



**EMEA 360**  
**Boardroom survey**  
Report highlights - Ireland

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## Contacts – our corporate governance leaders

### Colm McDonnell, Partner

Deloitte Ireland  
+353 (1) 417 2348  
cmcdonnell@deloitte.ie

### Melissa Scully, Senior Manager

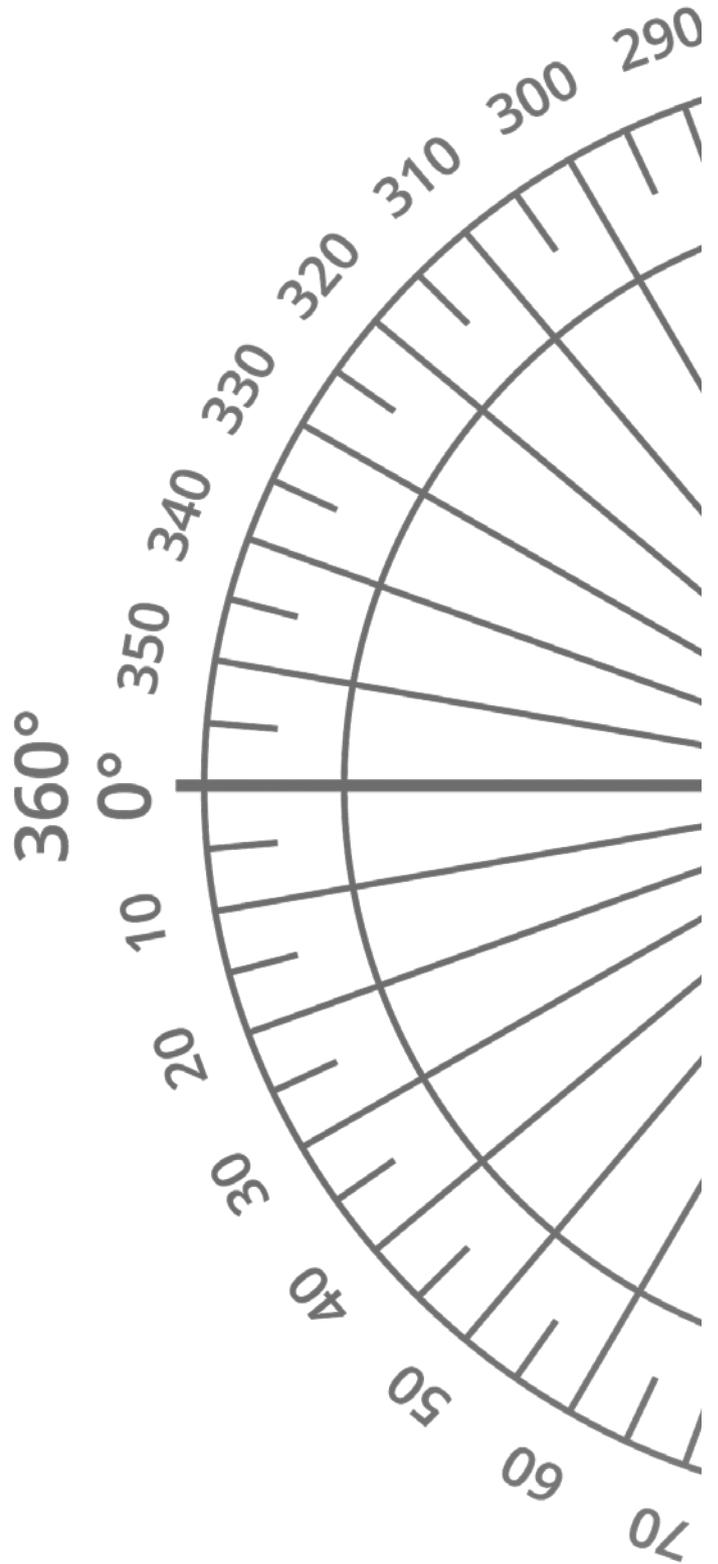
Deloitte Ireland  
+353 (1) 417 8656  
mscully@deloitte.ie

# Introduction

Deloitte is pleased to present the first edition of the **EMEA 360 Boardroom survey: Agenda priorities across the region** which highlights the views of non-executive directors across EMEA. The survey considered six aspects of corporate governance: strategy and risk, innovation, cyber security, remuneration, talent and succession, and board performance and evaluation.

This survey provides a unique perspective on the issues boards of directors in the region are currently facing. The results highlight the changing concerns of non-executive directors in today's challenging business environment and how they differ. Our report's highlights gives you an overview of the key survey findings, focusing on the Irish perspective. Here you will be able to quickly see the views of Irish non-executive directors, understand a number of recent trends and consider where board practices can be improved.

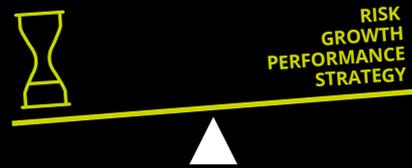
We would like to thank all of the Irish non-executive directors who took the time to participate in our survey. We welcome your thoughts and feedback.



# Key findings

84

per cent of Irish Non-Executive Directors agree or strongly agree that the balance of time spent between oversight of risk, growth, performance and strategy is appropriate.



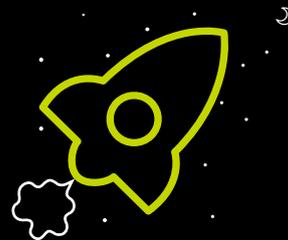
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per cent of Irish Non-Executive Directors stated that their Board periodically reviews protocols for dealing with "ethical breaches" and evaluates the associated risk to corporate reputation.



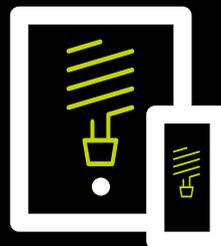
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per cent of Irish Non-Executive Directors agree that innovation is high on the Board agenda rating it a 4 or 5 (on a scale of 1 to 5, with 5 the highest).



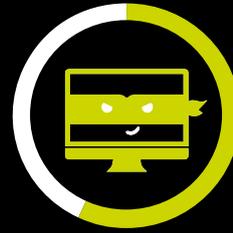
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per cent of Irish Non-Executive Directors "somewhat agree" that the culture of their organisation encourages innovation and idea generation.



58

per cent of Irish Non-Executive Directors noted that their organisation had an action plan in place for cyber risks.



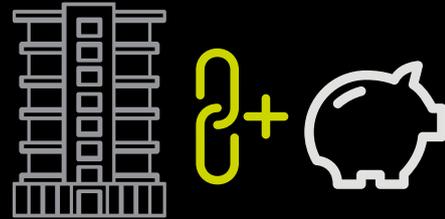
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per cent of Irish Boards have nominated one Board member as the cyber security expert.



85

per cent of Irish Non-Executive Directors either agree or strongly agree with the view that, for senior management and executive directors, compensation is closely linked to the performance and viability of their organisation.



84

per cent of Irish Non-Executive Directors agree that Board composition is "adequately reviewed" to ensure that members have the appropriate skills.

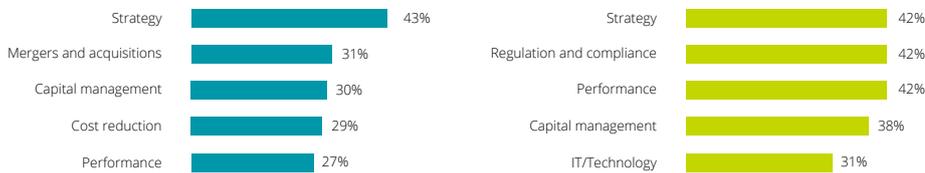


# Top 5 issues

Company boardrooms are dealing with an increasing and evolving range of issues. Practices and attitudes towards governance vary between countries, business sectors and also over time. We asked non-executive directors for their views about the five issues that had most affected their board over the past 12 months, and what they expected to be the five major issues over the next 12-24 months. Their responses and any differences between the past 12 months and the next 12-24 months, for EMEA and Irish respondents, are shown in the tables below.

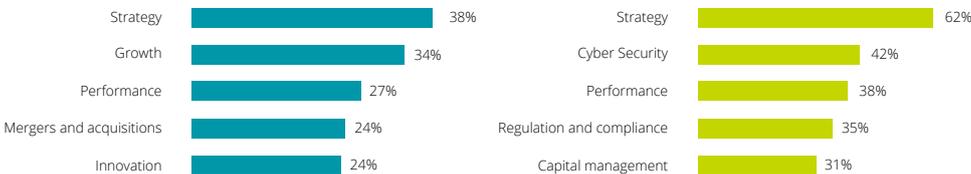
**Table 1. Key issues impacting boards in the past 12 months**

To what extent do you think the requirements of the Shareholder Rights Directive will impact the remuneration policy and structure for executive directors within your organisation?



**Table 2. Key issues impacting boards in the next 12 – 24 months**

What are the top FIVE issues impacting Boards in the next 12 to 24 months? □



A comparison between key issues in the past 12 months and expectations of what key issues will be in the next 12-24 months for all EMEA respondents shows:

- An increase in the percentage of respondents believing growth, innovation and competition will be key issues
- A fall in the percentages for cost reduction and capital management
- Continuing prioritisation of strategy, performance, risk management, and regulation and compliance
- A growing awareness of digitisation and cyber security

Looking at Irish non-executive directors’ responses, the comparison shows:

- Similar concerns for the past 12 months and next 12 months
- Strategy and performance will continue to remain key issues impacting boards
- Cyber security has increased in importance
- Only a slight fall in the percentages for cost reduction and capital management, which still remain in the top 5 issues for Irish boards going forward

### **Deloitte view**

The above views of the non-executive directors capture a broad set of issues they believe will influence their boardrooms. It is also important to understand what some of the wider current areas of corporate governance interest are in Ireland, in our view this includes:

- Risk management and long term viability
- Culture
- Succession planning
- Committee effectiveness

# Strategy and risk

- Boards appear to be confident that the content and focus of discussions in the boardroom are appropriate for making well-considered decisions about strategy and risk. The balance of time spent between oversight of risk, growth, performance and strategy is considered appropriate, with approximately 88 per cent of EMEA respondents and **84 per cent of Irish respondents** agreeing or strongly agreeing. This was an interesting result for Irish respondents given the fact that regulation and compliance featured as one of the top key issues in the boardroom in the past 12 months. From our experience many boards have struggled to get this balance right, often spending more time on performance and risk as opposed to strategy. These results suggest a positive step in the right direction.
- Almost 90 per cent of the EMEA responses indicate that non-executive directors across the region were satisfied that risk management is well integrated into the board's strategic decision making processes. From a business sector perspective, the highest proportion of respondents that agreed or strongly agreed with this statement were in financial services and the energy and resources sectors. Although the majority of Irish respondents were similarly satisfied, approximately **15 per cent of Irish respondents** remained neutral on this question, suggesting there is still some room for improvement for a number of Irish boards.
- When asked about the effectiveness of the information they received to make strategic and risk decisions, 86 per cent of EMEA respondents either agreed or strongly agreed that the information they received was effective as to quality, timeliness and focus. Similarly, **88 per cent of Irish respondents** agreed or strongly agreed with this question. Other countries such as France, Norway, South Africa and Turkey had a higher proportion of "strongly agree" responses. Within business sectors, again financial services respondents had the highest "strongly agree" response. This is not surprising given the European Central Bank and the Central Bank of Ireland's expectations on the type and quality of risk information boards should receive to ensure that decisions are in line with the organisation's risk appetite.
- Business plans, management presentations/ information and financial metrics were the top three sources of information for decision making on strategy and risk for both the EMEA and Irish responses. **Irish non-executive directors** also referred to risk reports, risk appetite statements, internal audit reports and external audit reports as a key source. The replies from other countries, in comparison to Ireland, indicate increased reliance on other sources, such as market reports and staff feedback. These sources offer a different perspective from management and are important to enable boards to make informed decisions.
- Concerns about ethical breaches by companies and questionable business practices continue to attract considerable media attention. 70 per cent of EMEA respondents either agreed or strongly agreed with the statement that their Board periodically reviews protocols for dealing with "ethical breaches" and evaluates the associated risk to corporate reputation. In contrast, **92 per cent of Irish respondents** either agreed or strongly agreed with this statement, suggesting that there is more focus on ethical issues and reputational risk for Irish boards. Many EMEA and Irish respondents stated that their board's response to matters and controls over risks linked to brand reputation was "focused on all levels of the organisation" and/or "incident based". Interestingly, **45 per cent of Irish respondents** stated that their controls were "integrated into the organisation's culture", compared to 36 per cent of the overall EMEA respondents. Culture is area of regulatory focus for both the Central Bank of Ireland and Financial Reporting Council, which could explain this increase.

### Deloitte view

While strategy and risk responses prove positive, following the Brexit vote boards will have to remain vigilant and assess the impacts to both their organisation and the industry they operate within. They will need to ensure that they fully understand the threats, as well as the opportunities Brexit brings.

Shifts in strategic direction, growth and M&A activity can impact decision-making processes within an organisation. Boards should ensure that they review decision-making processes and management information needs following any significant changes.

Culture has moved towards the top of the agenda for regulators, investors and consumers, particularly in financial services firms. Assessing and monitoring culture remains a challenge for both boards and senior management. While boards are now considering this as an agenda item and receiving some management information (MI), there is still further work to be done in terms of how boards:

- Articulate and communicate their target culture;
- Determine the principles for collecting meaningful culture MI; and
- Put these principles into practice.



# Innovation

- With fast-evolving advanced technologies already digitally disrupting business models in almost every industry, innovation has increasingly become a focus area of the board. The majority of EMEA respondents stated that innovation was high up on the agenda, with 60 per cent rating it a 4 or 5 (on a scale of 1 to 5, with 5 the highest). Within business sectors, the highest ratings for innovation were, not surprisingly, given by respondents in life sciences and technology, media and telecommunications (TMT), followed by consumer business. There was a higher proportion of Irish respondents rating it highly, with 77 per cent rating it a 4 or 5. Government support for innovation, and start-ups and tax incentives, as well as an entrepreneurial culture, are factors which could explain this.
- Most EMEA respondents identified more than one focus on innovation within their organisation. Product innovation was the top rated response for both EMEA and Irish respondents, followed closely by business model innovation. Interestingly, 48 per cent of EMEA respondents selected process innovation as the third most popular area of focus, in contrast to **31 per cent of Irish respondents**. Business sector analysis shows process innovation to be of particular interest to boards in the manufacturing, life sciences and construction sectors. Both digital innovation and marketing innovation came in ahead of this for **Irish respondents**, with scores of 65 per cent and 35 per cent respectively. This suggests that Irish organisations are more focused on the impact innovation can have on the customer and end user, as opposed to the operational efficiencies that can be gained internally.
- Approximately 38 per cent of EMEA respondents “fully agree” that the culture of their organisation encourages innovation and idea generation, 38 per cent “somewhat agree” and seven per cent disagree. There was a larger proportion of **Irish respondents** that “somewhat agreed”, with 50 per cent of respondents selecting this response. Despite being high on the board agenda, Irish boards appear to be having a challenge implementing a culture of innovation within the organisation.
- Most EMEA and **Irish respondents** agree that there is a good balance between innovation, strategy and risk in their organisations, 79 per cent and 77 per cent respectively.
- Responses to the survey suggest that there is some overlap with responsibility for monitoring innovation, with both the board and executive committee having some responsibility. This was true for **Irish boards**, with 58 per cent of respondents stating the board has some responsibility and 77 per cent selecting the executive committee. This is unsurprising as the board needs to be kept informed and even if it does not have primary oversight of innovation, would still be expected to fulfil a monitoring function.

### Deloitte view

In addition to looking at how implementing new technologies or different processes would enable them to do more—such as entering new markets or growing market share, boards need to consider what might happen if they do not innovate. To fully understand the opportunities and risks, organisations need to view innovation from both perspectives.

To create a culture of innovation everyone should play a role in developing and implementing new ideas and approaches, rather than relying on one department, such as research and development. Boards should formally set out their expectations for management around innovation and be clear on innovation responsibilities throughout the rest of the organisation.



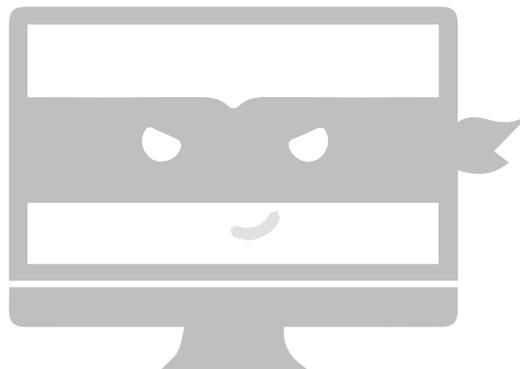
# Cyber security

- Board awareness of cyber security appears to be relatively high in Ireland compared to other EMEA countries. **65 per cent of Irish respondents rated it a 4 or 5** (on a scale of 1 to 5, with 5 the highest), compared to 48 per cent of EMEA respondents. This variation in responses could reflect the high proportion of financial services respondents in Ireland, a sector where the European Central Bank has issued guidance on this topic.
- Only 46 per cent of EMEA respondents noted that their organisation had an action plan in place for cyber risks, compared to **58 per cent of Irish respondents**. Action plans appear to be more common among companies in the TMT, financial services and BPS industry sectors, where awareness of the risks is greater.
- Just 5 per cent of EMEA respondents and **8 per cent of Irish respondents** have nominated one board member as the cyber security expert. All of these respondents were in the financial services sector. This may be due to the fact that there are very few IT experts at board level, or that the board actively recognises its collective responsibility or allocates a specific responsibility to a committee such as the audit committee or board risk committee. As cyber risk is expected to become a bigger priority for boards in future, this situation may well change.

## Deloitte view

While board awareness of cyber security is relatively high, boards need to ask themselves how well they understand cyber risk in the face of continuous and increasingly sophisticated cyberattacks. Has the board engaged outside experts to educate directors on cyber risk or how to mitigate it and how to recognise the signs that might signal a breach?

Further, is the board aware of the organisation's "crown jewels" and how they are being protected? That is, the critical information that, if compromised, would undermine the organisation's ability to continue operations?

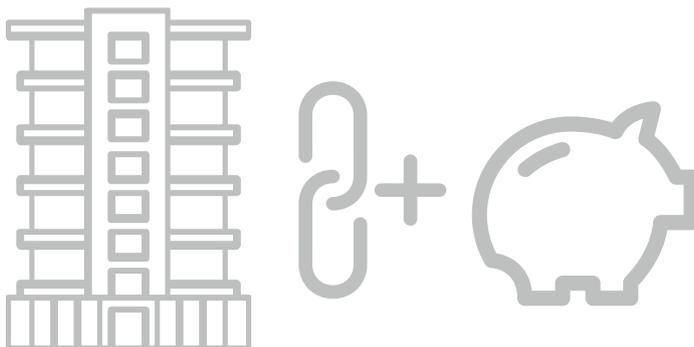


# Remuneration

- A large majority of respondents (85 per cent for both EMEA and Ireland) either agree or strongly agree with the view that, for senior management and executive directors, compensation is closely linked to the performance and viability of their organisation. **Irish respondents** were more positive, with 57 per cent strongly agreeing, compared to 45 per cent of EMEA respondents. At an industry level across EMEA, responses from sectors were similar, with the exception of those who work within the public sector.
- When asked what aspects of performance were used when deciding remuneration levels, the most common answers were business performance, driving the delivery of strategy and shareholder views. The latter are particularly important for Irish boards, with **62 per cent of Irish respondents** selecting shareholder views, compared to 38 per cent of EMEA respondents. It appears that financial and non-financial indicators are given more weight than other factors such as public perception and simplicity and clarity of arrangements.

## Deloitte view

One of the specific goals of the proposed revisions to the Shareholders Rights Directive (2007/36/CE) is to create a better link between pay and performance of company directors. These revisions include requirements for a greater shareholder say on directors' remuneration and improvements to the reporting of directors' remuneration arrangements. It is expected that these changes will have a significant impact on the reporting and governance of directors' remuneration across Europe. Boards will need to ensure that they are aware of the potential changes and their implications.



## Board succession and talent

- A large majority of respondents in both EMEA (81 per cent) and Ireland (84 per cent) either “agree” or “strongly agree” that their organisation’s board composition is “adequately reviewed” to ensure that members have the appropriate skills. More respondents were in “agreement” rather than “strong agreement” in Ireland. Further, 12 per cent of Irish respondents disagree that board composition is adequately reviewed. This suggests that there is still some room for improvement in the formality of this process for some Irish boards.
- Various responses were provided to the question about the factors that are taken into consideration when deciding the future skills requirements of the board. Industry knowledge and strategic direction of the organisation were the top two factors for both EMEA respondents and Irish respondents. In contrast to the EMEA results which indicated growth goals as the third factor, Irish respondents selected “other”, citing technology expertise, governance knowledge, diversity, independence and local market experience as examples, in addition to softer factors such as cultural fit and ‘chemistry’.
- Despite having no gender quota requirements in place, gender is important from a diversity perspective for Irish boards, with 54 per cent of **Irish respondents** selecting this as their top criteria. This was followed with professional qualifications, which was selected by 46 per cent of respondents. In contrast, EMEA respondents selected professional qualifications (70 per cent), followed by gender (55 per cent).

### Deloitte view

Good succession planning looks at the strategic long-term needs of the whole board, not simply replacing individual directors. Boards should be prepared to react to a range of situations and have contingency plans in place. There are many factors that can compromise your ideal succession planning scenario, among them illness, poor performance, or an organisation crisis.

The outcome of the succession planning process should be a written plan that is approved by the board. This should be supported with detailed policies and procedures to ensure a robust and objective process for both internal and external appointments.



# Board performance and evaluation

- The practice of board performance evaluations appears to be more widespread in **Ireland** than other EMEA countries, with 85 per cent of respondents stating that they have always carried out board performance evaluations, compared to 61 per cent of EMEA respondents.
- Irish boards rely on a combination of both internal and external methods, with 71 per cent of respondents selecting this approach. In contrast, other countries place greater reliance on internal methods and only 37 per cent rely on a combination of internal and external methods.

## Deloitte view

There are various governance codes requiring boards to conduct an internal evaluation on an annual basis, as well as an external evaluation every three years. Further, increased scrutiny has recently focussed on the activities of the board and its committees, as well as the composition of the board.





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