WHAT DIRECTORS THINK

PUBLIC COMPANY DIRECTORS REFLECT ON THE TOP ISSUES IN THE BOARDROOM.

A CORPORATE BOARD MEMBER/GRANT THORNTON LLP STUDY

CORPORATE BOARD MEMBER®

Grant Thornton

EVERY YEAR, Corporate Board Member surveys directors at publicly traded U.S. companies of all sectors and sizes to take their pulse on the issues that are top of mind for the governance community and to assess boards' handling of some of the most topical matters for corporations.

For this 16th annual edition of What Directors Think, conducted in partnership with Grant Thornton LLP, a leading accounting, tax and advisory firm, nearly 250 directors shared their perspectives on top-of-mind issues, from cybersecurity strategies and disruptive innovations to boardroom diversity, the regulation of Big Tech and corporate social responsibilities.

KEY TAKEAWAYS

- Directors' concerns over cybersecurity risk continue to intensify.
- Corporate directors want more time to discuss disruptive technologies and innovations.
- Majority of public corporations have adopted a corporate citizenship mentality.
- Gender diversity ranks among top criteria in selection of new board members.
- Directors anticipate a decrease in shareholder activism in 2019.

SURVEY METHODOLOGY

Corporate Board Member conducted its 16th annual What Directors Think study in partnership with Grant Thornton LLP in September and October of 2018. A total of 249 U.S.-based directors of publicly traded companies completed the voluntary and anonymous 40-question online survey addressing six overarching issues: economic policies and financial considerations, corporate social responsibility, risk oversight, ethics and culture, board composition and refreshment, and shareholder engagement.

RESPONDENT DEMOGRAPHICS

Title/Role:

Outside director	63%
Committee chair	37%
Board chair	13%
Lead director	9%
Executive director	6%

*Respondents were asked to select all that apply.

Market Capitalization:

Emerging	5%
Small	27%
Mid	45%
Large	24%

*Percentages may not add up due to rounding.

Sector/GICS:

Financials	22%
Industrials	17%
Healthcare	15%
Information Technology	9%
Consumer Discretionary	8%
Real estate/REIT	7%
Energy	7%
Materials	6%
Consumer Staples	5%
Utilities	4%
Telecommunications	3%

*Percentages may not add up due to rounding.

Board Seats:

One	38%
Two	27%
Three	18%
Four	6%
More than four	12%

*Percentages may not add up due to rounding.

Committee Seats:

Audit	67%
Nom/Gov	61%
Compensation	54%
Other	22%
Risk	16%
Innovation	3%
Ethics	2%

* Respondents were asked to select all that apply.

Tenure:

Less than a year	7%
One to four years	28%
Five to nine years	22%
10+ years	44%

*Percentages may not add up due to rounding.

DIRECTORS' CONCERNS OVER CYBERSECURITY RISK CONTINUE TO INTENSIFY.

Since it hit radars with a vengeance a decade ago, cybersecurity has steadily climbed the list of top director concerns. Some surveyed directors say the difficulty of staying up to speed on attacks along with media coverage of cyber incidents and directors' portrayed culpability have raised the ante.

To illustrate: In 2016, the number of directors who saw cyber risk as one the top three most significant challenges facing public companies that year was 35%. Today, amid a myriad of experts calling for the need to conduct fire drills, secure cyber liability insurance and ensure companies have not only a response plan in place but also legal counsel on retainer, nearly double (64%) say that if they had the opportunity to bring a panel of experts to their boardroom, it would be to discuss cybersecurity—an increase of four percentage points since last year.

If you could bring a panel of experts to your boardroom to provide insights on any issue, which of the following would be on the agenda?*

64%	Cybersecurity	13%	Capital allocation
36%	Disruptive innovations	13%	Crisis management
23%	Succession planning	12%	Mergers & Acquisitions
19%	Corporate culture	10%	Boardroom diversity
17%	Shareholder engagement/activism	9%	Executive compensation
16%	Internet of Things	7%	Regulatory compliance

*Respondents were asked to pick top three.

> ***"We don't want to be those people who had a breach at [their] company and the directors hadn't made inquiries."***

—Michael Berthelot, CEO, Cito Capital Corporation; Chair of the Compensation Committee, Fresh Del Monte Produce

Expert Commentary

"The current business environment is constantly evolving with new threats and vulnerabilities, which ultimately impacts the way businesses grow and operate. A good cyber-defense program not only combines the latest strategies and technologies but is one that aligns and integrates with a company's business objectives. Organizations that implement cyber-risk capabilities early and often will be well-positioned to outperform their peers."

—Vishal Chawla, Principal and National Leader for Risk Advisory, Grant Thornton LLP

Action Items for Board Members

- ✓ Establish an agile vulnerability management and compromise monitoring program to help identify potential security vulnerabilities and determine proper remediation strategies. Communicate the expectation that this should be embedded in day-to-day IT operations and application development.
- ✓ Have in place a fully tested response strategy. Boards want to be sure the organization is prepared to adequately identify a potential breach, quickly coordinate resources and invoke processes to contain and mitigate the effects of the breach.
- ✓ Align, integrate and measure. It is vital to bring together operational and financial leaders with risk leaders and align and integrate their goals, objectives, compliance demands and stakeholder expectations. This also requires that operational processes be meshed with cyber controls, with emphasis on where the business is most sensitive.
- ✓ A system of measurement and metrics ensures leaders have a view of the threat outlook, options to dial up controls and the ability to further enact a digital strategy.

CORPORATE DIRECTORS WANT MORE TIME TO DISCUSS DISRUPTIVE TECHNOLOGIES AND INNOVATIONS.

As cyber-related matters continue to fill the agenda of public company directors, survey respondents say they wish their board could spend more time discussing other issues, particularly disruptive technologies and innovations (23%).

This finding reveals an interesting evolution of the governance landscape because directors have been telling Corporate Board Member for many years that because of shareholders' tendency to focus on short-term performance, they typically struggle to find sufficient time to discuss long-term strategy. Yet, this year, growth strategy took a back seat to disruptive technologies and innovations.

Of the following issues, which would you like to see more time and attention given to at a future board meeting?*

23%	Disruptive technologies and innovations	5%	Business continuity/crisis management
16%	Growth strategy	5%	Culture/Diversity/Gender/#MeToo Issues
14%	Cyber risk	3%	Other
14%	CEO succession and leadership transition	3%	Capital allocation
8%	M&A opportunities	2%	Board and committee refreshment
8%	Talent recruitment and retention	1%	Data privacy

*Percentages may not add up to 100 due to rounding.

> ***"If you don't innovate, you stagnate, and you become commoditized."***

—Sophie Vandebroek, VP Emerging Technology Partnerships at IBM; Director, IDEXX Laboratories

Expert Commentary

"Organizations that recognize technology as a fundamental component of corporate strategy, involving the full C-Suite and the board, are best positioned to outpace their competitors. They go beyond leveraging technology for only tactical effectiveness improvement and cost. Instead, they take a strategic stance—across the entire business value chain. It's a proactive, strategic approach that rapidly allocates resources to winners. Success favors early movers and frequently promotes a winner-take-all model. There's significant risk to not moving on the opportunity—not that you will be a little less profitable—but that you will be fundamentally disrupted by a new, tech-driven business model. The past two decades are replete with examples in every industry."

—Steve Perkins, COO, U.S. Advisory Practice and National Managing Director of Technology, Media and Telecommunication, Grant Thornton LLP

Action Items for Board Members

- ✓ Connect with venture capitalists, analysts, entrepreneurs and technology influencers in your industry. They're always looking for the next great innovation. Follow them on social media and listen to their podcasts. Consider following tech influencers such as Jeff Bezos who dedicates his career to staying ahead of the technology curve.
- ✓ Dedicate time to walk the floors of major technology conferences and tour Silicon Valley with your management teams. Having a feet-on-the-street perspective allows you to engage with founders and representatives of companies on a personal level as well as learn about emerging trends.
- ✓ Join networks with your peers and attend industry conferences to exchange ideas, build relationships and stay informed on key trends and best practices from other boards. Peer programming gives executives an open and honest forum to share feedback on timely business opportunities.

DIRECTORS SEEMINGLY UNCONCERNED WITH DATA PRIVACY COMPLIANCE.

On the heels of the enactment of the General Data Protection Regulation (GDPR), only 38% of directors surveyed say they've reviewed their company's data privacy policies with third-party experts in 2018. Whether this means boards in the U.S. are less concerned about the risks pertaining to the use of the data they collect or that they are confident in their in-house expertise to protect the privacy of their data, data privacy is nevertheless an issue that is rapidly gaining attention.

While certain sectors have already been subjected to regulatory actions such as the Children's Online Privacy Protection Act (COPPA), which gives parents control over what information websites can collect, and the Gramm-Leach-Bliley Act, which mandates how financial institutions handle individuals' non-public information, most companies that do not operate on a global scale have not had to comply with extensive legislation dictating the type of information they can collect and how they may use it. But as more and more business leaders such as Apple CEO Tim Cook and JPMorgan's Jamie Dimon speak out on the need for stricter data privacy protections in the U.S., directors will need to make sure they thoroughly understand the risks associated with stockpiling data for the sake of profitability.

Interestingly, it appears the issue hasn't made it to the list of top shareholder concerns either, in fact finishing last on the list of topics discussed in 2018. As talks of regulations intensify, boards would be wise to adopt a preemptive strategy and ensure their companies are playing by the book that is about to be written.

To the best of your knowledge, which of the following issues have shareholders requested to discuss with your board or management in 2018?*

44%	Long-term strategic planning	10%	Cybersecurity
40%	Short-term growth and financial performance	9%	Disruptive technologies
29%	M&As	8%	Other
27%	Board composition and refreshment	7%	Social policies
26%	CEO succession and leadership transition	6%	Regulatory compliance
21%	Executive compensation	5%	Director compensation
14%	Diversity	5%	Data privacy

*Directors were asked to select all that apply.

"Some company is going to be made an example of, and that's what's going to get everyone's attention. You just hope that it's not your company."

—Sara Hays, Principal, SLH Advisors; Director, Apogee Enterprises

Action Items for Board Members

- ✓ Invite your chief compliance offer or chief privacy officer to directly provide an update of the company's privacy program to the board.
- ✓ Invite industry privacy experts to educate board members on privacy issues and trends.
- ✓ Consider hiring a third party to do a comprehensive review of the company's privacy program.

Expert Commentary

"Governments are starting to enact regulations as privacy concerns escalate in the digital era. The EU set the global standard by enacting the General Data Protection Regulation with California and Brazil passing their own versions shortly thereafter—and a federal privacy law perhaps on the horizon. Boards need to urge management to position their privacy programs to meet the evolving regulatory landscape proactively and implement privacy by design concepts into their day-to-day operations."

—Derek Han, Principal of Cyber Risk Advisory Services, Grant Thornton LLP

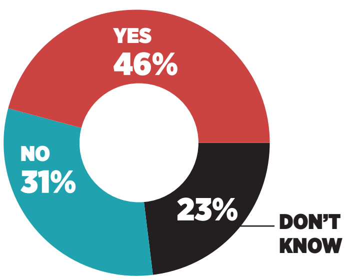
MAJORITY OF CORPORATIONS HAVE ADOPTED A CORPORATE CITIZENSHIP MENTALITY.

In recent years, we have observed a growing demand for corporations of all sizes and sectors to implement sustainable and fair practices that go beyond the interests of the organization. And while investor pressure certainly continues to play a large role in the matter, particularly with BlackRock CEO Larry Fink's 2018 letter to CEOs on how companies must have a social purpose, consumers—especially millennials—have joined the fight in strides.

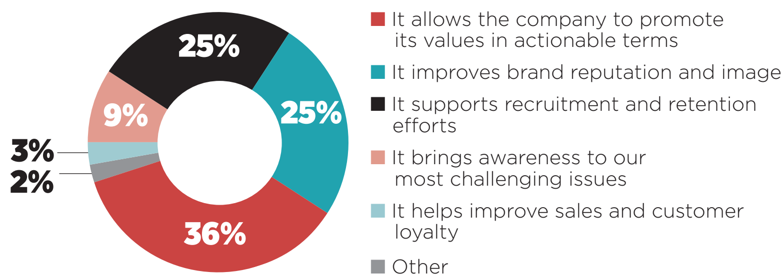
It is perhaps because of this group of 23- to 38-year-olds, which represents the largest generation of consumers benefiting from the greatest transfer of wealth in our nation's history, that 56% of corporate directors report that their company has adopted a policy of social responsibility.

While one director out of 10 believes in the good nature of these policies, saying they bring awareness to important social issues, 53% say CSR can also be used as a marketing tool to promote the brand, increase sales and attract employees. More than a third (36%) of directors surveyed say a CSR policy brings competitiveness because it allows the company to promote its values in actionable terms. When asked about the causes that bear the most positive influence on corporate reputation, diversity and inclusion takes the vote.

Do you believe a CSR policy brings a competitive advantage in today's marketplace?



What is the most important role a CSR policy plays for a corporation?



Expert Commentary

"To attract and retain high-performing employees in the war for talent, corporate values are key. The most highly skilled and sought-after employees also care greatly about CSR. Future-focused companies with an authentic strategy to create value in their communities and for the environment also tend to demonstrate a strong commitment to the success and growth of their people. CSR helps drive employee engagement, which helps increase business value and competitive advantage over time."

—Nichole Jordan, National Managing Partner of Markets, Clients and Industry, Grant Thornton LLP

"We've seen companies come in and say, 'well, I've hired three pride employees at my company.' Well, yeah. Congratulations. Why didn't you do that five years ago?"

—Malcolm Hotchkiss, Audit & Nom/Gov Committee Member, BayCom Corp.

Which social cause do you believe bears the most positive influence on corporate reputation in a CSR policy?

51%	Diversity and inclusion
23%	Environment
9%	Education
7%	Health care
4%	Income equality
3%	Other
2%	Labor relations
1%	Immigration
0%	Gun control

Action Items for Board Members

- ✓ Demonstrate that commitment starts at the top. CSR must be an integral part of the business culture, with a demonstrably strong commitment from the senior leadership team.
- ✓ Follow a set of principles to guide your efforts. The International Institute for Sustainable Development provides a checklist for employers that starts with creating a mission statement, followed by establishing metrics for measuring and reporting. You don't have to start big; aim for achievable goals.
- ✓ Identify internal champions who can help get the initiative going throughout the organization. Board-level champions are extremely helpful. As practices take hold, employees will start coming forward with suggestions. This should be encouraged and rewarded.
- ✓ Companies winning in this space are those with a genuine, demonstrated commitment to CSR. Those that lack a meaningful plan will quickly find themselves exposed, risking damage in terms of both reputation and talent base.

DIRECTORS FIND WINNERS AND LOSERS IN TRUMP'S TRADE WAR.

The impact of President Trump's tariffs on globalization, corporate viability and stock markets have been making headlines almost every day since the first round of tariffs on steel and aluminum products went into effect in March 2018. Directors are of two minds on this issue, collectively rating trade policy as the second most important factor offering upside potential for the current economy—and the number one factor presenting downside risk to the current economy. Yet, when asked if the tariffs had affected their company's growth strategy, a near majority says it remains too early to tell.

Which of the following do you consider the two greatest UPSIDE risks to the current economy?

36%	Technological change
33%	Trade policy
32%	Corporate tax reform
30%	Stronger global growth
22%	Federal infrastructure spending program

*Respondents were asked to select two.

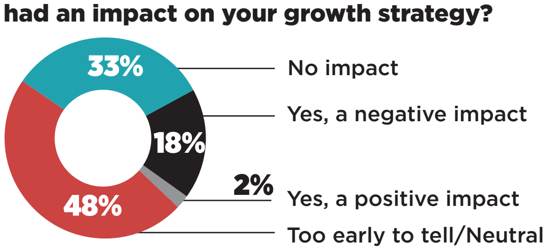
Which of the following do you consider the two greatest DOWNSIDE risks to the current economy?

48%	Trade policy
30%	Higher interest rates
28%	Federal deficit
28%	Shortages of appropriately skilled labor
26%	Substantial equity market decline and/or excessive volatility

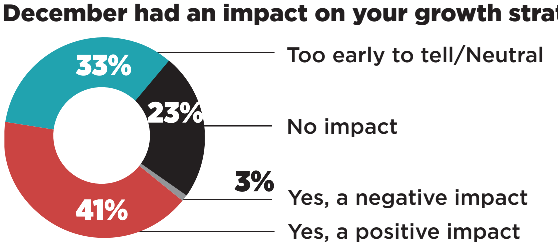
> ***"Somebody's going to win and someone's going to lose. If we're bringing the manufacturing back, the way I see it is that the companies who were exporting manufacturing are losers in that scenario."***

—W. Howard Morris, Audit and Finance Committees Member at Owens Corning

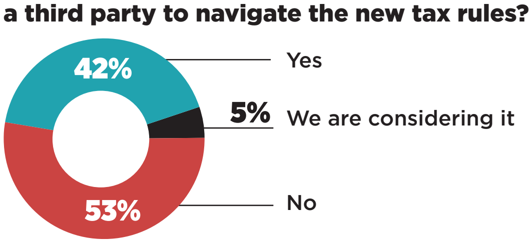
Have the trade tariffs imposed in 2018 had an impact on your growth strategy?



Has the corporate tax reform passed last December had an impact on your growth strategy?



Has your board required the expertise of a third party to navigate the new tax rules?



*Percentages may not add up due to rounding.

Expert Commentary

"What people often forget about trade is that trade law is inherently complex. It even makes tax law look like a cake walk. Negotiations take time and need consistency to agree on treaties that do not create new conflicts down the road. Add the unique strategy that the current administration has taken, and the road ahead appears littered with potholes."

—Diane Swonk, Chief Economist, Grant Thornton LLP

Action Items for Board Members

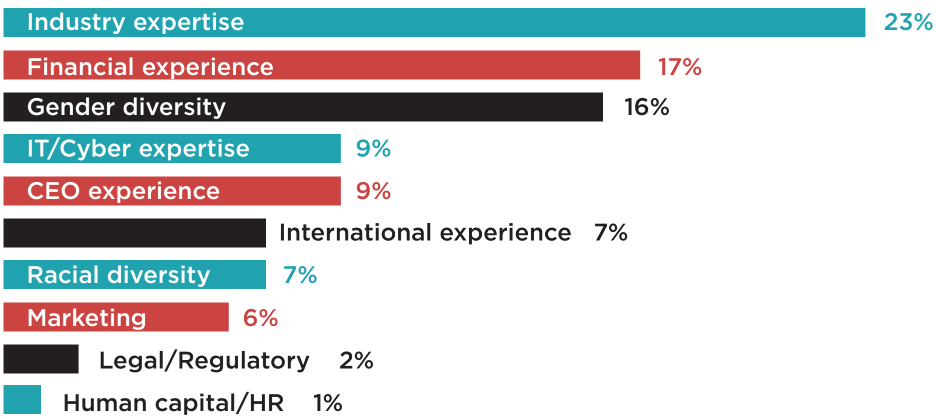
- ✓ Keep in mind that an honest dialogue with clients and consumers regarding any unavoidable cost of goods increases due to tariffs is a winning strategy. No customer wants to wake up one day and pay more for the same product. But explaining where and why the increase came about can help gain understanding.
- ✓ Bloomberg suggests, if possible, the use of free-trade zones, where "with the blessing of the U.S. government, companies can import goods into the zone with reduced duties on a case-by-case basis." It informs that the use of trade zones isn't a loophole but merely a way for companies to avoid duties on goods shipped to the U.S. and subsequently exported.
- ✓ Get help. Navigating complex tax codes and trade policies requires expert counsel. Reach out to outside consultants to get advice on the best strategies for your brand and growth plan.

GENDER DIVERSITY AMONG TOP CRITERIA IN SELECTION OF NEW BOARD MEMBERS.

Gender diversity now ranks as the third most important focus in selecting new board members, suggesting the advantage of diverse perspectives is now widely accepted—or that companies are responding to pressure from investors. With 78% of boards saying they conduct director evaluations at least annually, there are great opportunities for directors to assess their contributions to the governance process and reflect on the gaps the next member should fill.

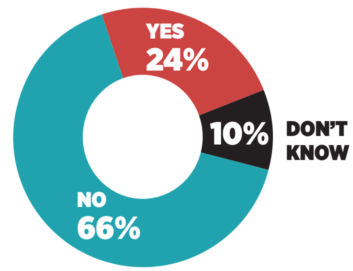
Nevertheless, despite widespread interest in boardroom diversity and a clear understanding of the benefits of onboarding women, the majority of directors are against legislating change in that arena, with two-thirds against California Senate Bill 826.

Importance of attributes to the selection of your board's next new member



*Percentages may not add up due to rounding.

Do you support California Senate Bill 826, which requires gender diversity in the boardroom?



When was your last director evaluation conducted?

37% Less than six months ago

41% Six to 12 months ago

4% More than a year ago

9% I have not yet had an evaluation on this board

9% This board does not conduct individual director evaluations

*Percentages may not add up due to rounding.

"When I heard California do it, I was happy, from a woman's perspective, but I don't think that's the right way to operate." —Louise Forlenza, CPA, Director, Innodata

Expert Commentary

"Boardroom diversity is a differentiator, and research has shown that companies with more diverse boards have higher profit margins, pay higher dividends and see measurable boosts in innovation. Gender diversity, in particular, is critical to effective corporate governance. To successfully navigate the complex issues facing companies today, leadership needs to draw on a diverse set of skills and competencies, as well as new thinking and perspectives about markets, business practices and customers.

It's time we stop treating diversity as a separate thing to be managed. Instead, diversity is a resource and perspective that needs to be woven into all other business strategies—innovation, sales/business development, product differentiation, etc. to optimize their effectiveness."

—Jina Etienne, Director of Diversity & Inclusion, Grant Thornton LLP

Action Items for Board Members

- ✓ Shift the conversation from overall diversity to diversity in leadership. Diversity in the boardroom will send a clear and powerful message to employees, stakeholders and customers about the company's commitment to diversity, as well as opportunity and equality. Modeling that commitment from the top is a critical component for long-term success in any diversity initiative.
- ✓ Make gender diversity a requirement for recruiting new board members. Modify the requirements to focus on having the right experience, instead of requiring prior board experience. Then consider developing a mentorship program for senior-level women just below the C-Suite to help prepare them for future board positions.
- ✓ Ensure policies avoid tokenism. Support actions that promote and address all key gender equality issues: equal pay, power and decision-making, personal safety, interpersonal work relationships and community involvement.

DIRECTORS ANTICIPATE DECREASE IN SHAREHOLDER ACTIVISM IN 2019.

The rise of hedge fund activists has become an area of focus—and concern—for many directors over the past decade. Our survey reveals, however, that worries are easing. The number of boards that now expect to be approached by an activist in the year ahead has dropped from 24% in 2017 to 13% in 2018.

Board members tell us this isn't because activism has slowed, but because they have adopted a more proactive strategy by regularly engaging shareholders with greater transparency on a series of topics of importance to them, particularly strategic planning and financial performance. In fact, the majority of directors surveyed say that shareholder activism and large investor proposals have created more awareness for the need for good governance—and the proportion of those who share that belief has increased 13 percentage points over the past three years.

Has your board been approached by an activist over the past 12 months?

18% SAID YES IN 2018

19% SAID YES IN 2017

Do you anticipate any new or further dialogue with activists in 2019?

13% SAID YES IN 2018

24% SAID YES IN 2017

Generally speaking, do you believe shareholder activism and large investor proposals have:

64%	Created more awareness for the need for good governance
43%	Reinforced and rewarded short-termism
18%	Helped to improve corporate performance overall
12%	Spurred many companies to take on more risk in pursuit of higher returns
6%	Steered companies into social/community involvement

*Respondents were asked to select all that apply.

Which of the following issues have shareholders requested to discuss with your board or management in 2018?

44%	Long-term strategic planning
40%	Short-term growth and financial performance
29%	M&A
27%	Board composition and refreshment
26%	CEO succession and leadership transition
21%	Executive compensation
14%	Diversity
10%	Cybersecurity
9%	Disruptive technologies
8%	Other
7%	Social policies
6%	Regulatory compliance
5%	Director compensation
5%	Data privacy

*Respondents were asked to select all that apply.

"Activists play a very interesting and key role. They often have good insight to share. Being proactive with those relationships and making sure that you're engaged with your shareholders is a very key activity from my perspective."

—Kim Box, independent director at two public company boards

Expert Commentary

"Boards' attitudes on shareholder activism have changed, and they have been more eloquent with shareholders and through public filings. As we look to the future for activists and boards, continued transparency is key. Taking cues from shareholder agendas, boards continue learning as they drive and improve governance in their agendas."

—Warren Stippich, National Managing Partner of Quality and Risk for Advisory Services, and Global Co-Leader for Business Risk Services, Grant Thornton LLP

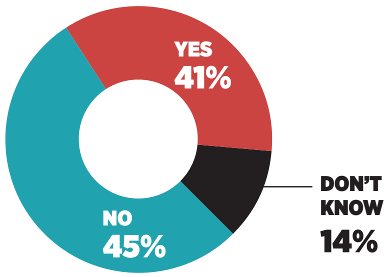
Action Items for Board Members

- ✓ Be strategically prepared to help avoid litigation, minimize controversial PR and mitigate uncertainty created by shareholder activism.
- ✓ Evaluate opportunities to improve shareholder relations, listen intently to discussions on social media, personally acknowledge shareholder concerns and have a plan to respond appropriately.
- ✓ Keep laser focused on shaping or adjusting culture to address environmental, social and governance (ESG) concerns, as large institutional investors are highly interested in this issue.

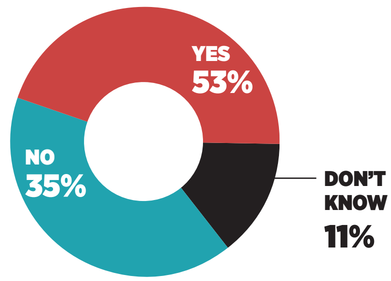
DIRECTORS DIVIDED ON REGULATING BIG TECH.

Generally opposing new regulation, directors may be gradually tilting toward making an exception in the case of the so-called FAANG (Facebook, Amazon, Apple, Netflix, Google) companies. Survey participants against a regulatory check for Big Tech (45 percent) only outweigh those in favor (41 percent) by a narrow margin.

Do you think there should be increased government regulation of the “FAANG” companies?



Do you think the “FAANG” companies have become too powerful in business and society?



*Percentages may not add up due to rounding.

> ***“There needs to be some degree of regulation, but not regulation that puts a noose around their neck because they need to have their creative and their current flow in order to grow.”***

—Thomas Harrison, Nom/Gov Chair, Compensation Committee Member, Zynerba Pharmaceuticals

Expert Commentary

“Leaders of large companies from Apple to IBM are calling for federal regulation of consumer-facing technology companies. Current bills in the House and Senate, including the bi-partisan Honest Ad Act, would require more transparency about who is paying for political ads on social media platforms. Any new regulations must carefully consider compliance costs to avoid putting smaller companies and startups at a significant competitive disadvantage.”

—Srikant Sastry, National Managing Principal of Advisory Service for Grant Thornton LLP

ACTION ITEMS FOR BOARD MEMBERS IN 2019

With disruptions emerging all around us, from economic volatility and geopolitical instability to new technologies and shifting consumer demands, boards and their companies will continue to face numerous challenges into 2019. Make sure you iron out the priorities and include the top issues as key components of your boardroom agendas, namely:

- ✓ Elevate data privacy as a key risk that must be addressed along with cybersecurity.
- ✓ Become future-oriented by focusing attention on the innovative potential of disruptive technology.
- ✓ Demonstrate the board’s genuine commitment to corporate values.
- ✓ Encourage proactive strategies for smooth operations during uncertainty regarding trade and other political, economic and global developments.

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Corporate Board Member, a division of Chief Executive Group, has been the market leader in board education for 20 years. The quarterly publication provides public company board members, CEOs, general counsel and corporate secretaries decision-making tools to address the wide range of corporate governance, risk oversight and shareholder engagement issues facing their boards. Corporate Board Member further extends its thought leadership through online resources, webinars, timely research, conferences and peer-driven roundtables. The company maintains the most comprehensive database of directors and officers of publicly traded companies listed with NYSE, NYSE Amex and Nasdaq. Learn more at BoardMember.com

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