Picking up the pace

Corporate Governance Survey 2022
East Caribbean: *Barbados, Grenada, St. Lucia*

Content

A message from our ESG Leader

There is increasing demand that companies figure out how to create financial value while helping to solve the big problems that face us.

Our Eastern Caribbean economies are facing a challenging road to economic recovery, and the resilience of our organisations will continue to be put to the test. However, in crisis lies opportunity. We have an opportunity to reset and to ensure that our recovery is built on a strong foundation, creating a future that is more sustainable and resilient, and which inspires the confidence of shareholders, other local stakeholders and international investors. A future in which all of our people can thrive.

Good Corporate Governance is key to delivering on ESG. Our boards, whether in the private or public sectors, have an important role to play in setting the pace and leading the way in driving accountability and trust for the benefit of all stakeholders. This approach must also help set the standards for our governments, legislators and regulators, reinforcing our demand for accountability, trust, independence of thought and proactive forward thinking economies that face emerging risks head on. We have to set these goals for ourselves, and this will call for the resetting of strategies to more fully address what we consider to be of value. That's largely what the renewed focus on ESG is all about.

Understanding these strategic goals of economic, environmental and social value creation, and then understanding how our business leaders view their performance, and what areas we need to improve on, will be vital in the short to medium term.

That's why the feedback received from several of our directors in Barbados, Grenada and St. Lucia is invaluable at this critical juncture. Our aim was to build on our first Barbados Corporate Governance Survey carried out in 2018, allowing us to assess where we are and what our next steps should be.

ESG is not new, but it's certainly impactfully reimagined. It speaks to an entity's impact on the environment and society, and how good corporate governance must work to make this impact positive - doing well by doing good. There is increasing demand that companies figure out how to create financial value while helping to solve the big problems that face us environmentally and socially, all within a governance framework that ensures transparency and accountability. This leads us to new measures of success, including:

- environmental sustainability;
- societal impact;
- employee engagement; and
- the quality of the external partnerships we choose and investments we make.

The questions now being asked are how to create governance models that allow for these to thrive while still driving economic success. Boards now need to view strategy, and the organisation, in a larger context—including the macro trends impacting stakeholders, businesses and the world—ensuring these issues are woven into the fabric of a company's strategy and ultimately, positively affecting how it is valued.

This can no longer be viewed as a nice to have, but as a basis for the resetting of the framework and tools needed for meaningful value creation at economic, environmental and social levels.

The heightened sensitivity of stakeholders at every level regarding the impact of organisations on people and the planet we inhabit has reached an all time high. These stakeholder demands are increasingly calling for 3 things as part of the ESG Revolution:

- **Strategic reinvention** - this may include assessing progress against new metrics and redeploying resources to achieve a purpose driven by new values. How will boards choose to redeploy their finances, their people and products? Some boards will have to ask themselves questions such as "Who are we and how can we best compete in an environment where these new values are central to our existence, strategy and sustainability?" But in most cases this must of necessity include some level of entrepreneurship. Boards may need to strategise as to how best to use their financial, people and physical resources for this purpose;

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- **Transformation** - some level of partial or possibly wholesale business transformation, depending on the industry and environmental impact, to give life to the updated or reinvented strategy. This will in most instances take some time so that the financial fallout is not catastrophic to an enterprise;
- **Reimagined reporting** - heightened regulatory requirements, risk awareness and the demand for data and transparency. We've been heading there for a while with triple bottom line reporting. New views, systems and processing of what we mean by reporting, including what we mean by an audit. This will mean the need to understand how wealth is being created on the basis of a far more complex definition of "value", beyond the purely financial. This will be reinforced by the development of a global IFRS reporting framework for ESG to run parallel to statutory financial disclosure.

Some may say that our East Caribbean companies are facing the task of survival and cannot be distracted with non-financial targets until there's a bearable level of recovery.

I would argue that the road to economic, environmental and social recovery for our Caribbean Region as a whole is going to be long and challenging, so that now is the time for our private and public sector organisations to determine whether they will be part of the problem moving forward, or part of the solution. This will include not only making sound financial decisions, but must of necessity include the areas that support real, sustainable value:

- The E - Taking their own individual steps toward helping to solve environmental issues - every bit helps and every first step is vital in a world where, as a region, we carry a disproportionate share of the negative impact of carbon emissions;
- The S - Facing societal challenges head on internally within each organisation and externally in our societies, whether it's the poverty gap, race, gender, diversity or inclusion;
- The G - Setting the example of good governance: accountability, honesty and transparency for others to follow and justifying the level of trust that we ask stakeholders to invest in us and that we demand of our governments. Only then are our enterprises well positioned to demand accountability of governments and other players.

Stakeholders in the region, especially younger ones in the consumer base and employee pool, are increasingly accepting nothing less. They will increasingly vote with their wallets and with their decisions as to who to lend their talents to.

Our world is more interconnected and interdependent than ever, with digitisation and social media allowing opinions and experiences to be shared instantaneously. Companies in our small developing economies cannot assume that our region is immune from these realities, and have to decide how quickly they're willing to take these important steps forward. Therein lies the vital role of directors as stewards of their organisations.

Ronaele Dathorne-Bayrd
ESG Leader
PwC East Caribbean

Introduction: The world has changed. are we keeping pace in the Eastern Caribbean?

We're all aware of the underlying forces that have brought the hard, fast and real discussion to most boardrooms and executive teams globally over the last 12-24 months:

- Covid - the pandemic has been a hard and unpleasant wake up call to the reality of how interconnected we are and the impact we have on each other - both positive and negative
- Racial tensions - the resurfacing of the realities of racial injustice have taken an emotional and angering toll on our global society
- Consumers - who have more forcefully woken up to the power of their pockets and a refusal to support those not doing right by society
- Activist shareholders in developed markets - advocating for net zero policies and tighter linkages between ESG targets and executive compensation packages
- Investors, lenders and rating agencies who want a broader view of non-financial metrics to better understand risks associated with a company
- Governments who have made commitments to limit carbon emissions. These are increasingly being backed by new regulations and new taxes that will eventually reach our Caribbean shores.

These discussions are happening in the boardrooms of public companies across all sectors, as a means of staying competitive, relevant and respected. But these conversations are also happening in private company boardrooms, including family businesses which tend to be values-led with long term investment goals and less pressures from reporting cycles.

We asked directors in 3 of our East Caribbean territories (Barbados, Grenada and St. Lucia) important questions to help determine what level of discussion is happening in our own boardrooms on key governance decisions, and what steps our boards are taking to determine how environmental and social issues can be interwoven into their overall strategic decisions. The feedback suggests that our directors are very aware of the need to have these discussions, the need to focus on more than purely economic results, because as important as these are, financial results alone will no longer determine the value of an entity. Our boards will need to think in a more integrated manner to be effective.

Financial results alone no longer determine the value of an entity.

The feedback suggests that we need to take more decisive steps toward real action. It's likely that the harsh economic climate of the last 24 months has only further hindered our willingness to think about good governance and value creation in wider terms. But as we rebuild our tourism sectors, as we aim to diversify and strengthen our economies and as we demand a louder voice on the world stage in defense of our right to exist on a climate ravaged planet, now may well be the time to have our enterprises play a vital role in the way our islands move forward.

There's a renewed focus on making sure that any approach to governance has a wider view of the responsibility of the board to do the right thing, and that this imperative speaks to a stakeholder group far, far beyond the traditional. Good Corporate Governance and the ESG imperative in essence now demand greater attention to and accountability on issues that have been discussed, considered and sometimes only paid lip service to, but which are now demanding the attention of forward thinking boards. These boards must own the fact that the G (Governance), drives the E (Environmental) and the S (Social) in ESG, which must now form an intrinsic part of the strategy and sustainability of an organisation.

Snapshot

ESG is gradually gaining a presence on the board agenda

Our Eastern Caribbean (EC) directors are beginning to build ESG into their business strategy agenda and discussions, with several directors indicating that their boards have included ESG in strategic planning and board ERM discussions at meetings. The need to strike a better balance, making ESG more central to the medium and long term goals of our organisations, is gradually occurring. This is positive, but greater momentum is needed to face the realities of double materiality.

25% would replace two or more fellow directors.

Directors want boards refreshed

Although just over half of our EC directors are satisfied with the composition of their boards, 46% believe that at least one fellow board member should be replaced. Of these, nearly 25% would replace two or more fellow directors on the basis of issues such as a reluctance to challenge management, a lack of appropriate skills or a negative impact on the dynamics in the boardroom.

Snapshot

33% feel virtual meetings have a negative impact on director engagement

70% support incentive plans

Virtual board meetings take their toll

Our EC directors largely believe that the shift to virtual meetings have had a positive impact on the efficiency and effectiveness of their meetings, or have at least not impacted them at all. Directors also feel strongly that virtual operations have not affected their fundamental role of holding management accountable. However at the other end of the spectrum, **33% feel there has been a negative impact on director engagement** and the ability to voice dissent, which can both have a severe impact on board dynamics and overall effectiveness.

Board diversity remains a secondary priority

Most of our EC directors view diversity as bringing unique perspectives and almost all also agree that diversity stands to enhance board and strategic performance. Yet the responses also reflect that our boards don't have immediate plans to fundamentally address these gaps, with many indicating that no such efforts have been made on their boards over the last 2 years. Directors say that the reluctance of long serving directors to retire and an over-reliance on their own networks to source candidates are the main barriers.

The paradox of compensation

70% of the directors support incentive plans as a way to enhance long-term shareholder value, with customer satisfaction and ethical behaviour being the most important non-financial metrics. However, more than 45% have concerns that executives are already overpaid. Over 40% believe that compensation committees may be too willing to approve overly generous packages/incentives and more than 25% feel that performance targets are sometimes too easy to achieve.

Key findings:
The view from the boardroom

In this section of the report, we present a summary of the key findings of the survey according to the themes we explored. **How are directors responding?**

Note: As a result of rounding percentages, some response totals may not add up to 100%.
Some questions allowed respondents to select more than one option.
Not all respondents answered all questions.

Board composition and diversity

Industry expertise (30%), financial experience (12%) and operational expertise (16%) continue to be among the main areas of focus for board recruitment in the short term. These are important skills, but very traditional in nature. Diversity on the board as per gender (18%) shows some promise, but race (1%), age (1%), digital (4%) and environmental sustainability (1%) are still considered to be of negligible value (see Figure 1). These responses are difficult to reconcile with the fact that 99% of our directors view diversity as bringing unique perspectives and almost all directors also agree that diversity stands to enhance board and strategic performance (see Figure 2.)

Figure 1
Most important factors in director search and selection

When your board recruits its next director, what is the single most important attribute your board will prioritise in the search?

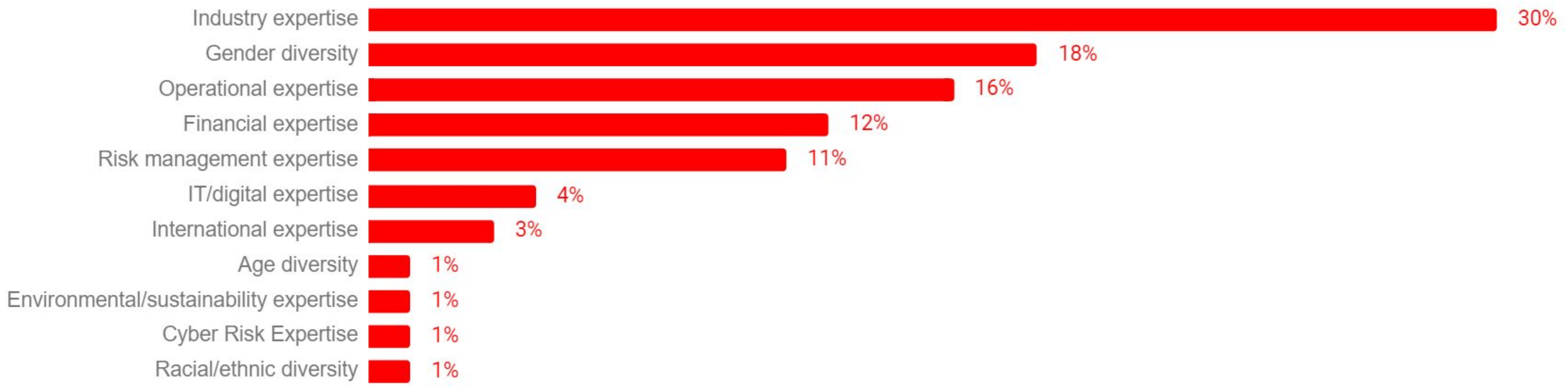
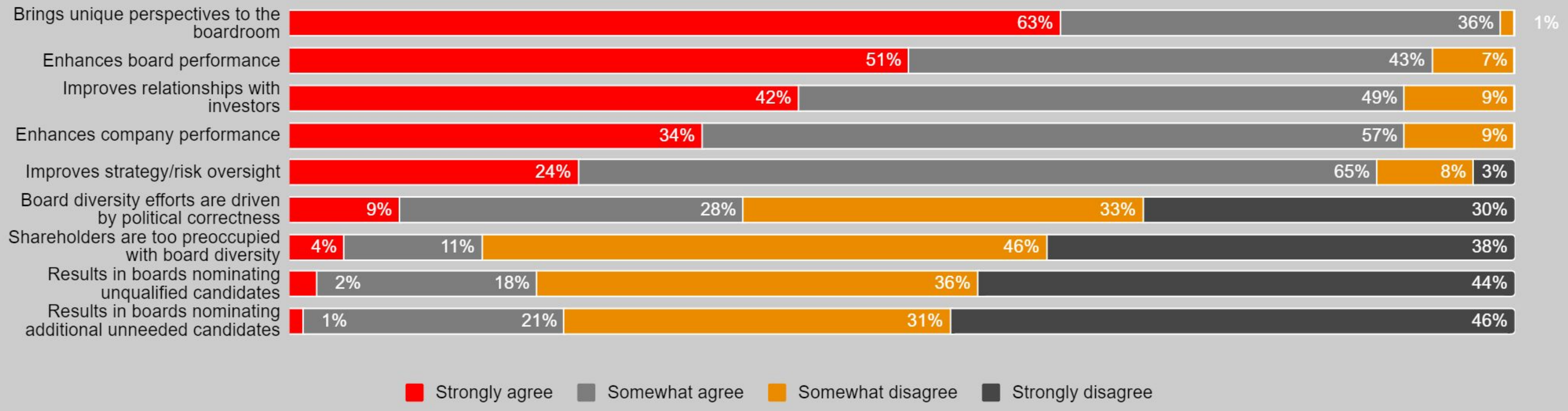


Figure 2
The benefits of board diversity

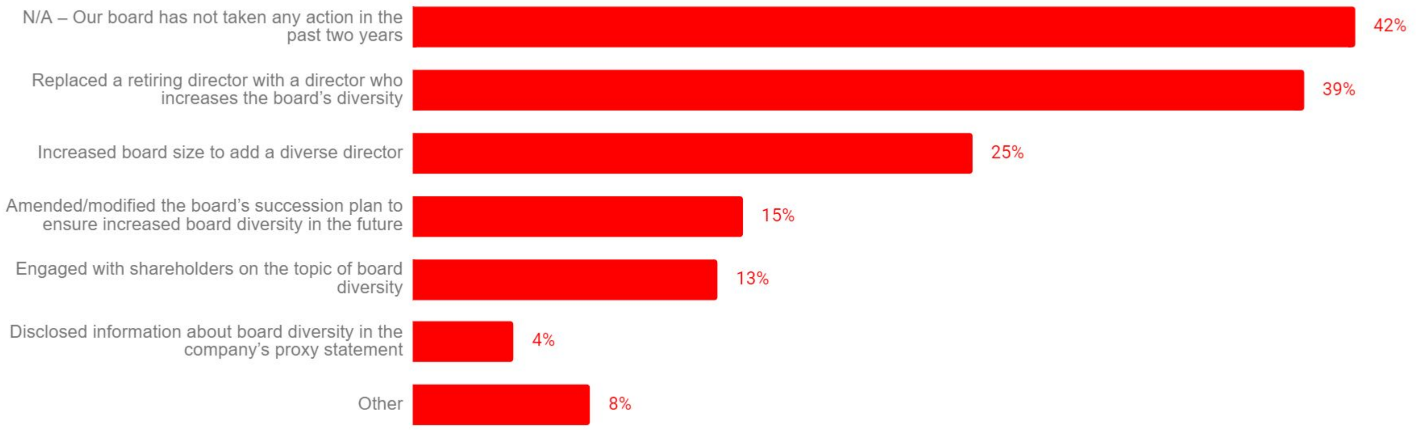
To what extent do you agree with the following statements about board diversity?



It appears that directors view diversity as important but generally boards do not have immediate plans to fundamentally address these gaps, with 42% indicating that no such efforts have been made over the last two years (see Figure 3). This approach continues to underestimate the importance of an enterprise's ability to understand and respond to diverse realities, as well as the impact of younger generations on the availability of the right talent pool and consumer base, as this group increasingly demonstrates its unwillingness to tolerate poor behaviour that impacts on the E and the S. These perspectives are needed in the boardroom. This also underestimates the importance of current shifts in what investors and other stakeholders view as valuable and what drives the sustainable value of an organisation.

Figure 3
Diversity actions

Which of the following actions has your board taken over the past two years regarding board diversity?



Board practices

48% of directors confirmed that their boards undertook assessments within the last year (see Figure 4). In 2018, 53% of Barbados respondents confirmed this to be the case when surveyed, suggesting that there has not been a significant shift in this area. The results show that there is largely an acknowledgement of the need to assess performance and reflect on the same, in order to build on strengths and address weaknesses, but there is certainly room for improvement in the number of boards undertaking this process. Assessments allow for boards to remain learning boards, giving them the opportunity to identify opportunities for growth and improvement if the process is truly embraced. A successful board assessment process requires that leadership clearly understands and articulates the motivation behind, and goals of, the exercise. These must include the need for the process to be inclusive, honest and constructive within a confidential and safe space, leading ultimately to open dialogue and actionable plans to build on strengths and address weaknesses in order of priority, even if these are difficult to face. There are clear challenges here, with 67% of respondents indicating concerns about the ability to be open and frank in their current assessment processes (see Figure 5).

Unfortunately 39% of respondents confirmed that no actions were taken to change anything regarding board composition, operational practices or otherwise as a result of their assessments. A board that undertakes such a process and can determine absolutely no room for improvement has missed an invaluable opportunity to learn and to improve performance for the benefit of all stakeholders. This outcome may be the result of a lack of an initial acknowledgement of the value to be derived from the process. Without the proper ownership, investment and accountability by the Chair and others, the process becomes a box ticking exercise that is of little or no value.

A contributor to this outcome may be the fact that 72% of the assessments that were actually undertaken were self assessments, with no independent input or oversight. The level of reflection and true assessment, benchmarking and determinations of elements of best practice that can be beneficial to the board can rarely be achieved without any independent evaluation at least on a two or three year cyclical basis (See Figure 4).

Figure 4

Board assessments

Has your board had an assessment in the past year? If your Board has done an assessment, was it a self assessment or independent evaluation?

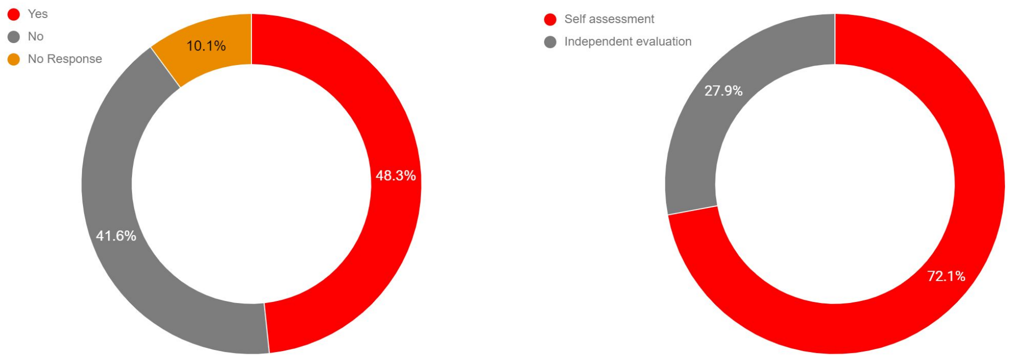
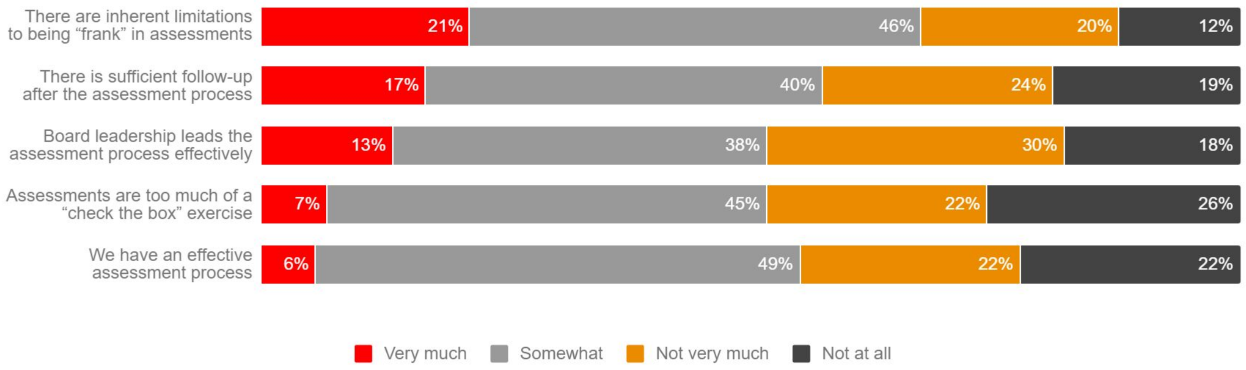


Figure 5

Board assessments aren’t delivering

Regarding board/committee self-assessments, to what extent do you believe the following?

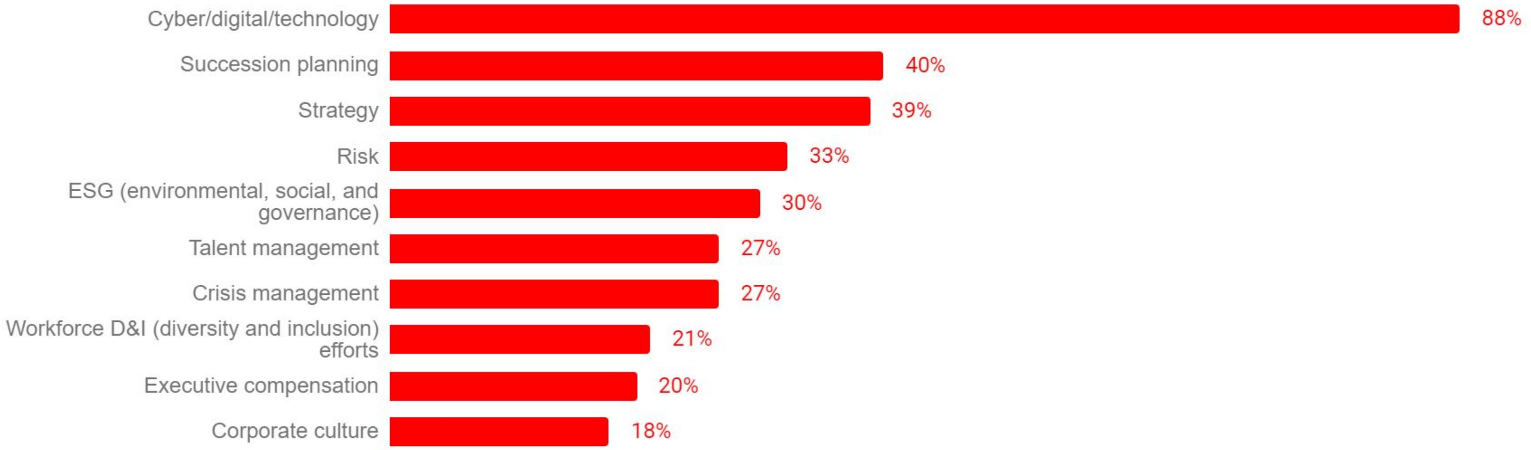


The results also show that 78% of the directors surveyed reported that they spent less than 150 hours per year in their board oversight and committee roles and 48%, less than 100 hours. This means that the large majority spent approximately twelve and a half (12.5) hours per month or less in their director role, which may be inadequate given the preparation and level of engagement needed to play a meaningful role. This may be indicative of a larger, fundamental issue, as 25% or more directors also expressed concerns about several important areas receiving insufficient board oversight, including cyber, succession planning, strategy and risk (see Figure 6). In addition, only 58% believe that their boards understand their company's competitive landscape very well, with this falling to 57% and 29% when it comes to the company's strategy and plans for crisis management.

Figure 6

Areas in need of more oversight

In your opinion, which of the following areas of oversight do not receive sufficient board time/attention?

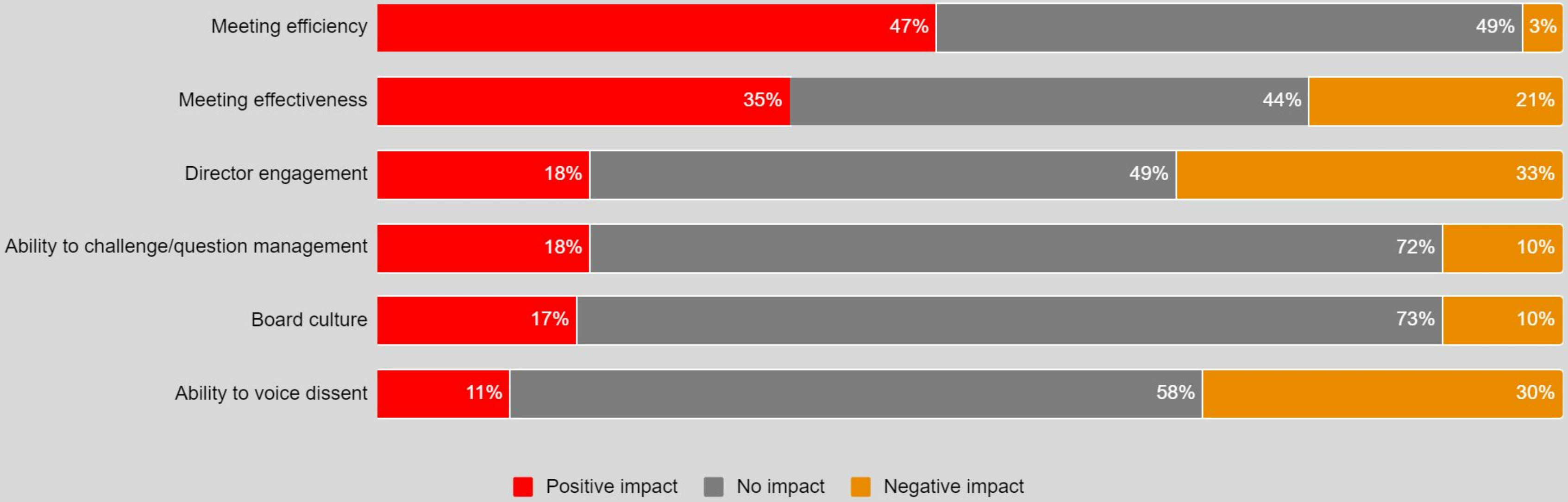


Our boards have embraced technology during the pandemic, pivoting to ensure that the efficiency and effectiveness of their meetings have not significantly suffered as a result of being virtual. It is also positive that directors feel strongly that virtual operations have not affected their fundamental role of holding management accountable. However there are serious concerns regarding the impact of virtual meetings on director engagement and one's ability to voice dissent when necessary (see Figure 7).

Figure 7

Impact of virtual meetings

In your view, how has the shift to virtual board/committee meetings impacted the following?



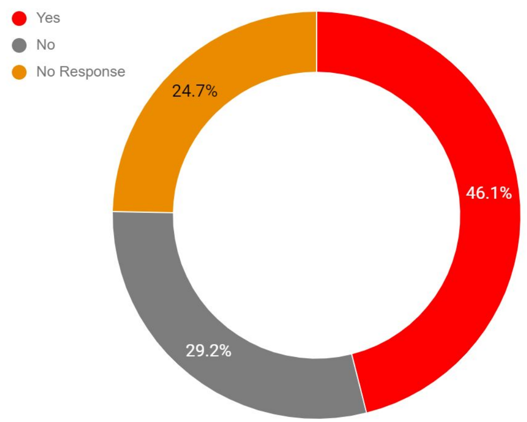
Shareholder communication

Despite the clear and present widening of the stakeholder groups that boards need to consider, the most immediate remains the shareholders or members of an organisation. We asked our EC directors for feedback on the type, level and effectiveness of engagement with their financial owners. It's positive that almost half of our directors confirmed that in addition to the CEO/MD other members of the board had direct contact with shareholders on key matters such as strategic oversight and the performance of the management team, and that these discussions have or will have a positive impact on investment decisions. Only 10% indicated that these discussions touched on ESG issues, which will be of interest to not only shareholders/members, but to the wider stakeholder group to which boards will find themselves increasingly accountable (see Figure 8).

Figure 8

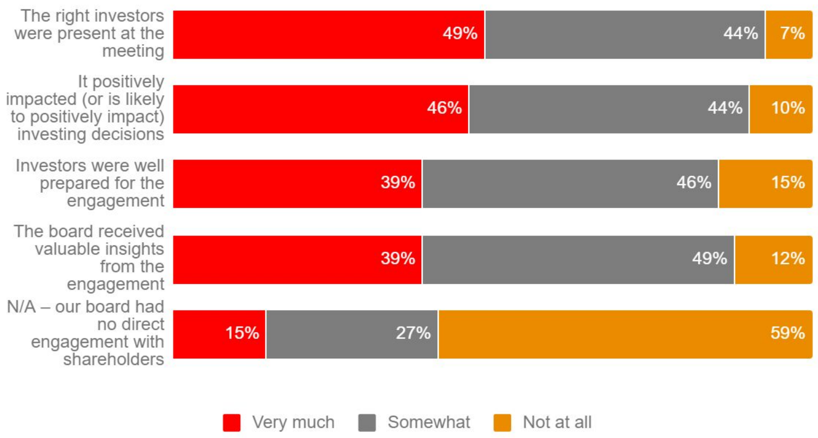
Shareholder engagement

Has a member of your board (other than the MD/CEO) had direct engagement with shareholders during the past 12 months?



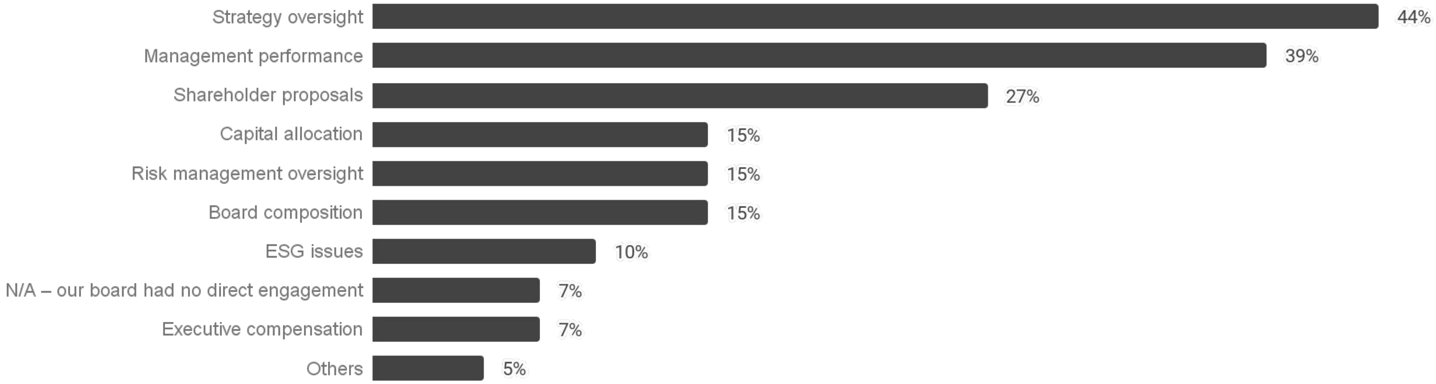
The value of shareholder engagement

If you answered yes to the prior question, to what extent do you agree with the following regarding your board's direct engagement with shareholders?



Topics discussed with shareholders

If you answered yes to the prior question, on which of the following topics did a member of your board (other than the MD/CEO) engage in direct communications with shareholders?



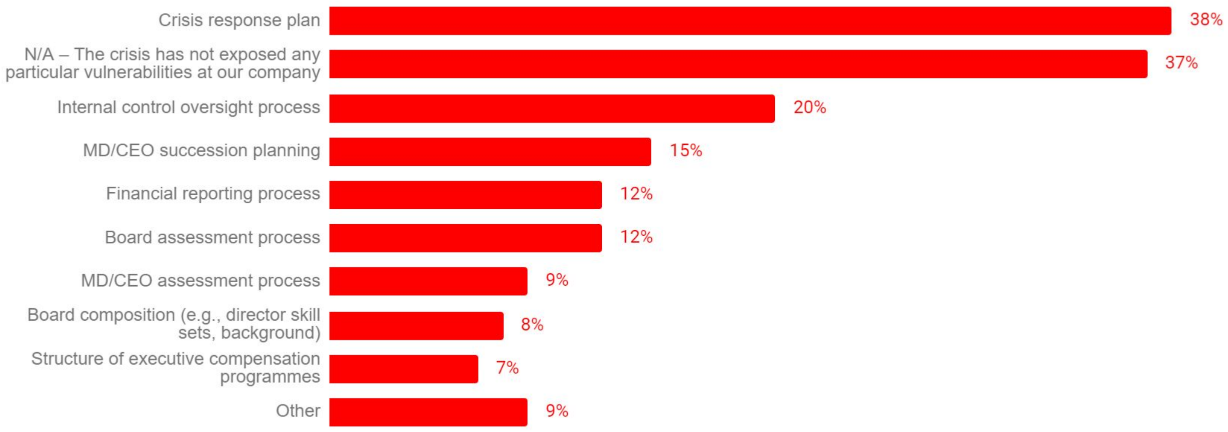
Strategy, risk and ESG

The pandemic has been a hard and unpleasant wake up call to the reality of how interconnected we are and the impact we have on each other - both positive and negative. EC directors have of course acknowledged the impact on companies, across all industries and sectors, albeit some like tourism, being more drastically affected than others. This has included the exposure of vulnerabilities within organisations, most notably in the shortcomings of crisis response plans and failures within the internal oversight process (see Figure 9). Yet 37% of respondents indicated that no elements of their businesses were exposed as vulnerable due to Covid.

Figure 9

Vulnerability to crisis

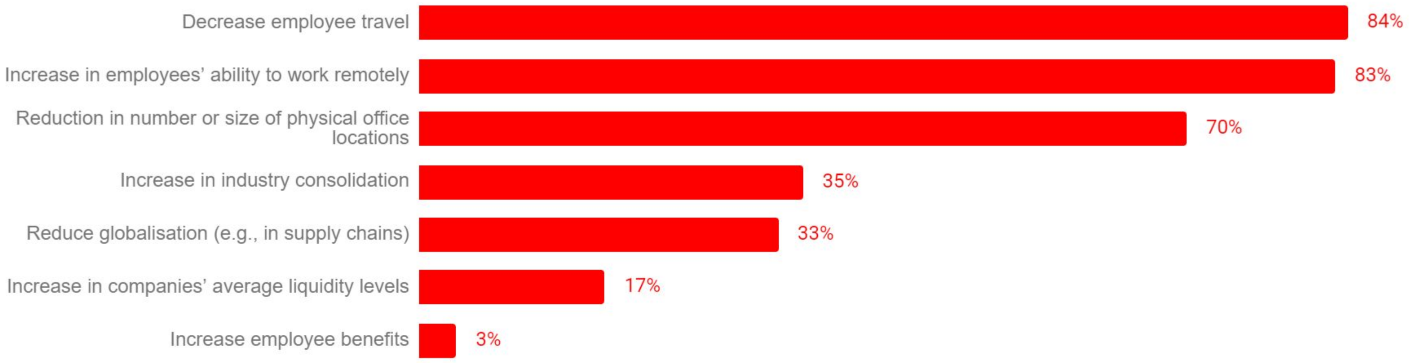
In your opinion, has the COVID-19 pandemic and associated business disruptions exposed vulnerabilities at your company in any of the following areas?



As we look to the future, 83% of our directors consider Covid as having a long term impact on the way we work, with new habits and increased reliance on technological connectivity resulting in remote working continuing to be our new reality, lessening our need for physical office space. A natural corollary to this is Covid's forced decrease in business travel, again a part of our new normal, which 84% of directors feel will continue into the future (see Figure 10). Directors also expressed the view that in the medium to long term the current impacts on global supply chains will taper off, as only 33% expect a reduction of globalisation. Also noteworthy is that only 35% expect there to be a future consolidation of various industries.

Figure 10
Long-term structural impacts

Do you believe COVID-19 will have any of the following long-term structural impacts on business in general?



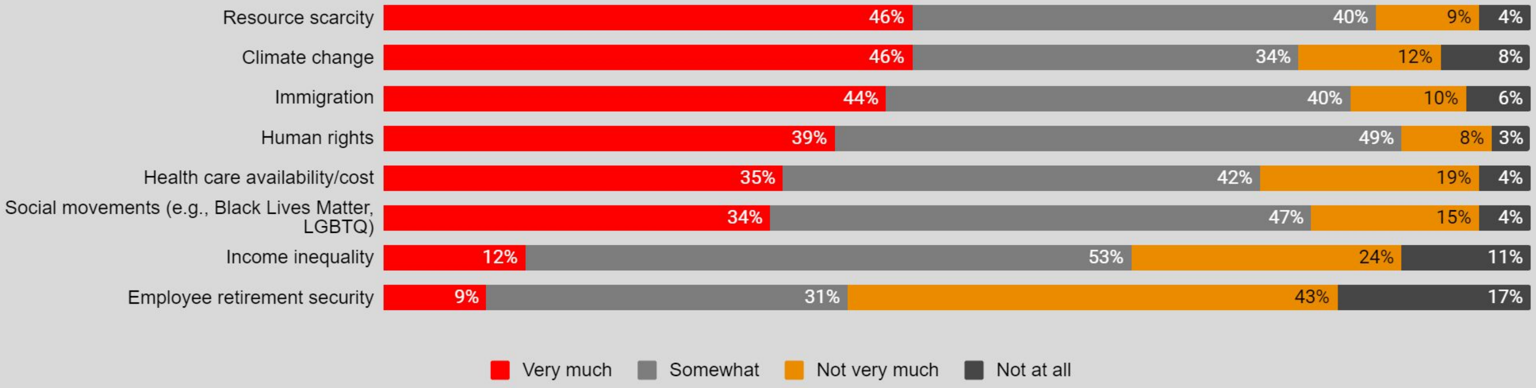
Factors relevant to Strategy

There is clear evidence to support the fact that investors are more and more leveraging the intangible asset value of organisations to create market value on stock exchanges of the world. Stakeholders, especially those of younger generations, are increasingly wary of organisations viewed as having short term purposes and visions, and those not seen to be doing right by the environment and society. Stakeholders in the region, especially younger ones in the consumer base and employee pool, will increasingly accept nothing less and will vote with their wallets and with their decisions as to who to lend their talents to. It’s therefore vital that our governing bodies, our boards, take these issues into account in developing their strategies.

It's promising that the majority of respondents confirmed that they either very much or somewhat agree that key societal and environmental issues need to be taken into account in formulating strategy. 80-88% of respondents were positive on the areas of resource scarcity, climate change, immigration, social movements and human rights needing to be factored into strategy (see Figure 11). This reflects an acknowledgement of the impact our organisations can have on our delicate Caribbean environment and close knit Eastern Caribbean communities.

Figure 11
What matters when developing strategy

To what extent do you think your company should take the following issues into account when developing company strategy?



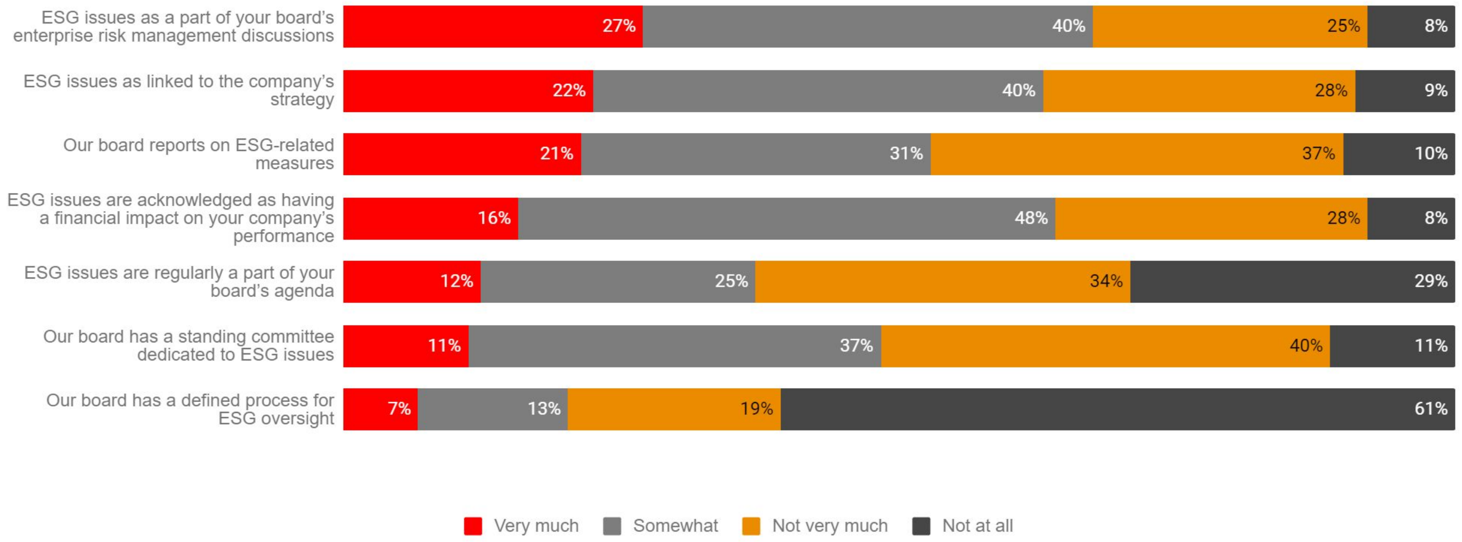
Stakeholders are increasingly wary of organisations viewed as having short term purposes and visions

Respondents were less certain that these issues actually have an impact on their companies' financial performances, with 16% confirming this to be very much acknowledged, 48% only somewhat acknowledged and 28% confirming ESG to have very little or no impact on financial performance.

Our boards need to consider whether this will be their position in the medium to long term as ESG issues gain momentum in our developing markets. Notably some have started to acknowledge this, with 62% and 67% of directors indicating that their boards have included ESG in strategic planning and board ERM discussions at meetings (see Figure 12) and 48% agreeing that ESG disclosure should be a priority for management. This is positive, but there's still room for improvement in acknowledging the need to make ESG part of strategic discussions and the realities of double materiality - the reality that an organisation's impact on the environment and society has the potential to be matched by the impact of the society and the environment on an organisation. This can easily be demonstrated by the impact of consumers' buying choices and by the unavailability of resources such as our beaches to support our tourism product and the multiple spin off sectors that tourism touches.

Figure 12
ESG's influence on strategy

To what extent do the following apply to your board with respect to ESG:



Double materiality - an organisation's impact on the environment and society has the potential to be matched by the impact of the society and the environment on that organisation.

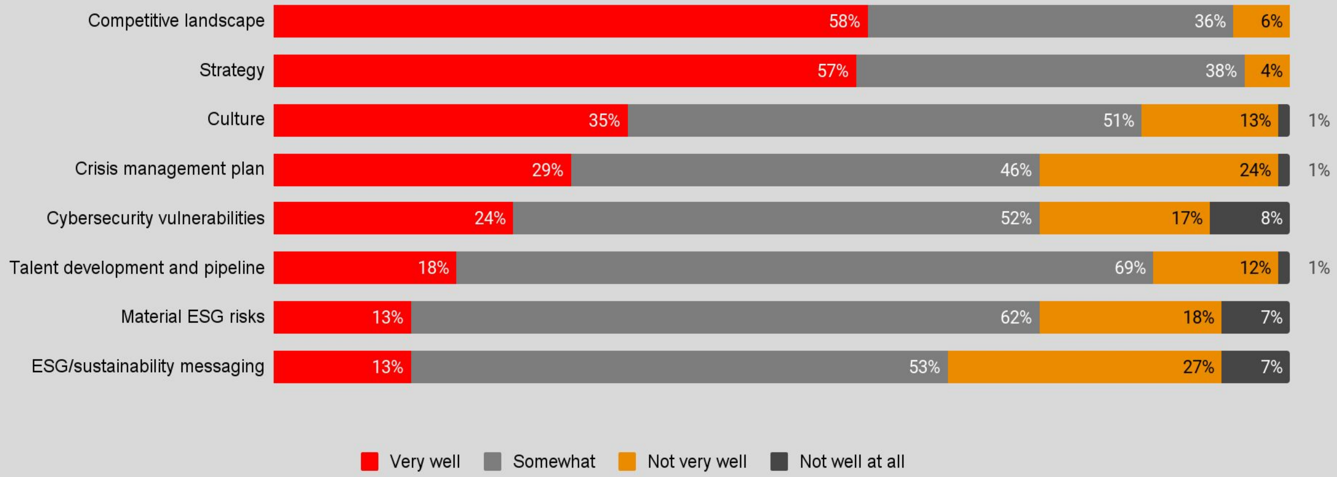
Relevant tools

A good understanding of key areas allows for sound decision making. Directors provided feedback on how well key imperatives were understood by boards, with our acknowledgement that boards must be comprised not only of individuals who are skilled, ethical, competent and sufficiently diverse, but also those who are willing to continue to learn and grow. A board's collective understanding of these areas may be driven by the inclusion of directors who individually understand these very well, and who in turn share that knowledge with the wider board. Herein lies the intrinsic value of diversity.

Respondents confirmed that the areas very well understood by their boards included the competitive landscape, strategy and the culture of the organisation. Based on the feedback, the areas of talent development, ESG/sustainability and the material risks associated with ESG require urgent focus (see Figure 13).

Figure 13
Board understanding

How well do you think your board understands the following as it relates to the company?



Executive compensation and talent management

Executive Compensation

A key tool in the hands of a governing body, in driving the right behaviours at the executive level, is the structuring of compensation packages. Goals set in support of the values of the organisation and with a view to sustainable rather than short term growth are vital. We therefore asked directors for their views on the importance of various non-financial metrics. Customer satisfaction (83%) and Ethical behaviour (76%) were rated as the two most important factors for inclusion in compensation packages (see Figure 14). It appears that some of our directors, as stewards of their enterprises, may need to give further consideration to the most fundamental need for ethical behaviour at the executive level, as without this the purpose and value of the enterprise will at all times be in jeopardy. Employee engagement/attrition, succession planning and quality were also selected as factors important for the motivation of executive teams. Our organisations have begun to accept the responsibilities they owe to the environment, but only 51% of directors consider these matters as important in driving the right behaviours and execution by management. Despite the overall feedback that compensation packages can be used to drive the right behaviours, the tool faces challenges - more than 45% of our EC directors have concerns that their executives are already overpaid, over 40% are concerned that compensation committees are too willing to approve overly generous packages/incentives and more than 25% feel that performance targets are sometimes too easy to achieve (see Figure 15).

Figure 14
Non-financial metrics driving incentives

Which of the following non-financial metrics do you think should be included in executive compensation plans?

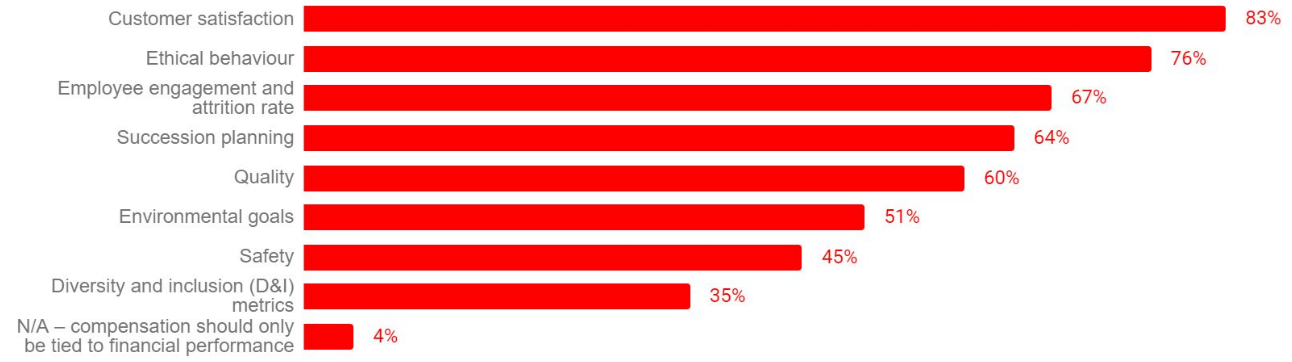
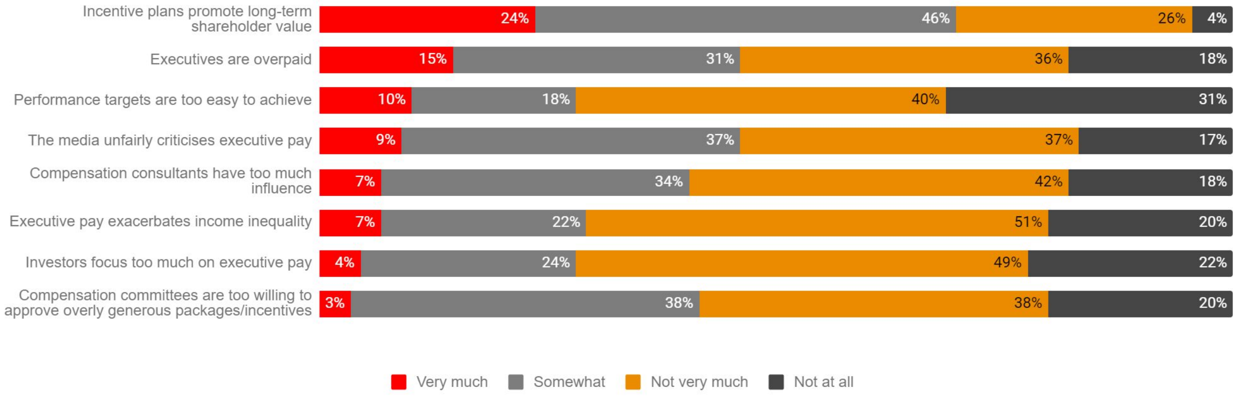


Figure 15
A fair reward

To what extent do you agree with the following regarding executive pay in your territory?

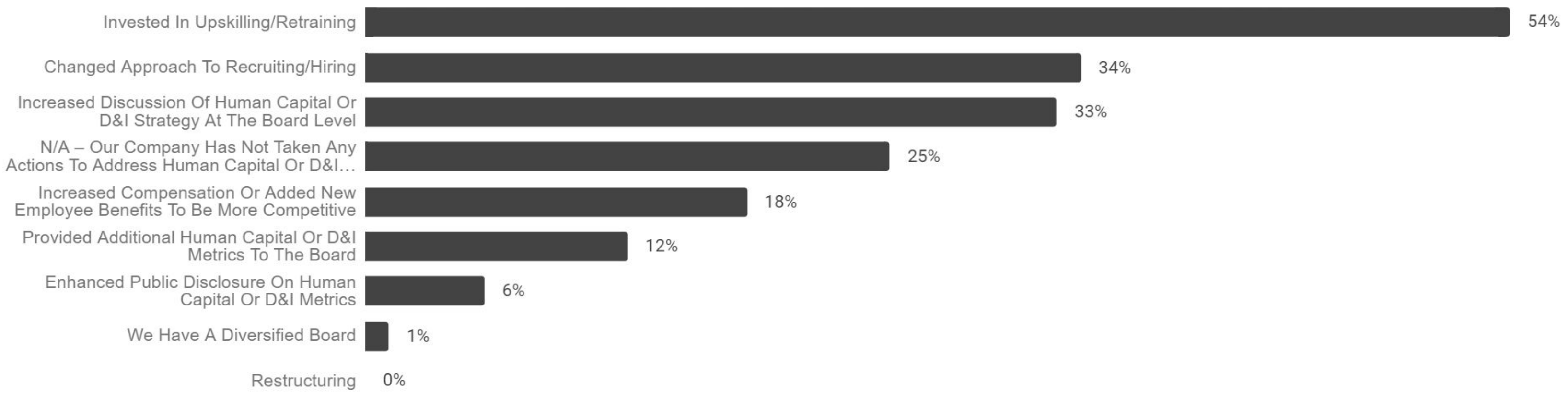


Talent management

Attracting and maintaining the right pool of talent is vital for any organisation. We asked directors to indicate what their boards have done or plan to do to build, sustain and protect the right teams. Just over half of our directors confirmed ongoing investment in their organisation's people. About 30% of our boards have reconsidered recruitment methods, including efforts to address gaps in diversity and inclusiveness, while a quarter confirmed no such consideration of the steps needed to ensure a diverse workforce (See Figure 16). While it is important to respect and protect the experience and talent that exists in mature members of an organisation, younger human resources will also be increasingly important to face emerging risks and to pivot in the marketplace. These younger players are hugely wary of organisations that they see as unwilling to take responsibility for helping to solve the big environmental and social problems facing us. Ongoing and careful oversight and stewardship by boards is more important than ever in appreciating and supporting the development and protection of their most valuable asset.

Figure 16
Addressing gaps in diversity and inclusiveness

Which of the following steps has your company/board taken, or plans to take, to address human capital and diversity and inclusion (D&I)-related issues?



The broader environment

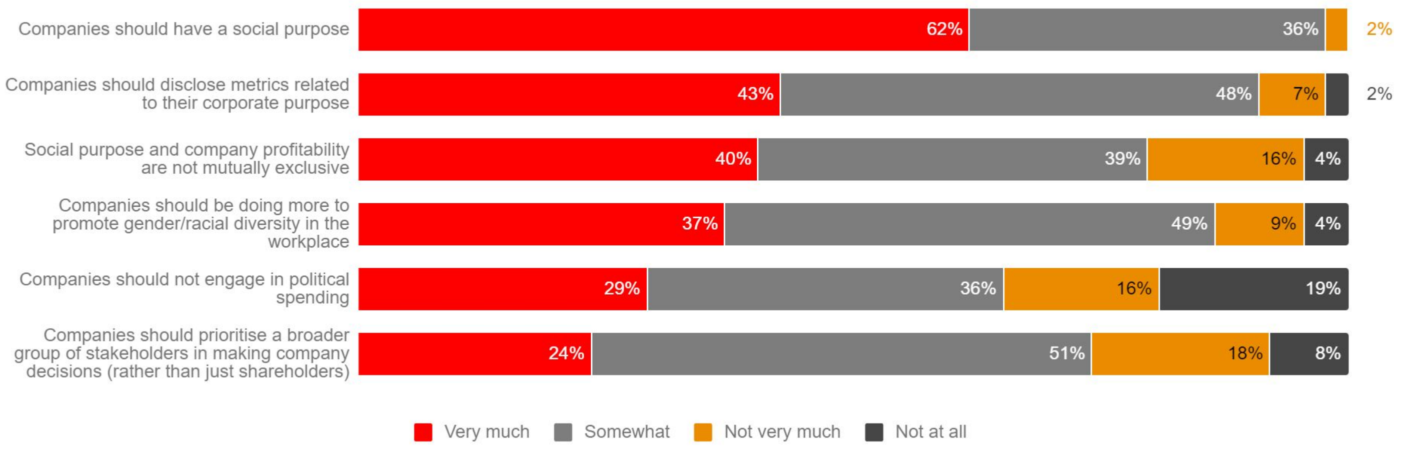
ESG speaks to an organisation's impact on the environment and society, and how good governance must help to make this impact positive. We asked directors whether they agreed with certain views on an organisation's impact on and existence in the broader environment. 62% very much agreed that companies should have a social purpose, while 36% only somewhat agreed this to be the case (See Figure 17). In acknowledging the need for a purpose beyond the ever important financial goals of an organisation, it's important to be clear that this additional purpose is as a result of the need to take interests other than those of shareholders into account. We should question whether a corporation should be run exclusively on behalf of shareholders, taking only their financial capital and interests into account or whether the corporation is ethically bound to take the interests of a variety of stakeholders into account, including the environment and society, as they too provide different forms of capital to an enterprise. In our private sector boardrooms we've acknowledged the need for wider goals for many years, but haven't truly made this central to our strategies. This is reflected in the fact that only 24% of our directors consider other stakeholders to be important in the making of company decisions. On the positive side 51% of directors at least somewhat agreed that consideration of a wider stakeholder group is reasonable.

ESG puts pressure on boards to more fully apply honesty and transparency to the strategy they employ toward true value creation for all stakeholders, taking financial, environmental and social values into account.

Figure 17

Purpose and the impact on stakeholders

To what extent do you agree with the following?



The way forward: A plan for governance in a new world

The feedback shows that our boards are facing a myriad of challenges, in an environment that is fluid and often volatile. How do we turn the right intentions and goals into tangible action that reaps rewards for our organisations and their stakeholders? Timing will be key for our developing East Caribbean states and wider CARICOM countries - the time is right for our economic recovery to be built on a strong foundation that is focused on sustainable, long term value creation.

Drawing on the findings from our survey and our work with boards and businesses across the Caribbean, we recommend that our boards consider the following as we move forward:

1 Re-examine board priorities

Boards must be clear on where their priorities lie, while remaining agile enough to pivot as the need arises. Directors have expressed concerns about several areas receiving insufficient board oversight, including cyber, succession planning, strategy and risk. This underscores the need to forge a clearer consensus on where to focus in this fast-changing business landscape and how to ensure these priorities receive sufficient discussion and challenge.

2 The right people

The board of directors is the mind and conscience of a company, which is in essence an incapacited legal person. As such the board is critical to the development and execution of a governance system that drives the health and success of an organisation. To do this a board must have the right combination of ethics, competence and diversity, within an environment of healthy self-reflection, correction and constant learning. These factors allow boards to set the right 'tone at the top', leading by example in the establishment of values that in turn drive strategy, accountability by management and transparency to stakeholders.

Directors expressed concerns as to the suitability of some fellow members to serve and the level of understanding of their boards on key issues such as strategy, culture of the organisation and crisis management.

In addition, the large majority admittedly themselves spent approximately only twelve and a half (12.5) hours per month or less in their director role, which may be inadequate given the preparation and level of engagement needed to be impactful.

All of this is within the context of directors noting that diversity (whether related to skills, age, race, gender) and assessments with meaningful outcomes and actions, are being largely underutilised as tools that readily build stronger boards.

These issues expose our boards to the risks of missing both opportunities and threats, allowing the latter to go unmitigated. Boards need to be agile, and ever learning. The ability to have a wide lens through which to view, assess and understand a myriad of issues in a volatile environment can mean the difference between success or failure. Every effort must therefore be made to identify and benefit from the right people, who are able to dedicate sufficient time to achieve the effective stewardship of their organisations.

The way forward: A plan for governance in a new world

3 ESG warrants a bigger seat at the table

ESG speaks to an entity's impact on the environment and society, and how good governance can help to make this impact positive. Stakeholders are increasingly demanding that companies ensure that their strategies are used to create financial value while helping to solve the big problems that face us environmentally and socially. All of this must be done within a governance framework that ensures transparency and accountability.

ESG as part of an organisation's strategy is increasingly impacting long term value creation, and the ability to attract talent, customers and capital. Our survey results indicate that social and environmental issues are still second order priorities within board discussions. It's important to bring ESG further up the agenda.

Boards must consider making this a central part of their overall strategy, as a means of creating the right balance between financial and sustainability metrics, while accepting that reporting in the EC in the not too distant future will encompass both. Useful tools include building ESG factors into board members' and executive team performance metrics and incentives.

4 It's time to tackle board diversity

Diversity, both on boards and within the wider organisation, is a business imperative. Stakeholders, whether shareholders, employees or customers, see this as a factor that speaks volumes about the values central to an organisation's strategy. The opportunity to bring in fresh perspectives and connect more closely with customers and employees makes board diversity a clear competitive differentiator, while diversity at management and lower levels is a reflection of a board's willingness to go further.

Our directors confirm that they see value in the ability to draw on diverse perspectives in the boardroom, yet 42% say their boards haven't taken any action in the last 2 years to pursue board diversity. A quarter also confirm that their organisations haven't taken any steps to address D&I issues in an effort to attract and retain the right talent. Some change is happening, but we need to pick up the pace in this area, not to tick a box, but to allow our boards to benefit from perspectives and experiences of those who more widely reflect the stakeholders who will ultimately determine the success or failure of an organisation.

A good starting point would be setting clear goals for board diversity and developing a diverse pipeline of candidates, by thinking outside of the usual circles. However, simply adding new directors from diverse backgrounds to the board isn't enough. In order to truly benefit from this, boards must make the environment into which new directors are added one that is inclusive. That may require changing the tone in a boardroom to promote healthy dialogue and a safer space for learning, debate and the avoidance of group think.

The way forward: A plan for governance in a new world

5 Double down on board assessments

As we look to the future, it's clear that truly successful boards will be those that are able to reflect, pivot, learn and grow. Directors must be given the safe space needed to properly and constructively assess and correct their shortcomings, while building on identified strengths. If done right, assessments also allow for the identification of areas of weakness that can be dealt with by the right training or by the replacement of members. This requires that the process be dealt with in a mature manner that focuses on the best interests of the organisation and its stakeholders. A well-executed assessment, with independent support if necessary, can provide actionable takeaways that can have a real positive impact.

Less than 50% of our directors confirmed that their boards had conducted any form of assessment within the last year. Of these most were conducted internally, leading to many to consider their process as being a check the box exercise that fails to allow for frank assessments. This is a lost opportunity for the strengthening of our boards and organisations that we can ill afford at this critical juncture. Our boards need to strive for assessments that are inclusive, honest and constructive within a confidential and safe space, leading ultimately to open dialogue and actionable plans.   This is what will allow boards to be able to be optimally structured, with directors working together to challenge each other, define and execute on the right strategic objectives, all the while setting the right tone at the top and holding management to the highest standards.

Conclusion:

Good Corporate Governance ultimately asks our EC boards to govern management teams and their organisations in a way that allows for striking the right balance between accountability to stakeholders and the encouragement of enterprise. ESG collectively goes further, demanding that these wider values and the stakeholders who represent them, form an intrinsic part of a company's strategy. It demands that we acknowledge that "value" means both the financial price of something and the emotional values we hold dear, about ourselves, our society and our environment, that lead to sustainability for us all.

We have a few key players who are leading the way, governing boards who understand the need for accountability, transparency and the need to remain agile and ever-learning. These boards use their governing skills to better understand and embrace the need for longer term visions of sustainability that accept environmental and societal challenges and thus responsibilities - they accept that enterprises benefit from the resources provided by both the environment and society.

Others need to catch up quickly. This is not to deny the realities of our challenging economic environment, or the ever present push and pull of investors with competing goals. It is instead a reminder that our organisations have a vital role to play in ensuring that economic recovery in the EC territories is built on a stronger foundation, creating a future that is more sustainable and resilient, for the benefit of us all. The result may not be the boardrooms that fit the traditional mold, but will be more relevant, more credible and better performing boards that can better serve their organisations, their stakeholders and our East Caribbean communities.

About the survey

In late 2021, **we surveyed 89 public and private sector directors from three East Caribbean countries: Barbados, Grenada and St. Lucia. These directors represented a cross-section of organisation sizes, types and industries. The questions sought to find out about current governance practices, attitudes within boards and priorities for the future.**

Our sincere thanks to all of these directors for kindly sharing their time and insights.

How PwC can help

To have a deeper discussion about how these topics might impact your business, please get in touch.

Ronaele Dathorne-Bayrd
ESG Leader
PwC East Caribbean
ronaele.dathorne-bayrd@pwc.com

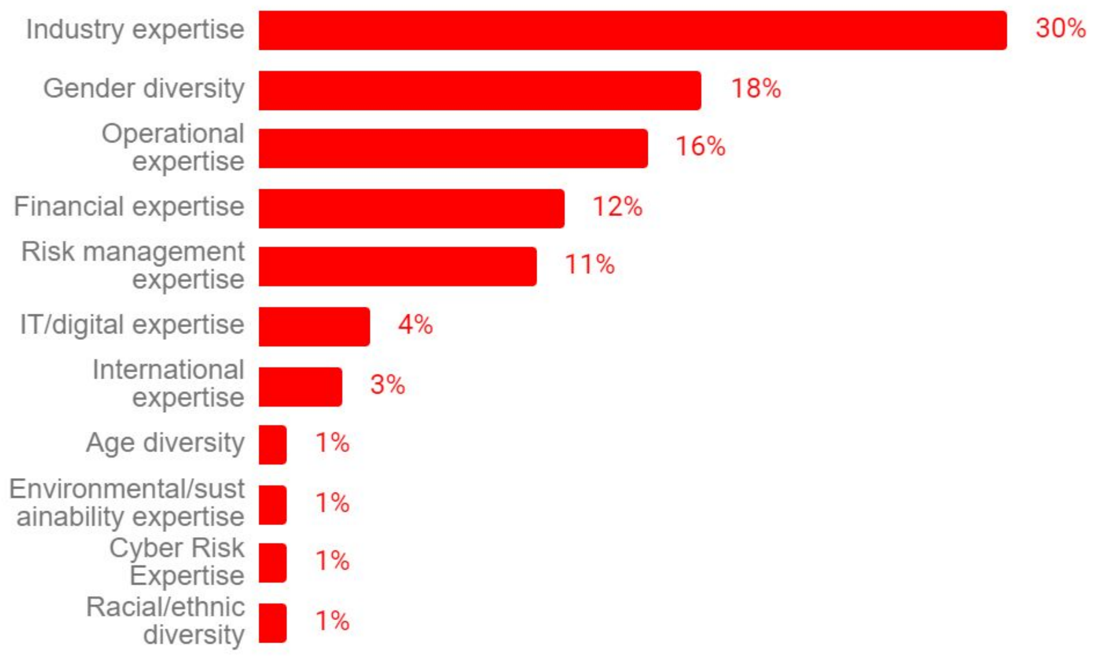
Appendix

Appendix

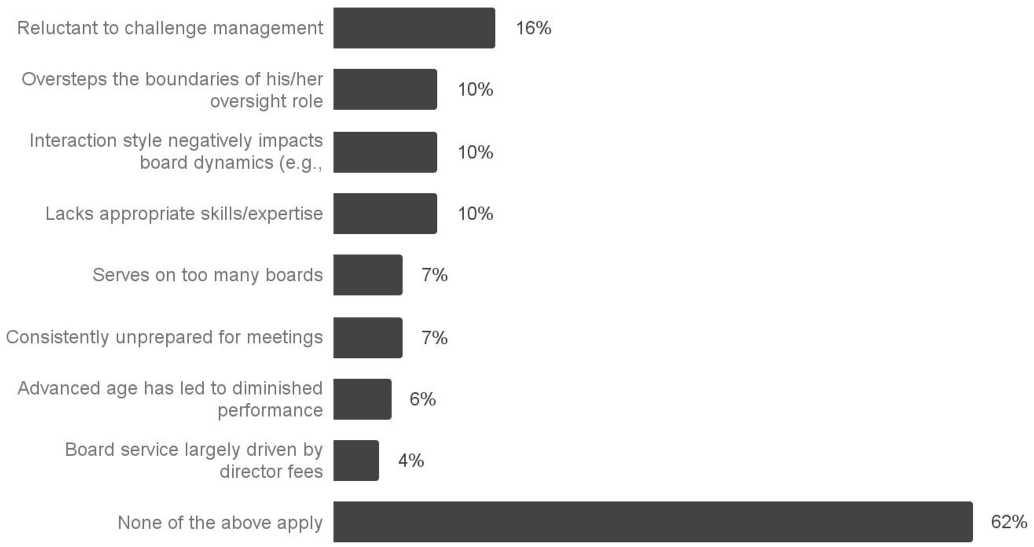
Complete survey findings

Board composition/diversity

1. When your board recruits its next director, what is the single most important attribute your board will prioritise in the search? (select only one)



2. Do you believe any of the following about any of your fellow board members? (select all that apply)

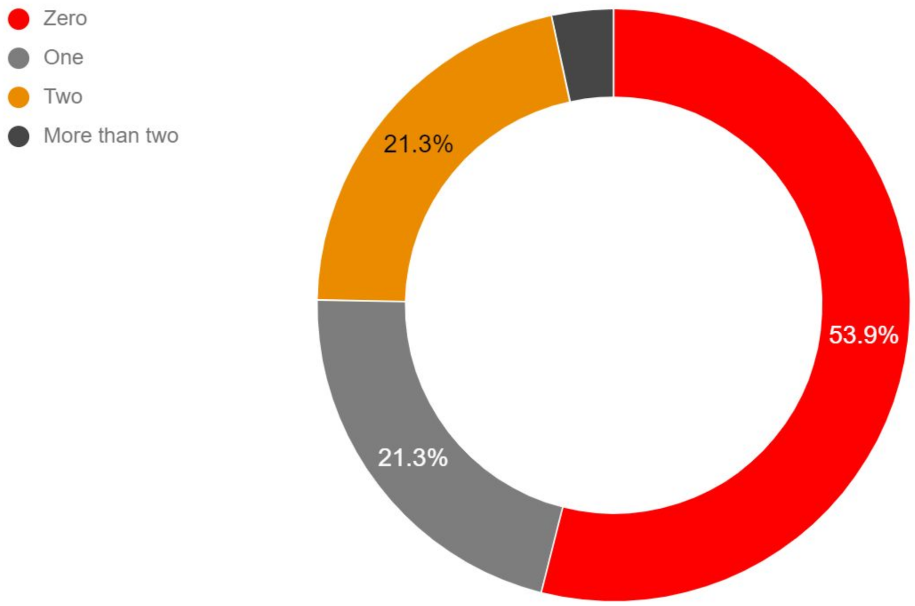


Appendix

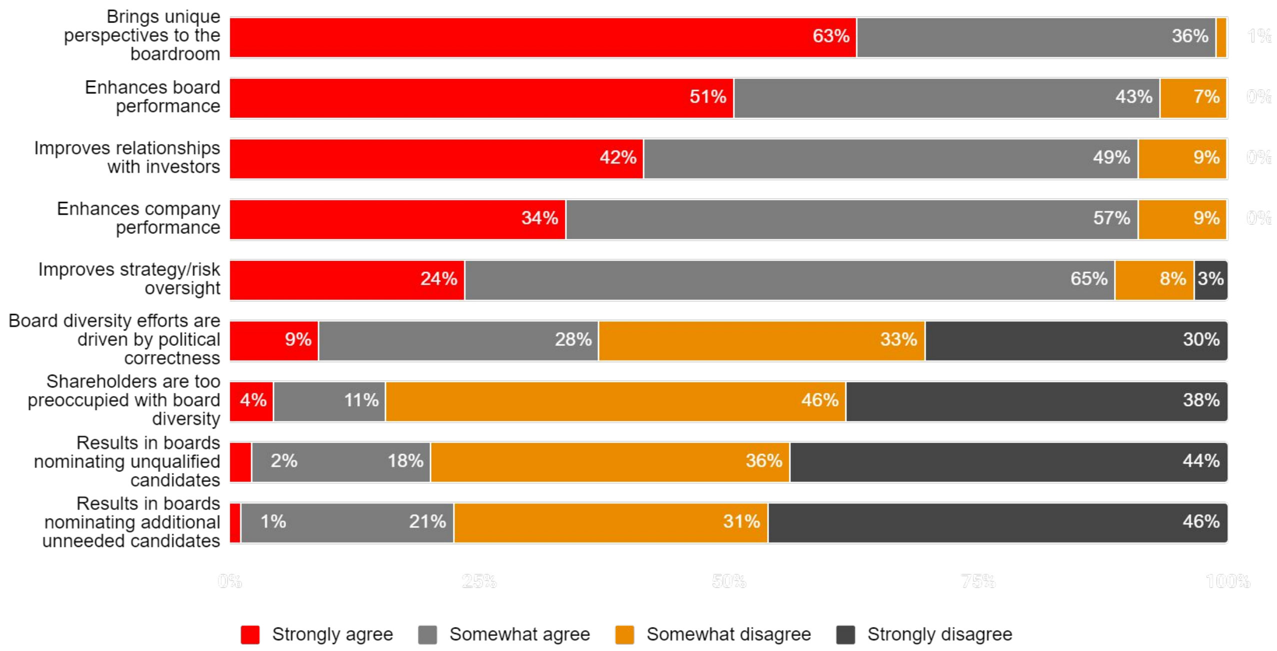
Complete survey findings

Board composition/diversity

3. In your opinion, how many directors on your board should be replaced? (select only one)



4. To what extent do you agree with the following statements about board diversity?

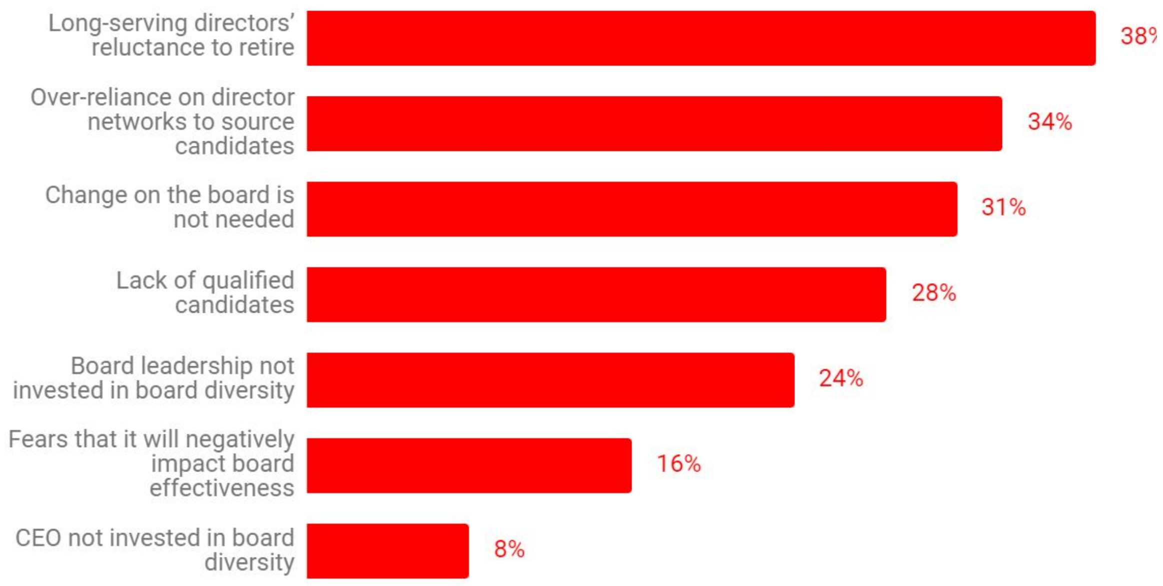


Appendix

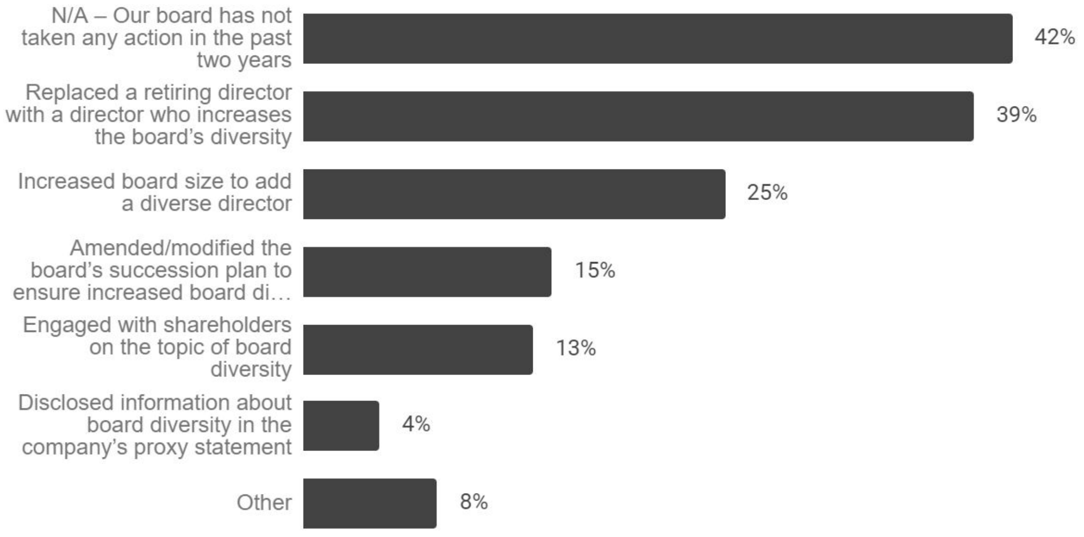
Complete survey findings

Board composition/diversity

5. In your opinion, what has impeded efforts to increase board diversity in general (i.e., why haven't boards become diverse more quickly)? (select all that apply)



6. Which of the following actions has your board taken over the past two years regarding board diversity? (select all that apply)

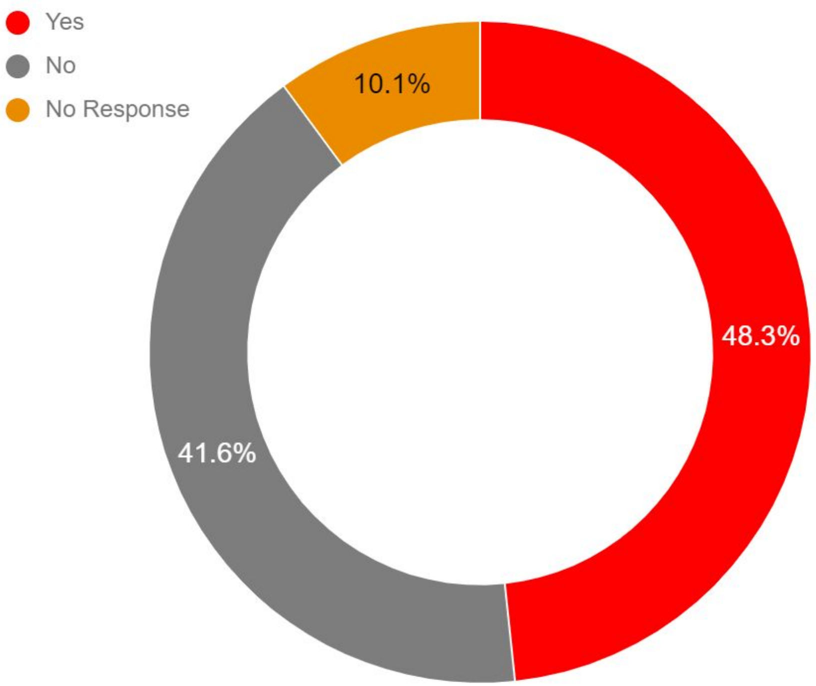


Appendix

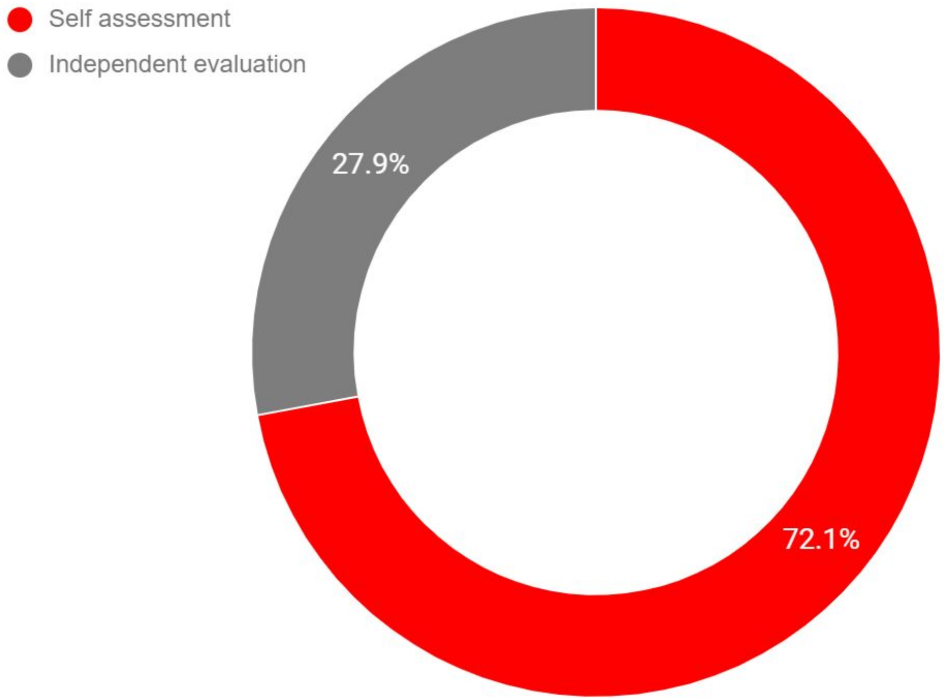
Complete survey findings

Board practices

7. Has your board had an assessment in the past year?



7a. If your Board has done an assessment, was it a self assessment or independent evaluation? (Please select one)

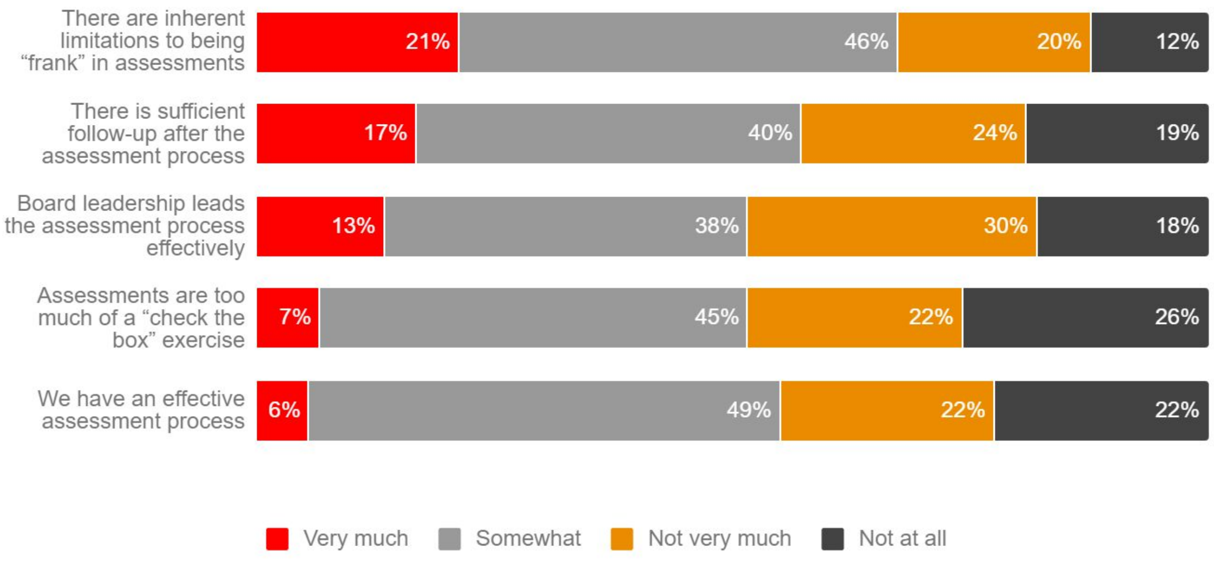


Appendix

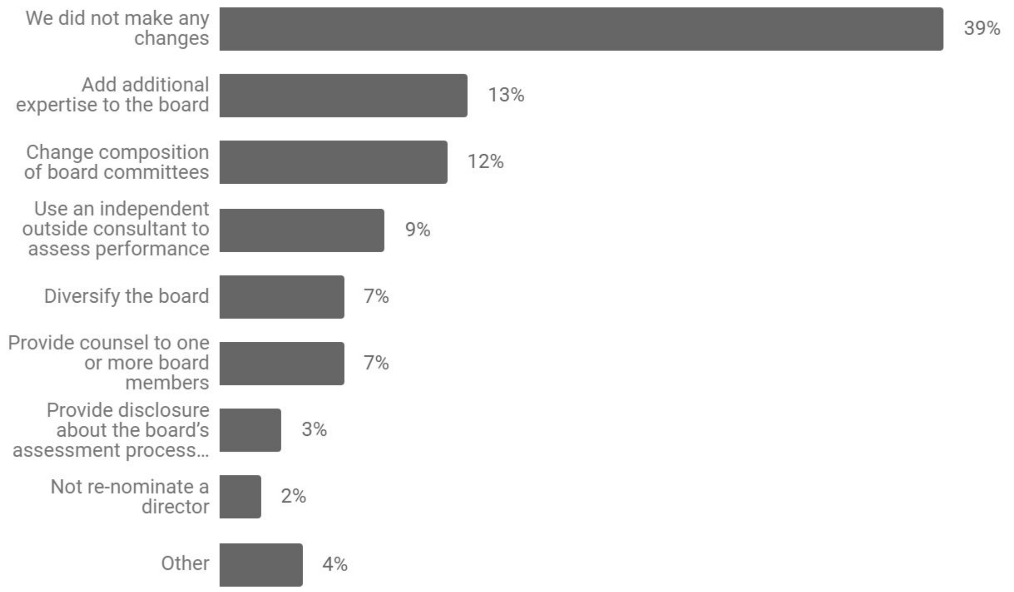
Complete survey findings

Board practices

8. Regarding board/committee self-assessments, to what extent do you believe the following?



9. In response to the results of your last board/committee assessment process, did your board/committee decide to do any of the following? (select all that apply)

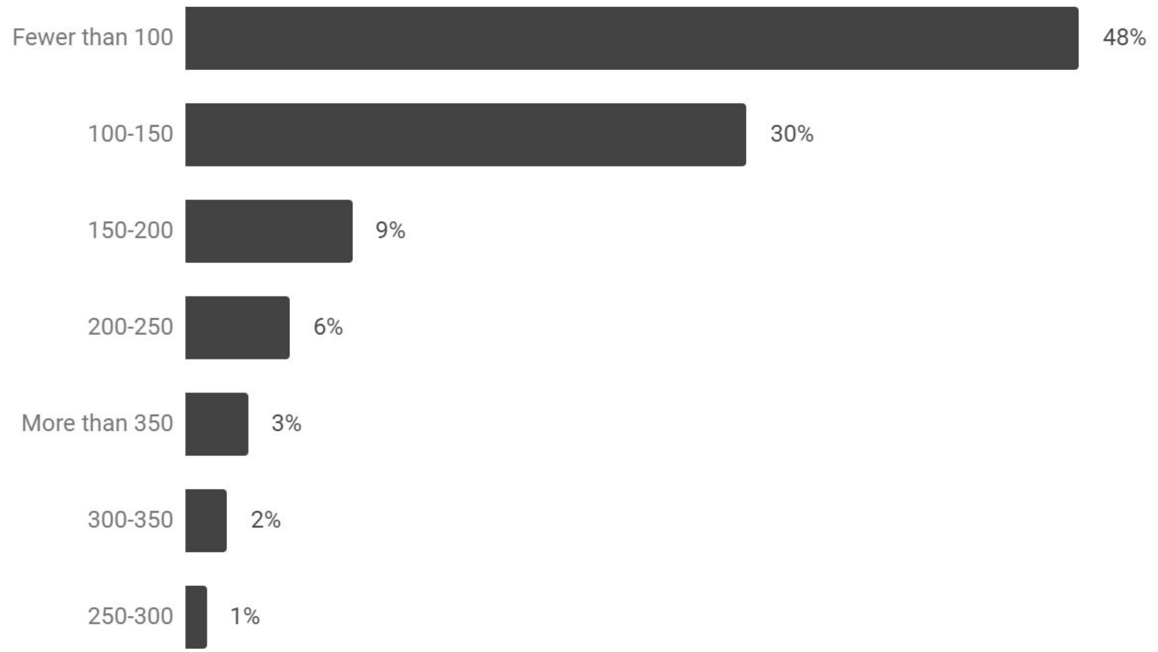


Appendix

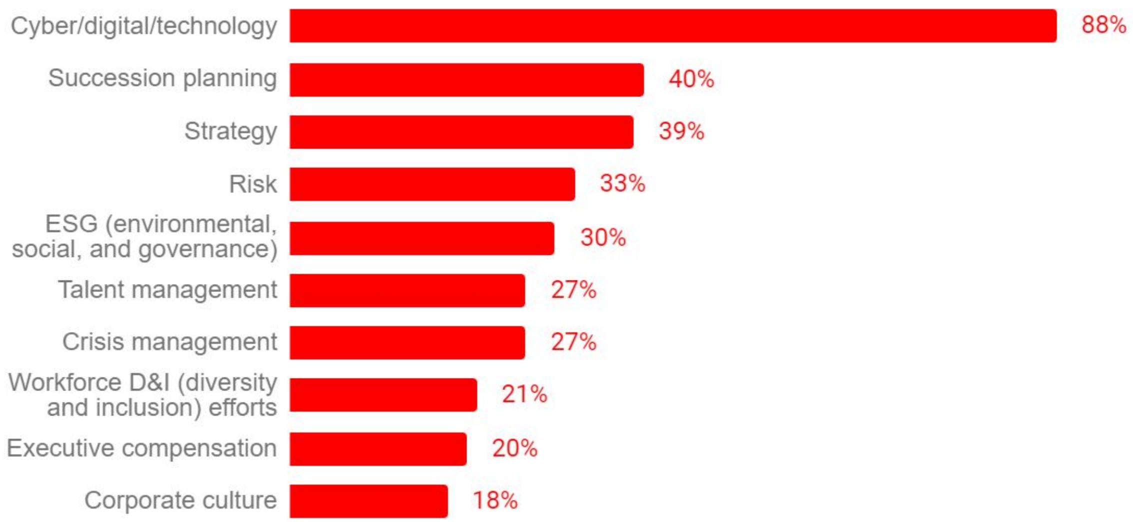
Complete survey findings

Board practices

10. Approximately how many hours per year do you spend in your board oversight role (including preparation and committee service)?



11. In your opinion, which of the following areas of oversight do not receive sufficient board time/attention? (select all that apply)

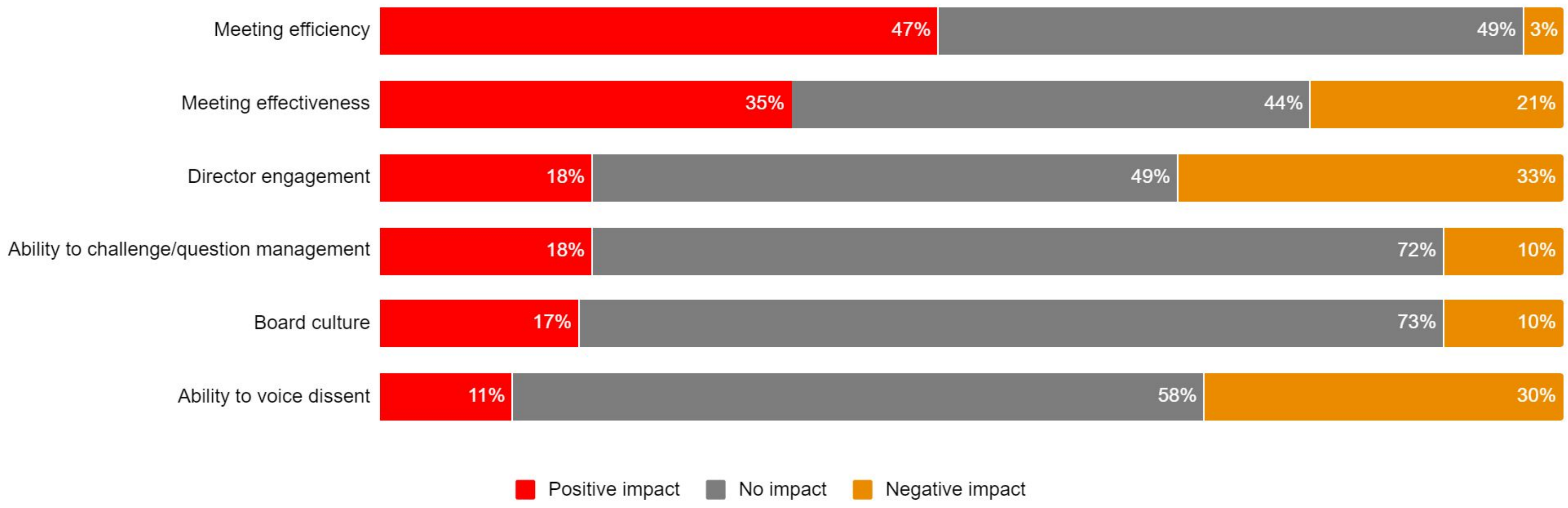


Appendix

Complete survey findings

Board practices

12. In your view, how has the shift to virtual board/committee meetings impacted the following?

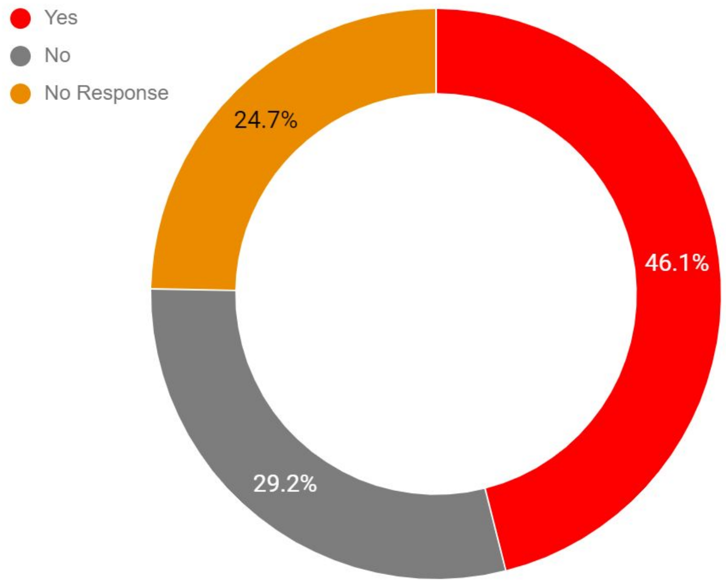


Appendix

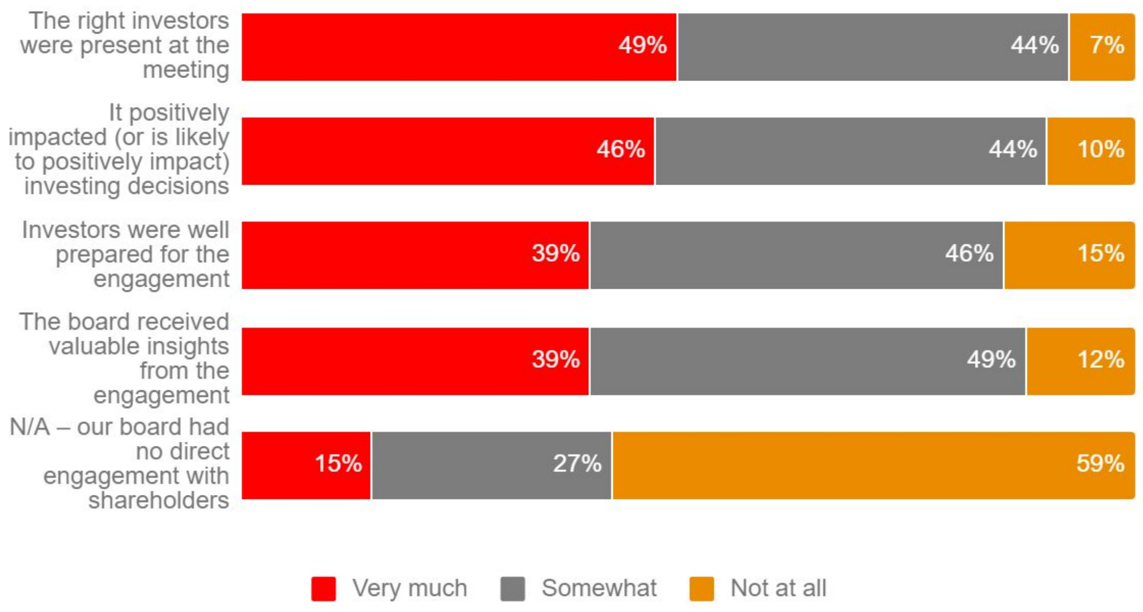
Complete survey findings

Shareholder communication

13a. Has a member of your board (other than the MD/CEO) had direct engagement with shareholders during the past 12 months?



13b. If you answered yes to question 13a, to what extent do you agree with the following regarding your board's direct engagement with shareholders?

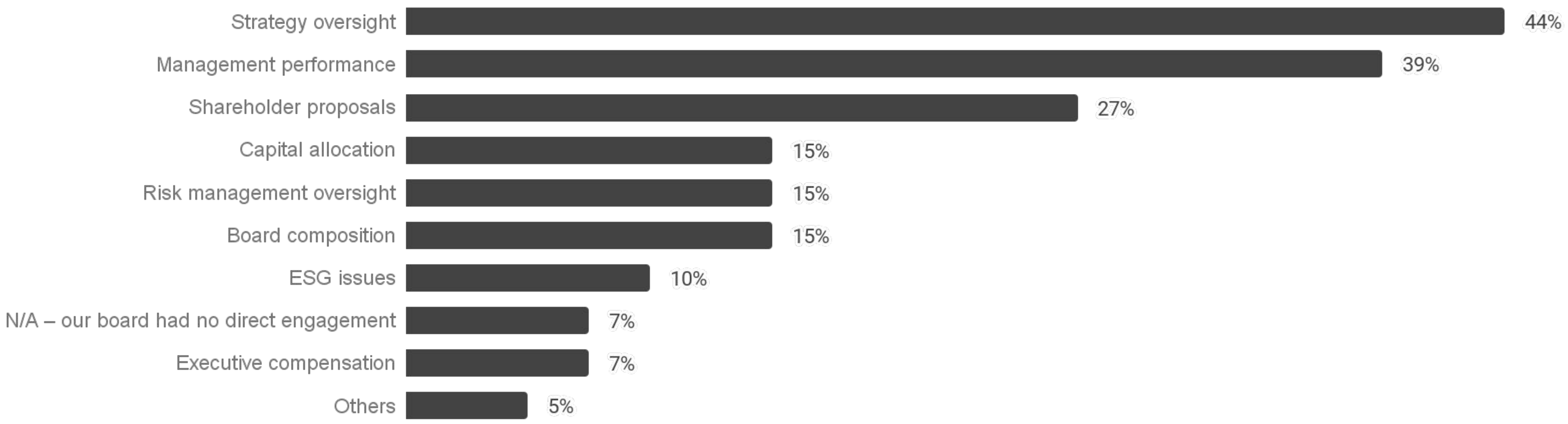


Appendix

Complete survey findings

Shareholder communication

13c. If you answered yes to question 13a, on which of the following topics did a member of your board (other than the MD/CEO) engage in direct communications with shareholders? (select all that apply)

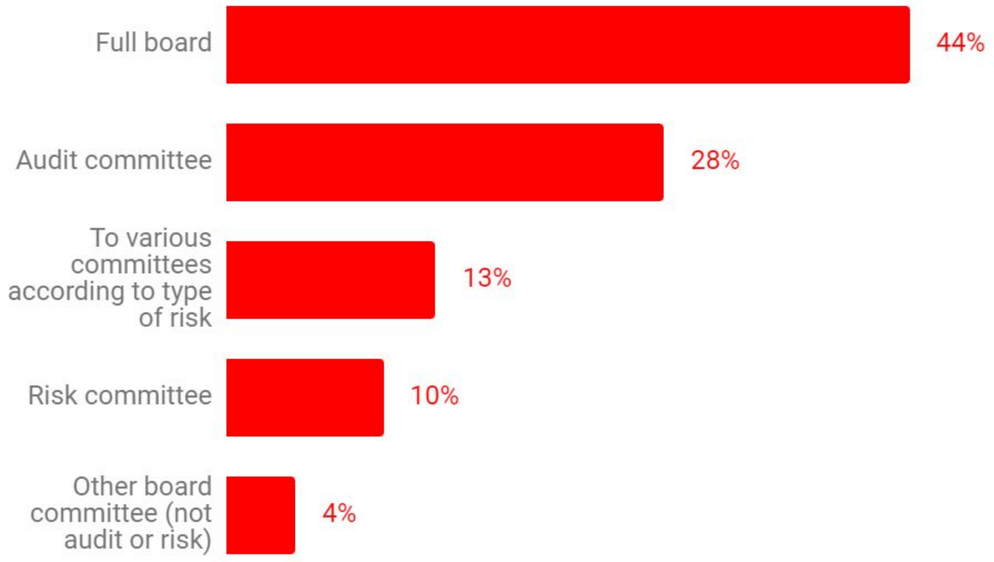


Appendix

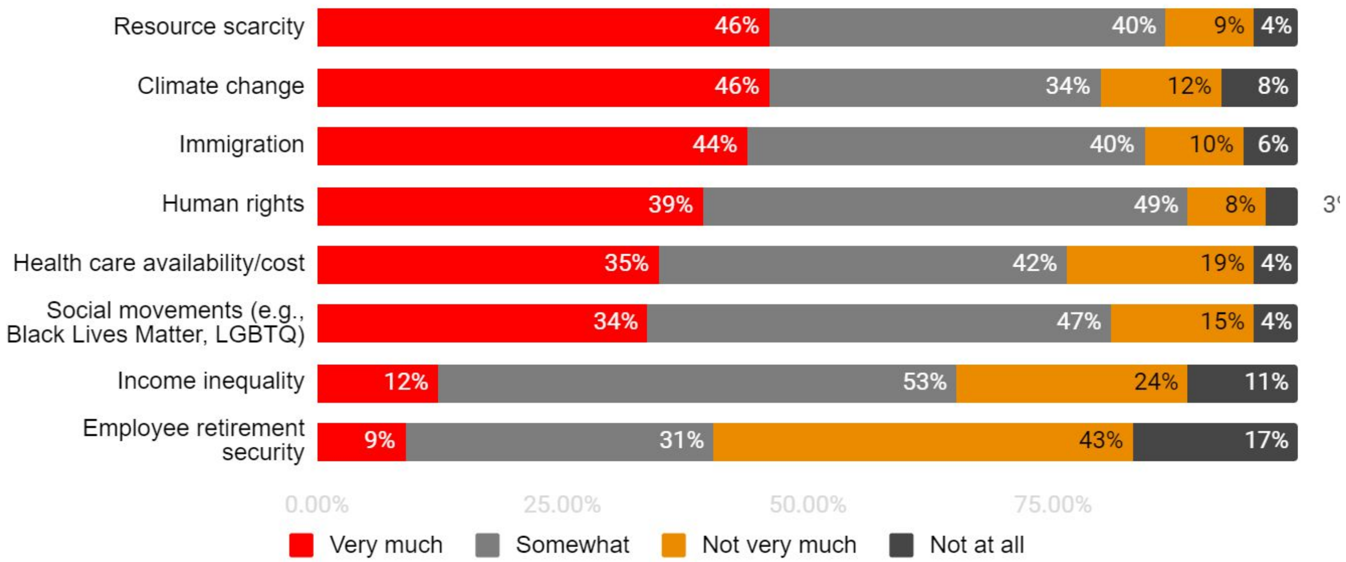
Complete survey findings

Strategy/Risk/ESG

14. How does your board primarily allocate oversight of risk? (select only one)



15. To what extent do you think your company should take the following issues into account when developing company strategy?

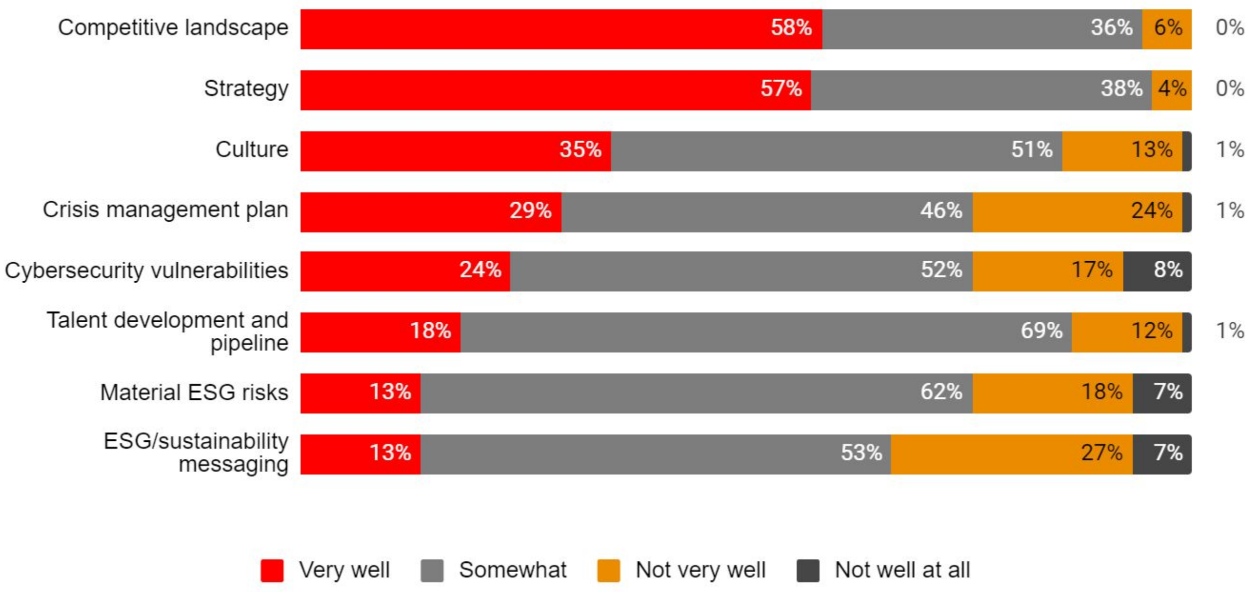


Appendix

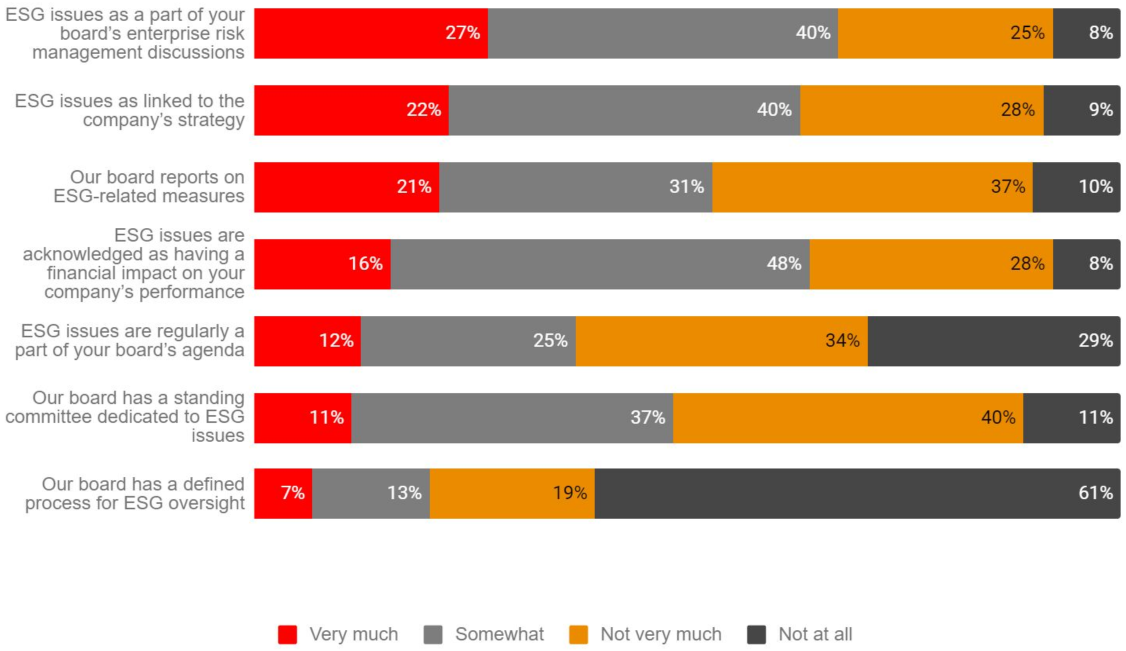
Complete survey findings

Strategy/Risk/ESG

16. How well do you think your board understands the following as it relates to the company?



17. To what extent do the following apply to your board with respect to ESG:

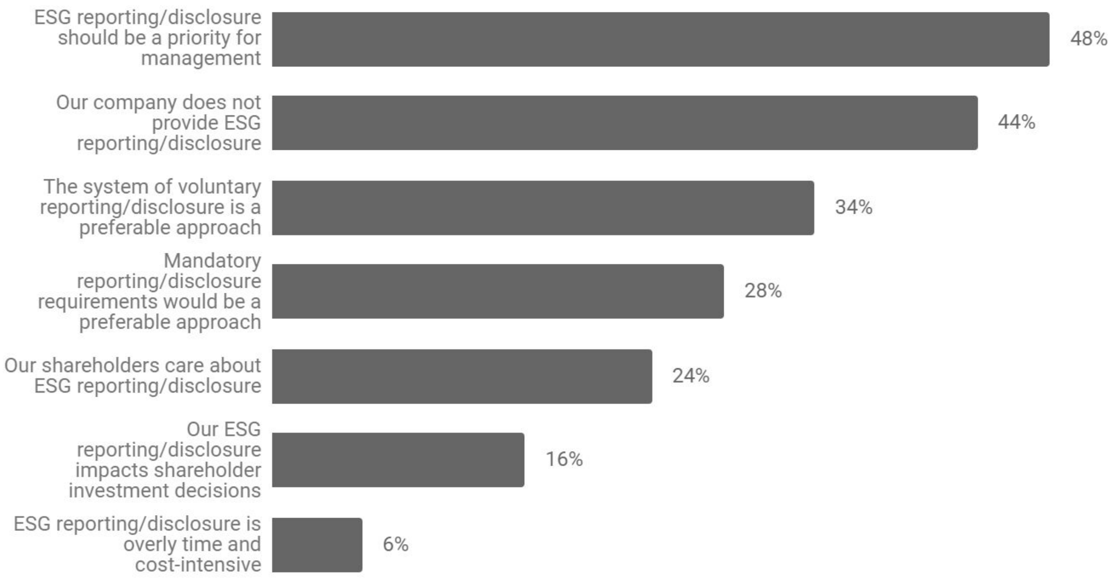


Appendix

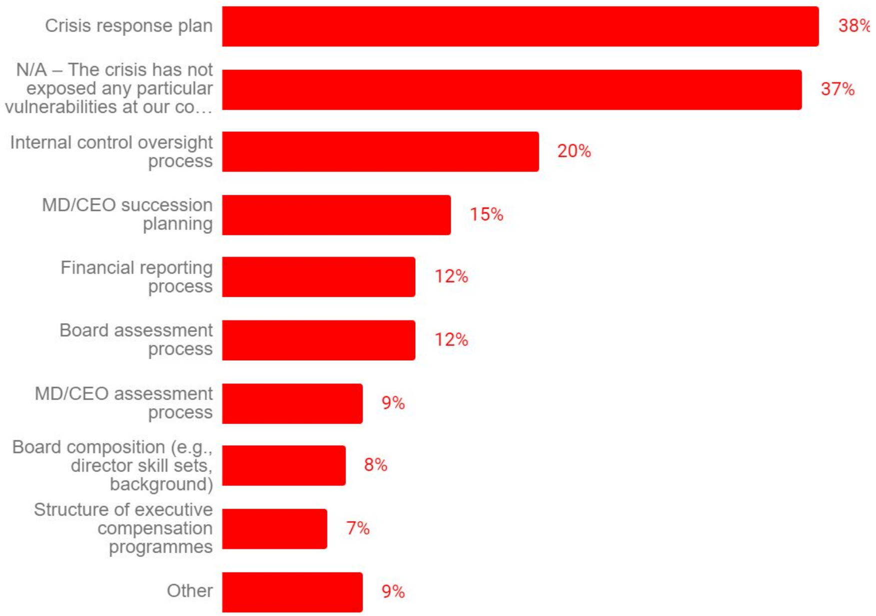
Complete survey findings

Strategy/Risk/ESG

18. Which of the following do you agree with as it relates to ESG reporting/disclosure? (select all that apply)



19. In your opinion, has the COVID-19 pandemic and associated business disruptions exposed vulnerabilities at your company in any of the following areas? (select all that apply)

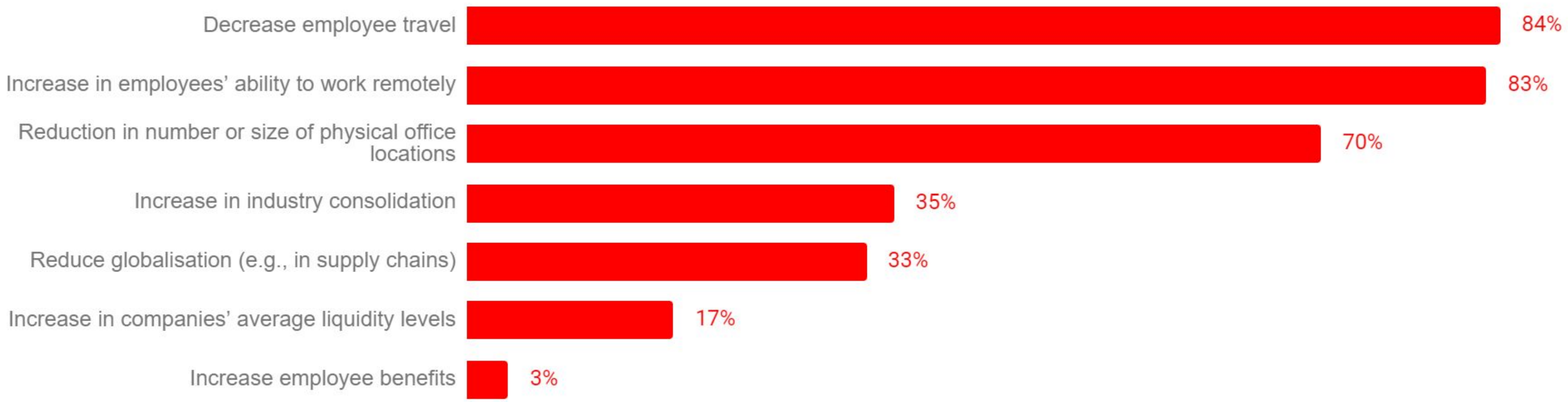


Appendix

Complete survey findings

Strategy/Risk/ESG

20. Do you believe COVID-19 will have any of the following long-term structural impacts on business in general? (select all that apply)

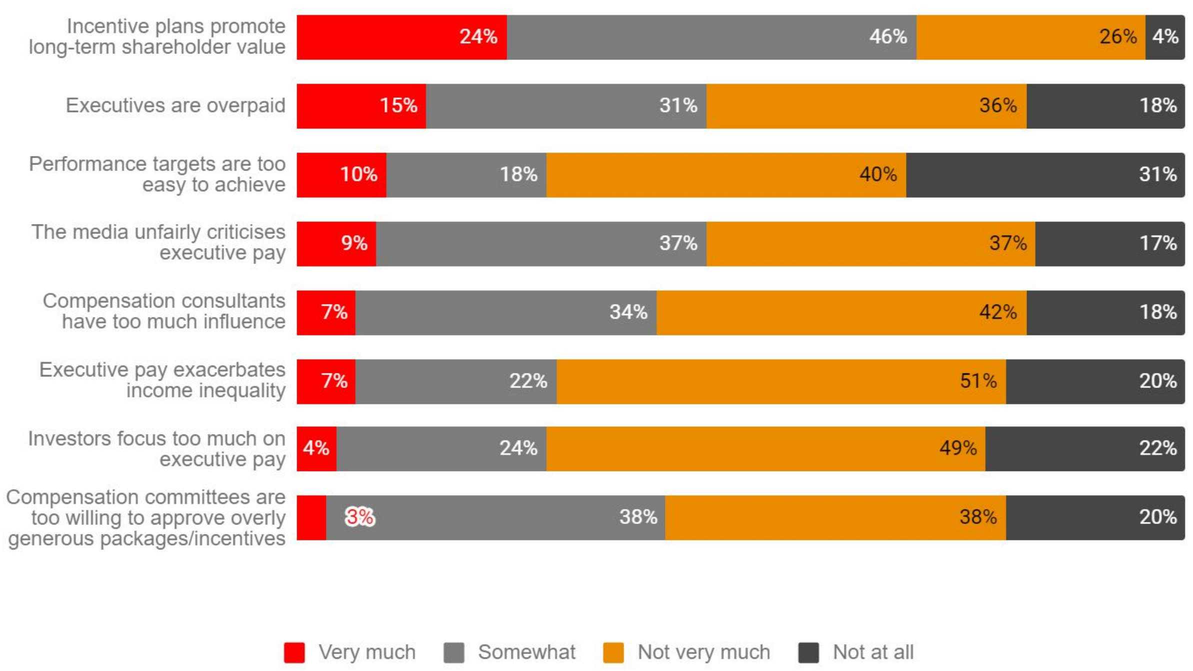


Appendix

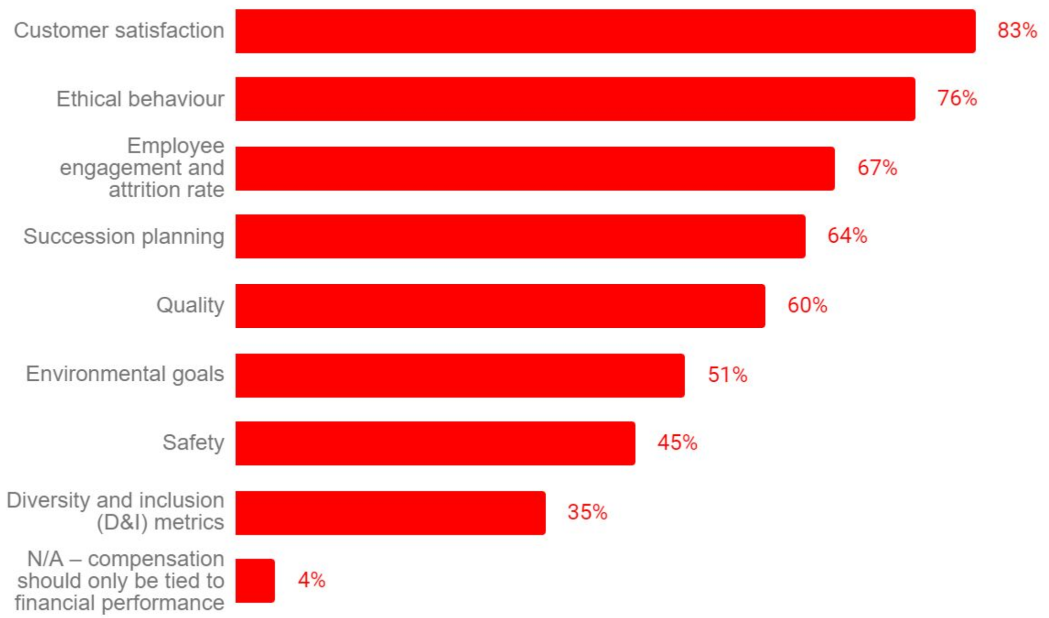
Complete survey findings

Executive compensation/Talent management

21. To what extent do you agree with the following regarding executive pay in your territory?



22. Which of the following non-financial metrics do you think should be included in executive compensation plans? (select all that apply)

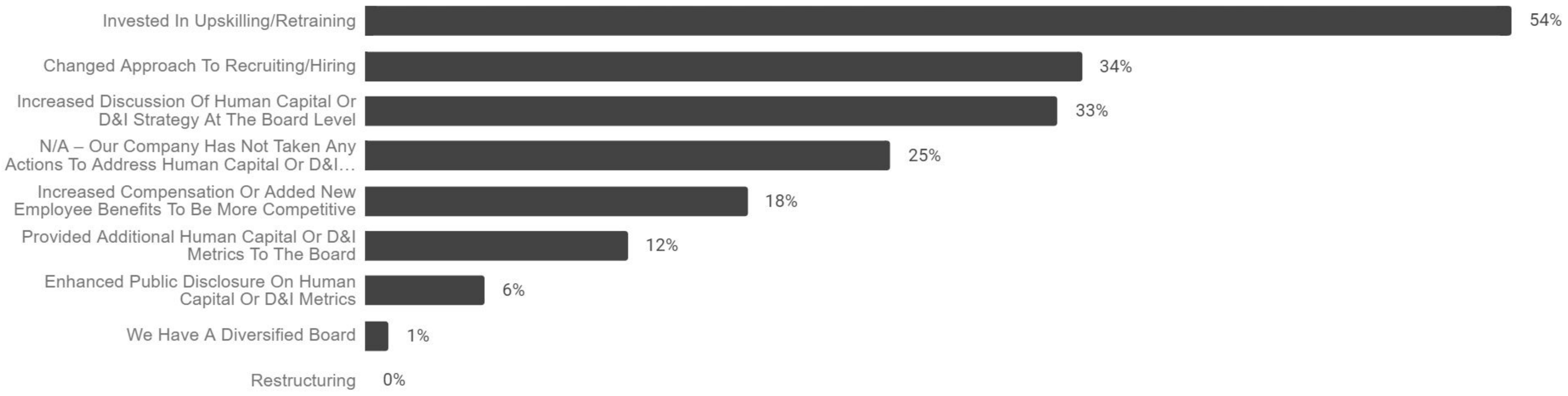


Appendix

Complete survey findings

Executive compensation/Talent management

23. Which of the following steps has your company/board taken, or plans to take, to address human capital and diversity and inclusion (D&I)-related issues? (select all that apply)

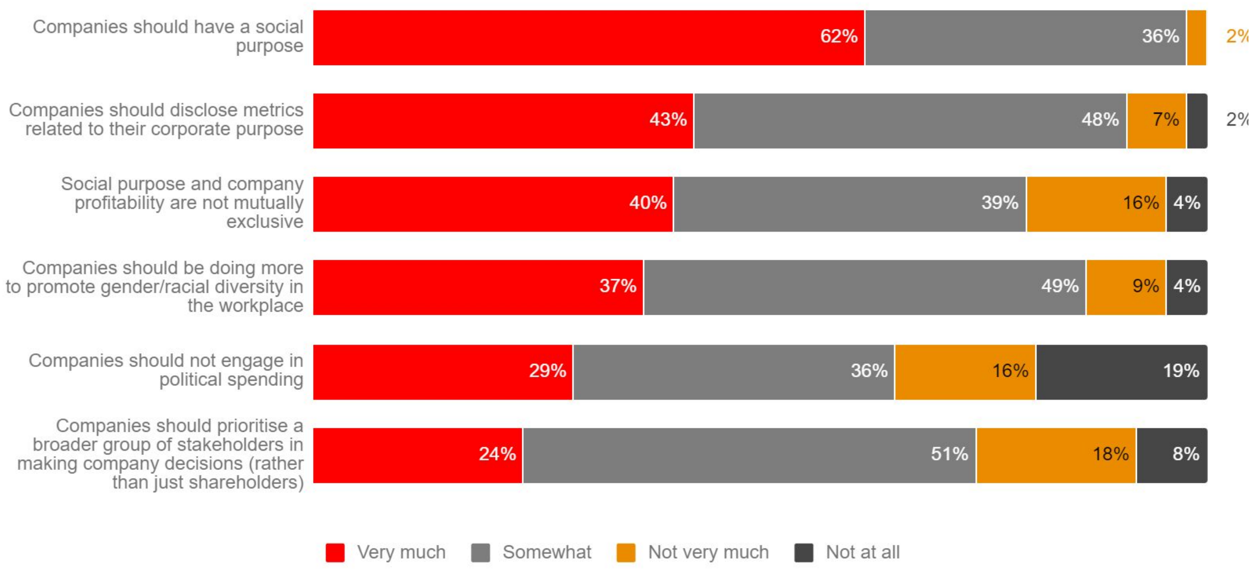


Appendix

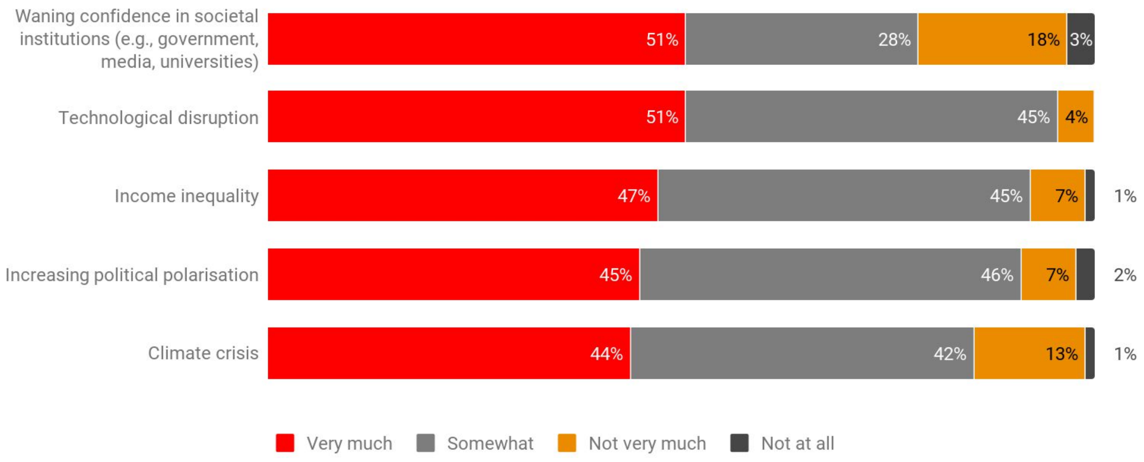
Complete survey findings

The broader environment

24. To what extent do you agree with the following?



25. To what extent are you concerned about the business/societal impact of the following macro trends?

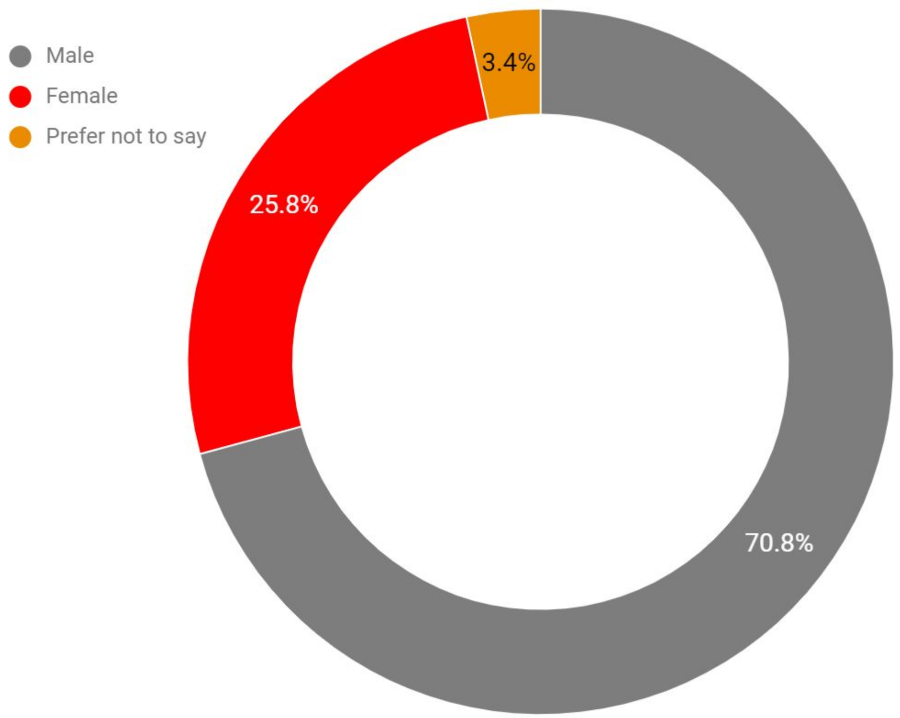


Appendix

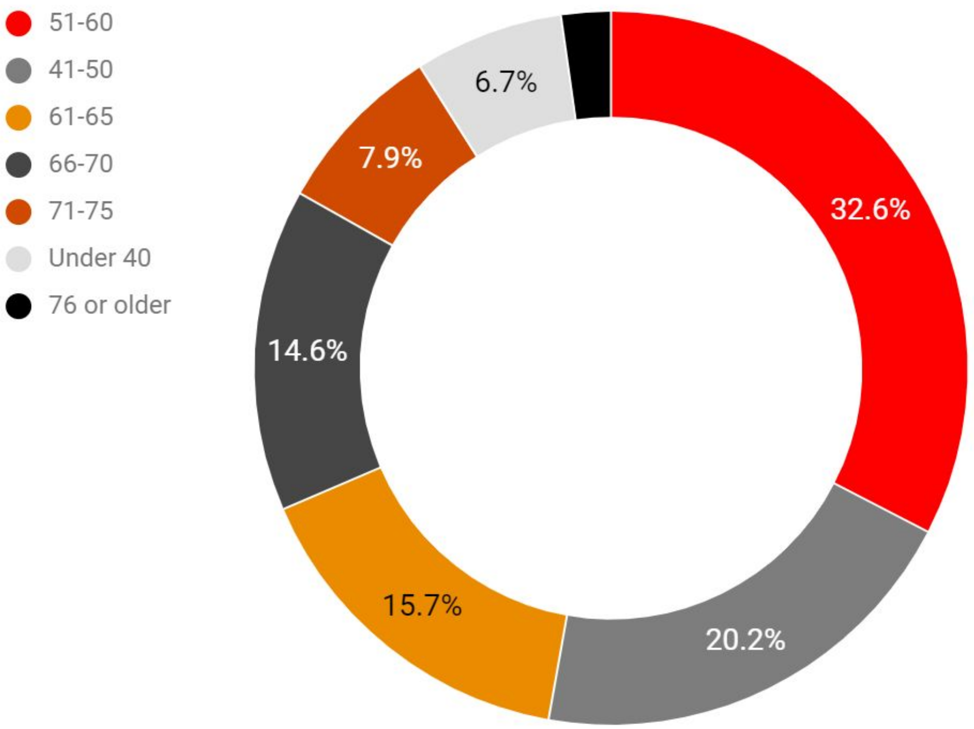
Complete survey findings

Demographics

Gender:



Age:

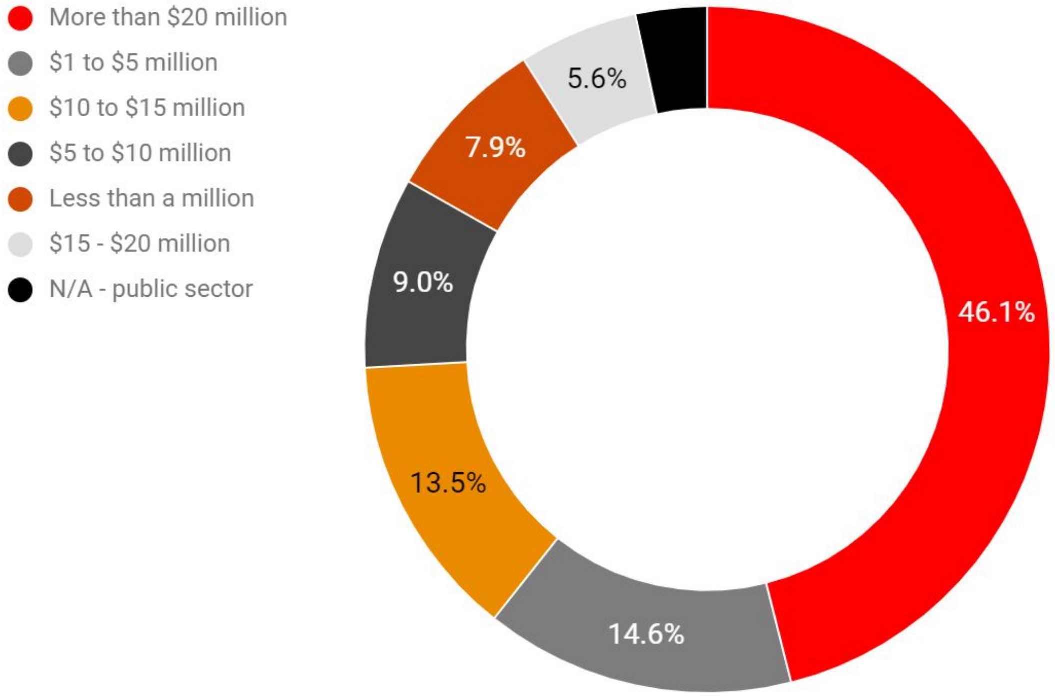


Appendix

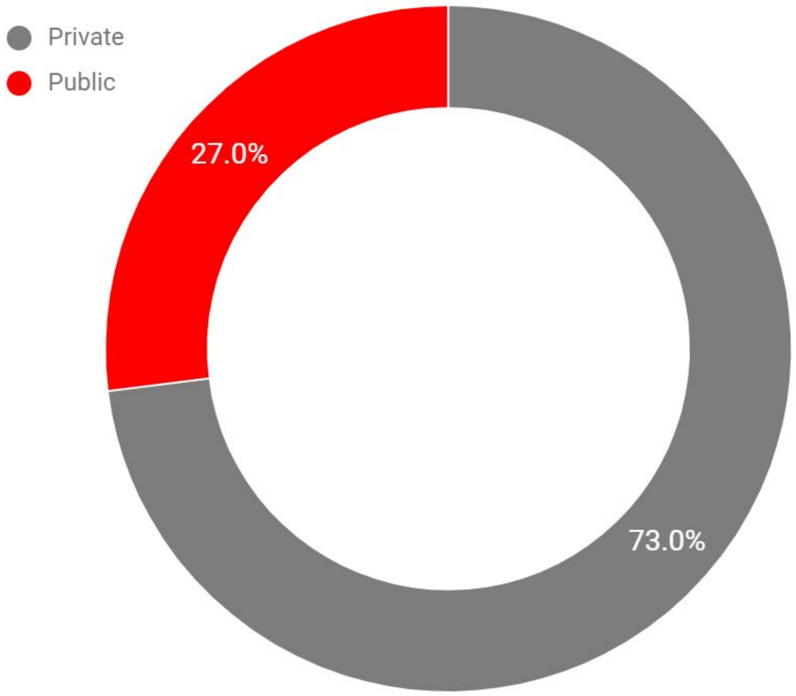
Complete survey findings

Demographics

What are the annual revenues (USD) of the largest company on whose board you serve?



Do you serve on a private sector or public sector board (please select)?

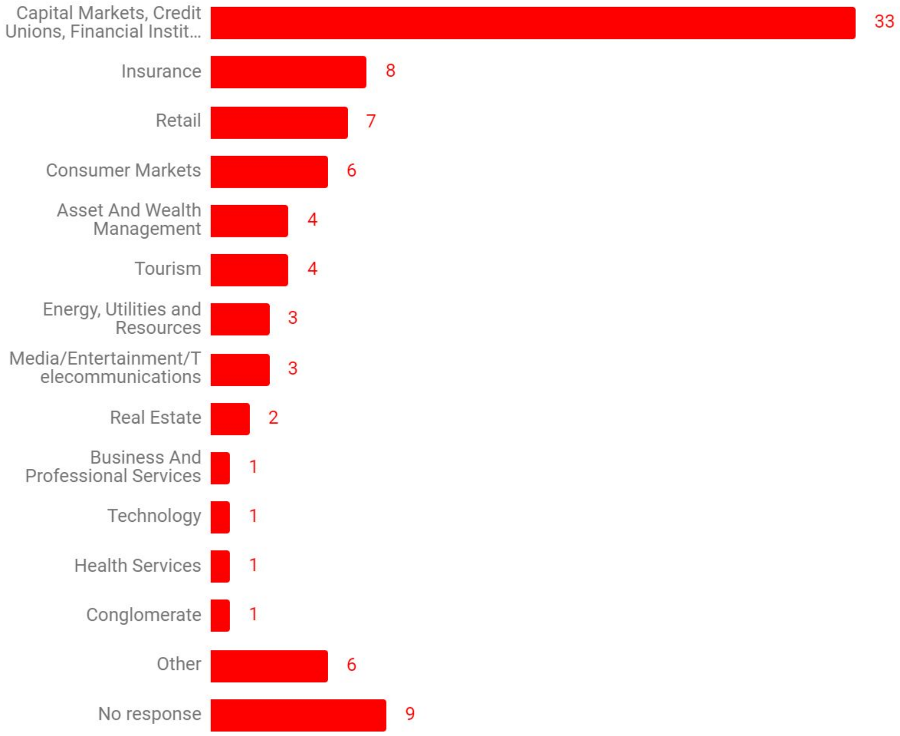


Appendix

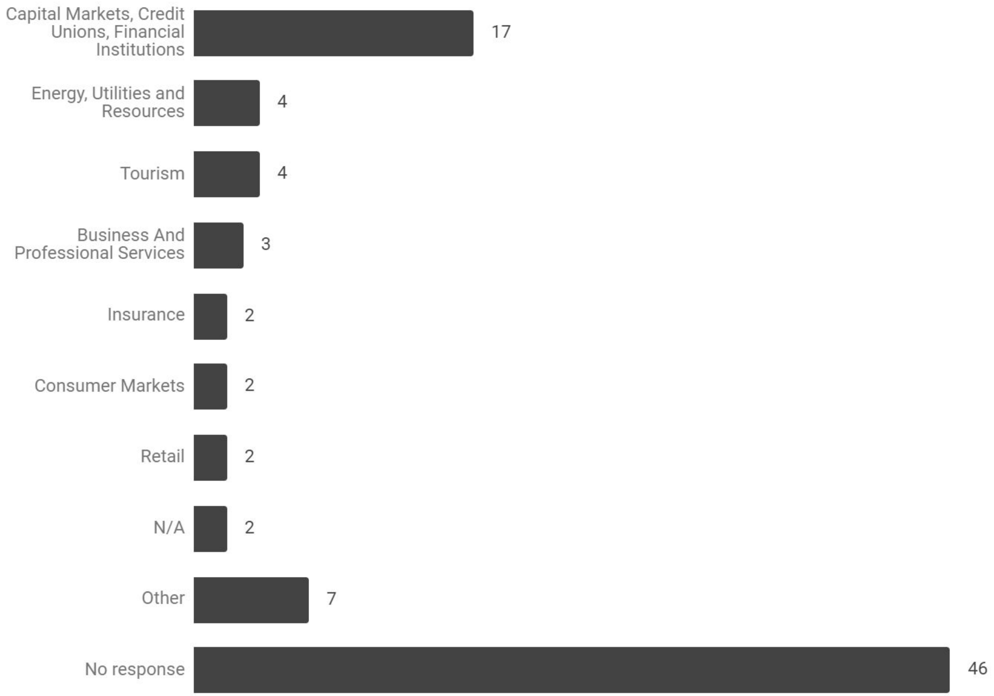
Complete survey findings

Demographics

Private sector - which of the following best describes that company's industry? (select only one)



Public sector - which of the following best describes that company's industry? (select only one)

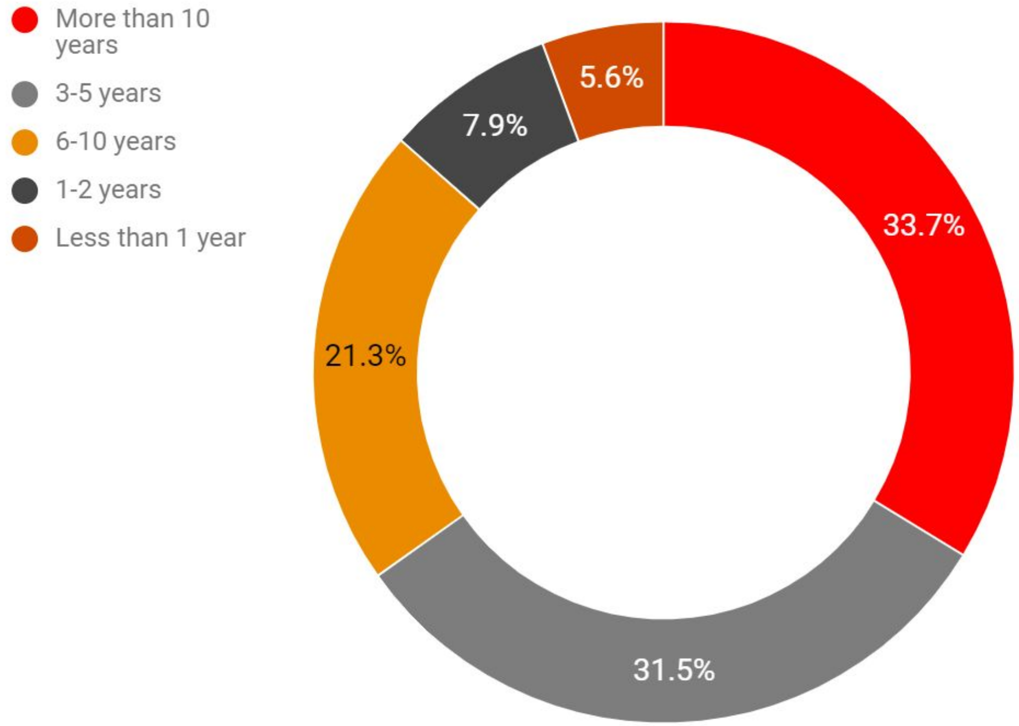


Appendix

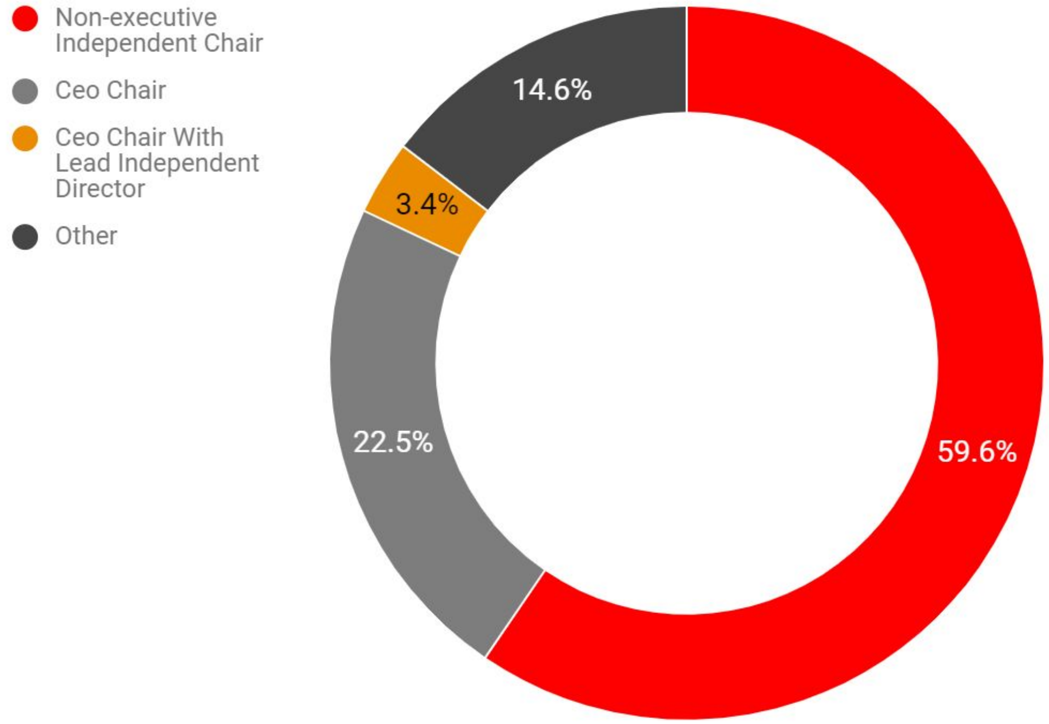
Complete survey findings

Demographics

How long have you served on this board?



Which of the following describes that board's leadership structure?

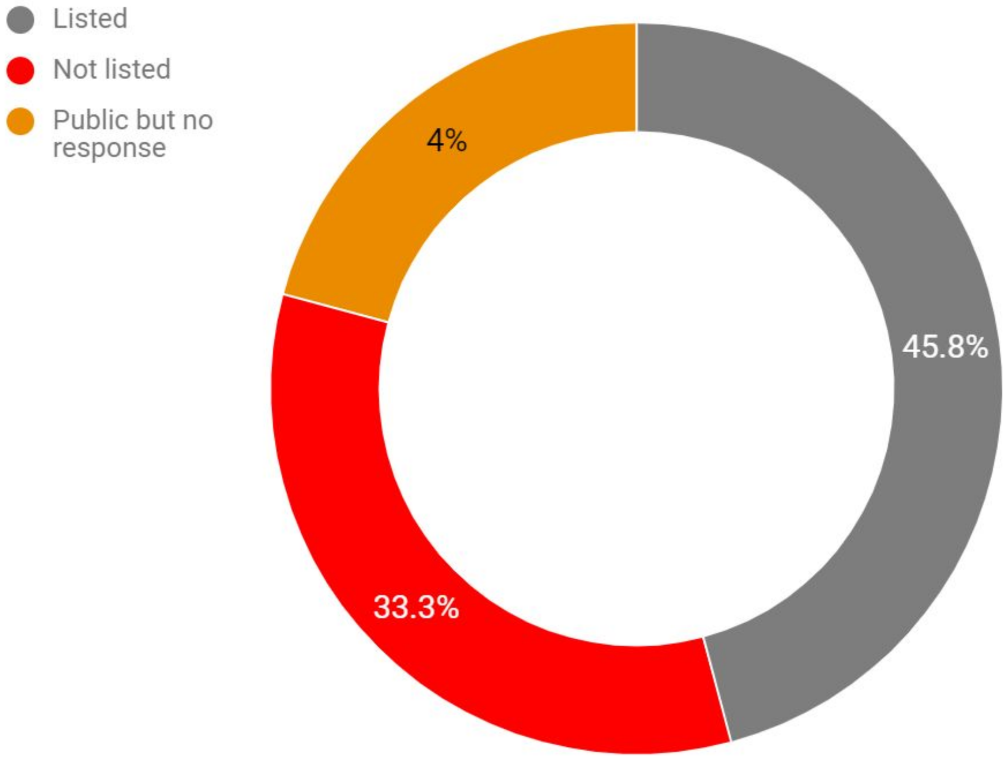


Appendix

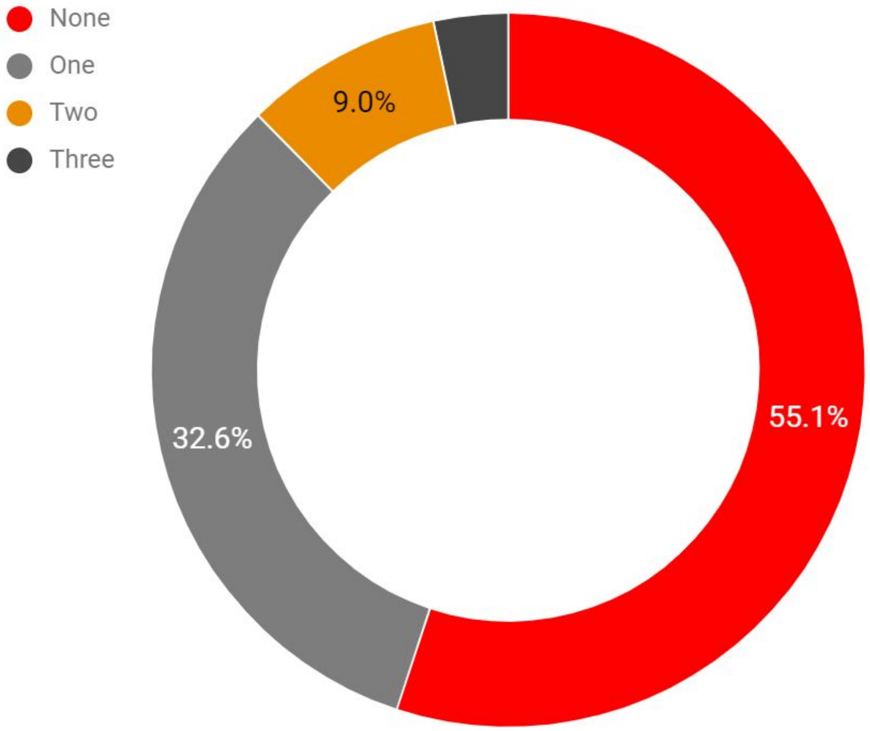
Complete survey findings

Demographics

If you serve on a public company board, is it listed or not?



On how many publicly listed company boards do you currently serve?



Appendix

Complete survey findings

Demographics

Which of the following jurisdictions are you primarily based