

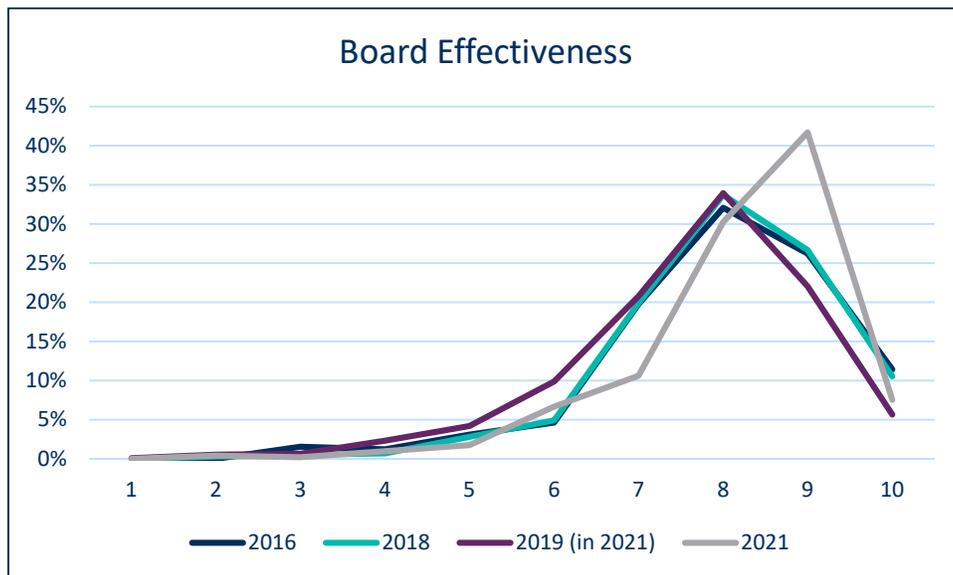
The Boardroom Boost

While the events of the last two years brought some companies to their breaking points, it seems to have had the opposite effect on many corporate boards.

Working with our colleagues at Russell Reynolds Associates, we recently completed our third global Board Culture and Director Behaviors study, which includes a comprehensive survey completed by over 1000 corporate directors around the world. Part of the research included asking directors to evaluate their board’s effectiveness on a scale of 1-10 (with a 10 being an effective board that understands its roles and responsibilities to all stakeholders and performs them to a very high level), and to do the same regarding the board’s culture (with 10 being the most engaging, professional, and productive board culture).

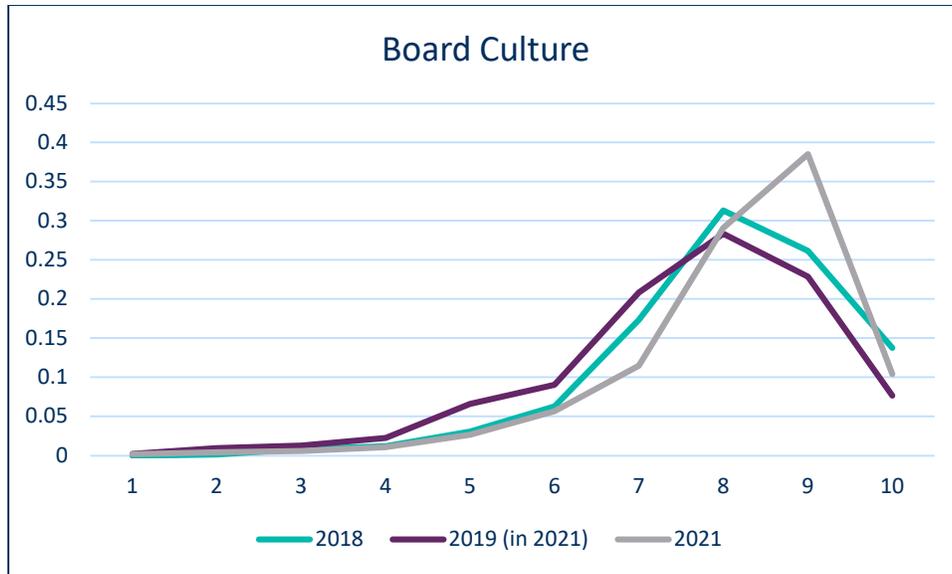
(In the common situation where a director serves on more than one corporate board, they were asked to answer all questions from the perspective of the board on which they have served the longest.)

Earlier iterations of our survey in 2016 and 2018 resulted in similar director ratings on board effectiveness. And, when we asked directors in late 2021 to look back and rate their board as it was in 2019, the data was again nearly the same as in previous years, indicating consistent levels of board effectiveness over a half decade, if not longer. However, when we then asked directors to rate their board at present, the ratings jumped:



SOURCE: Russell Reynolds Associates’ Global Board Culture and Director Behaviors Survey. “On a scale of 1–10, how would you rate this board’s effectiveness (with a 10 being an effective board that understands its roles and responsibilities to all stakeholders and performs them to a very high level)?” N=1049 in 2021, 750 in 2018, and 324 in 2016.

Though we didn’t ask the question in 2016, the data on board culture follows a similar pattern: consistent results in past years, and then a significant jump in 2021:



SOURCE: Russell Reynolds Associates' Global Board Culture and Director Behaviors Survey. "On a scale of 1-10, how would you rate this board's culture (with 10 being the most engaging, professional and productive board culture)?" N=1038 in 2021 and 750 in 2018.

Why are we seeing this change? Based on our work with boards, we believe it is a combination of two main factors:

1. **Boards are focusing more on what matters most.** Our research in 2018 highlighted that Gold Medal Boards – those that are rated as highly effective, and which oversee a company that outperforms total shareholder return benchmarks for multiple consecutive years – are more likely to focus on forward-looking, value-creating activities, and less on backward-looking, compliance or review activities. Directors overall this year reported focusing on just those areas: The areas where directors reported spending the most time included strategic planning, operational performance, pandemic/COVID-19 response strategy, and oversight of major transactions. Audit and compliance reviews both fell in the rankings. And though lower down the list, sustainability, purpose, and social value all increased relative to 2018. It is little surprise that boards act better, and perceive themselves as being better, when they are focused on what matters the most.
2. **Outside pressure is finally breaking through.** Activists, investors, and other stakeholders have all been placing increasing pressure on boards in recent years to improve their operations, in a belief that an efficient, effective board provides increased value to shareholders, as well as decreased risk exposure. It is likely that this pressure is starting to bring about tangible results in areas including the frequency and seriousness of full board and individual director assessments, enabling a clearer picture of strengths and growth opportunities; reduction in director overboarding, allowing increased focus on each board assignment; increased diversity, equity, and inclusion bringing a diversity of perspectives and insights to the boardroom; and an increased oversight of human capital management and corporate culture inside the enterprise, that has a knock on effect of increasing director attention on the board's own culture.

The 2022 Global Board Culture and Director Behaviors survey explored all of these issues in depth, along with a look at sustainability; risk; diversity, equity, and inclusion; and other emerging topics. We will continue to share the data and findings from this work throughout the year.

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