



**GLOBAL NETWORK OF
DIRECTOR INSTITUTES**

THE FUTURE OF BOARD GOVERNANCE

**GLOBAL NETWORK OF
DIRECTOR INSTITUTES
2022-2023 SURVEY REPORT**

24 director institutes 150,000 directors across the globe



GNDI MEMBER INSTITUTES

The Global Network of Director Institutes (GNDI) is a network of leading director institutes. Established in 2012 to foster closer cooperation between its members, the global program of reciprocity helps directors, and their boards, to unlock access to director resources from around the world. GNDI comprises 24 institutes representing more than 150,000 directors and other governance professionals.

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LETTER FROM THE CHAIR



RAHUL BHARDWAJ

Chair, Global Network of Director Institutes

I am honoured to present to you the Global Network of Director Institutes' third global director survey report, *The Future of Board Governance*.

Every two years our member institutes collaborate to provide a snapshot of global governance themes and issues. This year, the Global Network of Director Institutes (GNDI) member organisations looked internally at how they needed to focus, improve, and shift to prepare for future challenges.

The GNDI brings together the leading associations serving corporate directors to provide a global voice and sharpen leading practices for boardroom leaders on relevant governance matters that cut across national boundaries. GNDI members bring a range of perspectives spanning North and South America, Africa-Middle East, Asia-Pacific, Europe and the United Kingdom.

The challenges we face as directors – from the pandemic to climate change to artificial intelligence and digital transformation – are immense. It is critical that global leaders around board tables collaborate to advance our understanding of how better boardroom performance can drive better organisational performance and create better outcomes for our stakeholders.

One of the key themes identified in the 2022-2023 survey report is that directors see a need for long-term, robust strategy in an environment dominated by short-term pressures, with 66% of directors viewing this as their most critical priority to support organisational success.

Diversity and inclusion also emerged as one of the key global themes, with directors seeing diversity as a means to enhance board practices within the next three to five years. 83% of directors also highlighted that technological advancements will require changes to board structures for 2030 and beyond, with the results indicating an urgent need to close the gap in cyber skills.

This report provides interesting thought-provoking reading as directors continue to grapple with a fast and ever-changing operating environment. The results offer food for thought for boards as they plan for the future.

My thanks to all of the participating organisations and their members for sharing their experience and insights. I would also like to acknowledge the work of the Malaysian Alliance of Corporate Directors for designing and coordinating the survey, the Institute of Directors in New Zealand for their work analysing and presenting the findings, and the GNDI Policy Committee under the stewardship of Chair Friso van der Oord for their guidance.

KEY THEMES

DIVERSITY & INCLUSION

42%



DIRECTORS RECOGNISE THE NEED FOR GREATER BOARD DIVERSITY AND INCLUSION

A lack of board diversity and inclusion is the current board practice that 42% of directors consider will be least acceptable in 3 to 5 years. Although only 25% consider improving diversity and inclusion is a top priority in the short-term, 37% consider it will be a key change necessary over the next 3 to 5 years, and 78% regard more diverse boards as a key change 2030 and beyond.

LONG-TERM STRATEGIC FOCUS

66%



LONG-TERM STRATEGY IS CRITICAL FOR BOARDS IN AN ENVIRONMENT DOMINATED BY SHORT-TERM PRESSURES

66% of directors consider having a focus on long-term strategy is their most critical priority to support organisational success. Similarly, 60% stated the key area of improvement in board governance over the next 3 to 5 years is increasing effective strategic dialogue in the boardroom and between board and management.

BOARD EVALUATIONS

50%



BOARD EVALUATIONS ARE CRITICAL FOR IMPROVING BOARD PERFORMANCE

Over 50% of directors say enhancing board evaluation processes is their top priority for improving board performance. Additionally, 30% consider upgrading board evaluation processes is a significant area for improvement over the next 3 to 5 years, and 31% stated a lack of formal and rigorous board performance evaluations will be less acceptable in 3 to 5 years.

RIGOROUS DECISION-MAKING

50%



THE RIGOUR OF BOARD DECISION-MAKING IS A KEY FOCUS FOR DIRECTORS

Nearly 50% of directors consider the rigour of board decision-making is their top improvement priority in terms of procedures for the effective functioning of their boards. Furthermore, 47% of directors stated that enhancing board analysis and decision-making processes including the use of data analytics is their key focus for improving board governance over the next 3 to 5 years.

CLIMATE CHANGE

27%



CLIMATE CHANGE IS NOT A TOP PRIORITY FOR BOARDS DESPITE GROWING BUSINESS RISK AND REGULATORY FOCUS

A lack of board deliberation and focus on social or environmental issues will be less acceptable in 3 to 5 years according to only 27% of directors. Furthermore, despite legislative changes, increased reporting requirements and worsening natural disasters, climate change is considered a critical priority by only 5% of directors.

DIGITAL GOVERNANCE

83%



TECHNOLOGICAL TRANSFORMATION REGARDED AS AN ISSUE FOR BOARDS OF THE FUTURE – NOT NOW

83% of directors consider that expanding board committees to include technology and sustainability will be a key change for 2030 and beyond. For now, however, digital transformation ranked fifth (only 21%) of priorities critical for organisational success despite cyber-risk and digital innovation being identified by 55% and 54% of directors respectively as the two key areas that their boards have insufficient expertise/skills to govern over the next 3 to 5 years.

ABOUT THIS REPORT

The biennial GNDI Global Director Survey was conducted during the last half of 2022, with a total of 1,071 respondents completing the survey.

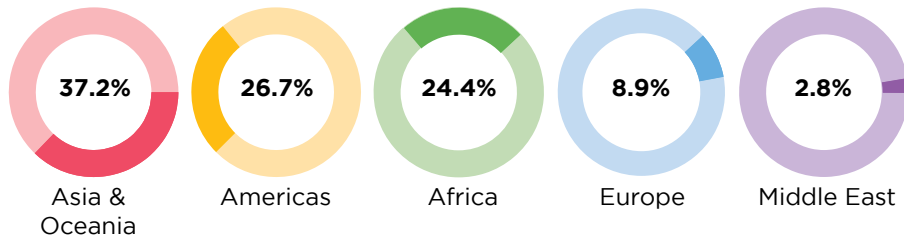
The participants came from director institutes spanning North and South America, Asia Pacific, Europe, Africa and the Middle East.

The survey provides insights into views on business confidence, social, economic and environmental issues and risks, technology and data governance, core governance practices, and how boards can improve effectiveness and director capability.

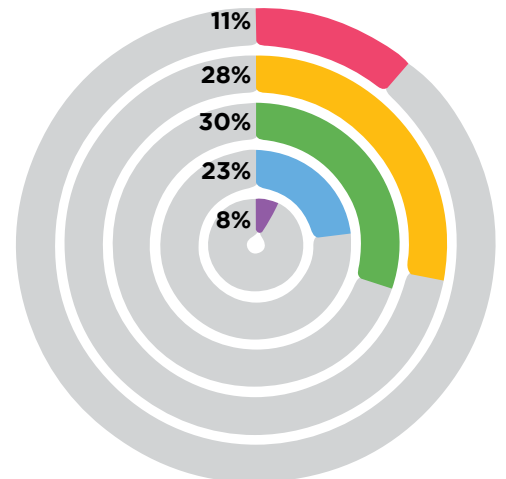
It looks at three key timeframes for director priorities and areas of improvement: immediate (next 2 years), the next 3 to 5 years (2025 and beyond), and boards of the future (2030 and beyond).

SURVEY PARTICIPANTS

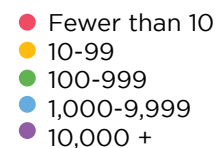
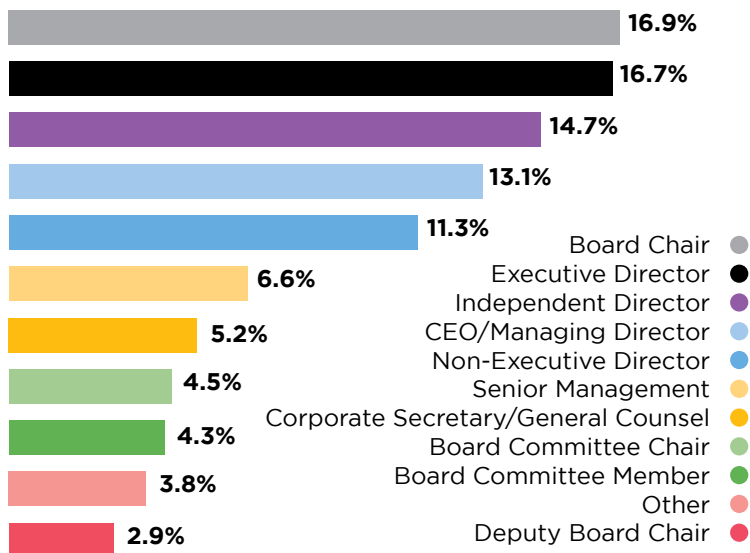
REGION



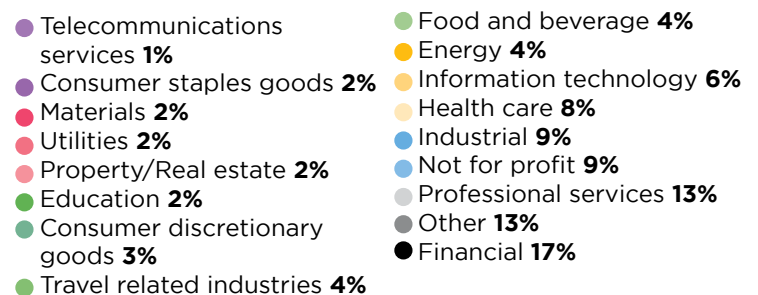
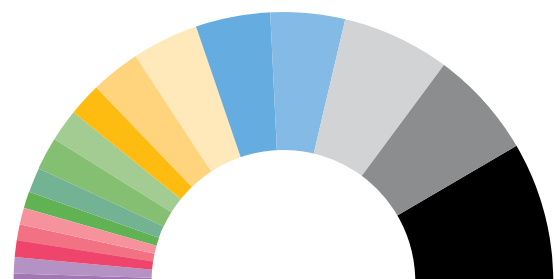
NO. OF EMPLOYEES



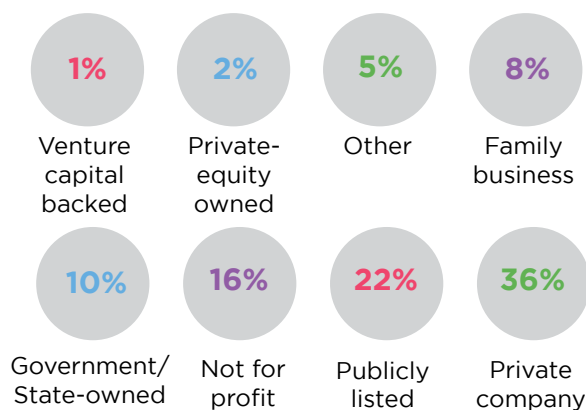
DESIGNATION

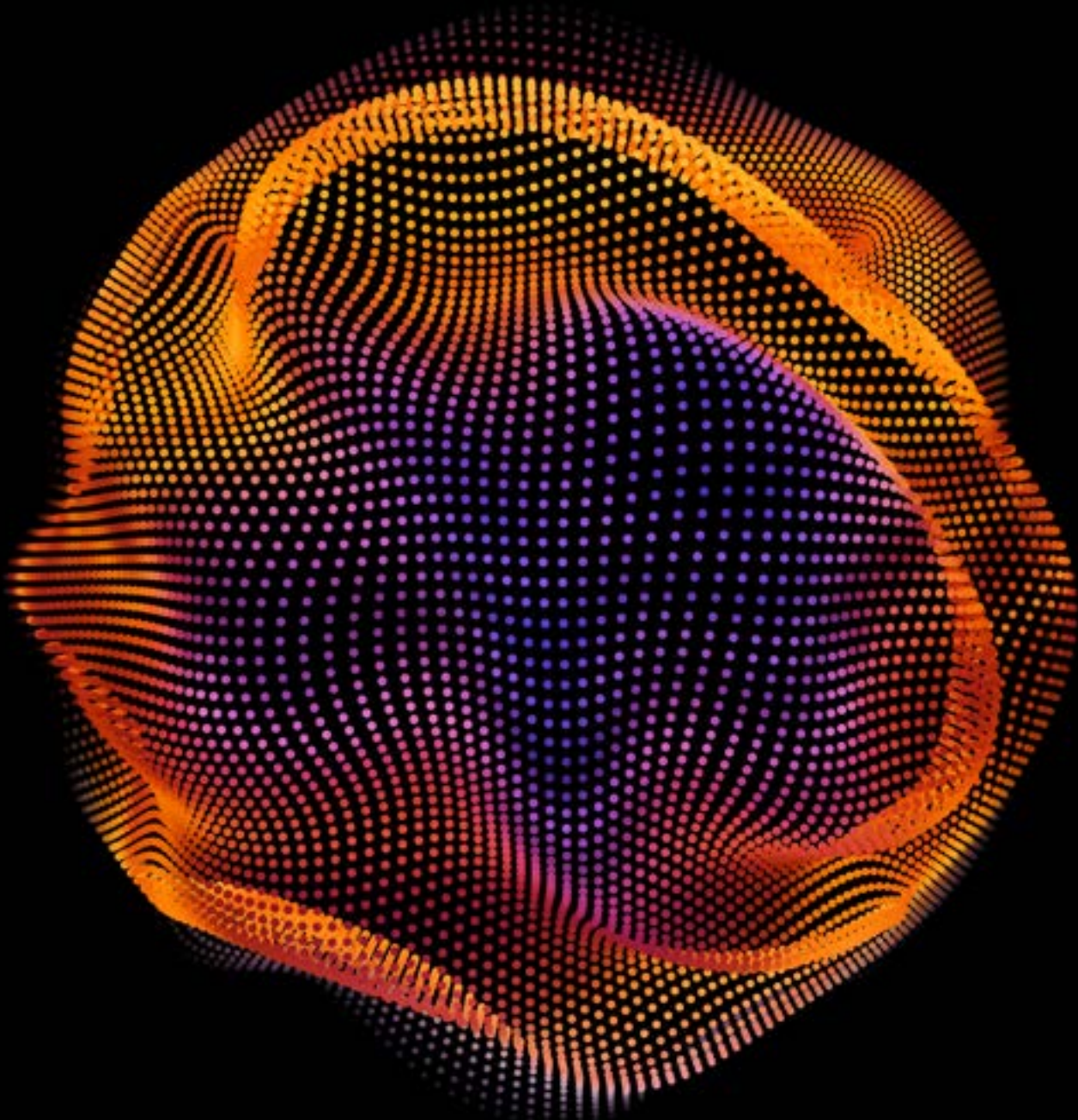


INDUSTRY



ORGANISATION TYPE





SECTION 1

IMMEDIATE PRIORITIES

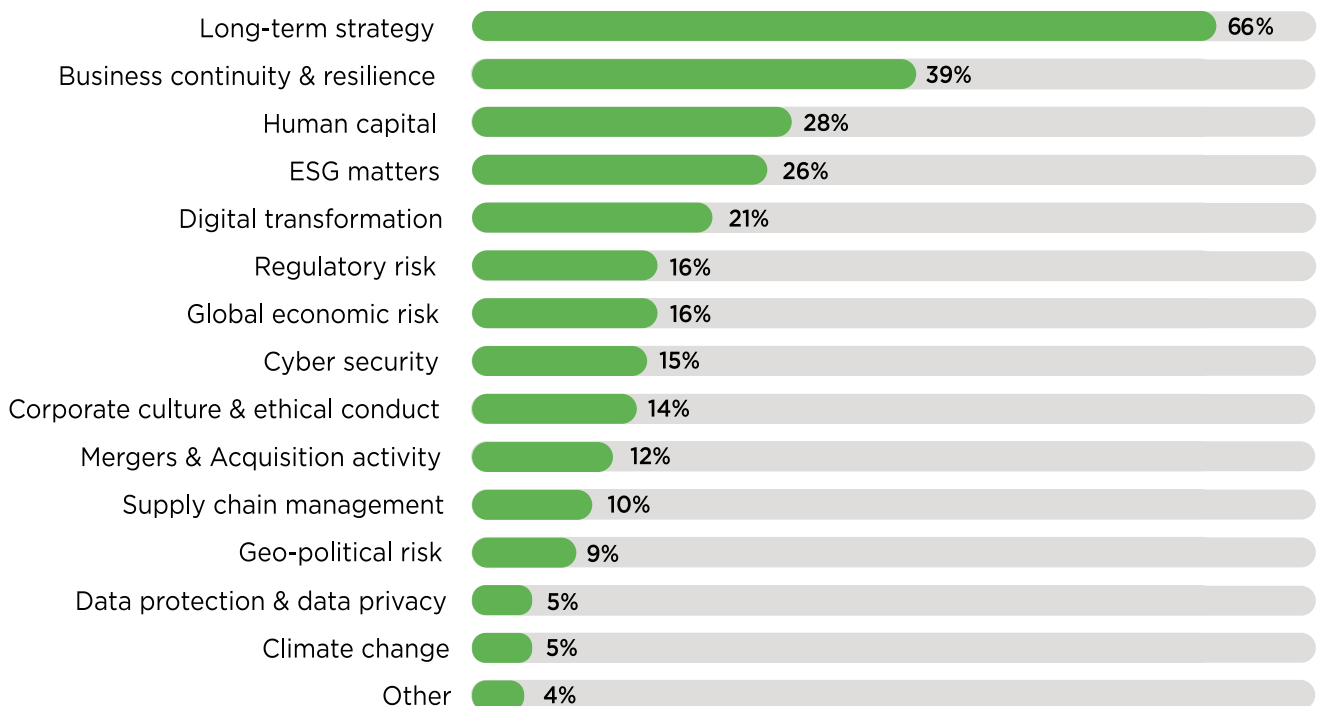
(next 2 years)

BUSINESS PRIORITIES

Long-term strategy is critical for boards in an environment dominated by short-term pressures. With technological disruptions and evolutions, working from home and hybrid working arrangements, supply chain constraints and transparency, and changing customer and investor expectations to name but a few, boards need to ensure their organisations are focusing on long-term growth, not just the short-term.

Two-thirds of directors considered their most important priority for organisational success was long-term strategy, followed by business continuity and resilience (39%), with human capital considered a top priority by just 28% of respondents (Exhibit 1 below).

EXHIBIT 1: TOP PRIORITIES CRITICAL FOR ORGANISATIONAL SUCCESS (QUESTION 10)



LONG-TERM FOCUS FOR LONG-TERM SUCCESS

Many boards are now needing to return to their critical mandate, having been more deeply engaged in operational/short-term matters over the past few years. However, getting long-term strategy right in today's environment is more challenging than ever with volatile global economic and political conditions, climate change impacts, shifting customer preferences and exponential technological change.

The board plays a critical role in setting and overseeing the strategic direction of an organisation. Directors add value to their organisations by guiding the development and monitoring the execution of a long-term strategic plan. This includes scanning and assessing the organisation's external environment, strategic planning, making course corrections, and oversight of strategy implementation.

In the **2020/21 GNDI survey**, 56% of directors stated they had to recalibrate their existing strategies because of Covid-19, reinforcing the prioritisation of long-term strategy. Boards are increasingly seeing the need to undertake a first principles review, with directors evaluating purpose, values and impacts in order to reflect changing operating environment and shareholder expectations.

Following the Kay Review of UK equity markets published in 2012, UK companies are increasingly eschewing quarterly reports as they are considered to put too much emphasis on short-term incentives and profits at the expense of long-term strategy, growth and sustainability. In the US, the Securities and Exchange Commission requires listed companies to report quarterly, although there is increasing push-back against a process seen as anathema to long-termism.

IN THE 2020/21 GNDI SURVEY, 56% OF DIRECTORS STATED THEY HAD TO RECALIBRATE THEIR EXISTING STRATEGIES BECAUSE OF COVID-19, REINFORCING THE PRIORITISATION OF LONG-TERM STRATEGY

AGILE GOVERNANCE

After nearly three years of business interruptions, it is no surprise that business continuity and resilience ranks as number two. In the pursuit of long-term growth, it will be important for boards to ensure their organisations are resilient or readily adaptable to, major changes in the economic environment. The pace of change and the inherent uncertainty means boards will need to be increasingly agile and adaptable. Boards are becoming more agile by seeking a variety of external expertise, and being in continuous learning mode which aligns with key areas of board improvement - specifically quality of management reporting (Exhibit 2) and director education on specific skills (Exhibit 3).

HUMAN CAPITAL CHALLENGES

The top two priorities - long-term strategy and business continuity and resilience - reflect the dynamic and volatile times and the need to refocus on evergreen issues. However, human capital is perhaps the key topical issue for boards, ranking third on 28%. In 2022 surveys by the Institute of Directors in New Zealand and the Australian Institute of Company Directors, labour shortages ranked number one for key challenges facing their businesses (67% and 60% respectively). Similarly, in the Institute of Directors in Ireland quarterly Sentiment Monitor reports, labour sourcing/quality/capability/retention continues to rank in the top three for performance risk factors. And in the US, the National Federation of Independent Business survey has found up to 50% of businesses reporting job vacancies each month, and nearly as many again reporting challenges with rising wage expectations.

IMPROVEMENT PRIORITIES

Directors are responding to growing external uncertainty and change by considering what they can do to enhance their own and their boards' performance, as well as management reporting and accountabilities. The survey reveals a strong focus on evaluating governance performance and ensuring directors have the skills and diversity needed along with a mechanism for continued education on specific skills.

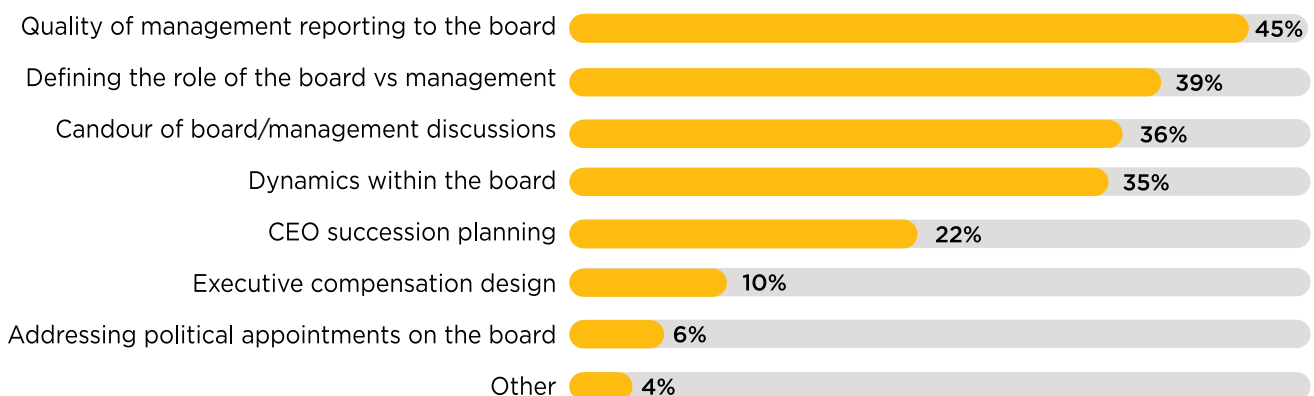
Despite Covid-19 ostensibly being in the rear-view mirror, much of the intensity of board governance experienced over the past three years has remained. The acute focus on pivoting and business continuity has broadened to encompass an unprecedented mix of challenges, from rampant inflation to geopolitical instability, climate change risk, modern slavery, increasing regulatory pressures, escalating cyber-security ... the list goes on.

To help navigate this increasingly complex and dynamic business environment, directors are identifying how they need to anticipate, prepare, respond and adapt.

BOARD/MANAGEMENT ROLES AND REPORTING

The top priorities for improving board/management dynamics are quality of management reporting to the board (45%), defining the role of the board versus management (39%), candour of board/management discussions (36%) and dynamics within the board (35%) (Exhibit 2 below).

EXHIBIT 2: TOP PRIORITIES FOR IMPROVING BOARD/MANAGEMENT DYNAMICS (QUESTION 8)



UNDERSTANDING AND DIFFERENTIATING THE ROLES OF BOARD VERSUS MANAGEMENT IS A CRITICAL UNDERPINNING FOR MOST ORGANISATIONS.

Good quality reporting from management (and other sources) to effectively oversee the organisation and inform the board is critical. High quality decision-making starts with good quality information. That does not imply “perfect” reports – no business has no issues. Board reports need to present a true and complete picture – the opportunities, issues and challenges – so they can be discussed thoroughly. Failure to do so can expose an organisation to risk and undermine performance. Transparent, “no surprises” management reporting is also critical in building trust between the board and management. Boards may also consider peer reviews, independent advisors or other outside sources to supplement or support management information, as well as relying on their own experiences to make decisions.

Understanding and differentiating the roles of board versus management is a critical underpinning for most organisations. The relationship with management is one of the most important within an organisation, particularly the relationship between the chair and CEO. A well-functioning board and a productive, complementary relationship between the board and management is critical for good governance and organisational effectiveness.

BOARD CULTURE AND DYNAMICS

The Institute of Directors South Africa states “the concept of an effectively functioning governing body is one that brings to mind optimal decision-making in an atmosphere of mutual respect, trust, candour and open debate”. Candour relies on a healthy and inclusive culture and psychologically safe environment – one where board members feel they can bring who they really are to the table. However, candour between board members is only one side of the coin; candour between board and management is also critical.

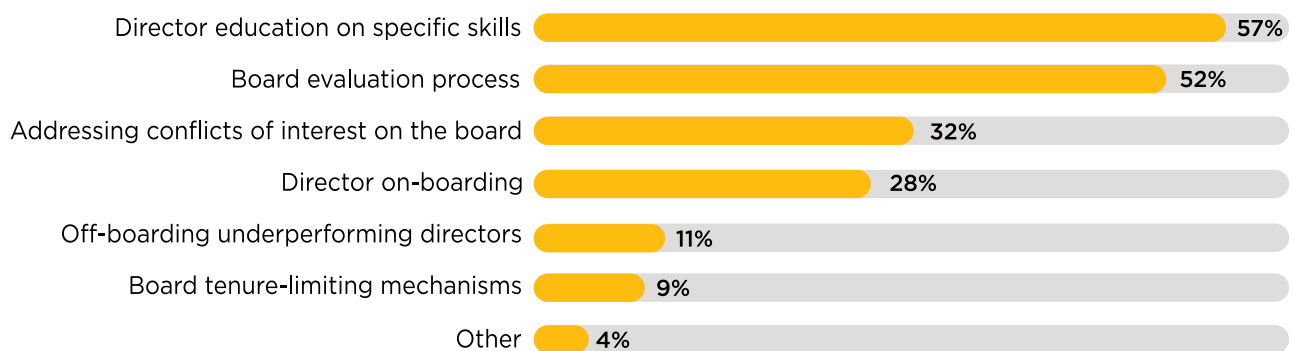
The chair plays a critical role in board culture and dynamics. Diversity of thought and perspective is healthy, but the board culture needs to be conducive to those views being expressed and heard; ensuring you have the right mix of personalities and expertise, facilitated by a culture of mutual respect, trust, and importantly, constructive dissent.

With the changing dynamics in the business world, the boardroom needs to change also. The gradual transition of generations may contribute to this challenge, as boards welcome younger and more diverse directors who bring different views, communication and operating styles, and may not have patience for established, and possibly no longer relevant norms, in the discourse of the board.

ENHANCING PERFORMANCE AND SKILLS

The top two priorities for improving board performance are director education on specific skills (57%) and board evaluation process (52%) (Exhibit 3 below).

EXHIBIT 3: TOP PRIORITIES FOR IMPROVING BOARD PERFORMANCE (QUESTION 9)



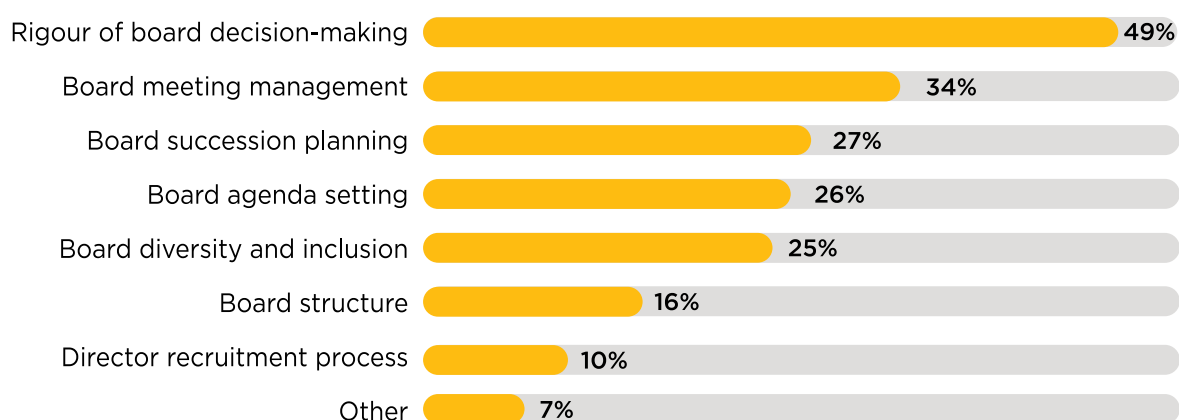
There is an increased focus by investors, insurers and regulators on specific skills in the boardroom including climate change, nature (land, air, water) and technology/cyber-security as well as the expected changes in response to changing customer and community expectations.

Alongside a skills matrix is the need for regular board evaluations. Effective evaluations provide a pathway for boards, committees and individual directors to objectively assess their individual and collective strengths and weaknesses, and implement plans for continuous improvement.

BETTER BOARD-LEVEL DECISION-MAKING

The top priorities for improving board operations are rigour of decision-making (49%) and meeting management (34%), closely followed by succession planning (27%), agenda setting (26%), and diversity and inclusion (25%) (Exhibit 4 below).

EXHIBIT 4: TOP PRIORITIES FOR IMPROVING BOARD OPERATIONS (QUESTION 7)



The Covid-19 pandemic illuminated a number of weak spots for boards. Highlighted in the GNDI 2020-21 survey, they drew attention to the need for enhanced rigour of decision-making. As organisations and society face increasing uncertainty and complexity, the breadth of issues directors are having to consider is expanding to new territory, such as increased health and safety requirements, wellbeing, climate change, diversity and inclusion, and technology. Confronting numerous and often deeply connected challenges, boards now need to make or inform high-stakes decisions, often on issues with which they have had little prior experience. To prepare for these challenges, directors need evidence-based information that will help them understand the issues and make good decisions.

In the 2020-21 GNDI survey, 69% of directors considered they would be increasingly incorporating the expertise of outside advisors into scenario planning and strategy and risk decision-making processes, which also supports the focus on rigour of decision-making.

With more challenging topics to traverse in a limited amount of time, board meeting management is increasingly important and is strongly aligned with both rigour of decision-making and agenda setting.

PLANNING FOR DIVERSITY

Board culture has a significant influence on the efficiency and effectiveness of meetings. Chairs can encourage new thinking, help foster innovation and accelerate key strategic initiatives. New directors can bring different communication styles, insights, skills, backgrounds and approaches. The chair needs to lead an inclusive culture to support diversity of thought and the entire board has a responsibility for creating this culture. Succession planning reflects the call for greater diversity.

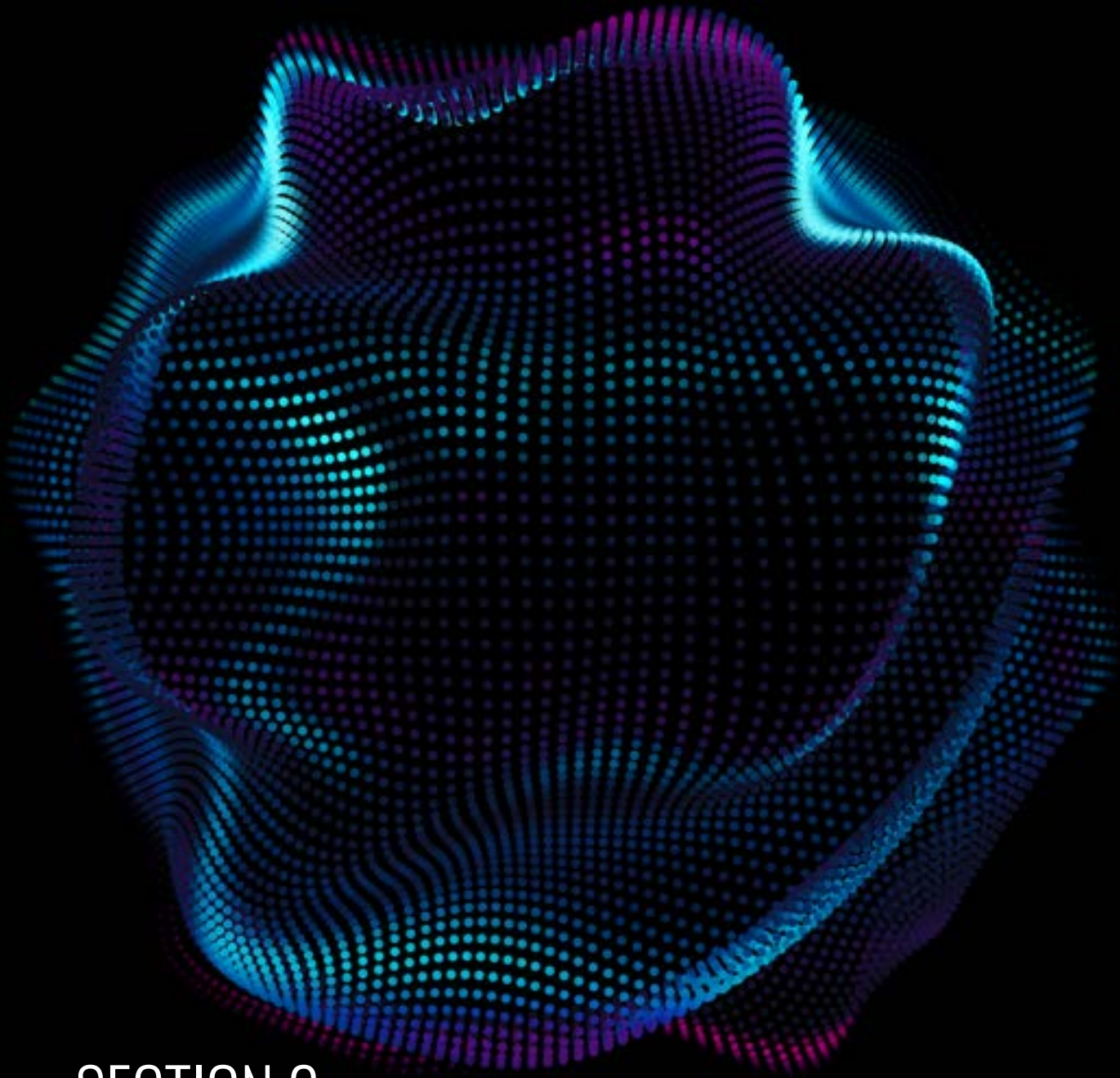
CLIMATE CHANGE – NOT A PRIORITY?

Climate change was considered a critical priority for organisational success by only 5% of directors. Furthermore, only 27% of directors considered a lack of deliberation and focus on social or environmental issues was a current governance practice that would be less acceptable in 3 to 5 years. With natural disasters being a recurring and exacerbating feature of business operations and in light of increasing regulatory requirements for climate-related financial disclosures aligned with the Task Force on Climate-related Financial Disclosures, the Paris Agreement calling for net zero emissions by 2050, and shifting investor and community expectations, this survey result is a concern.

The 2021 Climate Governance Survey undertaken by the Climate Governance Initiative Australia found most directors were concerned about climate change (77%), but noted that while it is on the agenda, risk and governance maturity is low with limited reporting to boards, limited use of climate risk metrics, and low levels of evidence of board training and skills assessment. It was further noted that focus on and confidence in climate risk governance varied considerably between sectors.

Similarly, in New Zealand, the Institute of Directors 2022 Director Sentiment Survey found more than half of directors see climate change (along with water and resource management) as a critical future trend, however, only 9% considered it one of the biggest risks facing their organisation.

The 2022 Deloitte CxO Sustainability Report noted a similar disconnect between ambition and impact, with organisations struggling to implement actions that will lead to meaningful transformation. “A quarter of CxOs said pressure from investors and shareholders to focus on near-term business issues was a major obstacle. At the same time, 71% said there was pressure (to a moderate or large extent) from that same group to act on climate change.”



SECTION 2

NEXT 3 TO 5 YEARS

(2025 and beyond)

EXPERTISE GAPS

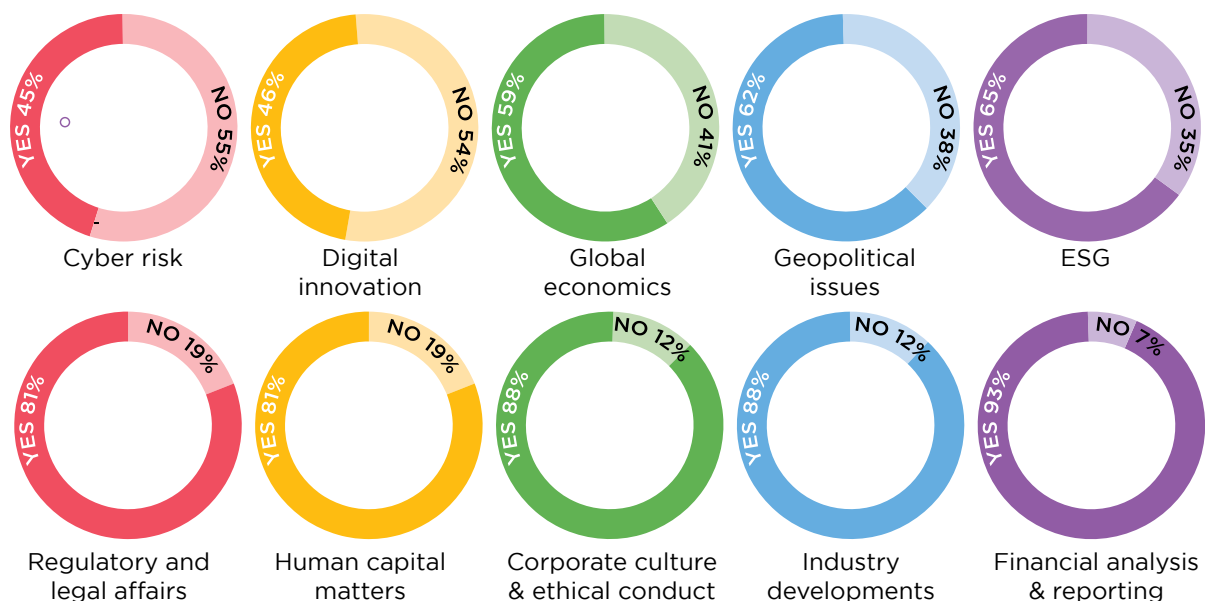
Board composition is influenced by a number of factors but has also changed over time as the need for diverse perspectives and differing skills are recognised as critical to ensure optimal performance. Technological advancements, climate and nature reporting and global economics, as well as the need for increased diversity, calls for new and different skills than may have traditionally been around the board table.

DIGITAL GOVERNANCE GAPS

The most critical skills gaps considered important drivers to govern risks and opportunities over the next 3 to 5 years are: cyber-risk, digital information, global economics, geopolitical issues and Environment, Social and Governance (ESG).

Cyber-risk and digital innovation are the two skills where a majority of directors considered their boards lacked sufficient expertise, with 55% and 54% respectively citing insufficient expertise or skills in these areas to govern over the next 3 to 5 years.”

EXHIBIT 5: DOES YOUR BOARD HAVE SUFFICIENT EXPERTISE OR SKILLS TO GOVERN THE FOLLOWING DRIVERS OF RISK AND OPPORTUNITY OVER THE NEXT 3 TO 5 YEARS (QUESTION 11)



As more companies migrate their operations into the cloud or virtual sphere, cyber risk and threats, such as ransomware, have increased the cost of data security breaches across all industries. For example, the IBM Security Cost of a Data Breach Report 2022 found healthcare data breach costs increased from an average total of US\$9.23 million in 2021 to US\$10.10 million in 2022. For example, the IBM Security Cost of a Data Breach Report 2022 found healthcare data breach costs increased from an average total of US\$9.23 million in 2021 to US\$10.10 million in 2022. Companies have an urgent need to close the gap in cyber skills at both the organisational and board level.

For cyber risk and digital innovation in particular, the rate of change is accelerating exponentially, making knowledge and expertise quickly obsolete. Getting the right skills that have staying power and are relevant to your organisation's profile is a continual

COMPANIES HAVE AN URGENT NEED TO CLOSE THE GAP IN **CYBER SKILLS AT BOTH THE ORGANISATIONAL AND BOARD LEVEL.**

THE RISE OF GEOPOLITICAL FACTORS

Boards of conglomerates and organisations that operate in multi-national jurisdictions need to keep track of rapid shifts in economic conditions and proliferating (and sometimes diverging) regulatory requirements and the effect of growing geo-political instability on financial (and non-financial) performance. The Russia-Ukraine war and the resultant international sanctions are prime examples of how major shifts in the geo-political landscape impact companies, such as those operating in the energy sector. Boards now have to be sufficiently aware and knowledgeable in these areas to steer the strategic direction of their organisations over the next few years and to ask the right questions of senior management.

ENVIRONMENT, SOCIAL AND GOVERNANCE

While 65% of boards believed they had the expertise required on ESG matters, it still ranked relatively low. This potential expertise gap is a concern in view of the regulatory push for climate and nature disclosures, sustainability assurance statements, and changing investor sentiments for green stocks and products. By not having an adequate grasp of the impact of ESG as a driver of opportunity and risk, boards may not be fully prepared to steer their organisations into a new future that demands climate and ESG adherence, and likely will offer growth opportunities tied to greening the economy.

BOARD PRACTICES

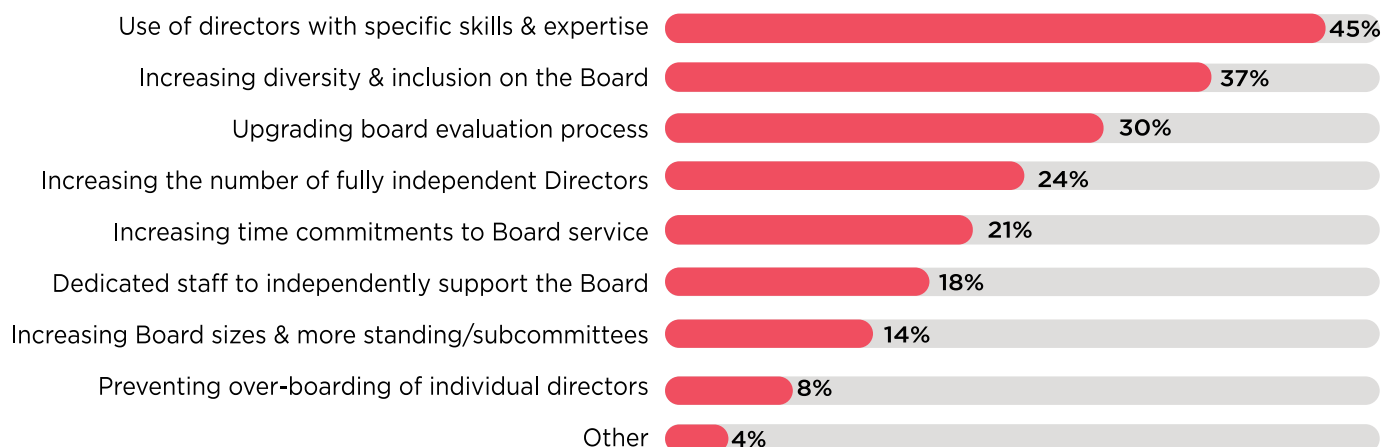
Despite constant and increasingly demanding short-term pressures, directors are at a critical inflection point and they need to be prepared to plan for the longer term, not just react to current crises. Ensuring critical skills and greater diversity in directors is important for robust decision-making.

DIGITAL GOVERNANCE GAPS

In almost every country company law states the fiduciary duty of the board is to the company and its shareholders. In that context directors are legally required to understand the issues that affect the company's ability to survive and thrive over the longer-term.

Directors have clearly identified the need for a sound long-term strategy as critical for organisational success. A competent board has the structures, systems and capability to focus on the short-, medium- and long-term company strategy, the oversight of risk management, and the foresight to seize opportunities. But boards need to regularly evaluate not only their performance but also their systems and structures to ensure its governance helps deliver the organisation's purpose and strategy.

EXHIBIT 6: KEY CHANGES REQUIRED TO BOARD NORMS AND PRACTICES OVER THE NEXT 3 TO 5 YEARS (QUESTION 12)



Sourcing and recruiting directors with specific skills and expertise (over the next 3 to 5 years) is likely a prudent strategy, recognising the drivers of business success and failure will shift. Directors with deep expertise in cybersecurity, sustainability, digital transformation and human capital will likely be in increased demand. But boards will need to strike a balance between the infusion of new experts and emboldening governance and enhancing performance. The learning agenda needs to be cognisant of the lack of expertise in areas and bridge the gaps in the professional development and performance of directors.

Boards with greater diversity and inclusion benefit from increased social acceptability, the avoidance of groupthink and ‘blind spots’ in the decision-making process, an increased understanding of the business and better input to management. Sufficient diversity in gender, ethnicity, skills, knowledge, experience and independence not only enables the board to be better equipped to deliver value and resolve challenges but meets the investor push for improvements. In 2020, Goldman Sachs CEO David Solomon stated the investment bank would not be taking companies public unless they had at least one “diverse” board member, with an emphasis on women. All-male, all-white boards are considered a “red flag” for bias.

BOARD EVALUATIONS – BETTER IS BETTER

Board evaluations has been a repeated theme for improvement. Upgrading board evaluation processes ranked third in key improvements to board norms and practices (30%), and was the second-highest priority for improving board performance (52%). The lack of formal and rigorous board performance evaluations (31%) was considered the third highest current practice that will be less acceptable in 3 to 5 years.

This focus on board evaluations suggests current boards are not satisfied with the effectiveness and/or makeup of the collective board and/or chair, but have not put in place measures to sufficiently address specific shortcomings. Regular board evaluation can help boards improve their own individual and collective performance as well as that of the organisation. In tandem with a skills matrix, it also presents opportunities to identify skills, diversity and experience gaps.

In organisations where board members are continuously re-elected during the Annual General Meeting without any regard to board/organisational performance or KPIs, this undermines the reappointment process and does not serve the best interests of shareholders and stakeholders as they are unable to evaluate the extent to which board members fulfilled their obligations and duties.

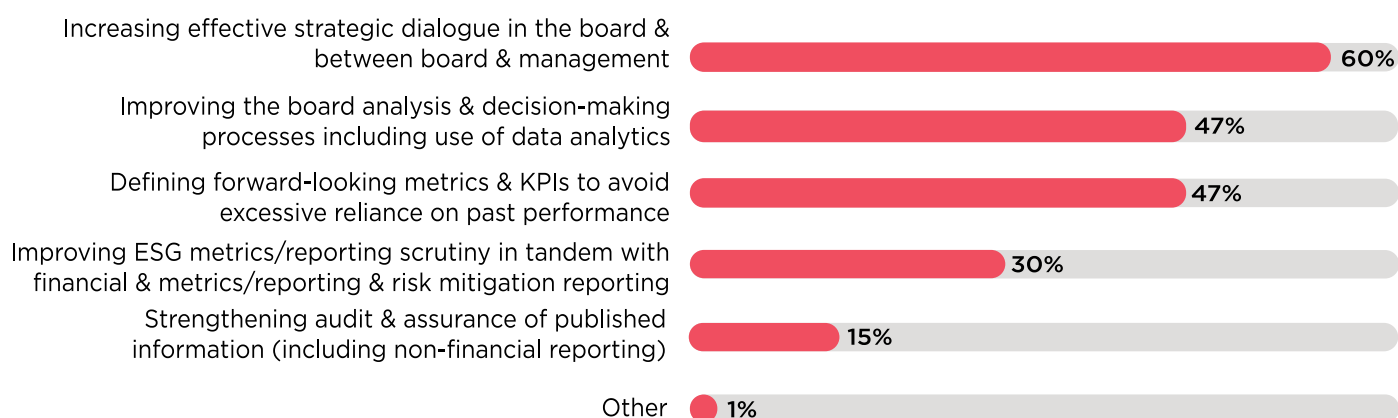
THE RIGHT CONVERSATIONS

The key improvements to board governance over the next 3 to 5 years are: increasing effective strategic dialogue in the board and between board and management (60%); defining forward-looking metrics and KPIs to avoid excessive reliance on past performance (47%); and improving the board analysis and decision-making processes including the use of data analytics (47%) (Exhibit 7 below).

The board has a critical role in setting and overseeing the strategic direction of the organisation to maximise performance. Directors identified this as the key priority for organisational success. Strategic planning is about setting goals and objectives, and planning the actions that will achieve them. However, strategies need to be monitored and reviewed and flexible to respond and adapt to the changing environment.

The level and pace of change, and the volume and magnitude of short-term pressures, are making strategic discussions critically important. Hence, seeing a focus on increasing strategic dialogue in the board and between the board and management at a time when every strategy is being challenged by disruption, is heartening. CEOs are also increasingly aware the board is a strategic asset that provides a wealth of strategic, leadership and industry experience they can tap into.

EXHIBIT 7: KEY CHANGES REQUIRED TO BOARD GOVERNANCE OVER THE NEXT 3 TO 5 YEARS (QUESTION 13)

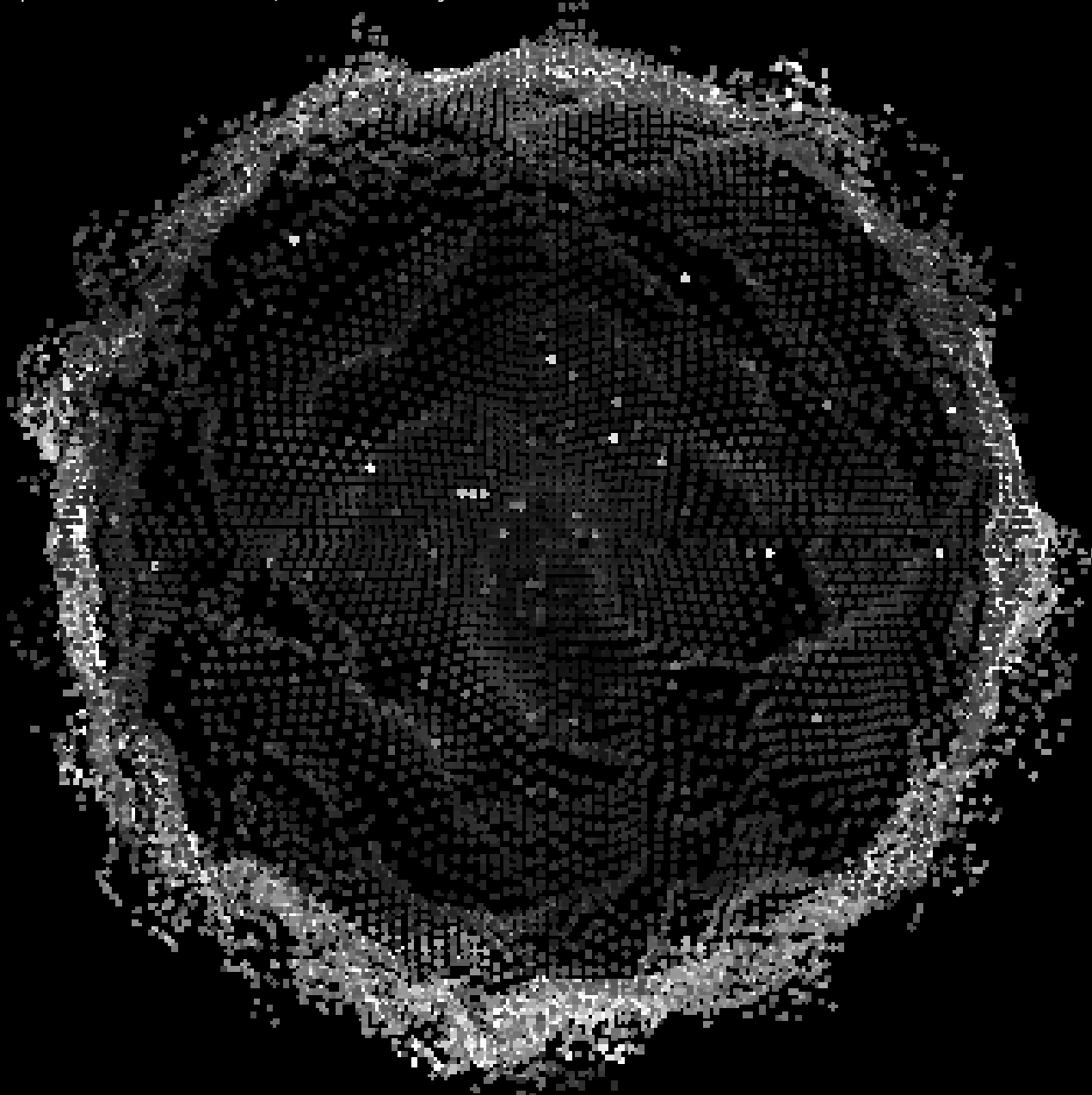


THE RIGHT DATA

Defining forward-looking metrics and key performance indicators (KPIs) that don't overly rely on past performance (47%) and improving board analysis and decision-making through the use of data analytics (47%) go hand-in-hand at the board table. That they received an equal weighting shows that directors recognise this symbiotic relationship.

Moving beyond a reliance on historical data highlights the emergence of the more data-driven board as well as acknowledging the skewed performance data from the past three years because of Covid-19. With the difficulties measuring performance and on-going disruptions, it is encouraging to see directors prioritising a forward-looking approach.

Improving board analysis and decision-making including the use of data analytics is critical in an increasingly dynamic operating environment. The key is ensuring the efficacy of the data sources and that the organisational vision remains paramount. Data-driven decisions at the board requires a data-driven culture within the organisation which in turn needs to be led by the board. This requires the infrastructure and talent needed to collect, transform, and analyse data, along with reliable and trustworthy data sources. It's also important to remember that not everything can be measured, past data isn't necessarily a predictor of the future, and there may be insufficient data to make reliable conclusions.

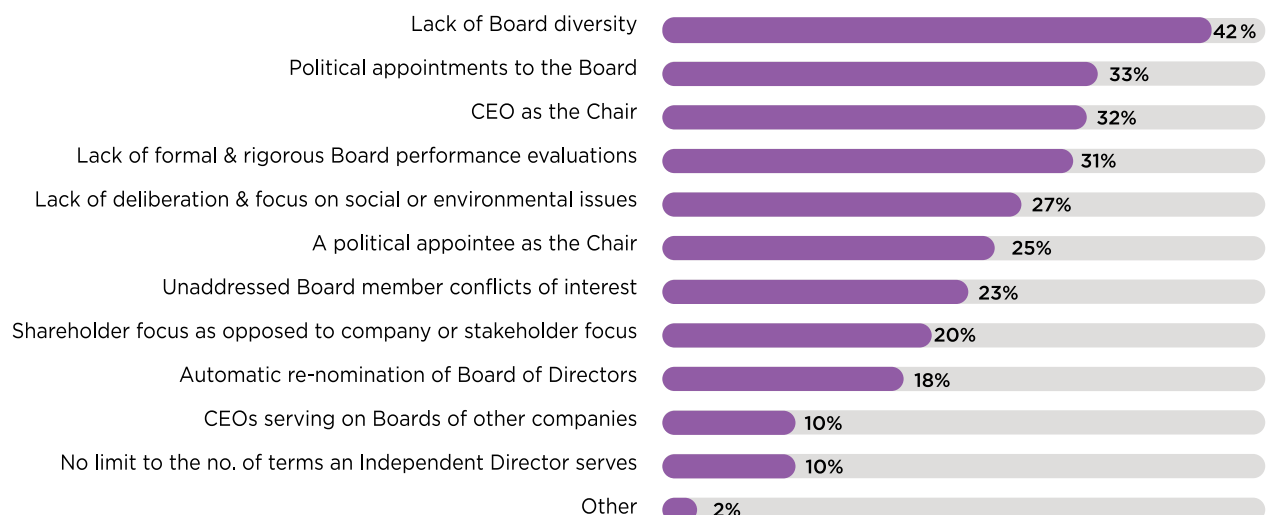


CHANGING GOVERNANCE LANDSCAPE

A mix of political shifts, economic and legislative reforms, globalisation, technology, free market forces, shareholder activism, population changes and, of course, director/board behaviours, continue to influence corporate governance. How we define best practice governance continues to evolve and directors are responding to these changes and calls for enhanced transparency and increasing diversity, and questioning the role of political appointments and the CEO as chair.

Directors identified the current board practices they considered were likely to be less acceptable in 3 to 5 years are: lack of board diversity (42%), CEO as the chair (33%), political appointments to the board (32%) and the lack of formal and rigorous board performance evaluations (31%) (Exhibit 8 below).

EXHIBIT 8: CURRENT BOARD PRACTICES THAT WILL BE LESS ACCEPTABLE IN 3 TO 5 YEARS (QUESTION 14)



MAKING THE RIGHT APPOINTMENTS

While a lack of diversity was considered to be the current governance practice least likely to be acceptable in 3 to 5 years, it only ranked fifth in immediate priorities for improving board operations (25%). However it was ranked second in key improvements to board norms and practices to enhance governance practices over the next 3 to 5 years (37%).

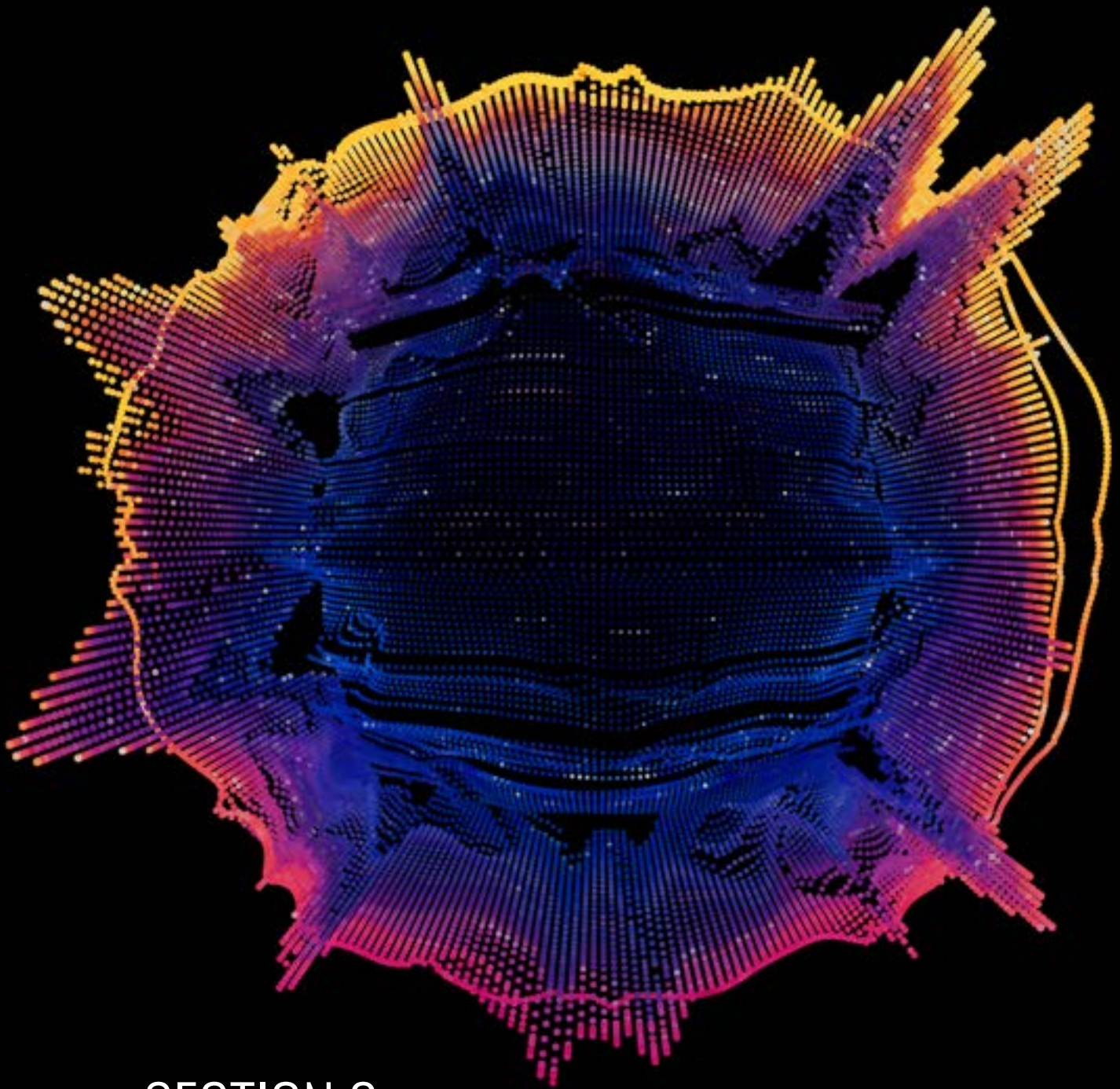
Despite political appointments being a highly prevalent corporate strategy in a number of countries, the value of such appointments is debatable. While politically-appointed directors are likely to serve as valuable resource providers and connectors, research has shown they are less likely to serve in the best interests of all shareholders. With reducing trust in government, political appointments on boards, which may include the appointment of politicians, risks negatively impacting on trust, public image and perceptions of independence. Wrongly or rightly, politically-appointed directors are regarded as influencing board decisions and policies, and the perception of political influence in the boardroom can create tension and negatively impact on the board culture.

The Australian Institute of Corporate Directors guide on selecting directors notes “doing business with government may need someone with first-hand experience of the political process. This will be included in the skills matrix.” The ranking of this answer does not align with question eight, where only 6% of directors considered that addressing political appointments to the board was a top priority for improving board/management dynamics.

CEO AS CHAIR?

Another practice that is accepted in some countries yet eschewed in others, is the appointment of the CEO as chair. While splitting the role is widely considered best practice, it is nonetheless a continuing practice. In general, boards have moved towards having one person serve as CEO and another as chair for a clear management/governance separation, greater accountability, and reduced conflict. It also brings an external perspective to the board, provides support to the CEO, and reduces risk.

In the US, only 33 companies in the S&P 500 index have combined the CEO and chair role over the last five years (including AIG and Microsoft). In the same period 100 have split the roles. Similarly, nearly 60% of S&P companies have split the role versus only 37% 10 years ago.



SECTION 3

BOARD OF THE FUTURE

(2030 and beyond)

FUTURE CHANGES

It is widely recognised the future board could look significantly different from the traditional operating model. With the changing nature of business and governance, the role of directors has never been more dynamic, and there is no time for complacency as boards need to be responsive to ballooning expectations, active regulators, increasing litigation, changing operating environments, climate change, technological disruption and more.

BOARD TRANSFORMATION

The key areas of change needed for the board of the future were identified as: board committees will expand to include technology and sustainability (83%); boards will be accountable to deliver on the interests of multiple stakeholders (83%); and boards will be required to be more purpose and impact driven/conscious (80%). Increased board diversity also fared strongly with 78% of directors considering this a key area of change (Exhibit 9 below).

Despite there being leading areas of change, directors clearly are seeing the need for transformative rather than trivial change, with nine out of the 10 metrics scoring at least 60%. That being said, there are some areas, such as structured director on-boarding and development that are already considered business as usual for a large proportion of boards.

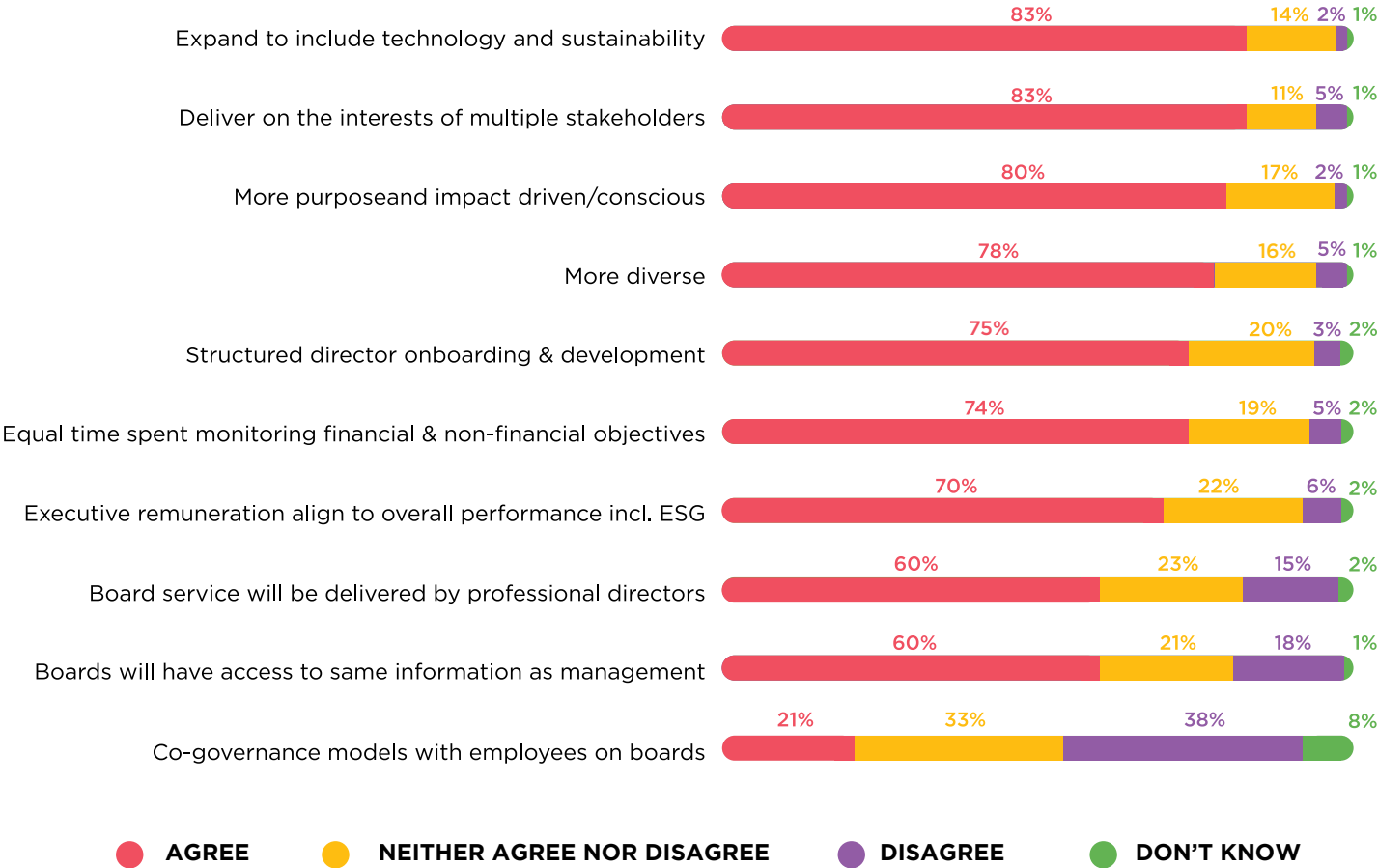
DESPITE THERE BEING LEADING AREAS OF CHANGE, DIRECTORS CLEARLY ARE SEEING THE NEED FOR TRANSFORMATIVE RATHER THAN TRIVIAL CHANGE

A FOCUS ON TECHNOLOGY AND SUSTAINABILITY

The acknowledgement of the expanding role of board structures to include technology and sustainability is encouraging. Of concern, however, is this is seen as the role for the boards of the future. In question 10 only 5% of directors considered climate change was critical to organisational success, and in question 14, only 27% of directors considered a lack of deliberation and focus on social and environmental issues would be less acceptable in 3 to 5 years. Similarly, in question 10 only 5% of directors considered data protection and privacy were a priority for organisational success.

This result may instead reflect that in question 11 cyber risk expertise, digital innovation and ESG skills/capability were considered the first, second and fifth largest areas of skills gaps respectively. These gaps may be filled with recruitment of directors with specific skills who can then lead the work on technology and sustainability. Regulatory conditions for a board committee with a remit on sustainability and ESG assurance obligations, underpinned by investor exigencies, further drive this need.

EXHIBIT 9: KEY AREAS OF CHANGE FOR THE BOARD OF THE FUTURE (2030 AND BEYOND) (QUESTION 15)



DIGITAL TRANSFORMATION – THE FUTURE IS NOW

Digital transformation ranked fifth (only 21%) of priorities critical for organisational success. Furthermore, expanding to include technology and sustainability was considered the key area of change for the board of the future. Technology is radically and unpredictably disrupting and transforming our communities, our companies, and even our board operations. Technological transformation is one of the greatest risks and opportunities for businesses.

Despite this, skills around cyber-risk and digital innovation were identified as the key skill deficits for directors with 55% and 54% respectively believing that their boards had insufficient expertise or skills in these areas to govern over the next 3 to 5 years. Director education on specific skills was considered the highest priority for improving board performance (57%). Similarly, 45% of directors considered that the use of directors with specific skills and expertise was the key change to board practices they needed to undertake in the next 3 to 5 years.

Directors do not need to be digital experts, but, they do need a degree of digital literacy to understand, monitor and guide the business. A good analogy is financial literacy. Directors do not need to be accountants but they do need to have sufficient financial literacy to understand financial information and come to a personal level of satisfaction about its accuracy and probity – and not to simply rely on the opinion of other board members with financial expertise. Directors need sufficient digital literacy so they can hold management to account – to ask the right questions, and to understand and probe the answers. To do this, boards need to understand terminology and concepts so they can engage in robust discussion and challenge management. Boards need to be agile and develop their digital capability to ensure governance practices keep up with broader technological trends.

With accelerating changes in the adoption of digital technology, the digital divide can disadvantage boards without sufficient information or expertise. The digital transformation and information journey should ideally take place in tandem, to enable boards to sufficiently comprehend new governance obligations, such as data privacy and protection. For some boards, injecting these skills may be necessary through recruitment of new directors with specific skill sets to provide the board with a broad overview, or the establishment of an advisory committee for example.

PURPOSE-DRIVEN AND PURPOSE DRIVERS

Overall, the results indicate a shift towards stronger ESG and non-financial performance oversight. This aligns with global research showing a shift by institutional investors towards greater evaluation of non-financial performance measures and a stronger appetite for ESG disclosures underpinned by appropriate governance structures, reviews and controls.

The focus on technology and sustainability is, in part, driven by changes in consumer and community expectations. Similarly, there is a strong alignment in the acknowledgement of boards being accountable to deliver on the interests of multiple stakeholders (83%) and being required to be more purpose and impact driven/conscious (80%).

With changing consumer and community expectations, particularly around climate change and environmental, social and cultural impacts and outcomes, organisations are reflecting on their purpose, value proposition, social licence to operate and business model. Values and beliefs are increasingly influencing consumer behaviour, and how businesses procure, invest and manufacture. Similarly, employees are increasingly choosing to work for organisations that are purpose-led and “live” their values.

The stakeholder engagement process and materiality matrix of key stakeholders identified as part of ESG underscores the interests of multiple stakeholders in value creation and sustainability of the business. Greenwashing of products and services is not a viable strategy for organisational success and would eventually be called out by savvy investors and other stakeholders, particularly environmentalists and human rights advocates.

In 2022 the Australian Securities and Investment Commission, Australia’s corporate watchdog, imposed its first ever fine for greenwashing to an energy company for making factually incorrect statements about its environmental credentials. Litigation in this area is on the increase.

ABOUT US

ABOUT THE GLOBAL NETWORK OF DIRECTOR INSTITUTES

The Global Network of Director Institutes (GNDI) is a network of leading director institutes. Established in 2012 to foster closer cooperation between its members, the global programme of reciprocity helps directors and boards unlock access to director resources from around the world. GNDI comprises 24 institutes representing more than 150,000 directors and other governance professionals.

The biennial Survey Report analyses responses from a diverse pool of directors. The 2022-23 report explores how boards across the globe are gearing up for the future.

A collaborative effort between GNDI member organisations, this report underscores the common themes and shared purpose that link this global community of directors.

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