

PwC Study Finds Corporate Directors Pursue Change and Drive to Accelerate Progress, but Challenges Persist

PwC's Center for Board Governance

September 2012

Objective

PwC structured this survey to provide actionable feedback directors can use as benchmark to help evaluate their performance in core areas that are "top of mind" to today's boards.

Methods

In the summer of 2012, 860 public company directors responded to the survey.

Key Findings

Board Composition and Behavior

- Nearly one-third of directors believe someone on their board should be replaced. Diminished performance because of aging and lack of expertise were cited as the two primary reasons
- When seeking new board members, 91% of directors say they take suggestions from other directors, with 11% considering investor input for candidates. A quarter consider racial and gender diversity as "very important."
- About half of boards that have a combined CEO and Chair position are already discussing splitting the role at their next CEO succession.
- 66% made changes during the last 12 months as a result of their full-board or committee self-evaluations.
- 52% of directors believe some form of annual board education should be required.
 - Of those with this belief, over 40% had less than four hours of outside training last year, and 21% did none at all.
- More than half of directors say the amount of time they spent on board work rose last year.
 - Two-thirds of those increased their hours over 10%, and one-fifth more than 20%.

IT Oversight

- 56% of directors believe IT is "very important" or "critical" to their companies.
 - Only 5% consider it a "back-office support function."
- Almost 60% of directors want to spend more time on IT in the coming year, an increase from 36% in 2011.
- 36% of directors believe their company needs improvement anticipating competitive advantages from emerging technologies.
- Less than one-third of directors believe it is "very important" to seek new directors with IT experience.

Executive Compensation

- Directors rate the following groups as “very influential” or “influential” when it comes to their boards’ decisions about executive compensation: 86% cite compensation consultants, followed closely by the CEO 79%, and then institutional investors 54%.
- In the second year of say-on-pay, 64% of companies took some action to address voting results
 - 41% modified compensation disclosures
 - 29% made compensation more performance-based
 - 23% worked more closely with proxy advisory firms.
 - 2% of directors indicated that their companies decreased executive compensation.
- Over 60% of directors estimate that proxy advisory firms have more than a 20% influence on proxy voting at their company.
- Almost half of directors rate quality of the firms’ work as “fair” or “poor.”

Strategy Oversight

- Strategic planning topped the board’s “wish list,” with over 75% of directors saying they want to devote more time to it, up from 60% of directors who wanted to do so last year.
- Two-thirds are satisfied with the customer satisfaction research management provides, while nearly 72% are satisfied with information about employee values and satisfaction.
 - However, a number of boards do not receive any information about either customers or employee satisfaction (20% and 16%, respectively)
 - 21% are dissatisfied with competitive intelligence.

Risk Management

- 37% of respondents say their boards have no clear allocation of specific responsibilities for overseeing major risks among the board and its committees, while 57% are not comfortable with their understanding of the company’s social media response plan in the event of a crisis.
- Most directors acknowledged that their companies took action to address the new whistleblower rules: two-thirds placed more emphasis on employee awareness around ethics and compliance policies
 - 42% enhanced follow-up policy on compliance-related complaints
 - 42% increased reporting of such issues to the board.
- 97% report they are at least “moderately comfortable” with the board’s understanding of the company’s risk appetite
- 91% of directors are at least “moderately comfortable” with their understanding of emerging risks (e.g. the European debt crisis, natural disasters).

Looking Forward

- The SEC estimates that almost 6,000 companies will be affected by the conflict minerals provision of the Dodd-Frank Act, but 85% of directors do not expect to spend much time discussing conflict minerals and 75% report “not much” or no concern with the issue.

Conclusion

Significant changes in corporate governance are impacting boardroom dynamics, compelling directors to spend more time on board work and prompting them to reconsider their oversight approach. Directors acknowledge that challenges remain and expect to increase their focus on critical areas including board composition, risk management and IT oversight. “PwC’s Annual Corporate Director Survey shows an attitude shift among directors grappling with change – indicating their progress to-date, and reveals ways to enhance performance and adjust to the altered landscape.”

Article: <http://www.pwc.com/us/en/press-releases/2012/pwc-study-finds-corporate-directors-pursue-change.jhtml>

Full report: http://www.pwc.com/en_US/us/corporate-governance/annual-corporate-directors-survey/assets/pdf/pwc-annual-corporate-directors-survey.pdf