

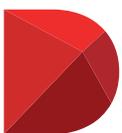
Key Trends in Boardroom Communication Increased Threats and Demands Call for Evolved Technology

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 organizations large and small are now slowly starting to recognize the importance of secure information sharing practices and communication technology among the board to ensure 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 with key data points and confidential information, without fully recognizing the enterprise risk this poses in today's hacker's paradise.

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

The good news: Several board portals and communication technology tools today leverage the speed of digital communication coupled with stringent security.



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In a recent study of more than 300 professionals conducted by *Corporate Secretary* magazine, 32% of boards surveyed reported themselves to be 100% paperless while 29% reported themselves to 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 why the rate of adoption of board portal communication tools is lower 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 makeup of a board provides some good background to this discussion.

The chief technology officer (CTO) or chief information officer (CIO) has only recently begun to play more of a role in board meetings, often being consulted on things like competitive technology advantages and cybersecurity – one very critical element for ensuring proper protection of confidential board materials.

This isn't to say 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. With hackers and breaches abounding in headlines every day, boardrooms that are not prioritizing cybersecurity run a real risk of exposing themselves to dangerous breaches.⁴

It's critical that the entire board be continuously thinking about technology trends and setting an example of security for the entire organization.

The recently disclosed Yahoo breach⁵ is just one of many examples of late, where simple email communications opened up the entire company to what's being considered 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 sign-off on documentation used to mean 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 around 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 capitalization of \$5 billion and over, this is a requirement, whereas it's suggested for smaller companies. Regardless of the size of the company, this ruling has helped promote boardroom adoption of more modern technology and emphasized the need for secure ways to share documents across geographic boundaries.

Given this 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 using board portal software, with email coming in a 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 aging board population, claiming 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, "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." 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."⁷ With this aging 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 the concern 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 Salesforce⁸ case 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 tech-focused younger 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 both email and paper documentation pose. In the recent *Corporate Secretary* survey, 62% of those surveyed pointed to a board portal as the key to "improving communication and/or overall board effectiveness."⁹

Cost sometimes factors 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 they 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 a board member perspective
- 3. Cost Reduction:** Reduced cost from eliminating paper production and/or distribution

A long-standing board member of a mid-cap, US-based media company recently commented about 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, security presents an enormous risk with older forms of communication including paper and email.

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 a 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 in using board portals to help the corporate secretary communicate more promptly and effectively with directors. With more collaborative tools like 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 ensure that they are finding 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 is a thing of the past for the majority of boards around the world, with email slowly following suit, as boards are beginning 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 toward modern board portal communication technology is happening more and more as boards become aware of the security risks 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 analyzing 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 protections 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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