EMEA 360
Boardroom survey
Agenda priorities across the region

June 2016
Respondents' profile

Total = 271

- One tier
- Two tier
- Choice between three
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Methodology

As part of this first EMEA 360° Boardroom Survey, Deloitte asked 271 directors, the vast majority of them non-executive, across 20 countries in the EMEA region for their opinions about challenges facing boards with regard to several aspects of corporate governance: strategy and risk; innovation; cyber security; remuneration; talent and succession; and board performance and evaluation.

Deloitte’s aim was to obtain the views of non-executive directors across different types of organisation and from a range of business sectors. The profile of respondents is shown on pages 2 and 3.

Their views may differ to some extent according to whether their company has a one-tier or two-tier board structure. (Commentary on any differences will be highlighted throughout the report). Of the 20 countries participating in the survey, 13 have a one-tier board structure, three (Austria, Germany and Poland) have a predominantly two-tier structure and the other four (France, Italy, the Netherlands and Romania) have both or other options available. That said, a one-tier structure is predominant in France and a two-tier structure predominates in the Netherlands and Romania (as shown in the country breakdown).

For more information about legal requirements and corporate governance regulations in each of the participating countries, please refer to the ‘Country profile’ document linked to this report.

The interviews were conducted during February and March 2016. The report incorporates quantitative and qualitative data based on these interviews. Note that there was no normalisation or weighting of country results, despite differences in the numbers of directors interviewed. Due to rounding, responses to the questions covered in this report may not aggregate to exactly 100 per cent. 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 are representative of the non-executive directors interviewed and do not necessarily reflect the view of Deloitte. 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.
This report presents the views of 271 non-executive directors on current governance practices within the EMEA region, and how their views may be evolving in response to changes in the business environment.

We begin by presenting the views of our non-executive directors on the top five key issues their board has faced in the past 12 months and the main issues they expect to face in the next 12-24 months. From this, we highlight the shifts in focus that are occurring and how the future may differ from the past.

Having presented the views of our respondents about their top concerns, the report moves on to focus more specifically on six aspects of corporate governance: strategy and risk; innovation; cyber security; remuneration of senior executives; boardroom succession and talent; and board performance and evaluation. These six items were selected either because they feature high on the list of key issues identified by our respondents or because they are seen as markedly more important for the next one to two years, or because they have been flagged as issues of increasing significance by Deloitte’s own governance specialists.

This report considers not just the overall views of respondents in EMEA but also looks at differences and similarities between countries and industry sectors. We believe that it raises some thought-provoking ideas about the nature of corporate governance practices within the EMEA region and how opinions and practice may be evolving.
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.

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 directors in today’s challenging business environment and how they differ.

One of the survey’s key findings is that non-executive directors appear to be adopting a slightly more optimistic outlook on growth and competitiveness in the short to medium term compared to the recent past. Previous concerns about cost reduction and capital management, in response to adverse economic conditions, have diminished.

An effective and flexible strategy is never more important than when an organisation is pushing for growth and to remain ahead of their competitors. This continues to be a top priority for our respondents. Active consideration of risk is a crucial element in the development of an effective and flexible strategy, with almost 90 per cent of respondents indicating they were satisfied that risk management is well integrated.

One element of strategy we examined in more depth was innovation and the importance EMEA boards attribute to it. However, we found significant differences between countries and industries. In Germany, Ireland and Italy, where there is a clear government-led drive for innovation and a well-established start-up and entrepreneurial culture, innovation features highly on boardroom agendas. It is also prominent in the life sciences and technology, media and telecommunications industries, but less so in construction and energy and resources. Product innovation was the area receiving the most attention.

Digital innovation also scored highly but with it has come increased exposure to cyber risks. When asked to rate board awareness of cyber risks on a scale of 1 to 5 (with 1 being low awareness), only 48 per cent gave a high rating while 20 per cent a low one (1 or 2). Less than half of respondents said that their organisation currently had an action plan in place to deal with cyber security. Just five per cent said they had nominated a board member as the cyber security expert, with the remainder either believing that this was a matter for collective board responsibility or that management dealt with it.

In addition to these outwardly focused matters we also analysed the key governance topics of remuneration, succession planning and board performance evaluation. Some of the key findings are:

• business performance was rated as the most important driver of management and executive pay
• a majority of respondents engage with stakeholders and seek their views on succession planning at an early stage in the process
• a significant minority felt that evaluating board performance was not well recognised; however the majority of respondents considered it well established.

These and other important findings linked to boardroom agendas are examined in the report. We hope these insights will stimulate your boardroom discussions.
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. Perceptions of which concerns are the most significant change in response to events and developing circumstances.

Although the challenges good governance must tackle are broadly the same worldwide, the ways in which companies are addressing them vary between countries and regions.

This report focuses on the EMEA region, where governance issues continue to attract a great deal of public attention, to highlight the main concerns of non-executive directors.

The key issues for boardrooms

We asked 271 non-executive directors of companies 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. Our purpose was to look for any noticeable differences and to consider the reasons why directors’ perceptions might be changing. Their responses and any differences between the past 12 months and the next 12-24 months are shown in Table 1.

A comparison between key issues in the past 12 months and expectations of what key issues will be in the next 12-24 months 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.

These changes are not so great as to suggest a major shift in directors’ views, but they do indicate some shift away from concerns about cost reduction and capital management (in response to improving economic conditions) towards a slightly more optimistic outlook for growth and competitiveness. The greater interest in talent management is another aspect of this shift towards growth.

Table 1. Key issues for the boardroom past 12 months next 12-24 months

<table>
<thead>
<tr>
<th>Key issues faced by countries</th>
<th>Rank past 12 months</th>
<th>Move in ranking</th>
<th>Rank next 12 – 24 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>1</td>
<td>=</td>
<td>1</td>
</tr>
<tr>
<td>Growth</td>
<td>2</td>
<td>▲ 4</td>
<td>6</td>
</tr>
<tr>
<td>Performance</td>
<td>3</td>
<td>▲ 2</td>
<td>5</td>
</tr>
<tr>
<td>Mergers and acquisitions</td>
<td>4</td>
<td>▼ -2</td>
<td>2</td>
</tr>
<tr>
<td>Innovation</td>
<td>5</td>
<td>▲ 5</td>
<td>10</td>
</tr>
<tr>
<td>Capital management</td>
<td>6</td>
<td>▼ -3</td>
<td>3</td>
</tr>
<tr>
<td>Competition</td>
<td>7</td>
<td>▲ 4</td>
<td>11</td>
</tr>
<tr>
<td>Risk management</td>
<td>8</td>
<td>▼ -1</td>
<td>7</td>
</tr>
<tr>
<td>Regulation and compliance</td>
<td>9</td>
<td>▼ -1</td>
<td>8</td>
</tr>
<tr>
<td>Cost reduction</td>
<td>10</td>
<td>▼ -6</td>
<td>4</td>
</tr>
<tr>
<td>Shareholder value/investors</td>
<td>11</td>
<td>▲ 1</td>
<td>12</td>
</tr>
<tr>
<td>Digitisation</td>
<td>12</td>
<td>▲ 7</td>
<td>19</td>
</tr>
</tbody>
</table>
The biggest movements, both of ten places in the rankings, are for cyber security, which has become far more important to non-executive directors, and for executive remuneration, which has fallen markedly in significance, to only 31th.

The emergence of cyber security as a significant problem may be due partly to its visibility in media reports and the threat to reputational risk for companies that become the victim of a successful cyber attack. Unauthorised access to personal data also creates risks for companies, particularly in banking and in countries where there is political turmoil. Cyber risk is not a matter of exposure to a single event for which a specific solution can be applied at one point in time. The risk is evolving, and security measures need regular review and updating on a company-wide basis. The problem goes well beyond the remit of the IT team and the board of directors is ultimately responsible.
Digitisation has also become much more important, rising by seven places in the ranking. This can be explained by its remarkably broad and ever increasing reach. Data analytics, the Internet of Things, robotics and other innovations are new technological possibilities that affect all industries. New digital competitors are emerging to challenge incumbents in many traditional sectors. This combination is of enormous strategic significance for companies and should therefore be expected to feature highly on the board’s agenda.

Innovation is often driven by the digitisation of products and processes; and with the growing importance of digitisation, there is a foreseeable demand for (and a potential shortage of) board-level individuals with the knowledge and skills to operate effectively in a digital environment. Digital innovation remains critical to an organisation’s ability to compete in an increasingly competitive and challenging environment.

It is notable, meanwhile, that some corporate concerns that have received widespread publicity in recent months do not figure highly on board agendas. These include issues such as taxation, terrorism, diversity, ethics and sustainability.

**Key concerns: country analysis**

Table 1 shows the views of non-executive directors across the EMEA region when asked about what have been and what will be the top five issues affecting the board. Inevitably there are differences in experiences and opinions between countries. Some of these are set out in Table 2.

**Table 2. Key issues facing the board: country focus**

<table>
<thead>
<tr>
<th>Country</th>
<th>Top issues identified by respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>Respondents expect cost reduction to remain as significant in the future as in the past 12 months, innovation, competition and operational management/infrastructure are all becoming more important, together with digitisation and cyber security. Governance is seen as a key issue, more so than in other countries.</td>
</tr>
<tr>
<td>Belgium</td>
<td>Mergers and acquisitions have been a key issue in the past 12 months but are not expected to be of such importance in the future. Our respondents expect greater focus on organisation structure and governance.</td>
</tr>
<tr>
<td>Cyprus</td>
<td>In the past 12 months, risk management, cost reduction and political uncertainty have been the major issues. In the next 12 months, political uncertainty is not expected to be as significant, and concerns about cost reduction will be replaced by growth and strategy.</td>
</tr>
<tr>
<td>Finland</td>
<td>Expectations in Finland reflect the EMEA average on matters such as the growing importance of competition and innovation, and diminishing concerns about cost reduction. Digitisation features as a key issue for the future, and some respondents identified political and social uncertainty as an issue.</td>
</tr>
<tr>
<td>France</td>
<td>Issues highlighted remain relatively focused, with strategy, mergers and acquisitions, performance and risk management predominating over the past 12 months; growth and risk management join when looking to the future.</td>
</tr>
<tr>
<td>Germany</td>
<td>Expectations in Germany reflect the EMEA average on matters such as the growing importance of competition and innovation, and diminishing concerns about cost reduction. Digitisation and cyber security come in as key issues for the future. Some respondents predict that political and social uncertainty, which was not identified as a major issue in the past 12 months, will become important.</td>
</tr>
<tr>
<td>Country</td>
<td>Top issues identified by respondents</td>
</tr>
<tr>
<td>--------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Ireland</td>
<td>Respondents in Ireland on the whole expect the key issues over the next 12-24 months to be similar to those over the past 12 months, but with cyber security, regulation and compliance featuring among the top issues.</td>
</tr>
<tr>
<td>Italy</td>
<td>Concerns about capital management and cost reduction in the past 12 months may reflect recent business conditions in Italy and measures that are being made for reform. Shareholder value will remain a key issue, and organisation structure and succession planning are expected to become more important topics at boardroom level.</td>
</tr>
<tr>
<td>Middle East</td>
<td>Whereas board effectiveness has been a key issue in the past 12 months, concerns about the global recovery are expected to become more significant. This may well reflect the current and future state of the oil industry.</td>
</tr>
<tr>
<td>Norway</td>
<td>The key issues for boards in Norway have been similar to those in much of the EMEA region, including strategy, performance, capital management and cost reduction. Capital management and cost reduction are replaced in the top five issues for the future by organisation structure and innovation, which may reflect a change in priorities from cost control to growth. However, respondents in Norway also focused in the past 12 months on issues such as corruption, health and safety and ethics.</td>
</tr>
<tr>
<td>Poland</td>
<td>Cost reduction and mergers and acquisitions have been major issues in the past 12 months. Key issues for boards over the next two years are expected to be growth, followed by innovation, performance and political uncertainty.</td>
</tr>
<tr>
<td>Romania</td>
<td>Key issues over the past 12 months have been organisation structure, board effectiveness and operational management. Corruption also features highly (and is expected by some respondents to remain high in the future).</td>
</tr>
<tr>
<td>South Africa</td>
<td>Respondents identified capital management and the global crisis as key issues in the past 12 months, together with growth. These issues are not expected to be as significant in the future and are likely to be overtaken in significance by regulation and compliance and also by political and social uncertainty.</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Most of the key issues reported by respondents are similar to the EMEA average. However, some respondents identified corruption, cyber risk and ethics as key issues in the past and the future.</td>
</tr>
<tr>
<td>Turkey</td>
<td>Three areas are expected to become more significant as boardroom issues: political and social uncertainty; regulation and compliance; and cyber security.</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Most of the key issues reported by respondents are similar to the EMEA average. However, there appears to be greater awareness than in most other EMEA countries about the importance of talent management and succession planning. Surprisingly few UK respondents included remuneration in their top five issues, even though it has been a major topic in the UK business media in 2016.</td>
</tr>
</tbody>
</table>
Key concerns: industry sector analysis
The key issues facing boardrooms also differ between industry sectors.

Technology, media and telecommunications and manufacturing are sectors where cost reduction or mergers and acquisitions have been primary issues in the past 12 months, but the future outlook is more towards innovation and competition. Respondents in the life sciences and healthcare sector also expect innovation to remain a key issue, with regulation and compliance coming more into focus.

In some sectors, the key issues of the past 12 months are expected to remain prominent in the next two years. In the financial services industry, regulation and compliance will continue to be one of the key issues; and the environment remains significant for the energy and resources sector.

In both financial services and consumer businesses many respondents identified cyber security as an important issue for the future. We also see increasing awareness of cyber security risks among respondents within the business and professional services sector and the energy and resources sectors.

Current areas of corporate governance interest
The views of our interviewees capture a broad set of issues non-executive directors believe will influence their boardrooms, but it is also important to understand what the current main areas of corporate governance interest are.

We therefore asked Deloitte Corporate Governance Leaders in each of the countries conducting interviews for their views based on their experience when interacting with a broad set of executives. Not surprisingly there were substantial variations in the responses, reflecting different national circumstances. Their responses are set out in Table 3.

Table 3. Current areas of corporate governance interest

<table>
<thead>
<tr>
<th>Country</th>
<th>Current main areas of corporate governance interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>Strategy; risk management; organisation structure; cyber security; board diversity</td>
</tr>
<tr>
<td>Belgium</td>
<td>Strategy and growth; disruption and innovation; cyber risk and cyber security; risk management; governance; and corporate reporting</td>
</tr>
<tr>
<td>Cyprus</td>
<td>Effectiveness and competencies of directors</td>
</tr>
<tr>
<td>Finland</td>
<td>Implementation of the changes introduced by the 2015 Corporate Governance Code</td>
</tr>
<tr>
<td>France</td>
<td>Strategy and growth; risk management and long-term viability; anti-corruption and labour laws; compliance with evolving regulation; composition of the board with the requirement for 40% women on boards by 2017</td>
</tr>
<tr>
<td>Germany</td>
<td>Female representation on the supervisory board (SB); professionalism of SB work; liability of directors; rotation of auditors and duties of the audit committee; digitisation</td>
</tr>
<tr>
<td>Ireland</td>
<td>Strategy; cyber risk; risk management and long-term viability; corporate culture; succession planning; committee responsibilities</td>
</tr>
<tr>
<td>Italy</td>
<td>Integration between risk management and the board’s strategic decision-making process; long-term value creation; integrated internal control and risk management system; cyber risk; effective management and supervision</td>
</tr>
<tr>
<td>Middle East</td>
<td>Information security; remuneration</td>
</tr>
</tbody>
</table>
Some responses focus on just one main issue, whereas others listed a range of different governance issues. Overall, the views of the Deloitte experts are consistent with those of non-executive directors in their country.

From a governance perspective, taking the responses from our interviewees and Deloitte experts, there appear to be six areas of particular interest:

- strategy and risk
- innovation
- cyber security
- remuneration
- board succession and talent
- board performance and evaluation.

The responses of our interviewees are presented and discussed in the following sections of this report.

<table>
<thead>
<tr>
<th>Country</th>
<th>Current main areas of corporate governance interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>Long-term value creation; risk management and the internal audit function; effective management and supervision; culture; remuneration; requirements for ‘comply or explain’; board diversity; terms of appointment for Management Board and SB members; anti-takeover measures</td>
</tr>
<tr>
<td>Norway</td>
<td>Management remuneration and how remuneration and bonus is linked to long-term value creation</td>
</tr>
<tr>
<td>Poland</td>
<td>Independent supervisory board members; political uncertainty; remuneration</td>
</tr>
<tr>
<td>Romania</td>
<td>Risk management; governance; strategy; cost reduction</td>
</tr>
<tr>
<td>South Africa</td>
<td>Transformation; risk-based internal audit; IT governance; shareholders and remuneration; board performance evaluation; Alternative Dispute Resolution (ADR)</td>
</tr>
<tr>
<td>Spain</td>
<td>Compliance; cyber risks</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Ordinance on executive pay in stock exchange listed companies; diversity; cyber risks</td>
</tr>
<tr>
<td>Turkey</td>
<td>Political and social uncertainty</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Risk management and long-term viability; environment, social and governance matters; directors’ remuneration, disclosure of bonuses and remuneration policy vote; implementation of the EU Audit Regulation and Directive; minimising compliance costs; strengthening engagement with stakeholders; corporate culture; succession planning; women on boards; disclosure of dividends - policy and practice</td>
</tr>
</tbody>
</table>
Disruptive changes in business and commerce are continuing at a rapid pace. Companies need to pursue strategies that can adapt to transformations in their markets while remaining focused on their long-term objectives for creating shareholder value. Strategic plans need to be flexible. Organisations are under pressure to innovate in order to achieve and maintain competitive advantage, as well as preserve corporate and brand reputation. However, there are risks associated with strategic decision-making where wrong choices can be made and initiatives may be undertaken either too soon or too late. Boards have overall responsibility for strategy and risk within the governance framework and provide the leadership for this crucial aspect of their company’s affairs.

Perceptions of risk vary. There are risks associated with any strategic decision or action, about investment, market expansion, general competition and the overall willingness of the board to ‘take bets’ as to what will work for the company in the medium and long term. However, there are also risks linked to a lack of action, such as failing to adapt a strategy in response to shifts in external or internal factors that might alter the organisation’s positioning in its markets.

If a board delays its response to changing circumstances and postpones alterations to strategy, it could be rushed into responding at a later stage. This could create pressure on time and profit margins, leading to a less successful outcome. There can be big risks associated with any lack of action and boards need be alert and proactive in order to stay competitive in today’s business environment.

We asked our respondents about the quality of decision-making by their boards on strategy and risk, and about their awareness of threats to brand reputation. Our questions on strategy and risk relate to three issues:

- integration of risk management issues into strategic decision-making at board level
- the information presented to boards about strategy and risk
- reputation risk.

**Differences between one and two tier systems**

It might be expected that the answers provided to our survey questions on strategy and risk would differ according to whether there is a one-tier or a two-tier board structure in the organisation. However, the data collected shows no differences based on which structure is in place.

**Integrating risk management into strategic decision-making**

Companies may sometimes be accused of pursuing risky strategies but it is generally agreed that the board should determine the level of risk that their organisation should be prepared to accept (their risk appetite) in its pursuit of strategic goals. We therefore asked our interviewees whether they considered that risk was sufficiently taken into consideration when making strategic choices.

Since our respondents are themselves responsible with their boardroom colleagues for leadership in this area, we would expect the majority of responses to indicate satisfaction with decision-making at board level. This appears to be the common view. 88 per cent of respondents either agreed or strongly agreed with the view that risk management is well integrated into strategic decision-making at board level (see Figure 1).
There was some variation between the views of directors from different countries. In Belgium, Germany, the Middle East, Poland and the UK, there were about equal numbers of those saying that they ‘agreed’ with the statement and those saying that they ‘strongly agreed’. This might suggest that although they take risk into consideration, risk assessments may not be as rigorous as they could be.

In comparison, a majority of respondents in France, Finland, Italy, Norway, Switzerland and Turkey were in ‘strong agreement’ with the statement. In South Africa, where all respondents either ‘strongly agreed’ or ‘agreed’, a risk committee of the board (or the audit committee) is mandated with the specific responsibility for oversight of risk management, and the introduction to the corporate governance code suggests that integrated reporting will also improve risk management.

From a business sector perspective, the highest proportion of respondents agreeing or strongly agreeing with the statement were in financial services, where many jurisdictions require companies to have a board risk committee, and in the energy and resources sector.

The two business sectors with the highest number of respondents who did not agree with the statement were construction and manufacturing. When respondents were not fully confident about the quality of decision-making, they pointed mainly to the need for more boardroom discussion, supported by reliable and timely information.

Taken as a whole the responses to our interviews suggest that boards understand the need to adapt strategy to changing circumstances in the company’s internal or external environment within an effective risk management framework and that, at least in the view of directors themselves, the content and focus of discussions in the boardroom are appropriate for making well-considered decisions about strategy and risk.

**Differences between one and two tier systems**

The responses to the statement might have been different if the interviews had included executive directors and members of the management board. However, the views of non-executives were similar for companies with a one-tier or a two-tier board structure, suggesting that board structure does not influence the integration of risk into the strategic decision-making process.
Giving boards the information they need about strategy and risk

Decisions made with inadequate, misleading or insufficient information are likely to be poor. Boardrooms rely on the information provided to them by management, auditors and others. Interviewees were asked for their views about the effectiveness of the information they received on strategic and risk issues: 86 per cent either agreed or strongly agreed that the information they received was effective as to quality, timeliness and focus (see Figure 2.)

In some countries, a relatively large proportion of respondents ‘strongly agree’ that they receive effective information: these include France, Norway, South Africa and Turkey. In comparison many more respondents, especially in Germany, Ireland, Poland and the UK, simply ‘agree’ with the statement. This suggests many respondents find the information they receive acceptable but with scope to be improved.

Within business sectors, 100 per cent of our respondents in life sciences agreed that the information they received was effective and the largest proportion of respondents who strongly agreed (46 per cent) were in financial services. This is not surprising: the European Central Bank’s Banking Supervision expects the boards of banks to receive adequate risk information so that they can judge thoroughly whether business decisions are in line with the bank’s defined risk appetite standards and limits. Data quality and firm-wide risk aggregation capabilities are essential preconditions for sound, risk-based decision-making and therefore for proper risk governance.¹

“...My board pursues an open style of discussion both amongst the board members and with management. Pros and cons are balanced on the basis of assessments. The board members bring in a broad range of knowledge and a variety of skills, so that the eye beyond one’s own nose is guaranteed.”

Respondent from Austria

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Figure 2. Effectiveness of information for risk and strategy decision-making at board level

“The information received to make risk and strategic decisions is effective - in terms of quality, timeliness and focus.”

Source: Deloitte analysis 2016
Sourcing information for decision-making

There is some variation in the sources of information used by boards in different countries. These include business plans, presentations by management, financial metrics, audit reports, business reviews and progress reports (see Figure 3).

Figure 3. Sources of information for decision-making on strategy and risk

What content is reported to the board to inform both risk and strategic decisions?

Most boards rely extensively on management presentations. For example, nine out of ten respondents in South Africa stated that their board used internal and external audit reports and/or business plans, and all ten used management presentations. The replies from Finland indicate the use by many boards of a wider range of sources, including competitor analysis and staff feedback.

It is no surprise that boards rely extensively on management presentations. Although they receive both external and internal audit reports, which should be an objective source of information, they inevitably rely most on the information provided by management. The quality of information flows between management and boards is therefore a crucially important issue for effective board decision-making and good governance. However, boards need to fully understand the background to the information provided, and where appropriate should challenge executive management about the quality of the data provided.

A risk management system depends on the company and its culture, and in some cases on the regulatory framework, but based on the responses we received it appears that boards commonly look at risk management as a process divided into four broad areas:

- setting up and approving a model for risk management (a risk map)
- providing input to the model, for example by deciding risk tolerances
- establishing a reporting process, which focuses on upside potential as well as downside risks and includes risk Key Performance Indicators
- exercising overall monitoring/control over the risk management process.

Source: Deloitte analysis 2016
Ethical issues and reputation risk

Concerns about ethical breaches by companies and questionable business practices continue to attract considerable media attention. Financial institutions for example have been subject to regulatory fines for misconduct, and the reputations of some manufacturers have been damaged by revelations of significant discrepancies between advertised and actual performance of their products. A damaged reputation is a major risk for companies, alienating consumers and weakening market positioning.

When a company suffers severe reputational damage, it can take several years to recover. When our respondents were asked what they believe to be a key source of reputation risk, many expressed the view that organisations should start by acknowledging the implications of non-compliance (with regulations or ethical practice).

Our interviewees were asked about their views on the extent to which reputation risk is considered at board level. Only 70 per cent of respondents either agreed or strongly agreed with a statement that their board periodically reviews protocols for dealing with ‘ethical breaches’ and evaluates the associated risk to corporate reputation. A relatively large number of respondents (13 per cent) either disagreed or strongly disagreed with the statement: many of these were from Austria, France, Germany, the Middle East and the UK. The balancing 17 per cent neither agreed nor disagreed with the statement (see Figure 4).

There were wide variations in responses to the statement from non-executives in different business sectors. In business and professional services (BPS), life sciences and financial services, a large proportion was in agreement. In the public sector, and to a greater extent in construction and consumer businesses, there was a large proportion expressing disagreement.

There was some variation in responses to a question about how controls are applied to brand reputation (see Figure 5).

“Many companies just disappear because of reputation issues. Brand awareness should be inherent in the organisation and overall communication. Brand reputation is often associated with the corporate logo, but there is much more to it than just logo.”

Respondent from Belgium
The overall responses, however, mask significant variations in practice and outlook. In Austria none of our respondents stated that an awareness of reputation risk was embedded in their company’s culture, whereas substantial numbers in other countries (such as Cyprus, France, Ireland, Germany and Turkey) stated that it was within their organisation’s culture.

Many respondents stated that their board’s response to matters and controls affecting reputation was ‘incident based’, with the board reacting to incidents as they occurred. The percentage figure was 41 per cent overall, but higher in some countries such as Poland, Romania and South Africa. Incident-based responses to reputation risk suggest that the issue is not being given sufficient attention in some boardrooms.

Overall, 21 per cent of respondents stated that their board reviewed the issue of reputation and reputation risk at predetermined intervals. It appears to be a regular agenda item among companies in France and Germany, but not in Austria, Belgium or Ireland.4

Within business sectors, the strongest awareness of reputation risk came from respondents in BPS, consumer businesses and life sciences. In BPS, 71 per cent of respondents indicated that controls over brand reputation risk were integrated into the organisation’s culture (with 56 per cent in consumer businesses expressing the same view). The respondents stating that there were systematic reviews of reputation risk included 43 per cent of those in BPS and 42 per cent of those in life sciences. Reputation risk appears to be given least consideration in the public sector and construction where none of our respondents stated that controls over reputation risk were embedded in their organisation’s culture or that there were systematic reviews of reputation risk.5

Most of our respondents agreed that a focus on managing reputation risk needs to be in the boardroom where directors should set an example of behaviour for everyone else in the organisation. The tone for corporate culture is set at the top. However, only 16 per cent of our respondents expressed a need for boards to understand the implications of potential ethical breaches by their company and the value of any actions and controls to limit the risk.
Directors are well aware of the strategic importance of innovation. Innovation does not mean only research and development; the reach and impact of innovation is what allows an organisation to create value in the long term. Innovation should be monitored internally, to ensure progress on specific projects and goals; but it should also be looked at externally as organisations should never ignore opportunities to respond to any external disruptions.6

A majority of our respondents stated that innovation was high up the board’s agenda with 60 per cent rating it a 4 or 5 (on a scale of 1 to 5, with 5 the highest). A relatively large proportion of high ratings were given by respondents in Germany, Ireland and Italy. These countries generally seem to have a clear government-led drive for innovation together with a well-established start-up and entrepreneurial culture. At the other end of the spectrum, 15 per cent of respondents gave a rating of just 1 or 2 to the importance given to innovation on the boardroom agenda. The proportion of respondents indicating a medium or low priority for innovation on the boardroom agenda was relatively high in Austria, Middle East, Romania, South Africa, Spain and Switzerland (see Figure 6).

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. The lowest ratings came from the construction and energy and resources sectors.7

**Figure 6. How high up the boardroom agenda is innovation?**

“How high up on the board’s agenda is innovation in your organisation? [High 5 – Low 1]”

Source: Deloitte analysis 2016
Many respondents included product innovation in their response. The customer’s perception of what the organisation can deliver appears to take a slight precedence over any operational efficiencies that can be driven through innovation; this suggests a need for immediate value creation and a drive to stay ahead of competition.

Nine per cent of respondents said that their organisation did not have an innovation plan, and a further six per cent indicated that an innovation plan was still in the process of development. Many of these responses came from interviewees in Austria, Romania and the Middle East.

There were also some differences in focus between business sectors, as shown in Table 4.
38 per cent of respondents ‘fully agree’ that the culture of their organisation encourages innovation and idea generation, 38 per cent ‘somewhat agree’ and only seven per cent disagree. Among those who strongly agree with the view are respondents in Belgium, Cyprus, Italy, Norway, South Africa, Switzerland and Turkey. In comparison, a much larger proportion only ‘somewhat agree’ in Austria, France, Germany, Ireland, Romania and the UK. In many of these countries innovation might be expected to have a high priority in boardroom and management thinking. This may be because boards have identified innovation as a priority but embedding an awareness of the importance of innovation into the organisation’s culture is a more difficult and lengthy process.

Most respondents (79 per cent) agree that there is a good balance between innovation, strategy and risk in their organisation.

In response to a question about which part of the organisation’s leadership was charged with monitoring progress with innovation, interviewees often provided responses that showed some overlapping of responsibilities (see Figure 8).

Table 4. The focus in innovation plans: business sector analysis
“What is the focus of your organisation’s innovation plan?”

<table>
<thead>
<tr>
<th>Sector</th>
<th>Focus of innovation plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business and professional services</td>
<td>86%</td>
</tr>
<tr>
<td></td>
<td>71%</td>
</tr>
<tr>
<td>Consumer business</td>
<td>72%</td>
</tr>
<tr>
<td></td>
<td>64%</td>
</tr>
<tr>
<td>Construction</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>40%</td>
</tr>
<tr>
<td>Energy and resources</td>
<td>57%</td>
</tr>
<tr>
<td></td>
<td>49%</td>
</tr>
<tr>
<td>Financial services</td>
<td>64%</td>
</tr>
<tr>
<td></td>
<td>62%</td>
</tr>
<tr>
<td>Life sciences</td>
<td>83%</td>
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<tr>
<td></td>
<td>67%</td>
</tr>
<tr>
<td></td>
<td>67%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>87%</td>
</tr>
<tr>
<td></td>
<td>68%</td>
</tr>
<tr>
<td>Public sector</td>
<td>75%</td>
</tr>
<tr>
<td></td>
<td>75%</td>
</tr>
<tr>
<td>Technology, media and telecommunications</td>
<td>81%</td>
</tr>
<tr>
<td></td>
<td>63%</td>
</tr>
</tbody>
</table>

No innovation plan: 20% public sector, 14% energy and resources and 12% financial services

81 per cent of respondents ‘fully agree’ that the culture of their organisation encourages innovation and idea generation, 38 per cent ‘somewhat agree’ and only seven per cent disagree. Among those who strongly agree with the view are respondents in Belgium, Cyprus, Italy, Norway, South Africa, Switzerland and Turkey. In comparison, a much larger proportion only ‘somewhat agree’ in Austria, France, Germany, Ireland, Romania and the UK. In many of these countries innovation might be expected to have a high priority in boardroom and management thinking. This may be because boards have identified innovation as a priority but embedding an awareness of the importance of innovation into the organisation’s culture is a more difficult and lengthy process.

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In response to a question about which part of the organisation’s leadership was charged with monitoring progress with innovation, interviewees often provided responses that showed some overlapping of responsibilities (see Figure 8).

“Unexpected innovation is one thing, but unintended consequences of innovation are as important as unexpected innovation itself.”

Respondent from France
In some countries such as Germany, France and South Africa, an executive committee is responsible for the monitoring of innovation progress (in Germany, this is typically done by the management board as a whole). It might be supposed that responsibility for monitoring innovation should rest with either executive management or the board, but replies from our interviewees indicate that there is often an overlap of responsibilities, with both management and the board having some of the responsibility (for example in Austria and the UK).

It is perhaps unsurprising that 57 per cent of respondents stated that discussion of any updates on progress with innovation takes place during ordinary board meetings. The board needs to be kept informed, and even if it does not have primary oversight of innovation it should be expected to fulfil a monitoring function.

“I strongly believe that innovation is key for the future success of European companies. It is our biggest challenge. Is Europe already in innovation mode? Europe has to fuel innovation.”

Respondent from Belgium
Cyber security

The risks from cyber attacks to IT systems and the data they contain are well-recognised and extensively reported. The ability of unauthorised hackers to gain access to data files through the internet appears to keep ahead of the rate at which organisations can install effective firewalls and other devices to prevent it. The obvious risk is that commercially-sensitive data and personal information about customers, employees and others may be stolen, with damaging implications, not least for an organisation’s reputation and customer confidence.

The actual levels of attempted and successful attacks are not known but it seems certain that the number of cyber attacks is much larger than the number of reported incidents.

We questioned non-executive directors about board awareness of ‘cyber risk’ and ‘cyber security’, and the measures their company had put in place to deal with the problem.

Board awareness of cyber risks
When asked to rate board awareness of cyber risks on a scale of 1 to 5, only 48 per cent gave a high rating (4 or 5) while 20 per cent gave a low rating (1 or 2). None of our respondents considered their company to be immune to such risks.

Awareness of cyber risks at board level varies and appears to be higher in some countries than in others. It seems relatively high in Ireland, Italy, South Africa and the UK, and relatively low in Austria and Belgium. When the level of awareness is low, it is often a direct consequence of relatively minor penalties being in place, leading to weak regulatory pressure for improvements.

Among our respondents within manufacturing industry, cyber security ranks high on the board agenda for only 38 per cent. In the life sciences sector, although half of respondents indicated a high level of awareness, 33 per cent gave it a low ranking. In view of the fact that most production processes are dependent on IT systems, this relatively low level of interest may seem alarming. Cyber attacks occur not only in financial services; they also target manufacturing plants and research and development centres.

Some variations in awareness may be attributable to the concentration of industry sectors in each country. Respondents indicating the greatest awareness of cyber risk were concentrated largely in technology, media and telecommunications, financial services, and BPS. Awareness of cyber risk is particularly strong in financial services: for example the European Central Bank provides guidance on cyber readiness, and in September 2015 Standard & Poor’s announced that lenders might see a cut in their credit rating if they failed to protect themselves against cyber attacks. Overall, there has been an increase in legislation and regulations in the areas of data privacy and cyber risk, ranging from national cyber security laws to the European Union’s General Data Protection Regulation (GDPR).

In spite of the variation in replies from our interviewees, most indicated that their organisation had a cyber security plan in place or under development, or included cyber risk within a broader risk management plan. Only seven per cent of respondents indicated that they did not have a cyber risk management plan as it was not seen as a priority (see Figure 9.)

“Cyber security has become a ‘necessity’ rather than a ‘fantasy’.”
Respondent from Turkey
"The significance of cyber security has grown. There are more and more cyber attacks. The increased popularity of digital channels and higher level of technological development will surely aggravate the situation further."

Respondent from Poland
Responsibilities for cyber risk and cyber security
Responsibilities for cyber risk and cyber security vary between companies (see Figure 10).

When a board of directors recognises the importance of a particular issue, such as the environment or sustainability, it may give a specific board member responsibility for its oversight and make that director accountable to the board. In view of the potential severity of cyber risk, it might be expected that a reasonably large proportion of companies would appoint a director with specific responsibility for it. When responsibility is shared by the entire board, or when cyber security is included within a board’s plan for risk management, a lack of specific responsibility may well affect the quality, speed and effectiveness of control measures.

Just five per cent of respondents indicated that an individual board member had specific responsibility for cyber security and reporting matters to the board. 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 for the risk to a committee, such as the audit committee or board risk committee. As cyber risk is expected to become a bigger priority for boardrooms in future, this situation may well change.

In many cases, an executive management committee has responsibility for the cyber risk action plan, particularly in Austria, Belgium, Germany, Norway and Switzerland. In other countries, responsibility may be shared between an executive management committee and the board of directors or a board committee.

The small number of respondents who stated that a board member has specific responsibility for cyber security were all in the financial services sector.

“It has been said that an organisation’s cyber security is only as strong as its weakest employee, since cyber hackers look for naïve, uneducated or untrained employees to provide them with an entry point into their employer’s network.”

From the 2016 Directors’ Alert
Concerns about remuneration of directors and senior executives vary between countries. The main problems are with creating a link between pay and performance, and the high levels of senior executive pay. The questions we asked focused on the link between pay and performance.

Business performance can be measured in a number of different ways, both financial and non-financial, and with regard to the long term (sustainability) as well as the short term. Remuneration packages for senior executives may consist of bonuses or share awards based on a number of different performance targets.

A large majority of our respondents (85 per cent) either agreed or strongly agreed with the view that, for senior management and executive directors, compensation was closely linked to the performance and viability of their organisation. Only nine per cent disagreed or strongly disagreed: of these respondents, a relatively large proportion was from Norway and Turkey. However, even in these countries, the majority of respondents included business performance as a factor that is used in deciding remuneration levels.

At an industry sector level, most respondents agree that remuneration is closely linked to performance, the only exception, unsurprisingly, being 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 and driving the delivery of business strategy and shareholder views (see Figure 11.) This shows that a mixture of financial and non-financial indicators is given more weight than character traits, such as the ability of individuals to assert themselves and demonstrate leadership qualities.

Figure 11. Remuneration and links to aspects of performance
“How is remuneration determined for management and executive board members?”

Source: Deloitte analysis 2016
However, business performance may be measured in a variety of different ways, both in the short term and the long term. It is therefore not at all surprising that most respondents identified this as a key factor used to decide remuneration levels. Arguably it is surprising that the percentage is not higher.

Among the various remuneration criteria identified by our respondents, there are some notable features. A large proportion of respondents in South Africa identified leadership as a criterion; most respondents in the Middle East identified ‘driving the delivery of business strategy’, and almost half in Cyprus included innovation among their top criteria.

Public perception of senior executive remuneration does not feature strongly among the criteria that drive remuneration policy, in spite of well-publicised concerns in the media in some countries (such as the UK).

In summary, it would appear that although there are differing views about remuneration of executive directors and other senior executives, there is broad agreement that remuneration should be linked in some way to performance. However, we did not ask about the measurements of levels of performance, or about the size of remuneration packages. Even amongst non-executive directors (many of whom are executive directors in other companies) there are likely to be strong and divergent opinions.

One tier vs. two tier systems
Our survey shows no difference between one-tier and two-tier boards in the answers provided by respondents on remuneration issues.
Board succession and talent

Strong and effective leadership is a major concern for the boardroom. Technology, globalisation, and demographics continue to change the nature of organisations, and tomorrow’s corporate leaders will almost inevitably need a different mix of skills and attributes from those required today. Succession planning for CEOs and other senior executives should be an ongoing responsibility of the board. Similar considerations apply to non-executive directors. The skills and experience required should contribute to the overall balance of talent at board level, to ensure that the board has the ability to function effectively. It should be noted, however, that in family-owned businesses, board succession planning may be driven by factors other than diversity and talent.

We asked our interviewees for their views about succession planning at board level within their organisation (and at supervisory board level in the case of organisations with two-tier board structures). A large majority (81 per cent) either ‘agree’ or ‘strongly agree’ that their organisation’s board composition is ‘adequately reviewed’ to ensure that its members have the appropriate skills. Strong agreement is indicated by a majority of respondents in Cyprus, Finland, Italy, South Africa and the UK. More respondents are in ‘agreement’ rather than ‘strong agreement’ in Ireland, Norway, Poland and Switzerland.

Only seven per cent of respondents disagree that board composition is adequately reviewed in their company. Many of those expressing disagreement are in the public sector and energy and resources sector.

However, 11 per cent of respondents stated that their organisation did not have a board succession plan. These respondents are spread across a number of countries but work primarily in the financial services and energy and resources sectors.

Skills and diversity

Various responses were given to a question about the factors that are taken into consideration when deciding the future skills requirements for the board. Knowledge of the industry and factors relating to the future development goals of the organisation were prominent factors among the replies we received (see Figure 12).

Figure 12. Factors taken into consideration when determining the future skill requirements of the board

“What is taken into consideration when determining the future skill requirements of the board?”

Source: Deloitte analysis 2016

One tier vs two tier systems

Growth goals and international development aspirations were given less importance for the determination of future skill requirements by respondents in companies with a two-tier board structure. This may be due to factors other than the board structure.
While skill requirements are at the discretion of the board, other criteria for boardroom diversity may be imposed by legal requirements or corporate governance code guidelines (particularly in relation to gender). A company may specify requirements for board members using a formal expertise and capability matrix, and assess potential new board members according to their positioning within the matrix. When asked about the criteria used to select board members, many respondents identified professional qualifications, gender and internationalisation of the organisation and its board membership (see Figure 13).

Most respondents indicating that age is a factor affecting board diversity are non-executives in organisations based in Germany, Switzerland and South Africa. In certain cases this can be directly linked to local corporate governance code requirements. In Germany, for example, boards need to disclose their age policies (although no guidelines are given on what these should be).

Gender is a more significant factor in board appointments in those countries where there are legal requirements for gender diversity, or where (as in the UK for larger listed companies) strong measures have been taken to promote gender diversity in public companies.

A large majority of respondents indicated that gender diversity is a factor in board appointments in Germany, Italy, the Netherlands, Norway and the UK. The numbers were lower than might be expected, however, in Belgium and France.

Among these countries, Germany, Italy and Norway have legal requirements for gender quotas and the Netherlands has a ‘comply or explain’ guideline in its corporate governance code. There are also legal requirements for minimum gender quotas in Belgium and France but with a target date for implementation of 2017 for listed companies (and 2019 for non-listed companies) in Belgium. In France the deadline for a minimum 40 per cent of women on boards was 2016 for large listed companies and is January 2017 for other companies. In Ireland and South Africa, though there are no quota requirements in place, gender is also (in general) an important criterion for board appointments. Over time, gender is therefore likely to become a more significant factor when assessing candidates for board appointments in all these countries.

In other countries the position is different. Of the ten per cent of respondents who said that their organisation did not follow any policy for diversity, many were from Romania, Poland and the Middle East. Romania and Poland have ‘comply or explain’ provisions with regard to gender quotas. There are no guidelines or recommendations to ensure gender diversity in boards in Cyprus or the Middle East.

**Figure 13. Diversity criteria for board composition**

*Board composition is based on the following diversity criteria:*

- Age
- Gender
- Internationalization
- Professional qualification
- None of the above
- All of the above
- No diversity policies are followed

Source: Deloitte analysis 2016
Interviewees were also asked whether their board had implemented policies for age limits, gender diversification, skill diversification or term limits. Some respondents indicated that all these policies were applied (including a majority in France) but 27 per cent stated that none of them were applied by their board. These negative replies included a substantial proportion of those from Austria, Finland, Poland and Romania.

Stakeholder engagement in succession planning
A majority of our respondents stated that their organisation engages with its stakeholders and seeks their views on succession planning at an early stage in the process: 55 per cent indicated that this is current practice and a further 18 per cent stated that their organisation was beginning to do this. Only ten per cent indicated that their organisation did not engage with stakeholders at an early stage (see Figure 14). The most significant stakeholder group is likely to be large shareholders although this may vary based on the respondent.

Figure 14. Stakeholder engagement in succession planning
“Are key stakeholders engaged early in succession planning?”

Source: Deloitte analysis 2016

Among the respondents indicating that their company had no succession plan or did not engage with stakeholders at an early stage to discuss succession, relatively large numbers were from Austria, Belgium, France, Poland, Romania and the UK.

The future
As organisations evolve, we might also expect the nature of the skills required at boardroom level to change. However, when asked how they expect boardroom skills to change over the short term, a relatively large percentage of respondents (27 per cent) indicated that they expect no change. When changes were indicated, they were linked to the need to rebalance the board membership to improve its mix of skills and experience, international knowledge and gender. Some respondents also mentioned specifically a need for more IT and cyber security awareness at board level.
A requirement for regular and formal evaluation of board performance is included in the corporate governance codes of several countries. For example, the corporate governance codes of France, the Netherlands and the UK specify annual performance reviews, with an external assessment at least once every three years. In principle, performance evaluation should enable a board to recognise its own weaknesses and plan changes in its training, activities or membership to address them.

73 per cent of our respondents stated that their organisation conducted board performance evaluations, and only 21 per cent stated that they did not, although of these four per cent were currently evaluating the need. The countries where board evaluation appears to be less common include Austria, the Middle East, Poland and Turkey. By comparison over 90 per cent of respondents stated that their organisation did have board evaluations, including those in South Africa, Finland, France, Ireland, Italy and Norway.9

Among the respondents whose companies conduct board performance evaluation exercises, a large majority (81 per cent) either agreed or strongly agreed with a statement that the results of board performance evaluations influenced future changes. Responses between 90 and 100 per cent in agreement were given by interviewees in Austria, Cyprus, France, Ireland, Italy, the Middle East, Poland and South Africa.

Despite respondents indicating that evaluations were generally used and influenced the changes effected, 74% stated that little or no information about board performance evaluations were disclosed outside the company. To the extent that external disclosures are made, these may well be driven by the requirements of national corporate governance codes.

“Since it is difficult to question oneself, the evaluation process keeps being postponed.”

Respondents from Switzerland
Evaluations are mainly carried out internally or by a mixture of internal and external evaluators. Over two thirds of the respondents in Finland, Cyprus, Poland and the Middle East said their organisation relied on internal evaluations; those using a combination were generally based in France, Norway and the UK. A few stated that they conducted evaluations only through external providers; the majority of these were in Italy, Romania and Germany.

Figure 15. Execution of board performance evaluation
“How is the evaluation conducted?”

Source: Deloitte analysis 2016

“The significance of evaluations is not fully understood.”
Respondent from Poland
Criteria for board performance evaluation
Evaluations are based mainly on performance relating to strategy, leadership and financial criteria, although there were some variations between countries (see Figure 16).

Figure 16. Criteria for evaluation of board performance
"On which basis is the performance of the overall board evaluated?"

![Criteria for evaluation of board performance](image)

Other criteria includes overall functioning of board, composition of board, directors’ participation on the board and cooperation across management.

Source: Deloitte analysis 2016

We asked our respondents what they consider to be the top three requirements for an effective board. We did not define ‘effective’ but left the interpretation to the respondents. It is no surprise that experience, diversity and knowledge came at the top of the rankings; but it is interesting that transparency (also linked to effective communication), commitment to the organisation and leadership also feature prominently (see Figure 17).

Top three requirements for an effective board:
1. Access to comprehensive information about the company, for the board to assess the company’s situation properly.
2. Open and ongoing communication between the board and key persons within the company.
3. Ability of the board or board members to take decisions quickly.

In addition, the composition of the board is a crucial factor. If the company has undergone a significant transformation, the board may need to include individuals with special competencies, knowledge and sector experience that could positively affect the course of the transformation process.”

Respondents from Poland
It is perhaps also noteworthy that vision, trust, risk management and the need to be well-informed come quite a long way down the list. There is also a relatively low rating for the need to challenge management and question the views of others. Perhaps this should raise questions about what exactly is required from an effective board, and even whether the composition of many boards is as well-balanced as it might be.

Figure 17. Top three requirements for an effective board

What are the top three criteria for an effective board?

Other criteria for an effective board include cooperation with management, risk management, compliance and governance, among others.

Source: Deloitte analysis 2016

What the answers from respondents tell us is that an effective board can be built only after very careful consideration, taking into account the acquired knowledge of individuals, their character and their ability to maximise their strengths in combination with those of other board members, creating something which is greater than the sum of its parts.

Top three requirements for an effective board:
“1. Teamwork within the Board.
2. Bring true added value to the company.
3. Take on the point of view of the company instead of expressing individual views.”

Respondent from France
Endnotes


2 Four out of 25 respondents from Austria, three out of 22 from Germany, three out of 23 from the UK, two out of 15 from France, and five out of seven from the Middle East.

3 In agreement or strong agreement: 86% business and professional services, 84% life science, 79% financial services industry. In disagreement: 50% public sector, 20% construction, 16% consumer business.

4 For example, only one respondent out of 25 in Austria, one out of 12 in Belgium and two out of 26 in Ireland were members of boards that undertook periodic reviews of reputation, compared to ten out of 22 in Germany and six out of 15 in France.

5 Overview:
   - Focused on all levels of organisation: in agreement 25% public sector, 60% construction 59% financial services
   - Incident based: 57% BPS, 54% energy and resources; 25% life science
   - Integrated into the organisation’s culture: 71% BPS, 56% consumer business, 0% public sector, 0% construction
   - Systematic (done at a pre-determined interval): 43% BPS, 42% life science, 0% construction, 0% public sector


7 Overview:
   - 5 [high]: 67% life sciences, 52% TMT
   - 4: 57% BPS, 52% consumer business
   - 2: 20% construction, 17% financial services
   - 1 [low]: 11% energy and resources, 10% construction

8 In Austria 20 out of 25 respondents stated that an executive committee and 14 out of the 25 stated that the board had responsibility for monitoring innovation. In the UK 15 out of 23 respondents stated that an executive committee and 12 stated that the board had responsibility.

9 The countries where board evaluation appears to be less common include Austria (11 out of 25 respondents), the Middle East (five out of seven), Poland (five out of 14) and Turkey (eight out of 15). In comparison over 90 per cent of respondents stated that their organisation did have board evaluations in South Africa (ten out of ten respondents), Finland (21 out of 22), France (14 out of 15), Ireland (24 out of 26), Italy (14 out of 15) and Norway (12 out of 13).
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