

2020 Outlook:

The State of Modern Boardrooms



Diligent



CG Lytics



Introduction

As we close the chapter on another year, the corporate governance landscape of 2020 looks both promising and complex. Culture, social purpose, stakeholder activism, political uncertainty—these were among the key themes of 2019 that have set the stage for the new year. What's on the road ahead for UK boardrooms? Which landmark events, regulations, and crises have set the tone for 2020?

In the first report of our 2020 **Modern Governance Series**, Diligent has partnered with CGLytics, the leading global provider of governance data and executive compensation tools, to examine the current landscape and look ahead.

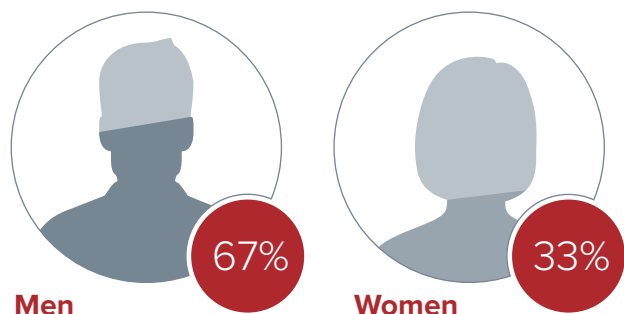
Table of Contents

The 2019 Review	3
Revisits the key milestones of 2019 that have shaped the current landscape	
The Road Ahead: Predictions for 2020	4
Outlines five corporate governance predictions for 2020 (and recommends best practices)	
Modern Governance: The New Imperative	10
Draws implications: Where do boards and organisations go from here?	
The 2020 Agenda	11
Reveals the topics, webinars, and partnerships we have in store this year as part of our Modern Governance Series	

2019 Snapshot: The Governance Landscape

FTSE 100 Index

Board Composition



Average tenure of board members



27 Overboarded directors

Board Effectiveness Health Score Top 10 companies

- | | |
|--|---------------------------|
| 1 The Royal Bank of Scotland Group plc | 6 Vodafone Group plc |
| 2 Barclays plc | 7 Aviva plc |
| 3 GlaxoSmithKline plc | 8 Pearson plc |
| 4 Halma plc | 9 Smith & Nephew plc |
| 5 Tesco plc | 10 Standard Chartered plc |

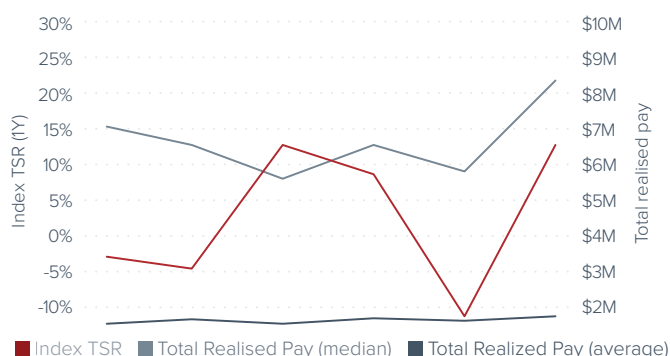
How we calculate

The Board Effectiveness Health Score is calculated using 13 effectiveness attributes including Director Interlocks, Overboarding, Gender Equality, Age Dispersion, Nationality Dispersion, and Board Independence. Criteria are based on the New York Stock Exchange Corporate Governance Rules.

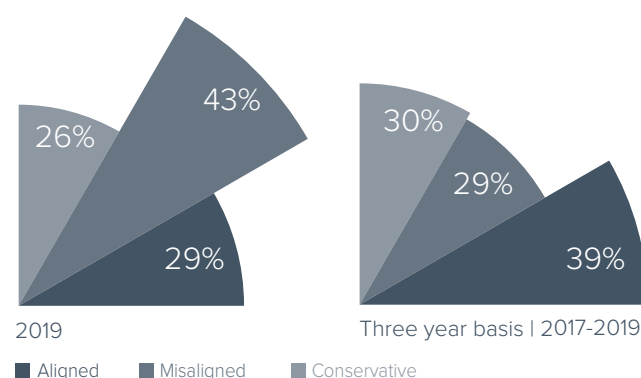
How does your organisation stack up?
[Click here to learn more.](#)

Pay Landscape

Index TSR vs. CEO Pay



Pay for performance¹



Top paid CEOs (2018)²

Jeffery Fairburn Persimmon plc \$82,944,329	Bernardus Van Beurden Royal Dutch Shell A plc \$20,137,364	
Rakesh Kapoor Reckitt Benckiser Group \$17,103,550	Mark Cutifani Anglo American plc \$16,786,305	Dr. Pascal Soriot AstraZeneca plc \$13,138,706

¹The P4P alignment is based on granted compensation in 2019 for the year of 2018.
²The top paid CEOs is based on granted compensation in 2019 for the year of 2018.

The Road Ahead:

Predictions for 2020

1 | ESG and executive compensation will begin to converge.

In 2020, we expect to see further integration of ESG into executive compensation—a trend that is already in motion. In 2019, 27.4% of FTSE 350 and ISEQ 20 companies included some form of measurable criteria in their incentive plans; this number is up from 19% in 2013 and from only 3% in 2008.

Throughout 2019, the material outflow from active investing to passive index funds continued. With this trend, institutional shareholders are strengthening their focus on the long-term health of their portfolios and the medley of environmental, social, and governance (ESG) factors that pose potential risk.

According to CGLytics CEO Aniel Mahabier, more than \$30 trillion of global investment assets are now assigned to ESG strategies—a total that has grown by more than 30% in the past two years and is expected to increase by another 17% in the next two years.

“These are long-term holdings,” said Mahabier, “so investors are looking to corporate issuers to engage proactively and specify how ESG practices are being integrated into the long-term strategy.”

As sustainability and ESG accounting measures are further adopted and developed, we expect this to act as a catalyst for executive pay integration in 2020.

“Investors are increasingly focused on ESG practices as part of their investment decision-making process. It has moved from being a niche investment strategy to mainstream and a fundamental part of how investors review and value companies.”

— Aniel Mahabier, CEO of CGLytics



Advice for 2020: Don't underestimate this trend

Executive pay is not typically an arena for experimentation. There's a level of comfort in using fully established metrics. However, remuneration committees should begin having ESG discussions now as the pendulum swing could come faster than expected, says Mahabier: “It's worth remembering when clawback, malus, and bonus deferral were brought into banking incentive structures after the financial crisis, it was not long before they became ubiquitous at FTSE 350 companies—regardless of sector.”

2 | Conversations around board diversity will evolve

Conversations around board composition are evolving. While gender and racial diversity remain critical board issues, the discourse around board diversity is expanding rapidly—and out of necessity.

At Diligent's 2019 Directors' Experience, corporate directors from across the globe shifted the conversation to board resilience: what is the unique mix of board skills that will carry the organisation through its long-term strategy? The focus is shifting away from individual skills and criteria to a much bigger picture—one that also considers soft skills, interpersonal dynamics, and how these things come together in the boardroom.

As boardroom challenges become more global, digital, and nuanced, the skills matrix approach to assessing gaps becomes dangerously insufficient. In other words, a checkmark for "Technology" fails to capture the distinction between cybersecurity and digital marketing expertise; and it fails to capture the importance of those skills related to company strategy.

In 2020, we predict that board composition and diversity will continue to be a top priority for institutional investors. Yet, we believe they will increasingly look to boards for more context: "Why is this the right group of people—and the right set of skills—to tackle the organisation's challenges ahead?"

"[Boards must think] about diversity as more than simply a taxonomy. [They must] think about the kinds of diversity that are really going to push forward the strategic thinking of their organisation and its ability to grow and thrive into the future...What regions do you have expertise in?...What kind of a thinker are you? Are you someone who asks a lot of questions...? What kind of network do you have access to? What was your career path?"

— **Jennifer Chapman**, Professor at the Haas School of Business at UC Berkeley and Independent Director at Simpson Manufacturing (via The Corporate Director Podcast)



Advice for 2020: Distinguish between digital skill sets

"Digital" is not a monolith. Information security, data analytics, digital marketing, and ecommerce are just a few distinct concentrations or career paths under the digital umbrella. Without an understanding of these skill sets and how they differ, boards will have trouble identifying gaps in their composition or determining what kind expertise they need. Make it a goal in 2020 to get all board members up to speed on the digital landscape. (Heads-up: we'll be tackling this topic later this year as part of the Modern Governance Series!)

3 | Company purpose is no longer negotiable

Why does your organisation exist? How does it positively impact its employees, shareholders, customers, and communities? Organisations that don't have a good answer to this question could find themselves in a compromising position this year.

In his 2018 Letter to CEOs, BlackRock CEO Larry Fink first challenged companies to think about value creation more holistically. At the time, Fink's call-to-action largely fell on deaf ears, yet 2019 saw a shift in sentiment. Notably, the August 2019 Business Roundtable statement (signed by nearly 200 CEOs of major corporations) offered a new definition for corporate purpose that was no longer focused on shareholder primacy. Among the endorsers were

Amazon CEO Jeff Bezos and JP Morgan Chase CEO Jamie Dimon, all pledging to "lead their companies for the benefit of all stakeholders—customers, employees, suppliers, communities, and shareholders." Not only did the [Business Roundtable statement](#) garner significant publicity, but it has queued up conversations in 2020 around the board's role in company purpose.

Effective boards are recognising that company purpose is more than a feel-good exercise. When approached strategically, company purpose should power everything from executive compensation (Are we incentivising the right behaviors?) to company culture (What values, practices, and people will ultimately lead us to achieve our long-term goals?).

"What's the role of a modern CEO today? It's to achieve long-term profitability by prioritising stakeholder interests in the present. The challenge comes with connecting the dots. Today's board of directors, given their longer tenures, can be a grounding force and a strategic asset on the road to long-term value."

— **Brian Stafford**, CEO of Diligent



Advice for 2020: Focus on outcomes

Companies with a clear purpose will find it easy to engage with their employees and with the wider public. Boards and governance professionals should be prepared to discuss the purpose-driven initiatives and policies at their organisation, but they should also focus on outcomes. How have these policies—or how will these initiatives—positively impact organisational stakeholders over time?

4 | Poor company culture will remain the gateway to crisis

Peel back the layers of any recent crisis (e.g., Dixons Carphone, Equifax, British Airways), and you'll typically find flaws in company culture. The root of poor culture can be many things: tone at the top, poorly designed incentives, lack of stakeholder empathy. Unfortunately, we predict that this trend of culture-powered crises will continue in 2020. However, we also predict that boards will devote significant time and attention to the topic this year.

Culture is tricky. For the same reasons culture is difficult to define, it's difficult to monitor and influence. From the board's perspective, cultural factors are woven into the fabric of every major board committee and governance function—from risk management to CEO succession to compensation and incentives.

Overseeing culture requires directors to look beyond the board materials. "I never settle for the highlights of the employee engagement survey," said Jan Babiak in an interview for a Diligent article on culture. "I always ask to read the full report with the results filtered by gender, tenure, geography, and job function."

Whether it's reading reviews on Glassdoor or spending time with other members of management, board members must leverage emotional intelligence in partnership with key risk indicators like employee turnover or whistleblower complaints. Culture may be challenging, but there are always clues for directors who know where to look.

"From a governance standpoint, culture is rather ethereal. It's not like other areas of oversight where boards can say 'We beat our earnings per share by X.' You can't measure culture in that way, because culture is both positive and negative—and every culture has both good and bad within it."

— Jan Babiak, Corporate Director on multiple boards



Advice for 2020: Don't ignore board culture

Boards must not overlook the relationship between company culture and board culture. Boardrooms that don't encourage tough questions or alternate viewpoints will likely never arrive at the conversations most likely to influence culture. Similarly, boards lacking cognitive and demographic diversity will simply miss red flags.

5 | New information models will arrive in the boardroom

In decades past, boards conducted their business within the four walls of the boardroom. Quarterly board meetings allowed time for deliberation. The board materials provided all the information directors needed to fulfill their fiduciary duties.

Fast forward to today, and the landscape has entirely shifted. Digitalisation, globalisation, and connectivity have driven welcome advances in today's business world; yet, these trends also expose organisations to a world of new risks. Social media, cyber threats, and activists are always "on." And boards can no longer rely on

management-prepared materials as the sole source of board intelligence.

In a recent study on board meeting preparation, the Diligent Institute found that 71% of public company directors gather independent information about the company in preparation for board meetings.

In 2020, we expect this environmental scanning function to become a more formal part of the board information process. We expect to see more boards leveraging data and even artificial intelligence in ways that improve both visibility and speed.

"Like all facets of business, boardrooms are not going to be immune to change. There's a...mismatch between the pace at which boards operate and the pace at which the world is operating—and [a mismatch in] the expectations of shareholders and employees relative to our agility and responsiveness."

— **Dr. Anita Sands**, Board Member for ServiceNow, Symantec, and Pure Storage (via The Corporate Director Podcast)

"It's about getting alternate data points. So whether I'm talking to customers or suppliers or attending...investor conferences, I try to correlate lots of different data points...Having data from multiple sources—especially contrary, independent opinions from management—allows me to ask much better questions."

— **Nora Denzel**, Board Member at AMD, Talend Software, and Ericsson (via The Corporate Director Podcast)



Advice for (Governance Professionals in) 2020: Embrace the change

Board information needs are changing—and no one is better positioned to drive these changes than the company secretary. The most effective governance professionals will be the ones who can anticipate board member needs and enhance visibility in ways that power better decision-making. The demand for a trusted advisor has never been so high. Governance professionals should feel empowered to fill that gap.

The New Imperative: Modern Governance

As these trends come together in the boardroom, organisations face a series of challenging questions. How does our company positively impact the world around it? Do we have the right talent and culture for growth? Do our current practices hinder agility? Do our existing systems and processes open the door to cyber threats? Which risks are we willing to take?

The costs of poor governance are simply too great. In a [2019 report](#), the Diligent Institute examined the financial consequences of a governance-related crisis. The Institute looked at 14 companies that had recently undergone a governance mishap ranging from a cyber breach to financial fraud. The findings? One year after the incident, these 14 companies had

lost a total of \$490 billion in shareholder value—a deficit these companies are still working to regain. However, the same report also delivered a bit of good news.

Good governance can be a competitive advantage. The same report also found that companies with strong governance (top 20%) financially outperformed their low-ranking peers by 15% over a two-year period. In other words, good governance yields a return on the investment. But what does modern governance look like? Where should boards focus their time? What are the best practices among today's leading organisations? This is exactly what our Modern Governance Series is designed to answer this year.

How does your organisation stack up?
Take the Modern Governance Quiz 



The 2020 Agenda

With our 2020 predictions locked in, it's time to set the agenda. As part of our Modern Governance Series, Diligent is tackling a slate of topics and partnering with other industry leaders in a big way.



JAN/FEB

2020 Governance Outlook

The State of Modern Boardrooms

Diligent and CGLytics assess the state of modern boardrooms and outline governance predictions for 2020. What's on the road ahead for UK companies and boards?



MAR/APR

Leadership in the Digital Age

Future-proofing the C-Suite

Diligent partners with Merryck & Co. and Meridian Compensation Partners to explore how leadership roles are evolving in the face of digital transformation.

- 7 characteristics of highly transformative CEOs
- How the GC role is evolving to meet new demands
- The compensation committee's role in incentivising innovation



MAY/JUN

Security & IT Transformation

Avoiding Costly Mistakes

Today's business challenges demand both agility and security, and legacy IT systems can pose great risk. How can boards and management teams ensure their organisations are making the right choices? Diligent partners with Unqork to pinpoint best practices.

- How organisations can avoid costly mistakes
- Questions boards should be asking management
- Entity management: a roadmap for global expansion



JUL/AUG

Talent & Diversity

Demystifying Digital

Diligent partners with Spencer Stuart and the Next Gen Board Leaders to take a closer look at today's digital landscape. Discussions will focus on talent at all levels—from the boardroom to the frontlines.

- Trends impacting the talent landscape
- The board's role in driving digital strategy
- Understanding digital challenges and skill sets

More topics to come this year!



Subscribe to updates and learn more at
diligent.com/modern-governance-series

INTRODUCING

Inside Europe's Boardrooms

Diligent has launched Inside Europe's Boardrooms, an online video program for board members, general counsels, and company secretaries. Hosted by TK Kerstetter, these 10-minute episodes cover best practices for today's boards and committees.



The UK Corporate Governance Code: Advancements & Potential Burdens

David Tyler

Chairman, Hammerson plc, and Domestic & General Group



What's the Role of the Senior Independent Director?

Orna DiChionna

Board Member, Royal Mail Group, Saga, and Burberry Group



What Boards Can Learn from the World Economic Forum

Cristiana Falcone

Board Member with Revlon & Viacom



How Chief Human Resource Officers Can Drive Value in the Boardroom

Hein Knaapen

Board Member with Coca Cola European Partners and CHRO for ING Group



Three Important Skills to Be an Effective Audit Committee Chair

Helen Weir

Board Member, Just Eat & Superdry



What Public Company Board Members Can Learn from Private Equity

Colin Low

Board Chair of Singapore Mainboard and Chair of the Singapore Investment Development Corp.



How Well Does Your Culture Balance Risk, Growth, and Innovation?

Andy Green

Board Member, IG Group plc and NED Airtel Africa



Tips for Improving the Board's Governance, Risk & Compliance Programs

Maria Dolores Pescador

Board Member, Admiral Europe & Vidacaixa Seguros



To learn more or browse episodes, visit:

<https://diligent.com/inside-europes-boardrooms>