EY Center for Board Matters

Insights on how boards approach digitalization
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The findings

As technological advances disrupt the global business landscape, digital transformation has become a top priority for boards. Board members’ areas of focus include:

- Balancing the demands of digital transformation with running day-to-day operations and managing the risks arising from an increasingly volatile economic, political and social environment
- Ensuring that the board is composed of the right people, with the right competencies, to navigate an era of rapid technological change
- Exploring ways to use digital technology to facilitate better communication within the board and to hold more effective board meetings
This guide outlines the findings of research into board communication and digitalization, which was undertaken in 2017–18. It was conducted by EY, a global leader in assurance, tax, transaction and advisory services; Brainloop, a leading provider of board portals and secure collaboration solutions; and two academic institutions, Leipzig Graduate School of Management and Philipps University of Marburg.

Representatives of around 2,800 parent or independent organizations across Austria, Benelux, France, Germany, Scandinavia, Switzerland and the UK were surveyed for the research.

The survey was supplemented by in-depth interviews with subject matter professionals. We would like to thank everyone who contributed insight, experience and knowledge to this research.

### Ten sectors were covered by the survey

- Automotive and transportation
- Banking, insurance and capital markets
- Consumer products and retail
- Energy and environment
- Health and pharmaceutical
- Media and marketing
- Mining and metals
- Professional services
- Real estate and construction
- Telecommunication and technology

- More than 60% of the organizations were publicly listed.
- Almost two-thirds (64%) of the sample organizations had been established for more than 50 years.
- 53% of survey organizations had a one-tier board system, with 47% having a two-tier system.
- Almost three-quarters (74%) of our sample firms employed between 2,000 and 50,000 people.
- 53% of the respondents were drawn from the board community. The remaining 47% were members of the corporate secretary or corporate office.
**Digital: the top five topics**

What are the five most important topics on the board’s digitalization agenda today, from an operational perspective? Our research found that the topics below are a particular focus.

1. **New products and innovations** (58%)
2. **Cyber attacks and data leaks** (55%)
3. **Acquiring digital technology skills** (53%)
4. **Data protection and data sovereignty** (48%)
5. **Enabling e-commerce** (45%)

The operational aspects of digitalization that are either linked to innovation or risk tend to be the most relevant items on the board agenda. In contrast, the strategic aspects of digitalization, such as creating agile organizational structures, using big data and exploiting the internet of things, are lower-priority items.

**The chair’s experience**

Although digitalization ranks highly on the board agenda, it appears that chairs have a knowledge gap in this area. Respondents to our research ranked the chair’s level of digitalization experience 15% lower than the importance of digitalization on the board agenda overall.

**Corporate strategies for extending digital know-how**

Two-thirds (67%) of organizations believe that doing their own research and development is the best strategy for expanding their digital expertise. Other popular options for boosting know-how include outsourcing innovation to a third party (relevant to 63% of organizations) and collaborations or joint ventures (cited by 40%).

Perhaps surprisingly, acquisitions and the purchase of patents are not seen as suitable ways to extend digital knowledge, as these are relevant to just 23% and 11% of organizations respectively.
Digitalization demands changes in the composition and organization of the board and in the desired competency profile of its members. Our research suggests that boards have yet to respond to this reality.

At present, 71% of boards have at least three committees, but only a fraction (10%) has a committee that is specifically dedicated to technology. In the majority of organizations, it seems that only suggested aspects of digitalization are discussed within committees – for example, the audit or risk committee may discuss cyber risk. The strategic implications and business opportunities associated with digitalization tend to be discussed in the plenary board meeting.

It is also worth noting that a separate survey, undertaken by EY,\(^1\) has revealed that 58% of CFOs and financial controllers believe that audit committee members need to build their understanding of the role of analytics in risk management.

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**Who is responsible for digital transformation?**

Our research suggests that many boards lack effective oversight of their organizations’ digital strategies. Why?

- **Less than 38%** have an executive director who specializes in digital.
- **More than 62%** of executives with responsibility for digitalization delegate that responsibility to the head of IT or another subordinated operational layer.
- **Only 24%** of boards have a non-executive director specifically dedicated to digitalization.
- **56%** When digitalization is assigned to C-level executives, it’s mostly (56%) within the responsibility of the CEO (25% CDO and CIO, 14% CFO, 6% COO).

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Communication with non-executive directors

Non-executive directors primarily use digital channels for accessing information and documents, usually via a tablet or smartphone (80%) or a laptop (64%). Furthermore, they are increasingly adopting board portals and encrypted communication rather than having personal conversations or making telephone calls.

Despite the prevalence of digital communication among board members, less than half (46%) of organizations provide communication devices, such as laptops, smartphones and tablets, to their non-executive directors.

Unsurprisingly, corporate secretaries and the corporate office tend to communicate most frequently with non-executive directors. Their preferred communication channels are digital. For example, more than a third (34%) use a digital portal to communicate with board members about board meetings.

Formalization and rules of communication

Today, board members have both greater responsibilities and higher liability risks than they had in the past. As a result, the formalized documentation of information processes between executive and non-executive directors, through rules of communication, has become a vital part of the board’s decision-making process.

Our research found:

- 62% of respondents thought that the degree of formalization in their organization is either high or very high.
- 60% of organizations have specific rules that cover reporting to the board, including content, frequency and scope.
- 37% of two-tier boards, executive and non-executive directors jointly decide the methods that are used to communicate with the board (this percentage falls to 29% for one-tier boards).
- 20% of respondents from the one-tier system said that their organization’s corporate office is frequently involved with determining board communication methods.
A board portal is a collaborative software tool that enables board members to access board documents, and collaborate with other directors and the corporate office electronically. Board portals have become very popular and are widely used by European companies. More than three-quarters (76%) of the boards that participated in our research already use a digital board portal, and a further 8% are planning to use one in the future. Listed companies are more likely than private companies to use a board portal, which might be related to the fact that listing imposes higher demands on board efficiency. Overall, 90% of respondents said that they are satisfied or very satisfied with their current board portal.

Favorite features
Respondents cited having access to documents as their top reason for liking board portals (88%). Encryption (84%) and audit-proof documentation of all activities (67%) are also major plus points. Another important issue is compliance with domestic data protection jurisdiction, highlighted by 65%. The fact that board portals provide confidentiality and different levels of access permission was seen as the biggest advantage of using the technology. Timely sharing of innovation and having the ability to review and comment on documents are other benefits. Around two-thirds (67%) of respondents also approved of how portals reduce paper use and therefore support the organization's sustainability goals.

What are the benefits of using a digital portal?

- **Efficiency** – information can be stored centrally, allowing board members to access meeting documents conveniently. Board members can be given complete board books that allow them to make annotations via a tablet, which can be shared with other board members to discuss specific items prior to a board meeting.

- **Usability** – board members can access the portal at any time using mobile apps or the browser of a notebook, navigating through extensive meeting documents with ease. Board portals also facilitate board processes with features for voting, resolutions and minutes of meetings.

- **Compliance** – as information is documented, portals serve as proof of decision-making processes and act as a tamper-proof archive of board meeting records. This makes them a foundation of good corporate governance.

- **Security** – important meeting documents are not at risk of being stored on insecure email accounts or devices. Board portals should also allow very granular access rights, which can even be limited to single documents.
Digitalization presents a range of possibilities for how board meetings can be conducted, as well as new methods for board voting and resolutions.

What are the methods that organizations tend to use, either frequently or very frequently, for holding board meetings today?

- **Face to face**: 92%
- **Teleconferences**: 33%
- **Document-based communication**: 26%
- **Video conferences**: 12%

What are the methods that boards most commonly use for carrying out votes and resolutions today?

- **Raising hands during meetings**: 77%
- **Digital votes and circular resolutions**: 13%
- **Written votes before board meetings**: 7%
- **Tool-based votes or resolutions during or between board meetings**: 7%

As boards are required to make increasingly quick decisions and meet audit-proof documentation requirements, they might make greater use of alternative voting procedures, such as digital or tool-based voting, in the future.
Frequency and documentation

More than half (53%) of one-tier boards meet at least on a monthly basis. In the two-tier environment, 29% of supervisory boards meet on a monthly basis, with 67% meeting on a quarterly basis.

Corporate governance rules usually demand that the supervisory boards of listed companies meet at least four times a year. The vast majority (95%) of the boards that featured in our survey meet this requirement.

More than four-fifths (82%) of the board meeting documents are delivered as a single pack, rather than distributed at different points in time. Board members often don’t receive these documents in a timely fashion, however. A submission period of 14 days is regarded as best practice, yet 57% of board members receive their documents between 6 and 10 days before a meeting, while 29% get them between 1 and 5 days beforehand.

Additional information

Besides the regular board reporting that they receive, non-executive directors most commonly base their decision-making on:

- 44% Flash reports provided by executive directors
- 26% Information from external experts
- 24% Other internal sources below executive level

Most newly appointed directors (58%) receive full access to board meeting documents, which supports a comprehensive onboarding process of new board members. Active members have the widest access level to archived board meeting documents, yet 24% of active board members are still only granted access on request.

Sensitive board information and documents are not only shared among board members, but also with external experts, such as the organization’s auditor and any consultants that they use. Almost three-quarters (74%) of organizations use digital channels to collaborate with external experts.
The research highlights some key actions that boards can take if they want to play a more prominent role in driving and supporting the digital transformation of their organization:

1. **Draw on digitalization skills to ask the right questions**
   Non-executive directors should act as sparring partners to the executive management team. To do this effectively, they need to be able to question management on digitalization, which clearly requires them to have relevant skills.

2. **Appoint a C-level executive to execute digital strategy**
   Every board should have an executive director who takes personal responsibility for digitalization. If the executive director delegates that responsibility to someone else, they expose the organization to significant strategic risks. These include being overtaken by a competitor that has an executive director who is leading on digitalization from the front.

3. **Review the composition of the board**
   Organizations are navigating a host of digital-related issues, from identifying new markets and developing new products, through to managing cyber risks and security issues, and responding to the evolving regulatory environment. As such, the board should ask itself whether its composition is still fit for purpose. If not, how can it be improved? Should it appoint a non-executive director who is specifically dedicated to digitalization, for example?

4. **Make optimum use of technology in board meetings and beyond**
   While technology is already widely used to facilitate the board’s communication and information processes, there is scope to apply it more widely – for example, by making use of electronic voting and video conferencing.

5. **Approach digitalization as a holistic issue**
   Differences between organizations and sectors mean that there can be no one-size-fits-all approach to digitalization. So boards should take a holistic and integrated approach instead. This could include reviewing the structure of the board and making changes to the competency profile of its members, as well as challenging management to make the necessary investments that will support the organization to thrive in the digital age.
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