

Corporate governance the tone from the top

Grant Thornton global governance report 2015

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Survey Profile

- Type and Survey sample: 1,865 telephone interviews with business leaders in 36 countries and 86 in-depth interviews with board members in eight countries
- Period of the survey: December 2014 – March 2015
- Main topics: Culture, Board Composition, Strategic Planning



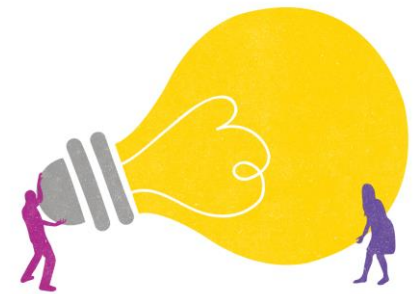
CULTURE

The cornerstone
of good governance



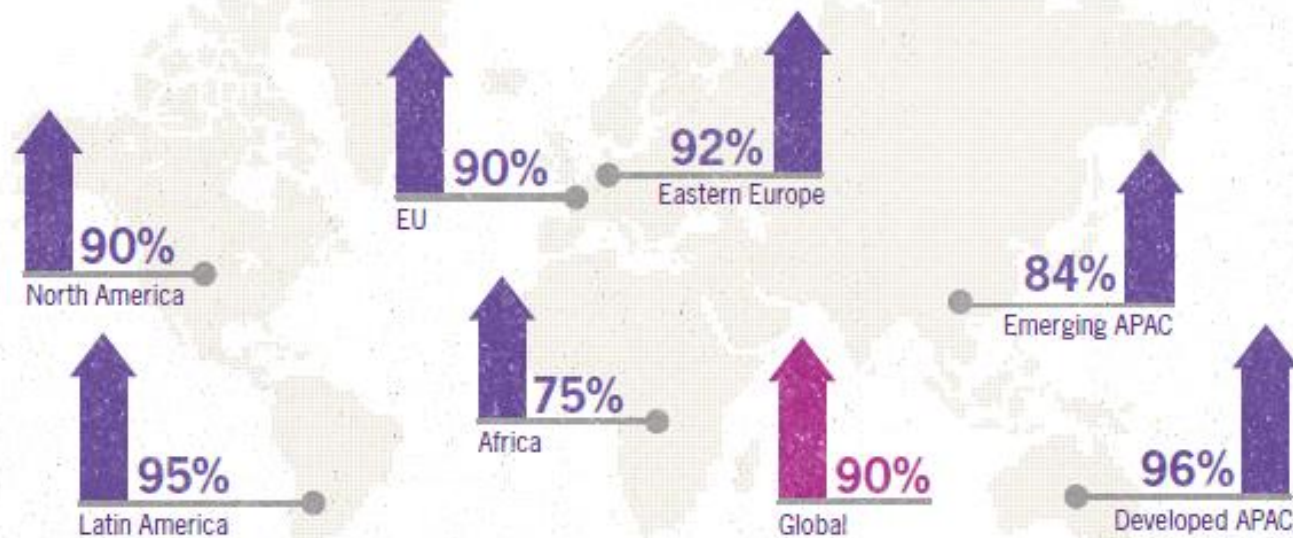
Whose responsibility is culture?

- There is a diversity of views as to whether it comes down to the company management, or the board, to be the ultimate guardians of company culture.
- The majority of board members agreed that it is up to boards to align senior management to cultural standards and expectations. It then becomes the responsibility of the CEO and senior management to reinforce the culture within the organisation.



Culture and robust corporate framework

Percentage of businesses citing culture as important to a robust governance framework



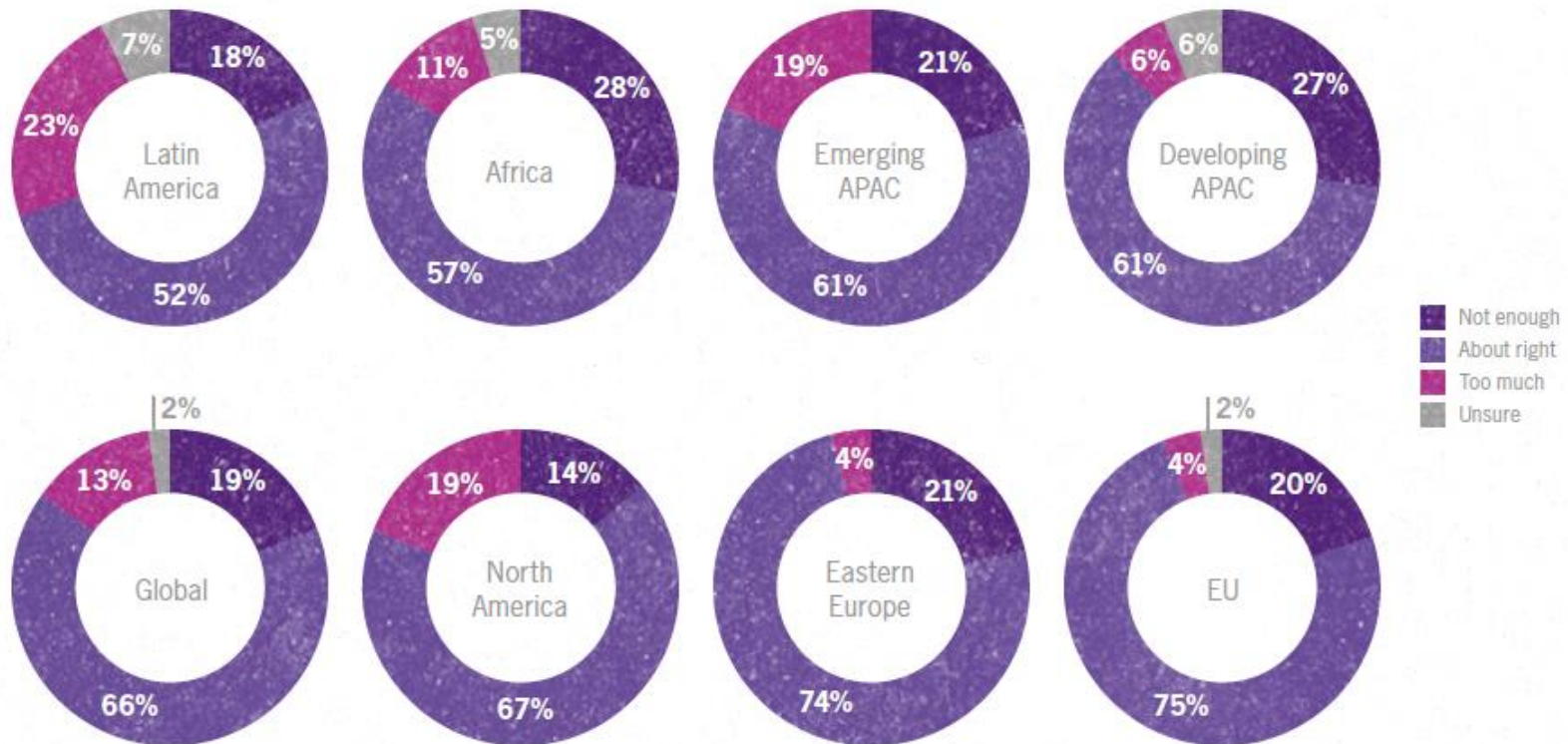
How can boards foster a culture of good governance?

- Establishing ethical codes and policies
- Creating sound upward feedback channels
- Regularly communicating and assessing cultural values and behaviors
- Being integral and transparent in every action a business takes.



Focus of Boards on culture

How would you describe the focus of your Board on culture?



Quotes

- “Boards generally need to focus a lot more on culture...it’s about ethics and integrity, and building the values and the ethos of the company.”

Board member, South Africa

- “Corporate governance principles adopted by a company must be a matter of culture and not just a matter of compliance.”

Board member, Greece



Quotes

- “Culture is more easily validated and maintained during periods of success versus periods of challenge and change - how to maintain culture during more stressful periods should be a key consideration for boards.”

Board member, US

- “We have a model in which the mission statement is clearly defined. We also have a code of internal behaviour and regularly review the behaviours and their linkage with the strategy, commitments and policies.”

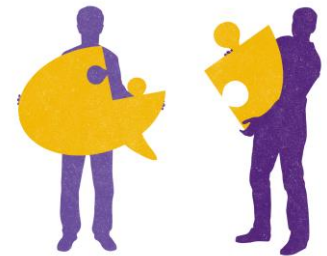
Board member, Spain

- “If the chase for quarterly growth is too hard, sooner or later someone will start cutting corners. It’s where you get tolerance of corruption - once it’s implied that it’s okay to break the rules in a small way – financial reporting, controls, bribery, dishonesty.”

Board member, UK

Board call to action

- 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 the cornerstone of good governance, it can be too intangible to mandate action.
- Boards should encourage the company to pause and reflect on what its real (or original) purpose is to understand whether some of this has been lost sight of in the pursuit of (short-term) profitability. A good governance culture is critical to a company's longevity but we found worrying evidence that evidence that 'culture' does not receive the blanket support that might be expected.



BOARD COMPOSITION

The necessary blend of skills



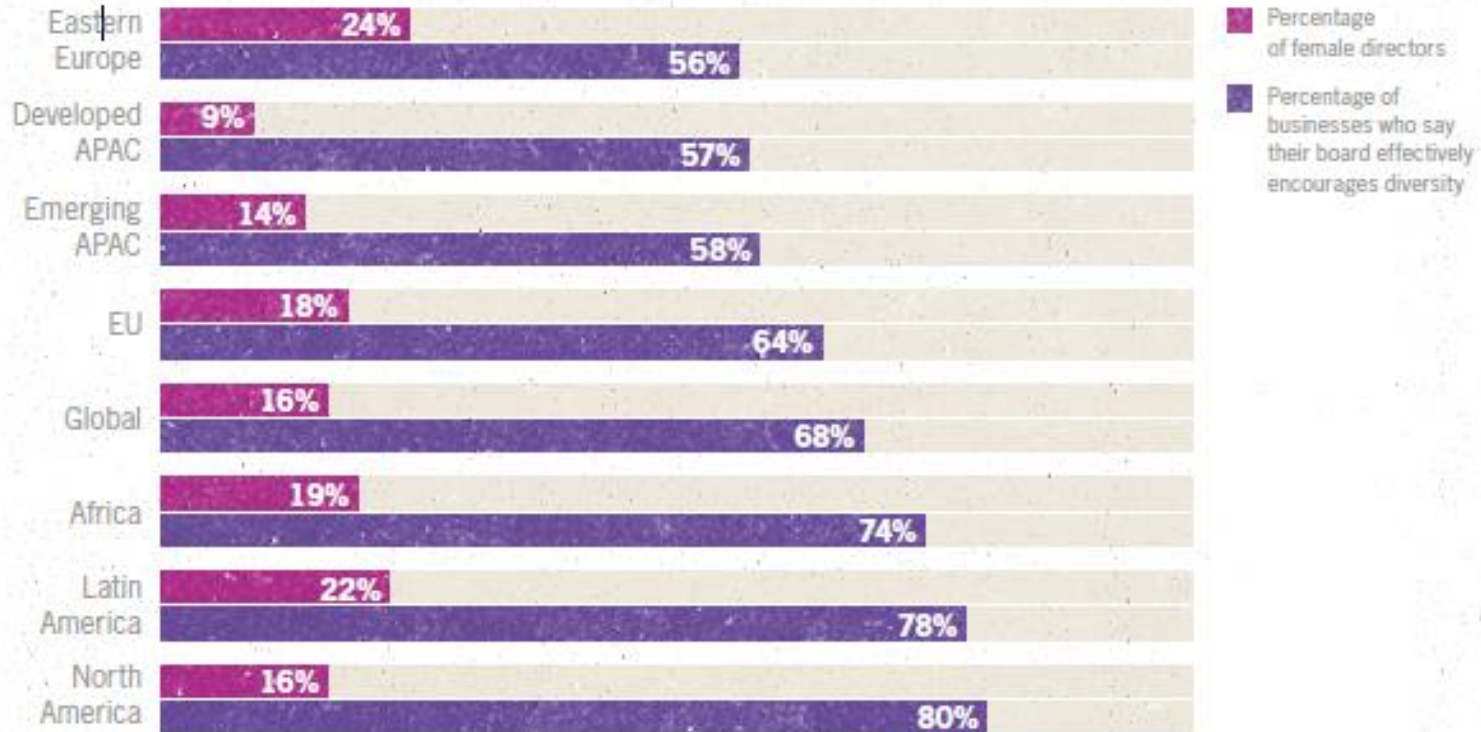
What does 'diversity' really mean?

- 'Diversity' is not restricted to gender – boosting, but: diversity of race, socio-economic background, sector, skills, education and the like could all help a board reduce groupthink.
- The major goal: Avoid groupthink.
- The majority of board members were against the idea of quotas to mandate diversity on company boards.



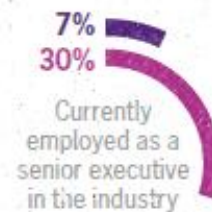
Gender diversity

Gender diversity on boards still low



What skills do boards need now and in the future?

Most desirable attributes in board members



CXOs
Directors

Quotes

- “Directors should bring new ideas to challenge management and the rest of the Board. This allows the Board to avoid ‘groupthink’ and builds a culture of thinking ‘outside the box’.”

Board member, Greece

- “The real strength of a Board comes from the mix of skills. Board composition and selection to get the necessary attributes and a range of views and experiences is therefore critically important.”

Board member, New Zealand



Quotes

- “My biggest concern around diversity is around the technology side of things and the pace of change. From a generational point of view, board members are all older and therefore potentially not at the cutting edge,”
Board member, UK
- “Boards should implement a skills matrix which is aligned to the educational needs of each director allowing members to be supported financially to attend relevant training.”
Board member, Australia

Board call to action

- Board members should encourage 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 in a slow economic recovery.
- 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.



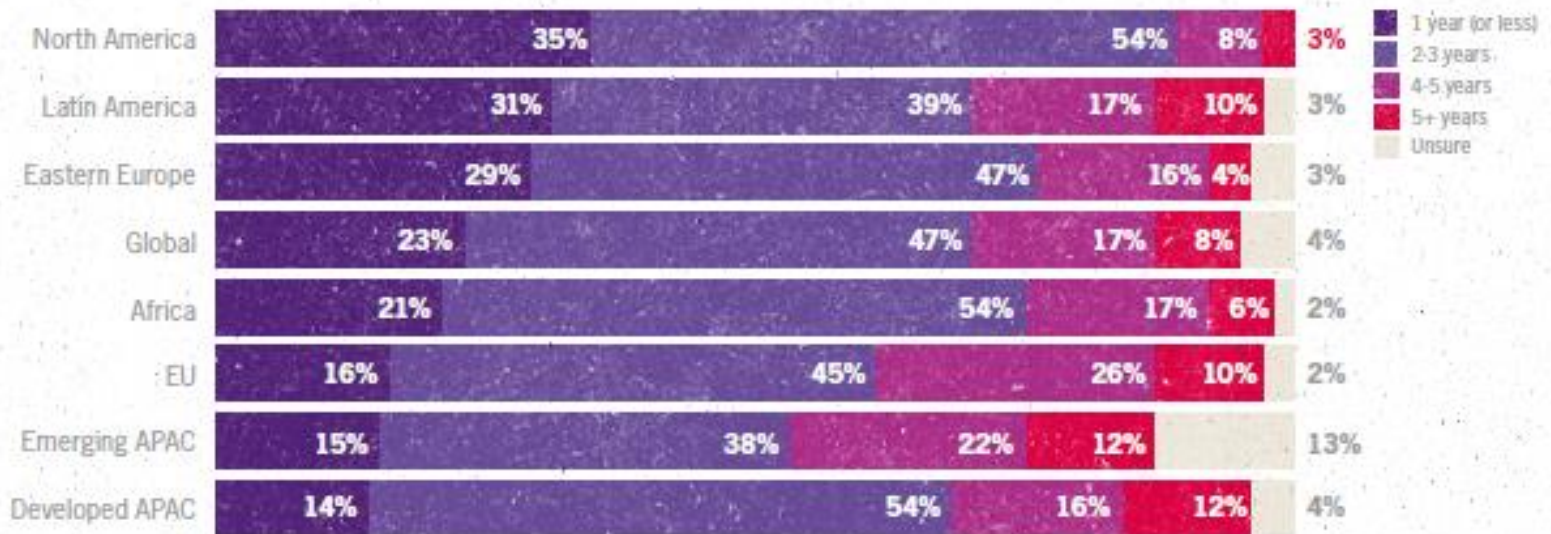
STRATEGIC PLANNING

A conflict of interest?



Strategic Planning

What period does your strategic planning cover?



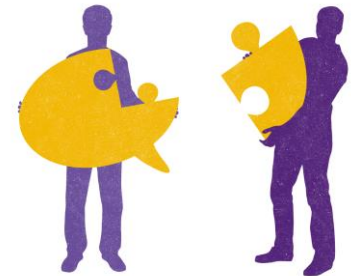
Source: Grant Thornton IBR 2015

Are you satisfied with your current planning horizon?

- The majority of board directors are satisfied with their current planning horizons (although it should be noted that 42% operate under a planning cycle of 4 years).
- Long-term success relies on making many correct decisions in the short term so the need for quarterly earnings growth does not typically interfere with the pursuit of the broader strategy.
- One potential means of guarding against short-term thinking is linking executive compensation to long-term performance, which the board members we spoke to accepted can be a useful tool.

Quotes

- “Our typical time period for strategic planning is one year. This is too short, but we work in a very difficult economic situation.”
Board member, Greece
- “There needs to be a balance between short term KPIs which are worth monitoring - but should not induce snap judgments - and keeping an eye on the long term view.”
Board member, UK



Quotes

- “We should never risk long-term goals for short-term gain and we have incentive compensation plans designed exactly for that.”
Board member, US
- “Within a five year planning process, the compensation plans for executives can be easily aligned with strategy. However, remuneration cannot be a decisive element in encouraging right and ethical behaviour in senior people.”
Board member, India

Board call to action

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.



Thank you

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