2021 Board Effectiveness Survey

Digital Transformation from Necessity:

How Boards Drove Positive Change in a Pandemic

OnBoard

Introduction

The tremendous challenges of COVID-19 have propelled progress for boards working across a variety of sectors, as directors, administrators, and others have tackled pandemic-related difficulties with staunch resolve. At a fundamental level, the pandemic has accelerated the digital transformation of boards, and helped them to realize the many benefits that technology has to offer in enabling them to better serve their missions.

In the 12 months from March 2020 to March 2021, boards have become **more effective**, **more collaborative**, and are **spending more time on vital strategic issues** than prior to the pandemic, according to a survey of 282 board directors, administrators, & staff members in more than six countries. A majority plan to push for additional improvements in the months ahead in areas such as board engagement, diversity, and building enhanced focus on environmental, social, and governance issues.

The survey spanned a variety of boards—large and small—across numerous industries, including non-profits, education, higher education, financial services, healthcare/life sciences, professional associations, and others.

This is the first year of the new, annual OnBoard Board Effectiveness survey aimed at monitoring trends and priorities in board engagement and effectiveness. The goal is to identify the key challenges that board leaders face in the current environment, how they are addressing those challenges, and best practices for more effective governance moving forward. With the profound disruption of the COVID-19 pandemic as the context for this inaugural report, the survey results reflect both the trials & hard-fought successes of boards navigating these tumultuous times, and the crucial role the digital transformation has played in their journey.

Survey Respondents' Relation to their Boards

27%
Don't Serve Directly on the Board

33%
Executive Directors

40%
Non-Executive Directors
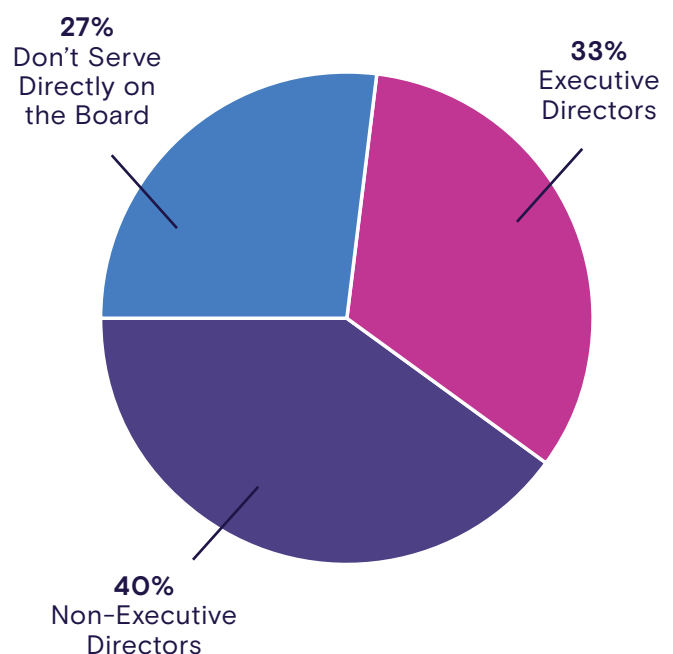
Executive Summary

Despite its many challenges, the COVID-19 pandemic has helped drive progress for boards across the country. Boards that previously had been reluctant or slow to embrace digital transformation suddenly were forced to shift to virtual formats. As a result of this and other factors, our survey of 282 board directors, administrators, and staff members in more than six countries found:

Many said the shift to digital significantly contributed to their success, yet only 57% of survey respondents use specialized board management software. Survey results show that boards that use such software are more likely to have achieved positive governance outcomes, and to have board members who are more prepared for meetings. They also are more likely to have evaluated themselves on environmental, social, and governance issues, in part because the software gives them the tools to conduct such evaluations easily and efficiently.

Moving forward, board leaders must build upon the lessons of the past year. Organizations should seek to fully leverage the advantages that board management software and other technology advancements have to offer in helping their boards be more effective in serving their communities and their missions.
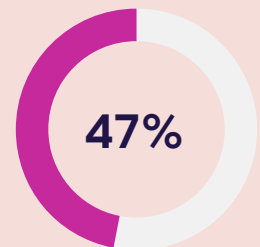
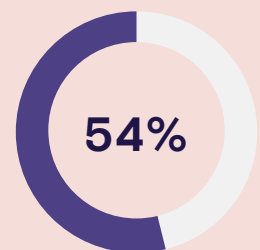> **Moving forward, board leaders must build upon the lessons of the past year.**

79%
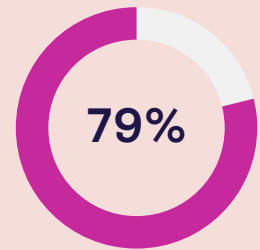
79% said their boards have **improved effectiveness** in the past 12 months

66%
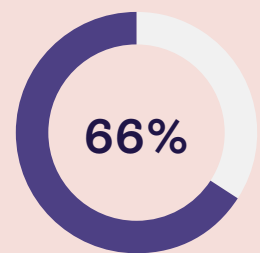
66% have seen **improvements in board collaboration**

47%

47% have spent more time **discussing strategic issues**

54%

54% have **achieved good governance under challenging conditions**

# COVID-19 As A Catalyst for Digital Transformation

The onset of the COVID-19 pandemic in March 2020 sent shock waves through boards across nearly every industry around the globe. Many were forced to rapidly adjust their outlooks and operating models to adapt to widespread social and economic disruptions. Schools, businesses, government offices, and other organizations underwent shutdowns or shifted abruptly to remote operations.

Many boards that previously had been reluctant or slow to join the digital transformation already underway in other sectors were forced to transition to digital platforms. Board administrators quickly cancelled in-person meeting plans and moved to all-virtual board and committee meetings. Survey respondents said the rapid shift to a remote environment created numerous challenges for boards, including:

- Difficulties recreating casual/ face-to-face interactions

- Lack of opportunities for ad hoc and post-meeting conversations

- A less conducive format for engaging in complex discussions

- A need to use and adapt to new technologies

Despite the myriad challenges, 79% of respondents said their boards have improved effectiveness in the past 12 months, including 56% who said they have improved slightly and 23% who have seen significant improvements in effectiveness. The remaining 21% said their boards have slightly or significantly decreased in effectiveness since the early months of the pandemic.

Does your board use board management software?

YES
57%
→ **81%**
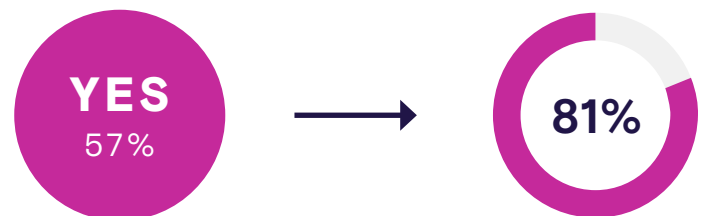
57% of boards we surveyed used board management software and noted **81% improved board effectiveness**.

NO
43%
→ **58%**
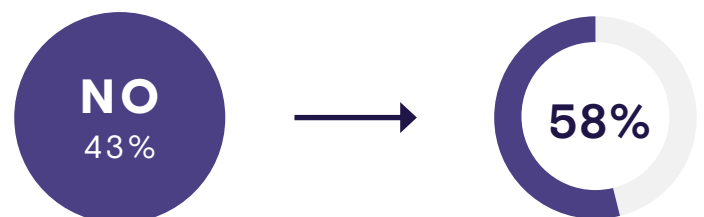
43% of boards we surveyed do not use board management software and noted **58% improved board effectiveness**.
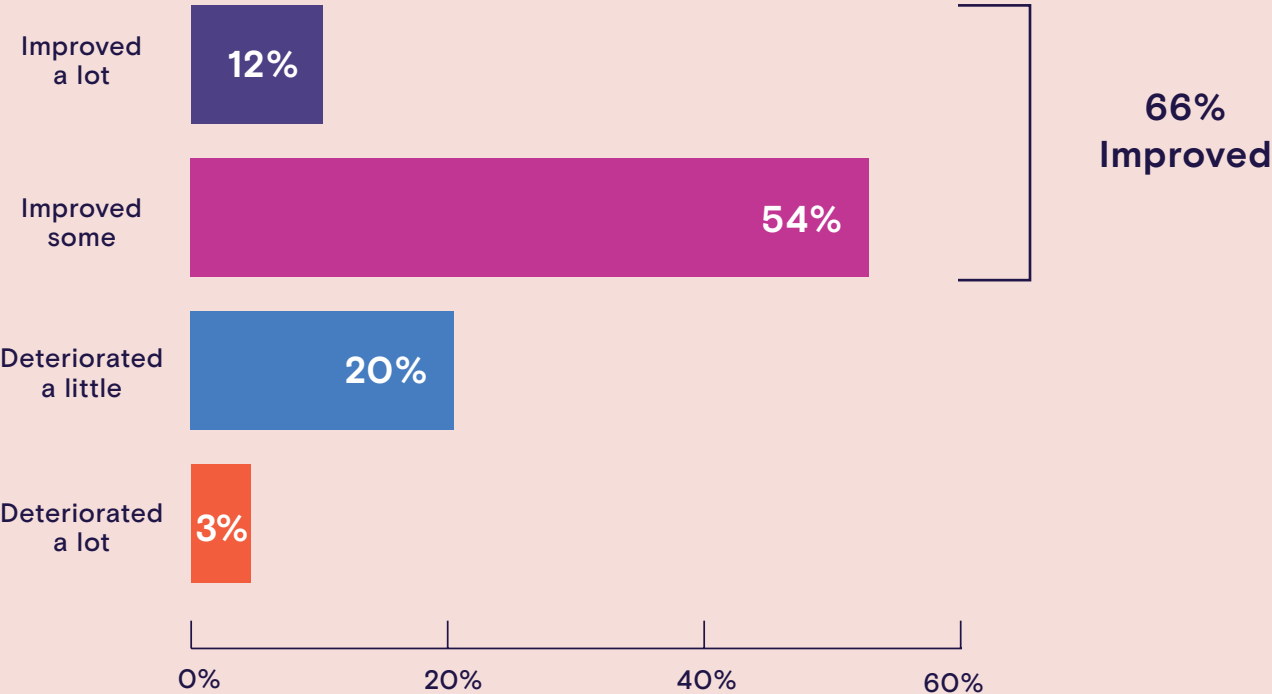
The proportions of responses were consistent across different categories of respondents, whether they were executive directors, non-executive directors, or board administrators and staff members.

Many said the shift to digital contributed to their success. When asked which factors most influenced the change in effectiveness, 59% of respondents indicated the move to a remote work and virtual meeting environment had a major impact. Forty percent attributed it to a change in the general business environment, and 34% said the performance of the organization changed significantly.

A full two-thirds of survey respondents said board collaboration has improved since the shift to remote work and meetings, with 54% saying they have seen some improvement and 12% seeing a lot of improvement.

❝ 59% of respondents indicated the move to a remote work and virtual meeting environment had a major impact.

How Has Your Board's Collaboration Changed Since the Shift to Remote?

Improved a lot — 12%
Improved some — 54%
Deteriorated a little — 20%
Deteriorated a lot — 3%

66% Improved

0%   20%   40%   60%

About half said their boards have spent more time discussing strategic issues over the past 12 months than prior to the pandemic, while 39% indicated they spend about the same amount of time discussing such issues. Four in 10 respondents also said they have spent more time discussing organizational risk over the past year. Other areas such as fiduciary topics, investments, talent, board reinvention, and board education generally have received about the same amount of attention compared to before the pandemic.

When asked to describe the effectiveness of their board's governance in a virtual environment, 54% of survey respondents said they have achieved good governance under challenging conditions.

Board administrators and staff were slightly more affirming, with nearly 60% of non-directors saying good governance had been achieved versus 53% of executive and non-executive directors.

Thirty-eight percent of overall respondents said their boards have maintained consistent levels of governance compared to pre-COVID times, while 8% said governance has been difficult and challenging throughout the pandemic.

Describe the Effectiveness of your Board's Governance in the Virtual Environment

Category	Value
Good governance has been achieved in a challenging environment	54%
Continuity of governance has been maintained, but challenging	38%
Governance has been difficult and challenging	8%
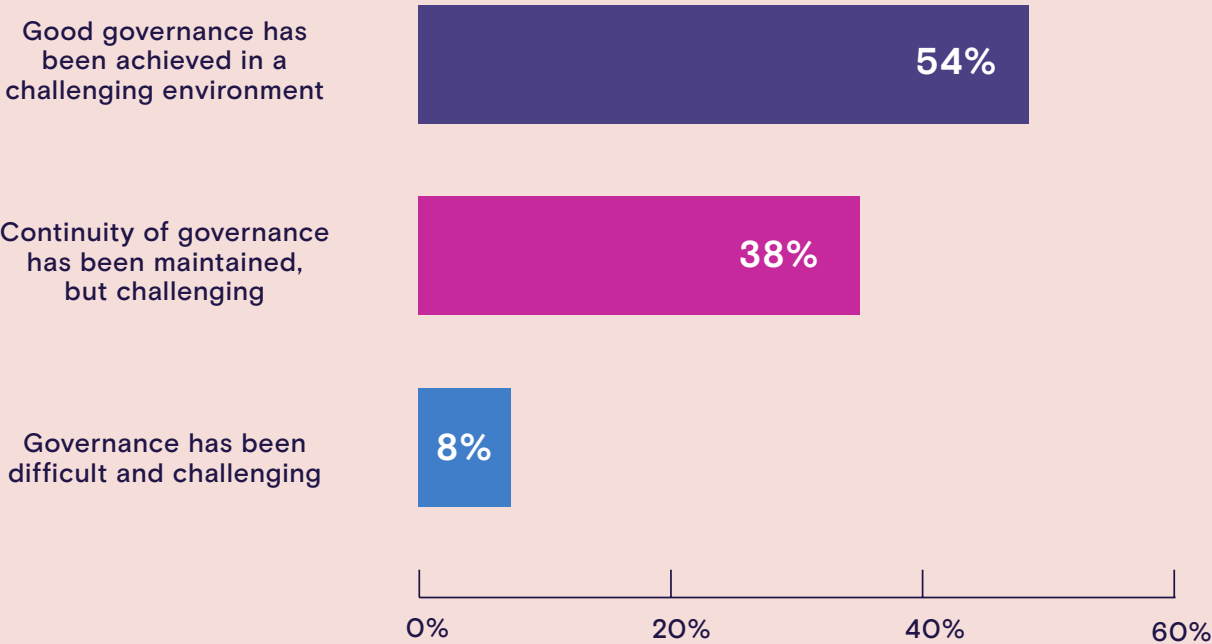
Despite the challenges of the past year, many boards made successful transitions to digital platforms. However, it is important to keep those gains in an appropriate context, says Matt Fullbrook, Manager of the David & Sharon Johnston Centre for Corporate Governance Innovation at the University of Toronto's Rotman School of Management. There are pros and cons to both virtual and in-person meetings. Now, many boards are considering transitioning to a hybrid approach—with some attendees in-person and others remote—but Fullbrook recommends proceeding with caution. He contends that communication and collaboration work best when everyone is on a level playing field.

"When you get everybody on the same platform, effectiveness increases," says Fullbrook, who has led research centers focused on governance issues for more than 20 years. "[Boards] should think twice before going back to this blended model that wasn't working in the first place. Don't let the fact that virtual meetings are good distract you from the fact that blended meetings are bad."

Instead, Fullbrook recommends organizations consider a split approach, with a designated number of full, in-person meetings and a designated number of all-remote meetings per year.

> **[Boards] should think twice before going back to this blended model that wasn't working in the first place. Don't let the fact that virtual meetings are good distract you from the fact that blended meetings are bad.**

Greater Focus on Critical Issues

In addition to the challenges of the pandemic, widespread social and political turmoil over the past year have fueled a groundswell of support for assessing and advancing fundamental structural changes. **A majority of respondents to the OnBoard survey said their boards have significant room for improvement in areas such as diversity, and the level of focus on environmental, social, and governance issues**.

Less than a quarter (21%) rated their boards as very diverse, while 56% said they are somewhat diverse, and 23% said they are not diverse. Nearly half (48%) said increasing board diversity is a serious strategic priority with specific actions planned, while another 39% said their boards have discussed the issue but have not developed plans to address diversity.

More than three-quarters of respondents said their boards are highly or somewhat focused on environmental, social, and governance issues. Yet 58% said their organizations have not evaluated themselves on those issues, and 28% said they have only partially assessed such issues internally. Eighty-seven percent said their boards do not have committees dedicated to addressing environmental, social, or governance issues, and only 9% have plans to establish such committees in the future.

Respondents cited several areas that should be of high importance to their boards moving forward including:
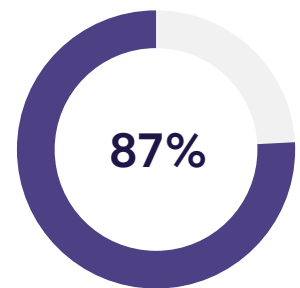
- Ethics & compliance
- COVID-19 response
- Diversity, inclusion, & culture
- Cybersecurity
- Local impact

76%
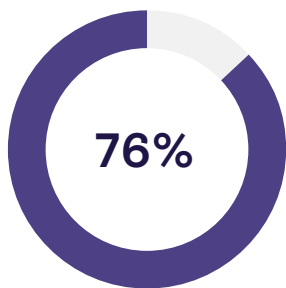
76% are focused on environmental, social, and governance issues

58%
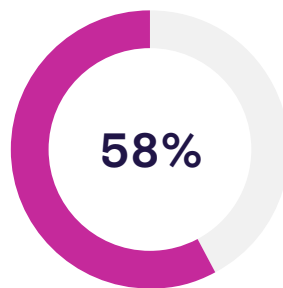
58% of organizations have not evaluated themselves on environmental, social, and governance issues

87%

87% have no committees focused on environment, social, and governance issues

The Importance of Casting a Broader Net

The need to increase diversity on boards to make them more representative of the communities they serve is nothing new. "Over the last 20 years, there's no governance topic that's gotten more coverage and conversation than board diversity," says Fullbrook of the Rotman School of Management. "Despite the fact that it's gotten so much airtime, if you take a snapshot, the numbers are still really low."

While overall diversity is lacking, there have been clear gains when looking at new directors coming onto boards. Compared to 10 or 15 years ago, those individuals today are much more likely to be younger, female, or a person of color, he explains. For example, a recent Rotman study* found that after boards on the S&P/TSX Composite Index changed their approach to recruiting new directors, the percent of new, first-time directors increased from 57% in 2008 to 72% in 2018. Among those, the percent of visible minorities increased from 2% to 15%, and the percent of female directors rose from 15% to 38%. While turnover on boards is historically slow, such trends will lead to significant, long-term changes in board composition.

*Source: The David and Johnson Centre for Corporate Governance Innovation: "The Evolution of the Canadian Corporate Director from 2008–18," University of Toronto Rotman School of Management, 2020.

More and more, organizations are realizing that they benefit from having a broader range of experience, with individuals from a variety of industries and backgrounds represented on their boards.

"When they're looking for a new director, boards in general are casting their nets wider," Fullbrook says. "There is a slow, but meaningful evolution on the part of board nominating committees in their understanding of what actually makes a good director."

Continuing The Momentum

While different boards have had varying levels of successes or failures over the course of the past year, the survey results indicate that a majority have embraced digital transformation and made important gains in the face of immense adversity. Many boards strive to make further progress in a post-pandemic environment.

Two-thirds (67%) said they anticipate their boards will spend more time discussing strategy over the next 12 months, and more than 80% said their organizations are investing in their boards. That includes 47% that are making significant investments to improve board composition, engagement, and education.

Are You Making Significant Investments in your Board?

35%
Small investments

18%
No notable investment

47%
Significant investments
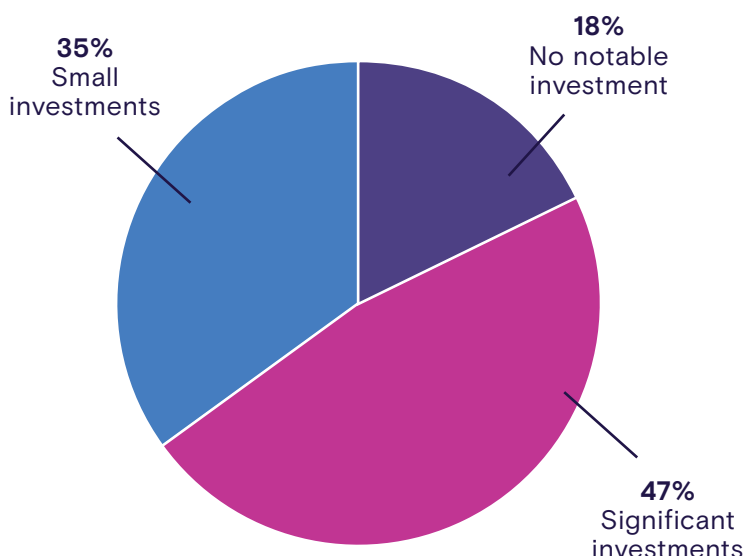
Asked to rate the current effectiveness of their boards, 63% chose between 6-8 on a 10-point scale, for an average rating of 7.1. The responses were the same regardless of whether respondents were executive or non-executive directors, or non-director administrators or staff members.

Ninety-one percent of respondents said their boards have potential to reach an effectiveness level of 8-10, for an average achievable score of 8.9. Making those gains will require organizations to remain diligent in identifying shortfalls, and establishing and acting upon clear goals for enhancing the effectiveness of their boards. Leveraging technology has the potential to help boards maximize their gains and continue to accelerate their forward progress.

Optimizing board management tools is essential for boards seeking to maintain momentum and build upon the important advancements they have made over the past 12 months. While more than half of survey respondents said they use board management software, the degree to which boards use such tools varies widely.

Of those that have board management software, 56% said they use it primarily for board meetings. Only 10% fully leverage the software to conduct meetings, actions, annual activities, and board education.

The survey results show that organizations that use specialized board management software are more likely to:

- Have achieved positive governance outcomes during the pandemic

- Distribute meeting materials to board members earlier

- Have board members who are well prepared for meetings

Those organizations also were more likely to have evaluated themselves on environmental, social, and governance issues, in part because the software provides readily available tools for them to conduct such evaluations. More than half of organizations that use board management software had partially or fully evaluated themselves on such issues, compared to 29% of those without software.

Used optimally, board management solutions have the potential to drive further progress by enhancing collaboration, and helping boards make more informed, timely decisions. Continued digital transformation in the boardroom also has the potential to enable organizations to more easily compare their performance to that of their peers.

57%

Use Board Management Software

Among those who use board management software:

- **81%** believed they increased board effectiveness in the last 12 months. For those without board management software, **58%** believed they increased board effectiveness.

- **91%** receive board materials three or more days in advance vs. **78%** for those with no software

- **94%** have board members who are prepared for meetings vs. **88%** for those who do not use board management software

Conclusion

The COVID-19 pandemic compelled many organizations to make much-needed and long-overdue changes to integrate technology into their everyday board management functions. Moving board work from the boardroom to the "Zoom room" enabled organizations that were lagging in digital transformation to experience its benefits firsthand. Board leaders now face the critical decision of whether to continue their momentum and lean into that digital transformation, or to push away and revert to a traditional governance approach.

Our data suggest that boards that have leaned in and embraced digital tools over the course of the past year are more effective, more prepared, and more collaborative as a result. Use of board management software has helped organizations improve efficiencies and eliminate outdated and time-consuming processes. In doing so, it has freed up their time to focus on more important issues.

Those who continue to optimize board management software and other technology tools in the years ahead have the potential to move well beyond basic digital table stakes to affect real change, including making advancements in economic, social, and governance issues, and promoting diversity, equity, and inclusion.

Yet 43% of organizations still do not utilize even basic board management software in any way, and therefore have no opportunity to reap its benefits. Such organizations should take the lessons of the past year to heart and consider joining the 21st Century. The digital transformation is well underway and moving forward at full steam, with or without them.

After all, it's 2021. We're flying helicopters on Mars. Why isn't your organization using board management software to empower your board to accomplish more and be more effective?
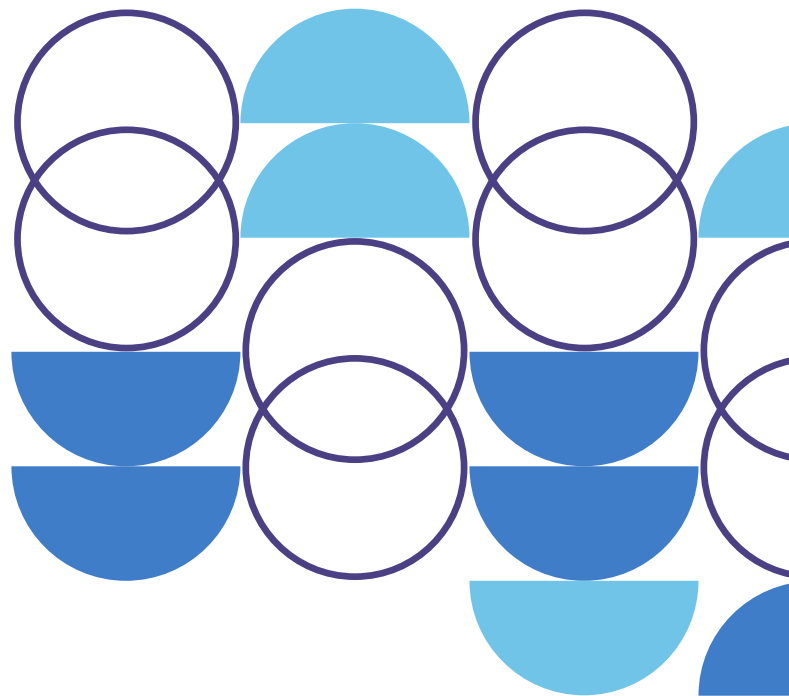
Based on our analyses of the 2021 survey results, OnBoard recommends the following steps as critical to helping boards continue to improve:

- Carefully consider the optimal formats—or combination of formats—for hosting meetings in a post pandemic environment to best suit the unique needs of your organization.

- Collaborate to establish common priorities and goals to ensure directors can dedicate the valuable meeting time needed to focus on vital strategic issues.

- Move beyond talking about environmental, social, and governance issues, and take actionable steps to improve in those areas.

- Commit to making meaningful investments to improve board composition, engagement, and education.

- Ensure administrators and directors have the best tools available to do their jobs, and that they are able to maximize the full capabilities of those tools for more effective governance.

> **Commit to making meaningful investments to improve board composition, engagement, & education.**