Deloitte.

Director 360°
Growth from all directions

Edition 3
Global Center for Corporate Governance

Methodology

As part of the *Director 360°* survey, Deloitte member firms interviewed 317 board chairmen and directors in 15 countries around the world on the topic of board effectiveness and the issues, challenges, and opportunities that boards face. Deloitte interviewed directors in Argentina, the Czech Republic, Finland, Germany, India, Ireland, Luxembourg, Mexico, the Middle East, Nigeria, the Philippines, Romania, Russia, Sweden, and the United States.

The detailed listing of director interviews conducted across the globe:

Argentina	11 directors
Czech Republic	17 directors
Finland	35 directors
Germany	18 directors
India	12 directors
Ireland	35 directors
Luxembourg	31 directors
Mexico	21 directors
The Middle East	15 directors
Nigeria	11 directors
The Philippines	20 directors
Romania	19 directors
Russia	23 directors
Sweden	35 directors
United States	14 directors
TOTAL	**317 directors**

The interviews were conducted between September and December, 2013. Our report incorporates quantitative and qualitative data based on these interviews. Note that there was no normalization or weighting of country results, despite differences in numbers of directors interviewed. All the information provided by participants is treated confidentially and reported only in aggregate form. The names of the individual participants or their companies are not disclosed.

The views and opinions expressed in this report do not necessarily reflect the view of Deloitte Touche Tohmatsu Limited, Deloitte member firms, or the views of individual directors interviewed. We make no representation or warranty about the accuracy of the information, or on how closely the information gathered will resemble actual board performance or effectiveness. Due to rounding, responses to the questions covered in this report may not aggregate to 100.

Contents

Executive summary

The Deloitte Global Center for Corporate Governance ("The Global Center") is pleased to present the latest edition of its annual global director survey: *Director 360°: Growth from all Directions*. This survey, now in its third consecutive year of publication, provides a unique perspective on the concerns that boards of directors face around the world. Our analysis is based upon surveys and interviews with 317 directors at public and private companies in 15 countries. The survey results highlight changes in key governance, regulatory, and compliance concerns that companies around the world face in today's business environment.

The Global Center solicited views from directors on a variety of corporate governance matters, ranging from board composition and risk oversight, to the directors' role in strategy. In addition, this year's survey expanded to include topics such as regulatory trends and associated perceptions, cyber security, internal audit, compliance, and anti-corruption regulations—among others.

Among the key findings of this year's survey is that the global financial crisis weighs less heavily on directors' minds and boards' agendas. Based on the survey responses, it appears that boards are becoming more confident that the effects of the global financial crisis are behind them.

This finding is supported by the following data from the survey:

- When asked to select the top three issues impacting boards in the past 12 months, only 20 percent of the respondents cited the global financial crisis as a top boardroom issue. This represents a decrease of 23 percentage points from the prior year—the largest decrease for any top issue year-over-year. In the previous year's survey it was the highest ranked boardroom issue, only to drop to the sixth slot this year.
- As to issues that are replacing the financial crisis in the minds of directors, we found 20 percent more respondents pointing to performance—as the second most often discussed issue, behind strategy. Apart from performance and strategy (which registered an 18 percentage point increase) other topics gaining importance included growth (13 percentage point increase) and shareholder value and investors (11 percentage point increase). These results may indicate that boards are focusing less on recovery from effects of the financial crisis and more on company performance and operations and on the creation of long-term sustainable growth.

Given the growing number of cyber-crimes and technology security breaches in large organizations, one might expect technology and its associated risks to be high on the boardroom agenda. However, our survey results indicate that over a quarter of the global directors surveyed do not discuss technology risks. Of those boards that do discuss them, about half (51 percent) included cyber security in those discussions. Given the prevalence of cyber-attacks and their associated reputational and financial harm, cyber security may become more of a boardroom priority over the next 12 months. In addition, nearly two-thirds of all directors surveyed stated that their board does not use social media. This raises potential questions: as the world moves to an increasingly digitized environment, are boards fully prepared to deal with the unprecedented business and reputational risks their organizations face? Are boards equipped to monitor and engage with their evolving stakeholders?

Our survey found shareholder engagement to be a topic of interest. Going forward in this post-crisis environment, investors and other stakeholders can be expected to closely monitor board activities. Indeed, nearly 70 percent of respondents expect the level of interaction between shareholders and boards to increase over the next few years. It would thus seem reasonable to assume that engaging with investors would be a priority for directors. Yet our survey results indicate that despite acknowledging increasing levels of shareholder scrutiny, 61 percent of respondents noted that they have not developed and implemented a shareholder engagement policy.

On the topic of boardroom diversity, some countries have enacted regulations or legislation to increase the presence of women, while in other countries organizations have implemented their own related initiatives or policies. In our survey, nearly two-thirds of respondents indicated that their organizations have not introduced diversity policies for board composition. One obstacle to greater diversity could be the long tenure of directors and the lack of term limits or age limits on board service. Our findings show that 62 percent of directors surveyed indicated that their boards have not implemented term or age limits, or that they were unsure whether they have such limits. Boards appear to be implementing term limits for director service (30 percent) almost twice as frequently as age limits (17 percent).

What areas of oversight will boards focus on in the next 12 to 24 months? How do they view the regulatory regimes in their countries? How do directors approach evaluation and improvement of their performance? What new challenges are impacting directors, and do current practices enable boards to address them? *Director 360°: Growth from all Directions* aims to provide answers to these questions and others. We invite you to read on to learn how the roles of directors in organizations around the world will continue to evolve.

The evolving governance landscape

For this year's survey, we expanded the questionnaire to include a section dedicated to corporate governance regulation, which increasingly affects boards and shareholders worldwide. In particular, we sought to analyze the perceived scope, effectiveness, and flexibility of regulatory practices affecting corporate governance in diverse markets. For example, how do emerging markets' and mature markets' regulatory practices differ? Do directors believe that regulators respond quickly enough to new challenges presented by the market environment?

Our survey sheds light on these matters. As might be expected, responses varied widely. In some countries, directors were generally satisfied with their national regulatory practices, while in others they noted a lack of flexibility in responding to new issues and developments. In a few countries directors even lamented what they perceived as ineffectiveness of local governance regulation.

Shareholders' attitudes and behavior also affect governance practices. Surprisingly, despite increasing shareholder scrutiny in many markets, a majority of boards around the world did not proactively engage with shareholders. That said, directors generally appear to recognize that current board practices in this regard may not be sufficient to maintain investors' trust in the future. Most boards expect to engage more with their shareholders in the coming years—a dynamic we intend to research in future surveys.

Perception of regulatory systems

Corporate governance regulation takes different forms and holds different meanings in various markets. Regulation may be principles-based or rules-based, built around a financial markets authority or driven by a stock exchange, or may be affected by other factors. The key question is whether the regulatory system supports good governance. While there may be no global solution, given the unique history, business culture, and needs of each country, we sought to learn whether directors are satisfied with the regulatory regime in place.

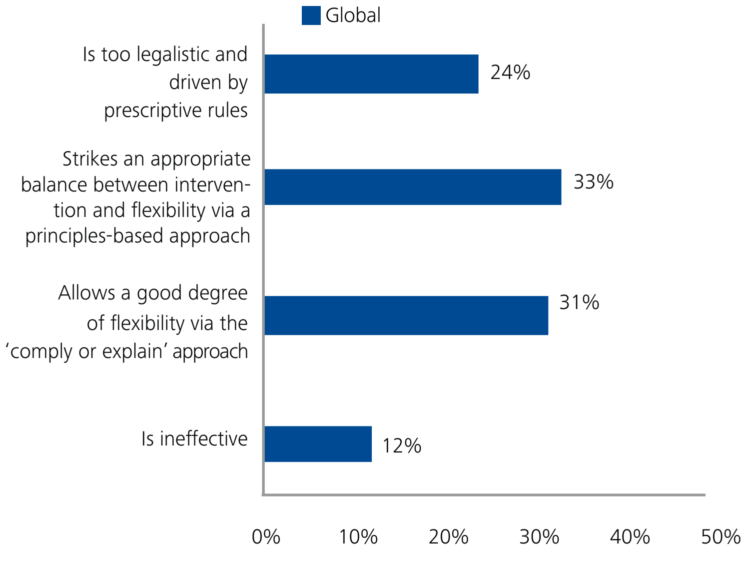
Globally, directors were divided regarding the regulatory systems in their countries. While directors in some countries view their systems as overly legalistic, those in other countries appear to want systems that place greater emphasis on formal rules and guidelines. Exactly one-third of respondents stated that their country's regulatory system for governance strikes an appropriate balance between intervention and flexibility via a principles-based approach. Multiple European Union member states cited this selection as their main choice, including Luxembourg, Germany, Sweden, and Ireland. Close to another third stated that their country's regulatory system allows a good degree of flexibility via a comply-or-explain approach. Directors in a wide spectrum of countries selected this as their main choice, including Finland, Argentina, Mexico, the Philippines, and Romania.

Though only 24 percent of all respondents indicated that their local regulatory system for governance was too legalistic and driven by prescriptive rules, at least 40 percent of respondents in the United States, India, Russia, and the Philippines chose this response.

Twelve percent of all respondents cited the regulatory system for governance in their country as ineffective. Significant minorities in Russia, Romania, the Middle East, the Czech Republic, and Argentina cited their countries' systems as ineffective, indicating, perhaps, a constituency, or at least a need, for reform in some emerging markets.

Regardless of the regulatory regime in place, the board must meet the expectations of regulators (and shareholders) with regard to regulatory compliance and reporting and contribute appropriately to practical, effective regulation.

Chart 1 – The regulatory system for governance in my country:



Adaptability of regulatory systems

National governance regimes are in perpetual motion, yet their pace of change differs sharply from country to country. Of course, regulatory mechanisms require flexibility to adapt to evolving corporate governance challenges. But can these systems address new, rapidly emerging issues such as social media, integrated reporting, and globally coordinated shareholder activism?

Chart 2 – With respect to responding to issues, the regulatory system for governance in my country:

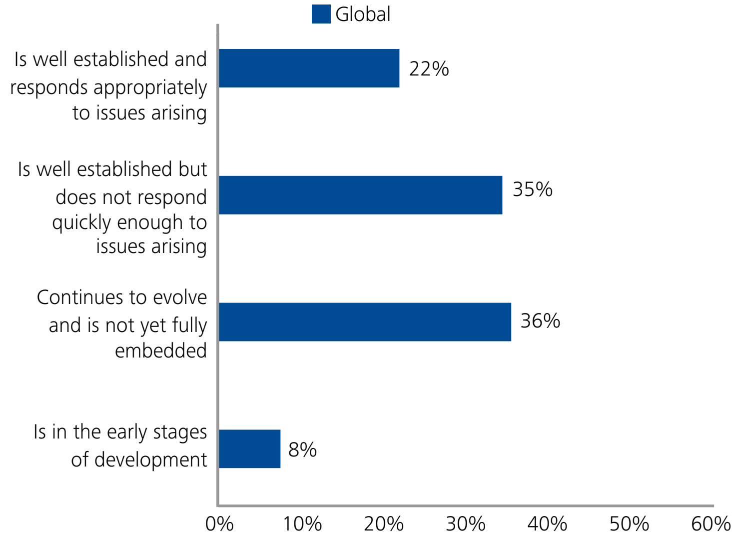
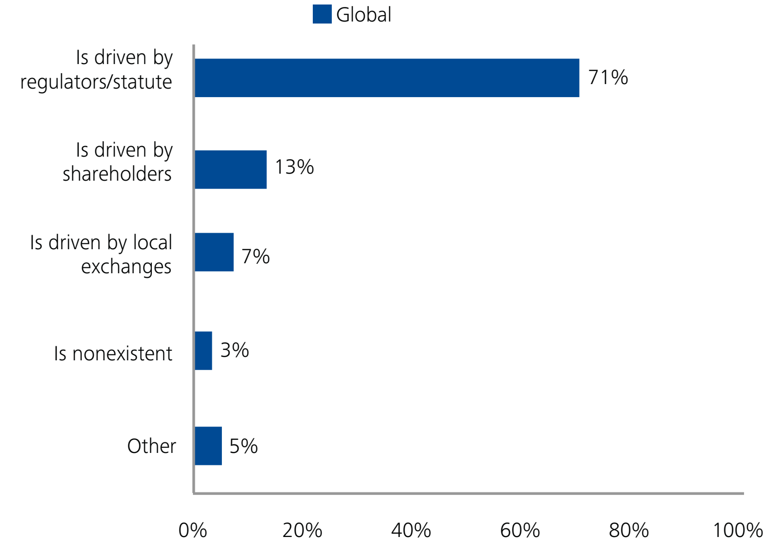


Chart 3 – Enforcement of the regulatory system for governance in my country:



Directors differed when asked to describe how well the regulatory system for governance in their home country responds to new issues. Globally, 36 percent stated that in responding to issues, the regulatory system for governance in their country continues to evolve and is not yet well established or fully mature. Directors in many emerging markets took this view, including Mexico, the Czech Republic, Russia, Romania, India, and Nigeria. Another 35 percent of respondents stated that although the regulatory system for governance in their country is well established, it does not respond quickly enough to new issues. Only 22 percent of global respondents stated that the regulatory system is well established and responds appropriately to issues.

Seventy-one percent of U.S. directors indicated that the regulatory system is well established but does not respond quickly enough to new issues—by far the highest proportion in any country. Directors in the United States and in other countries with a high response in this regard, including the Philippines, Ireland, and Germany, may believe that, although processes are in place, they move too slowly to respond vigorously to new needs.

In Germany, Finland, Luxembourg, and Sweden a significant minority of directors noted that the regulatory system for governance in their country is well established and responds well to new issues.

Enforcement and accountability are key elements for regulators aiming to maintain an appropriate level of governance for internal and external stakeholders. Ineffective or nonexistent enforcement can weaken investor confidence—a critical issue for companies operating in emerging markets and seeking foreign investment. The majority of respondents (71 percent) noted that enforcement of the regulatory system for governance is driven by local regulators and statute. Only 13 percent indicated that enforcement of the regulatory system is, instead, driven by shareholders. The low latter percentage would be expected given that few countries allow shareholders to be involved in regulatory enforcement.

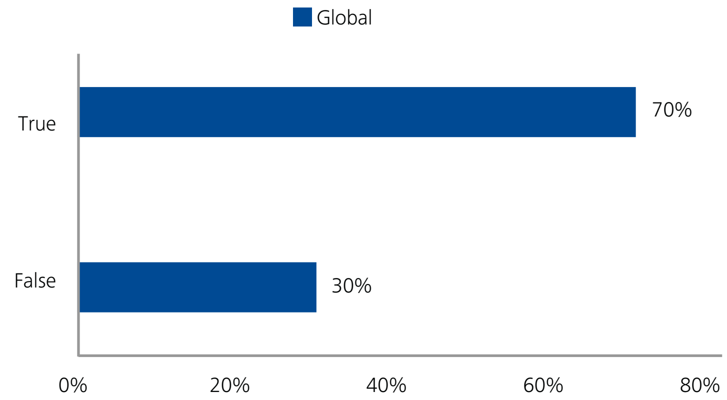
Regardless of the effectiveness or flexibility of any regulatory regime, the board is responsible for ensuring proper governance and risk oversight. In practice, regardless of the country in question, regulatory policies typically lag the realities that organizations face. Only through sound internal governance and oversight can the board keep the organization positioned to cope with those realities.

Shareholder protection

In response to the recent financial crisis, governments have introduced numerous regulations, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act in the United States, and similar regulations in the European Union, such as the European Market Infrastructure Regulation and the European Shareholder Rights Directive. Globally, 70 percent of respondents noted that their local governance systems work effectively to protect the interests of shareholders. Nonetheless, 30 percent cited the opposite, which implies that, in the view of directors, governance systems do not always work effectively to protect the interests of shareholders.

Majorities of directors in Russia and the Czech Republic chose the latter response, as did relatively small majorities of respondents in Nigeria and Romania. These findings are generally in line with frequently voiced views (for example, those of the Organization for Economic Cooperation and Development[1]) that in the case of several emerging markets, improvements in governance are instrumental to bolstering investor confidence and attracting foreign investment.

Chart 4 – Overall, the governance system in my country works effectively to protect the interests of shareholders:



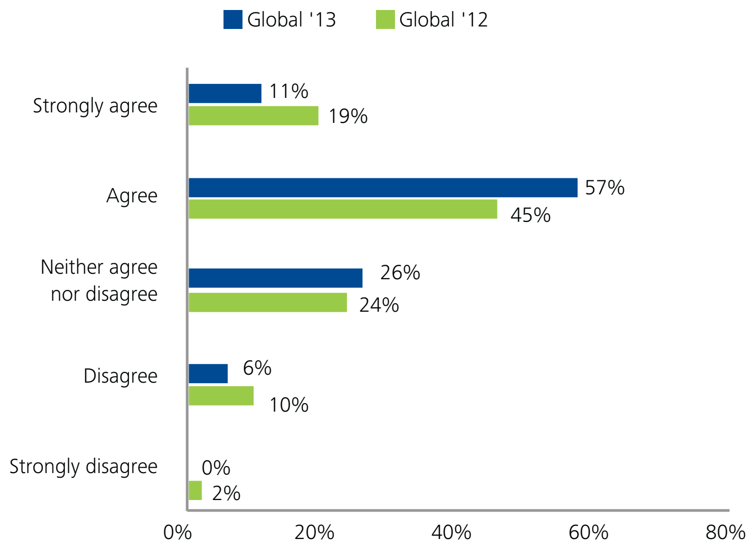
[1] Corporate Governance, Value Creation and Growth - The Bridge between Finance and Enterprise, OECD Publishing, 2, rue André-Pascal, 75775 PARIS CEDEX 16, http://www.oecd.org/corporate/ca/corporategovernanceprinciples/50242938.pdf

"Though nearly 70 percent of the global respondents expect the level of interaction between shareholders and the board to increase over the next few years, less than 40 percent have a shareholder engagement policy in place.

Shareholder engagement and scrutiny

Many shareholders have reason to demand greater board accountability, particularly given corporate governance weaknesses exposed by the global financial crisis. Greater shareholder scrutiny, and in many markets, strengthened shareholder voting rights, place mounting pressure on boards to increase transparency in governance and engagement with shareholders. Therefore, boards are increasingly employing proactive engagement programs, particularly in the major financial hubs, as a tool to build trust while promoting communication with influential shareholders.

Chart 5 – The level of interaction between shareholders and the board will increase over the next few years.



Our survey found that nearly 70 percent of global respondents (compared with 64 percent last year) expect the level of interaction between shareholders and the board to increase over the next few years. Despite this, less than 40 percent of the boards surveyed have a shareholder engagement policy in place—a disparity that may indicate that most boards have yet to prepare for levels of engagement to come.

Board expectations of greater interaction with shareholders may be part and parcel of increased shareholder scrutiny. Three-fourths (74 percent) of respondents strongly agreed or agreed that the level of shareholder scrutiny of governance practices will increase over the next few years. This figure is substantially unchanged from 76 percent in 2012.

At this point, directors may be growing accustomed to the "new-normal" of greater shareholder scrutiny of governance practices and compensation policies, heightened engagement with investors, and, in some cases, increased attention from activists. Regarding activism, boards may be skeptical of activists' motives—with reason, in some cases—yet find that some encounters prompt a useful reevaluation of governance structures, processes, and policies.

Even though the global financial crisis is a fading issue for most organizations, closer shareholder scrutiny of corporate boards and governance can be expected for the foreseeable future. As noted in the executive summary to this report, concerns over the financial crisis and recovery are diminishing, with only 11 percent of respondents citing it to be among the top three topics of boardroom discussion compared to 37 percent in 2012. (See Table 27). However, a majority of respondents in all countries surveyed expect shareholder scrutiny to increase over the next few years.

An effective, proactive shareholder engagement policy can open and sustain a productive dialogue with investors and activists. The goal should be to promote conversations about concerns before confrontations occur. In some markets, however, shareholder engagement has not yet taken hold. Only in Ireland, Argentina, and the Philippines did a majority of respondents note that their organizations had a shareholder engagement policy in place; exactly half of U.S. respondents reported having a shareholder engagement policy. The majority of respondents in Russia and Luxembourg stated that they do not have a shareholder engagement policy, nor are they considering such a policy. Relatively high proportions of Romanian and Middle Eastern respondents (47 percent in each country) indicated that they are considering such a policy—which is interesting to note considering the prevalence of large controlling shareholder interests in these two markets.

While shareholder engagement policies have yet to take hold globally, Deloitte sees a potentially positive trend: as scrutiny and activism continue, boards are likely to develop more structured and practical ways of engaging more frequently and closely with their investors and relevant activists.

Chart 6 – The organization/board has a shareholder engagement policy in place.

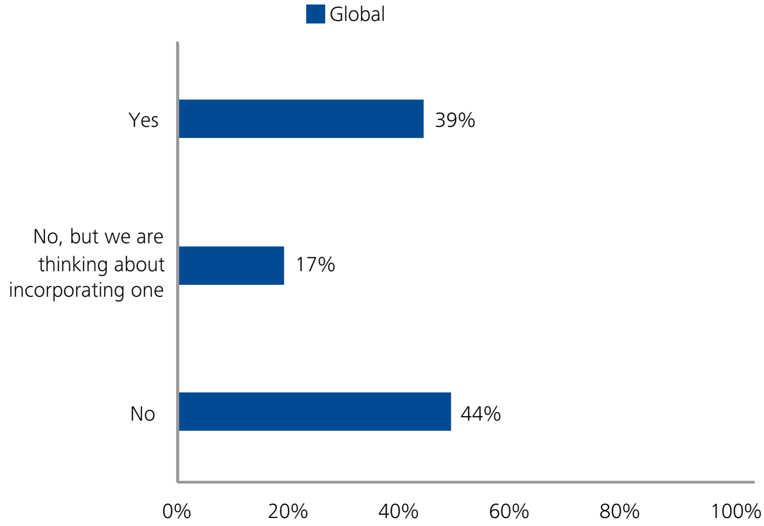
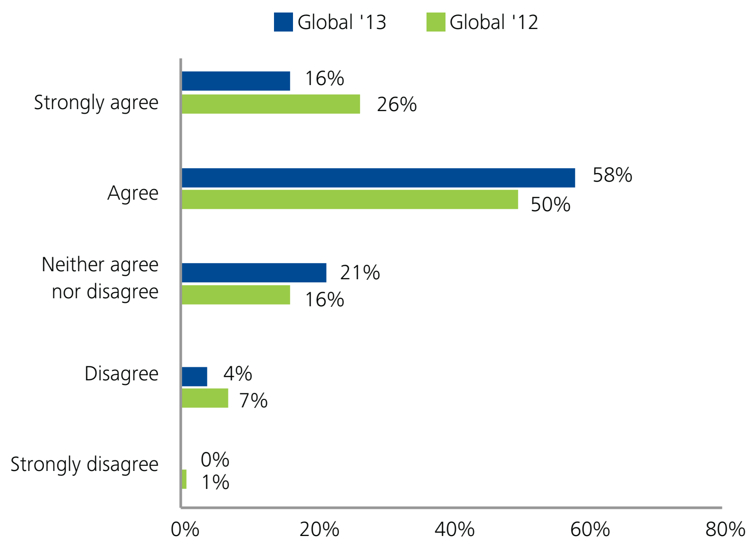


Chart 7 – The level of shareholder scrutiny on corporate governance practices will increase over the next few years.



“A majority of respondents in all countries surveyed expect shareholder scrutiny to increase over the next few years.”

Focusing on risk and compliance

Our survey indicates that the board's oversight of risk continues to be a focal point. The results show that directors around the world have broadened and deepened their risk oversight roles, and they point to the global financial crisis, public scrutiny, and heightened regulatory expectations as contributing factors. Boards are not only taking a more active stance in setting the organization's risk policy, but are also more active in providing oversight on compliance and anti-corruption matters. In addition, respondents cited risk management as the fifth "top issue" for boards in the next 12 to 24 months.

Often in response to increasing demands, companies, most frequently in financial services, are adopting board-level risk committees as a mechanism for delegating authority to a smaller group of directors for a perhaps more efficient and detailed approach to risk oversight.

The survey findings suggest that boards will be increasingly active in interacting with shareholders, and suggest that boards are also continuing to work closely with management on compliance, particularly in the area of anti-corruption regulation.

Risk oversight

Worldwide, boards of directors are expanding their role in overseeing their organization's risk policy. Since the global financial crisis, risk management has remained a top-of-mind issue for boards in nearly every country. The percentage of directors who strongly agreed or agreed that the board plays an active role in setting the organization's risk policy increased 12 percentage points (to 85 percent in 2013 from 73 percent in 2012).

Boards are facing increased pressure from internal and external stakeholders to oversee all types of enterprise-wide risks. These range from financial risks, to reputational risks, to technology risks, to environmental/sustainability risks—among others, all of which require board-level oversight. Directors must have the necessary data and tools to understand the nature and potential impact of these risks. Fortunately, directors agree, more so than in prior years, that they are receiving enough information to assess the impact of business risks. With a 15 percentage point increase (84 percent strongly agreed or agreed in 2013, up from 69 percent in 2012) respondents are generally confident that they are receiving enough of the right information to assess the impact of organizational risks. This is a significant change.

Chart 8 – The board plays an active role in setting the organization's risk policy.

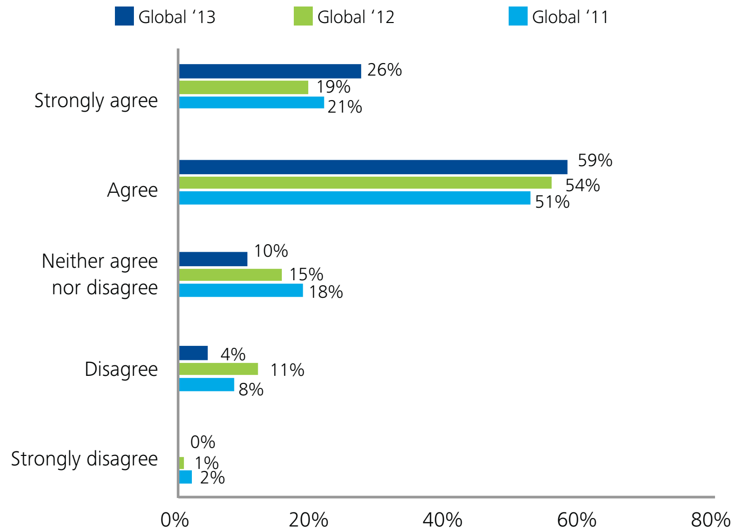
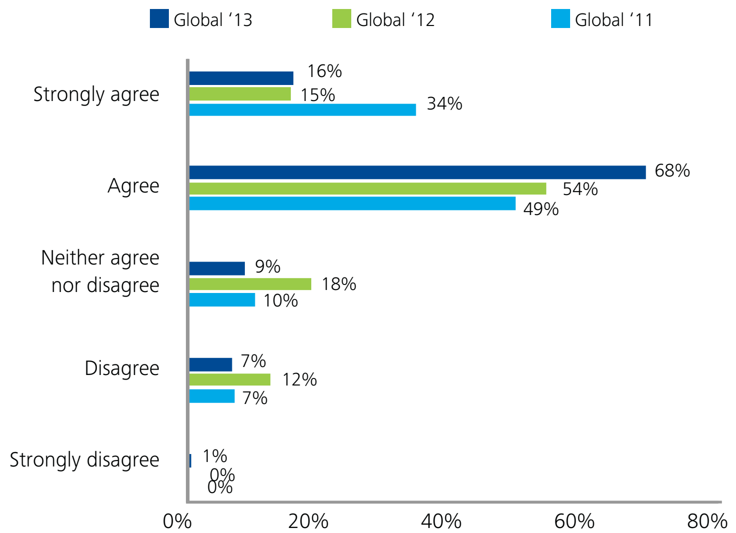
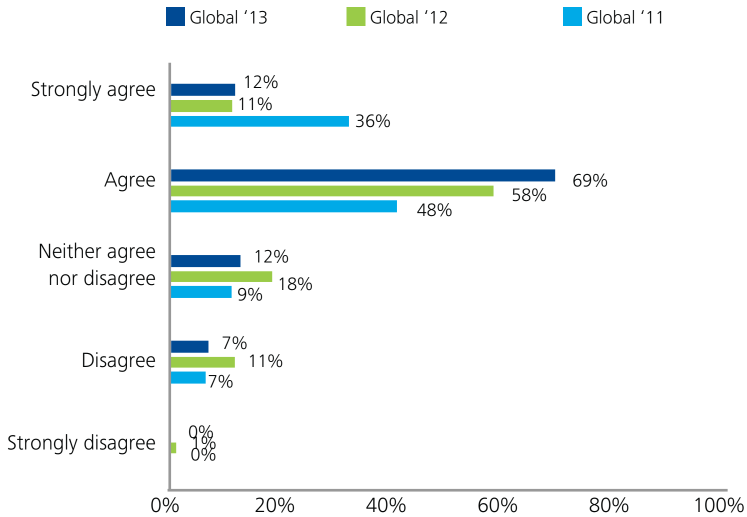


Chart 9 – The board receives enough information to assess the impact of business risks.



“The majority of the respondents strongly agreed or agreed that the board maintains an appropriate balance among the oversight of risk, growth, performance, and strategy.”

Chart 10 – The board maintains an appropriate balance between oversight of risk, growth, performance, and strategy.



Facing challenging tasks and crowded schedules, directors need information that combines brevity, quality, and relevance. Again, a board-level risk committee can potentially enable a board to address this situation. In certain countries, regulations require financial services industry (FSI) companies to have board-level risk committees, while other countries have suggested guidelines.[2] Thus, in general, the board’s role in setting the organization’s risk policy will vary by country, and by industry.

Despite the challenges, the majority of the respondents (81 percent) strongly agreed or agreed that the board maintains an appropriate balance among the oversight of risk, growth, performance, and strategy. This represents a 12 point increase over the percentage doing so in last year’s survey. As Table 27 indicates, strategy, performance, risk management, and growth are all expected to be top-five issues on boards’ agendas in the coming year. Given the increasing attention companies are allocating to these issues, it is not surprising that directors have begun to take action.

[2] As risks rise, boards respond: A global view of risk committees, Deloitte, 2014, http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Governance-Risk-Compliance/gx_grc_A%20global%20view%20of%20risk%20committees_5.22.14.pdf

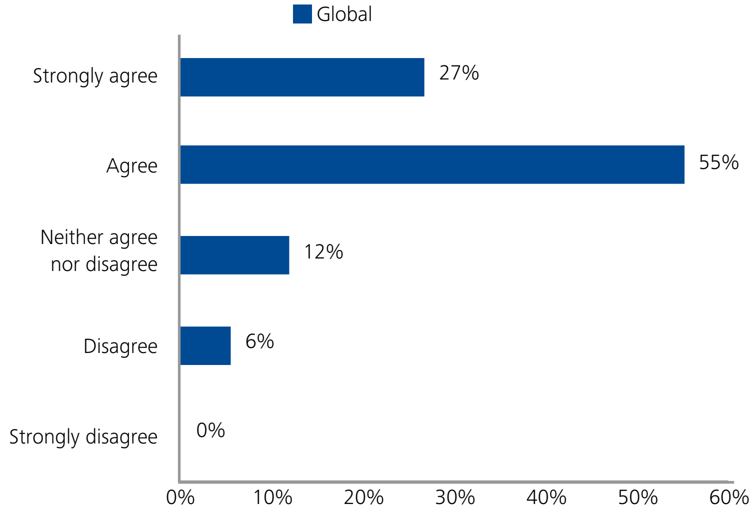
Compliance

The uptick in local government regulation in conjunction with stock exchange listing requirements in an increasingly globalized marketplace, has cemented compliance as a top issue impacting boards, and many directors believe that it will continue as a top issue in the next 12 to 24 months (Table 27).

The compliance function's growing importance for boards is clear, with 82 percent of respondents strongly agreeing or agreeing that compliance is now a greater area of focus for the board than in previous years. In all countries surveyed, with the exception of Russia and Romania, the majority of respondents strongly agreed or agreed.

To effectively monitor and manage compliance-related risks and opportunities, boards also must work with the chief compliance officer and the rest of the management team to ensure that appropriate compliance roles and responsibilities are defined and established. In addition, setting an organization-wide culture of "doing the right thing" should be a priority for boards operating in any market and industry. For many companies, this culture is set by the board through a process known as establishing the "tone at the top."

Chart 11 – Compliance is now a greater focus area of the board compared to prior years.



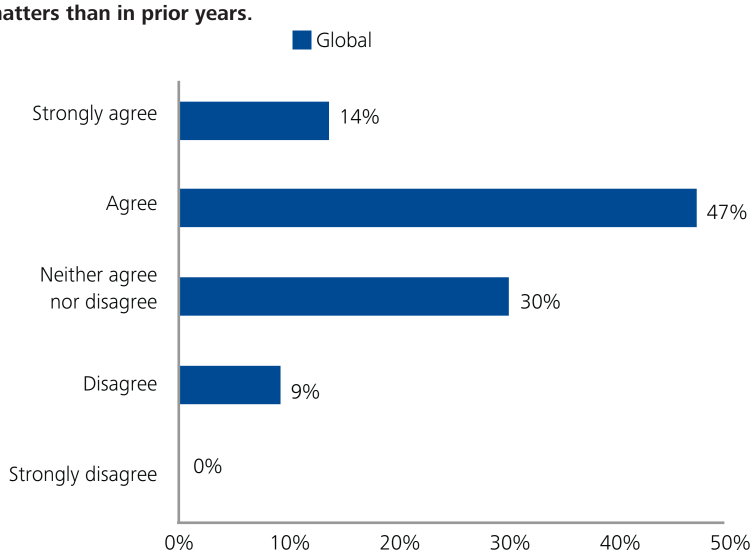
Anti-corruption

Directors must also concern themselves with compliance, regulatory, and legal risks arising from anti-corruption and anti-fraud laws and regulations. Companies operating internationally need to understand the laws and regulations in the jurisdictions in which they operate. In addition to raising substantial ethical and social issues, corruption and fraud can result in monetary penalties for organizations and personal liability for directors and executives.

The U.S. Foreign Corrupt Practices Act (FCPA), passed in 1977, prohibits bribery of foreign government officials. U.S. companies and their foreign subsidiaries are required to have accurate bookkeeping practices and sound internal control systems to prevent, mitigate, and identify corrupt practices. FCPA enforcement has been aggressive in recent years, at times involving well-known companies, which have in some cases experienced impaired earnings and considerable damage to their reputations and credibility.

Other countries have also enacted anti-corruption legislation. The UK passed the UK Bribery Act in 2012, and the governments of Brazil, Colombia, and South Africa have each approved their own anti-corruption legislation in recent years.

Chart 12 – The board is more engaged with management on anti-corruption matters than in prior years.



Globally, 61 percent of respondents strongly agreed or agreed that the board is more engaged with management on anti-corruption matters than in previous years. Given the recent global focus and legislation, this comes as no surprise. A strong minority (30 percent) of respondents neither agreed nor disagreed that the board is more engaged with management on anti-corruption matters than in prior years. This may indicate that in their organizations the board is maintaining the same level of engagement on this issue as in past years. Respondents in India, Ireland, and the Philippines most often strongly agreed or agreed that engagement with management had increased; those in the Middle East least often agreed; those in Nigeria and the United States most often neither agreed nor disagreed.

A board-level understanding of the implications and risks of anti-corruption and anti-fraud legislation is an absolute must, as is an understanding of the steps management is taking to address the risks.

Board effectiveness

Effective boards require effective directors, and defining a "directorship life cycle" can both equip and motivate a board to operate effectively. This life cycle extends from effective orientation (or onboarding) to ongoing training of directors, to periodic performance evaluation, to eventual retirement from the board.

Given the tools and knowledge needed to operate effectively, directors have a duty to provide a sense of stewardship of shareholders' interests. Whether motivated by their duty to the organization and its shareholders, or by compensation arrangements linked to performance, effective directors and boards can have a positive impact on the organization. Periodic evaluation can help to ensure that effective directors, and areas for improvement, are accurately identified. In many markets, the potential for directors' personal liability further motivates diligent fulfillment of duties.

Directors are seeing value in robust evaluation processes. This may reflect a recognition that formal, externally visible structures (such as the number of disclosed independent directors or the establishment of particular board-level committees) do less to drive the quality of corporate governance than the more qualitative and subjective characteristics that distinguish a strong and active board from a weak and passive one.

Yet the majority of boards do not regard their processes for evaluating board performance as sufficiently robust, with nearly half of the respondents stating that the evaluation's results are not used to effect future change. Directors displayed even less confidence in their onboarding and training processes, and for the third consecutive year lower percentages regarded their remuneration packages as appropriate.

Thus, while there are positive signs in the data, there is clearly room for improvement.

“Almost half of the directors surveyed strongly agreed or agreed that their processes for evaluating board performance are sufficiently robust, an increase of 12 points over last year’s results.”

Board evaluations

Boards around the world are increasingly seeking ways to ensure their own effectiveness and the quality of their governance practices and procedures. Board evaluations are an excellent tool for ensuring—and improving—board effectiveness and the quality of governance. These evaluations may be completed internally, with external assistance, or through a combination of internal mechanisms and external assistance. The work of board committees and individual directors is usually evaluated as a part of the process. Almost half of the directors surveyed (49 percent) strongly agreed or agreed that their processes for evaluating board performance are sufficiently robust, an increase of 12 points over last year’s results.

There are a few potential drivers of this increase. First, annual board evaluations are becoming a regulatory requirement in an increasing number of markets, under comply-or-explain regimes or other forms of regulation. Second, even when not formally required, directors may be feeling pressure and scrutiny from shareholders, and therefore use an evaluation to both improve and signal board effectiveness. Finally, board evaluation procedures are increasingly affecting the process of nominating and approving board members, given that evaluations generate a more explicit understanding of desired skills and qualifications.

Overall, the United States, Ireland, and Finland had the highest percentages of respondents who strongly agreed or agreed that their processes for evaluating board performance were sufficiently robust. In India, Mexico, the Middle East, and Romania, not one director strongly agreed with this statement, and directors in Russia, Nigeria, and the Czech Republic all indicated low levels of agreement. Last year’s survey elicited similar overall response patterns.

Half (51 percent) of the respondents strongly agreed or agreed that the results of the board performance assessment are used to effect future change, closely matching the previous year’s level (48 percent). A quarter of respondents neither agreed nor disagreed on the matter, and nearly another quarter disagreed or disagreed strongly.

If half of respondents citing the use of evaluations in effecting change appears a bit low, bear in mind that performance evaluations may generate uncomfortable findings or discussions. Also, in cases where boards lack robust evaluation processes, they may not find it worthwhile to act upon the results. In addition, the sheer volume of board responsibilities—and of board members’ unrelated, external responsibilities—may hamper formal efforts to act upon the findings of even robust evaluations. Therefore, both effective evaluation and improvement processes are important, as is a board’s commitment to continually improve its performance.

Chart 13 – Processes to evaluate board performance are sufficiently robust.

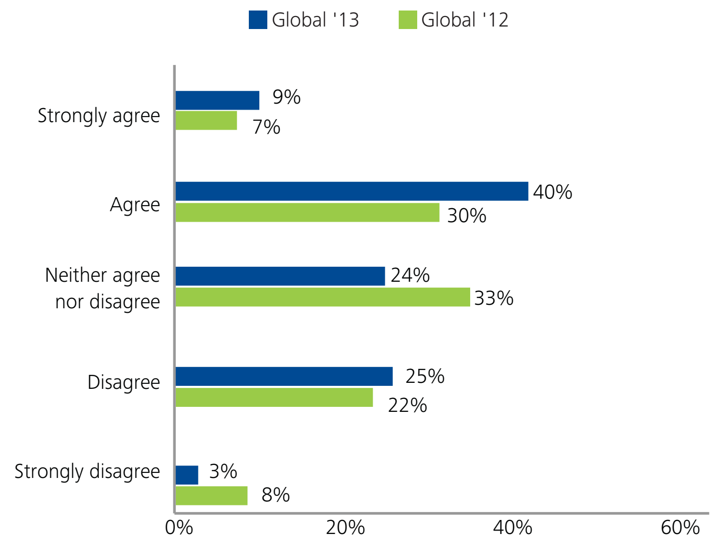
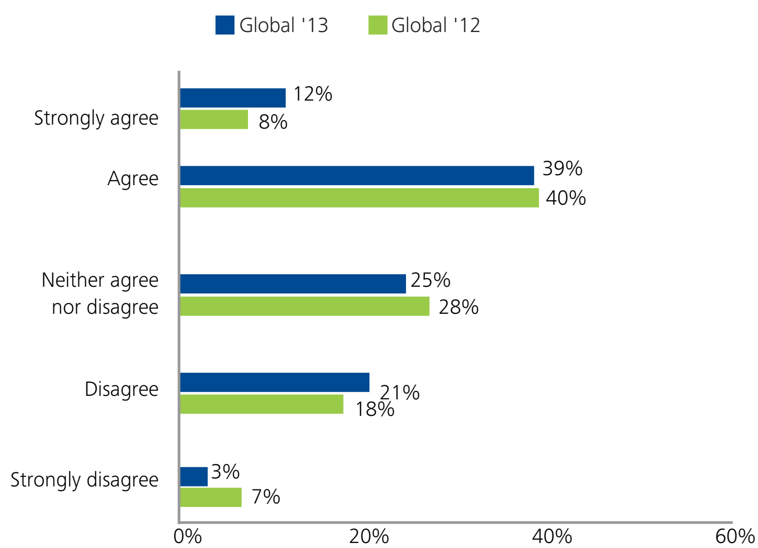


Chart 14 – The results of the board performance assessment are used to affect future change.



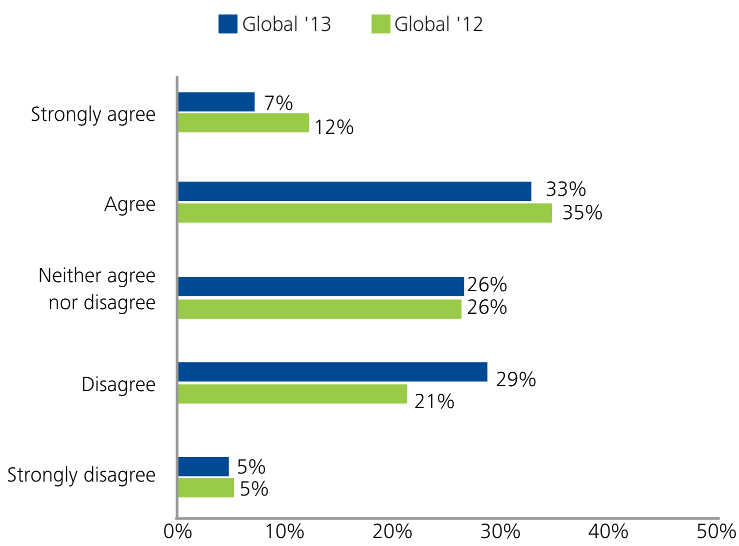
Director onboarding and orientation

Formalized, effective board-member orientation processes help directors transition into their new leadership roles, and foster a culture of learning and preparedness. Based on the survey responses, many organizations recognize the value of these processes: 40 percent of respondents strongly agreed or agreed that the orientation process for new board members is formalized and effective. The highest positive responses came from the United States, Ireland, Argentina, and Finland.

In many markets some influential shareholders and executive directors may not fully recognize the value of orientation processes for newly appointed external directors. Many respondents in other countries, including Russia, India, the Middle East, and Germany, indicated that their orientation processes were not formalized and effective. One reason for this could be, as noted in Chart 22, that 62 percent of all respondents indicated that their boards have not implemented term limits or age limits for director tenure. In the absence of term or age limits, director tenures may last for decades, thus minimizing the need for orientation processes.

Standard director orientation processes may include reading materials, training sessions, facility walkthroughs, meetings with management, and formal presentations. A number of technologically sophisticated organizations have even established electronic board portals to disseminate information to directors not only during their onboarding period, but throughout their board service. Regardless of the specific tools used to onboard and orient new directors, doing so in a formal manner helps establish proper expectations for service while positioning them to meet those expectations.

Chart 15 – The orientation process for new board members is formalized and effective.



Director training

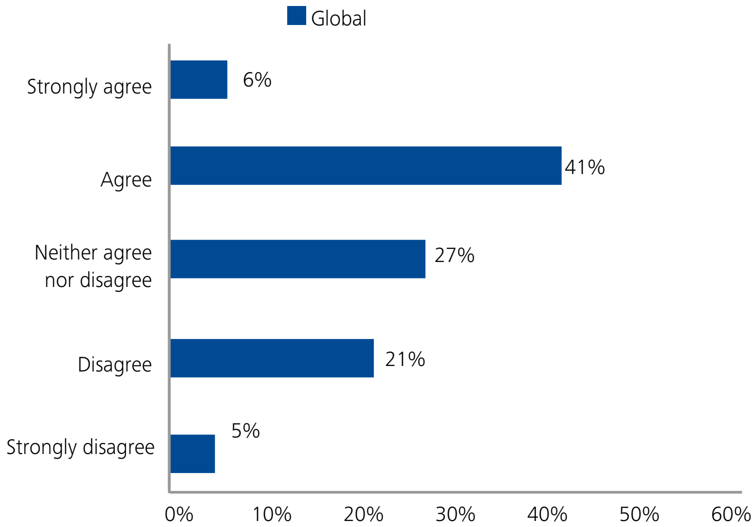
Directors oversee an increasing number of organizational areas and issues, many of which may lie outside their areas of expertise. Ongoing training can help equip the board with the knowledge and skills necessary to address these matters. However, less than half (47 percent) of respondents strongly agree or agree that they are receiving sufficient training to effectively carry out their roles. The remainder was split between those who neither agree nor disagree (27 percent) and those who disagreed or strongly disagreed (26 percent).

Directors in the United States, Ireland, and Finland most often strongly agreed or agreed that they are receiving sufficient training, while those in the Middle East, Russia, and Romania most often disagreed or strongly disagreed.

Responses regarding director training appear to generally parallel those for board performance evaluations. Regarding both issues, respondents in the United States, Ireland, and Finland were most likely to strongly agree or agree that formal efforts were in place.

These results may reflect a prevailing strong focus on board performance evaluation, need identification, and provision of training—or the lack of such a focus—among boards in the countries in which directors were surveyed.

Chart 16 – The board believes they are receiving sufficient training to effectively carry out their board service role.



Executive/director compensation

The topic of compensation of nonexecutive directors has received continued, and in many cases, heightened scrutiny in recent years. Directors, facing new levels of responsibility and liability, have over the past three years increasingly come to see their compensation as not appropriate relative to their responsibilities, efforts, and time commitments. In 2013, 49 percent of respondents strongly agreed or agreed that their compensation was appropriate, down from 52 percent in 2012, which was down from 65 percent in 2011.[3] Respondents may perceive their compensation as not keeping pace with their increasing responsibilities and potential liabilities. However, many organizations incur the cost of directors' and officers' insurance to address potential personal liability associated with board service.

Respondents in Germany most often cited their remuneration/compensation levels as inappropriate. Other countries with significant minorities of directors citing their remuneration as inappropriate include Sweden, Romania, Nigeria, Finland, and Luxembourg. Irish and U.S. directors most often strongly agreed or agreed that their pay was appropriate.

Director compensation varies from organization to organization, and country to country. Stock options and other long-term incentives are increasingly common in some markets. However, despite some movement away from "short-termism" in director and executive compensation, only 58 percent of respondents strongly agreed or agreed that the board considers long-term performance measures in the executive compensation policy to a sufficient degree—an 11 point decrease from the previous year. This finding seems counter to the widely publicized notion that a lack of long-term planning and incentives and a surfeit of short-term goals and incentives for executives contributed to the financial crisis.

Regardless of their specific form and structure, the remuneration and compensation of directors and executives will likely be subject to continued scrutiny in the coming years.

Chart 17 – Remuneration/compensation of (nonexecutive) board members is appropriate relative to their responsibilities, efforts, and time commitment.

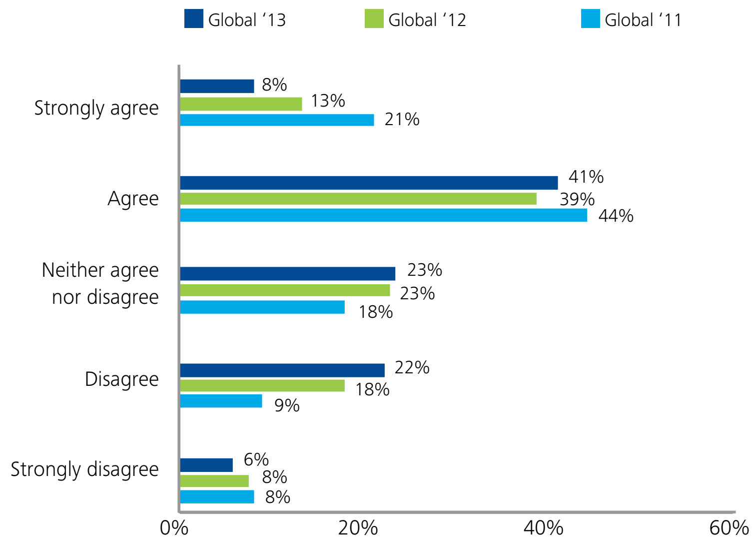
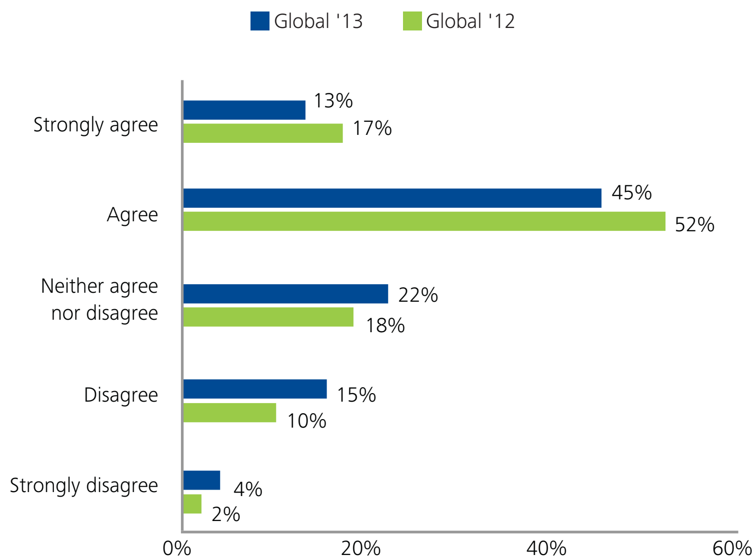


Chart 18 – The board considers long-term performance measures in the executive remuneration/compensation policy to a sufficient degree.



[3] In 2011, a similar question was asked: "Remuneration/compensation is appropriate" without mention of responsibilities, efforts, and time commitments.

Hot topic boardroom issues

This final section examines topics frequently discussed in boardrooms around the world. While social media, diversity, and nonfinancial reporting are not new, their growing impact on corporations has made them a more common topic for boardroom discussion in recent years.

Issues related to these topics can overlap and magnify one another. For example, social media—itself an application of technology—can present risks requiring boardroom oversight while, for example, arguably promoting diversity through interconnectedness and the younger profile of social media users. And although the subject of diversity may be new to some directors, there are arguments that a more diverse board can better face new challenges with fresh perspectives and up-to-date skills.

Today, when 62 percent of the world's population uses social media[4], organizational mishaps or wrongdoings can become public relations nightmares in a matter of hours. Concurrently, the public's interest in corporate responsibility and sustainable business operations has intensified. While these topics pose new threats and risks, they present opportunities for innovative organizations to better connect and engage with their broader stakeholder base, while positively impacting the communities in which they operate.

[4] Most of world interconnected through email and social media, Patricia Reaney, Reuters, March 2012, http://www.reuters.com/article/2012/03/27/uk-socialmedia-online-poll-idUSLNE82Q02120120327

Social media uses and technology risk

Social media uses

Social media provides an unprecedented platform for individuals to air positive or negative views of an organization to a worldwide audience. Organizations or careers that took decades to build can be destroyed in hours if wrongdoings or even perceived wrongdoings are exposed by influential social media sources. Meanwhile, boards themselves have opportunities to use social media to good advantage, although they must be aware of its capabilities and risks in order to do so.

It appears, however, that most boards are not yet using social media. Nearly two-thirds (63 percent) of all directors surveyed indicated that the board does not use social media. Many social media sites and tools have appeared only in the past five to ten years, and perhaps the knowledge and understanding of these tools have not yet reached the boardroom.

This may also reflect a generational gap in the boardroom. The average age of directors far exceeds that of the "digital natives" who are the biggest users of social media. While some organizations have begun recruiting younger directors to bridge this age gap (a practice that is not yet widespread), some directors are already embracing this new technology, understanding its impact on the organization. Still, some directors may be wary of regulatory compliance concerns related to disclosing sensitive corporate information via social media, or may not yet view the use of social media as relevant to their responsibilities.

Nonetheless, 37 percent of respondents stated that the board does use social media. Among those directors, 22 percent indicated that the board uses social media to understand concerns and issues that involve the organization in the marketplace—a prudent practice. The second highest practice (21 percent) was to assess the market's perception of the organization. Nineteen percent indicated that the board uses social media to connect with shareholders and other stakeholders, and 18 percent noted that the board uses social media to learn how the organization can improve.

While the global results suggest that most boards are not using social media, directors in some countries are leading the way. Eighty-two percent of directors in Argentina stated that they use social media. Other nations where a majority of respondents use social media include the Czech Republic, Germany, and the Philippines. Boards that use social media the least were those in Mexico, Nigeria, and Ireland.

Chart 19 – The board uses social media to:

Technology risks

Cyber security and other technology risks are of serious concern to boards. These issues potentially affect not only board members and their organizations, but also customers, suppliers, and other stakeholders. Boards are aware of these risks, as indicated by the 73 percent of respondents who noted that their boards discuss technology risks.

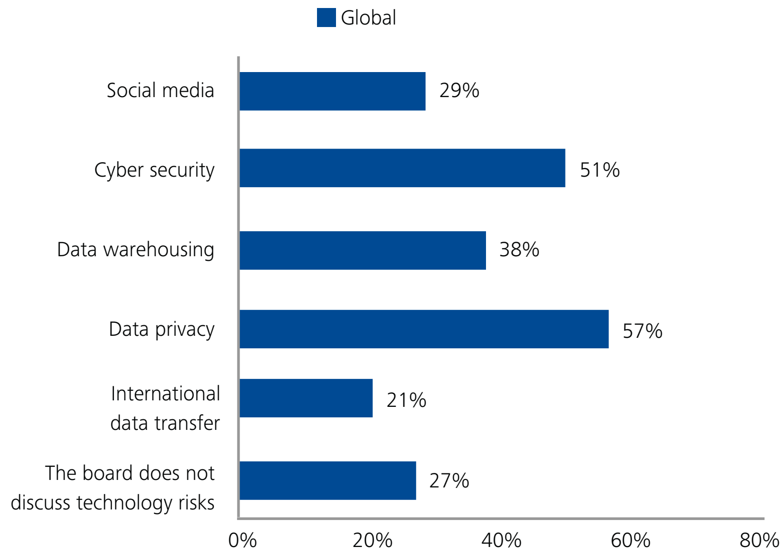
Yet directors in different countries discuss these risks to varying extents. Directors least likely to be discussing technology risks were located in Russia, where 70 percent of respondents indicated that the board does not discuss technology risks, and in the Middle East (67 percent) and Nigeria (45 percent). In the United States, all respondents noted this as a topic the board actively discussed, and close to 90 percent of directors in Finland and the Czech Republic indicated the same.

Of the boards that discuss technology risks, the risks most often covered include data privacy (57 percent) and cyber security (51 percent). Risks related to data warehousing (38 percent) and international data transfer (21 percent) are also discussed. Reflecting the board's relatively limited use of social media (as discussed in the previous section), only 29 percent of respondents who stated that their board actively discusses technology risks also noted social media as among the risks discussed.

Boards are wise to focus on data privacy and cyber security. The threat of cyber-attacks is real, and their cost is growing. A recent survey by the Ponemon Institute found that the average cost of data breaches to a company (investigations, notification, and response) was $3.5 million and 15 percent more than the previous year.[5] Whether attackers' motives are financial, social, or political, they can cause potentially serious financial and reputational harm to an organization. A strong cyber security and data privacy program, overseen by the board, can go a long way toward improving the organization's ability to address technology risks.

Given organizations' dependence on technology and the heightened capabilities and sophistication of cybercriminals, boards must invest the time and resources necessary to stay abreast of both technology risks and management's methods of addressing them.

Chart 20 – The board actively discusses the following technology risks:



[5] Ponemon Institute Releases 2014 Cost of Data Breach: Global Analysis, press release, Ponemon Institute, May 2014, http://www.ponemon.org/blog/ponemon-institute-releases-2014-cost-of-data-breach-global-analysis

Diversity

Diversity

The subject of boardroom diversity has been heavily debated in a number of markets, as the merits of diversity imposed by regulation are weighed against those of self-regulation and merit-based appointments. Our survey findings suggest that the majority of boards have not yet introduced boardroom diversity policies. Nearly 63 percent of the directors surveyed stated that their organization has not introduced diversity policies for board composition. The highest rates of "yes" responses to the statement, "The organization/board has introduced diversity policies for board composition" came from Finland, Nigeria, Sweden, Germany, and the United States.

Responses to this question may be influenced by factors such as gender quotas, local regulators (for example, in the form of corporate governance code recommendations), and individual organizational policies.

For example, consider the following:

- In Finland any government body or state-owned enterprise must have an equal representation of both men and women on the board.[6]
- Sweden's corporate governance code states that the board should strive to exhibit diversity and breadth of qualifications, experience, and background.[7]
- German governing bodies have agreed to introduce a 30 percent gender quota for female directors.
- The U.S. Securities and Exchange Commission's final rule on Proxy Disclosure Enhancements requires nominating committees to disclose how they consider diversity in identifying nominees, although the rule[8] does not define diversity and allows organizations to define it themselves.
- In India, the Companies Bill requires public companies to have at least one female director.[9]

Many other countries now have quotas for gender diversity on their boards, an approach pioneered by Norway in 2005, when the Norwegian Public Limited Liability Companies Act implemented a 40 percent female gender quota for boards with nine or more directors.[10]

The survey data suggests that guidelines are used more than quotas to implement diversity policies. For example, among boards with diversity policies, 82 percent have guidelines related to professional qualifications—the most commonly sought diversity characteristic—while only 10 percent have implemented quotas for that characteristic. Gender was cited as the second most commonly sought characteristic (after professional qualifications), with 64 percent of companies having guidelines related to gender diversity.

Organizations also believe in the importance of including international directors on their boards (44 percent), which brings diversity of thought and cultural background. Furthermore, only 32 percent of boards have introduced guidelines for age diversity. Other diversity characteristics were cited by less than 20 percent of respondents, including ethnicity (18 percent), religion (10 percent), sexual orientation (9 percent), and disability (8 percent). While these numbers may seem low, they indicate that organizations are starting to consider diversity in the boardroom from a broader perspective.

Table 21a provides a more complete view of the guidelines and quotas the participating countries have implemented for the board.

Chart 21 – The organization/board has introduced diversity policies for board composition.

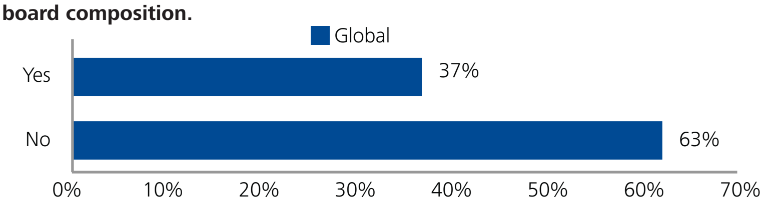


Table 21a

		Gender	Professional qualifications (e.g., industry)	Ethnicity	Religion	Age	Disability	International-ization	Sexual orientation
Global	Guidelines	64%	82%	18%	10%	32%	8%	44%	9%
	Quotas	10%	10%	6%	3%	5%	3%	5%	2%

[6] Women in Economic Decision-Making in the EU: Progress Report, 2012, European Commission, http://ec.europa.eu/justice/gender-equality/files/women-on-boards_en.pdf

[7] The Swedish Corporate Governance Code, February 2010, The Swedish Corporate Governance Board, http://www.corporategovernanceboard.se/media/45322/svenskkodbolagsstyrn_2010_eng_korrigerad20110321.pdf

[8] Security and Exchange Commission, Proxy Disclosure Enhancements, Final Rule, 33-9089, http://www.sec.gov/rules/final/2009/33-9089-secg.htm

[9] The Companies Bill 2012, as passed by Lok Sabha, December 18, 2012, http://www.mca.gov.in/Ministry/pdf/The_Companies_Bill_2012.pdf

[10] Public Limited Liability Companies Act of June 13, 1997 No. 45, '§ 6-11a The Financial Supervisory Authority of Norway, http://lovdata.no/dokument/NL/lov/1997-06-13-45/KAPITTEL_6#KAPITTEL_6

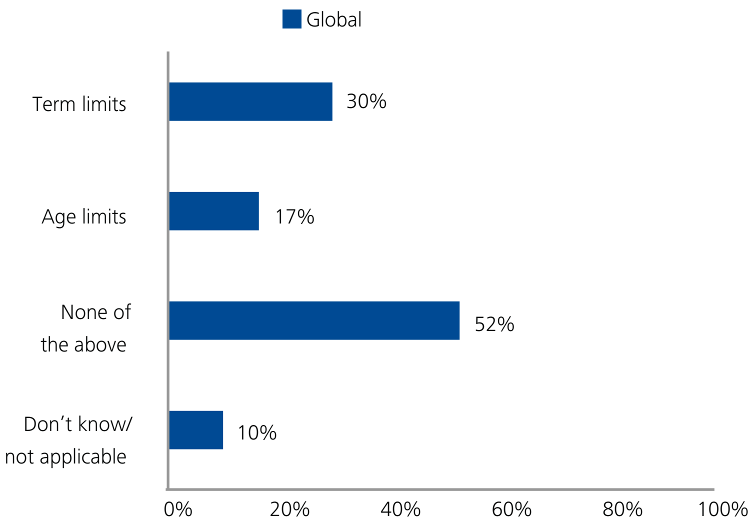
Term and age limits

A lack of limits on board tenure can lead to stale thinking in boardrooms and, in the worst cases, directors who are entrenched in their positions for long periods. Term and age limits arguably bring fresh perspective into the boardroom. However, more than 62 percent of respondents stated that their boards have not implemented term limits or age limits, or that they were not sure (or it was not applicable) whether they had such limits.

Globally, organizations appear to be establishing term limits for directors (30 percent) more than age limits (17 percent). Term limits for directors were most often cited by respondents in Ireland, Romania, and Nigeria, while age limits were cited most often in India and the United States. A recent Deloitte survey in the United States found that 80 percent of U.S. boards had age limits as opposed to 9 percent with term limits. The prevalence of age limits appears to be increasing in the United States, with the most common retirement age being 72.[11]

Our survey results indicate that director term limits and age limits are not yet widespread global practices; however, as diversity policies become more prevalent, perhaps limits on board tenure will become more common as a mechanism for fostering turnover. That said, term or age limits can in some instances present the disadvantage of forcing the retirement of skilled and knowledgeable board members. Therefore, decisions regarding term or age limits should be carefully considered or applied in a flexible way.

Chart 22 – The board has implemented the following for its directors (select all that apply):



[11] 2012 Board Practices Report: Providing insight into the shape of things to come, Society of Corporate Secretaries and Governance Professionals and Deloitte Development LLC, December 2012, http://www.corpgov.deloitte.com/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/USEng/Documents/Board%20Governance/Tablet_Deloitte%20Board%20Practices%20Report%202012.pdf

Nonfinancial reporting

“Half of the respondents strongly agreed or agreed that nonfinancial reporting mechanisms will see an increased focus in the next 12 months.”

Nonfinancial and integrated reporting

Boards may measure, review, and report their organizations’ performance against a variety of nonfinancial indicators, such as environmental, social, and governance metrics, human resources measures and employee turnover ratios, and metrics related to innovation, engagement, and health and safety. Such indicators can provide a picture of the organization beyond its financial condition and performance.

Globally, 66 percent of respondents strongly agreed or agreed that the board reviews and measures organizational performance against nonfinancial indicators, a slight increase over last year’s 63 percent. A majority of respondents in all countries surveyed strongly agreed or agreed, with the exception of the Middle East and Luxembourg. This parallels the data in Chart 25, in which 68 percent of directors strongly agreed or agreed that sustainability and corporate social responsibility are becoming more important issues for the board.

Half of the respondents strongly agreed or agreed that these areas will see an increased focus in the next 12 months (while nearly 36 percent neither agreed nor disagreed). Although boards may be considering the merits of nonfinancial indicators, the measures are yet to be widely reflected in reporting mechanisms, such as those based on integrated reporting or corporate social responsibility frameworks. This may indicate a conservative approach to changes in reporting or underdeveloped reporting processes. It almost certainly reflects a lack of regulatory demands for such reporting. To date, only South Africa has mandated an integrated reporting framework, via the King Report on Corporate Governance (King III).

That said, two-thirds of respondents do review and measure performance against nonfinancial indicators and half agree that these areas will see increased focus in the next year. These two trends could be driven by shareholder and activist interest in, and demands for, measures that track and report on nonfinancial aspects and impacts of enterprise activities. Boards should be aware that several organizations and initiatives promulgate nonfinancial reporting guidelines. Among the most prominent of these include the Global Reporting Initiative (GRI), International Integrated Reporting Council (IRC), and Sustainability Accounting Standards Board (SASB).

Chart 23 – The board reviews and measures organizational performance against nonfinancial indicators.

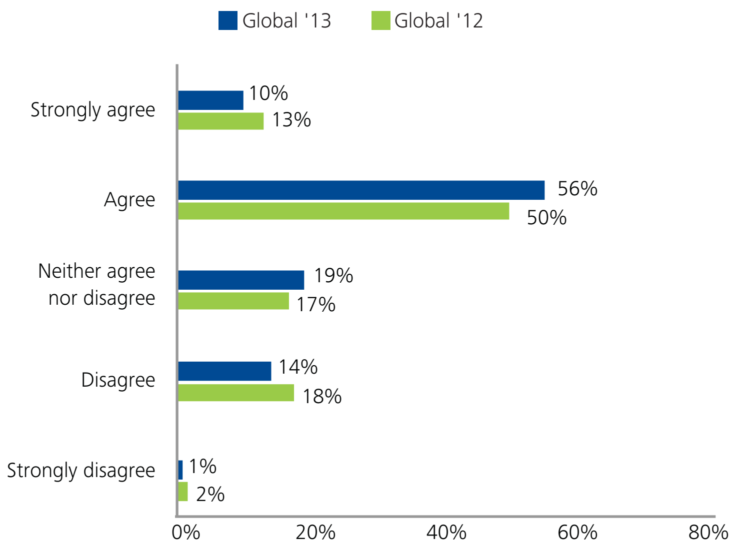
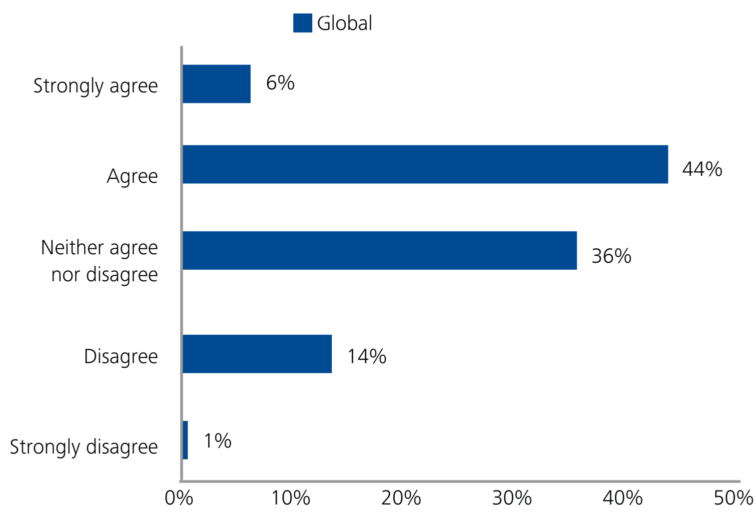


Chart 24 – The board will have an increased focus on nonfinancial reporting mechanisms (e.g., integrated reporting) over the next 12 months.

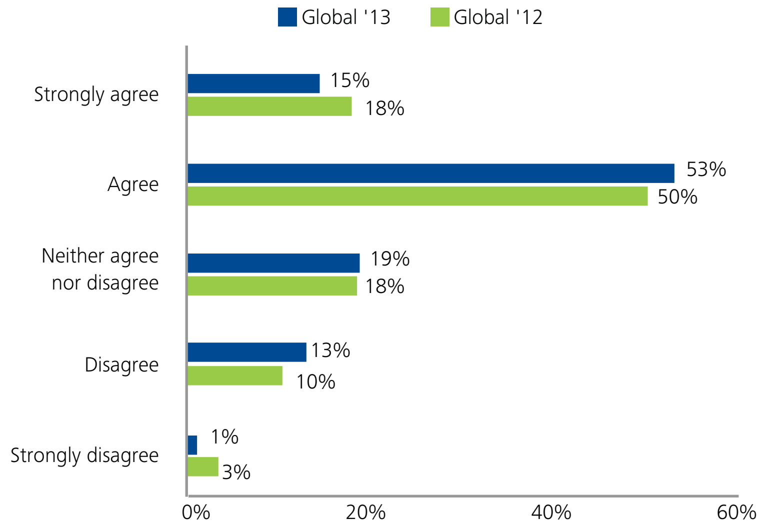


Sustainability and corporate social responsibility

Issues of sustainability and corporate social responsibility (CSR) are increasingly important to many organizations, often depending on their industry and location. In general, corporate reporting processes are slowly migrating from purely numerical approaches to those that focus on more intangible aspects of company operations, such as CSR.

The percentage of respondents who strongly agreed or agreed that sustainability and CSR are becoming more important for the board remained unchanged from the previous year (68 percent). An increase in this percentage may have been expected, given that nonfinancial reporting related to sustainability and CSR has been widely accepted as a trend. Per the analysis, the trend appears to be most pronounced in Argentina, Finland, Germany, India, Sweden, and the United States—all countries where relatively high percentages of respondents cited these issues as important to the board.

Chart 25 – Sustainability and corporate social responsibility are becoming more important issues for the board.



The increased scrutiny of boards by external parties often extends to social issues. In this age of social media and, in some quarters, anti-business sentiments, news of alleged or actual CSR incidents can spread rapidly to a potentially less-than-forgiving audience. The public, media, and investors are demanding higher levels of visibility into organizational operations. Business activities that allegedly or actually directly or indirectly violate human rights are coming under intense scrutiny, and some regulators are demanding disclosure of such activities. For example, in the United States, the SEC adopted a ruling that requires companies to disclose their use of conflict minerals originating in the Democratic Republic of the Congo (DRC) or an adjoining country.[12] South Africa has mandated an integrated reporting framework, comprising six measures of capital: financial, manufactured, intellectual, human, social, and natural. While increasing organizations' reporting burdens, such initiatives do prompt companies to give stakeholders a more complete picture of their operations.[13]

Although this issue is receiving attention, directors currently do not appear to regard sustainability among the most impactful boardroom issues. Only 2 percent of directors considered sustainability one of their top three issues impacting the board in the past 12 months (compared with 2 percent in 2012 and 0 percent in 2011). Four percent considered it one of their top three issues that will impact the board in the next 12 to 24 months (compared with 3 percent in 2012 and 1 percent in 2011).

Boards need to monitor trends in sustainability and CSR, reporting expectations among regulators, investors, and activists, and how these may have an impact on their organizations.

[12] SEC Adopts Rule for Disclosing Use of Conflict Minerals, August 2012, U.S. Securities and Exchange Commission, http://www.sec.gov/News/PressRelease/Detail/PressRelease/1365171484002#.U7xfrbkU91s
[13] Integrated reporting: The new big picture, Deloitte Review, January 2012, http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/Deloitte%20Review/Deloitte%20Review%2010%20-%20Summer%202012/US_deloittereview_Integrated Reporting The New Big Picture Jan12.pdf

Succession planning

CEO succession planning

CEO succession planning can be a sensitive matter, particularly where there is a strong and successful leader, or founder of the company. However, no organization can afford to forgo succession planning. The matter becomes even more sensitive and complex for family-owned companies. Proactive, board-level planning is essential to smooth leadership transitions, ongoing stakeholder relationships, and long-term strategy implementation.

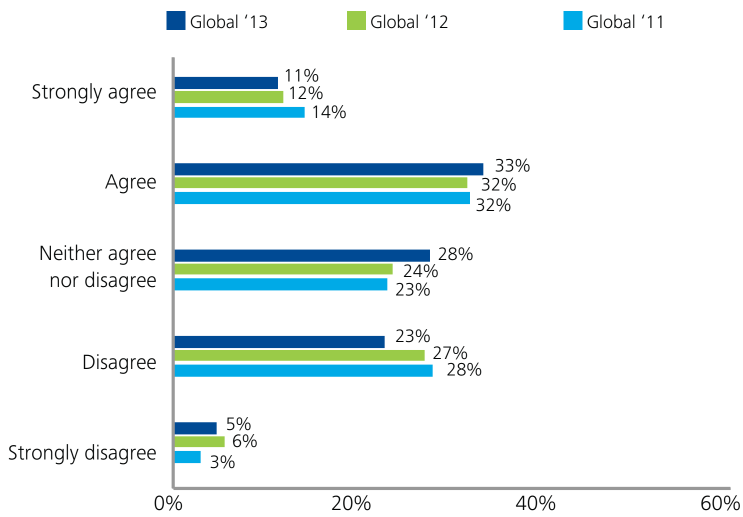
However, less than half of all respondents (44 percent, identical to last year's survey result) strongly agreed or agreed that the board effectively addresses CEO succession planning. Twenty-eight percent of respondents neither agreed nor disagreed; another 28 percent disagreed or strongly disagreed. Thus, the data suggests that many boards are, by their own estimation, not yet effective in CEO succession planning.

Respondents in United States, Ireland, and Finland most often strongly agreed or agreed that CEO succession planning is effectively addressed by the board, with no other country registering a total of at least 60 percent who strongly agreed or agreed.

Boards may choose to delegate succession planning to a board committee. However the board develops them, detailed succession plans designed to address all potential situations and scenarios, including major risk events, can substantially mitigate organization-wide risk. Sudden unplanned leadership changes can adversely affect a company and diminish shareholder and investor confidence. Similarly, a good plan that is poorly executed, for example, through poor transitioning procedures or lack of board oversight of the process, can also damage a company.

Boards must, therefore, monitor the internal talent pipeline, as well as potential external candidates, or enlist the services of an executive search firm, and regularly update the succession plans for key executive positions.

Chart 26 – CEO succession planning is effectively addressed by the board.



"The data suggests that many boards are, by their own estimation, not yet effective in CEO succession planning."

Top boardroom issues

Past look

Since our last survey, top boardroom issues have shifted away from the global financial crisis and recovery toward performance and strategy concerns. This pivot toward performance and strategy could be reflected in an increased focus on mergers and acquisitions, innovation, competition, and increasing shareholder value. This must be welcome news for investors around the world, although the pressure is now on boards and management to create sustainable value in the post-crisis era.

Forward look

Top five issues in 2013

Strategy – cited by 55 percent of respondents as a "top three" issue – will remain a major concern for boards over the next 12 to 24 months. The second highest area of focus in this period is expected to be performance (35 percent), followed by growth (30 percent), regulation, governance, and compliance (27 percent), and risk management (23 percent).

Greatest increases from 2012

The issue with the largest increase in respondents citing it among the top three from the previous year's survey was, again, performance. Performance increased to 35 percent (up from 15 percent in 2012). Strategy saw the second largest increase, to 55 percent (up from 38 percent), followed by risk management (23 percent in 2013 versus 11 percent in 2012), shareholder value/investors (14 percent versus 2 percent), and growth (30 percent versus 20 percent).

Greatest decreases from 2012

The boardroom issue with the largest decline in respondents citing it among the top three from last year was the global financial crisis and recovery, which decreased to 11 percent of respondents citing it as a top three issue in 2013 from 37 percent in 2012. Other issues registering notable declines included capital management (15 percent in 2013 versus 28 percent in 2012), talent management (3 percent versus 13 percent), and management succession (3 percent versus 9 percent).

Table 27 – Top three issues for boards in the next 12 to 24 months	2013	2012
Strategy	55%	38%
Performance	35%	15%
Growth	30%	20%
Regulation, Governance, and Compliance	27%	31%
Risk Management	23%	11%
Capital Management	15%	28%
Shareholder Value/Investors	14%	2%
Global Financial Crisis and Recovery	11%	37%
Operational Management/Infrastructure	9%	7%
Mergers and Acquisitions	7%	7%
Competition	7%	2%
External Factors	6%	N/A
CEO Succession Planning	6%	N/A
Organizational Structure	6%	5%
Innovation	6%	5%
IT/Technology	5%	4%
Political/Social Uncertainty	4%	9%
Sustainability	4%	3%
Board Effectiveness	4%	6%
Management Succession	3%	9%
Talent Management	3%	13%
Executive Remuneration	3%	5%
Reporting	3%	N/A
Raw Materials/Energy	3%	2%
Other	2%	N/A
Board Succession Planning	2%	3%
Stakeholder Management	2%	5%
Environment, Health, Safety	1%	N/A
Anti-corruption/Anti-fraud	1%	N/A
Sovereign Risk	1%	1%
Diversity	1%	2%
Cyber Security	0%	N/A
Globalization	0%	4%

Analysis

Directors around the world indicated that the issues they have been focusing on for the past 12 months will remain among their major concerns over the next 12 to 24 months. However, the plunging level of concern over the global financial crisis may indicate that they see the struggles related to the financial crisis and its aftermath as finally behind their organizations. This should free up time, attention, and other resources for boards to focus on assisting their organizations in achieving long-term growth.

Directors' ability to contribute to and oversee management's performance and the organization's strategic direction should be keys to success as companies look beyond the constraints that have hemmed them in over the past several years.

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