Global Director 360

Growth from all Directions

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Boards around the world are changing. So are corporate governance concerns and boardroom responsibilities. As markets have increasingly become more interconnected, how are boards responding?

In the latest edition of our global corporate governance benchmarking survey, Global Director 360°: Growth from all Directions, we compiled the perspectives and insights of 317 boardroom directors at public and private companies across 15 countries and regions, including, for the first time, Luxembourg. We sought their input on a variety of timely 'hot topic' governance, regulatory and compliance concerns that companies around the world are facing.

The resulting image was that of a changing governance, regulatory and compliance landscape. The results reveal that the global financial crisis (the crisis) weighs less heavily on directors' minds and boards' agendas. Based on the survey responses, boards are becoming more confident that markets are emerging from the crisis.

Top boardroom issues

Only 20% of the global respondents cited the crisis as a top boardroom issue impacting their boards in the past 12 months. This represents a decrease of 23 percentage points from the prior edition - the largest decrease for any top issue year-over-year. It was the single most discussed boardroom issue highlighted in our last survey.

As to issues that are replacing the crisis in the minds of directors, 20% more global respondents are focusing on performance compared to our 2012 survey - the second most often discussed issue, behind strategy. Other topics gaining prominence in global boardrooms included growth (13% point increase) and shareholder value and investors (11% point increase).

These results may indicate that boards are focusing less on recovery from effects of the crisis and more on company performance and operations as well as on the creation of long-term sustainable growth - news that certainly is welcomed by investors globally.

In Luxembourg, we find that an overwhelming majority of boards (81%) discussed regulation, governance and compliance concerns - nearly double the rate of risk management and performance, the second and third most discussed topics in Luxembourg boardrooms, respectively. Directors in Luxembourg expect to be focusing on similar topics in the coming 12 to 24 months.

Cyber risks

Cyber security issues are still not being given sufficient attention by global organisations - nearly half (49%) of global boardroom directors (59% in Luxembourg) do not currently discuss cyber security risks as part of their technology agenda.

In addition, over a quarter (27%) of the global directors surveyed fail to discuss technology risks at all. In light of all the recent news surrounding security incidents and data breaches, it is surprising that we are not seeing an increased number of boards discuss the security risks facing their company. Failure to take preventative measures to protect against breaches in security poses a huge risk to organisations.

Such risks could potentially expose them to internal control deficiencies and reputational risks that may ultimately result in lost revenue. Luxembourg boards, however, appear to actively be discussing other technology risks at a higher level than their global counterparts - data privacy (71% vs. 57% globally) and international data transfer (42% vs. 21%), to name a few.

Social media

Nearly two-thirds of all directors surveyed globally (and nearly three-quarters in Luxembourg) stated that their board does not use social media. This result is a bit surprising, and raises potential questions: as the world moves towards an increasingly digitised environment, are boards fully prepared to deal with the unprecedented business and reputational risks their organisations face? Are boards equipped to monitor and engage with their evolving stakeholders?

Many social media sites and tools have appeared only in the past decade, and perhaps knowledge and understanding of these tools have not yet reached the boardroom.

On the other hand, some directors are already embracing this new technology, understanding its impact on the organisation. It is plausible, however, that directors may be wary of regulatory compliance concerns related to disclosing sensitive corporate information via social media or may not yet view the use of social media as relevant to their responsibilities.

Shareholder engagement

Our survey found shareholder engagement to be a topic of interest. Going forward in this post-crisis environment, investors and other stakeholders can be expected to closely monitor board activities.

Indeed, nearly 70% of global respondents expect the level of interaction between shareholders and boards to increase over the next few years. It would thus seem reasonable to assume that engaging with investors would be a priority for directors. Yet our survey results indicate that despite acknowledging increasing levels of shareholder scrutiny, 61% of the global respondents noted that they have not developed and implemented a shareholder engagement policy.

The number was even higher in Luxembourg (75%). As scrutiny and activism continue to evolve, boards are likely to develop more structured and practical ways of engaging more frequently and closely with their investors and relevant activists.

Diversity

On the topic of boardroom diversity, some countries have enacted regulations or legislation to increase the presence of women, while in other countries organisations have implemented their own related initiatives or policies. In our survey, nearly two-thirds of global respondents indicated that their organisations have not introduced diversity policies for board composition; Luxembourg directors reported higher numbers.

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One obstacle to greater diversity could be the long tenure of directors and the lack of term limits or age limits on board service. Our findings show that 62% of global directors surveyed indicated that their boards have not implemented term or age limits, or that they were unsure whether they have such limits. Boards appear to be implementing term limits for director service (30%) almost twice as frequently as age limits (17%). These global results do not vary significantly from the Luxembourg situation. Globally, it appears that, while good progress is being made in improving diversity in the boardroom, there is still a long way to go before we will see significant change in terms of numbers.

Looking onwards

The decreasing levels of concern over the crisis may indicate that directors around the world see the struggles related to the crisis and its aftermath as finally behind them. This should free up time, attention and other resources, allowing boards to focus on assisting their organisations in achieving long-term growth.

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