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2019 Board Outlook: Priorities & Challenges

It may be hard to believe that it has been a decade since the 2008 financial crisis. Perhaps it's also fair to say that the global economy has yet to bounce back completely. The crisis caused financial and governance experts to rethink and re-evaluate nearly every aspect of the financial realm. The goal? To help financial markets and the global economy make sustainable, long-term forward progress.

Looking ahead to 2019, boards across the globe will continue to face more challenges than ever before. Most of these challenges are rooted in the fundamental principles of good corporate governance – accountability, transparency and responsibility. In every area, boards will benefit from using digital tools that assist them in total enterprise governance management. Here's a look at some of the key issues boards will be addressing in 2019.

BOARD COMPOSITION

There will be continued pressure on boards in 2019 to let go of the old culture of automatically re-electing long-term board directors. Instead, they will adopt a culture of composing their boards deliberately. Investors will insist on quality, independent board evaluations. They will also focus on how the board uses them to build a diverse pipeline of quality director candidates. The new expectation is that boards will be regularly reviewed and refreshed, and newcomers will have a focus on forward-looking strategies.

CORPORATE CULTURE

Boards will need to define and develop their corporate culture in 2019 and communicate it to their shareholders. Boards can expect investors to ask more questions about how well the board understands the corporate culture and their process for assessing the company's health. Further, boards should plan how they will assess culture-related vulnerabilities and address any incidents or problems. Successful boards will align the company's values with the board's and leadership's actions and behaviour. This will require them to strengthen how they engage with management on such issues.

STRATEGIC PLANNING

The events that led up to the financial crisis didn't occur overnight. Investors and other stakeholders are just now getting back to the basic principles of finance, including how short-term and long-term strategies work together to create long-term growth. Success will follow when boards consider how social values, environmental concerns, governance principles and sustainability intersect to meet stakeholder needs.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES

In 2019 investors will be interested in how companies integrate Environmental, Social and Governance (ESG) considerations into their investment and reporting decisions. Investors are most likely to be interested in how companies link sustainability to long-term value creation. This will also entail considering new opportunities' ESG risks. These may include questions around cyber risk and technology oversight.

"We're in an era defined by volatility, uncertainty, complexity and ambiguity – and that is not likely to end any time soon. In this environment, the boards that can adopt a nimble approach to decision making are likely to outperform against their peers and competitors. Directors that can leverage the right digital tools – those that help them stay up-to-speed on the latest trends, quickly do the background research needed to inform their decisions, and communicate securely with one another – will have a distinct advantage."

Dottie Schindlinger
Vice President of Thought Leadership, Diligent

INVESTOR ACTIVISM

Investors activism will continue into, although shareholder approaches may be less hostile and more constructive. Institutional investors may become more open to engaging with activists and willing to collaborate on bringing about desired changes. Boards may commission independent assessments to identify their weaknesses, demonstrating that they're proactively assessing director performance and increasing oversight.

INVESTOR STEWARDSHIP

Investors view governance as a key ingredient to creating value and managing risk. Investors will want to understand the long-term value creation story. This includes evaluating whether boards are getting the right balance between long- and short-term strategies. Major discussions in 2019 may find some of the largest institutional investors focusing on the necessity for long-term, sustainable results and how organisations can partner to bring them about.

DIRECTOR COMPETENCIES

Investors will be pushing for improvements in many areas. These include board director competencies:

- Clear links between competencies and
- Corporate strategy independent evaluation processes, and
- Succession planning.

Skills matrices may become established as best practices for board composition. Using automatic refreshment processes, such as retirement ages and tenure limits, will be frowned upon.

BOARDROOM DIVERSITY

Board diversity is an important conversation in governance, especially with regard to women board directors. Investors believe that women bring diversity of thought and experience, which help identify risks and improve company performance. Investors will insist that more women are appointed to their boards. Cranfield University, which has been compiling data for the past 20 years, 29 per cent of FTSE 100 directors are women, an increase of 27.7 per cent in 2017. All FTSE 100 companies have at least one female director and at a third of them more than 33 per cent of the directors are women.[1]

REMUNERATION REPORTS

Executive compensation has been under the spotlight in recent years, with shareholders and investors voicing objections to company proposals. A study performed by CGLytics showed that almost a third of the FTSE 100 companies have significant misalignment between pay and performance on a one and three year basis.[2] Investors want transparency around performance metrics, particularly how compensation relates to risk management and strategy. Many investors are aware that stock performance isn't necessarily an indicator of excellence in CEO performance. Still, institutional investors will have their eyes on what they see as excessive compensation, especially if higher-than-expected sums are paid for two or more years consecutively.

In closing, 2019 holds the potential for the financial markets to make substantial forward movement if the majority of the companies pay strong attention to the issues that are important to investors and other stakeholders. Investors and regulators will be watching how companies respond toward enhancing corporate governance principles. While the issues listed here will certainly be in focus, boards will also need to be aware of new issues that emerge over the course of the year.

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[1]: https://www.ft.com/content/4fbf50a4-8c30-11e8-bf9e-8771d5404543
[2]: https://cglytics.com/2018-ftse-100-proxy-season-review/