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Thought Leadership Paper
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Directors' Digital Divide: Boardroom Practices Aren't Keeping Pace With Technology

Too Many Boards Still Use Personal Email
And Fail To Adopt Technology For Sensitive
Communication

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50% of internal board communication is done over personal email, with 53% of North American, 51% of European and 48% of Asia Pacific boards using personal email for sensitive internal board communication.



87% of boards are concerned about the security of their board communication and data sharing.

Executive Summary

The stakes have never been higher for professionals to manage critical issues such as cyber risk, regulation, culture and ethics, and the constant pressure to drive business performance. For this study, the segment of governance professionals refers to board members, board directors, chief legal officers, corporate secretaries and investor relations staff. Boards cannot continue to rely on poor security practices and outdated approaches to keeping their sensitive board matters and materials safe from cyber attacks. Board management technology that provides end-to-end governance management is required — the ability to safely communicate and collaborate, make decisions, and use their limited meeting time in the most effective manner are paramount.

In April 2018, a Forrester Consulting study was commissioned by the Diligent Corporation to evaluate the technology used for board governance. Forrester conducted an online survey with 411 governance professionals from 11 countries around the world in North America, Europe and Asia Pacific to explore this topic. We found that board members and governance professionals do not associate their own communication practices with the company's cybersecurity posture. Those same boards rely on technology to help them increase their visibility across the organisation, but most have yet to successfully implement an enterprise governance management (EGM) solution that enables effective oversight into critical areas like cyber risk and crisis communication.

KEY FINDINGS

- › **Over half of sensitive internal board communications happen over personal email.** Fifty-six per cent of board members are using personal email (not business-regulated email) to communicate about board matters. This type of practice leaves boards vulnerable to potential cyber attacks, breaches and inadvertent data leaks. While just over a third of boards rely on closed-loop secure communication channels, the rest are risking potential material loss by using unsecured communication methods.
- › **Many boards fail to leverage technology to gain visibility and surface new insights.** Integrated technology helps boards to better understand their areas of greatest risk, to view scorecards of governance categories, and to gain insight on company operations. End-to-end governance technology allows boards to identify areas of potential risk faster and more comprehensively, and then work with management to tackle the firm's vulnerabilities — yet few boards currently use this technology.
- › **More often, technology acts as a hindrance to boards in a crisis situation.** Boards that have experienced a crisis (e.g., PR issues, legal issues, shareholder activism, data breach) tell us their current board management software acted either as a hindrance or provided no help at all, when it came to allowing boards to respond within the required time constraints and securing communication between directors.

Underdeveloped Board Communication Practices Expose Organisations To Cyber Risk

Boards have adopted many types of technology to help them manage meetings, from scheduling to accessing materials and more. However, nascent practices by governance professionals are leaving boards and their organisations vulnerable to cyber attacks — courting the potential high costs and serious repercussions of having sensitive materials and matters being exposed to the public. In surveying 411 governance professionals, we found that:

- › **Half of governance professionals use their personal email for sensitive internal board communications.** Board members/directors are the largest users of personal email at 56%, followed by C-level executives at 51%. Forwarding board materials or discussing sensitive topics such as mergers and acquisitions, redundancies, or other delicate legal matters over personal email opens vulnerability to cyber attacks. Regardless of the risk, personal email usage for board communication is common across boards of all company sizes and regions. North America has the highest usage at 53%, followed closely by Europe at 51%, and the lowest usage is in Asia Pacific at 48%. Executive boards are slow to adopt more secure communication methods like secured closed-loop messaging for directors, with only 35% of boards using this method today. Asia Pacific and Europe have seen more adoption of secured closed-loop messaging at 37% and 36%, respectively, compared to only 30% adoption in North America. Even among boards that use board portal software, 55% still use personal email for internal board communications.

Only 42% of boards today have board management software that has chat functionality as a capability. Chat functionality refers to one-on-one or group-chat options. The usage of chat functionality varies by region. Boards in Asia Pacific have the highest usage today of chat functions, at 48%, as part of their current board management, followed by Europe at 45% and North America at 31%. Governance professionals must align their own communication practices with the company's cybersecurity posture and only use secure communications practices. The board management capabilities that would help boards in each region do their job better vary. Virtual deal rooms (VDR) and chat functionality were top capabilities across all regions that would help respondents do their jobs better. Europe also needs voting/polling capabilities and minute-taking features. North American boards need minute-taking features, but they also prioritised project management features and archiving/search functionality. Asia Pacific agreed they need minute-taking, archiving and search functionality to do their jobs better.



47% of boards are using instant messaging for internal board communication. Asia Pacific boards see the highest adoption of instant messaging for internal board communication at 57%. Europe follows at 50%, but only 29% of North American boards use instant messaging.

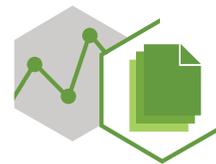
- › **Nearly 30% of board members reported losing/misplacing a phone, tablet or computer in the past year.** Another 23% reported losing/misplacing paper assets, making the loss of devices and papers the most common security breach. Device usage is increasing, with 91% of boards running board management software on a laptop/desktop computer, 59% on a tablet and 54% on a mobile phone. However, our study found that these problems are not isolated to any region or company size; they are common across all boards. Given the rate of lost or misplaced devices, software solutions with the ability to remotely wipe a device may have increased appeal to boards whose members access board materials through mobile devices. Each region surveyed for this study agreed that misplaced devices is their top security challenge, with 45% of North American board members having lost/misplaced a device, followed by 30% in Europe and 28% in Asia Pacific.

With frequent lost devices and misplaced assets, technology that prevents cyber attacks is critical in addressing board members' biggest fears: allegations of fraud or corruption, cyber incidents, compliance violations being discussed publicly, and reputational risk. Firms can probably weather regulatory fines, but they are unlikely to survive a prolonged exodus of customers.¹ This is even more reason to protect assets from potential loss or breaches.

- › **Forty-one percent of boards are very concerned about their ability to secure their communications and data sharing.** Boards lack the technology they need to block cyber attacks and meet compliance requirements. As cyber threats become more advanced, the need to keep board members and materials protected has never been more critical. Boards are least satisfied with their current visibility into cybersecurity. Potential or pending litigation is an area that boards in Europe need more help with, compared to North America or Asia Pacific. This dissatisfaction stems from the challenges that boards experience when using this technology, including securing documents/board materials, controlling access, meeting regulatory/compliance requirements, providing transparency on board actions, and more (see Figure 1). While all regions face these challenges, boards in Asia Pacific struggle the most.



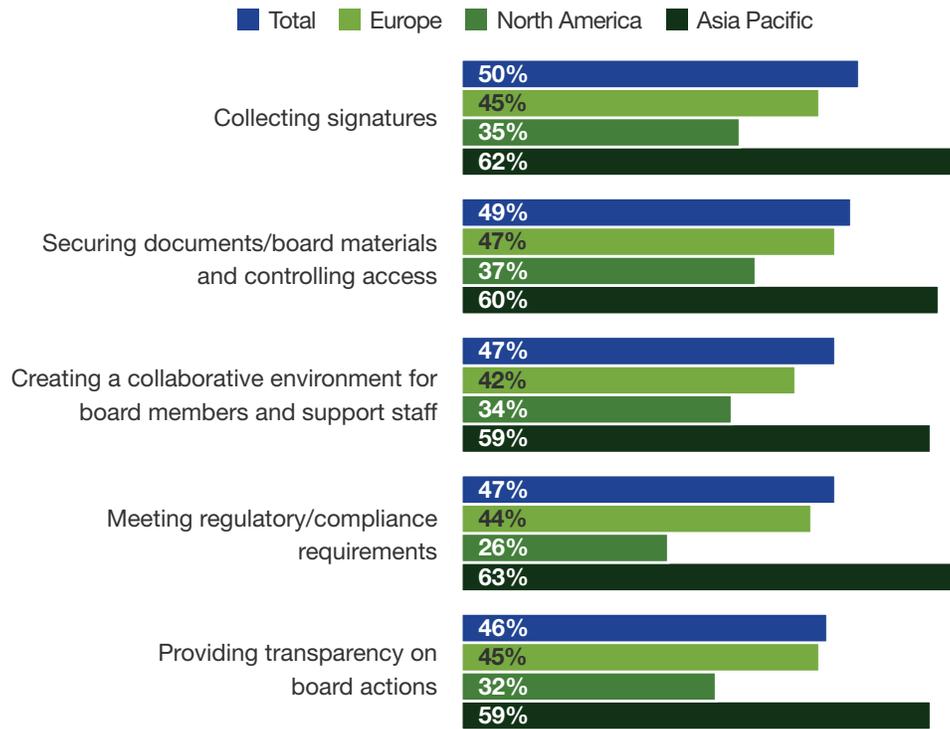
29% of governance professionals lost or misplaced a mobile phone, tablet or laptop in the past year.



49% of boards find it challenging to secure documents/board materials and control access. This is a bigger issue in Asia Pacific (60%), compared to Europe (47%) and North America (37%).

Figure 1

“How challenging are each of the following when using your current board management software?”
(“Challenging” and “very challenging” answers shown)



Base: 411 global executive board decision makers

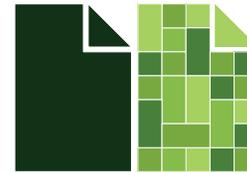
Source: A commissioned study conducted by Forrester Consulting on behalf of Diligent, August 2018

Boards Benefit From Technology, But There Is Room To Grow

In today's landscape, there is a baseline of technology that has been adopted to help manage corporate governance responsibilities. However, there is still a long way to go before boards achieve end-to-end digital governance. Given the sensitive nature of the materials discussed inside and outside the board meeting, organisations need software that manages the process end-to-end and provides governance, collaboration and security, well beyond the boardroom.

Challenges include:

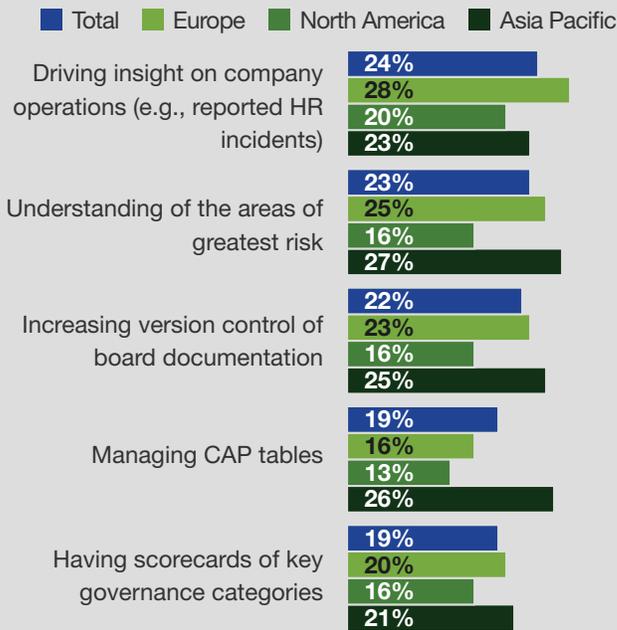
- › **Less than a third of governance responsibilities are being solved with technology today.** Only North American boards have seen more than a third of certain governance responsibilities solved by technology. Preparing reports, improving scheduling, and streamlining meeting preparation is important, but it does not address the bigger governance challenges that boards are facing today. The governance responsibilities that are least likely to be solved today by technology include having scorecards of key governance categories, understanding areas of greatest risk, and driving insight into company operations like HR incidents (see Figure 2). These governance areas are a challenge to boards globally. Boards know that leveraging the right technology can help to ensure compliance requirements are met, increase access to the right data, enable board members to make better decisions, and improve overall security understanding.
- › **Critical enterprise governance management (EGM) components drive improved security.** Eighty-seven per cent of boards are mildly to extremely concerned about the security of their board communications and data sharing. Ninety-two per cent of boards in Asia Pacific are at least mildly concerned about the security of their board communications and data sharing, followed by 87% of boards in Europe and 77% in North America. As a result, they are looking for technology to organise, facilitate, and secure the processes, procedures and information related to board governance activities. Boards cited critical components to achieve EGM success (see Figure 3). As board governance, risk management and compliance programmes and technology improve, they enable more advanced governance capabilities and, ultimately, better performance and business value. Boards must determine where their programme adds business value today and how they'd like to advance it in the future.²



20% of boards said board management software that allows for document annotation, sharing and transfer would be more efficient. 22% of Asia Pacific boards agree, as do 19% of both North American and European boards.

Figure 2

“Which of the following governance responsibilities have already been solved at your organisation with technology?” (Bottom 5 answers shown)

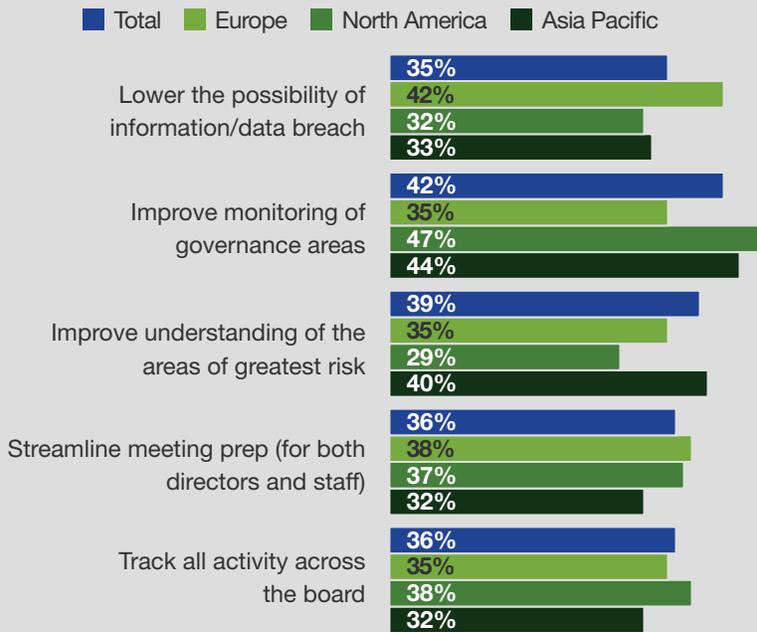


38% of boards in Asia Pacific, 35% in Europe and 30% in North America think having a better understanding of the areas of greatest risk to their board would have most impact if solved with technology.

Base: 411 global executive board decision makers
 Source: A commissioned study conducted by Forrester Consulting on behalf of Diligent, August 2018

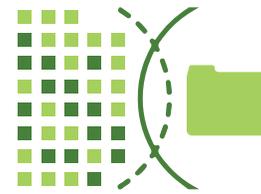
Figure 3

“Rank the five most critical components to achieve successful enterprise governance management (EGM).” (Top 5 answers shown)



Base: 411 global executive board decision makers
 Source: A commissioned study conducted by Forrester Consulting on behalf of Diligent, August 2018

› **Board portal adoption is high, but usage is limited.** While board portals can be helpful in improving communications and governance compliance, bad practices by governance professionals must still be addressed. Board portal software usage is highest in Asia Pacific, with 54% of boards currently using it, followed by 48% of boards in Europe. Board portal software usage is lowest in North America, with only 32% of boards currently using it. Email (personal and business-regulated) and video/phone conferences are the most common technology used for internal communication. Asia Pacific and Europe use the same top technologies to manage boards; they rely most heavily on video conferencing, with Asia Pacific at 72% and Europe at 68%. Email and PDFs are the second most relied on piece of technology, with Asia Pacific at 70% and Europe at 74%. Document collaboration services are the third most-used technology by board members, with Asia Pacific at 66% and Europe at 69%. North America also uses video conferencing, at 58%, and email and PDFs, at 69%; but North America's top board management technology is conference phone calls at 74%. Other technologies, such as project management tools and virtual deal rooms (VDR), have not yet been widely adopted. VDR adoption is lowest in North America at 16%, compared to Asia Pacific at 42% and Europe at 40%. Twenty-nine per cent of firms are still using paper packets to manage their boards. With nearly a quarter of boards admitting they lost paper assets in the last year, this type of communication must be phased out in favour of more secure digital channels.



40% of boards who experienced a crisis in the past two years received no help or were hindered by their current board software from receiving information from their legal counsel.

A Checklist To Improve Governance Practices

The strategic and comprehensive use of EGM technology allows boards to organise, facilitate, and secure the processes, procedures and information related to board governance activities. EGM provides safe communication and sharing of sensitive materials and security compliance assurances. Firms without EGM are left using technology — like personal email — and processes that leave them vulnerable to attacks.

Study results indicate that board members need a solution that:

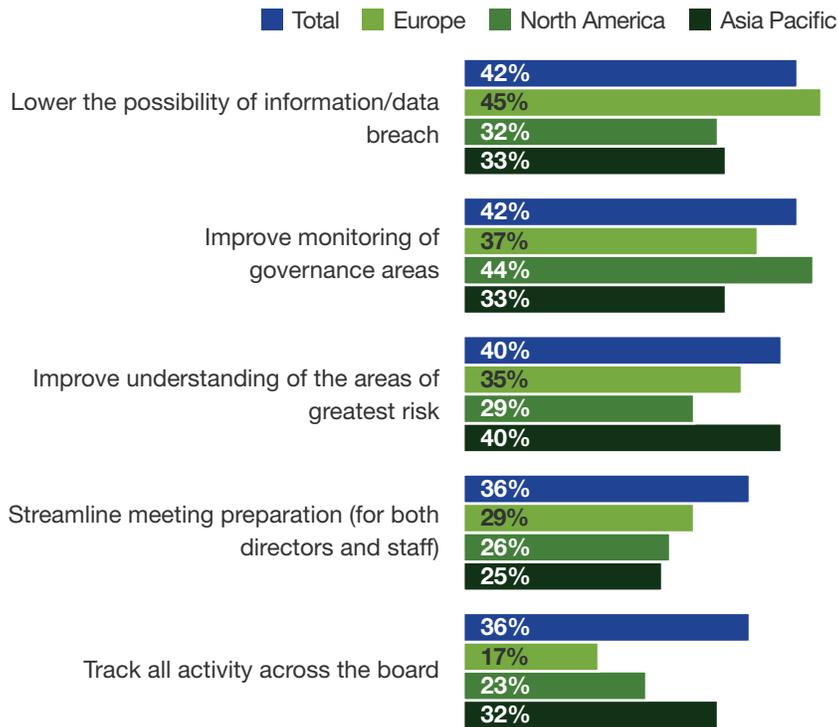
› **Improves board management, especially in a crisis.** Technology is critical for keeping day-to-day board processes going smoothly, but it is equally critical when a crisis situation arises. Thirty percent of boards have experienced a crisis situation (e.g., PR issue, legal issue, data breach) in the past two years. Boards in Asia Pacific saw the highest incidence of crises at 37%, followed by 30% in Europe; and North American boards saw the lowest incidence of crises at 19%. In many cases, boards' management software was either a hindrance or provided no help at all (see Figure 4). Boards in Europe faced challenges with aid when reviewing policies or plans and receiving information from their legal counsel. North American boards were least helped by their board management software when trying to securely communicate between directors during a crisis. Boards need to act fast and with precision in order to prevent further damage caused by a PR issue, legal issue or data breach. Board management software must provide support to respond within time constraints and secure communication between directors.



40% of Asia Pacific and North American boards agree that ensuring compliance requirements are met through technology would have the most impact — 31% of European boards agree.

Figure 4

“Thinking of the crisis situation your board experienced in the past 12 months, please describe the extent of the help you received or the hindrance that your board management software provided in the following areas?”



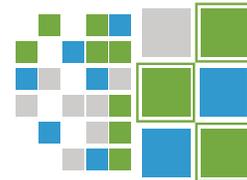
Base: 123 global executive board decision makers

Source: A commissioned study conducted by Forrester Consulting on behalf of Diligent, August 2018

› **Prioritises environmental, social and governance (ESG)**

performance tracking. New and upcoming talent can be drawn to firms that have strong ESG practices. But boards need technology that allows benchmarking and even real-time tracking and promotion of ESG efforts. Boards who can properly focus on ESG initiatives appear more appealing to the workforce pool. Eighty-four per cent of boards (Asia Pacific: 90%, Europe: 82%, and North America: 79%) said ESG performance tracking is important for talent acquisition and long-term financial performance. And 28% of boards also said that having technology that provides insight into meeting ESG goals would have most impact on their board. When asked what impact this technology would provide in meeting ESG goals, boards in Asia Pacific felt the strongest, compared to boards in Europe and North America. Boards in all regions are the least satisfied with their visibility into issues related to sustainability and ESG progress.

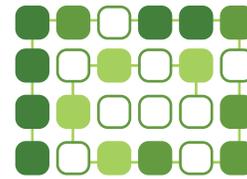
Similarly, non-profit organisations and government entities are the least satisfied with their visibility into issues related to sustainability and ESG progress when compared to public and private companies. Companies that adopt: 1) environmental practices like “going green”; 2) labour and manufacturing practices like domestic production; and 3) humanitarian causes like cruelty-free products or global welfare tend to generate either positive or neutral consumer sentiment.³



Only 21% of boards in Asia Pacific and 20% of boards in Europe have board management software that provides scorecards of key governance categories; North America is the lowest at 16%.

› **Optimises board meeting time.** While improving board members' EGM practices and ESG performance is critical, our study findings also showed that boards struggle with making efficient use of their time. Many boards only have a quarterly meeting to discuss and decide on critical issues facing their organisations. That time must be spent wisely, and not wasted on rehashing old data or reports. Seventy-one per cent of the written reports received before a board meeting are at least a week old. Seventy-six per cent of Asia Pacific boards receive written reports that are at least a week old before a board meeting, compared to 76% of European boards and 65% of North American boards. Board members also said that 56% of the reports presented during a meeting would have been more effective if delivered: 1) in advance and 2) in writing (or shared digitally). Governance professionals must pay careful attention when planning board meeting agendas. On average, 46% of all board meetings are spent listening to reports or presentations, and boards must decide if that is the most effective way to use their time.

While technology is not the magic bullet that will solve all board governance woes and challenges, it is a critical component to making sure that both board materials are secure and strategic decisions are well informed. Mobile phones will be lost, papers will be misplaced, and sophisticated hackers will not stop hunting for information, but boards that have strong security practices are less likely to find themselves in a crisis. When not in crisis, it is important for board members and governance professionals to focus on issues and initiatives in real time. Improved, secure internal board communication allows board members to connect and collaborate faster and more effectively. Receiving digital reports when they are written, instead of days, weeks or even months later at a board meeting, allows for more timely action.



Only 27% of boards in Asia Pacific, and 25% of boards in Europe, currently have board management software that provides understanding into the areas of greatest risk. North America is the lowest at 16%.



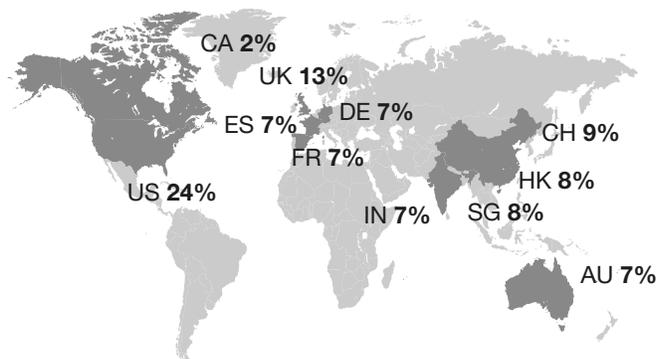
56% of the reports presented during a board meeting would have been more effective if delivered in advance and in writing (or digitally). North American boards were the lowest at 53%, followed by Europe and Asia Pacific at 57% each.

Appendix A: Methodology

In this study, Forrester conducted an online survey of 411 governance professionals in the United States, Canada, the United Kingdom, Spain, Germany, France, China, Singapore, Hong Kong, India and Australia to evaluate executive board management practices. Survey participants included C-level executives, board members/directors, corporate secretaries, senior IT leaders, chief legal officers and investor relations staff. Questions provided to the participants asked about their board management software, use of board meeting time, and environmental, social and governance (ESG) performance. The study began in June 2018 and was completed in July 2018.

Appendix B: Demographics/Data

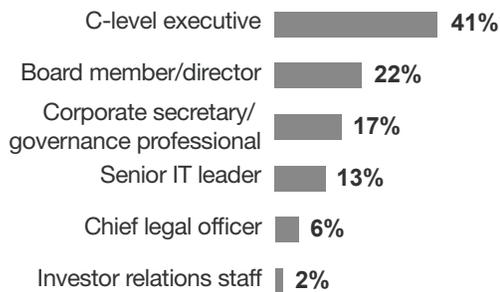
“In which country are you located?”



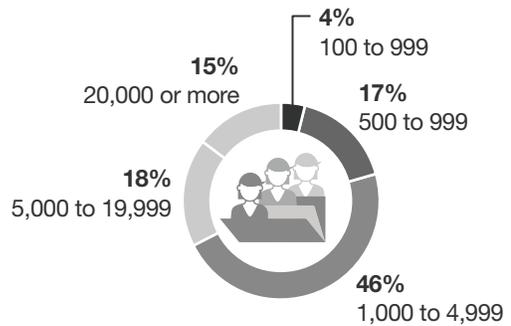
Organisation



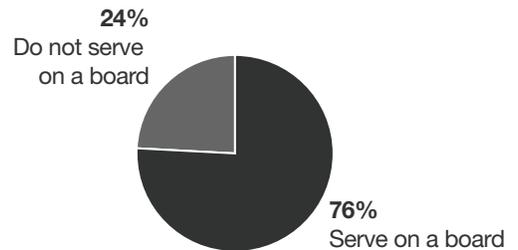
Position



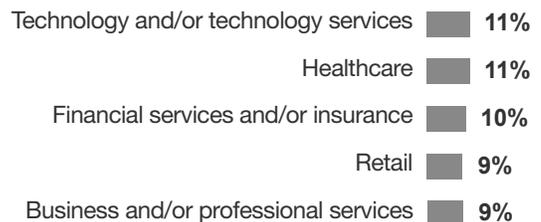
Company size (No. of employees)



Board members



Industry (top 5)



Base: 411 global executive board decision makers

Source: A commissioned study conducted by Forrester Consulting on behalf of Diligent, August 2018

Appendix C: Endnotes

¹ Source: “GRC Vision 2017-2022: Customer Demands escalate as Regulators falter,” Forrester Research, Inc., 2 February, 2017.

² Source: “Build the Business Case for GRC,” Forrester Research, Inc., 14 February, 2017.

³ Source: “The Values-Based Consumer,” Forrester Research, Inc., 6 April, 2017.