

FIDELIO

BUILDING BETTER BOARDS

REPORT

**THE
JUDGEMENT
MUSCLE**

2025

www.fideliopartners.com

The Judgement Muscle

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Introduction

Welcome

A key feature of Fidelio's recent work with Boards – be it Search or Performance Reviews - has been building and developing strong judgement and decision-making capability. During the last year we therefore undertook primary research with leading Chairs across a range of sectors to understand their approach, and the challenges they face, in building effective judgement in the Boardroom.

We are delighted to share our research in this Report, including our major findings and conclusions. Looking ahead, Fidelio will undertake a series of deep dives exploring key facets of effective judgement and decision-making in the Boardroom – very much a priority in a year that promises disruption. It is also our firm conviction that the prevalence of AI has only increased the importance of human judgement, in particular for business leaders in the Boardroom.

We trust that the insights of Fidelio's research are useful to you and your Board. We also hope that you will join us in 2025 as we support Boards in developing and flexing the “*Judgement Muscle.*”

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FIDELIO “THE JUDGEMENT MUSCLE” - 10 KEY FINDINGS

1. The importance of the *Judgement Muscle* was acknowledged by Chairs in our research but not always prioritised.
2. The *Judgement Muscle* was seen to be critical to Board performance, but the definition is still evolving, extending beyond formal decision-making capability to include the myriad small decisions that make for Board effectiveness.
3. A number of steps and building blocks were identified to develop the *Judgement Muscle* but no systematic or consistent approach. There is no template.
4. The disruption faced by most Boards since 2020 has increased the need for an effective *Judgement Muscle*; the unpredictability expected in 2025, driven in particular by politics and technology, makes effective Board judgement an imperative.
5. Diversity, above all cognitive diversity, was singled out as the most important contributor to effective Board judgement; there was, however, scepticism about a formulaic approach to building diversity.
6. Other key building blocks for the *Judgement Muscle* included: the quality of the Chair, and the Chair/CEO relationship; understanding of the business; thoughtful preparation of how complex decisions come to the Board; and Board cohesion and dynamic in the Boardroom and beyond.
7. While the biggest challenges which exercise Board judgement were seen to be company and sector specific, clear overarching trends emerged in the last year which demanded rapid upskilling across all Boards large and small.
8. Board judgement was particularly required over the past year in addressing geo-political risk; macro-economic volatility; key people decisions and the oversight of technology.
9. Board thinking on AI developed dramatically in the past 12 months with a sharp increase in awareness but with most Boards still very much in the foothills with regard to the governance of AI.
10. A clear link exists between the *Judgement Muscle* and Board performance; Chairs and stakeholders are clearly working towards a more systematic approach to developing Board judgement and assessing Board performance.

Part I: Insights and Conclusions

A: Context

GENESIS OF THE JUDGEMENT MUSCLE

In many ways Fidelio's research goes right to the heart of Corporate Governance which is predicated upon effective Board oversight and decision-making. The need for judgement capability is not new. What is new is the increased Chair focus on how best to achieve this. During 2024 Fidelio identified a clear trend across numerous Boardrooms explicitly linking Board composition, Board performance and judgement capability.

Indeed, as we conducted Board Performance Reviews and Searches, Fidelio could see Chairs devoting more time and greater thought to building an important Board capability. This capability combined decision-making with the ability to work through complex situations, sometimes at pace, and always collectively.

We named this the "*Judgement Muscle*".

DISRUPTION & COMPLEXITY

The timing of this increased focus on effective judgement and decision-making is not surprising. In a four-year period, Board Directors across the globe have had to navigate all the following disruptors:

RECENT DISRUPTORS					
Covid / Pandemic	Changing Workplace Expectations	Technology	War	Inflation & Volatility	Climate Change

Of course, the disruptors described above are interrelated and also being compounded by AI. 2024 election outcomes promise to accelerate the pace of change and disruption.

APPROACH TO RESEARCH

Responding to the clear and growing interest in building judgement capability in the Boardroom, over the past year Fidelio has undertaken comprehensive research to understand how leading Chairs are approaching the challenge of developing the *Judgement Muscle* within their respective Boardrooms. We interviewed thirty-five Chairs across a range of sectors and geographies both on a one-on-one basis, and in a Roundtable setting.

Fidelio posed the following questions:

FIDELIO'S THREE QUESTIONS FOR CHAIRS

1. How do you, as a Chair, ensure good judgement and decision-making capability within the Board?
2. What are the challenges you see in the Boardroom that are most exercising Board judgement?
3. What are the implications of AI for effective Board decision-making?

B: Defining the “Judgement Muscle”

Fidelio received an excellent response to our *Judgement Muscle* research. Chairs engaged with the topic seeing it as relevant and important. This also prompted fruitful discussions around definition.

We clarified our definition of the *Judgement Muscle* as follows:

FIDELIO DEFINITION:

The *Judgement Muscle* is the decision-making capability which a Board brings to all aspects of its work: formal Board decisions and approvals, navigating complexity, and a myriad of sometimes minor decisions, e.g. what to review, what not to review, when to challenge and how to challenge, where to guide and how to listen.

It took us somewhat by surprise that judgement wasn't a term frequently used in building Board capability, not least because the concept of judgement clearly has legal and regulatory significance for Boards.

- In the US, a Board's actions are generally protected from second guessing by courts through application of the default '*business judgement rule*', which presumes that independent and disinterested Directors made an informed, good-faith decision. However, it is possible to overcome such presumption if the Board was uninformed, lacked independence or acted in bad faith or with gross negligence, or if the action taken was contrary to law.
- Meanwhile in the UK, the Financial Reporting Council is actively encouraging Boards to *exercise greater judgement*, not to simply comply with the UK Corporate Governance Code, but, when a departure from the Code could achieve effective governance, to provide transparency and explain.

None of the Chairs interviewed questioned the need for the Board to be thoughtful, informed and good at decision-making. However, in our discussions, some Chairs challenged the premise that good judgement should be the first consideration when building Board capability:

“The priority should be the Chair - CEO relationship.”

“The Executive’s judgement capability is of critical importance.”

“Curiosity is the pre-requisite for the Board.”

“Ethical integrity comes before all else.”

We would agree that all these are important factors in building Board effectiveness, as reflected in the research below. Moreover, ethical integrity is the bedrock of the work of the Board, and we had taken this as read.

Fidelio, nonetheless, stands by the original premise that the concept of the **Judgement Muscle** is a valuable framework for:

- (i) understanding how a Board best adds value
- (ii) preparing the Board for an uncertain world

The **Judgement Muscle** enables Boards to meet and navigate legal and regulatory requirements, satisfy shareholder and stakeholder expectations, and above all to contribute value to the business, in an increasingly complex and volatile environment.

C: Insights from the Interviews

Question 1: How do you, as a Chair, ensure good judgement and decision-making capability within the Board?

Fidelio’s first question for Chairs focused on identifying and prioritising the key building blocks required to build effective judgement capability in the Boardroom.

COGNITIVE DIVERSITY

The single most important ingredient for effective judgement in the Boardroom was seen to be cognitive diversity. This was prioritised by the majority of the Chairs interviewed, primarily because cognitive diversity is a powerful defence against group think. There were a number of dimensions to cognitive diversity:

- **The traditional markers of diversity**, including gender, ethnicity, age and socio-economic background
- **Personality within a Board context** – voluble, reflective, constructive, perverse
- **Ways of thinking** and approaching a problem

While Chairs clearly valued the benefits of cognitive diversity, there was no consistency as to how this should be achieved. Our research suggested that Chairs often lacked a clear template or pathway to building this critical aspect of diversity. Most of the Chairs we interviewed were alert to screening for cognitive diversity when hiring, but this was not systematic, and we heard little about how Chairs would guard against their own blind spots.

We also noted some push back on the traditional markers of diversity e.g. that the women on the Board can think very like the men if they come from similar backgrounds. We wouldn't disagree but in Fidelio's view traditional diversity markers are an important building block of cognitive diversity.

OTHER BUILDING BLOCKS

A number of other building blocks for effective Board judgement were cited, although none of these were singled out in the same way as cognitive diversity. The importance of Board cohesion was a given. Other building blocks included:

- i. **The quality of the Chair** – the second most important determinant for effective Board judgement was seen to be to the Chair and how this key role is performed, including:
 - Overseeing an effective hiring and selection process
 - Developing a positive dynamic between Board Members in a formal Board context, supported by informal contact such as Board dinners
 - Conducting the Board Meeting in a way that all voices could be heard - including those likely to espouse a contrarian view

The ability of the Chair to maintain direction and focus while soliciting and benefiting from different opinions was highlighted.

- ii. **Preparation of decisions** – The most experienced Chairs in our research were particularly thoughtful about how a decision is brought to the Board. The quality of Board materials was key. It was stressed that complex issues should come to the Board over several Board Meetings allowing the Board to develop its thinking and judgement. This early sighting of issues also helped to ensure that the Board was not presented with a fait accompli at a stage when changing direction would be deeply disruptive or no longer possible.

- iii. **Chair / CEO relationship** – the quality of the Chair/ CEO relationship was also considered pivotal to the success of the Board and the business. When this relationship is working well, it does not exclude the Board. On the contrary a healthy degree of trust between Chair and CEO, enables issues to be raised in the Boardroom at an early stage and for the Board to be party to how the CEO is thinking. This early sight of emergent issues or decisions also enables the CEO and the business to fully benefit from the Board’s judgement and insight.
- iv. **Competence and business familiarity** – a fundamental point for Board judgement that should not be overlooked is the simple prerequisite for the Board to be familiar with the business and the sector. While cognitive diversity is essential, experienced Chairs also stressed the need for the Board to understand the nuts and bolts of the business. Good judgement clearly does not exist in a vacuum. The Executive Team will be much more open to the Board’s contribution, guidance, challenge and decision-making, if they can be confident of the strength of expertise and industry insight around the Boardroom table.

We saw Chairs addressing gaps in the Board’s knowledge of the business through composition in the longer-term and the rigorous use of Board learning in the short-term.

Question 2: What are the challenges you see in the Boardroom that are most exercising Board judgement?

Having explored the building blocks for effective Board judgement, Fidelio also asked Chairs to identify the challenges or issues that most exercise Board judgement.

Initially we also received some pushback to this second question - challenges were seen to be company and sector-specific rather than overarching. During the course of Fidelio’s research, however, it became clear that Chairs were also identifying important challenges that were common across Boards.

EMERGING TRENDS

The key areas where Chairs saw Board judgement being exercised were as follows:

- i. **Geo-politics** – Initially we saw a clear divide between larger Boards overseeing companies with international footprints and smaller domestic companies. The former recognised a firm grasp of geo-political risk to be a core Board competence, while for smaller companies a deep understanding of the domestic market was the priority.

However, as 2024 unfolded geo-political risk moved up the Board agenda, reflecting major wars in Europe and the Middle East, as well as dramatic and disruptive outcomes from the range of elections held across the world.

By the end of 2024 we found all Boards acknowledging that geo-politics demanded Board attention, but considerable variation in how Board judgement was applied. We saw Executive Teams become more explicit in their expectations from the Board: geo-political generalities were not wanted, whereas insight and understanding as to the specific implications for the company were seen as valuable and contributing to horizon scanning.

Larger cap Boards have considerably greater experience here with Board composition typically reflecting geographic priorities; our research indicates that Boards of smaller companies are rapidly upskilling with regard to geo-politics.

- ii. **Macro-economic volatility** – Closely associated with geo-political risk in our research were the macro-economic consequences. Chairs interviewed flagged that **all Boards had had to “up” their financial oversight in recent years with the age of cheap borrowing coming to an end** and the cost of leverage increasing dramatically. The implications for Board judgement were two-fold:

- Firstly, Boards needed to ensure **rigorous financial oversight** with a clear eye on cash flow, as well as the cost of borrowing. This extended to close Audit Committee oversight of CFO and Treasury implementation regarding capital structure and hedging. With markets moving so quickly, companies could ill-afford to be exposed.
- Secondly, heightened unpredictability driven by the speed of change and increase in volatility, required companies to make **more effective use of scenario planning**. Boards had a critical role to play here in challenging and guiding the Executive to be prepared for alternative scenarios and to have the necessary agility to pivot and change course when required. This requires heightened financial planning skills at Board and Executive level.

- iii. **People** – A perennial aspect of the work of the Board which was seen to consistently exercise Board judgement was **“people” and people decisions**. The most important role of the Board is arguably the appointment of the CEO. Several Chairs flagged how even experienced Boards may struggle with selecting the most suitable candidate for the role. The same was true of overseeing performance. **Ensuring the appropriate link between performance and remuneration was not seen to be getting any easier.**

Some of the most experienced Chairs noted bringing individual judgement to bear in people decisions can be tricky. Board Members will have valuable insights and experiences but also biases and blind spots, which can skew decision-making. Recognising this fallibility, Chairs clearly saw the merit of “making process your friend”.

People decisions are some of the most difficult and yet some of the most important for the Board. **A clear and well thought through process is a great aid to collective Board judgement on all key people issues: appointments, development, remuneration and ED&I.**

- iv. **Technology** – Unsurprisingly, technology was seen as a major challenge, as well as opportunity, which very much exercised Board judgement. Several Chairs cited examples of Board approval of large technology investments that had turned out to be problematic. Such decisions can be some of the largest and most important decisions that a Board has to make; **our research found Chairs actively seeking to increase the depth of technology experience to provide adequate challenge on large technology projects.**

Our interviews also reinforced that most organisations are undergoing transformation, a significant component of which is typically digitisation. For many Boards the **depth of experience required to oversee and guide this process of transformation and digitisation is underdeveloped** or not yet in place.

During 2024 Fidelio saw Board focus shift from the appointment of a single Board Member with a strong technology background to creating greater breadth and seeking to strengthen the Board's grasp of technology with each new Board appointment.

Without a doubt a key aspect of the technology challenge for Boards is the rapid advance of AI which we pick up in the next section.

WHAT'S MISSING?

While there was broad agreement on which aspects of the work of the Board most exercised Board judgement, we were also surprised by some omissions. **The challenge of climate change, for example, did not feature prominently** in our research, despite a number of climate disasters globally in 2024, and of course most recently with the savage US forest fires in New Year 2025.

Certainly, listed companies, in particular, have made considerable progress on reporting on their path towards Net Zero. We would argue, however, that a number of Boards still don't have the depth of experience to challenge and guide the Executive on sustainability strategies. The change in the political environment regarding climate arguably makes greater demands on Board judgement, not less.

Question 3: What are the implications of AI for effective Board decision-making?

Fidelio specifically asked the Chairs interviewed about the judgement and oversight that their Boards were bringing to AI.

A RAPID UPSKILLING

We have already commented upon the marked shift we saw in Board focus on geo-political risk over the course of the year. The shift in Board attitudes to AI was even more pronounced.

At the beginning of 2024 several Chairs had not yet had a specific Board discussion on AI and one Chair was specifically concerned that Boards may be *“burying their heads in the sand”* with regard to AI. **By the end of 2024 almost every Board had had at the very least a tailored Board learning module on AI.**

Fidelio also noted among our Chairs a very broad range of experience with AI. One Chair, whose business was already impacted by AI, brought considerable prior experience to the Board and was able to discuss in depth the risks and opportunities presented by AI at both company and macro-economic level. The extraordinary increase in productivity that AI could bring was flagged both as an opportunity and a risk. The opportunity is huge, but AI could easily challenge the fabric of society through an extreme concentration of wealth and a radically diminished pool of meaningful jobs.

Most Chairs were not as familiar with AI nor had given such extensive thought to its implications, although we noted a determination to upskill. Several Chairs were deploying AI to challenge their own thinking.

AI – THE ROLE OF THE BOARD

Over the course of the year, we saw that Chairs and Boards were giving thought to the application of AI in their business. **The governance of AI and the role of the Board in providing oversight has to date attracted considerably less attention.**

Several Chairs took comfort from prior experience in overseeing large and complex data models. Financial Services Chairs in particular, were alert to the risks of mis-selling and inadvertently introducing discrimination through processes that involved AI.

In terms of how the Board itself used AI, at the beginning of the year we found that Board Members were most commonly using AI on an individual basis to test their own thinking and to play with the possibilities of ChatGPT. As 2024 wore on, we found greater evidence of AI being used in transcription as the basis of minute taking, but relatively little discussion about the extent to which AI could become a useful Board tool, or, potentially, even hold a Board seat.

In Fidelio’s opinion, AI will compel Boards to develop a much clearer understanding of the judgement and added value that they bring to their governance and oversight. AI certainly has the potential to enhance Board contribution, but it will also increasingly show up Boards that are mediocre and unable to articulate and demonstrate performance and value contribution that they bring to the company.

D: Conclusions

ENGAGED RESPONSE AMID DISRUPTION

It is no coincidence that Fidelio's research on the *Judgement Muscle* expanded during 2024 and met with such a positive response.

It is clear that Boards are facing substantially greater disruption and unpredictability as geo-politics, macro-economic volatility, social expectations and demographics, technology, and climate change intertwine.

In addition, Boards are evermore in the spotlight facing often conflicting expectations from shareholders, debt providers and a broad spectrum of stakeholders. There is no simple right answer and increasingly the work of the Board is not templated.

A FRAMEWORK FOR PERFORMANCE

This is where the *Judgement Muscle* comes into play. Effective Chairs are already giving substantial thought to building a Board where the whole is greater than the sum of the parts. Collective judgement combines the diversity and experience of individual Board Members to form an effective decision-making capability. A high performing Board will apply this to the major formal decisions facing the Board, as well as the myriad small decisions - where to focus, when to challenge, how to guide - that are equally critical to the success of the company.

Stakeholders look at outcomes, but these often have a time lag. There is value therefore in providing comfort about the Board's ability to provide great judgement today to all its decisions, large and small and with both immediate and longer-term implications.

This is why shareholders and regulators are increasingly looking at Board performance. The *Judgement Muscle* is critical to performance. Key tools to support Chairs in developing the *Judgement Muscle* include:

- a rigorous approach to Board Search that does not simply recycle familiar candidates
- Board learning that keeps the Board abreast of the latest development and thinking
- and Board Performance Reviews that enable the Chair to assess judgement capability and provide clear recommendations to increase effectiveness.

THE JUDGEMENT MUSCLE FOR 2025

2025 promises unpredictability and disruption. Our research shows Chairs are alert to the benefits of great judgement predicated upon cognitive diversity. The next step is building a more systematic and rigorous approach to embedding the quality of judgement needed for a highly volatile world. The prize for shareholders and stakeholders is performance. This is why the *Judgement Muscle* matters more than ever.

Part II: Analysis

Our Research

Fidelio's research is based on conversations with and insights from Chairs about how they build their Boards in order to develop the *Judgement Muscle*. Our research was conducted in a variety of formats, with participants spanning different sectors and geographies.

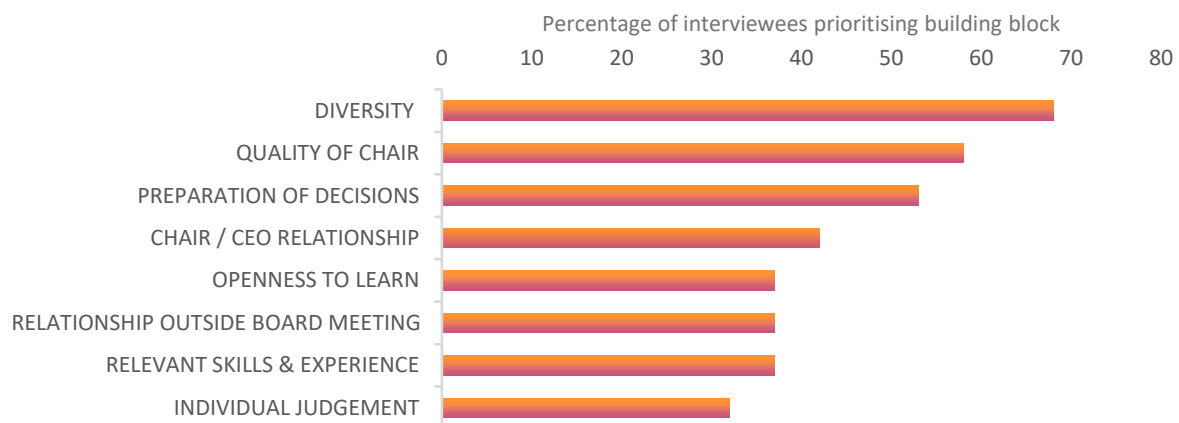
FIDELIO RESEARCH – PROCESS & SCOPE	
35 CHAIRS	Engaged with over a year-long period, including through one-on-one interviews, both virtual and in-person, roundtables and written consultation.
10 SECTORS	Represented by Chairs, public and private, including retail and FMCG; energy and infrastructure; property; financial services; professional services; hospitality and leisure; not-for-profit including education, arts and culture; healthcare and pharmaceuticals; technology / engineering; and publishing.
4 GEOGRAPHIES	— Europe and the UK — Africa — North America — Asia

In the following section, we summarise the feedback from Fidelio's research.

Question 1: How do you, as a Chair, ensure good judgement and decision-making capability within the Board?

Chairs interviewed identified the following components as being critical building blocks for an effective judgement and decision-making capability:

BUILDING BLOCKS PRIORITISED BY CHAIRS



I. Diversity

- Diversity was considered the most important contributor to good judgement in the Boardroom with cognitive diversity prioritised, albeit acknowledged to be difficult to “bake into” selection processes.
- A range of experience including sector and geography was valued.
- There was some concern that key diversity markers – age, gender and ethnicity – could lead to formulaic outcomes.
- Fresh perspective with a disciplined rotation of Board Members seen to benefit cognitive diversity.

“Diversity is the most important word when thinking of composition.”

“As a Chair today, I am looking for cognitive styles that will be different and diverse”

“In a vastly more challenging world, the best thing you can do is have a diversity of input grounded in what is needed in the Boardroom. This is not restricted to gender or ethnic diversity but is a cocktail of different thoughts, shaped by the way one lives and has lived.”

“One gets better diversity by fishing in different ponds, which is why we have constructed a Board with people not just from corporates – they can be civil servants, teachers, academics, anybody.”

“Having someone in the Boardroom who has been round the block five times is a tremendous asset – but having someone who hasn’t is too.”

“You now need people with a mind who can quickly change from one thing to the next. You want people who can bring engagement to different topics. Consumer, financial services, and so on. People who are multi-dimensional”

“I do think Boards benefit from rotation as much as they do from the experience of being there a long time.”

II. QUALITY OF CHAIR

- The quality of Chair was seen to be critical for effective Board judgement – building the Board, setting the agenda and ensuring focus, and establishing a trusted relationship with the Executive.
- Effective Chairs understand how and when to involve Boards in complex decision-making and how to move the Board towards a good decision; the analogy of the conductor of an orchestra was used regularly.
- A high degree of skill is required in encouraging all Board Members to contribute while maintaining focus and ensuring accountability and cabinet responsibility.

"I remember an early Fidelio Overture on the Chair being akin to a conductor."

"One of the best ways to enable people to exercise judgement is to make sure that difficult decisions receive the right amount of focus and attention they need. And you as a Chair have to really help direct the Board and Executive team, jointly, on where to focus that judgement."

"The Chair needs to be informed enough about the business to know when there is something harder to discuss."

"As Chair, you need to challenge the consensus about what we need."

"It's the Chair's job to lead and decide what we think is important to the company and then present it to the shareholders."

III. PREPARATION OF DECISIONS

- The choreography of decision-making, led by the Chair, was a key theme in ensuring good Board judgement; the most effective Chairs make process their friend.
- This included the timing of bringing issues to the Board with an emphasis on early sighting and giving the Board several opportunities to discuss complex issues.
- The quality of Board information was also deemed key; succinct, clear and as far as possible reliable.
- Effective Board judgement is also about making decisions with imperfect information.

"We choreograph the meeting itself. Who do we have coming in, what Board papers are we serving? Setting the agenda is important, but also protecting the key conversations in that agenda. Not getting caught up in the unimportant points and getting to the core of the conclusion."

"Process is your friend."

"If you land things on people before they have time to think, you don't get decision making, you get knee-jerk reactions"

"Giving people a voice and a choice will be a decision that goes a much longer way than if you were to cast your decisions from Mount Olympus and expect people to catch it and run with it."

"The first thing of course is to ensure that the information you get is credible. Having processes in place to get the information you need - not just processes but also regular internal audits."

"There is something about a willingness and ability to take a decision even when you don't have full information."

IV. CHAIR / CEO RELATIONSHIP

- While Fidelio's research focused on Board judgement, it also identified a good Chair/CEO relationship as an important building block.
- This includes a high degree of trust, strong communication and the ability to challenge.
- This relationship should not preclude the Board but ensure that the CEO and the Executive have access to Board insight in a structured and efficient way.

"The role of the Chair is really to work with the CEO to ensure they are very successful and effective. And if they are not, it is at least a reflection on the Chair as it is the CEO."

"As Chair, I am of the strong view that the Board must give the Executive space to get on with the job. And not get in their way or second guess them all the time. I would expect the Executive to bring decisions to the Board, which the Board can then support or challenge."

"Executives are protective of their decision making, rather than being open to it. Which is why the 'high challenge, high trust' thing is important."

"You need a culture that allows open challenge without Executives becoming defensive, or Non-Executives feeling they have nothing intelligent to say."

"It's important that management brings incomplete thinking, and that they trust the Board."

V. OPENNESS TO LEARNING

- The importance of curiosity was recognised; for some Chairs it was the essential attribute for Board Members and a pre-requisite for Board judgement.
- The pace of change has put a premium on active Board learning and Chairs are using Board Review processes in an increasingly muscular way to identify gaps and drive board learning.
- The resurgence of the Advisory Board is a means of accelerating Board learning.

"Curiosity precedes judgement. In this environment, in a business environment, that curiosity often manifests itself in the form of professional scepticism. That is an important thing every Non-Executive should have."

"I think if Board Members lose an innate curiosity for what is going on in the world, they fail to be relevant"

"One of the things that is absolutely necessary is an open mind. And the ability to think in scenarios."

"The first thing I look for is a willingness to do homework. Low ego; I don't want people with an 'I am right' attitude"

VI. TRUSTING WORKING RELATIONSHIP

- The greater the trust between Board Members, the better the quality of decision-making was seen to be, in particular on tough issues.
- Most Chairs felt strongly that to build this trust Board Members needed to get to know one another better beyond formal Board discussions, with Board dinners and site visits playing an important role.
- While virtual meetings had created greater flexibility, the importance of in-person meetings was underscored, in particular for Non-Executives who are not in regular contact.

"I think, having put Boards together, that the way you make Boards work is high challenge, high trust."

"I think with a new Non-Executive director, you should be spending as much time at informal events as formal."

"The Board has a big role, because often when a business goes wrong or off track it is because dynamics are not working properly."

"What is needed to have good judgement is to have confidence in each other, to have these open discussions. And I think that is a lot about the Chair, to make this space for the Board, and also to have dinners and meetups informally."

"Getting people together for a dinner is increasingly hard, but that is the best way of bringing cohesion among a Board. Incredibly valuable, bringing people together."

VII. RELEVANT SKILLS & EXPERIENCE

- A key point that should not be overlooked is the critical importance of the Board understanding what is going on in the business.
- Cognitive diversity is vital; equally the Board needs to include Directors who understand the company and the sector and have the experience and insight to provide both guidance and challenge.
- Self-evidently the Board needs to comprise the governance and technical experience to populate key Board roles such as Audit, Risk and Remuneration Committee Chairs.

"Hands-on experience of what the company is about - that is an important factor in being able to judge if what is happening is right."

“Those [serving on Boards] from consultancies focus a lot on process. I think there is value in the practical, hands-on experience.”

“There are certain pre-conditions for Boards to make good quality decisions. First of all, I think it is important the Board knows something about business!”

VIII. INDIVIDUAL JUDGEMENT

- While the focus of this research was on collective judgement, Chairs recognised the importance of individual common sense and good judgement.
- Experience was seen to be an important contributor to common sense, in particular the ability to learn from mistakes.
- Most Chairs felt that it was possible to develop judgement both individually and collectively but a minority argued that judgement is an inherent trait.

“Sitting on a Board is really a common-sense thing.”

“On the Board, really what I value is people who are seasoned, willing to probe and to explore with enough lateral thinking to discuss a variety of sectors... People who are sufficiently dexterous to see patterns and disconnects.”

“You would hope that Boards usually only include grownups in the ring. It is hard to teach judgement, very hard. You can almost teach technical skills better than certain judgements.”

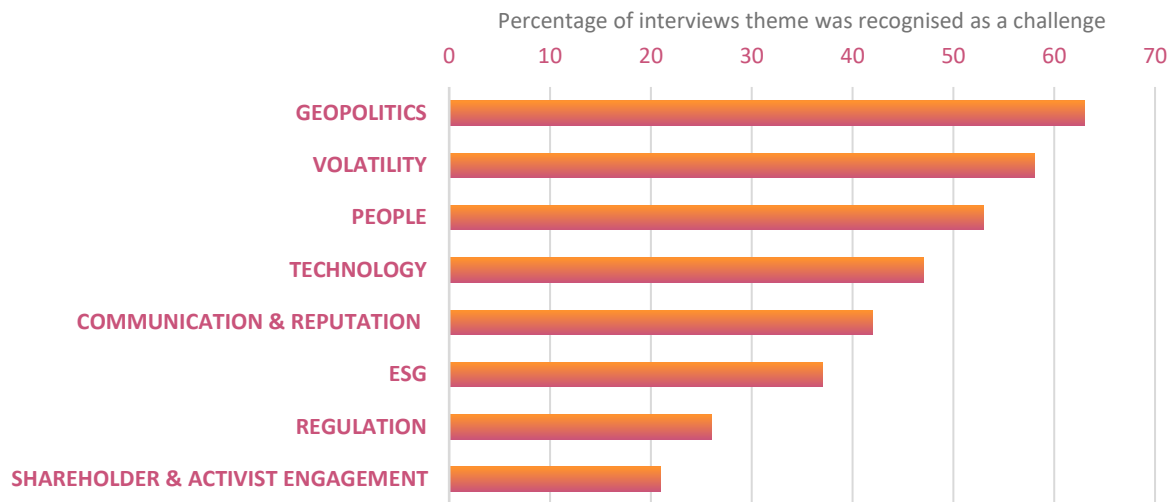
“You are never going to get experience that covers every problem in the future. But can you process a new problem?”

Question 2. What are the challenges you see in the Boardroom that are most exercising Board judgement?

The areas that most exercised Boardroom judgement varied by sector and company. However, as our research developed key themes emerged which taxed Board judgement and were common to most Boards. Moreover, a number of Chairs stressed the increase in complexity and the interconnectedness of many of these key themes.

“Taking the complexity down to the key issues, does help. It is the interconnectedness of the key issues that causes difficulty.”

THEMES MOST EXERCISING BOARD JUDGEMENT



* The assessment for "AI & Technology" incorporates responses to Fidelio's Q2 and Q3

I. GEO-POLITICS

- As we started our research geo-political risk was seen to be more of a challenge for larger international companies; over the course of the year smaller domestic companies also saw geo-political risk as taxing Board judgement.
- The combination of major conflicts with the potential to escalate and election results with the potential to destabilise clearly focused Boards on geo-political risk; there was a clear appetite for information.
- Larger more international Boards typically included Board Members from key regions or with relevant experience of key regions; smaller Boards may have lacked this advantage, but Chairs had a clear expectation that Board Members keep informed.

"Increased geopolitical risk has put a premium on good management. Boards can't be crystal ball gazers."

"If you are a senior international company with exposure to different countries and continents and cultures, and looking at capital allocation for your worldwide business, then having some geopolitical views and understanding how economies work is important. But those sorts of people play a role that would be of no value to a Board that is entirely UK-centric."

"What is different now is that we had been living in a world of peace and order, and now live in a world in which major terrorist events flick all sorts of switches."

"All organisations exist in a context, and what is happening in the context is something the Board has to navigate - to be nimble and agile."

"Board Members should be more informed than the average Economist reader on implications for the company."

II. MACRO-ECONOMIC VOLATILITY

- Chairs saw greater economic volatility as an increasing challenge demanding Board oversight and judgement, often as a consequence of geo-political risk.
- The judgement required from Boards included strong financial oversight combined with Treasury and capital market skills.
- As Boards faced considerable volatility, our research indicated increased adoption of scenario planning.

“It is quite a tough environment for shareholders and owners. That brings out some challenging behaviour around the Board room. I have seen people get a lot more emotional about issues than before.”

“The economic environment is taxing people a lot at the moment. It is taking up so much of Board sessions – it has sucked the oxygen out.”

“The desire to create plans that have a level of certainty around them, Boards like that. The reality is that the need for flexibility and agility has never been greater.”

“I have never [previously] chaired Boards where scenario-thinking is the norm, but now scenarios are the way we have to think.”

III. PEOPLE

- Chairs recognised the considerable judgement required around people issues and that this was perennially one of the greatest challenges for the Board.
- Key appointments, in particular the CEO, as well as aligning performance and remuneration, do not become easier in a fast-changing environment with tough people decisions often having to be made at pace.
- While the Board needs to bring great judgement to people decisions, it can also bring individual biases and blind spots, and experienced Chairs emphasised how important it was to make process a friend.
- For international businesses Boards were challenged to ensure common values and culture while respecting local context.

“People issues, appointments dismissals, and strategy. They stand out in all Boards regardless of sector. People issues are typically ones we keep getting wrong. I'm humbled to admit that, and I pride myself greatly on having a fingernail of expertise.”

“For the whole senior team, succession planning and evaluating the longevity of people is really important. You have to get that right.”

“When human emotions are involved its really tricky, but it’s important that there’s a few people around the table that understand the people issues.”

“You want people on the Board with judgement from a human perspective. It is all very good to have someone good technically, but if they are not good at judging for a successor, that is no good.”

IV. TECHNOLOGY

- Technology probably would have featured more prominently in Fidelio’s ranking of Board challenges has we not carved out a separate question focusing on AI.
- Technology procurement was seen as a key issue challenging Boards; the second, and arguably greater challenge, was Board oversight of transformation which typically has a significant digital component.
- Chairs were wary of bringing on Board technology experts that couldn’t contribute on broader issues, but there was clear agreement that Boards need to increase their overall technology and digital awareness. Several Chairs emphasised the value of younger more digitally savvy Board Members to strengthen judgement here.

“Digital, AI, cyber. Are we going hard enough, fast enough in the right direction? Those would be the areas we would focus on.”

“What about IT? It is a huge risk, to not have horizon-scanning there... Boards thinking about that is really important.”

“If your experts are too narrow, that is not helpful. You have to be aware of what else is going on in the company... we don’t want single-issue experts.”

“It is a hugely important issue. I don’t have a specialist on my Board, but I have a co-opted specialist on one of the subcommittees of the Board. They wouldn’t be a great Board Member, as Board Members need to be able to contribute across the Board.”

“A lot of the time, you hear discussions about competences needed on the Board. But then you end up with a lot of specialists. I don’t think the Board should be that; I think they should be generalists, but they must know what is going on, to ask the right questions. And then you can bring experts in.”

“Younger people tend to be very AI / digitally literate ... There is an opportunity for teaching [and reverse mentoring] there.”

V. COMMUNICATION & REPUTATION MANAGEMENT

- Chairs flagged how difficult it could be for Boards and companies to respond to reputational firestorms often fanned by social media. Disinformation and deep fakes can be difficult to challenge.
- There were differences of opinion as to whether Boards would benefit from additional communications expertise around the Boardroom table.
- Guidance to the CEO in a crisis was seen as vital but it was recognised that situations could move very quickly. Culture wars can be a very tricky area for Boards.
- Boards are being increasingly tasked with the oversight of culture. Chairs recognised the need for Board Members who understood and had experience of employee engagement and communication.

“When people ask me about risk, I say reputation. The fastest route to company destruction is reputational damage.”

“You are under a spotlight 24 hours a day, seven days a week. A global spotlight... I think the communication challenge, particularly for the CEO, is crucial.”

“Being sued for saying this, or that - it is taking up more time in Board decision making because it is really endangering your being, your licence to operate.”

“The judgements that really matter are the ones lighting a fuse on reputation.”

VI. ESG

- Chairs flagged how challenging it can be for companies to navigate the often polemic debate on ESG. Board judgement is clearly required to determine which initiatives are important for the company and which may be less material.
- In the context of this research, diversity and inclusion were raised in a number of interviews; climate much less so.
- Some Chairs flagged how quickly the discourse with shareholders has changed on this subject.

“There is a challenge at the moment which Boards are aware of; that is, have we gone too far in emphasising ESG?”

“You may not be interested in climate change, but it is interested in you. Your supply chains are being disrupted, and regulation is changing – particularly in the EU.”

“Sustainability is a better word than ESG. It is all about the long-term future of the business, the sustainability. I think Boards will ignore investors because they too often like the flavour of the month.”

VII. REGULATION AND COMPLIANCE

- The interplay between Board judgement and regulation was brought up in a number of our interviews.
- For listed companies there was some concern that while the regulator may invite Boards to explain rather than blindly comply, ISS and the proxies have a much more binary view and brook little engagement.
- Remuneration was flagged as one area where Boards should be able to determine what works for the success of the company, in particular for businesses with a significant international footprint or competitor landscape.

"I have observed there is much more friction now between companies and auditors than there used to be."

"These organisations, ISS etc, don't have the capability to deal with 'by exception' or 'explain'."

"I have quite a significant issue/challenge regarding the fact that in the world we live in, through regulation, we've created a situation where people are not rewarded for exercising judgement."

"With remuneration, it's like a game where you don't necessarily get the right answer – you get an answer that will get you through the hoops."

VIII. SHAREHOLDER & ACTIVIST ENGAGEMENT

- Increased levels of shareholder and stakeholder activism were seen by a number of Chairs to warrant particular Board attention and judgement.
- Some Chairs argued that activists could prompt Boards to up their game, but this was not a universally held view.
- The interconnectedness of activist playbooks was considered particularly challenging for Boards as investors and NGOs find common cause on a single issue.

"It has become more complex because before we could shut the outside world out, but we can no longer do that - even if there are voices fundamentally disagree with. Still the voices are there, and we have to reckon with them and demonstrate in the age of transparency, we are not just listening but taking the voices into account with our strategy."

"The only time we have had a disappointment has been when I brought somebody in who was an environmental warrior... They became very single issue and didn't understand that the business has to balance multiple things along with environment – we need to make money to pay for that sort of stuff."

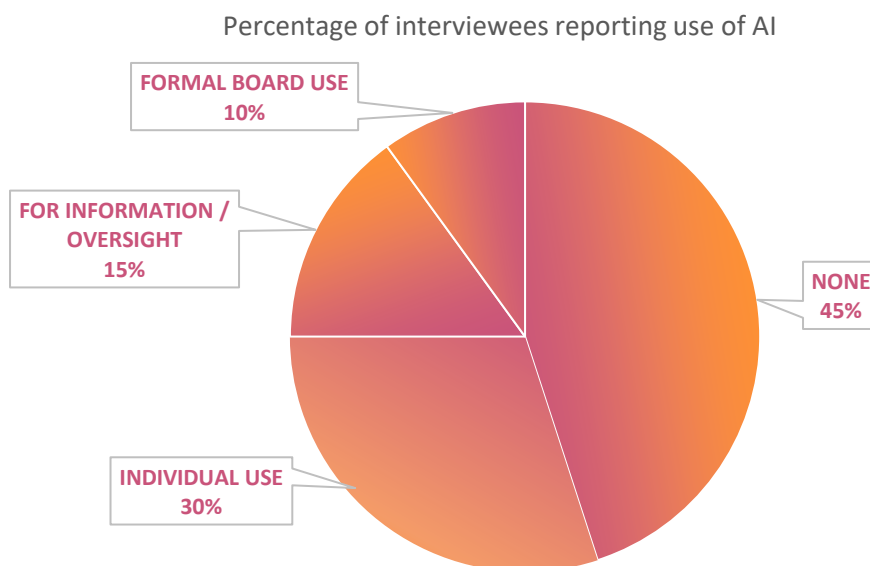
“Activism is getting wider and wider and poses new questions to the Board.”

“The difference is companies have become part of the political discourse. They are more weaponised in terms of activists. With the conversation of climate and trade blocks between us and China and so on, companies are being weaponised and expected to choose sides.”

Question 3. What are the implications of AI for effective Board decision-making?

In response to the third question, we received a very broad range of responses clustered around the level of AI use in the business, the familiarity at Board level and looking ahead the potential application in the work of the Board.

I. AI AND THE BOARD TODAY (AT TIME OF INTERVIEW)



- This is clearly fast moving and at the beginning of our research some Chairs had had very little exposure to AI.
- Most businesses were adopting AI during 2024 but at the beginning of the year this was not a prominent Board discussion.
- Some of the Chairs were using AI to challenge their own thinking and to reach a more rounded or alternative perspective on key issues.
- By the end of our research most Boards had held or would hold short Board learning and oversight modules on AI.

"Most Boards do not know a lot about AI at the moment; we are all learning."

"My sense currently is that there is more talk than action."

"We don't have a robust governance yet for it."

"Some have said that individual Board Members are using AI to gather different opinions to test judgement, but not collectively in Boards."

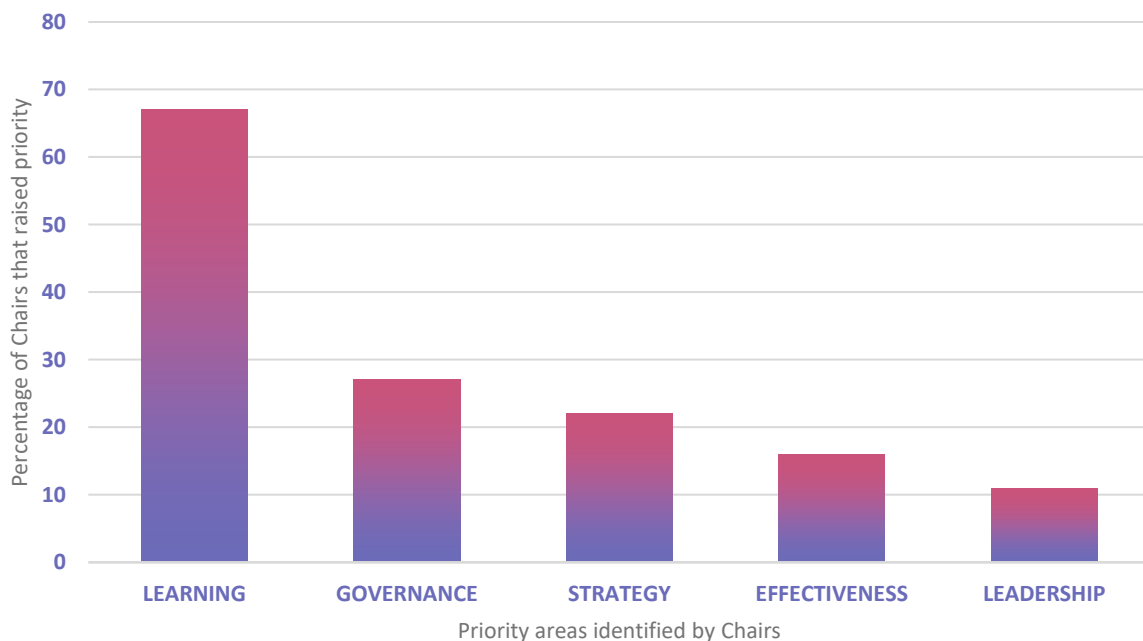
"For most organisations it [AI] is not a today issue, but by 2030 it will put you out of business if you haven't dealt with it."

"No one really knows the potential impact of AI - how profound that will be."

"The thing with technology is to never say never. Assume it will be implemented faster than you think it will be. Don't lose sight of what it will achieve."

"All Chairs need to be thinking about bringing in experts when there is expertise to be shared and learnt from. A one-hour board training session a year won't cut it."

II. AI - IMPLICATIONS FOR THE BOARD



- The most immediate implication for the Board was seen to be the need for upskilling in order to fulfil the duty of oversight and guidance.
- Some Chairs argued that AI would clearly shine a spotlight on the importance and relevance of human judgement.

- The role of the Board in AI Governance is clearly nascent – Financial Services Boards drew upon their experience of overseeing complex models.
- Overall Chairs were optimistic about the strategic opportunities afforded by AI.
- The AI risks were more clearly articulated in some sectors than others: the risk of mis-selling in Financial Services; maintaining the integrity of exams in education; and protecting content in publishing.
- A small number of Chairs focused on the macro picture and considered for example the implications of a quantum leap in productivity.

“What I do advise is that individual Board members keep on learning.”

“We haven’t yet thought through as Boards what the role is and the accountability is, but there will be a phenomenally steep learning curve, in the same way that there was with cyber.”

“The Board has to challenge AI. The Executives will get more use from it than the Non-Executives, but it is within the Non-Executive role to challenge them on that. Making sure that the assumptions it is based on, the data it is collecting from, is being filtered. I think there will be an element of human judgement longer than people think.”

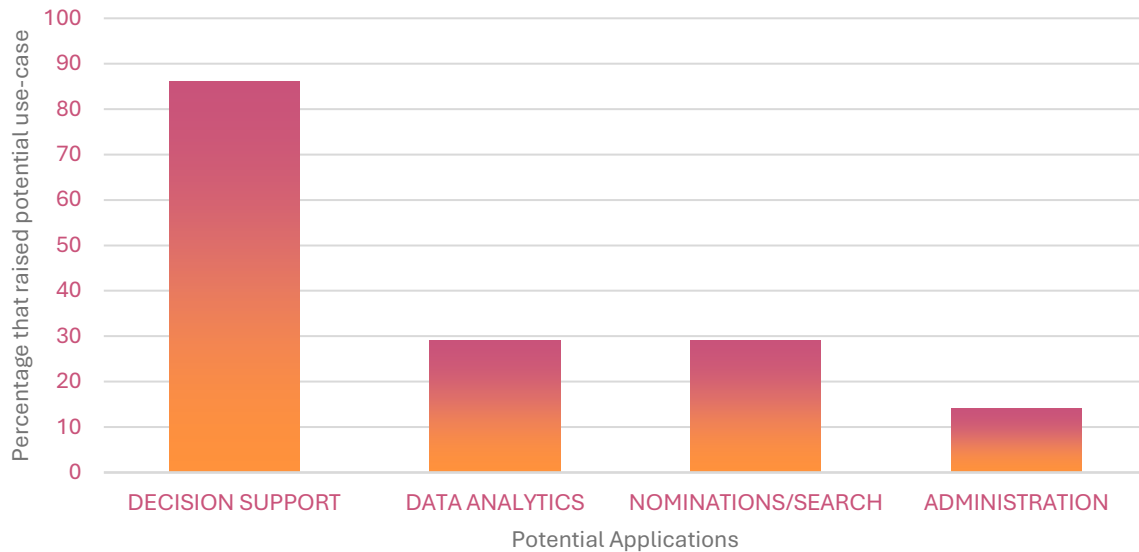
“With the introduction of AI, I suspect judgement, and really good judgement, is going to be one of the top three criteria of what makes a good board.”

“You have to look behind the system. That is the essence of human decision-making. You can use AI and digital; it can be very helpful – but you need to know what you are doing with it. How it is influencing your decision-making.”

“Our mindset is always to say, if you are using models, you should have a governance process in place to monitor this.”

“You may not get the best answer, but you will get it more quickly. That productivity isn’t well understood.”

III. AI – FUTURE APPLICATION IN THE BOARDROOM



- Fidelio’s research identified four practical areas that Board Members expected to be the focus of Board AI applications in the future:
 - i. **Decision Support** - AI could provide a useful “second opinion”, both to challenge and inform Board thinking. Currently AI is used informally in this context by Board Members.
 - ii. **Data Analytics** – AI can clearly support the quality of data analytics available to Board Members as the basis of decisions or monitoring progress. The Board needs comfort or assurance on the quality of the data.
 - iii. **Search Support** – AI clearly has a role in Search and selection processes at Executive and Board level. While seeing the potential, Chairs were wary of bias.
 - iv. **Administration** – The most common current uses of AI in the Boardroom are administrative – minute taking for example. Chairs remained highly sensitive to the confidentiality of data and accuracy.
- Chairs did not see AI taking a seat at the Boardroom table; some Chairs argued AI would accentuate the importance of human judgement in the Board.

“In time, it could be a very powerful tool to assist the Board in becoming more effective. It can give us higher quality papers, higher quality analysis, papers that get to the point; help us recognise the warning signs... But also, be mindful and understanding of its limitations. Will it have bias? Absolutely. If it is looking back over the course of history, 90% of that was led by men.”

“Assimilating lots of information quickly, for Boards, allows them to judge quickly. This allows them to exert their judgement – not being among the wheat and having to sift through each thing.”

“I think often traditional search is just as powerful. If we are recruiting people, I don’t need AI – we need search, to see what is out there for somebody”

“We think it is useful in a controlled environment but will certainly go nowhere near to our decision-making.”

“At the end of the day, it is always the Board which makes a decision. You can use AI but you cannot depend on it.”

APPENDIX

CONTRIBUTORS

Contributors include those interviewed for the *Judgement Muscle* research*, Chair Roundtable attendees, and those who provided written contributions on the *Judgement Muscle*.

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- **Nicholas Vetch**

Chair, Big Yellow Group plc

- **Stephen Winningham**

Chair, Silverpeak Ltd; Co-Founder, Chair, CEO, City Harvest London; former Chair, IP Integration Ltd

**some interviewees preferred to remain anonymous*

BIOGRAPHIES AND ABOUT FIDELIO

**Gillian Karran-Cumberlege**

Founding partner, Head of Board Advisory

Gillian Karran-Cumberlege heads Fidelio Partners' Board Practice. She has been advising Chairs internationally on Board effectiveness and composition for more than 20 years, with a clear focus on delivering value for shareholders and stakeholders.

Gillian's first-hand Board experience includes the Jaguar Land Rover India, Chapter Zero and Harvard Business School Alumni Boards. She is an Alumna of Harvard Business School and Trinity Hall, Cambridge University, served as President of the Trinity Hall Association and is a member of the Stipends and Development Committees.

Recognised as an international expert on shareholder and stakeholder engagement, Gillian's highly successful corporate career included senior executive roles within some of Europe's leading corporates; this included Global Head of Investor Relations for Volkswagen AG where she was the most senior female executive globally. Previously Gillian had enjoyed a highly successful career in banking including heading Group Investor Relations for UBS. She started her career in Banking Supervision with the Bank of England.

Gillian has an MA in History from Trinity Hall, Cambridge, attended the Harvard General Management Programme, and is a Fellow of the UK IR Society.

**Milly Norman**

Senior Research Associate

Milly is a Senior Associate with Fidelio specialising in Board evaluation and effectiveness. She is particularly active in supporting and developing Fidelio's practice in Board and Chair advisory, as well as contributing to thought leadership, business development and Search.

Prior to joining Fidelio, Milly interned at the Telegraph where she gained valuable first-hand experience in research, analysis and current affairs.

Milly graduated in History from the University of Cambridge and is Investor Relations certified (CIR).

ABOUT FIDELIO

Founded in 2009, [Fidelio](#) advises and supports Chairs to build and develop high performing Boards. We have an international track record in advising Chairs, building Boards, creating value for shareholders and stakeholders and effecting change through:

- Chair Advisory
- Board Review
- Board and Executive Search
- Development and Succession

Fidelio has a diverse senior team combining governance, strategy, shareholder and stakeholder engagement, investment, ESG and human resources experience, adding a richness to our thinking on

Board effectiveness and judgement capability. We have an in-house research team to support our assignments.

Diversity and sustainability are hardwired into Fidelio's approach. Fidelio has been accredited for seven years in succession by the FTSE Women Leaders Review for our contribution to gender balance in the Boardroom. Fidelio has been a strong advocate of climate change competence in the Boardroom and is recognised for the support and guidance we provide to Boards as they embed sustainability. Our Founding Partner is also a founding Board Member of Chapter Zero, the Directors' Climate Forum.