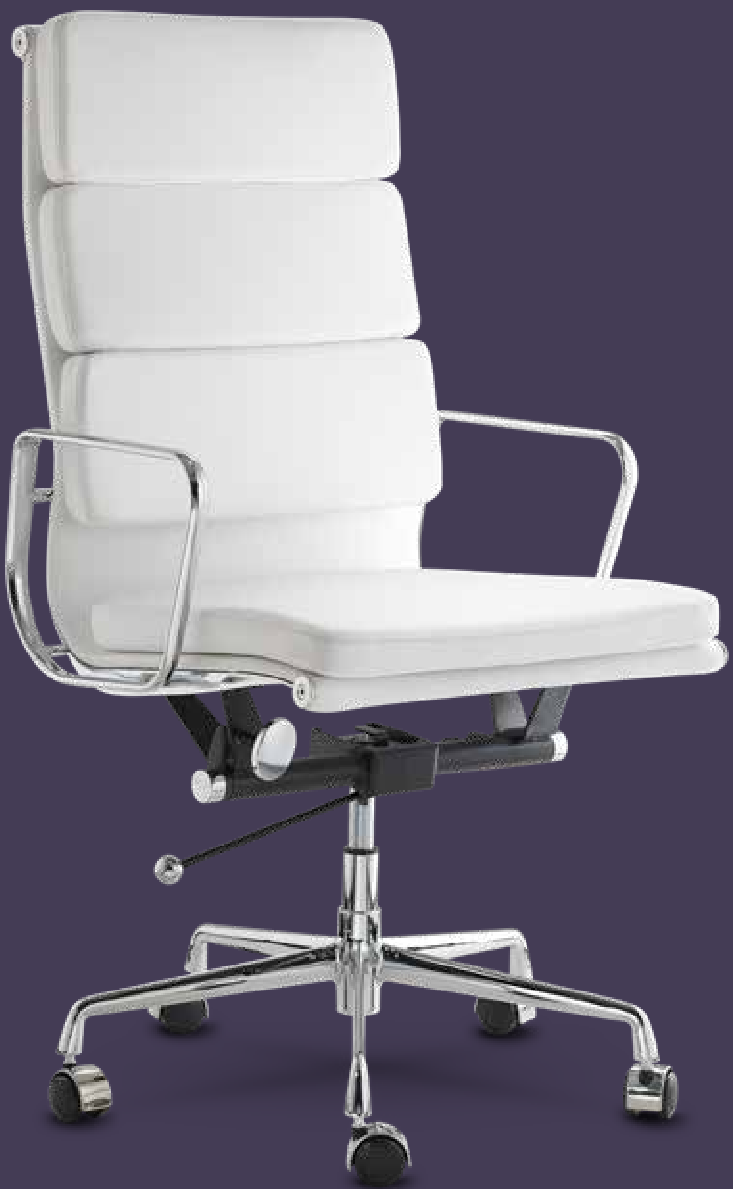
what was coming. There is apparently widespread support amongst Government ministers to legislate so that there is a presumption in favour of flexible working, including homeworking, and it will be for employers to make the case for restricted flexibility where they feel they need to.”

Requests for flexible working will of course now have demonstrable experience to support them, which could be helpful for working parents and many others. Many of the directors we spoke to have said their organisations will certainly now explore a permanent move to flexible working between home and office where work allows. Employee preference and employee wellbeing are likely to favour at least some office work, but we can be in no doubt that working practices will change as a result of recent experience. That may also change the culture of organisations and also how directors monitor that culture. Organisations have, by necessity, made changes to working practices (some technological changes) that will be of long-term benefit, even though they arose as a result of a crisis.

Conclusion

Aside from the challenge of monitoring culture, contributors were finding communication, or increased communication, with stakeholders of benefit pre-COVID-19 and essential during the crisis. Input from the workforce, and young people, was a valuable dialogue which helped the board understand the need to adapt values to attract and retain younger generations, while exploring with them the constraints that organisations also have to take into account.

"People tend to waffle less when not in person."



Part 6

ADAPTING THE BOARDROOM FORMAT

While companies will have experienced immense innovation and development in processes and ways of working over many years, they have not until recently seen any significant change in the way directors meet to make decisions. It has always been predominantly face-to-face around a boardroom table, six to ten times per year. Is that because we lacked imagination in this area of business, or because the model was the best it could be? Perhaps we thought it was, but if anything has challenged that thinking it has been the need for virtual meetings due to COVID-19 restrictions.

As we started our research in this area, all participants recognised the huge benefit of face-to-face meetings for developing relationships, teamwork and a deep understanding of individual emotional intelligence and behaviour. All of these were cited as essential to enable a board to operate effectively. It is important to be able to read body language and to sense the tone in the room when deciding complex matters. The informal dinners and the chats over coffee are invaluable for relationship-building and for learning more about the business. Visibility of the board at different operational sites was also an important factor. Meeting technology was considered insufficient to allow boards to truly replicate a face-to-face meeting and unless it was developed substantially, participants did not see a move from the majority of meetings being gatherings in person.

However, there was consideration of the pressure that companies, particularly those publicly listed, will come under due to climate change and their response to environmental issues - and some participants described how their companies were starting to make wider use of technology for meetings and wider workforce communication.

And there the debate rested on 23 March 2020, when the Prime Minister addressed us and, due to the COVID-19 pandemic, instructed the entire UK workforce to work from home, unless essentially required in the workplace.

Many boards have now conducted a number of virtual meetings and contributors were able to share good and bad experiences (beyond the technical requirements for good broadband):

- Meetings longer than two hours are less effective and time should be planned for breaks.
- Meetings have been shorter because they are more focused and efficient, concentrating on key issues. However, with this benefit, there is a concern that proper challenge is being lost.
- The Chair must be very directive and a clear system for who speaks next is required. If not, this reduces the flow and development of discussion.
- Dominant directors have more ability to take over, adding to the challenge facing the Chair.
- A fully virtual meeting has an inclusive nature which is different from one or two participants joining remotely, and boards planning a mix of face-to-face and remote meetings in future should remember this.
- New directors joining find the meetings more challenging when they have not yet met colleagues face-to-face.

Embracing the virtual environment

Contributors spoken to post-lockdown believe we will move to a blended approach to meeting formats. Directors are identifying certain types of meetings that lend themselves to the virtual meeting platforms, such as committees or more routine business. It is still unlikely that we will never have face-to-face meetings for all the benefits these provide as stated earlier, but we will develop new business practices from our lockdown experience and the environmental benefits will gain traction as a result.

Other technological advances were discussed, including the extent to which Artificial Intelligence (AI) could be adopted to assist with minutes of meetings. Most participants noted the wide purpose of minutes for the benefit of the company, directors, to be shared with regulators and sometimes other stakeholders and were concerned that recording meetings or introducing AI could lose the benefit of the carefully-nuanced minute of a meeting. A verbatim record of a meeting is very rarely what is wanted.

The majority of participants recognised the benefits of boardroom tablets, but companies with fewer meetings to administer still did not find them cost-effective and had introduced other electronic work-arounds. There was some concern that these methods simply masked the volume of material that is shared with directors.

"It brings to mind a football analogy – the team may not play well for a number of reasons: poor player performance; poor manager; poor relationships; wrong skillset. That doesn't mean we shouldn't still have 11 players on the pitch and play the traditional game."

Callum Sinclair, Head of Technology & Commercial, Burness Paull commented::

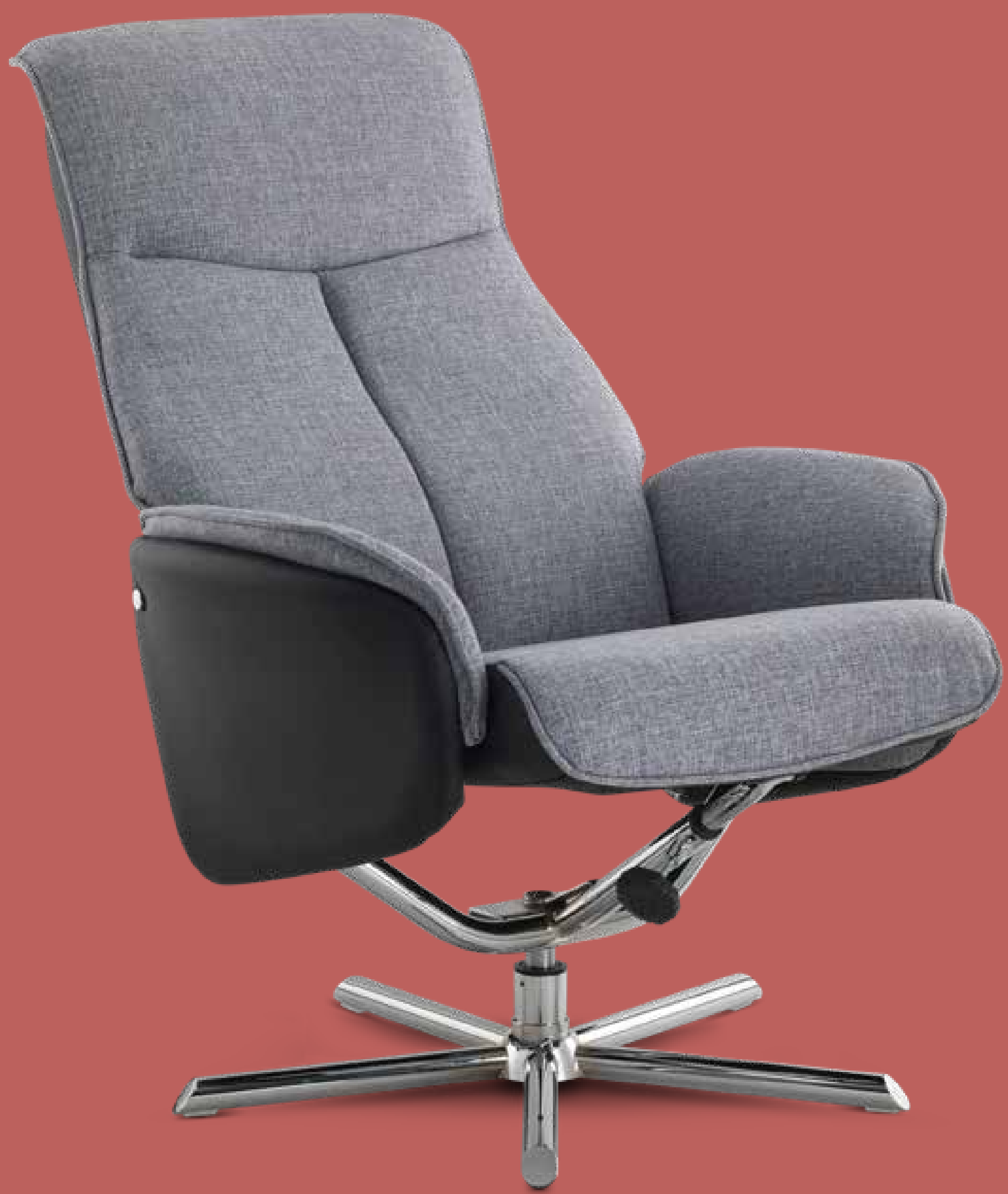
"Whilst not without its challenges, it is clear that technology will have a pivotal role to play in boards of the future. As well as facilitating board administration, boards will also be called upon to hold businesses to account in key areas of technology investment, which in turn will require a deeper understanding of the underlying technologies themselves. This may open the door to younger board members, and require upskilling of others."

Callum Sinclair

HEAD OF TECHNOLOGY & COMMERCIAL AT BURNESS PAULL

Coming back to the theme of collective intelligence, it was agreed that we certainly could learn from the younger generation, who communicate differently. With the average directors being in their late fifties, it is unlikely that these mature readers of board papers will drive change. The volume of material that is being shared with directors for board meetings has reached an unacceptable level in most large listed companies. This was the area where participants identified the greatest need for change. The traditional board meeting is still appropriate but there is a place for it being mixed with more virtual meetings and there is a growing need to improve board material - predominantly lengthy narrative papers. Noting one contributor's football analogy – it's not about the traditional boardroom format, it's about the board team making it happen.

"Businesses have proven to be so adaptable in recent months and boardrooms in the future will surely be influenced by that agility."



Part 7

WHAT NEXT?

Companies and businesses always learn from and change as a result of crises, but we are still establishing what the impact will be of the pandemic that has affected every business and sector.

Recent months have brought a number of challenges into focus and accelerated change.

New business practices are currently evolving and there is undoubtedly an opportunity to take stock, shape the future and also address some wider underlying issues such as diversity, culture and climate change.

Smart boardrooms of the future must address the following challenges:

- **WORKLOAD:**
  The agenda already includes a wide variety of topics for boards to address. The pressure on the crowded agenda will only increase. Boards need to continue to find efficient ways to manage their time together, use good performance management information and awareness of principal risks to inform the way ahead and maintain that forward looking vision.

- **CREATING DIVERSE TEAMS:**
  The director role comes with a high level of responsibility and accountability and demands wide skills, individually and collectively as a board. There are sufficient capable individuals to serve the corporate community, but work needs to be done to ensure that the risk/reward balance is correct and that boards of the future are constructed with the widest definition of diversity in mind.

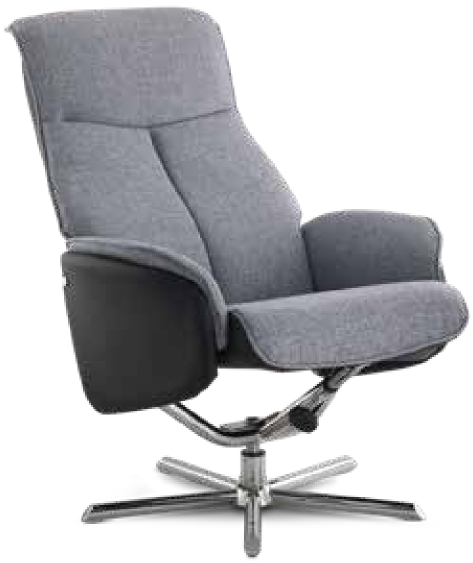
cont.

› **BEING WELL INFORMED:**
The traditional board paper is likely to be with us for some time, albeit that there will be a continuing need to ensure that information is of a high quality to facilitate the best debate and most efficient use of directors' time. This is particularly the case if, as can be expected, there is an increase in virtual board meetings where clear communication of material is proving to be an advantage.

› **REGULATORY REPORTING:**
Concern remains about the time-consuming nature of reporting rather than the practical application of principles of good governance which are supported. It appears that more work needs to be done to develop meaningful and efficient reporting between listed companies and their shareholders and stakeholders, innovating with the representation of information.

› **STAKEHOLDER AWARENESS AND MONITORING CULTURE:**
Aside from the challenge of monitoring culture, boards benefit from good communication, or increased communication, with stakeholders which is proving to be essential during the COVID-19 pandemic. There is a particular desire to continue to develop good workforce communication and learning from different generations.

› **BOARDROOM FORMAT:**
There is an appetite to find ways to move from lengthy narrative board packs with innovation most likely to come from the next generations. The traditional face-to-face meeting was absolutely preferred pre-COVID, but essential remote meetings in recent months have demonstrated the benefits of the format and a mix is likely to develop which will save travel time for directors and benefit the environment.



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Beatson Cancer Charity

Cell and Gene Therapy Catapult

Cruden Homes

Edinburgh Airport Limited

High Speed Two (HS2) Limited

High Value Manufacturing Catapult

Highland Spring Limited

hub West Scotland

Iberdrola SA

Iomart Group plc

Livingstone James Group

McInroy & Wood Limited

Murgitroyd & Company Ltd

National Theatre of Scotland

NHS Tayside

Nucleus Financial Group plc

Office for the Secretary of State for Scotland

Offshore Renewable Energy Catapult

Scottish Ensemble

Scottish Government's Energy Advisory Board

Scottish Leather Group Limited

Scottish Power Limited

Scottish Water

SSE Enterprise Limited

Standard Life Aberdeen plc

STV Group plc

The Circle Dundee

The North British Distillery Company Ltd

The Robertson Trust

The Royal Lyceum Theatre Company Limited

The Water Industry Commission for Scotland

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