EVERY YEAR, CORPORATE BOARD MEMBER AND SPENCER STUART COLLABORATE TO SURVEY DIRECTORS OF PUBLICLY TRADED COMPANIES TO CHECK THEIR PULSE ON THE CHALLENGES AND BEST PRACTICES OF CORPORATE DIRECTORSHIP IN THE UNITED STATES. THIS YEAR, IN OUR 15TH ANNUAL WHAT DIRECTORS THINK SURVEY, 230 BOARD MEMBERS SHARED THEIR OVERWHELMING CONCERN OF BEING ILL-EQUIPPED TO KEEP UP WITH THE ACCELERATION OF TECHNOLOGY AND DISRUPTION. THIS REPORT PRESENTS OUR KEY FINDINGS.
KEY TAKEAWAYS

6 out of 10 directors say their top concern is cybersecurity.

The majority of directors support increased cyber regulation.

Most remain opposed to mandatory term limits, despite agreeing that a director’s seat should be reassessed after 10 to 15 years.

57% of directors say an enhanced brand image and reputation and a greater ability to attract and retain employees are the two biggest benefits of a corporate social responsibility program.

Nearly 3/4 believe institutional investors’ increased pressure on board tenure and composition is a good thing, and that enhancing diversity is on their agenda, particularly with respect to onboarding women.

68% of directors believe the Tax Cuts and Jobs Act’s provision for the repatriation of foreign profits will help stimulate the U.S. economy and support domestic growth.

Half of directors say their company has a corporate social responsibility policy in place, with an additional 10 percent saying they have one in the works.
RISK OVERSIGHT
In our annual quest to reveal the preoccupations of America’s boardrooms, we found that one thing is on the minds of directors more than anything else these days: technology, particularly keeping pace with the unprecedented rate of disruptive change brought about by the digital revolution.

The skills to help overcome this fear remain in short supply for boards, however. Despite research that shows that nearly 20 percent of new S&P 500 directors have backgrounds in the technology or telecommunications industries, boards’ main strengths continue to center around strategy and finance. Only 12 percent of directors in our study listed IT as one of the skills they bring to their boardroom (See “Where’s the Tech?” chart, below).

And while 63 percent said their board has at least one member with the technical skills to engage in a meaningful discussion with senior information security executives on matters of a highly technical nature, cybersecurity and disruptive innovations remain the two main issues that directors told us would be on the agenda if they could bring a panel of experts to their boardroom to provide insights (See “Seeking Cyber Help” chart, p. 4).

In fact, 67 percent reported doing just that, bringing in experts to help master contentious cyber issues, and 20 percent of those who have not yet done so say they are considering doing it in the near future. Directors who have opened their boardrooms to outside cybersecurity experts say they found the experience to have been helpful in their oversight, ranking its value 7.4 out of 10.

It is clear from talking with directors that cybersecurity risk not only remains a top concern but may in fact be intensifying. In last year’s survey, 78 percent of directors told us they felt additional regulation would have little effect in curbing cyber attacks and would overburden companies and their boards. This year, 20 percent say that high-profile

WHERE’S THE TECH?
Which of the following skills or knowledge areas do you personally bring to the boardroom?
(Respondents were asked to select all that apply.)

<table>
<thead>
<tr>
<th>Skill/Subject</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Strategy development and implementation</td>
<td>69%</td>
</tr>
<tr>
<td>Finance</td>
<td>64%</td>
</tr>
<tr>
<td>M&amp;A</td>
<td>56%</td>
</tr>
<tr>
<td>Accounting</td>
<td>50%</td>
</tr>
<tr>
<td>ERM</td>
<td>38%</td>
</tr>
<tr>
<td>Board diversity</td>
<td>28%</td>
</tr>
<tr>
<td>Human capital management</td>
<td>24%</td>
</tr>
<tr>
<td>Strategic marketing</td>
<td>21%</td>
</tr>
<tr>
<td>Legal</td>
<td>17%</td>
</tr>
<tr>
<td>IT</td>
<td>12%</td>
</tr>
<tr>
<td>Media/PR</td>
<td>8%</td>
</tr>
<tr>
<td>ESG/Sustainability</td>
<td>4%</td>
</tr>
</tbody>
</table>
SEEKING CYBER HELP

Top three issues for which directors would seek expert advice

- 61% Cybersecurity
- 40% Disruptive Innovations
- 20% Succession Planning

READY FOR REGULATION?

Director stance on push for increased cyber regulation...

...in 2018

- 40% Against Additional Regulation
- 60% Support Increased Regulation

...in 2017

Additional regulation will curb neither risk nor incidents and will only serve to overburden companies and their boards.
breaches, especially those that occurred at Equifax, the SEC and Uber, have convinced them to change their stance in favor of more cyber regulation, enough to have tipped the scale in support of increased regulation in that area (See “Ready for Regulation” chart, p. 4).

But a problem persists: At many companies the audit committee has been overburdened for some time now. And with an increasing number of issues falling within its purview, some are calling for shifting risk oversight out of its scope of responsibility, either by creating a pure risk committee, making risk a full-board responsibility or periodically rotating committee chairs and members.

Numerous boards have already begun reshaping their committee structures. New committees are emerging, and several have become more prevalent in the past 10 years, including risk; science & technology; and environment, health and safety committees. In 2007, for example, five percent of S&P 500 boards had a science and technology committee, compared with 10 percent today.

**BOARD COMPOSITION**

Another way to overcome the challenges highlighted by the emergence of new risks is to ensure that the board comprises directors with a diverse array of skills and that it is constantly being evaluated and refreshed to keep up with changing times. After all, whether or not a company will survive the speed of change comes down to those who sit at the table.

Several of our past studies have addressed the importance of renewing a board as a way to sustain performance, which, contrary to popular belief, doesn’t necessarily mean letting directors go. Rather, renewing a board may simply entail refreshing the skill sets and committee structures in order to adapt to the changing environment, and, in the end, that’s what most shareholders want to see.

The concept of age or term limits is indeed gradually becoming moot. The overwhelming majority of directors we polled—a lopsided 74 percent this year—remain opposed to mandatory term limits, somewhat understandable considering 45 percent of respondents have been directors for more than a decade. Nevertheless, most agree that, on average, a director’s seat should be reassessed—but not necessarily vacated—after 10 to 15 years.

Directors have been arguing against mandatory term limits for years now, insisting that turnover for the sake of turnover is counterproductive, especially if it means letting go of a high-performing, heavily invested member. Refreshment is a positive factor but not at the expense of knowledge and experience. The focus of board composition, many say, should remain on finding the best person for the job.

But if that’s the case, boards need to agree to be held accountable for not letting directors go when they don’t or no longer perform as expected. And now, with institutional investors such as BlackRock officially mandating boards to include a diverse mix of genders, ethnicities, career experiences and ways of thinking as a way to avoid succumbing to groupthink or missing new threats to a company’s business model, directors may have their work cut out for them.

After all, nearly three-quarters (73 percent) told us they believe institutional investors’ increased pressure on board tenure and composition is a good thing, and 78 percent reported that enhancing diversity is on their agenda, particularly with respect to onboarding women.

**CORPORATE SOCIAL RESPONSIBILITY**

After focusing intensely on the composition of boards, institutional investors have now begun to shift their focus to the social involvement of corporations. And increasingly, the public is demanding it as well.

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### THE ROI OF SOCIAL RESPONSIBILITY

**What benefits did your company’s CSR policy bring?**

* (Respondents were asked to select all that apply.)

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhanced brand image and reputation</td>
<td>57%</td>
</tr>
<tr>
<td>Greater ability to attract and retain employees</td>
<td>56%</td>
</tr>
<tr>
<td>Increased social awareness to cause/mission</td>
<td>44%</td>
</tr>
<tr>
<td>Improved hiring and wellness practices</td>
<td>36%</td>
</tr>
<tr>
<td>Reduced shareholder pushback</td>
<td>21%</td>
</tr>
<tr>
<td>Greater productivity and quality</td>
<td>14%</td>
</tr>
<tr>
<td>Increased sales and customer loyalty</td>
<td>8%</td>
</tr>
<tr>
<td>Improved financial performance</td>
<td>6%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
</tr>
<tr>
<td>Reduced regulatory oversight</td>
<td>5%</td>
</tr>
<tr>
<td>Broader access to capital</td>
<td>2%</td>
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</tbody>
</table>
WHERE SHOULD THE MONEY GO?

Which of the following investments do you believe your company would consider making with the repatriated funds?  (Respondents were asked to select their top three.)

**Directors:**
- 48% Expand through an acquisition
- 45% Invest in IP, research and development
- 44% Pay down debt
- 43% Increase capex
- 30% Upgrade technology
- 9% Enhance competitiveness of workers’ wages
- 9% Increase workforce
- 7% Other
- 2% Enhance competitiveness of exec comp plans

**CEOs:**
- 49% Increase capex
- 33% Increase workforce
- 32% Upgrade technology
- 29% Expand through an acquisition
- 24% Pay down debt
- 21% Invest in IP, research and development
- 21% Enhance competitiveness of workers’ wages
- 11% Other
- 3% Enhance competitiveness of exec comp plans

Our survey, which concluded two days prior to BlackRock’s January 16 letter to CEOs, found that this push for increased social awareness may have also been on directors’ radar, as the majority of our respondents said their board had already taken action in the area of social responsibility. Half said their company had a CSR policy in place, with an additional 10 percent saying they had one in the works.

When it comes to the rationale for implementing such policies, however, board members’ perception of value may differ from the one publicly stated by BlackRock and other institutional investors. Fifty-seven percent of directors said an enhanced brand image and reputation and a greater ability to attract and retain employees are the two biggest benefits for the company (See “The ROI of Social Responsibility,” p. 5).

Boards are hearing from investors and other company stakeholders more often on environmental, social and governance issues, and they’re aware that the next generation of employees and leaders want to work for organizations that take social and environmental health considerations seriously. Yet, directors in our survey ranked ESG initiatives and sustainability at the bottom of their list of concerns or priorities this year.

**ECONOMIC POLICIES**

When it comes to the outlook on the economy and business conditions, 60 percent of directors see little volatility and consistent economic growth throughout 2018, even as they keep a close eye on the nation’s political stability and the impact of the Trump administration’s policies in the long run, and 68 percent believe the Tax Cuts and Jobs Act’s provision for the repatriation of foreign profits will help stimulate the U.S. economy and support companies’ domestic growth.

It’s where those monies will be officially deployed that remains an open question and should make for lively debate in boardrooms across the nation this year. When we asked both CEOs and directors where they’d like to invest repatriated funds under the new tax cut, the answers were a bit different. (See “Where Should the Money Go?,” p. 6).

One thing is for certain: We are in a period of rapid change, and boards that capture the moment as an opportunity to grow are likely to stand out from the crowd.
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