International

Lack of diverse boardroom thinking

'A chronic lack of robust thinking that challenges accepted boardroom norms is impacting negatively on company performance', according to a new report by Grant Thornton International. The report, *Corporate governance: the tone from the top*, examines three core aspects of corporate governance (the role of culture, board composition and strategic planning) and how they impact on businesses globally, drawing on interviews with over 1,800 business leaders across 36 economies and 82 in-depth discussions with board directors.

Role of culture

The definition of business culture varies between countries but 90 per cent of respondents globally believe culture is important to a robust governance framework, though regional variances were noted in Africa and emerging Asia-Pacific countries. Directors generally agree that it is the board which needs to build and foster this culture, though one in five business leaders said that their boards do not spend enough time focusing on culture.

Two-thirds of business leaders around the world believe the amount of time their boards spend looking at the broader issue is 'about right', although some directors indicated that boards focus on culture only in response to compliance issues. Directors also mentioned integrity and transparency as the principles that should underpin every action a business takes.

Boards should work proactively with business management teams to foster a corporate culture of effective governance. While regulators can encourage the importance of culture as integral to good governance, it can be too intangible to mandate action. Boards should also encourage the company to reflect on its real purpose and whether this has been overlooked in the pursuit of short-term profitability. A good governance culture is critical to a company's longevity but respondents revealed that 'culture' does not receive the blanket support that might be expected.

Board composition

For management teams, relevant industry experience is deemed the most desirable attribute in a board member (60 per cent), and 30 per cent would like them to be currently employed as a senior executive in their industry. Board members recognise the importance of relevant industry experience (62 per cent), but few (seven per cent) believe that their peers need to be actively employed in the same industry and are more concerned that their peers bring new ideas to challenge management and the board (86 per cent, compared to 47 per cent for management teams).

There are many different forms of diversity and, although boardrooms remain overwhelmingly male (just a sixth of directors globally are women), two-thirds of business leaders surveyed believe their boards are effective in encouraging diversity (more so in listed businesses than private companies). Directors do agree that there is a lack of diversity on boards which makes 'groupthink' a bigger danger and they want to look beyond gender to also seek diversity of culture, background, knowledge and thought.

Succession planning on boards to ensure consistency but also to offer adaptability to new developments in the business environment has risen up the corporate agenda. Business management teams want their board members to have current industry knowledge: whereas board members indicated they were more interested in their counterparts bringing new ideas to the table and having the time available to contribute effectively. A particular concern is whether boards have sufficient current knowledge of technology and the digital space to advise their management teams.

Board members should encourage bringing new perspectives onto boards so their businesses can tackle problems from different angles. This creates an open, inclusive mind-set which should cascade down the organisation. Businesses not encouraging diversity risk being left behind. Conducting periodic assessments of board skills should form part of a board effectiveness review, along with considering the criteria used for selecting new board members. Relevant experience is an important asset and boards without sufficient knowledge of modern business practices cannot provide sufficient direction to their management teams.

Strategic planning

The research found a 'significant disparity' between perception and reality in terms of the skills board members and company managers feel boards need, leading to a possible disconnect in strategy development and implementation.

Different industries operate to different planning horizons, some reflecting electoral cycles, and almost three-quarters of businesses globally operate under a planning cycle of three years or less. Most board members believe this is an appropriate planning horizon although some would like to see CEO compensation linked to longer-term performance to avoid operational decisions being driven solely by quarterly reporting. Companies need to consider whether their strategic planning process encourages decisions to be made with an appropriate balance of short- and long-term objectives, and whether executive management compensation is aligned with the company's strategic goals.

For the full report go to: http://www.grantthornton.global/globalassets/1.-member-firms/global/insights/article-pdfs/2015/corporate_governance_2015_the_tone_from_the_top.pdf