Deloitte.

Director 360°
Growth from all directions

Edition 3 – 2015
Austria

Methodology

As part of the Director 360° survey, Deloitte member firms interviewed 336 board chairmen and directors in 16 countries around the world on the topic of board effectiveness and the issues, challenges, and opportunities that boards face. Deloitte interviewed directors in Argentina, Austria, 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
Austria	19 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	**336 directors**

The interviews were conducted between September and December, 2014. 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") in association with the Deloitte Austria Center for Corporate Governance is pleased to present the latest edition of its annual global director survey: Director 360°: Growth from all Directions. This survey provides Deloitte's perspective on boardroom concerns directors face around the world. Our analysis is the culmination of Deloitte's extensive interviews and surveys with 336 directors in public and private companies across 16 countries (including Austria). Our Director 360° results highlight changes in key governance, regulatory, and compliance concerns, that companies around the world are facing in today's challenging business environment.

More specifically, we solicited views from the participating 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 the survey expanded to include topics such as macro-economic regulatory issues and its associated perceptions, cyber-security, internal audit, compliance, and anti-corruption – among others.

Perhaps the biggest headline from this year's edition of Director 360°, is that the global financial crisis weighs less heavily on the minds and agendas of directors around the world. It appears that, based on the survey responses, boards are becoming more confident that markets have emerged from the global financial crisis.

- When asked to select the top three issues impacting boards in the past 12 months, only 20 percent of the global director respondents pointed to the global financial crisis as a top boardroom issue, thus ranking sixth in this year's edition.
- What issues might be replacing the financial crisis in the minds of directors? We found more directors pointing to performance (34 percent) as an issue on their boardroom agendas – performance is now the second-most discussed issue, behind strategy (55 percent). Other topics besides performance and strategy gaining importance include growth (29 percent) and shareholder value/investors (13 percent). These results may indicate that boards are moving away from austerity policies and are focusing more on company performance/operations and the creation of long-term sustainable growth.

Given the increase in the number of cyber-crimes and technology breaches among 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 technology risks, just a shade over half (52 percent) included cyber-security in those discussions. Given the prevalence of cyber-attacks and their associated reputational/financial harm, cyber-security may become more of a boardroom priority over the next 12 months. Moreover, nearly two-thirds of all directors surveyed stated that their board does not use social media. This is surprising: as the world moves to an increasingly digitized environment, are boards prepared to deal with the unprecedented business and reputational risks facing their organizations? Are boards equipped to monitor and engage with their changing stakeholder base?

Shareholder engagement is another topic flagged by our survey. As companies emerge from the global financial crisis, many expect investors and stakeholders will monitor board activities more intensively. In fact, 67 percent of respondents expect the level of interaction between shareholders and boards to increase over the next few years. Given this, it would be reasonable to assume that engaging with investors might be a priority for directors and boards globally. The survey results, however, found that despite acknowledging the increasing levels of shareholder scrutiny, 61 percent of those surveyed do not have a shareholder engagement policy in place.

Lastly, there is the question of boardroom diversity. While some countries have enacted legislation or quotas to increase the presence of women in corporate boardrooms, organizations in other countries have turned to their own initiatives or policies to address diversity in the boardroom. However, our report finds that nearly two-thirds of those surveyed stated that their organization has not introduced diversity policies for board composition. One obstacle to greater diversity could be the long tenure of incumbent directors and the lack of term or age limits on board service. Our findings show that 62 percent of directors surveyed stated that their boards have not implemented age or term limits, or that they were unsure of such limits. Boards appear to be implementing term limits for director service (30 percent) almost twice as frequently as age limits (17 percent).

Executive summary Austria

While directors in our survey in 2011 listed the global financial crisis and recovery directly after capital management the agendas in 2014 are now dominated by strategy which is also going to be the main topic for the next 12 to 24 months (indicated by 63 percent of directors surveyed). Thus, Austrian directors are in line with the global trend. However, the directors surveyed in Austria did not point to performance as their second highest issue on their boardroom agendas for the next one to two years but to organizational structure (26 percent) followed by risk management (21 percent).

Regarding technology risks 42 percent of Austrian directors surveyed noted that the board does not discuss technology risks at all. If technology risks are discussed on board level they focus on social media (26 percent) and cyber security (21 percent). International data transfer was on no board agenda of any of the surveyed directors and data warehousing as well as data privacy were only quoted with 5 percent each. 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. Our survey results indicate that Austrian boards may not be conscious enough about technology and its risks and may still regard Austria as a safe haven.

While our German counterparts do make use of social media especially in order to learn what the organization can improve upon (50 percent), none of the Austrian directors do. It seems that Austrian directors are not very keen in using social media in their board service roles - 63 percent stated, that they do not use social media at all. It could be that, in line with the global results, the use of social media may not yet be completely understood by the board or the board had not yet determined what the benefits could be of using social media.

Even though directors in Austria are adamant in their belief that the level of shareholder scrutiny on corporate governance practices will increase and even though nearly half of the surveyed directors in Austria expect the level of interaction between shareholders and the board to increase, 68 percent of the directors in Austria stated that they do not have a shareholder engagement policy in place.

Looking at the question of boardroom diversity, 74 percent of directors surveyed in Austria stated that their organization has not introduced diversity policies for board composition. If the board has introduced diversity policies for board composition it appears to be mainly regarding gender and professional qualifications (80 percent each). With regard to term and age limits our findings show that 63 percent of directors surveyed in Austria stated that their boards have not implemented age or term limits, thus indicating that these are not yet widespread practices used in Austria. This may directly link to fact that nearly half of the directors responding said their boards have not implemented a formalized and effective orientation process for new board members. In the absence of term/age limits, director tenures may encompass decades, which may limit the need for and the usage of orientation processes.

What might be a little bit of surprise given the regulatory requirements and regulations in Austria is that our survey finds the boards in Austria are not taking such an active oversight role of the company's relationship with its key regulators as one might expect. 52 percent disagree or strongly disagree that the board has taken an active oversight role with this regard. 22 percent neither agree nor disagree. Only 4 percent strongly agree and 22 percent agree that the board has taken an active oversight role of the company's relationships with its key regulators.

Directors are split when asked whether Austria's system for governance works effectively to protect the interest of shareholders. 47 percent agree that the processes to evaluate board performance are sufficiently robust. However, 42 percent disagree or even strongly disagree. Even stronger is the tendency of disagreement with regard to the use of the results of the board performance assessment. In Austria 47 percent of the respondents disagreed that the results of the board performance assessment are used to affect future change. It seems that even though a process to evaluate board performance might be in place, the results are often not utilized or are ineffective in promoting change.

What areas of oversight will boards focus on in the next 12 to 24 months, and how will these focus areas impact investors? Are practices in place to prevent future crises from arising? What new challenges are impacting organizations that directors have yet to address, and do current board compositions allow companies to effectively address these concerns? This year's report: Director 360°: Growth from all Directions, seeks to provide insight on these questions and more. We invite you to keep reading to see how the roles of directors will keep to evolve.

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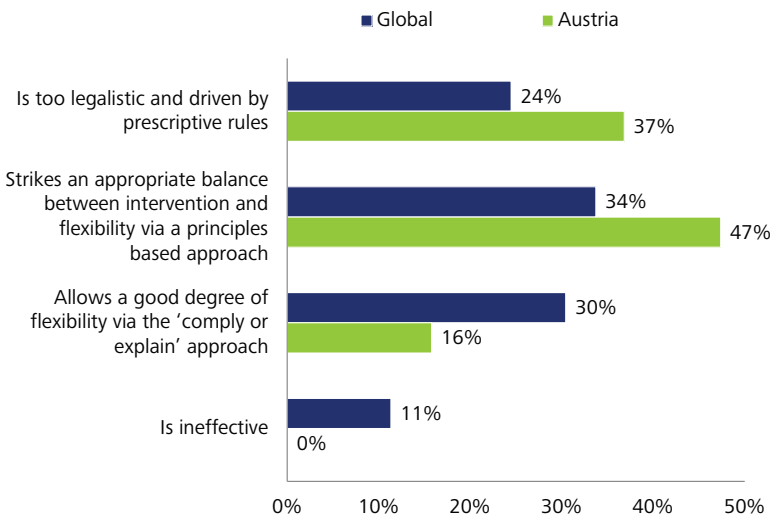
Key findings

Perception of regulatory systems on governance matters

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. 34 percent 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 Austria, Germany, Ireland, Luxembourg and Sweden. 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 Argentina Finland, Mexico, the Philippines, and Romania.

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



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 India, Philippines, Russia, and the United States chose this response.

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

Even though 47 percent of Austria's directors surveyed believed that the system strikes an appropriate balance between intervention and flexibility it must not be overseen that more than one third, ie 37 percent, still regard it as too legalistic and driven by prescriptive rules.

As effective or flexible any regulatory regime may be, 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. Austria is no exception in this regard. Only through sound internal governance and oversight can the board keep the organization positioned to cope with those realities.

47 percent of Austria's board members surveyed consider that the regulatory system for governance in Austria strikes an appropriate balance between intervention and flexibility via a principles based approach.

Adaptability of regulatory systems for corporate governance

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?

Directors differed when asked to describe how well the regulatory system for governance in their home country responds to new issues. Globally, 35 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. This is not entirely surprising as directors in many emerging markets with a high rate of response took this view, including the Czech Republic, India, Mexico, Nigeria, Romania and Russia.

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 23 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 (55 percent), Ireland (49 percent), Austria (47percent), Germany (44 percent), and Sweden (37 percent) may believe that, although processes are in place, they move too slowly to respond vigorously to new needs.

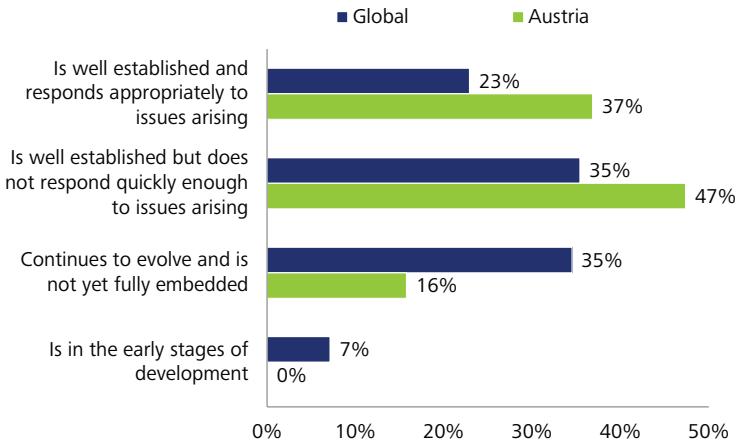
It is interesting to note, that only 37 percent of Austria's directors surveyed noted that the regulatory system for governance in their country is well established and responds well to new issues while in Germany (50 percent) and Finland (43 percent) a significant majority of directors take this view. With this regard, Austrian directors surveyed are more in line with their European Union colleagues in Luxembourg (39 percent) and Sweden (34 percent).

Even though Austrian directors mainly regard the regulatory system for governance as being established still 16 percent take the view that it is in the stage of evolvement and not yet fully embedded. A more detailed questioning would be necessary to learn where this minority sees the need for further movement.

It is important for the regulatory system in Austria to ensure the right balance between responding quickly to arising issues and continuing to have an appropriate balance between intervention and flexibility via a principles based approach.

The regulatory system in Austria needs to have an appropriate balance between intervention, by responding quickly enough to issues arising, and flexibility, via a principles based approach.

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



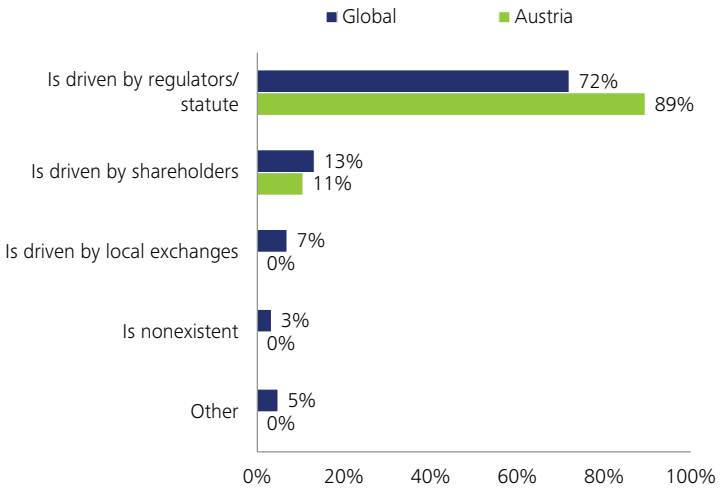
Enforcers of regulatory systems for governance

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 (72 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.

It is apparent that the enforcement of the regulatory system for governance is driven by the regulators/ statute in Austria (89 percent). Still 11 percent see the shareholders as the driving enforcers. This may correlate with the fact that in Austria the state is the principal shareholder of some of the leading ATX Prime listed companies and as such exercises direct influence on regulatory systems in place. Regardless of the holding structure, effective enforcement of the regulatory system for governance in Austria is dependent on the right balance between intervention and pragmatism via a principles based approach.

The enforcement of the regulatory system for governance is driven by the regulator /statute in Austria.

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



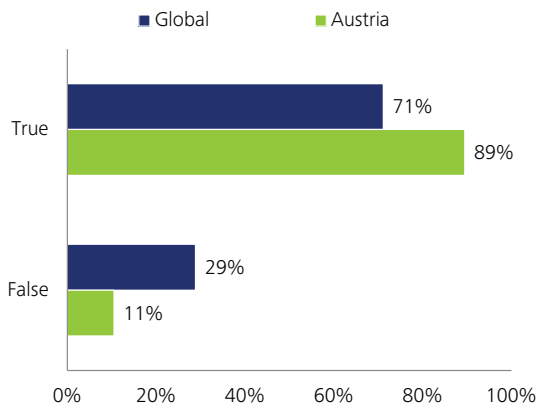
Shareholder protection from regulatory systems

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, 71 percent of respondents noted that their local governance systems work effectively to protect the interests of shareholders. Nonetheless, 29 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 (78 percent) and the Czech Republic (71 percent) chose the latter response, as did relatively small majorities of respondents in Nigeria and Romania (55 percent and 53 percent). These findings are generally in line with frequently voiced views (for example, those of the Organization for Economic Cooperation and Development (OECD) [1]) that in the case of several emerging markets, improvements in governance are instrumental to bolstering investor confidence and attracting foreign investment.

In Austria, most of the directors surveyed (89 percent) agreed that their local system for governance works effectively to protect the interest of shareholders. The Austrian Stock Market clearly adheres to the regulations in the European Union, such as the European Market Infrastructure Regulation and the European Shareholder Rights Directive.

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



Austria's system for governance works effectively to protect the interest 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

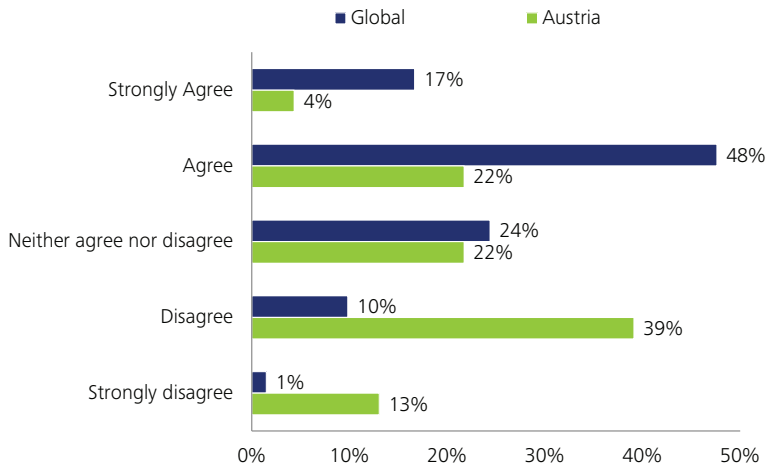
The board has taken an active oversight role of the company's relationships with its key regulators

Globally, nearly two-thirds of the directors surveyed agreed or strongly agreed that the board has taken an active oversight role of the company's relationships with its key regulators, while only 11 percent disagreed or strongly disagreed. Directors that agreed more strongly could be found in the U.S. (85 percent), Philippines (85 percent), Argentina (82 percent), Nigeria (82 percent), Luxembourg (80 percent), and Ireland (80 percent). Directors surveyed in Austria (52 percent), Russia (52 percent) and Germany (33 percent) had the highest levels of disagreement. This is an interesting result as it shows a mix of both mature and emerging markets at both ends of the scale.

In Austria a clear minority of only 4 percent strongly agrees that the board has taken an active oversight role of the company's relationships with its key regulators and even though 22 percent do at least agree to this point of view, they are overrun by the directors surveyed who disagreed (39 percent disagree, 13 percent strongly disagree). The Austrian results may depend heavily on the industry or sector in which the company operates and on the structure of ownership, ie, is the company mainly state owned, a listed or a privately owned company.

The boards in Austria are not taking an active oversight role of the company's relationship with its key regulators.

Chart 5 – The board has taken an active oversight role of the company's relationships with its key regulators.



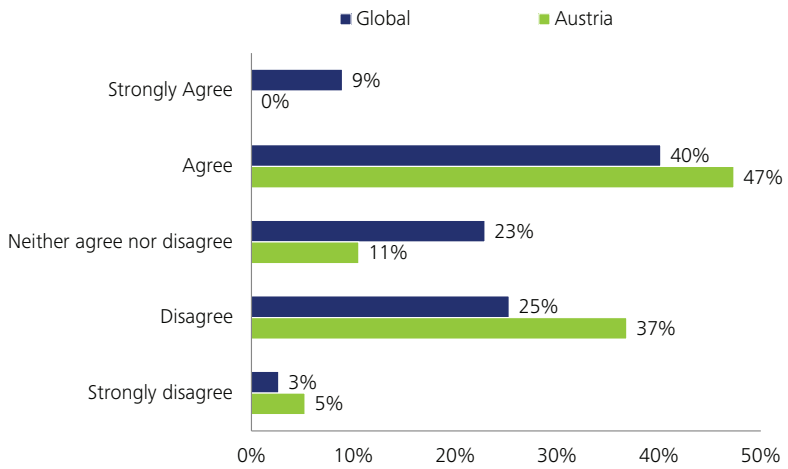
Processes to evaluate board performance are sufficiently robust

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.

Austria's directors surveyed are split when asked about their process to evaluate board performance to be sufficiently robust.

Chart 6 – Processes to evaluate board performance are sufficiently robust.



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 the global results of the survey in 2012.

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 (93 percent), Ireland (77 percent), Finland (67 percent) and Germany (62 percent) 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.

None of Austria's directors surveyed strongly agreed, but a majority of 47 percent agreed that their processes for evaluating board performance were sufficiently robust. However, 42 percent disagreed or strongly disagreed. Again, the answer may depend on the size of the company and if it is a listed or privately held company or if the state is the major shareholder as corporate governance regulations and requirements do differ.

The results of the board performance assessment are used to affect future change

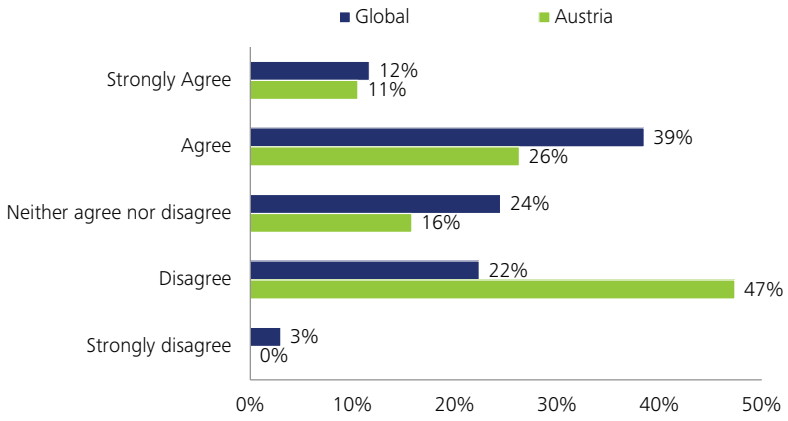
Half (51 percent) of the respondents strongly agreed or agreed that the results of the board performance assessment are used to affect future change. A quarter of respondents neither agreed nor disagreed on the matter, and nearly another quarter disagreed or disagreed strongly.

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.

Had Austria's directors surveyed been nearly split when asked about their processes to evaluate board performance to be sufficiently robust, they are now showing a tendency of disagreement with regard to question 7. In Austria 47 percent of the respondents disagreed that the results of the board performance assessment are used to affect future change. It seems that in Austria even though a process to evaluate board performance might be in place, the results are often not utilized or are ineffective in promoting change.

The results of the board performance assessment are often not utilized or are ineffective in promoting change.

Chart 7 – The results of the board performance assessment are used to affect future change.



The orientation process for new board members is formalized and effective

Based on the responses we received, there appears to be a certain level of recognition globally that formalized and effective orientation processes help directors make seamless transitions into their new leadership roles, and can help foster a culture of learning and preparedness. That appreciation is far from being universal, though: 40 percent of the directors surveyed agreed or strongly agreed that the orientation process for new board members is formalized and effective. It is possible that some of the significant shareholders and/or executive directors that have considerable influence on board practices in many markets may not fully recognize the value of orientation processes for newly appointed external directors. Leading countries in this space included the U.S. (78 percent), Ireland (69 percent), Argentina (64 percent agreed or strongly agreed) and Finland (60 percent).

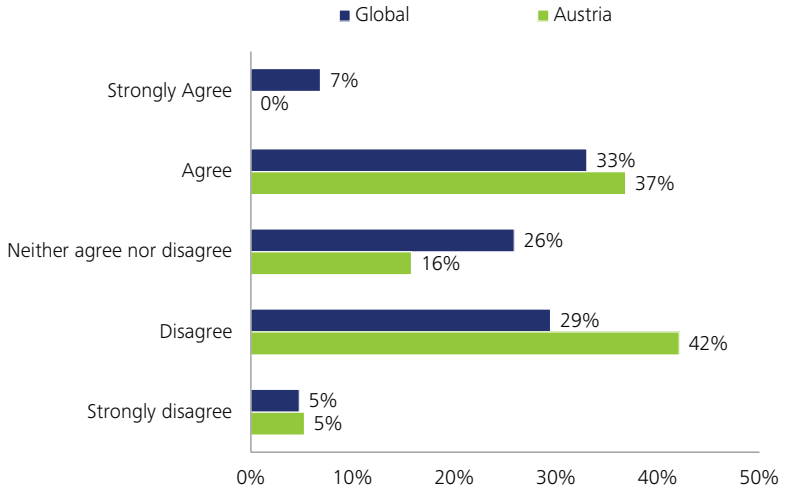
A clear divide was seen on the opposite side of the spectrum: many of the directors surveyed in other countries felt that their orientation processes were not formalized and effective, including: Russia (78 percent), India, the Middle East (67 percent each) and Germany (61 percent disagreed or strongly disagreed).

Standard director orientation processes (or 'onboarding') may include training sessions, facility walk-throughs, meetings with management, director pre-read materials, etc. A recent trend for tech-savvy boards has been the adoption of 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.

Globally, just over a third of the directors surveyed disagreed or strongly disagreed that the orientation process for new board members is formalized and effective. One reason for this strong minority could potentially be, as noted in chart 27 that 47 percent of the directors surveyed globally said their boards have not implemented term or age limits for director service. In the absence of term/age limits, director tenures may encompass decades, which may limit the need for and usage of orientation processes.

The majority of directors surveyed in Austria (47 percent) disagreed or strongly disagreed that the orientation process in Austria for new board members is formalized and effective. However, 37 percent agreed to a formalized and effective orientation process to be in place. 16 percent were neutral. This result suggests that boards in Austria should focus on an all-embracing orientation process to enable new directors (especially independent directors) to become integrated and effective within the shortest passage of time.

Chart 8 – The orientation process for new board members is formalized and effective.



New directors should become integrated and effective within the shortest passage of time.

The board believes they are receiving sufficient training to effectively carry out their board service role

Globally, the directors surveyed (42 percent) did not overwhelmingly agree that they are receiving sufficient training to effectively carry out their board service role. The remainder was equally split between those who were equivocal (26 percent) and those who disagreed or strongly disagreed (26 percent).

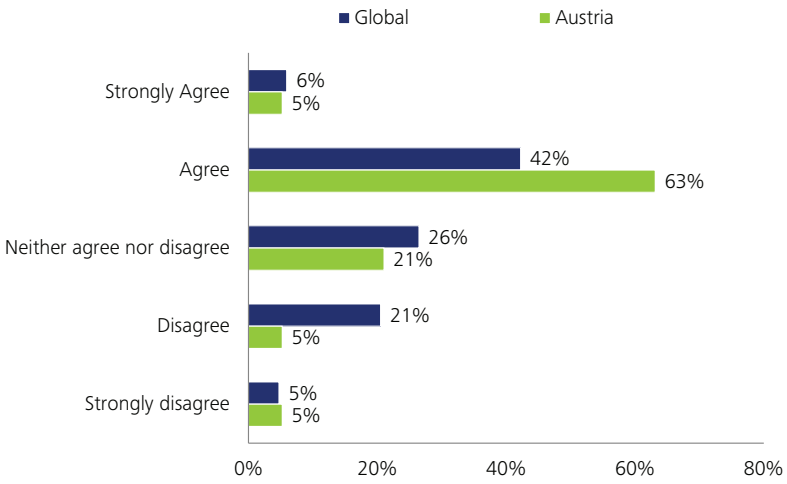
Directors in the U.S. (85 percent), Ireland (77 percent) and Finland (68 percent agreed or strongly agreed) most convincingly agreed that they are receiving sufficient training to effectively carry out their board service role, while their peers disagreed and strongly disagreed in the Middle East (67 percent), Russia (56 percent) and Romania (47 percent) on the same matter.

The results seem to mirror those of chart 8. If boards are doing a less than adequate job of onboarding their directors, then the quality and effectiveness of their ongoing director trainings may suffer as well. Talent retention and maturation is just as important for the board as it is for the organization as a whole. Directors are now being tasked with providing oversight of an increasing number of organizational areas, many of which may naturally lie outside of their areas of expertise. Sufficient and continuous training for directors can help ensure that the board has knowledge and skills necessary to tackle many of today's pressing boardroom issues.

In Austria, the offering of trainings to supervisory board members increased and improved considerably over the last years. This is also reflected in the strong agreement (69 percent agreed or strongly agreed) by Austrian directors. However, 26 percent still disagree or strongly disagree that they are receiving sufficient training to effectively carry out their board service role which indicates still room for improvement.

Trainings are of key importance for board members to keep up-to-date with the latest regulations and developments that need to be known and understood to effectively carry out their board service role.

Chart 9 – The board believes they are receiving sufficient training to effectively carry out their board service role.



Austrian directors are not very keen in using social media in their board service roles.

The board's use of social media

It 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 that most boards are not, or not yet, using social media. Nearly two-thirds of all directors surveyed state that the board does not use social media. It could be that social media may not yet be completely understood by the board. Major social media sites have only come into existence in the past five to ten years, and perhaps the knowledge and understanding of these tools have not yet reached the boardroom. There may also be a generational gap. The average age of the boardroom is much higher than that of the millennials who are the biggest users of social media. Some organizations have already begun to infuse younger generations of talent into their boardrooms to bridge this age gap, among other reasons – though it is not yet a widespread practice. Boards may also be wary of regulatory compliance matters on disclosing sensitive information via social media, and thus, may be reluctant to use it. And finally, directors may not yet view the use of social media as a board-level responsibility.

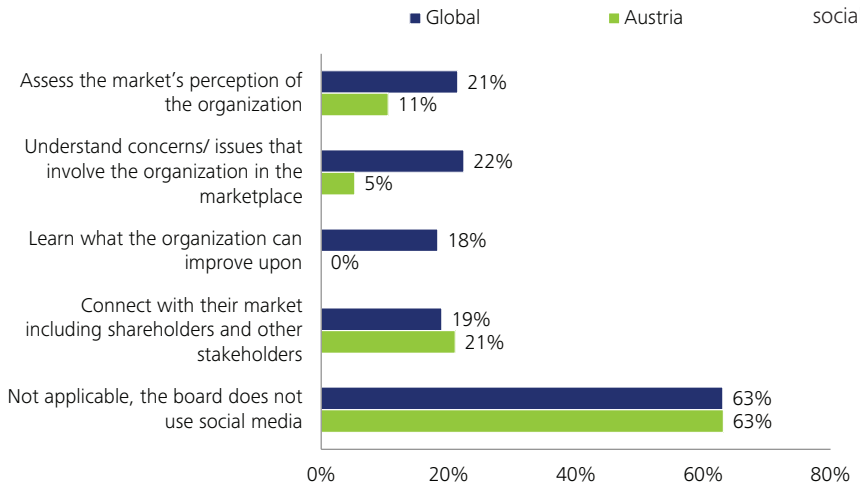
Still, 37 percent of directors surveyed globally stated that the board does use social media. Of that percentage, 22 percent said the board uses social media to understand concerns/issues that involve the organization in the marketplace – a prudent practice. The second highest practice (21 percent) was to assess the market's perception of the organization.

19 percent say that the board uses social media to connect with shareholders and other stakeholders, and another 18 percent say the board uses social media to learn what the organization can improve upon.

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 as well as directors in the Czech Republic (65 percent), Germany (61 percent), and the Philippines (60 percent). Boards that use social media the least are found in: Ireland, Mexico and Nigeria. It appears that the use of social media by the board is not yet a widespread global practice.

While our German counterparts do make use of social media especially in order to learn what the organization can improve upon (50 percent), none of Austrian directors do. It seems that Austrian directors are not very keen in using social media in their board service roles (63 percent stated, that they do not use social media at all). It could be that, in line with the global results of the survey, the use of social media may not yet be completely understood by the board or the board had not yet determined what the benefits could be of using social media.

Chart 10 – The board uses social media to:



Top technology risks discussed by the board

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 70 percent of respondents who noted that their boards discuss technology risks.

Yet directors in different countries discuss these risks to varying extents. Nearly 70 percent of directors surveyed in Russia stated that the board does not discuss technology risks. The Middle East (67 percent), Nigeria (45 percent) and Austria (42 percent) also had similar responses. In the U.S., all directors surveyed stated that this was a topic the board actively discussed, with similar percentages in Finland (89 percent) and in the Czech Republic (88 percent).

Of the boards that discuss technology risks, the risks most often covered include data privacy (58 percent) and cyber security (52 percent). Risks related to data warehousing (39 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 31 percent of respondents who stated that their board actively discusses technology risks also noted social media as among the risks discussed.

The threat of cyber-attacks is real, with a recent survey by the Ponemon Institute finding that the number of successful attacks on organizations more than doubled between 2010 and 2012 and the financial impact of the attacks increased by almost 40 percent[1]. Attackers may have different motives, both financial and social/political ("hacktivists"), but can equally cause real 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.

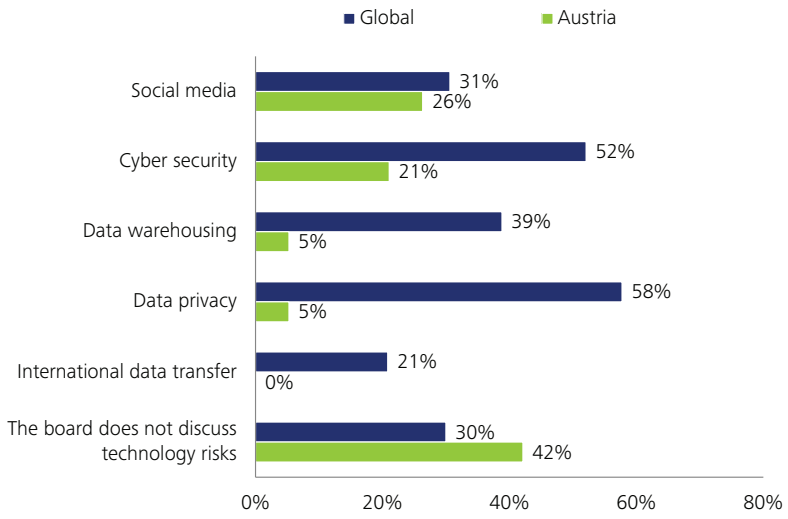
Given organizations' dependence on technology and the heightened capabilities and sophistication of cybercriminals, boards must invest the time and resources necessary to stay abreast of both technology risks and management's methods of addressing them.

42 percent of the Austrian respondents noted that the board does not discuss technology risks at all. If technology risks are discussed on board level they focus on social media (26 percent) and cyber security (21 percent). International data transfer was on no board agenda of any of the surveyed directors.

Austrian boards may not be conscious enough about technology and its risks and may still regard Austria as a safe haven. But this is a misleading point of view[2].

Austrias boards may not be conscious enough about technology and its risks.

Chart 11 – The board actively discusses the following technology risks:



[1] Ponemon Institute Releases 2014 Cost of Data Breach: Global Analysis, press release, Ponemon Institute, May2014, http://www.ponemon.org/blog/ponemon-institute-releases-2014-cost-of-data-breach-global-analysis

[2] For further information see also our information provided during the Deloitte Directors' Lunch of 2711.2014 on Cyber Security http://www2.deloitte.com/at/de/seiten/risikomanagement/artikel/cyber-security-aufsichtsrat.html

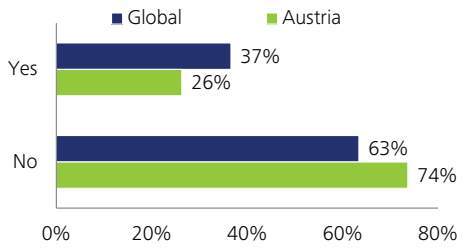
74 percent of directors surveyed in Austria stated that their organization has not introduced diversity policies for board composition.

The organization/board has introduced diversity policies for board composition

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 organizations/boards are not yet fully introducing diversity policies for board composition. 63 percent of directors surveyed stated that their organization has not introduced diversity policies for board composition, the percentage in Austria being above average with 74 percent. The highest rate of "yes" responses came from Finland (66 percent), Nigeria (55 percent), Sweden (54 percent), Germany and the U.S. (50 percent each). If the board has introduced diversity policies for board composition it appears to be mainly regarding gender and professional qualifications (64 percent and 82 percent globally, 80 percent each in Austria).

This is not entirely surprising, as responses to this question could be influenced by external factors such as gender quotas, local regulators (corporate governance code recommendations), and individual organizational policy.

Chart 12 – The organization/ board has introduced diversity policies for board composition.



For example, consider the following:

- In Finland, for example, any government body or state-owned enterprise must have an equal representation of both men and women on the board.
- Sweden's corporate governance code states that the board should strive to exhibit diversity and breadth of qualifications, experience, and background.
- German governing bodies recently introduced a 30 percent gender quota for female directors.
- In the U.S. the SEC's final rule on Proxy Disclosure Enhancements requires nominating committees to disclose how they consider diversity in identifying nominees. The rule1 does not define diversity, instead allowing the organization to define it themselves.
- In India, the recently passed Companies Bill requires public companies to have at least one female director.

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

The subject has been heavily debated globally, as the merits of government imposed diversity laws are weighed against self-regulation and merit-based appointments. The data here suggests that globally, companies are not fully self-regulating for boardroom diversity policies.

The survey data also suggests that guidelines are used more so than quotas to implement organizational diversity policies. For boards who have introduced diversity policies, 82 percent have implemented guidelines for selecting directors with professional qualifications (e.g., industry expertise) – the most of any diversity characteristic. This is compared to only 10 percent who have implemented quotas for the same characteristic.

Guidelines on gender was the second highest criterion (64 percent globally, Austria 80 percent), which comes as no surprise given its global focus.

The Austrian Council of Ministers implemented a quota for supervisory boards on 15 March 2011. The quota applies to companies in which the state's ownership equals or exceeds 50 percent. Companies meeting this criterion are required to have 25 percent of their boards represented by women by 31 December 2013, increasing to 35 percent by 31 December 2018. However, it has to be noted that these quotas do only apply to the supervisory board members to be nominated by the Ministry but not to the entire board.

According to a recent study by the Austrian Chamber of Labor[2]) focusing on the top 200 companies in Austria in terms of sales as well as on the listed companies on Austria's stock exchange (ATX, Prime Market, Mid Market, Standard Market Auction and Standard Market Continuous) only about 14 percent of women can be found in the supervisory board of the top 200 companies in Austria and 12 percent in the boards of Austria's listed companies. Only 10 of the top 200 enterprises (i.e. 5 percent) achieve the quota of 40 percent. In companies in which the state's ownership equals or exceeds 50 percent (these are currently 55 companies) the situation is as follows:

- While in 2008 the mainly state owned companies showed in average a women quota of 16.1 percent, the number of women in boards increased in 2011 to 26 percent and exceeded already the required level for 2018 in 2014 when the women quota amounted to 36 percent.
- Out of the 55 companies in which the state's ownership equals or exceeds 50 percent
  - 35 companies show a women quota of at least 25 percent (2011: 27 companies)
  - 19 companies out of these 55 companies had a women quota of more than 50 percent (2011: 12 companies)
  - 20 companies out of the 55 state owned companies do not fulfill the quota but are said to meet the requirements in the course of new nominations in 2014 (2011: 28 companies)

Due to these figures on women in board the Austrian Chamber of Labor requires the government to follow eg Germany, France, Ireland and Norway and to implement a legally binding quota for women in supervisory boards.

[1] Security and Exchange Commission, Proxy Disclosure Enhancements, Final Rule, 33-9089
[2] For http://media.arbeiterkammer.at/PDF/AK_Frauen_Management_Report_2014.pdf

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

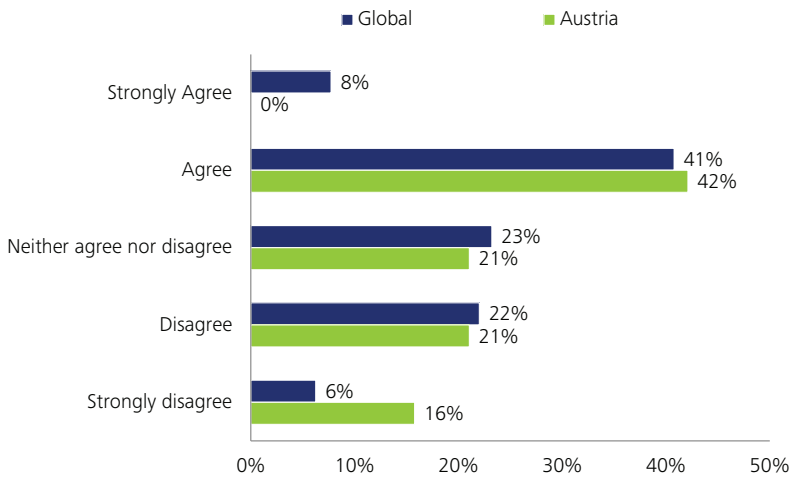
The topic of compensation of nonexecutive directors has received continued, and in many cases, heightened scrutiny in recent years. Directors, facing new levels of responsibility and liability, have come to see their compensation as not appropriate relative to their responsibilities, efforts, and time commitments.

The German directors surveyed were the most discordant of any country, with 50 percent of directors finding their remuneration/compensation levels inappropriate (Austria: 37 percent). Other countries with significant minorities of directors who believed that their remuneration was not appropriate include: Sweden (40 percent), Romania (37 percent), Nigeria (36 percent), Finland and Luxembourg (35 percent each). Of the global respondents, Irish and American directors agreed or strongly agreed (71 percent each) at the highest rate that their pay was appropriate.

In Austria, 42 percent of the directors surveyed agreed that (non-executive) board member compensation is appropriate based on their responsibilities, efforts and time commitment while 37 percent disagreed or strongly disagreed.

37 percent of directors surveyed in Austria, facing new levels of responsibility and liability, have come to see their compensation as inappropriate.

Chart 13 – Remuneration/ compensation of (nonexecutive) board members is appropriate relative to their responsibilities, efforts, and time commitment.



The board considers long term performance measures in the executive remuneration/ compensation policy to a sufficient degree

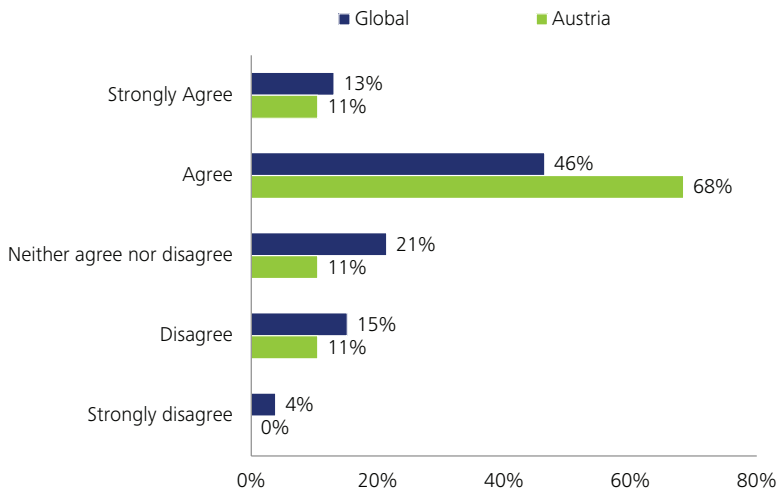
Director compensation varies in both kind and scope from organization to organization, and country to country. Stock option and other long-term incentives are increasingly seen in some markets. However, despite some movement away from "short-termism" in director and executive compensation, only 58 percent of respondents strongly agreed or agreed that the board considers long-term performance measures in the executive compensation policy to a sufficient degree. 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.

The U.S. (100 percent) had the highest emphasis on long-term performance measures for their executives, which makes sense, given how hard American markets were hit by the recent crisis. The U.S. was closely followed by Finland (91 percent). 79 percent of the surveyed Austrian board members consider the long-term performance measures in the executive remuneration/compensation policy to be sufficient (Germany: 72 percent). In contrast, Mexican (43 percent), Russian (35 percent), Romanian (32 percent) and Swedish (29 percent) directors disagreed or disagreed most strongly.

Perhaps, with the exception of Sweden, long-term performance measures are not yet a major practice in many emerging markets, which may have affected the sample as a whole. 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.

The majority of Austria's board members surveyed consider the long-term performance measures in the executive remuneration/ compensation policy to be sufficient.

Chart 14 – The board considers long term performance measures in the executive remuneration/ compensation policy to a sufficient degree.



The level of potential liability imposed on directors is too high

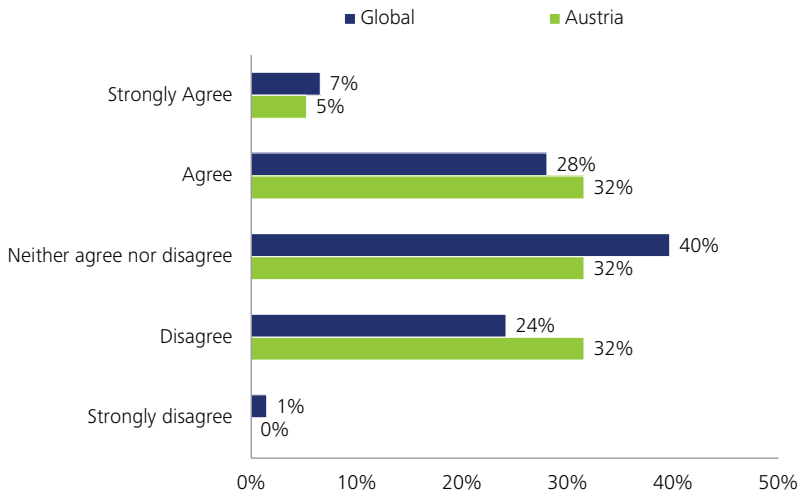
Thirty-five percent of the directors surveyed believed that the level of potential liability imposed on them is too high. However, directors seem to be growing slightly more accepting of the potential level of liability imposed on them over the past few years. Director and officer liability insurance (while premiums are rising) may effectively quell director fears on most liability issues. Interestingly enough, the plurality of directors (40 percent) neither agreed nor disagreed. It is also interesting to see that while 35 percent of the directors surveyed believe their potential liability to be too high, 28 percent of directors also find their remuneration inappropriate relative to their responsibilities, efforts, and time commitments (A.13).

Directors who felt that their level of potential liability was too high included those in Argentina (73 percent), the Czech Republic (53 percent), and the Philippines (50 percent). Irish directors seemed to be the most content with their level of liability (49 percent disagreed).

The responses from the Austrian directors that participated in the survey were equally divided between those who agreed, were neutral or who disagreed that the level of potential liability imposed on them is too high. Again, the answer may differ regarding the size of the company and if it is a listed or privately held company or if the state is the major shareholder.

Austrian directors surveyed were equally divided between those who agreed, were neutral or who disagreed that the level of potential liability imposed on them is too high.

Chart 15 – The level of potential liability imposed on directors is too high.



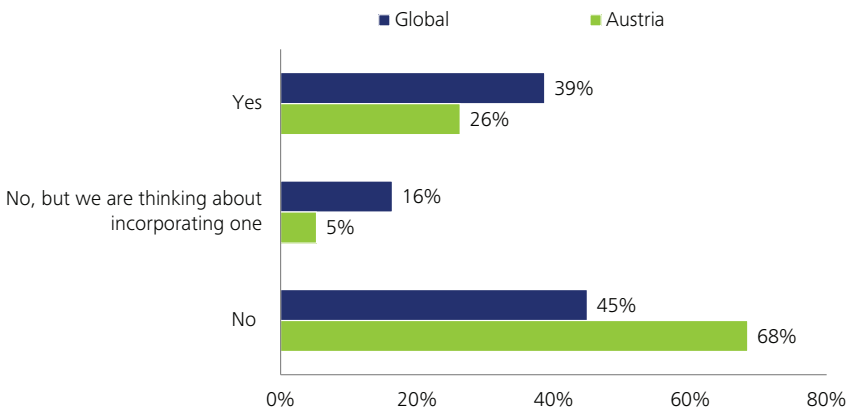
The organization/board has a shareholder engagement policy in place

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. However, 45 percent of the organizations/boards surveyed do not have a shareholder engagement policy in place, with only 16 percent of those stating that they are thinking about incorporating one.

Only Ireland (86 percent), Argentina (73 percent) and the Philippines (70 percent) had a majority of organizations/boards with a shareholder engagement policy in place. The U.S. had exactly half of the survey respondents note that they had a shareholder engagement policy. 70 percent of directors from Russia, 68 percent of directors from Austria and 65 percent of directors from Luxembourg stated that they do not have a shareholder engagement policy, and it was not on their radar. 47 percent of Middle Eastern and Romanian directors are mulling the possibility of incorporating such a policy.

68 percent of directors in Austria stated that they do not have a shareholder engagement policy in place.

Chart 16 – The organization/ board has a shareholder engagement policy in place.



The level of interaction between shareholders and the board will increase over the next few years

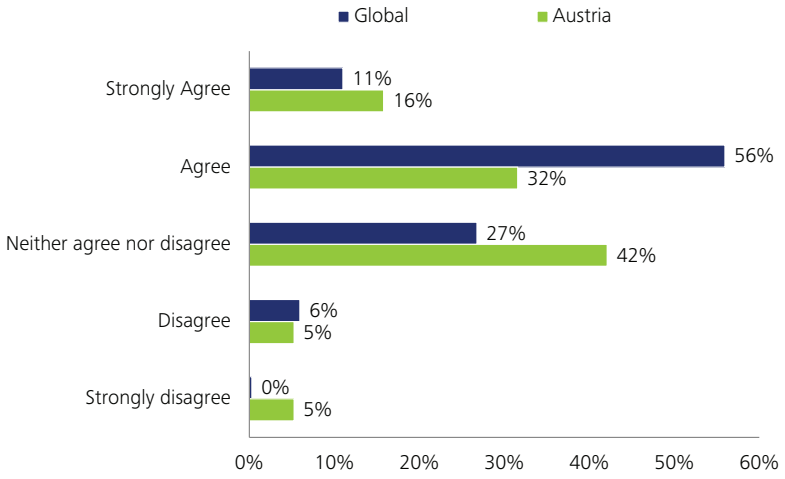
Our survey found 67 percent of the global respondents expect the level of interaction between shareholders and the board to increase over the next few years. Despite this, as seen above, only 45 percent of boards/organizations surveyed globally have a shareholder engagement policy in place – a disparity that seems a bit striking. The percentage has slightly increased from the previous year (64 percent), perhaps displaying an upward trajectory.

Shareholders and investors are demanding more than ever before due to recent crises and events. Companies who are underperforming or who have less-than-optimal governance structures may be at risk of a takeover by activist investors seeking to turn around an underperforming company. In some markets, shareholders are more frequently meeting with company representatives face-to-face. An effective engagement program can help build relationships and transparency, while hearing from influential shareholders firsthand. All countries surveyed had a majority of directors who believed that shareholder scrutiny will increase over the next few years (A.18).

Nearly half of the surveyed directors in Austria expect the level of interaction between shareholders and the board to increase over the next few years. 42 percent neither agree nor disagree. In comparison: Over two-thirds (68 percent) of the directors surveyed in Austria indicated that the board does not yet have a shareholder engagement policy in place.

Nearly half of the surveyed directors in Austria expect the level of interaction between shareholders and the board to increase.

Chart 17 – The level of interaction between shareholders and the board will increase over the next few years.



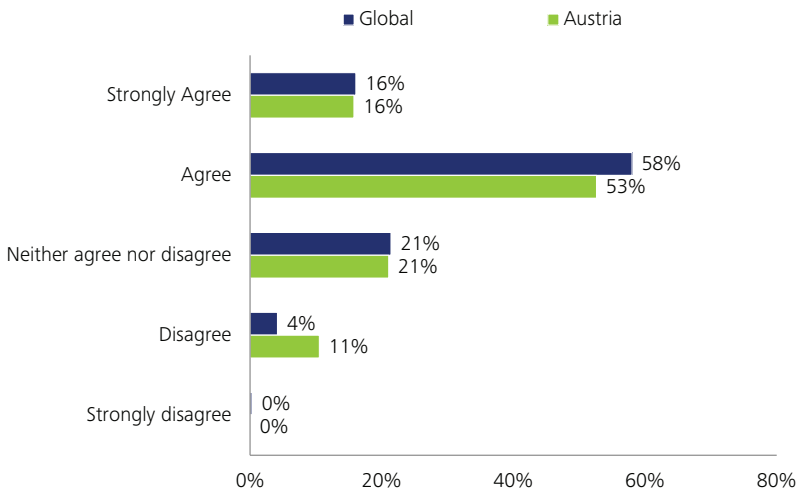
The level of shareholder scrutiny on corporate governance practices will increase over the next few years

Directors believe that the level of shareholder scrutiny on corporate governance practices will increase over the next few years; nearly three-fourths of directors agreed or strongly agreed. Only four percent of directors disagreed with this statement. Now, a few years into the post-financial crisis environment, directors are growing accustomed to the "new-normal." This entails the increased scrutiny boards are facing on their governance practices and compensation policies, the increased time spent meeting and engaging with investors, and the increased attention from activists, etc. Boards may be skeptical of activist motives; however, these encounters can help boards to proactively discuss and evaluate their governance structures and processes.

While the global financial crisis is increasingly being left off the boardroom agenda (See chart 31), it appears, however, that shareholders' scrutiny of corporate boards is here to stay, at least for the near-term. The majority of directors surveyed in all countries agreed or strongly agreed that the level of shareholder scrutiny on corporate governance practices will increase over the next few years.

The directors surveyed in Austria are adamant in their belief that the level of shareholder scrutiny on corporate governance practices will increase over the next few years. 69 percent of the directors surveyed in Austria agreed or strongly agreed. This percentage is in line with the results globally.

Chart 18 – The level of shareholder scrutiny on corporate governance practices will increase over the next few years.



Directors believe that the level of shareholder scrutiny on corporate governance practices will increase.

Austrian board members are playing an active role in setting the organization's risk policy.

The board plays an active role in setting the organization's risk policy

Worldwide, boards of directors are increasingly assuming a larger role in setting their organization's risk policy. In the aftermath of the global financial crisis, risk management has remained a top-of-mind issue for boards and committees operating in nearly every country. Boards are facing increased pressure from various internal and external stakeholders to monitor and mitigate all types of enterprise-wide risks.

The majority of countries in our survey showed high levels of agreement with three notable exceptions: Mexico, Romania and Russia. Directors may be recognizing just how many different types of risks there are to manage – ranging from basic financial risk, to reputational risk, to personal director liability risk, to even environmental/climate risk – all requiring board-level oversight.

Due to regulation, leading practices, or preference, companies may choose to have specific board level committees provide risk oversight. In certain countries, there are various regulations requiring companies to have risk committees at the board level for financial services industry (FSI) companies, while other countries currently have only suggested guidelines.

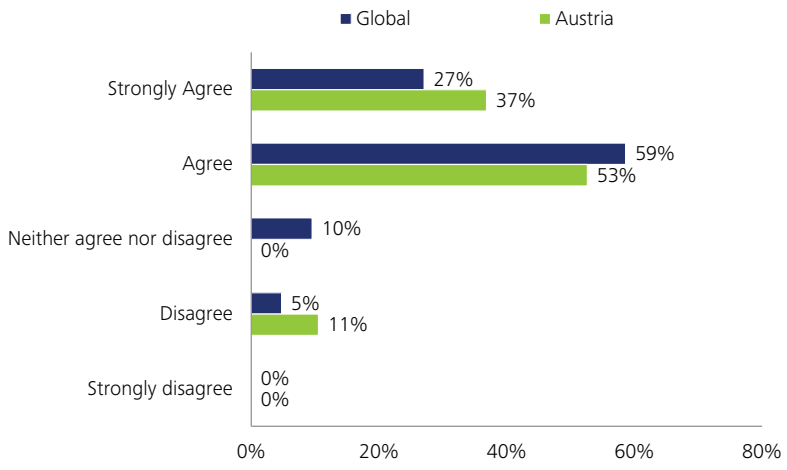
The board's role in setting the organization's risk policy may vary not only by country, but by industry too.

Given the increase in regulatory activity, coupled with high levels of public scrutiny, the need for sound risk oversight policies at the board level remain in focus. It appears that directors around the world are increasingly taking notice.

In Austria 90 percent of the participating directors agree or strongly agree to the board's active role in setting the organization's risk policy. Boards of directors in Austria are playing an active role in setting the organization's risk policy by approving and laying down in writing the organization's risk strategy. This includes the organization's risk tolerance and the guiding principles governing risk identification, measurement, reporting, management and monitoring.

Moreover, most boards formally review and approve the organization's risk policy – which implements the organization's risk strategy, laid down by Senior Management, as well as monitor its effective implementation. For the purpose of increasing effectiveness, a growing number of boards of directors are assisted by a risk committee to provide risk oversight.

Chart 19 – The board plays an active role in setting the organization's risk policy.



The board receives enough information to assess the impact of business risks

As boards continue to focus on their risk oversight responsibilities, it is paramount that directors be equipped with the necessary data and tools to accurately assess the impact of business risks. With overcrowded schedules and a host of other challenging tasks, the information directors receive must maintain a delicate balance of brevity and substantial quality. This is where delegation to the risk committee may serve as the most efficient way to deal with risk-related information and reporting to the board.

Directors around the world seem to agree, that they are receiving enough information to assess the impact of business risks. The reason may be twofold: 1) the aforementioned role the public/press/government has taken in the post-financial crisis environment has brought scrutiny on boardroom risk oversight practices to an all-time high, and 2) directors are demanding more and more information in an effort to be proactive – without running the risk of receiving too much information that may serve as a distraction.

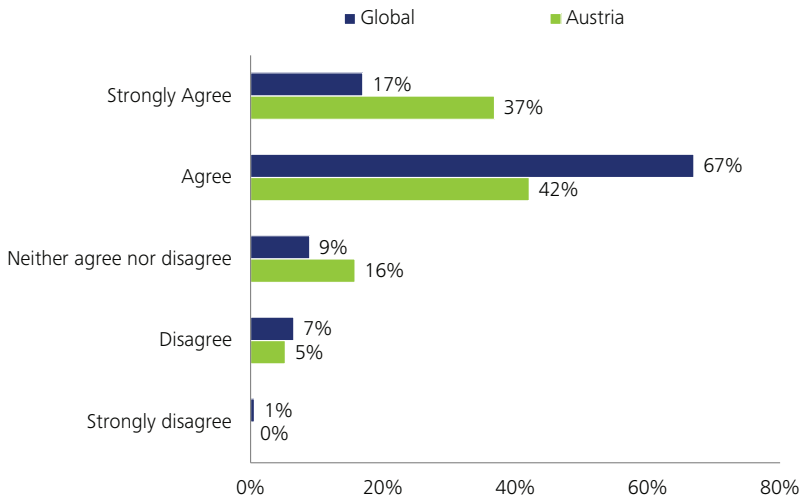
Not one director in our sample from the U.S. or Ireland believed that they receive inadequate information. There were substantial levels of disagreement and/or strong disagreement in two countries: Russia (34 percent) and Mexico (29 percent). Mexican and Russian directors may not be getting the same amount or quality of information that their foreign peers receive.

Over the recent years, many boards of directors have worked to better understand what the key business risks are and what types of relevant information are needed to assess these risks.

Even though Austrian boards are playing an active role in setting the company's risk policy (90 percent agreed or strongly agreed), the results show that they are not convinced all the same regarding the information received to assess the impact of business risk (79 percent agree or strongly agree). There seems to be still potential for improvement.

It is paramount that directors be equipped with the necessary data and tools to accurately assess the impact of business risks.

Chart 20 – The board receives enough information to assess the impact of business risks.



The board maintains an appropriate balance between oversight of risk, growth, performance, and strategy

Despite the increasing responsibilities of board directors, the majority of the directors (81 percent) surveyed agreed or strongly agreed that the board maintains an appropriate balance between the oversight of risk, growth, performance, and strategy. Each of these oversight areas requires careful boardroom consideration and discussion. It is crucial that boards set the appropriate balance – though the "right" balance will vary from organization to organization.

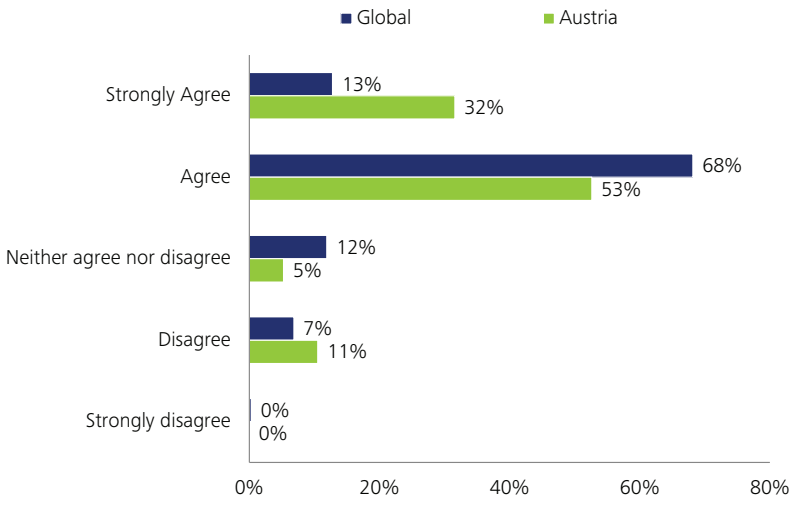
As the results to table 30 show, in the past 12 months, strategy, performance, risk management, and growth have all been top-five issues on the board's agenda. Given the weight these topics hold, setting the right balance becomes that much more critical.

Effective boards of directors are those that constructively and effectively challenge executives through exchanges focused on top issues that underpin corporate performance.

The majority of the directors (85 percent) surveyed in Austria agreed or strongly agreed that the board maintains an appropriate balance between the oversight of risk, growth, performance, and strategy.

In Austria the board maintains an appropriate balance between the oversight of risk, growth, performance, and strategy.

Chart 21 – The board maintains an appropriate balance between oversight of risk, growth, performance, and strategy.



The vast majority of boards periodically discuss the internal audit findings.

The board discusses the observations and findings noted in the internal audit reports they receive

The internal audit function can offer huge advantages to the board. Given their independent and objective nature, information received from the internal auditors can be used for better control and oversight of the company's reporting and risk management processes. One of the main ingredients for an internal audit function to function effectively is an effective relationship between the board and the internal auditors.

Globally, it appears that directors are using information (e.g. observations, findings, and their recommendations) received from internal auditors. When asked, nearly 88 percent of the global respondents agreed or strongly agreed that observations and findings noted in the internal audit reports are discussed by the board.

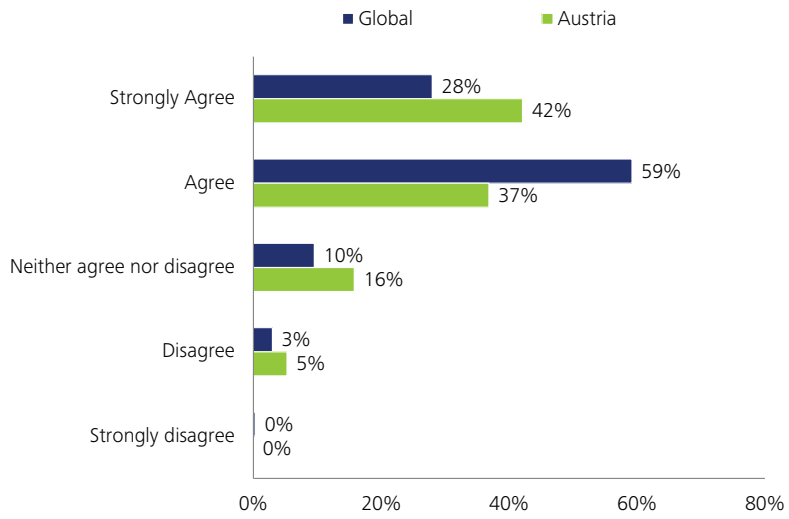
The range of directors that agreed or strongly agreed varied from 100 percent in India and the U.S. to 74 percent in the Middle East and 67 percent in Mexico. In nine of the sixteen surveyed countries not one director disagreed or strongly disagreed.

79 percent of the respondents in Austria agreed or strongly agreed that the observations and findings noted in the internal audit reports are discussed by the board.

Boards of directors are indeed increasingly realizing that the internal audit function is uniquely positioned within the organization to provide them with assurance on the effectiveness of the organization's governance, control, and risk management processes, and therefore help them fulfill their ever increasing responsibilities.

Accordingly, the vast majority of boards periodically discuss the internal audit findings, assess the progress of the internal audit recommendations, and discuss the cause of backlogs with senior management. For the purpose of increasing effectiveness, many boards are assisted by an audit committee in this regard.

Chart 22 – The board discusses the observations and findings noted in the internal audit reports they receive.



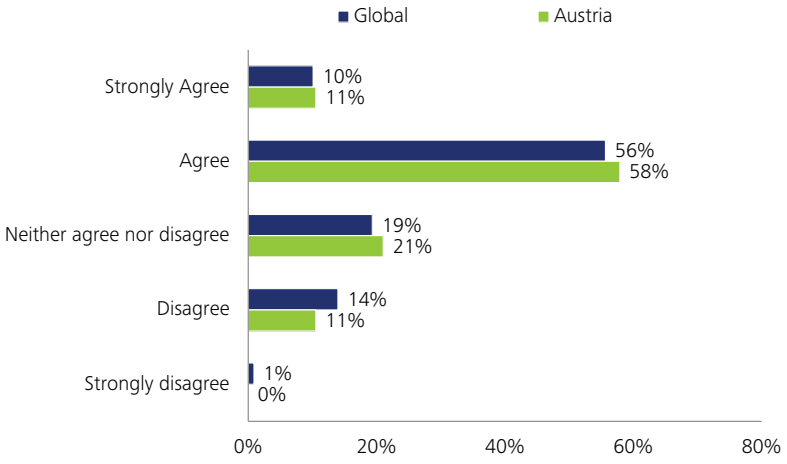
The board reviews and measures organizational performance against nonfinancial indicators

Globally, 66 percent of the global respondents agreed or strongly agreed that the board reviews and measures organizational performance against nonfinancial indicators. All countries sampled had the majority of directors in agreement, with the exception of the Middle East (34 percent disagreed or strongly disagreed, 27 percent equivocal) and Luxembourg (23 percent disagreed, 29 percent equivocal). This is in-line with chart 25, where 67 percent of directors surveyed globally agreed or strongly agreed that sustainability and corporate social responsibility are becoming more important issues for the board.

Boards may choose to review and measure their organizational performance against many nonfinancial indicators such as environmental, social, and governance metrics, human resources and employee turnover ratios, innovation, engagement, and health/safety. These metrics, while not financial, help paint a full picture of the organization's operations as a whole. It appears that boards are only slightly increasing their use of nonfinancial indicators to measure organizational performance.

In Austria more than two thirds of the directors surveyed (69 percent) agreed or strongly agreed that the board reviews and measures organizational performance against nonfinancial indicators. Thus, Austria is in line with the global results (66 percent agreed or strongly agreed). However, 11 percent disagreed while 21 percent were equivocal which may indicate, that boards of directors still need to enrich the way they review and measure their organizational performance with nonfinancial indicators, such as environmental, social, and governance metrics, human resources and employee turnover ratios, innovation, engagement, and health and safety measures.

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

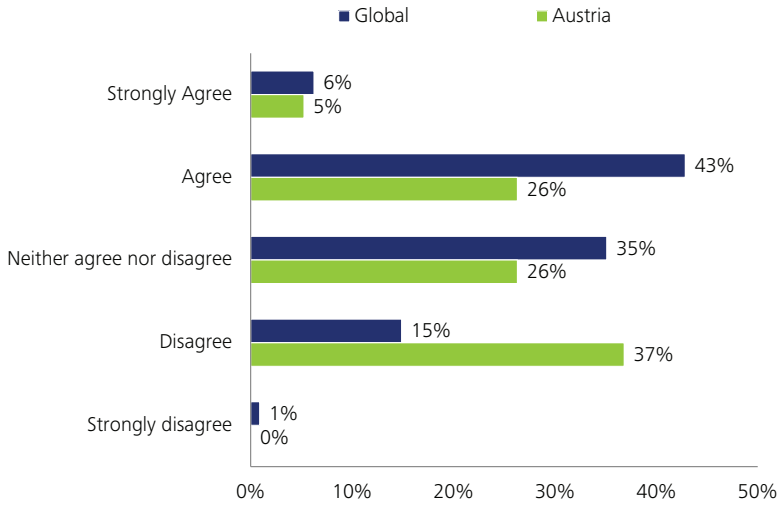


Two thirds of Austria's directors surveyed agreed that the board reviews and measures organizational performance against nonfinancial indicators.

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

Nearly half of the global directors surveyed agreed or strongly agreed that the board will have an increased focus on nonfinancial reporting mechanisms over the next 12 months. While boards seem to be discussing the merits of the use of nonfinancial indicators to measure organizational performance, and are increasingly thinking about issues such as sustainability and corporate social responsibility, this has not yet directly translated into official nonfinancial reporting mechanisms, such as integrated reporting or corporate social responsibility frameworks, to name a few .

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



Directors globally were quite ambivalent, with nearly 36 percent stating that they neither agreed nor disagreed that the board will have an increased focus on nonfinancial indicators in the next 12 months. In some countries, equivocal directors were in the majority (the Czech Republic , Nigeria, and the U.S.). This perhaps displays either a hesitancy to adopt these reporting measures, or a general lack of understanding of these processes. To date, only South Africa has mandated an integrated reporting framework, via the King Report on Corporate Governance (King III).

Directors surveyed in Austria were split: while 31 percent agreed or strongly agreed that the board will have an increased focus on nonfinancial reporting mechanisms over the next 12 months, 37 percent disagreed, while 26 percent were equivocal.

While boards seem to be increasingly envisaging the use of nonfinancial indicators to measure organizational performance, and are increasingly thinking about issues such as sustainability and corporate social responsibility, this has not always directly translated into practice.

Either there is a hesitancy to adopt nonfinancial reporting measures, or a general lack of understanding of these processes.

Sustainability and corporate social responsibility are becoming more important issues for the board

The increased scrutiny boards have been facing from external parties encompasses not only the standard financial issues, but also social issues. In the age of social media, alleged corporate social responsibility (CSR) mishaps can spread at a faster rate than ever before to a less-than-forgiving public. The public, media, and even investors are demanding an unprecedented level of transparency into all organizational operations. Business operations that directly or indirectly support human rights violations are no longer being tolerated, and are increasingly coming under intense scrutiny. Some regulators are even demanding disclosure, for example, in the U.S., the Security and Exchange Commission (SEC) adopted a ruling that requires companies to disclose their use of conflict minerals that originated in the Democratic Republic of the Congo[1]. South Africa has mandated an integrated reporting framework, comprised of six measures of capital: financial, manufactured, intellectual, human, social, and natural. With these reporting measures that encompass all aspects of the organization, companies are now being allowed the opportunity to tell their full story instead of just their financial performance.

Though it is an issue that requires additional attention, sustainability appears to be buried on the board agenda. Only 2 percent of directors considered sustainability a 'top three' issue impacting the board in the past 12 months, and 4 percent considered it a top three issue that will impact the board in the next 12-24 months.

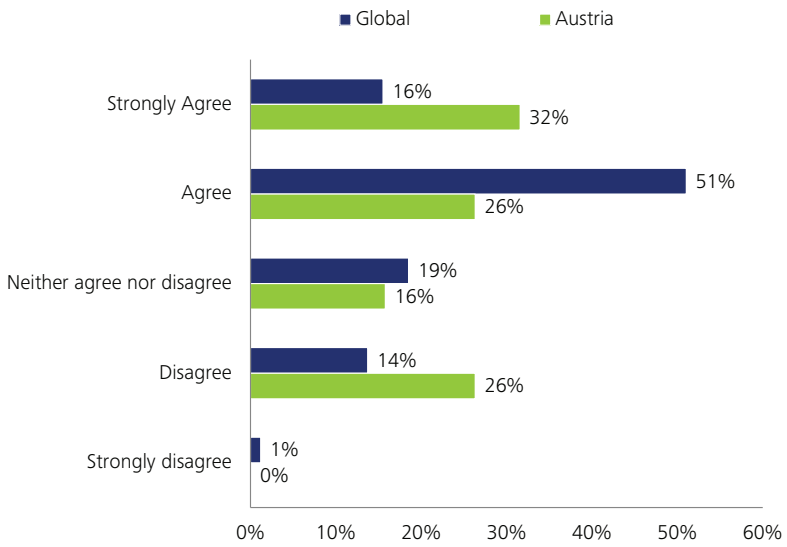
All aspects of the company, both from a financial and nonfinancial perspective, are now being analyzed. Companies, and their boards of directors, are being asked not only to maximize shareholder returns, but to leave a positive and lasting impact the communities in which they operate.

With regard to sustainability and CSR Austrian boards seem to be a bit ambivalent. With 32 percent of directors surveyed who strongly agree that sustainability and corporate social responsibility (CSR) are becoming more important issues for the board Austria is far above the percentage of the global directors (16 percent). However, Austria is also exceeding the level of global disagreement (globally 15 percent disagreed or strongly disagreed, in Austria 26 percent disagreed). From a total point of view 58 percent of directors surveyed in Austria agreed or strongly agreed, while 67 percent of directors globally do.

It is to be expected that the situation will change with a growing number of stakeholders, including shareholders and customers, demanding sustainability and/or social responsibility certifications.

Sustainability and corporate social responsibility are viewed by 58 percent of directors surveyed in Austria to become more important.

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



[1] http://www.sec.gov/News/PressRelease/Detail/PressRelease/1365171484002#.UrNTqfRDvPo

CEO succession planning is effectively addressed by the board

Less than half of the directors surveyed globally (44 percent) agreed or strongly agreed that the board effectively addresses CEO succession planning. Twenty-eight percent of the directors surveyed were equivocal, with another 28 percent that disagreed or disagreed strongly.

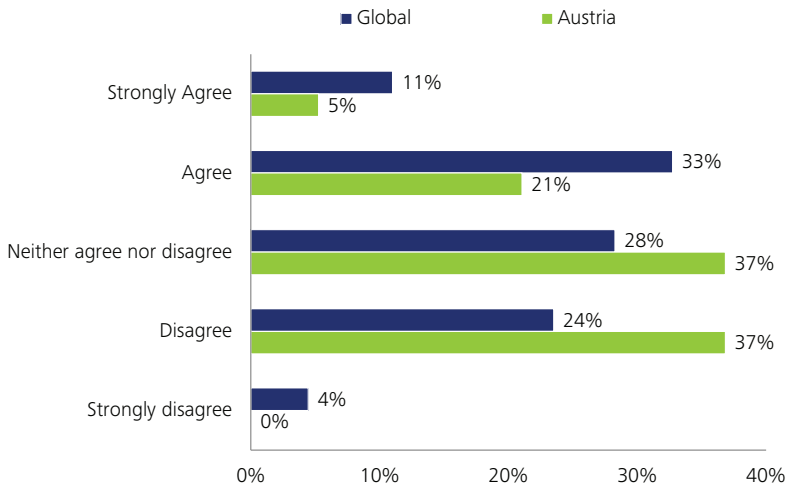
These strong minorities suggest that boards are not yet effective in their planning processes regarding CEO succession. Boards may also choose to delegate succession planning responsibility to the committee level. Having the proper succession plans in place, and tested for all scenarios and situations, including major high-risk 'black-swan' events, can go a long way to mitigate otherwise severe potential organization-wide risk. Sudden changes in leadership that are not planned for can have adverse effects on the company as a whole, and hurt investor confidence in the organization. On the other hand, a plan that is well thought out but not properly executed (such as poor transitioning procedures) can do just as much damage. Boards must monitor the internal talent pipeline, as well as monitor potential external candidates, or enlist the services of an executive search firm.

The U.S. (86 percent), Ireland (71 percent) and Finland (60 percent) had the highest levels of agreement, with most other countries having significant minorities who either disagreed or were equivocal.

For the Austrian results, the ratio of those who agreed or strongly agreed is with 26 percent below the global level and even declined compared to our last survey results in 2011 when 32 percent agreed or strongly agreed. 37 percent of the directors surveyed in Austria were equivocal, with another 37 percent that disagreed.

The results suggest that boards in Austria should significantly improve their planning processes regarding CEO succession.

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



Boards in Austria should significantly improve their planning processes regarding CEO succession.

Director age and term limits

Over 62 percent of the directors surveyed globally stated that their boards have not implemented age or term limits, or that they were not sure. Sweden (100 percent) and Argentina (82 percent) had the highest response rates for these selections.

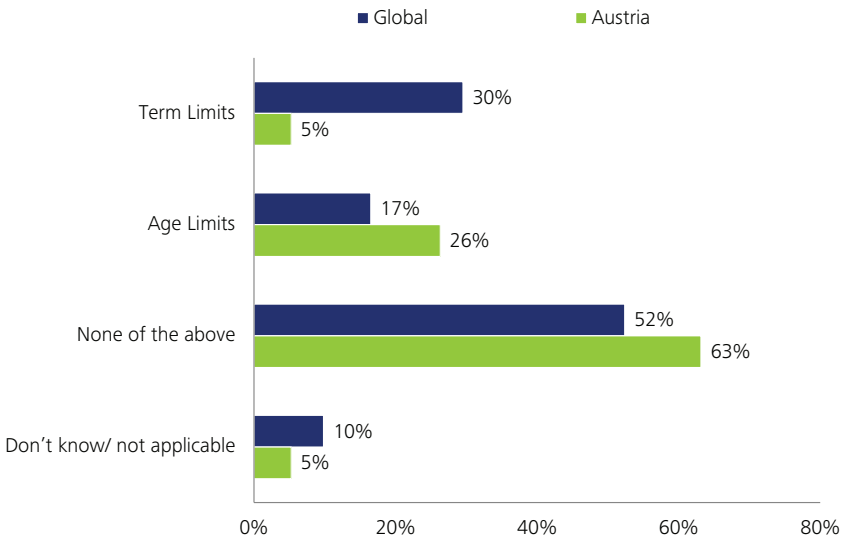
Boards seem to be implementing term limits for directors (30 percent) almost twice as much as age limits (17 percent). Term limits for board directors were seen most in Ireland (77 percent), Romania (63 percent) and Nigeria (45 percent), while age limits were seen most in India (67 percent) and the U.S. (50 percent).

The lack of limitations on director board service tenure has been blamed by many as one of the main reasons for the slow progress seen in measures to increase boardroom diversity. Directors may be entrenched in their positions for decades, making changes in board composition a rarity. Term and age limits allow for fresh faces and perspectives to be cycled into the boardroom – widely regarded as a leading practice for any market. The results show that director term and age limits are not yet widespread practices. However, as diversity policies become more widespread worldwide, perhaps, too, will director age and term limits.

63 percent of the directors surveyed in Austria stated that their boards have not implemented age or term limits. Where limits are imposed, boards seem to prefer to implement age limits for directors (26 percent) rather than term limits (5 percent). In cases where there are age limits, the age limit ranges between 66 and 70 years for most boards (80 percent).

The results show that director term and age limits are not yet widespread practices used in Austria to allow for fresh faces and perspectives to be cycled into the boardroom.

Chart 27 – The board has implemented the following for its directors (select all that apply):



Director term and age limits are not yet widespread practices used in Austria.

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

Compliance is now a greater focus area of the board compared to prior years

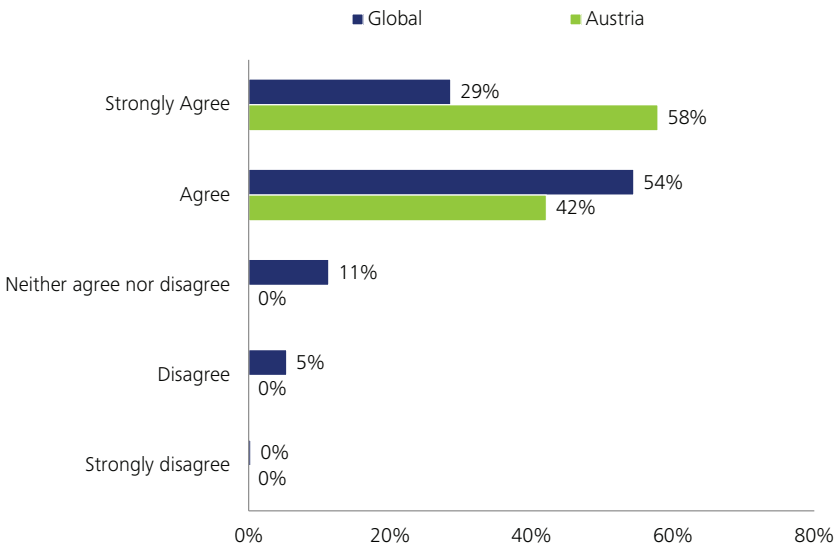
The uptick in local government regulation in an increasingly globalized marketplace has cemented compliance as a top three issue impacting boards (table 30), and many directors believe that it will continue to be a top issue for boards in the next 12-24 months (table 31).

The compliance function's growing importance is clearly demonstrated by the global results, with 83 percent of the directors surveyed agreeing or strongly agreeing that compliance is now a greater focus area of the board compared to prior years. All countries surveyed, with the exception of Russia and Romania, had the majority of director respondents in agreement.

Boards must work with their management teams, inclusive of the Chief Compliance Officer to ensure that the appropriate roles and responsibilities are defined and established, in an effort to effectively monitor and manage compliance-related risk and opportunities. Setting an organization-wide culture of "doing the right thing" should be a top objective for boards operating in any market and industry.

The compliance function's growing importance is clearly demonstrated by the results, with 100 percent of the directors surveyed in Austria agreeing or strongly agreeing that compliance is now a greater focus area of the board compared to prior years. Austria is the only country out of the 16 countries surveyed with a 100 percent agreement to the growing importance of compliance compared to prior years.

Chart 28 – Compliance is now a greater focus area of the board compared to prior years.



Boards are more engaged with management on anti-corruption matters than in prior years.

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

Directors serving on boards of globally operating companies have a lot to think about on the issue of anti-corruption/anti-fraud. Despite the apparent ethical and societal concerns that organization-wide corruption presents to businesses and local communities, corruption now can result in monetary penalties for organizations, and personal liability for their directors and executives alike.

In the U.S., the Foreign Corrupt Practices Act ("FCPA"), passed in 1977, prohibits bribery of foreign government officials. U.S. companies and their subsidiaries domiciled overseas are required to have sound internal control systems in place, along with accurate bookkeeping practices, in an effort to prevent, mitigate, and/or identify corrupt practices. FCPA enforcement is at an all-time high. Household company names have been convicted of corrupt activities, which have hurt not only their profits and earnings results, but have also done a considerable amount of damage to their reputation and credibility.

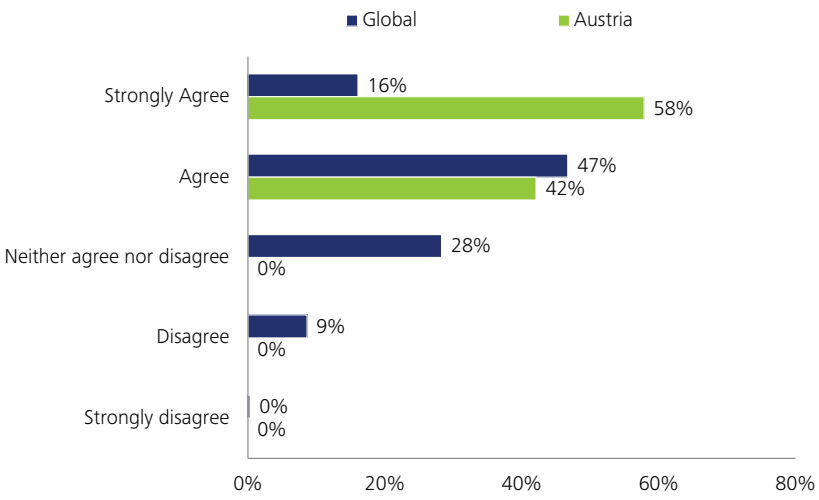
The U.S. is not the only country to pass anti-corruption legislation. The UK has passed the UK Bribery Act in 2012, and the governments of Austria, Brazil, Colombia, and South Africa have each approved their own anti-corruption legislation.

Globally, 63 percent of the directors surveyed agreed or strongly agreed that the board is more engaged with management on anti-corruption matters than in prior years. Given the recent global focus and legislation this comes as no surprise. A strong minority (28 percent) of directors neither agreed nor disagreed, perhaps indicating that the board is frequently engaging with management at the same level as years past. The highest levels of agreement came from Austria followed by countries such as Ireland, India and the Philippines. The Middle East had the highest levels of disagreement (27 percent), and Nigerian and U.S. directors were the most equivocal.

A board-level understanding of the risks and intricacies of the FCPA and other global anti-corruption legislation is an absolute must.

Once more 100 percent of the directors surveyed in Austria agreed or strongly agreed that the board is more engaged with management on anti-corruption matters than in prior years.

Chart 29 – The board is more engaged with management on anti-corruption matters than in prior years



Top three issues impacting boards in the past 12 months

Top five issues – past look (Global perspective)

Fifty-two percent of the directors surveyed selected strategy as a pressing boardroom item in the past year – the most of any topic (52 percent). The second highest boardroom issue was performance (33 percent), followed by regulation, governance and compliance (32 percent) and risk management (23 percent). Other hot topic issues such as globalization, cyber security, diversity, anti-corruption, and sustainability all came in at or below 2 percent.

Thus, globally the main boardroom focal points have shifted away from the global financial crisis and recovery toward strategy and performance 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.

Top five issues – past look (Austrian perspective))

Austrian directors surveyed placed strategy firmly at the head of the agenda (63 percent) which is in line with the global perspective. The second highest boardroom issue selected was regulation, governance and compliance (37 percent). This is mainly due to the high volume of new regulations issued and the increased regulatory scrutiny in the financial sector in Austria. Organizational structure (26 percent) ranked third, followed by the global financial crisis and recovery as well as CEO succession planning (21 percent each). Emphasis on performance and growth (11 percent each) was not as high as on a global level.

Compared to our directors' survey in 2011, directors listed capital management and global financial crisis and recovery on first place on their agenda for 2011, while strategy and capital management were said to be the hot topics for the next 12-24 months to come, followed by global financial crisis and recovery.

The global financial crisis weighs less heavily on the minds and agendas of directors.

Table 30

	Global	Austria
Strategy	52%	63%
Performance	33%	11%
Regulation, Governance and Compliance	32%	37%
Risk Management	23%	16%
Growth	20%	11%
Global Financial Crisis and Recovery	20%	21%
Shareholder Value/Investors	14%	0%
Capital Management	13%	16%
Mergers and Acquisitions	11%	11%
Operational Management/Infrastructure	10%	16%
Competition	8%	0%
Organizational Structure	8%	26%
External Factors	7%	11%
CEO Succession Planning	7%	21%
Executive Remuneration	6%	5%
Innovation	4%	0%
IT/Technology	4%	0%
Talent Management	3%	0%
Political/Social Uncertainty	3%	0%
Reporting	3%	5%
Raw Materials/Energy	3%	0%
Managament Succession	2%	0%
Sustainability	2%	5%
Board Effectiveness	1%	0%
Anti-corruption/anti-fraud	2%	5%
Other	2%	5%
Environment, Health, Safety	1%	0%
Diversity	1%	0%
Board Succession Planning	1%	0%
Sovereign Risk	1%	5%
Cyber Security	1%	5%
Stakeholder Managament	1%	5%
Globalization	1%	0%

Strategy, organizational structure and risk management will be the key items on the agendas of boards in Austria for the next 12 to 24 months.

·Table 31

	Global	Austria
Strategy	55%	63%
Performance	34%	11%
Growth	29%	11%
Regulation, Governance and Compliance	27%	16%
Risk Management	23%	21%
Capital Management	15%	16%
Shareholder Value/Investors	13%	5%
Global Financial Crisis and Recovery	11%	16%
Operational Management/Infrastructure	9%	11%
Mergers and Acquisitions	7%	11%
Competition	7%	16%
Organizational Structure	7%	26%
External Factors	6%	11%
CEO Succession Planning	6%	11%
Innovation	6%	16%
IT/Technology	5%	0%
Political/Social Uncertainty	4%	0%
Sustainability	4%	0%
Board Effectiveness	4%	0%
Talent Management	3%	0%
Managament Succession	3%	5%
Executive Remuneration	2%	0%
Reporting	2%	0%
Raw Materials/Energy	2%	0%
Other	2%	5%
Board Succession Planning	2%	11%
Stakeholder Managament	2%	11%
Anti-corruption/anti-fraud	1%	0%
Environment, Health, Safety	1%	0%
Diversity	1%	0%
Sovereign Risk	1%	5%
Cyber Security	1%	5%
Globalization	0%	0%

Top three issues for boards in the next 12 to 24 months

Top five issues – forward look (global perspective)

Strategy – cited by 55 percent of respondents as a "top three" issue - will remain a boardroom issue for directors in the next 12 to 24 months. The second highest boardroom focus area for directors in the next 12 to 24 months will be performance (34 percent), followed by growth 29 percent), regulation, governance and compliance (27 percent), and risk management (23 percent).

Board directors around the world are indicating that the same boardroom issues that they have been focusing on for the past 12 months will remain static over the next 12-24 months. How well directors can provide oversight of the organization's strategic direction may be a key to success as organizations look to navigate away from the constraints that once bound them.

Top five issues – forward look (Austrian perspective)

The directors surveyed in Austria indicated that strategy (63 percent) continues to be the top boardroom issues for directors in the next 12 to 24 months. The second highest boardroom focus area for directors will be organizational structure (26 percent) followed by risk management (21 percent). Regulation, governance and compliance, global financial crisis and recovery, capital management, competition as well as innovation (16 percent each) rank fourth.

Directors are indicating that, overall, they will continue to focus on the same issues they have been focusing on for the past 12 months, with a shift of focus from regulation, governance and compliance issues to refocus more on organizational structure and risk management.

In comparison with the global results the directors surveyed in Austria have indicated a significantly higher focus on organizational structure (26 percent Austria vs. 7 percent Global) as well as on innovation (16 percent Austria vs. 6 percent Global) and competition (16 percent Austria vs. 7 percent Global). Also board succession planning (11 percent Austria vs. 2 percent Global) and stakeholder management (11 percent Austria vs. 2 percent Global) will be seen more often on the boards' agenda in Austria for the next 12 to 24 months than on a global level. Strategy is seen equally important in Austria as from a global point of view. Contrary to the global answers Austrian directors do not place performance (11 percent Austria vs. 34 percent Global) and regulation, governance and compliance (16 percent Austria vs. 27 percent Global) at the top of their agenda for the next two years.

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