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About the survey

This is the first issue of *swissVR Monitor*, a survey of 460 members of Swiss company Boards of Directors. The aim of the survey is to gauge Board members' attitudes to the outlook for business, strategies and structural themes. This issue also specifically focuses on the topics of innovation and disruption.

The *swissVR Monitor* survey was conducted by swissVR in collaboration with Deloitte and the Lucerne University of Applied Sciences and Arts between 24 November and 19 December 2016. A total of 460 Board Members took part, representing listed companies as well as small and medium-sized companies (SMEs) from every major sector of the Swiss economy.

A note on the methodology

Due to rounding, percentages may not always add up to 100. Company size is defined by workforce. Small companies have between 1 and 49 employees, medium-sized companies have between 50 and 249 employees and large companies have 250 or more employees.

Foreword

The good news is that a majority of the 460 Board members surveyed rate the outlook for business over the next 12 months as positive.

Dear reader,

We are delighted to bring you the first issue of *swissVR Monitor*, a survey conducted jointly by swissVR, Deloitte and the Lucerne University of Applied Sciences and Arts. Every six months, this survey will gauge the attitudes of members of Swiss company Boards of Directors towards the outlook for the country's economy and their sector. It will also gauge attitudes towards current matters of relevance to Boards. Each issue of *swissVR Monitor* will also explore a focus topic in greater detail. In this first issue, we investigate the role a Board of Directors plays in a company's ability to innovate.

swissVR Monitor is based on survey responses from 460 members of Boards of Directors across Switzerland. They represent firms from SMEs to listed companies across a range of sectors. *swissVR Monitor* therefore, accurately reflects the attitudes of Boards of Directors in Swiss companies, as well as the challenges facing them. It illustrates the views of individuals with a long-term influence on their company's success and includes prospects for the economy, their sector and their business.

The aim of *swissVR Monitor* is to offer Board members a benchmark for comparing the issues facing their own Board of Directors with those facing their counterparts on other company Boards. *swissVR Monitor* also aims to share with the wider public how Board members perceive their role and the current economic situation.

swissVR Monitor 1/2017 has delivered some valuable insights:

- Board Members rate the business outlook for their own company more positively than the outlook for their sector or for the Swiss economy as a whole.
- Strategy issues are one of the major concerns for Board members and they consider themselves to be significantly involved in the process of determining and formulating corporate strategy.
- The amount of time Board members spend on their role has clearly increased as has interaction with management.
- Board reporting is considered appropriate and informative with Board members receiving full and timely information.
- Innovation (especially in services and products) is considered a priority focus for Board members, with key drivers of success including appropriately skilled staff, digitalisation and a corporate culture that fosters innovation. The topic of potentially disruptive innovation is being discussed at Board level.

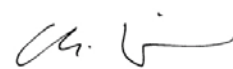
We would like to thank all Board members who participated in the *swissVR Monitor* survey. We hope you will find this report an informative and enjoyable read.



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Summary and key findings



53%

rate the prospects for their company's business as positive.

Positive outlook

Board members rate their company's business prospects more positively than the prospects for their sector. They also rate the prospects for their sector more positively than prospects for the Swiss economy as a whole.



66%

play an active part in formulating corporate strategy.

Involvement in corporate strategy

Board members are significantly involved in the process of determining and formulating corporate strategy. They take adequate time to discuss strategic topics and periodically assess the extent to which strategic goals have been met.



46%

say improving efficiency and optimising processes are their major strategic goals.

Key strategic topics

Alongside improving efficiency and optimising processes, digitalisation, marketing and sales strategies and skills, will be increasingly important areas of concern in future.



57%

report spending more time on their role as Board members.

Changing operating environment for Board members

The environment in which Board members fulfil their role has changed significantly over the last year. A majority of Board members report an increased time commitment in connection with their role. Interaction with management has also increased.



91%

feel they receive full and timely information.

Information, supervision and control

While Board members feel they are very well informed in general terms, they also feel that Board reporting could be improved, as could the internal financial controls/auditing system for Boards of Directors.



72%

attach a high priority to innovation.

Innovation as a future competitive advantage

In most cases innovation is focused on services and products. The key drivers of success identified by Board members are an appropriately skilled workforce, digitalisation and a corporate culture that fosters innovation.

Economic, sector and business outlook

On balance, Swiss Board members rate the prospects for **the economy, their sector and their own company's business** over the next 12 months as positive. There are, however, substantial differences between these categories. Board members are considerably more optimistic about the business prospects for their own company than about the prospects for their sector or for the Swiss economy as a whole (see Chart 1).

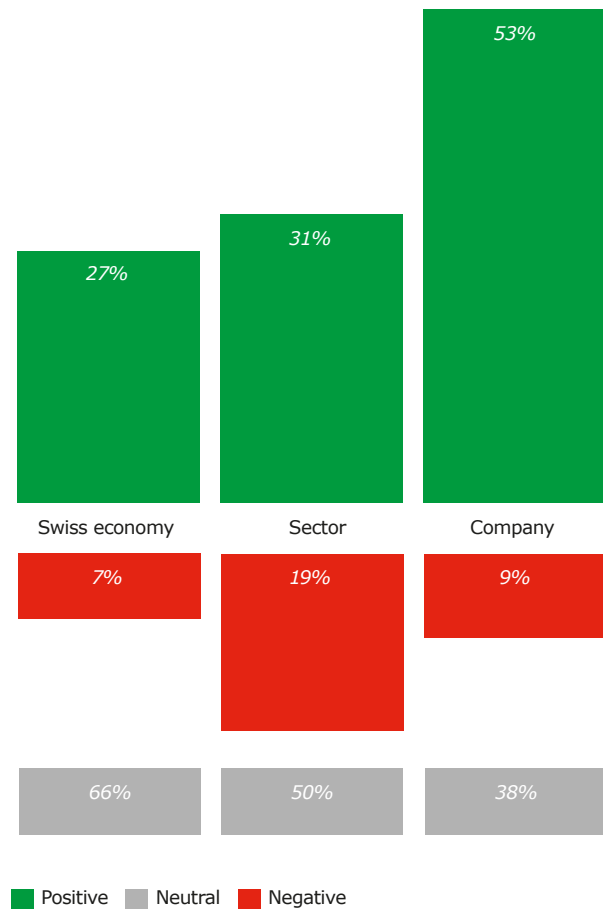
A majority of Board members are neutral in their **rating of the prospects for the Swiss economy** (66%); of the remainder, almost four times as many rate these prospects as positive rather than negative (27% compared with 7%).

On balance, Swiss Board members take a more negative view of the **outlook for their sector**. A slightly higher percentage (31%) is more positive about the prospects for their sector than for the economy and one in five (19%) rate the prospects for their sector as negative. This is more than twice the number of respondents who rated the prospects for the Swiss economy as negative.

The most positive ratings were achieved for the category of **business prospects of Board members' own company**: 53% rate these as positive, 38% as neutral and only 9% as negative.

The discrepancy between their rating of their company's prospects and those of their sector may indicate how much confidence Board members have in their own efforts to address current challenges and in their company's success. Their rating of the outlook for their sector is probably determined primarily by the challenges facing that sector rather than by the prospects for success of other businesses in the same sector.

Chart 1. Board members' rating of prospects for the next 12 months



Question: How do you rate prospects for the Swiss economy/your sector/your company's business over the next 12 months?

Strategic and structural issues facing the Board of Directors

Corporate strategy and corporate goals

A company's success relies on having the right corporate strategy. A large majority of companies (89%) therefore have a formally documented strategy; only one in 10 (11%) seem not to have adopted a formally documented strategy, according to Board members' responses.

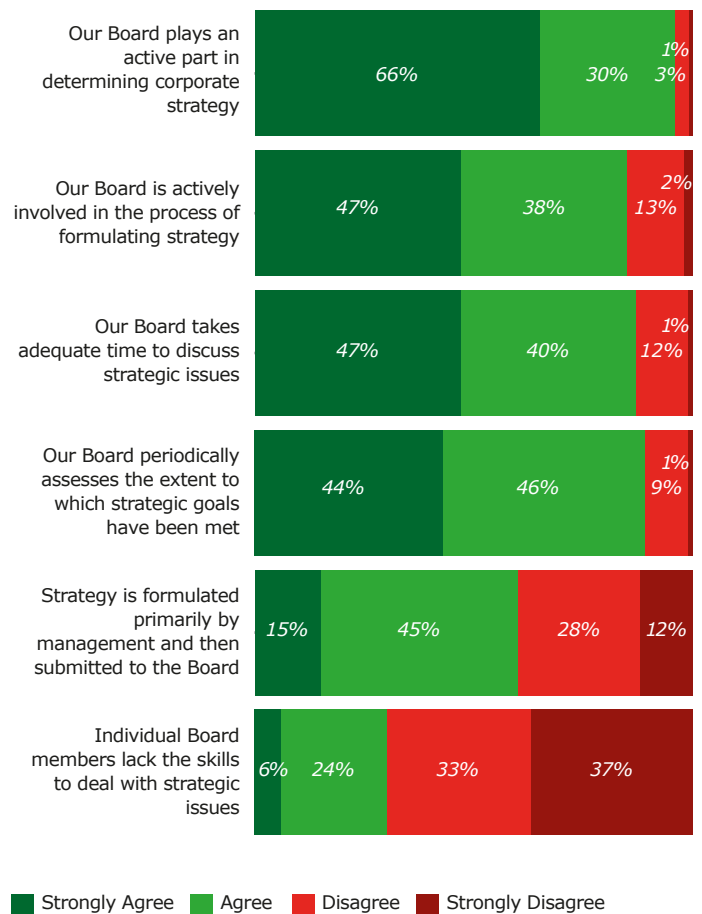
Two thirds of Board members (66%) strongly agree that their Board of Directors plays an **active part in determining corporate strategy**, with a further 30% agreeing with this statement. (see Chart 2). It is therefore safe to assume that virtually all Board members play an active part in determining strategy in line with legislation pertaining to their role (according to Art. 716a of the Swiss Code of Obligations (OR)). The fact that Board members are actively involved in determining strategy positively reinforces one of their major roles and enables them to have a decisive influence on the success of their company.

This view is further strengthened by the finding that just under half of all Board members (47%) strongly agree that the Board is **actively involved in formulating strategy**; the same proportion (47%) feel the Board takes **adequate time to discuss** strategic issues, while 44% say their Board **periodically assesses the extent to which the company's strategic goals have been met**. By including the responses of those who agree with these statements, we see that the Board of Directors in at least eight out of every ten companies is actively involved in formulating strategy, takes an active part in discussions and regularly monitors the extent to which strategic goals are met.

As the survey shows, in a majority of cases (60%), Board members strongly agree or agree that it is **primarily management that develops strategy** and then submits it to the Board of Directors.

A majority of Board members rate their Board's overall skills in relation to strategic issues as positive. However, 30% strongly agree or agree that **individual Board members may lack the skills to address strategic issues**. This figure is somewhat higher in small and medium-sized enterprises (SMEs) than in large companies.

Chart 2. Corporate strategy and corporate goals within the Board of Directors



Question: Please rate the following statements on corporate strategy...

Key topics for Boards of Directors

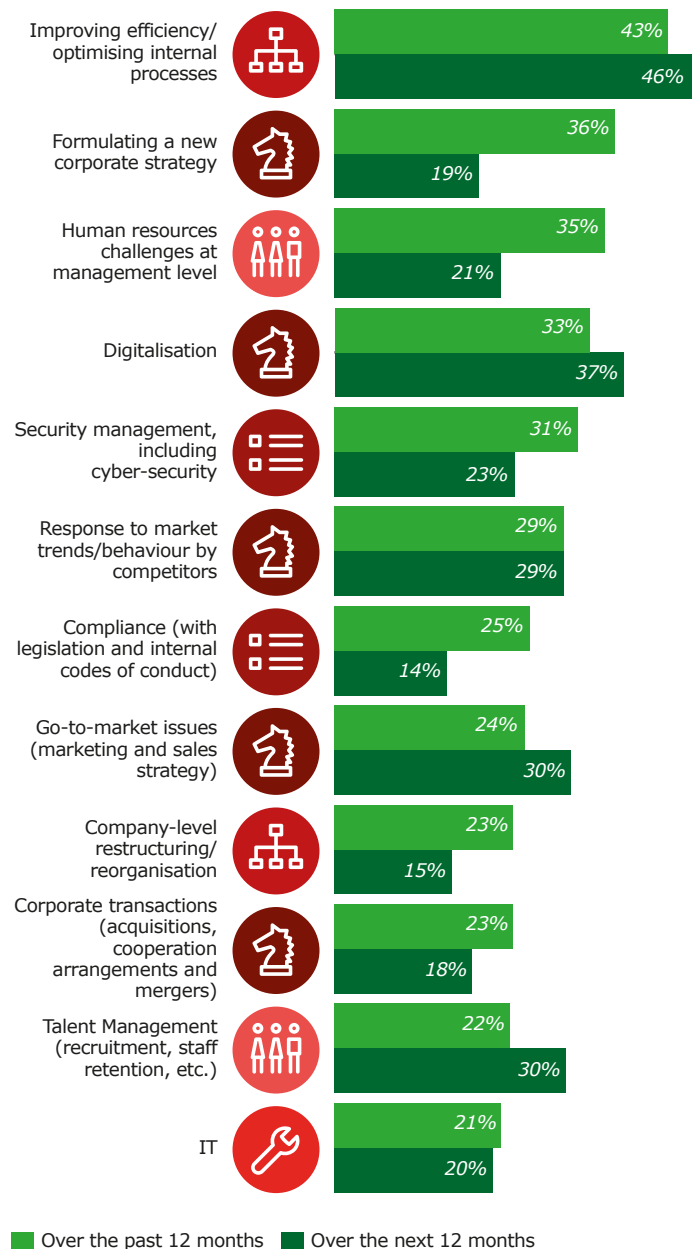
Every Board of Directors has to address a wide range of topics and set appropriate priorities in support of the company's goals. With this in mind we asked Board members to select the five most important topics they have had to deal with over the past 12 months (from a list of 28 topics). Of the 12 most frequently mentioned, two fifths – five – relate to **corporate strategy**. A further two relate to **HR**, two to **compliance and risk** and two to **organisation and processes**. The remaining topic is **support functions** (IT).

As Chart 3 illustrates, the three most frequently cited topics from the past 12 months are **improving efficiency/optimising internal processes** (43% of responses), **formulating a new corporate strategy** (36%) and **human resources challenges at management level** (35%). The picture over the next 12 months is, however, rather different. Only in the case of efficiency, do Board members expect the topic to assume a similar level of importance over the next 12 months as over the last 12 months (46% versus 43%). Only one in five Board members rank the other two topics (strategy formulation and HR challenges) among the five most important strategic topics over the coming year.

However, Board members expect a number of other topics to increase in importance over the next 12 months. These include **digitalisation** (37% say it will be more important over the next 12 months, up from 33% who say it was important over the last 12 months), **marketing and sales strategy** (up from 24% to 30%) and **talent management** (up from 22% to 30%).

Alongside strategy formulation and HR challenges, Board members also expect areas such as **security management, compliance, restructuring and reorganisation** and **corporate transactions** to decrease slightly in importance over the next 12 months.

Chart 3. Key topics for the Board of Directors



Questions: Which topics were most important to your Board of Directors over the past 12 months? Which do you think will be the most important topics over the next 12 months? The percentages indicate the number of Board members that have chosen a particular topic.

Changes in the operating environment for Board members

Board members feel that there has been a fairly substantial change over the past year in the environment in which they operate. Most striking is the increase in the time Board members spend on their responsibilities and the increased interaction between the Board and management (see Chart 4).

More than half of all Swiss Board members (57%) report that their **time commitment to their role on the Board** has increased over the past 12 months. Just 2% say they have spent less time on their role, while 41% report no change.

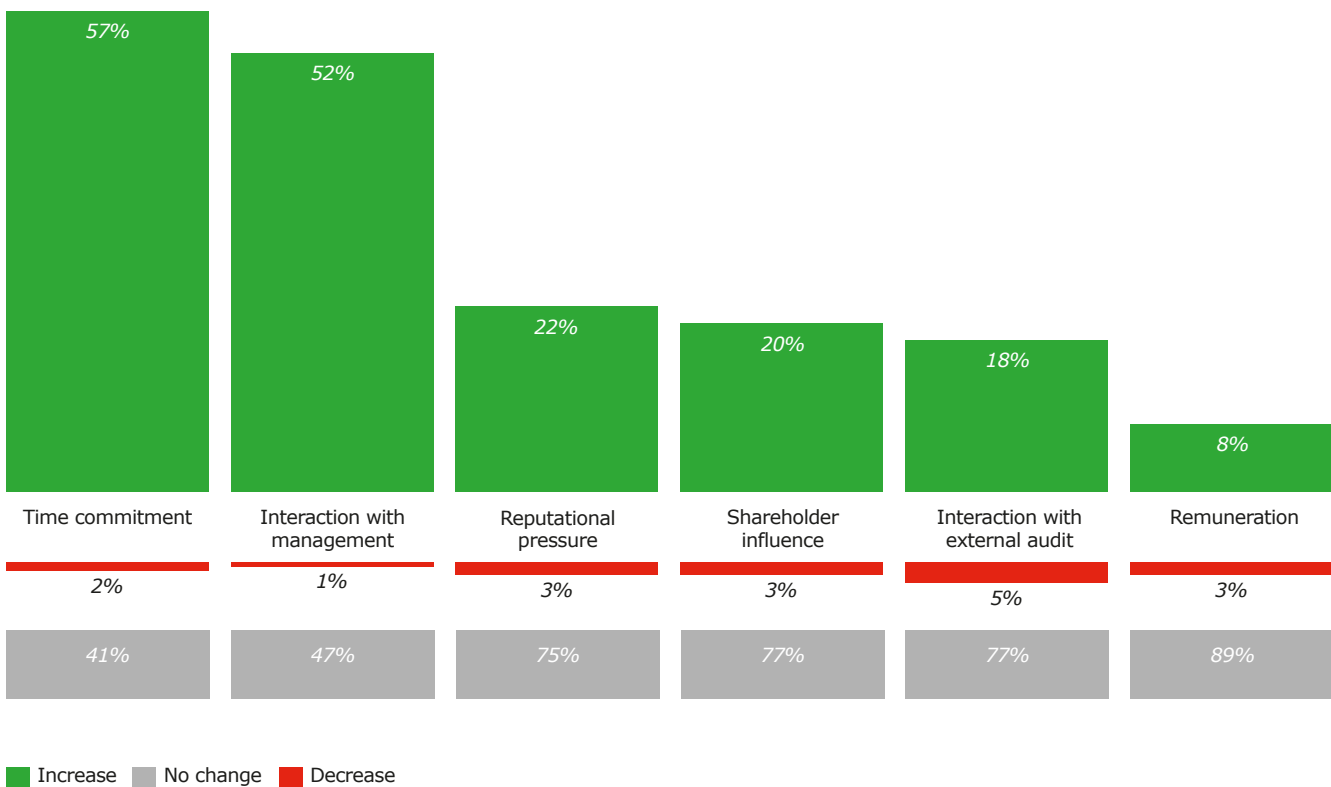
The picture with regard to **interaction with management** is similar: 52% of Board members report increased contact

with management over the past 12 months and just 1% report a decrease in contact, while 47% report no change. The strikingly high number of Board members who report an increase in both their time commitment and the level of interaction with management, suggests that the increased interaction is responsible for the increased time commitment.

When asked about **reputational pressure, shareholder influence** and **interaction with external audit**, around one in five Board members believe, in each case, that these factors have increased over the past 12 months. The remaining four fifths report no change or, in a few cases, a reduction in their importance.

Despite the clear additional time commitment and new challenges, remuneration for Board members remains largely unchanged: just 8% report higher **remuneration**.

Chart 4. Prioritizing areas within the mandate of the Board of Directors over the past 12 months



Question: In your view, how has the importance of the following areas within your specific mandate changed over the past year?

Information, supervision and control

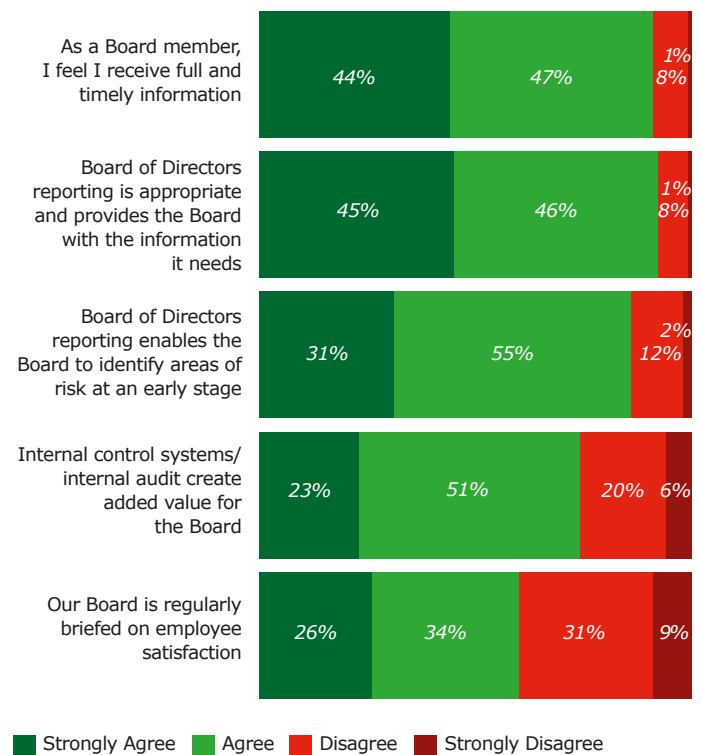
Swiss Board members generally feel that they receive a good level of information. 91% strongly agree or agree that they **receive full and timely information** (44% and 47% respectively) (see Chart 5), with only 1% strongly disagreeing and 8% disagreeing. They make a similar assessment of the **appropriateness of Board reporting**.

Board members are, however, less convinced that Board reporting with regard to identifying areas of risks is always sufficiently informative. Just under one third (31%) strongly agree that Board reporting helps to **identify potential risk** at an early stage, while 55% agree and 12% disagree.

There is a degree of scepticism regarding the extent to which **internal control and internal audit** create added value for the Board. 6% of Board members strongly disagree and a further 20% disagree with this statement, with only 23% expressing strong agreement. Company size influenced responses, with Board members from SMEs more likely than those from large companies to strongly disagree or disagree with this statement. There may be a number of reasons for this. Most SMEs do not conduct internal audits and find the internal financial control requirement an obstacle to doing business. Moreover, smaller companies are more manageable, so their Boards are less reliant on formalised internal control systems or internal auditing.

Board members' assessment of information relating to **employee satisfaction** is surprising. 9% strongly disagree and a further 31% disagree that they are regularly briefed on employee satisfaction. Board members in SMEs report being less well informed in this respect than those in large companies.

Chart 5. Information for the Board of Directors/ Supervision and control



Question: Information for the Board/Monitoring and supervision. Please rate the following statements...

Focus topics: innovation and disruption

Prioritising and planning innovation

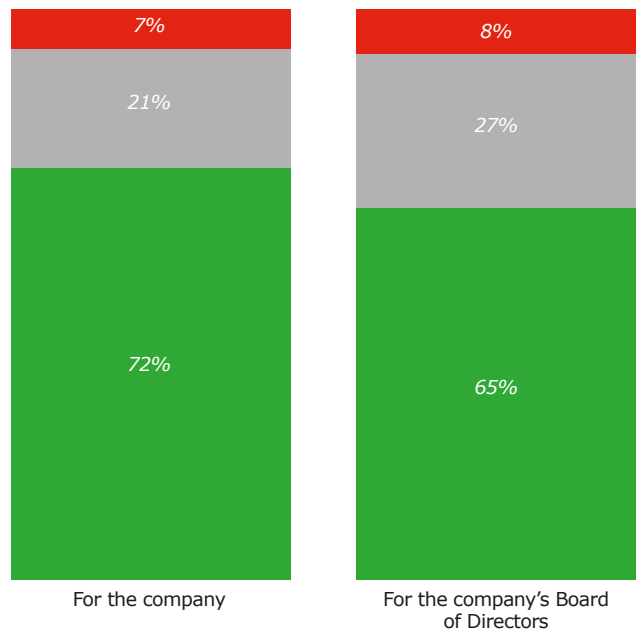
Companies in the Swiss private sector have a long tradition of leading innovation. Unsurprisingly then, Swiss Board members place a high degree of importance on innovation as key to future competitive advantage and a driver of success.

A substantial majority of Board members (72%) report that innovation is a high **priority** for their company and 65% report that it is also a high priority for the Board (see Chart 6). By contrast, just 7% report that their company attaches a low priority to innovation and a similar proportion (8%) report that the Board sees it as a low priority.

Despite this, only just under one third of Board members (31%) report that their company has a written **innovation plan** (see Chart 7). The proportion of large companies with an existing innovation plan is almost twice that of SMEs. However, a quarter of companies (24%) consider a written innovation plan unnecessary. SMEs are more likely than large companies to take this view.

The proportion of Swiss Board members whose companies are planning or currently drawing up an innovation plan (15%) or feel that such a plan would be helpful (24%) indicates that Swiss companies have recognised the longer term importance of planning and driving innovation.

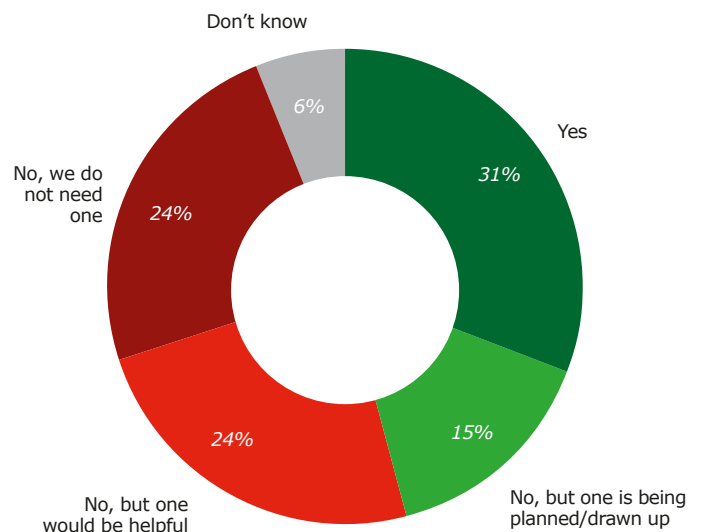
Chart 6. Priority given to innovation



■ High priority ■ Medium priority ■ Low priority

Question: How important is the topic of innovation for your company and for your company's Board of Directors?

Chart 7. Innovation plan



Question: Does your company have a written innovation plan?

Focus and framework for innovation activities

In response to a question about the **focus of their innovation activities**, most Board members cite innovation in services (58%) or products (47%) (see Chart 8).

With their strong focus on developing new services, Swiss companies seem already to be in line with the global trend towards a service economy. However, the traditional focus of many Swiss companies – developing new products and incrementally improving existing ones – remains important to them.

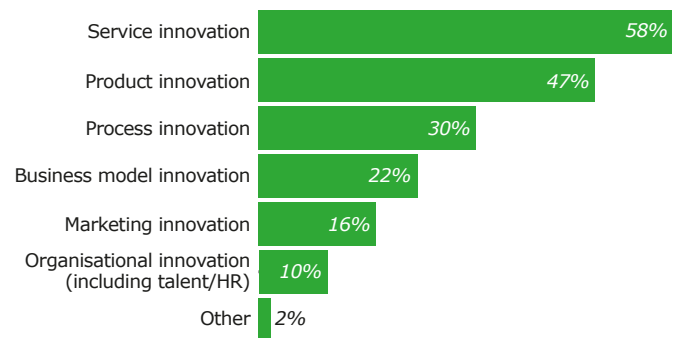
Just under one third of Board members (30%) also report a focus on process innovation, while just under a quarter (22%) report a focus on business model innovation. Both these findings indicate that Swiss companies are stepping up their innovation activities beyond product innovation to include innovating in other parts of the value chain, such as services, processes and marketing.

The **framework for innovation** needs to be strong if innovation is to succeed across different areas. The vast majority of Board members (86%) therefore highlight that having an appropriately skilled workforce and the right know-how are the most essential elements in successful innovation (see Chart 9).

Digitalisation and a corporate culture that fosters innovation are further key elements. Digitalisation enables companies to network their innovation activity both inside the company as a whole (across departments) and outside the company (with suppliers, customers and partners). A corporate culture that fosters innovation needs to exist in all areas of the business and, specifically, needs to allow scope for creativity.

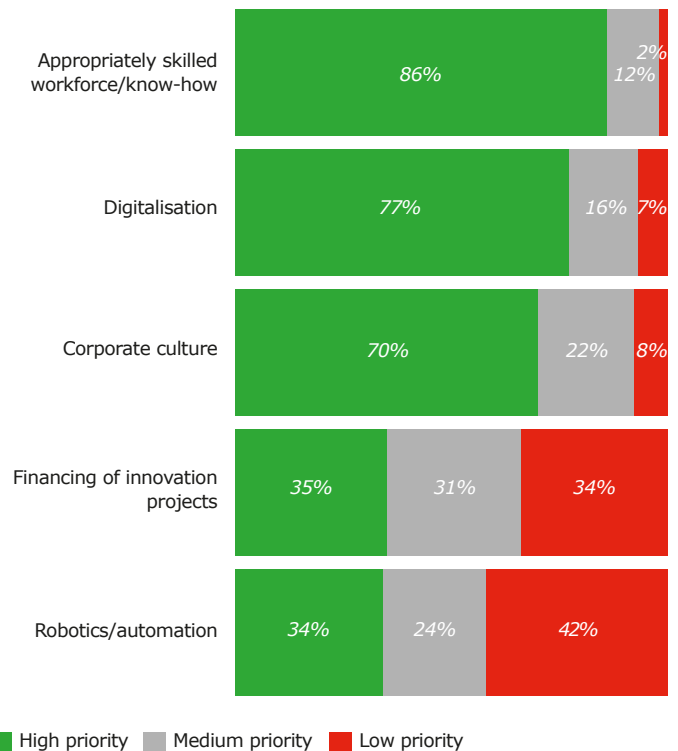
The financing of innovation is seen as having a substantially lower priority as a driver of success for innovation activities than other factors.

Chart 8. Focus of innovation activities



Question: What are the main areas of focus of your company's innovation activities?

Chart 9. Key factors supporting innovation



Legend: High priority (Green), Medium priority (Grey), Low priority (Red)

Question: How important is each of the following factors to support innovation at your company?

Disruptive innovation: opportunity or risk?

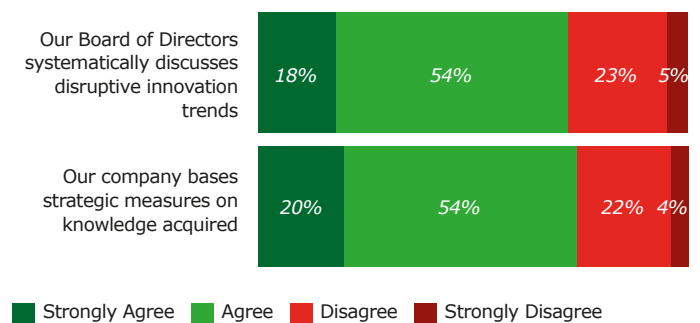
More than one in five Board members (23%) see disruptive innovation primarily as an opportunity for their company, but the overwhelming majority – 74% – see it as both an opportunity and a risk. A very low proportion of Board members (just 3%) see disruptive innovation primarily as a risk.

This reflects the increasing ambivalence of many Swiss companies towards disruptive innovation. On the one hand, they see it as a way of making new discoveries and gaining competitive advantage, but on the other, they perceive a risk that new and disruptive trends in their sector or markets will place them under substantial pressure.

Against this background, it is unsurprising that disruptive innovation is also a cause of concern to Boards of Directors. 18% of Board members strongly agree and 54% agree that their Board systematically discusses disruptive trends both within their own sector and in other sectors. These include, for example, disruptive technologies and business models (see Chart 10). The proportion of Board members who disagree or strongly disagree that their Board systematically discusses such issues is rather low at 23% and 5% respectively.

In response to the question of whether companies base strategic measures on knowledge acquired, a similar picture emerges as with the systematic discussion of disruptive trends (see Chart 10). More than two thirds of Board members agree or strongly agree that they base strategic measures on knowledge acquired, with less than one third disagreeing or strongly disagreeing.

Chart 10. Disruptive innovation trends



Question: Does your Board systematically discuss disruptive innovation trends and base strategic measures on knowledge acquired?

Interview with Doris Russi Schurter

“Board challenge: find the right people”

Doris Russi Schurter (1956)

is a Lucerne-based lawyer. She is Vice-President of the Board of the Helvetia Group and of the national grid company Swissgrid, a member of the Board of Swiss International Air Lines and of Luzerner Kantonalbank, President of the Board of the media company LZ Medien, President of the Association of Swiss Companies in Germany (VSUD), and a member of the Board of swissVR.



swissVR invited long-standing Board member Doris Russi Schurter to comment on the findings of the first issue of *swissVR Monitor*.

swissVR: A majority of the 460 Board members surveyed rate the prospects for their company’s business over the next 12 months as positive. In your experience, do Board members generally differ from management in their assessment of the business outlook for the company? If so, where do the differences lie?

Doris Russi Schurter: In my experience, management is generally more positive than the Board of Directors because it is more optimistic about its business than the Board. I’m not sure I really share the optimism as far as the next 12 months are concerned – with Brexit, Donald Trump, the terror threat from ISIS and huge numbers of refugees, 2017 looks set to be a tumultuous year.

swissVR: The survey findings indicate that virtually all members of Boards of Directors play a more or less active role in formulating strategy. Which aspects of strategy determination and formulation do you think most frequently offer potential for improvement?

Doris Russi Schurter: Defining the strategic direction of a company is an irrevocable and non-transferable duty of any Board of Directors. Boards should therefore play a proactive role in formulating strategy and not wait for management to present them with a finished product that they can then only tinker with.

swissVR: Can corporate strategies be challenged and adapted too often?

Doris Russi Schurter: Corporate strategies are important, they lay down the guidelines for a company’s future. But they must also leave sufficient leeway to enable companies to capitalise on opportunities. In today’s rapidly changing world, companies cannot afford to adhere rigidly to a strategy and miss out on opportunities that arise at short notice. And as far as adapting strategy is concerned, I think the advice given to stock market players – “Buy and hold” – is often sounder long-term advice than constant trading or constant change.

swissVR: The Board members we surveyed were asked to list the major issues that their Board has been concerned with over the past 12 months. Do you think there are issues that Boards often tend to neglect but that might need closer attention?

Doris Russi Schurter: Most Boards of Directors tend to focus on dealing with figures and budgets and compliance and risk management. However, sometimes they aren’t close enough to the core business of the company itself and don’t really understand what effectively drives it. Boards should therefore seek to enhance their understanding of the business by playing a more active role. If there are issues that are being neglected, it is the duty of the Board members to draw attention to those issues.

swissVR: The survey findings indicate that Board members are now committing more time to their role. Why do you think this is the case?

Doris Russi Schurter: I have been serving on Boards of Directors for more than 10 years and over that time I too, have seen my time commitment increase. One factor is that governance issues and risk management are taking up more of Boards' time. Another is, that the documents supplied to the Board have become lengthier and more detailed. It's also the case that most Board members are now more conscientious and prepare more thoroughly for Board meetings and that means that discussions then take longer.

swissVR: Board members responding to the survey report receiving full and timely information. How can Board members ensure they get all the information they need – or that information is not deliberately withheld?

Doris Russi Schurter: If there is trust between the Board of Directors and management, full and timely information should be a non-issue.

swissVR: Board members surveyed think that Board reporting is appropriate and informative. Do you see scope for improving Board reporting, and if so, in which areas?

Doris Russi Schurter: Board reporting is now very informative and detailed. I think it would sometimes be more helpful to have less information and more concise summaries.

swissVR: Board members attach a high priority to the topic of innovation. Do you think innovation has become more important in recent years?

Doris Russi Schurter: Over the past few years, digitalisation has pushed innovation to the top of the list of priorities for companies.

swissVR: Do you see major differences between sectors in the importance they attach to innovation?

Doris Russi Schurter: The manufacturing industry has invested heavily in research and development for many decades and this has supported an innovation culture. The financial sector has some catching up to do in this respect. However, digitalisation has highlighted the importance of innovation and disruptive developments in the banking and insurance sectors as well.

swissVR: Do you think a written innovation plan is a sensible move? What are the advantages?

Doris Russi Schurter: Research and development need to be structured. It is less important whether this is done in the form of an innovation plan or a special research budget.

swissVR: swissVR Monitor identified a corporate culture that fosters innovation as a key driver of successful innovation. To what extent can the wrong corporate culture actually hinder innovation, and to what extent can companies create the right corporate culture?

Doris Russi Schurter: A corporate culture that fosters innovation must above all be open to new things and also allow mistakes to be made.

swissVR: How has the focus of Board activities changed in recent years?

Doris Russi Schurter: The role of a member of a Board of Directors has become more demanding in recent years.

swissVR: Where do you see the greatest challenges to the future work of Boards of Directors?

Doris Russi Schurter: I see the greatest challenge as successfully finding the right people for the right positions. This is valid for the operational level as well as within the Board. With regard to the latter, I notice a tendency where competent people are now less willing to commit to working on Boards and taking responsibility. In addition, operational CEOs are often not allowed to serve on the Board of third companies.

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