



Key trends in boardroom communication

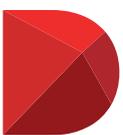
Increased threats and demands call for evolved technology

Target, Sony, Yahoo, Salesforce—all are powerhouses in their own right, and all have fallen victim to massive data breaches that presented serious business risks to the future of the companies. Board members at organisations large and small are now slowly starting to recognise the importance of secure information-sharing practices and communication technology for boards to ensure that they don't risk their confidential information being compromised in the next big data breach.

Evidence points to many boards being stuck in the 'status quo', emailing each other key data points and confidential information, without fully recognising the enterprise risk that this poses in today's hacker's paradise.

Email and printed documentation should now be a thing of the past for board communications, in large part due to the security risks they pose; however, boards are surprisingly slow to adopt new technology to better protect confidential data and conversations.

The good news is that several board portals and communication technology tools today leverage the speed of digital communication coupled with stringent security measures.



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In a recent study of more than 300 professionals conducted by Corporate Secretary magazine, 32% of boards surveyed reported that they are 100% paperless, while 29% reported that they use paper materials 'at some point'.¹

While technology is changing the way everyone does business today, regardless of the size of the company or the business sector, research has found that secure, modern communication technology is only now being embraced by boards around the globe. In this white paper, we will explore the reasons behind the low rate of adoption of board portal communication tools, despite increasing security threats. Are boards at risk of evolving too slowly as security risks become more sophisticated?

STATUS QUO—CURRENT TECH TRENDS IN THE BOARDROOM

Why are modern communication technology and cybersecurity often the elephant(s) in many boardrooms today? A careful review of the typical make-up of a board provides some helpful background to this discussion.

The chief technology officer (CTO) or chief information officer (CIO) has only recently begun to play a greater role in board meetings, and is now often consulted on matters like competitive technology advantages and cybersecurity—a critical element for ensuring proper protection of confidential board materials.

This isn't to say that technology is the unspoken word in the boardroom. A recent report from Spencer Stuart stated, 'While nearly 10 percent of S&P 500 companies have established a technology committee, most boards are ill-prepared for the pace of technology developments.'²

Only 71% of directors polled in PwC's 2015 annual survey said that their company's IT strategy and risk mitigation approach are supported by an adequate understanding of IT at the board level.³ A recent survey by the Ponemon Institute, sponsored by Raytheon, found that 80% of boards do not even receive briefings on their company's cybersecurity strategy.⁴ With hackers and breaches abounding in headlines every day, boardrooms that are not prioritising cybersecurity run a real risk of exposing themselves to dangerous breaches.

It's critical that the entire board reflect continuously on technology trends and set an example in terms of security for the entire organisation.

The recently disclosed Yahoo breach⁵ is just one of many examples of late; in this case, simple email communications opened up the entire company to what's being considered as the biggest data breach in history. Boards can better protect the valuable information they are sharing among their members by adopting technology solutions that are specifically created to ensure proper security standards for financial and strategic data and information.

More secure technology has, however, managed to make its mark on documentation best practices in the boardroom. While signing off on documentation used to require in-person signatures every time an important financial decision, compensation determination or deal was made, today e-signature technology allows boards to make decisions more efficiently and gain approval on time-sensitive matters. The Sarbanes–Oxley Act of 2002 (SOX) changed this dynamic by allowing board members to sign documents with a secure provider that can then be accepted by the legal team and the SEC. For companies with a market capitalisation of \$5 billion (AU\$6.3 billion approx.) and over, this is a requirement, whereas for smaller companies it's merely a suggestion. Regardless of the size of the organisation, this ruling has helped to promote boardroom adoption of more modern technology and has emphasised the need for secure ways to share documents across geographic boundaries.

Given the threat of communication hacks, boards are slowly beginning to look for an alternative to the email status quo. In the Corporate Secretary survey, 37% of respondents reported that their primary method of delivering board materials was to use board portal software, with email coming in close second with 30% of the votes.⁶



1. 'Trends in board portal adoption' 2017, IR Media Group (USA) <http://diligent.com/trends-board-portal-adoption/>

2. 'Technology in the Boardroom: Five Things Directors Should Be Thinking About' 2017, Spencer Stuart. <https://www.spencerstuart.com/research-and-insight/technology-in-the-boardroom-five-things-directors-should-be-thinking-about>

3. 'Annual Corporate Directors Survey,' 2015, PwC. <https://www.pwc.com/us/en/corporate-governance/annual-corporate-directors-survey/assets/pwc-2015-annual-corporate-directors-survey.pdf>

4. 'All Boards Need a Technology Expert.' 2015, *Harvard Business Review*. <https://hbr.org/2015/09/all-boards-need-a-technology-expert>

5. 'Yahoo Says 1 Billion User Accounts Were Hacked.' 2016, *The New York Times*. https://www.nytimes.com/2016/12/14/technology/yahoo-hack.html?_r=0

6. 'Trends in board portal adoption.' 2017, IR Media Group (USA) <http://diligent.com/trends-board-portal-adoption/>

BARRIERS TO ADOPTING NEW TECHNOLOGY

With new secure communication technology available today, who isn't taking the security risk as seriously in the boardroom, and why not?

Some point to the ageing board population, claiming that older board members may be less likely to adopt new technology without leadership setting an example. Spencer Stuart's Global Board Index, cited in Bloomberg News, stated that in 2015,⁷ 40 percent of directors at Standard & Poor's 500 Index companies are 64 or older, up from 33 percent in 2010 and 18 percent in 2005.⁸ This same article cited Ernst & Young's Center for Board Matters, which 'shows that almost 20% of board members are older than 68 and have served for more than a decade'.⁹ With this ageing population, adapting to new forms of communication will take education, but the result has proven to be worth it, as the reputational and security risks far outweigh concerns about learning new technology.

Sharing sensitive company information is commonplace in boardrooms, but it's becoming increasingly difficult to keep it within the 'four walls' of the boardroom. The recent Salesforce case⁸ showcases the real business implications of boards continuing to rely on simple email communication to deliver confidential information. With this breach, Salesforce saw its M&A target list released to the world via board member emails, thus putting the company at a disadvantage and causing the markets to move due to concerns about Salesforce's security procedures.

For younger, tech-focused public companies that typically maintain an average board age below 60, board portals and video conferencing are a part of doing business and an easy decision, especially when considering the security risks that both email and paper documentation pose. In the recent Corporate Secretary survey, 62% of those surveyed pointed to board portals as the key to 'improving communication and/or overall board effectiveness'.⁹

Cost can sometimes factor into the debate of choosing whether to use a board portal, as board members are slowly moving away from seeing technology as just another cost. With rising security risks, this cost debate is becoming a non-event, as the expense is more easily justified given that the adoption of secure communications can quash real concerns around leaked confidential information and board materials.

THE TECHNOLOGY COMMUNICATIONS SOLUTION

Corporate Secretary's survey dug into the key reasons why respondents would choose to use a board portal for board communications. The top three reasons were:

- 1. Security:** More security for board members and board materials
- 2. Adoptability:** Better convenience/ease of use from board members' perspective
- 3. Cost reduction:** Reduced cost due to eliminating paper production and/or distribution

A long-standing board member of a mid-cap, US-based media company recently commented on security, stating, 'Paranoia is good inside a company as it leads to fewer mistakes if you worry about the outcome of every one.' The fact is that older forms of communication, including paper and email, present an enormous risk in terms of security.

The paper method once preferred by boards simply does not allow for an efficient record-keeping process—whereas board portals today provide an easy way for boards to securely store all their millions of pages of documentation in one place that is kept protected from prying eyes. Leaving confidential papers behind on a train or plane makes for an immediate security risk. Leaving the same documents behind on an iPad, laptop or mobile device with a secure board portal that requires a log-in provides that wall of confidentiality that boards need, especially in today's world where confidential information can be shared on social media in an instant, or wiped clean from a laptop or mobile device.

As we've discussed, electronic communication has taken over as the chosen form of communication for boards when it comes to scheduling meetings and even signing critical documents. But more tech-focused boards today are increasingly taking advantage of the efficiencies obtained by using board portals in order to help the corporate secretary to communicate more promptly and effectively with directors. With more collaborative tools available, from interactive note-taking—which is tracked and managed on a secure server—to an intuitive view of board financial statements, board portal technology presents boards with an easier way to find more efficient ways to communicate.

7. 'The One Place It's OK to Be Old Is in the Boardroom.' 2015, Bloomberg. <https://www.bloomberg.com/news/articles/2015-08-21/aging-board-members-stick-around-longer-than-ever-in-s-p-500>

8. 'Hacktivists Leak Colin Powell's Salesforce Potential M&A Emails.' 2016, PYMNTS. <http://www.pymnts.com/whats-hot-2/2016/hacktivists-leak-colin-powells-salesforce-potential-ma-emails/>

9. 'Trends in board portal adoption.' 2017, IR Media Group (USA). <http://diligent.com/trends-board-portal-adoption/>

CONCLUSION

Paper documentation is a thing of the past for the majority of boards around the world, with email slowly following suit, as boards begin to embrace the security benefits of more modern forms of communication and information sharing.

With older or longer-standing boards, it will take time for them to adopt new technology, and it may just be that new members who are more tech-focused will need to supplant the current status quo in order for the sea change to occur. But the movement towards modern board portal communication technology is becoming more and more pronounced as boards become aware of the security risks that they face given their current communication practices.

In today's world of 140 characters and less being more, the board will always need to devote adequate time to analysing financial documents and other critical business materials. But the risk of breaches and hacks should not have to limit their ability to focus on these critical items.

This isn't just a matter of keeping up with the times and ensuring proper security protection for board communications. These new technology-based tools foster better decision-making and collaboration, save time, provide cost savings and help ensure that board members are easy to reach at a moment's notice.

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