



Director 360:
Growth from all
directions

Corporate Governance
State of Affairs

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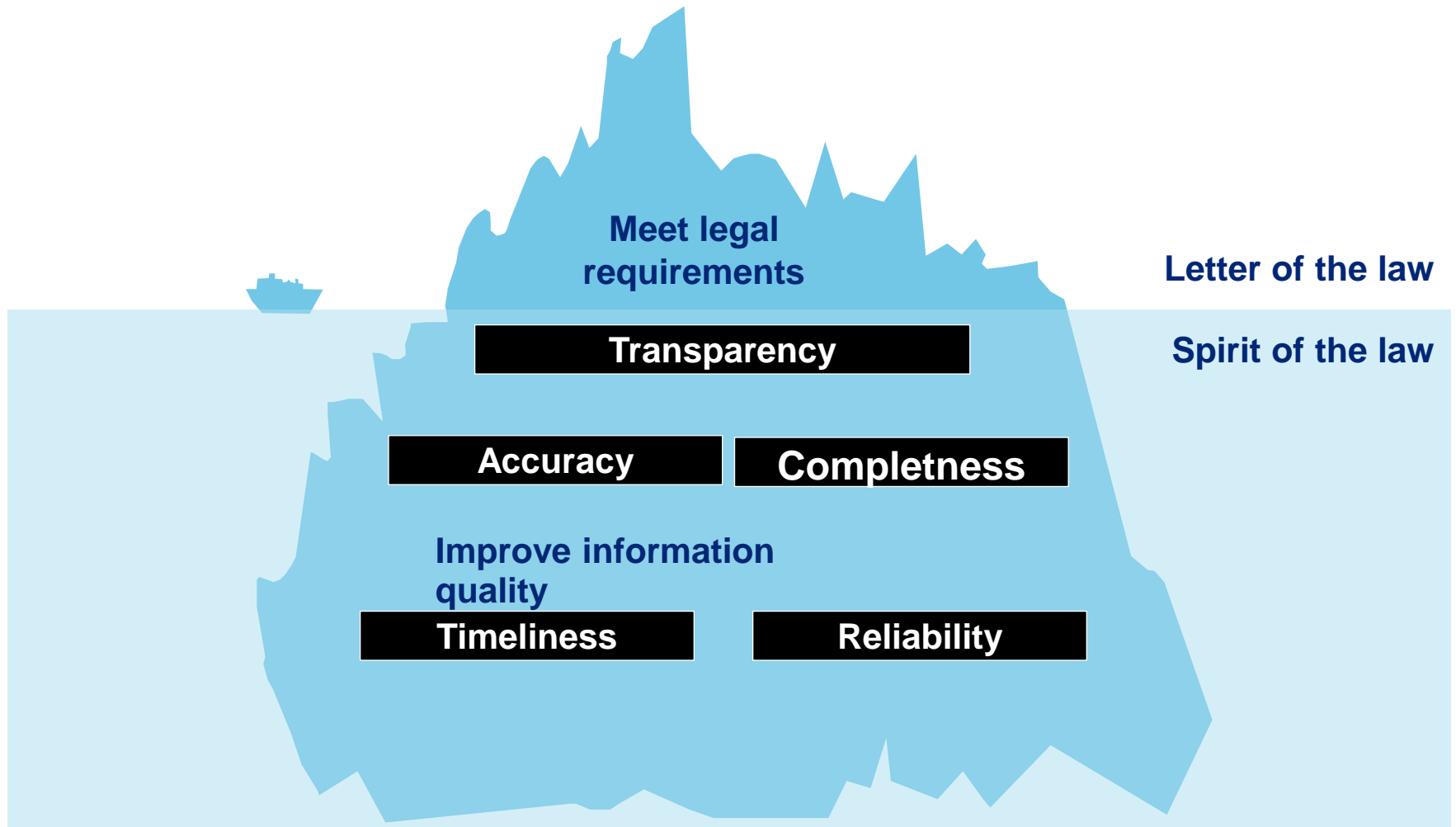
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Methodology

- Deloitte member firms interviewed 317 board chairmen and directors from 15 countries around the world between September and December, 2013
 - Countries/regions: Argentina, the Czech Republic, Finland, Germany, India, Ireland, Luxembourg, Mexico, the Middle East, Nigeria, the Philippines, Romania, Russia, Sweden, and the United States
- Topics covered included board effectiveness and the opportunities, issues, and challenges facing boards

The evolving governance landscape

Corporate Governance - Improving transparency



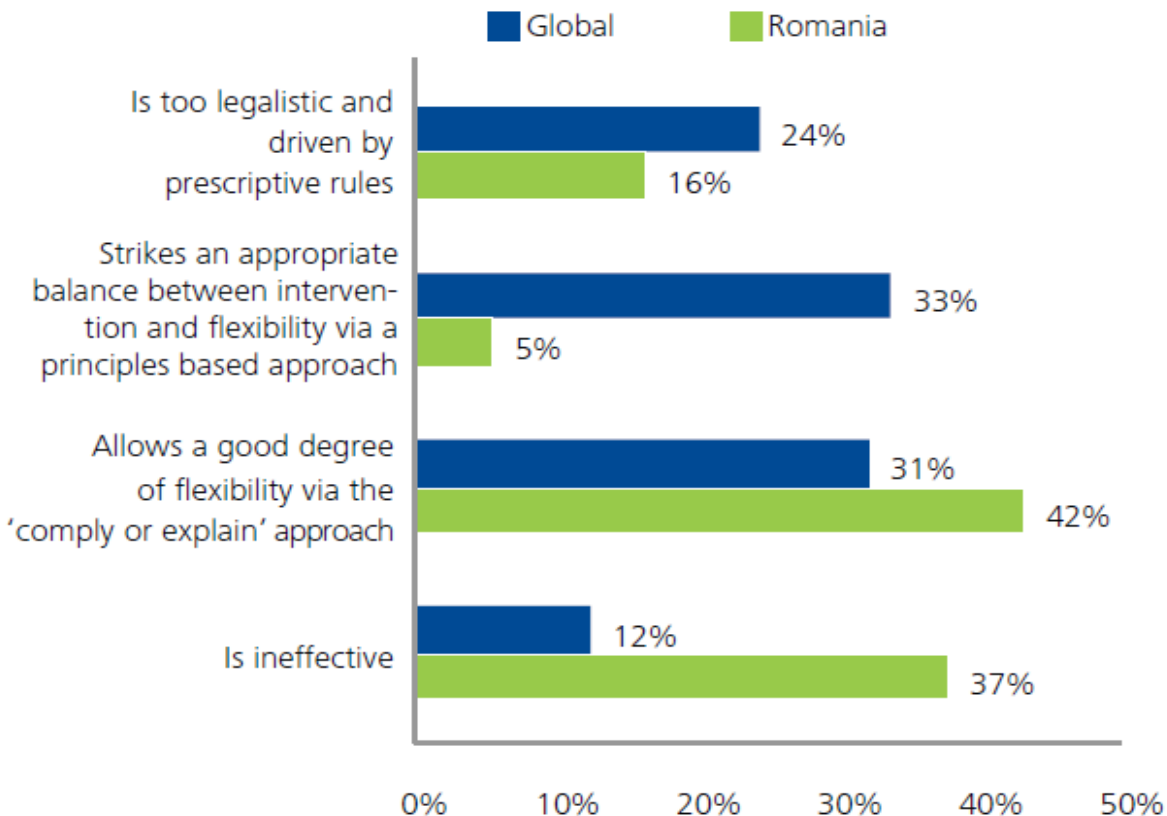
Key insights

- Regulatory systems can have a large impact on a company's governance structure and is needed
- Enforcement and accountability are critical for a regulator aiming to achieve an appropriate level of governance for all stakeholders. It is done differently in Romania
- The focus on strategy, performance, and regulation, governance and compliance mirrored the global top priorities for the past year.
- Executive remuneration was a hot topic issue found in Romania, as it was positioned far above the global average (21 percent vs. 6 percent globally). But Succession planning, diversity and related issues are missing
- Risk management was considered less important by the Romanian directors surveyed (gathering only half (11%) that of the global average). There is also a disconnect between the approaches, as regulation, governance and compliance was seen as a top three issue, while risk management was seen as having less of an impact.
- Reporting also represented an important issue in Romania. Romanian companies apparently struggle to comply with their reporting obligations, which are seen as a challenge. There are many factors but these can be addressed operationally

Perception of regulatory systems

- Directors view their regulatory systems as overly legalistic whereas others see a greater emphasis on flexibility and guidelines:

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



In many ways investor confidence is impacted by the strength of regulatory system:

- Only a few believe that their country's regulatory system strikes an appropriate balance between intervention and flexibility via a principles-based approach
- Many believe that their country's regulatory system allows a good degree of flexibility via a "comply or explain" approach
- Strikingly 37% of Romanian respondents believe it is ineffective.

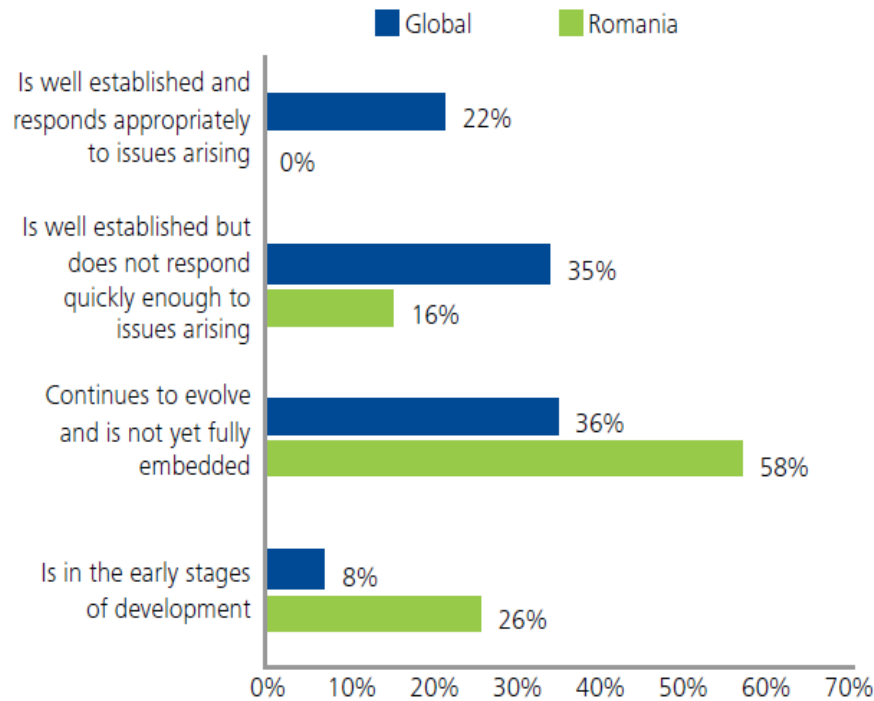
Enforcement of the regulatory system for governance in my country:

- Ineffective or nonexistent enforcement of regulatory systems for governance can weaken investor confidence
- In Romania 32% stated that the enforcement of their regulatory system is driven by shareholders compared to global 13%. In Romania it believed to be mainly driven by the exchange or shareholders, quite different from other countries

Adaptability of regulatory systems and shareholder protection

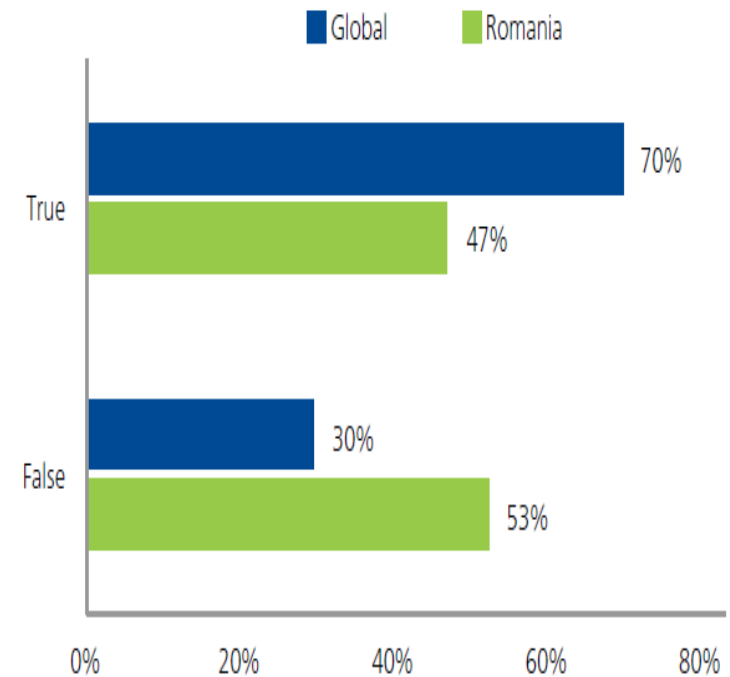
- Regulatory systems require flexibility to adapt to evolving corporate governance challenges

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



- It seems most agree in emerging markets the regulatory system in their country as evolving, and not yet fully embedded
- Interesting to note that 71% of U.S. directors view their regulatory system as well established, but that it does not respond quickly enough to issues arising

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



- Only 47% of Romanian respondents noted that their local governance systems are effective in protecting the interests of shareholders. What will be the result if we ask only the shareholders?
- It might indicate form over substance type issues.

Focusing on risk and
compliance

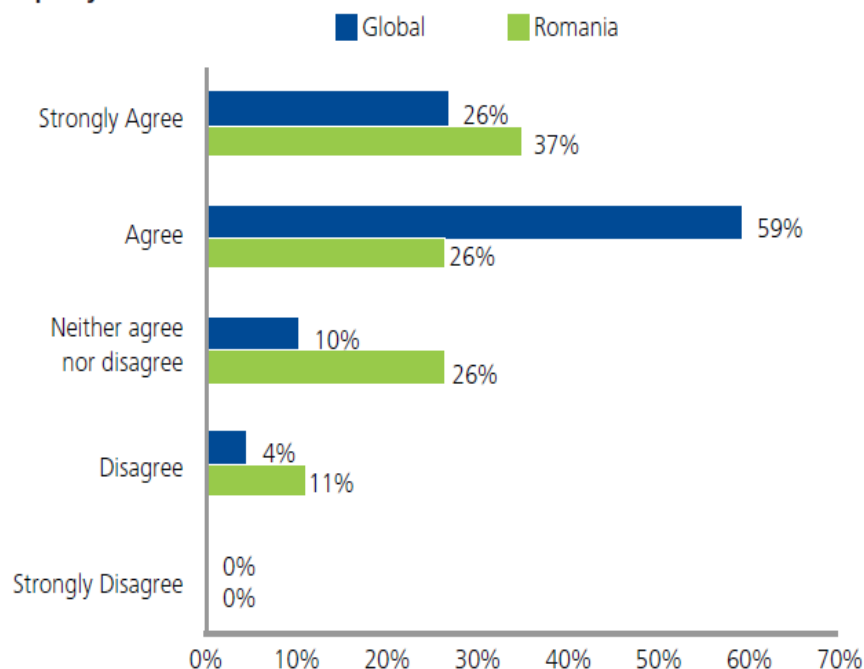
Key insights

- Risk oversight should be a boardroom focal point but Romanian respondent somewhat stand out about the lack of their boards focus
- Directors cited the global financial crisis, public scrutiny, and heightened regulatory expectations as key contributors towards the broadening of their risk oversight role
- In addition to setting the organization's risk policy, boards are taking an active role in providing oversight of compliance and anti-corruption matters. However, it not clear if Romanian corporates have effective anti-corruption and anti-fraud policies in place
- Romanian companies are not yet adopting board-level risk committees for an efficient and detailed approach to risk oversight

Risk oversight

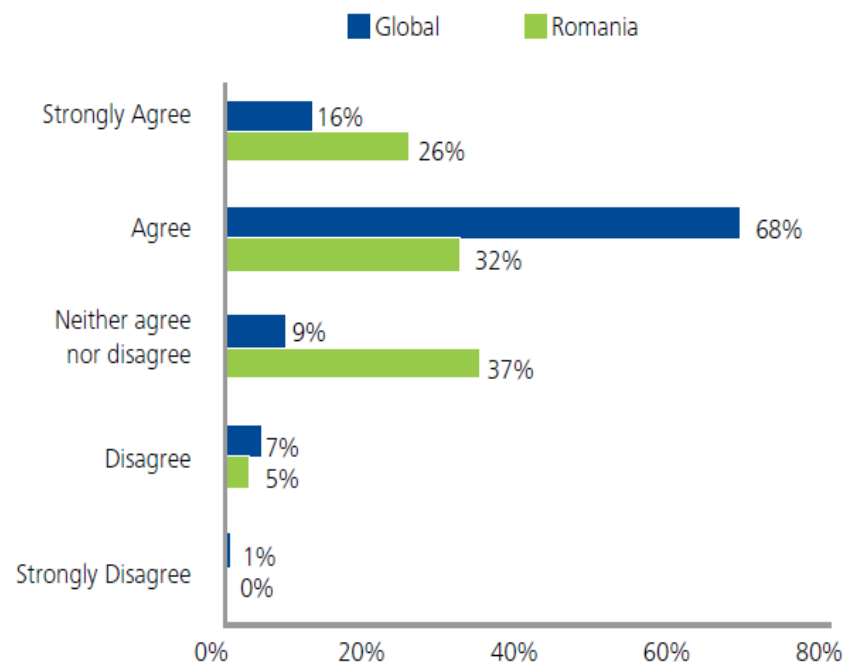
- The global financial crisis has cemented risk management as the top boardroom issue in nearly every country
- It see Romanian Boards will also face increased pressure from internal and external stakeholders to oversee all enterprise-wide risks

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



- Good majority of directors agreed that the board plays an active role in setting the organization’s risk policy.
- Directors agree, more than in previous years, that they are receiving enough information to assess the impact of business risks

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

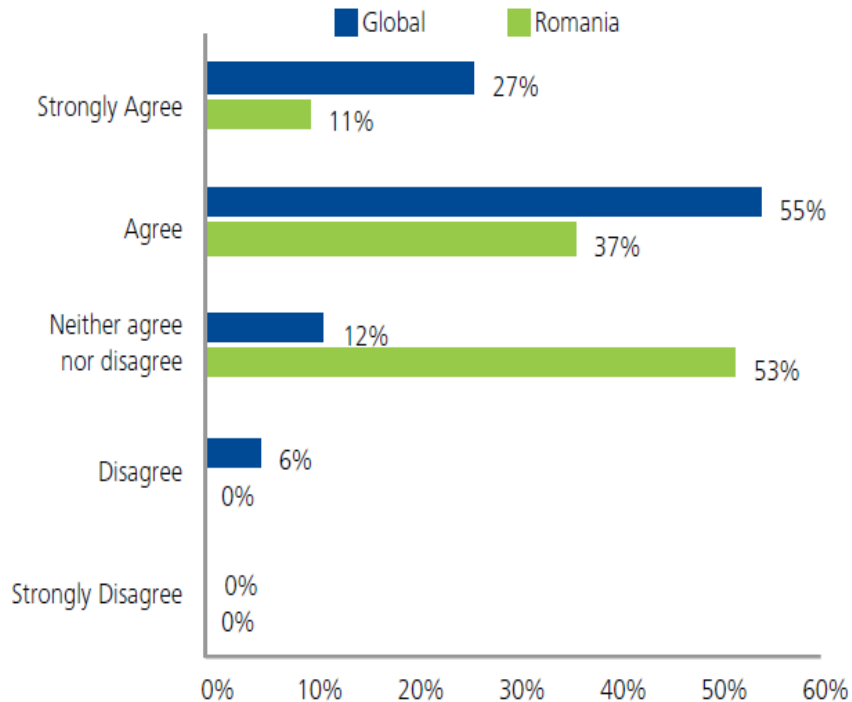


- Strategy, performance, risk management, and growth are all expected to be top-five issues on board’s agenda in the coming years
- In this area Romanian directors clear require more and better quality information. Use of technology is not even considered in many cases.

Compliance and anti-corruption

- Increased compliance is a top issue impacting boards but it seem Romanian companies need more awareness
- Romanian Directors are also concerned with anti-corruption and anti-fraud risks and regulations

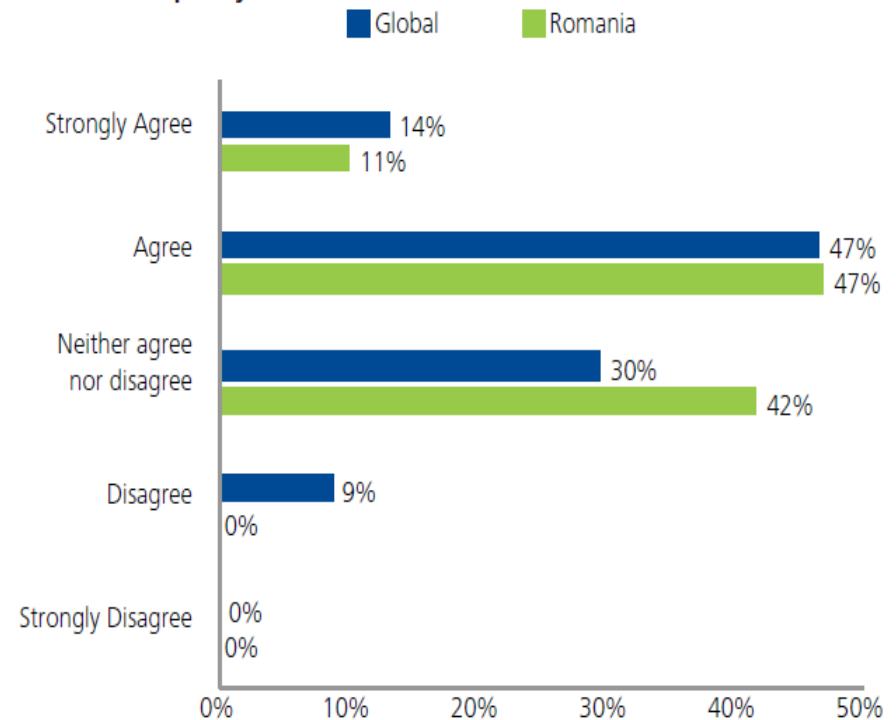
Chart 30 – Compliance is now a greater focus area of the board compared to prior years.



- The majority of respondents strongly agreed or agreed, with the exception of Russia and Romania
- Setting an organization-wide culture of “doing the right thing” should be a priority for all boards
- Boards must work with the CCO , many Romanian companies do not even have such a position in its corporate structure, exception financial sector

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Chart 31 – The board is more engaged with management on anti-corruption matters than in prior years.



- Romania, India, Ireland, and the Philippines most often strongly agreed or agreed that the board has increasingly engaged with management on anti-corruption matters
- A board-level understanding of the implications and risks of anti-corruption and anti-fraud legislation is an absolute must
- Effective policies and tools are essential to ensure management of this risk

Board effectiveness

Key insights

- It is commonly agreed in Romania and globally that effective directors and boards have a positive impact on the organization
- Boards lacking robust evaluation processes, may not find it worthwhile to act upon its results. It may be interesting to find out how the Private management and board nominations in the state sector has been played out
- The directorship lifecycle extends from effective orientation/onboarding to ongoing training, to periodic performance evaluation, to eventual retirement from the board. Romanian board respondent clearly felt the need for significant improvement in this area.
- Directors could be motivated by their duty to the organization and its shareholders, or by compensation arrangements linked to performance. Therefore effective compensation models can be considered for Romanian corporates executives and board members (such as stock options, variable compensation schemes etc)

Board evaluations

- Evaluations are an excellent tool for ensuring—and improving—board effectiveness and the quality of governance. Many respondents from Romania are not sure if the process is robust.
- They may be completed internally, with external assistance, or through a combination of internal mechanisms and external assistance

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

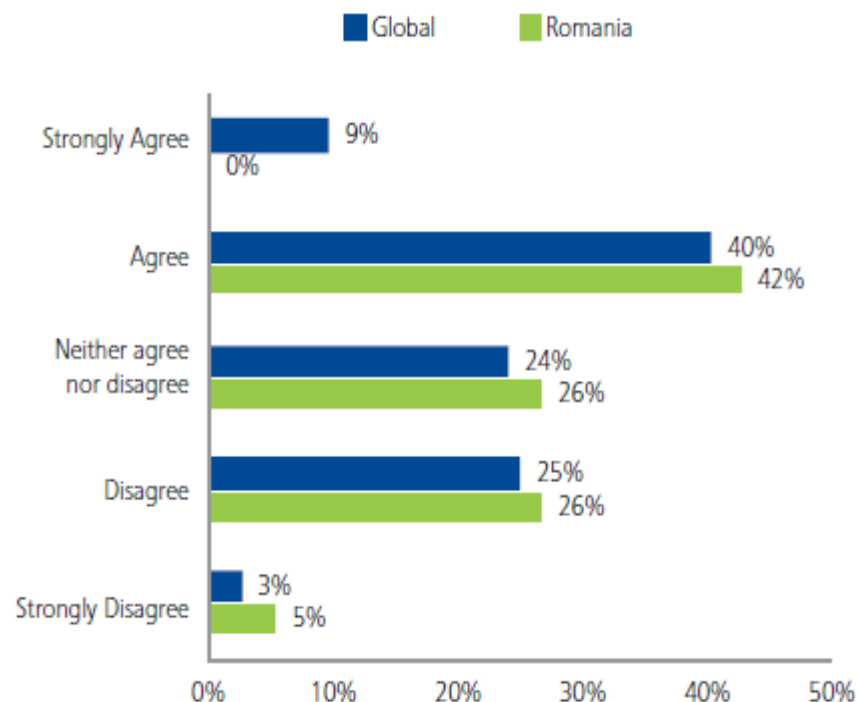
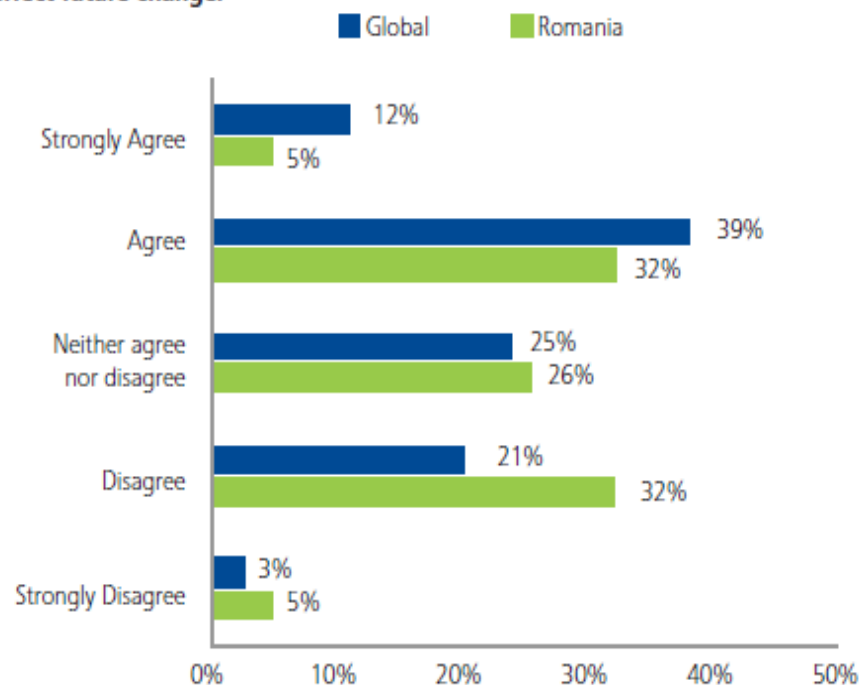


Chart 7 – The results of the board performance assessment are used to affect future change.



Key drivers for evaluations:

- Annual board evaluations could be a regulatory requirement
- Directors could feel pressure and scrutiny from Performance evaluations may generate uncomfortable findings

Potential hindrances

- In Romanian board changes are triggered mostly due to reasons other than objective performance evaluations
- Board evaluation procedures could affect the nominating and approval process for board members

Director onboarding, orientation, and training

- Formalized, effective board-member orientation processes help directors transition into their new leadership roles, and foster a culture of learning and preparedness
- Ongoing training can help equip directors with essential knowledge and skills

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

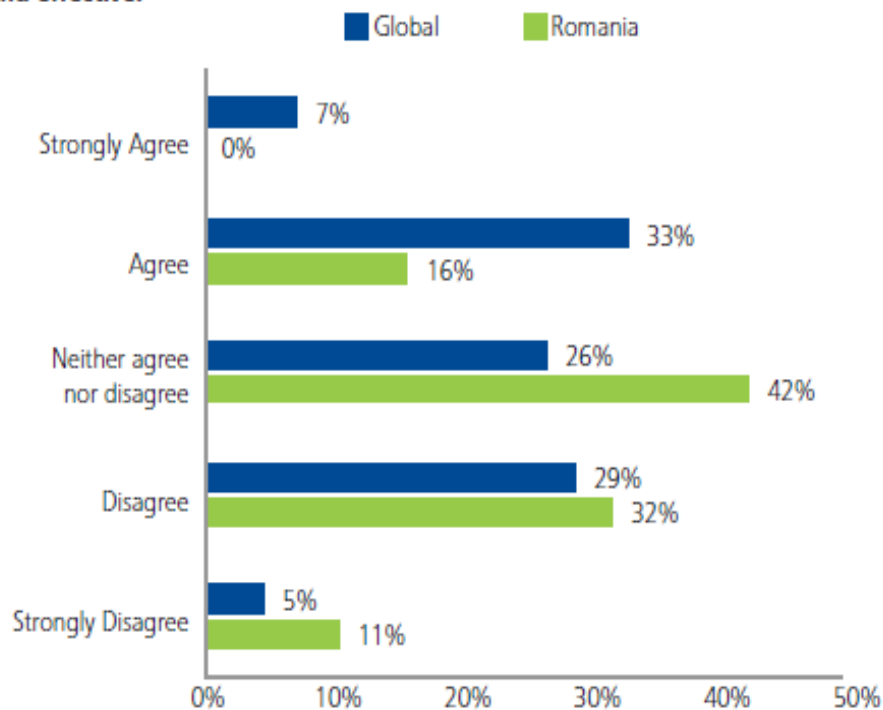
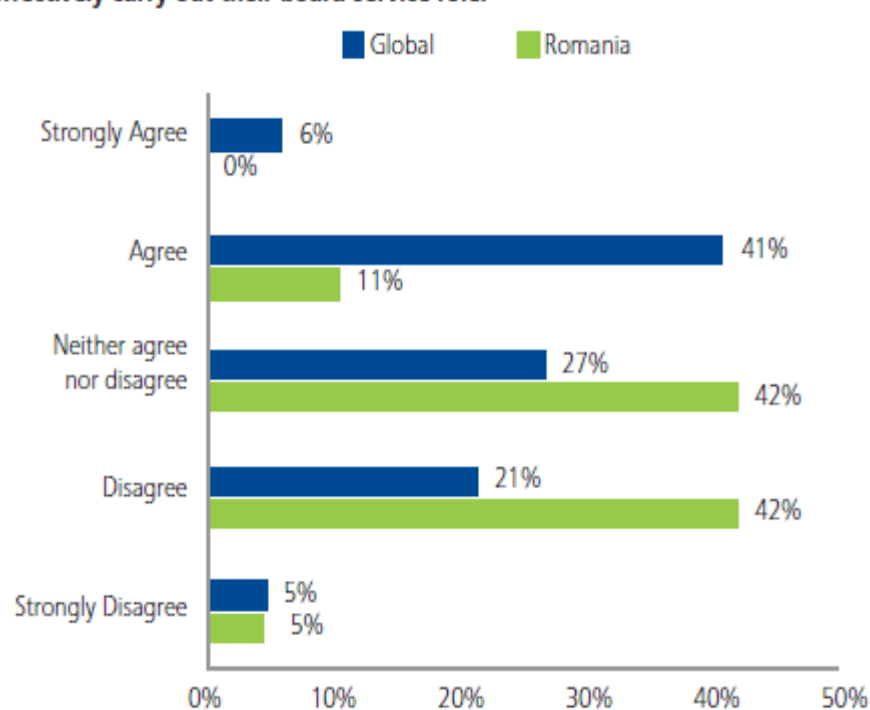


Chart 9 – The board believes they are receiving sufficient training to effectively carry out their board service role.



- The highest positive responses came from the U.S., Ireland, and Finland. While Romania clearly on the low side
- Technologically sophisticated organizations have implemented electronic board portals etc for meetings

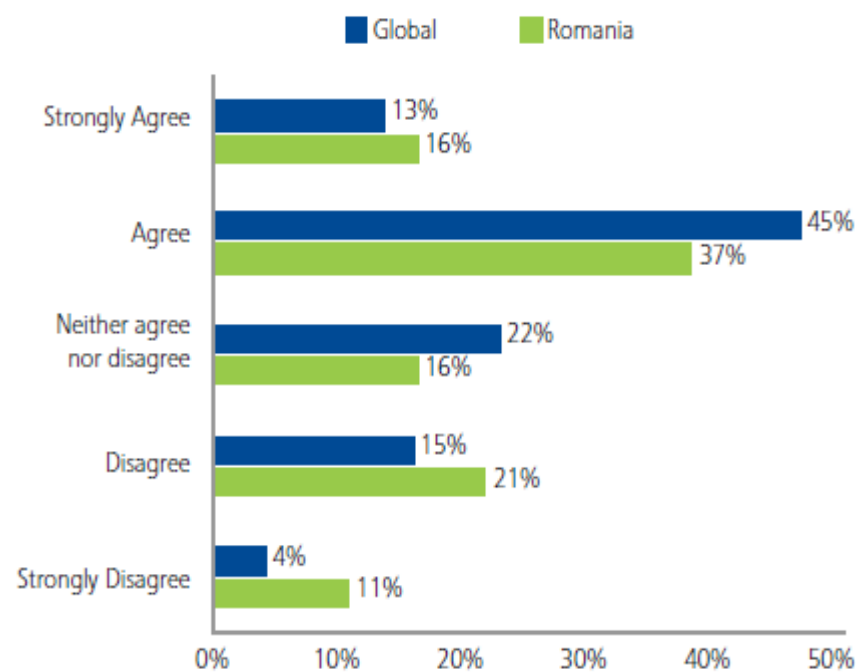
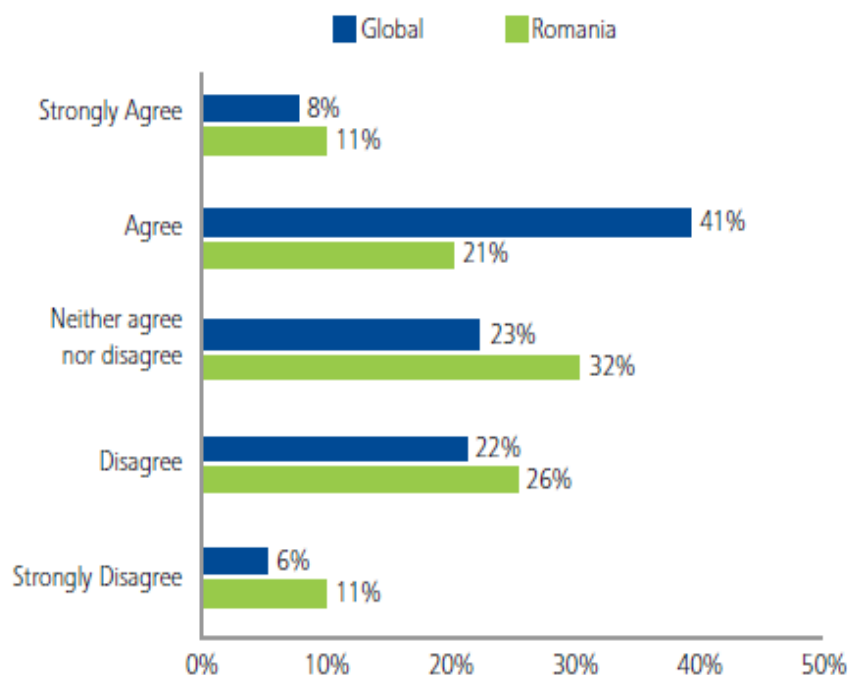
- Directors in Romania disagreed that they are receiving sufficient training and require much more support

Executive/Director compensation

- Non-executive director compensation has received heightened scrutiny in recent years
- Directors have, over the past three years, increasingly viewed their compensation as not appropriate relative to their responsibilities, efforts, and time commitments

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

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



- Directors believe their compensation has not kept pace with their increasing responsibilities and potential liabilities
- Respondents in Romania most often cited their compensation levels as inappropriate. Nigeria, Finland, and Luxembourg had similar responses.
- Irish and U.S. directors most often strongly agreed or agreed

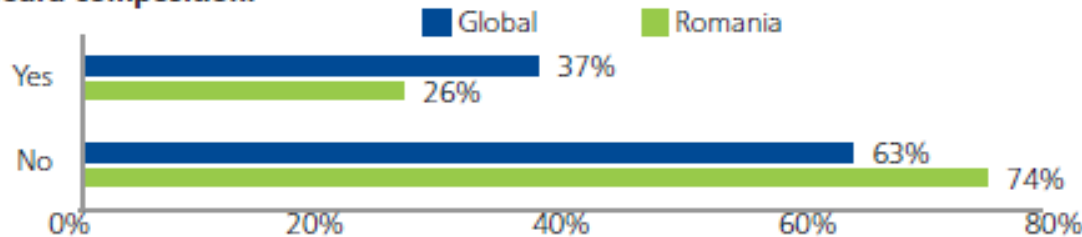
- Surprisingly, only 53% agreed or strongly agreed that the board considers long-term performance measures in executive compensation policies to a sufficient degree.
- Lack of long-term planning and incentives for executives often contribute to lower level performance and contribute to financial difficulties in the long run

Hot boardroom topics

Diversity

- Diversity levels on boards can be influenced by a number of factors: gender quotas, local regulations, or individual organizational policies
- There is debate between government vs. self regulation

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



Diversity policies introduced for board composition.

		Gender	Professional qualifications (e.g., industry)	Ethnicity	Religion	Age	Disability	Internationalization	Sexual orientation
Global	Guidelines	64%	82%	18%	10%	32%	8%	44%	9%
	Quotas	10%	10%	6%	3%	5%	3%	5%	2%
Romania	Guidelines	20%	80%	0%	0%	0%	0%	0%	0%
	Quotas	0%	20%	0%	0%	0%	0%	20%	0%

- Term limits are most often cited by respondents in Ireland, Romania, and Nigeria
- Age limits are most often cited by respondents in India and the U.S.
 - 80% of U.S. boards have age limits (9% for term limits)

- It is clear that Romanian has not yet embraced or implemented diversity policies
- Guidelines are more frequently observed than quotas

Other Hot Topics

- Organizations or careers can be destroyed in hours if wrongdoings are exposed by influential social media sources. Many boards and executives have started to use social media to communicate with stakeholders. Romania is lagging behind
- Cyber security and other technology risks are a serious concern as they affect not only board members and their organizations, but also customers, suppliers, and other stakeholders. Nearly half of boardroom directors are failing to discuss cyber security risks. While Boards are aware of these risks, yet directors in different companies discuss these risks to varying extents
- Consistent with the global trend, about half of the Romanian directors surveyed stated that their companies will have an increased focus on nonfinancial reporting in the coming year. It is not clear if integrated reporting is properly understood by many corporates. This perhaps displays either a hesitancy to adopt these reporting measures. South Africa has mandated an integrated reporting framework, comprised of six measures of capital: financial, manufactured, intellectual, human, social, and natural.
- Sustainability and CSR are important agenda items for 47 percent of the Romanian boards sampled. On the other hand, more than half of the boards will not focus on these matters, a clear area for improvement

Top board room issues - past and future

- Top boardroom issues have shifted away from the global financial crisis and recovery toward performance and strategy, clear Romania stands out
- Focusing more on company performance/operations and the creation of long-term sustainable growth is encouraging
- Organizational structure seem have gained attention of the respondents. This differs and clearly appear more in emerging economies

Table 32

	Global	Romania
Strategy	52%	58%
Performance	35%	58%
Regulation, Governance and Compliance	32%	37%
Risk Management	23%	11%
Growth	21%	5%
Global Financial Crisis and Recovery	20%	16%
Shareholder Value/ Investors	15%	11%
Capital Management	13%	11%
Mergers and Acquisitions	11%	5%
Operational Management/ Infrastructure	10%	0%
Competition	8%	0%
Organizational Structure	7%	11%
External Factors	6%	0%
CEO Succession Planning	6%	0%
Executive Remuneration	6%	21%
Innovation	4%	5%
IT/ Technology	4%	0%
Talent Management	3%	0%

Table 33

	Global	Romania
Strategy	55%	58%
Performance	35%	58%
Growth	30%	37%
Regulation, Governance and Compliance	27%	37%
Risk Management	23%	21%
Capital Management	15%	5%
Shareholder Value/ Investors	14%	11%
Global Financial Crisis and Recovery	11%	5%
Operational Management/ Infrastructure	9%	16%
Mergers and Acquisitions	7%	0%
Competition	7%	0%
External Factors	6%	0%
CEO Succession Planning	6%	0%
Organizational Structure	6%	21%
Innovation	6%	0%
IT/ Technology	5%	0%
Political/ Social Uncertainty	4%	5%

Top board room issues past and future

	Global	Romania
Political/ Social Uncertainty	3%	5%
Reporting	3%	11%
Raw Materials/ Energy	3%	5%
Management Succession	2%	0%
Sustainability	2%	0%
Board Effectiveness	2%	5%
Anti-corruption/ Anti-fraud	2%	16%
Other	2%	5%
Environment, Health, Safety	1%	0%
Diversity	1%	5%
Board Succession Planning	1%	0%
Sovereign Risk	1%	0%
Cyber Security	1%	0%
Stakeholder Management	1%	0%
Globalization	1%	0%

	Global	Romania
Sustainability	4%	0%
Board Effectiveness	4%	5%
Management Succession	3%	0%
Talent Management	3%	0%
Executive Remuneration	3%	0%
Reporting	3%	11%
Raw Materials/ Energy	3%	0%
Other	2%	0%
Board Succession Planning	2%	0%
Stakeholder Management	2%	5%
Environment, Health, Safety	1%	0%
Anti-corruption/ Anti-fraud	1%	5%
Sovereign Risk	1%	0%
Diversity	1%	0%
Cyber Security	0%	0%
Globalization	0%	0%

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