

Digital boards: How technology adoption is driving culture change and resiliency

Whitepaper produced by *Board Agenda* in association with Diligent



Overview

WHILE IT MAY be a little premature to suggest pre-pandemic economic optimism has returned, slowly emerging from what has been a testing two years is certainly an opportunity to see everything through a fresh lens. With the short-term economic outlook looking relatively good, at least according to KPMG¹, boardrooms can begin to plan with some assurance and also gauge what has and hasn't worked well in terms of communication and governance.

The way in which many companies reacted to the challenges of the pandemic needs to be lauded. Not unlike the “fight or flight” hormone rush in humans, businesses—with their backs against the wall—found a way to change quickly. Decision-making had to be accelerated to minimise disruption. Digital technologies had to be rapidly adopted to make remote working and remote meetings possible, ushering in a new era of business culture.

Today, with so many boardrooms already returning to face-to-face meetings—PwC claims² that 93% have already done so or intend to do so by the end of the year—the question now is what lessons have boardrooms learned from operating during a pandemic? What will they change to improve boardroom decision-making and governance in the future?

Post-mortems to assess performance are key. As Deloitte suggests in its report *The 2021 boardroom agenda: Never let a good crisis go to waste (and more)*³, companies need to look forward to determine where existing plans need improvement: “Boards should consider evaluating how they performed during the crisis. Was the board engaged in the pandemic response and related challenges? Did directors provide the necessary levels of support for management? Did they become too engaged in day-to-day crisis management rather than oversight? Are additional skill sets needed on the board?” asks the report.

What is certain is that despite some semblance of normality returning, the majority of companies will continue to embrace remote working. PwC's research also indicates that over half of company boards (54%) will continue to meet virtually some of the time and 34% of directors will have greater flexibility to choose their preferred method of participation.

Boardroom technology, which has made remote decision-making possible, will continue to evolve and drive capability in boards that require agility. But this also raises understandable questions and concerns around risk that need addressing. How can boards ensure data security and compliance? How can boards ensure remote access networks are not vulnerable to attack and that sensitive corporate information is seen on an “eyes only” basis?

The increased complexity of reporting and decision-making, emphasised by the growing importance of environmental and social governance (ESG), highlights the challenge facing directors. The need for a secure, agile and dynamic boardroom technology structure has never been more acute. While technology in the boardroom is now a fact of corporate life, it comes with caveats. Technology does not stand still. Competitive edge is won or lost on a company's ability to enable its decision-makers with digital tools and services that permit ongoing change and growth, not impede it. The pandemic has taught us that much.

¹ <https://assets.kpmg/content/dam/kpmg/uk/pdf/2021/06/kpmg-uk-economic-outlook-june-2021-report.pdf>

² <https://www.pwc.com/us/en/services/governance-insights-center/blog/directors-return-to-boardroom.html>

³ <https://www2.deloitte.com/us/en/pages/center-for-board-effectiveness/articles/the-2021-boardroom-agenda-never-let-a-good-crisis-go-to-waste-and-more.html>

How technology is transforming board communication



How times have changed. According to research in 2019, just before the Covid-19 pandemic struck, the idea of corporate resiliency was low on the boardroom agenda. McKinsey's *How boards have risen to the Covid-19 challenge, and what's next*⁴ claims that in 2019, "only one-fifth believed that a lack of corporate resilience was a significant challenge for their organisations. Among respondents who said resilience was a challenge, nearly half said their boards were unprepared to manage it."

Understanding the role secure boardroom communication plays in building resilience is key to understanding the value of boardroom technology. It wasn't so long ago that boardrooms were dominated by paper. As a 2019 Deloitte report, *Bringing digital to the boardroom*⁵ reveals; "though boards are paying more attention to digital transformation, their discussions tend to focus on the potential impacts that digital presents to the organisation as a whole. Rarely, if ever, do they consider the question of how digital transformation may affect the role of the board itself and how board members engage with each other and management."

Fast forward two years and the notion of resiliency is increasingly embedded within company rhetoric and the corporate agenda. The pandemic has taught businesses a thing or two about priorities and decision-making, and a big part of enabling that has been the proliferation of digital technology. With access to board papers, company information, market intelligence and secure communication regardless of location, boardrooms have started to witness an unprecedented level of flexibility.

⁴ <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/how-boards-have-risen-to-the-covid-19-challenge-and-whats-next>

⁵ https://www2.deloitte.com/content/dam/insights/us/articles/4937_Bringing-digital-to-the-boardroom/DI_bringing-digital-to-the-boardroom.pdf

To survive the past two years, boardrooms have had to accelerate their adoption of technology and with it, their communication culture. The ability to share ideas, collaborate on plans and make informed decisions, for example, is all very well, but boardrooms have had to embrace it quickly. With no in-person meetings allowed, virtual communications have become essential, everyday practice; but it's not been as simple as setting up a Slack channel or using Microsoft Teams or Zoom. Security and compliance challenges have had to be factored in when making a decision on which technologies to use.

"It's useful to think about technology that supports not just the board meeting but also helping directors to do their work as effectively and productively as possible," says Dottie Schindlinger, author of *Governance in the digital age* and executive director at the Diligent Institute⁶. "So, of course, you have to think about things like secure board communication platforms, where you can get all of your materials for upcoming board meetings, as well as communication tools that allow directors to communicate with one another securely, in one place."

As many boards witnessed during the pandemic, tools like these revolutionised communication. But as boards now look forward and return to in-person meetings, it's important to see these tools not as replacements for face-to-face communications but enhancing boards' overall communication capability.

As McKinsey found in its research⁷, 45% of boards invested in technology to enable remote collaboration as a result of the pandemic, with 36% also seeing this as an opportunity to increase collaboration with senior management. Interestingly, about a third (%) also increased the communication frequency between the board and senior management, with "strategy" and "flexibility" now key topics for future agendas.

Hiring and onboarding: The search for a new CEO

Dottie Schindlinger, author of *Governance in the digital age* and executive director at the Diligent Institute⁸, also serves on the board of a not-for-profit. In June 2020, in the midst of the pandemic, the not-for-profit's CEO announced she intended to retire at the end of the year, triggering a search and selection process for a new CEO.

"It wasn't something we had expected to have to do in the middle of pandemic shutdowns," says Schindlinger, "so, we found ourselves using our secure board platform in ways we never anticipated. This included sharing very confidential information about the candidates that we were reviewing and organising the work of the search committee, which began meeting weekly, because we had such a short timeframe to make the hire."

With all information about candidates stored on the platform, board members had the ability, remotely, to complete the search for a candidate, interview, appoint and onboard the new CEO in record times.

"It was really quite fascinating to see how all of that was possible, because we had one place where we can connect, and everything was secure, and everything was being maintained and in an appropriate fashion."

⁶ <https://learn.diligent.com/AdaptingDigitalAge-BoardEffectivenessReplay.html>

⁷ <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/how-boards-have-risen-to-the-covid-19-challenge-and-whats-next>

⁸ <https://learn.diligent.com/AdaptingDigitalAge-BoardEffectivenessReplay.html>

Boards and the critical role of information access

One of the biggest business killers is complexity. With the rapid digitalisation of businesses during the pandemic and the inevitable shift in processes to accommodate new ways of working, organisations have had to adapt quickly. Changing regulations, evolving governance roles and shifts in market demands and competition have only added to the overall boardroom burden.

McKinsey's *Nine keys to becoming a future-ready company*⁹, illustrates the challenge facing many boardrooms today:

“As the business environment has become more complex and interconnected in recent years, many companies have mirrored these changes in their organisational structures, creating an ever-more convoluted matrix. Unwittingly, they are betting on organisational complexity to solve market complexity. This is a losing bet. Future-ready organisations, by contrast, structure themselves in ways that make them fitter, flatter, faster, and far better at unlocking considerable value.”

To meet these growing challenges and varying demands of the business, boardrooms have to distribute responsibilities across specialist committees, covering financial, as well as non-financial issues. For any business, this demands an incredible level of information management and organisation.

Managing information flow has been a perennial challenge for boards, both in terms of relevant content and also security. According to Patrice McDonald, a non-executive director at TD Bank and The Davy Group among others, the company secretary role is crucial here¹⁰.

“If you can't see the wood for the trees because you're being flooded with information, you have to say 'stop, enough' and push back. I think I can judge how seriously a firm takes its governance by the investment that they make in the technology around it but also by the quality of the company secretary. They do have a huge sort of 'gatekeeper' role.”

It is this combination of good company secretary and a digital platform that can help manage the sometimes overwhelming flow of information. This enables a controlled distribution of relevant board materials, including meeting agendas, annotations, documents, discussions and meeting minutes. It means that regardless of location and preferred device access, boards always have the latest, relevant information and an ability to act on that information as and when they are required to do so.

⁹ <https://www.mckinsey.com/business-functions/organization/our-insights/organizing-for-the-future-nine-keys-to-becoming-a-future-ready-company>

¹⁰ <https://learn.diligent.com/AdaptingDigitalAge-BoardEffectivenessReplay.html>

The effect of digitalisation on governance practices

“Good governance is about good decision-making,” says McDonald. “You need to demand the information required to make those decisions.”

That information, she adds, has to be relevant too. There is no need to send a 900-page report to everyone if a summary is sufficient. It’s about knowing the individual roles and requirements of each board member and gearing information accordingly.

The challenge is multi-faceted. Expectations of board members are changing, and, as Deloitte suggests¹¹, blurring with management responsibilities. This is putting additional pressures on board members to be better informed in their roles and to have instant, real-time access to information on factors such as regulation and market intelligence.

As the board’s needs evolve to meet these growing and increasingly varied requirements of business, the challenge for the company secretary is how to manage not just the information flow but the very nature of the boardroom itself. How do you keep directors and committees on track, compliant and continually focused on improving performance? How do you continually evaluate the effectiveness of boards and board members without being too intrusive?

The ability to manage and assess boardroom structure is as important as the information being shared. By enabling collaboration and interactivity and evaluating the impact, potential skills or knowledge gaps, company secretaries have a much better chance of ensuring board members are adding value to the company. After all, the days of static boardrooms are going. Boards now have to be more agile, more fluid, more diverse and constantly evolving.

Without digitalisation this is impossible. The sheer scale of data required to manage the information flow and structure of multiple members, sub-committees, reports and so on, puts it out of reach of manual processes. Technology is needed to help not just manage these processes but also to assess board governance. Digitalisation has enabled a level of scrutiny and support that was previously not possible through manual processes.

This has had a transformative effect already on the administrative burden of boards. Technology has brought efficiency to boardrooms but it has also enabled improved governance. As Isabel Aguilera, independent director and associate professor at ESADE in Barcelona says¹², “technology is enabling board members to make better decisions. That has to be the ultimate goal.”

Schindlinger adds: “Companies have to provide the best possible tools that they can for their board members, to make it easier, to participate in that process with the directors, to make the best decisions possible for the company.”

As good board governance is essential for company stability, risk management and shareholder value, the role of technology in sharing information and providing interactivity with board committees and subsidiary boards becomes crucial. Poor governance can kill a business, and in our modern digital world, ignoring the advances of digital tools is no longer worth the risk.

¹¹ https://www2.deloitte.com/content/dam/insights/us/articles/4937_Bringing-digital-to-the-boardroom/DI_bringing-digital-to-the-boardroom.pdf

¹² <https://learn.diligent.com/AdaptingDigitalAge-BoardEffectivenessReplay.html>

Technology, ESG and the rise of modern governance



“Corporate responsibility for managing climate change as a long-term, material financial risk has gained traction in markets that have previously resisted it,” according to a Russell Reynolds report *2021 Global and regional trends in corporate governance*¹³.

This shift in thinking has been steadily gaining traction. As PwC recently reported¹⁴, 45% of directors said ESG issues were regularly a part of boardroom discussions in 2020 compared with 34% the previous year. The numbers for 2021 are expected to accelerate given high-profile weather incidents around the world impacting supply chains and production.

It's not just environmental issues that are topping the non-financial agendas of boardrooms. Russell Reynolds' report indicates that other issues such as diversity, equity and inclusion (DE&I), sustainability reporting standards, virtual working and human capital management all feature heavily as company concerns.

It's a view supported by Deloitte's report, *The 2021 boardroom agenda: Never let a good crisis go to waste (and more)*¹⁵ which claims that stakeholders, including investors, workers, and customers, continue to demand attention to diversity, equity and inclusion, for example, to address both reputational and cultural risk for the company and its workforce.

¹³ <https://www.russellreynolds.com/insights/thought-leadership/2021-global-and-regional-trends-in-corporate-governance>

¹⁴ <https://www.pwc.com/us/en/services/governance-insights-center/library/esg-corporate-directors-guide.html>

¹⁵ <https://www2.deloitte.com/us/en/pages/center-for-board-effectiveness/articles/the-2021-boardroom-agenda-never-let-a-good-crisis-go-to-waste-and-more.html>

How do boards gain better visibility around these key environmental, social and governance metrics? Which aspects are relevant to the company and what can boards do to improve overall ESG performance and compliance?

As Schindlinger points out¹⁶, so many of these issues have data surrounding them, within the company, from across various departments. The intelligence is there but the challenge is how to harness that data and use it?

“The board needs to have some level of oversight to ensure that the commitments the company is making are being upheld,” she says. “And so, you know, you can use these tools to gather that information and to report out on that information in a high-level way... that allows the board to make the kinds of decisions that it needs to make from a strategic level.”

There is still some way to go. As PwC reveals¹⁷, directors need more expertise in ESG, with only around half of companies surveyed claiming their board fully understands the issues.

“Well-meaning boards may think reserving a spot for diversity, equity, and inclusion (DE&I) topics on their agenda is enough to drive eventual change. It’s not,” says PwC. “Corporate directors can’t assess what’s not being measured, so asking management for the right data is imperative in establishing a baseline and making meaningful change.”

The same can be said for all ESG issues and the challenge for boards is how to ask the right questions and apply measures based on actual company requirements. As well as streamlined data collection and management, boards need digital tools to help add context to data, and measure company performance against established metrics required by regulators.

Given the evolving nature of these issues, boards also face ongoing change, so it is imperative they can keep up with developments as and when they happen, and apply them to the company ESG strategy. This is where technology can have a significant role by automating the process, measuring corporate performance on ESG against company goals and external measures.

As ESG continues to evolve from a reputational factor to a core strategy that can add value and resiliency to a business, so the board needs to evolve too. As PwC says¹⁸, “creating an ESG report can be challenging,” so the more help from data, digital tools and automation the better.

¹⁶ <https://learn.diligent.com/AdaptingDigitalAge-BoardEffectivenessReplay.html>

¹⁷ <https://www.pwc.com/us/en/services/governance-insights-center/esg-in-the-boardroom.html>

¹⁸ <https://www.pwc.com/sk/en/environmental-social-and-corporate-governance-esg/esg-reporting.html>

Technology, risk management and business continuity



“Cyber risk is a massive problem,” says Schindlinger¹⁹. “It represents a huge material risk for every organisation, no matter whether it’s a large or small company or a non-profit, or even a government agency.”

According to the *Accenture cyber threat intelligence report 2021*²⁰, the threat is only getting worse as criminals advance and change tactics to try and beat corporate defences.

“Ransomware actors are expanding data leak extortion, devising new methods to pressure victims. Their creative approaches are hitting home as they place operational resilience—already tested by the disruptive forces of the pandemic—under increased pressure.”

For boards, cyber threats represent a major risk, especially following the rapid digital transformations across organisations to enable teams to work remotely. The inevitable growth in devices accessing corporate networks only increases the risk. For boards this means two things—how can they ensure their own use of technology is secure and therefore compliant with industry regulations, and how can they ensure the company adheres to a comprehensive cybersecurity strategy?

“Effective corporate governance must start with the directors’ ability to understand the issues and risks the organisation is facing today and into the future,” says Accenture’s report, *2021 Vision: Best boardroom practices in digital and cybersecurity governance*²¹. “Cybersecurity risk is commonly viewed as one of the things that can go wrong with any digital business system, eg., a data breach. But digital risk also encompasses the strategic opportunity risk of digital tools and how they can drive business value: If an organisation isn’t aggressive enough in implementing new technology it is at risk of disruption from competitors.”

¹⁹ <https://learn.diligent.com/AdaptingDigitalAge-BoardEffectivenessReplay.html>

²⁰ https://www.accenture.com/_acnmedia/PDF-158/Accenture-2021-Cyber-Threat-Intelligence-Report.pdf

²¹ <https://www.accenture.com/us-en/blogs/security/best-boardroom-practices-digital-cybersecurity-governance>

For boardrooms, it is essential that there is cyber risk knowledge to ask the right questions when it comes to a company implementing new technologies. After all, the costs to businesses, both in terms of financial and reputational damage, are considerable. There have been some very high-profile examples of data breaches and fines in recent years²², while the UK's Information Commissioner's Office (ICO) issued a record £42m in fines during the financial year 2020/21, representing a 1580% increase on the previous year²³.

"You don't need to be an expert on technology to be a board member," says Aguilera²⁴, who worked on a board that suffered a cyber-attack during the pandemic, "but you do need to have the procedures in place for before, during and after the attack, to recover the business with minimal disruption."

It's a challenge for boards to mitigate cyber risk, especially at a time when technology has been so crucial in enabling boards and businesses to function remotely. But technology can also transform the board's ability to protect sensitive information and their organisations from cyber-attacks. Understanding security best practice is key as not all cyber threats are external—one report²⁵ suggests internal incidents, whether accidental or malicious, account for 22% of threats. Avoiding unnecessary loss of data through internal negligence, for example can reduce threats but that demands training and a mechanism for recovering data.

"Every board member should be aware that cybersecurity is another risk responsibility because it is dangerous to the business, it's material and reputational and related to all the other risks," adds Aguilera. "It's therefore time to be prudent, to use the right tools and technologies."

The digital future of boards

Beyond concerns of crisis management, disruption and continuity, boardrooms are faced with an increasing breadth of financial and non-financial challenges. The pandemic has almost certainly played its part in accelerating change. The rapid adoption of cloud-based technologies, for example, to enable remote working, communication and collaboration, has already transformed organisations and opened new avenues for the boardroom.

While not every board has changed or intends to change any processes post-pandemic—PwC²⁶ puts this figure at just 10%—most boardrooms are clearly open to maintaining elements of processes and practices acquired during lockdowns. This will mean continued virtual meetings, with flexibility for directors to use devices of preference, as well as face-to-face meetings.

This hybrid approach to working reflects the wider industry, where technology has enabled business continuity. With it we have seen culture and attitude changes to work. As PwC suggests, the focus is shifting to fostering healthy cultures in the boardroom and the company as a whole, and less on traditional nine-to-five participation. Results are everything.

The challenge for boards is how to manage this multi-location, multi-skilled and complex environment. Digital platforms and tools have certainly proven their worth and as we now look forward to increased governance, particularly in non-financial areas such as ESG, the bar is being raised again. Boards need real-time insight to truly understand trends and their impact on the business. The proliferation of data needs context and that demands sophisticated analysis and visualisation in such a way that it remains relevant and readable by any board member.

²² <https://www.csoonline.com/article/3410278/the-biggest-data-breach-fines-penalties-and-settlements-so-far.html>

²³ <https://www.infosecurity-magazine.com/news/fines-ico-surge-1580>

²⁴ <https://learn.diligent.com/AdaptingDigitalAge-BoardEffectivenessReplay.html>

²⁵ <https://www.tessian.com/blog/insider-threat-statistics>

²⁶ <https://www.pwc.com/us/en/services/governance-insights-center/blog/directors-return-to-boardroom.html>



“The future is going to be more of a coalescence of different kinds of tools coming together and providing a very easy interface for directors to interact with,” says Schindlinger²⁷. “I can really envision in the very near future, directors having much more immediate access to data that is showing how the business is really performing, what the main areas of risk are, and then using intelligence tools to get a sense of potential areas of opportunity.”

It is this level of intelligence that will only add to the overall decision-making process. As Schindlinger adds, the technology is not there to replace board members, rather to make them more informed, more powerful and more capable in their increasingly complex roles.

As boards look to increase company resilience—McKinsey says that compared with 2019 this is the biggest shift in corporate priorities²⁸—they should also look to maintain, if not increase, investment in technology. As McKinsey finds, it is the more tech savvy, adaptable boards that can move with speed, and it found that around half of boards it surveyed claimed they will look to increase investment in digital tools to enable boardroom collaboration.

After all, digital transformation is not just about adopting new technologies: it’s about adding value and generating a competitive edge. In the boardroom this can mean many things, but it boils down to making the role more effective and the people in the role better at what they do.

“Digital technology is there to help me discharge my director’s duties and a huge part of that is to make me more efficient, to give me more time,” says McDonald²⁹.

“If these tools give me more time back, whether it’s because I’m not having to travel as much, or it is easier for me to analyse the data, or see the information, and have it at my fingertips; or perhaps I want to go back and check the minutes from previous discussions to verify what was agreed; then if that’s easy to do, it means I have more time. I’m more efficient.”

²⁷ <https://learn.diligent.com/AdaptingDigitalAge-BoardEffectivenessReplay.html>

²⁸ <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/how-boards-have-risen-to-the-covid-19-challenge-and-whats-next>

²⁹ <https://learn.diligent.com/AdaptingDigitalAge-BoardEffectivenessReplay.html>

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Contacts



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