Turning words into actions

Caribbean Corporate Governance Pulse Survey 2024

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Introduction:

The time for talking is over. The Caribbean needs action now

Welcome to Turning words into actions: PwC in the Caribbean's Corporate Governance Pulse Survey 2024, our exploration of boardroom readiness for a changing world.

Effective corporate governance is the linchpin of a healthy and successful organisation. Building on the foundations of oversight, accountability and control, good governance helps guide decision-making, sets the tone for how people within the organisation behave and builds trust among customers, employees, shareholders and society as a whole.

More vital than ever

Effective governance is never more vital than in times of upheaval and change. Whether heading a public or private sector organisation, directors are under pressure to accelerate transformation in areas ranging from digitisation to decarbonisation, while dealing with new regulations and a fast-moving and unpredictable risk landscape. These shifts and risks are leading directors into difficult and uncharted waters.

Many of the biggest governance challenges directors face stem from the uneasy interaction between transformation and regulation. A clear case in point is the need to deliver the digital ease and intuition customers now,expect, while complying with ever more exacting data protection regulations. Good governance can help directors to strike the right balance by safeguarding consumers without stifling digital accessibility and business innovation as part of a human-led, tech-powered approach.

ESG as an opportunity

The importance of governance in steering through uncharted waters is equally evident in the questions surrounding environmental, social and governance (ESG) matters.

There may be a temptation to adopt a check-the-box compliance approach to ESG when regulatory demands are escalating. However this would miss the **opportunity to attract talent, customers and investors** at a time when all of these stakeholder groups are gravitating towards green, diverse and socially-conscious organisations. As the critical G in ESG, good governance makes sure that the E and the S are at the heart of strategy, are built into day-to-day operational priorities and that your organisation lives up to its promises to do good while doing well.

The incoming **IFRS S1 and S2** sustainability disclosures underscore the importance of getting on the front foot. Yes, the regulations present significant measurement, monitoring and management challenges. However, by looking at this as a strategic and investor relations opportunity rather than just a compliance chore, leaders can use these disclosures to set out their environmental plans, demonstrate readiness for green transition and build confidence in the long-term viability of their organisations.

Source: PwC Consumer Intelligence Series - "Beyond compliance: Consumers and employees want business to do more on ESG", *PwC US*, June 2021

Source: PwC's Global Investor Survey 2022 - "The ESG execution gap: What investors think of companies' sustainability efforts", *PwC Global*

Source: "PwC in the Caribbean sets the tone on ESG framework for businesses against new ISSB standards", *PwC in the Caribbean*, June 2023

Bringing governance up-to-date

As lives, businesses and stakeholder expectations in the Caribbean change, so should governance and decision-making processes.

Taking the impact of new technology as an example, the board doesn't need to know how developments such as gene therapy or generative artificial intelligence (GenAI) work. Leaders should however be clear about the possibilities that the latest breakthroughs open up, the potential limitations of the technology and how to make sure it's used responsibly across the organisation in a manner that's fit for purpose. That in turn demands a review and possible rethink of how the board is made-up, how it uses its time, what kind of training and information it receives and whether performance is up to standard and in line with best practice.

Similarly, as it becomes clear that organisations with **diverse boards perform better** than those with a narrow intake and outlook, it's important to look at who is being chosen, how and why. This isn't just a question of targets and measures, but also broadening the pipelines for the development of future directors, both independent and executive, and tackling the issues that are standing in the way of improved diversity and inclusion.

Source: "Lifting financial performance by investing in women", *Blackrock*, November 2023

"As lives, businesses and stakeholder expectations in the Caribbean change, so should governance and decision-making processes.

Struggling to make headway

Is corporate governance in the Caribbean keeping pace? To find out, we surveyed more than 50 directors from a cross-section of private and public sector organisations across the region. The research was a follow-up to our **2022 report.** The findings offer fascinating insights into progress, emerging challenges and how to bring governance up-to-date.

What comes through strongly from the survey is a recognition that change is needed in areas ranging from boardroom diversity to the management of climate-related risks. The problem is that the good intentions aren't being translated into meaningful actions.

In a telling example, more than nine out of ten respondents believe that diversity brings unique insights to the boardroom, but less than half have done any more than talk about how to make their boards more diverse.

Progress on the overall view of ESG is more positive – more than half of our respondents have built ESG considerations into their strategy and risk management to at least some extent. That being said, ESG is also the priority they recognise as being most in need of more scrutiny and the area they acknowledge they know least about.

Underlying issues highlighted in the survey include pressure to deal with too many demands in too little time. It's difficult to know how boards can focus their time in the most productive way and enhance their performance when most boardroom assessments lack sufficient rigour and objectivity.

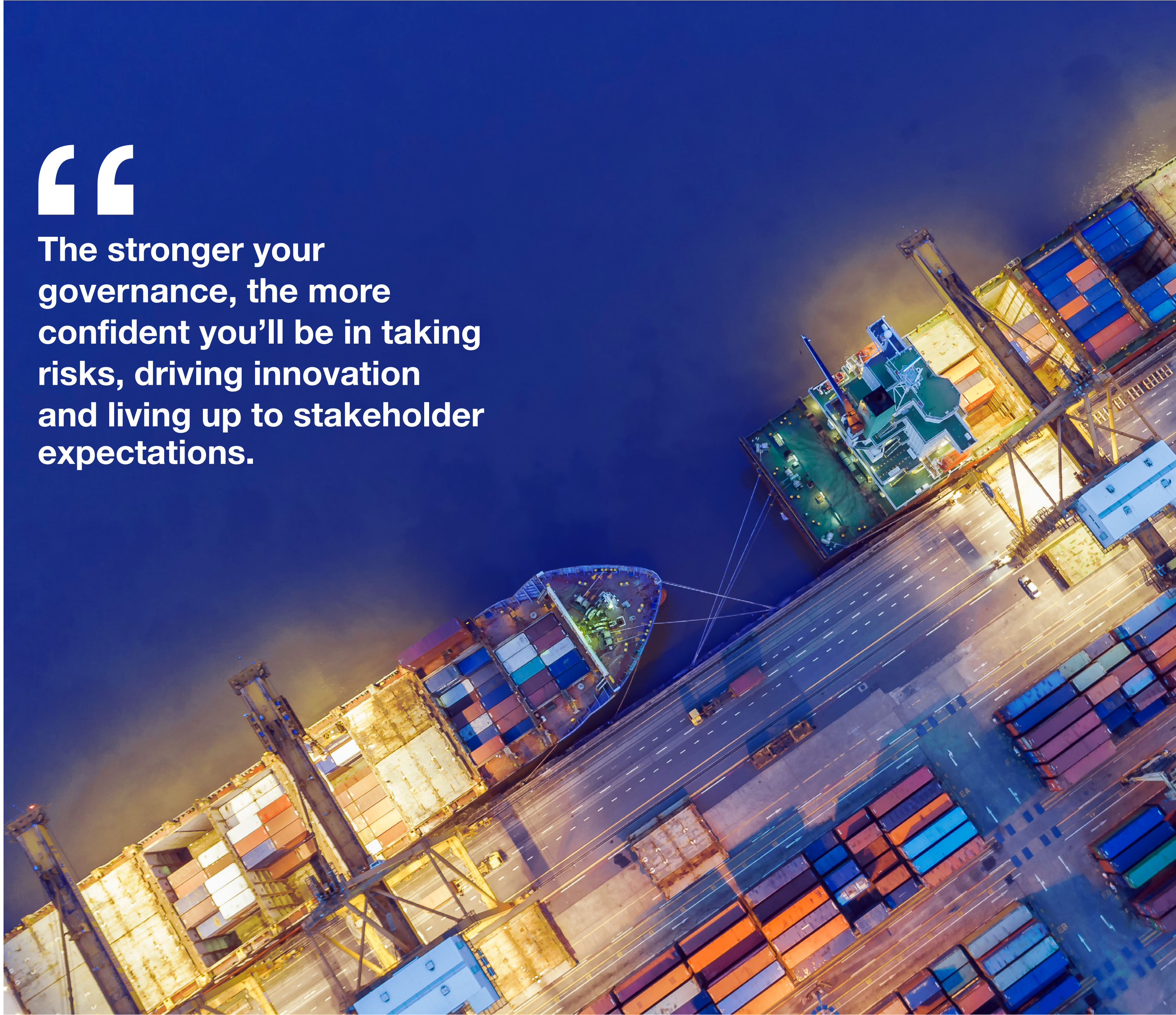
We explore the findings and their implications in more detail in this report. Where material, this includes variations between territories.

Source: "PwC in the Caribbean's Corporate Governance Survey 2022: Picking up the pace", *PwC in the Caribbean*, March 2023

Action plan

To help chart the way forward, we conclude with a five-point action plan for governance in the Caribbean at this time of heightened risk and change. Building on our experience of working with public and private sector organisations across the Caribbean, the action plan is designed to break through the barriers that are holding up progress and turn governance into a foundation for performance improvement and public trust. The stronger your governance, the more confident you'll be in taking risks, driving innovation and living up to stakeholder expectations.

We would like to thank all directors who contributed to the survey for sharing their valuable time and insights. If there are any areas of this report you would like to discuss, please feel free to get in touch.



Snapshot

Oversight falls short

The proportion of respondents spending less than 100 hours on oversight (43%) has actually risen since 2022, despite the mounting complexity and constant change that their organisations face. Topping the list of areas missing out as a result are ESG, crisis management and executive compensation, even though their strategic and financial implications are widely acknowledged

Respondents spending less than 100 hours on oversight

43%

Less than

10%

strongly agree that ESG is regularly on the boardroom agenda

ESG lacks sufficient scrutiny and understanding

More than half of respondents now consider ESG within their strategy and risk management to at least some extent, but less than 10% strongly agree that ESG is regularly on the boardroom agenda or that their boards have a defined process for ESG oversight. The impact of ESG on their companies is also the area that boards acknowledge they know the least about.

Snapshot

The dial on diversity isn't moving fast enough

More than 90% of respondents believe that diversity brings unique insights to the boardroom (70% strongly agree). A similar proportion believes that diversity improves board (44% strongly agree) and company (30% strongly agree) performance. Unfortunately nearly a quarter report that they've taken no action to boost boardroom diversity since our last survey two years ago. A further third has engaged in discussions, but got no further.

More than

90% of respondents believe that diversity brings unique insights to the boardroom

Of the

60% who do, most are evaluated internally rather than independently.

Board assessments miss the opportunity to improve performance

More than 40% of the organisations in our survey don't conduct regular board assessments. Of the nearly 60% who do, most are evaluated internally rather than independently. Reviewers may therefore lack sufficient knowledge of evolving best practice and be reluctant to criticise their individual or collective board performance. The limited value of the assessments within many organisations is reflected in the fact that more than a third have taken no action as a result. Even among those who do respond to the assessments, few have gone so far as to change the composition or boost the diversity of their board.

The view from the boardroom

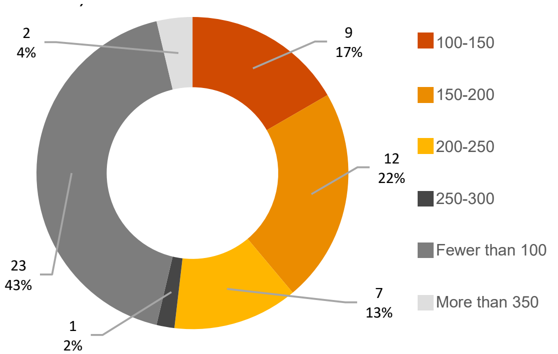
Boards are under pressure to deal with disruption and drive change, while rising to ever increasing regulatory and societal expectations. **How are they responding?**

How adequate is oversight?

Insufficient oversight of key strategic areas is putting organisations at risk.

Time spent on oversight

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

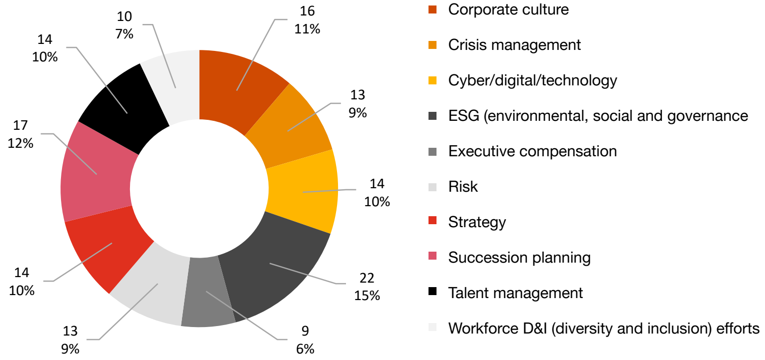


Source: Caribbean Corporate Governance Survey 2024

Boards need to be clear about how much time they should be spending on oversight, both as a whole and in specific areas. With the range and complexity of the issues on the boardroom agenda increasing, more time rather than less is likely to be needed. It's therefore surprising that the proportion of boards spending less than 100 hours annually on their board oversight role has gone up since our 2022 survey.

Areas in need of more attention

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



Source: Caribbean Corporate Governance Survey 2024

When asked which areas of oversight deserve more time and attention than they're receiving, ESG comes out on top for respondents across the region as a whole, with crisis management and executive pay close behind. This is certainly a heartening development, as it demonstrates an increased acknowledgement by our boards of the positive environmental and social roles our organisations must play.

It's widely accepted that our small island developing states (SIDS) contribute very little to the realities of climate change, while we bear the brunt of its impact. Irrespective of this, our demands for urgent corrective measures to be taken and for compensation and funding to be provided to us must be supported by a demonstration of our willingness to do our part to save our planet.

ESG comes out on top for respondents across the region as a whole, with crisis management and executive pay close behind.

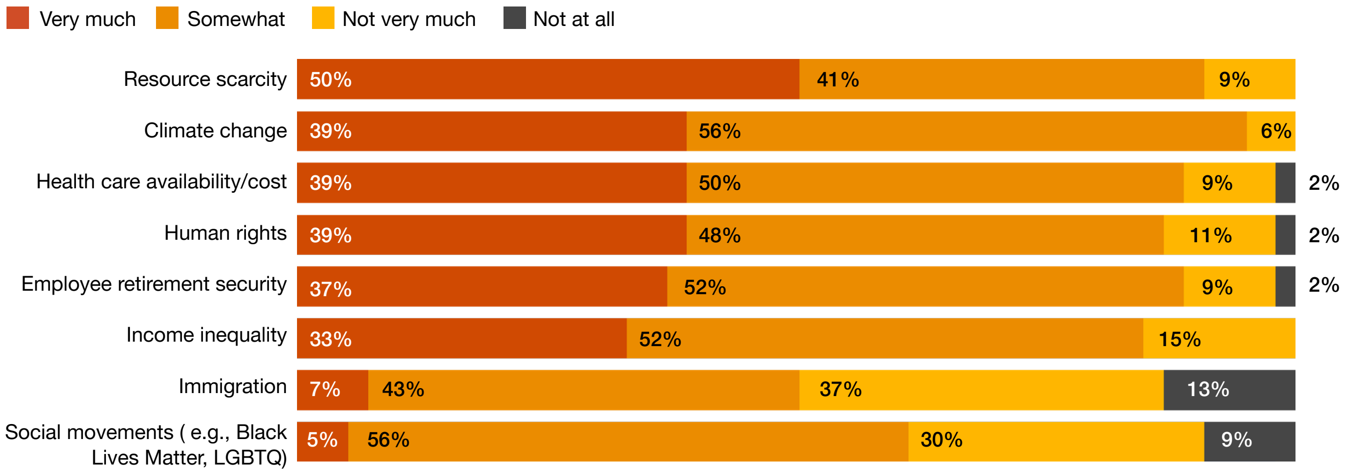
However, it's important to note that the results vary significantly by territory. In Trinidad and Tobago, ESG tops the list of areas in need of more attention, echoing the region as a whole. On the other hand, respondents in Barbados see talent management as most in need of more time, while in the Bahamas it's executive pay and in Jamaica it's succession planning and crisis management.

How adequate is oversight?

Insufficient oversight of key strategic areas is putting organisations at risk. Continued

Strategically critical areas

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



Source: Caribbean Corporate Governance Survey 2024

The lack of ESG oversight is surprising given the fact most directors take a number of ESG-related factors into account when developing their strategy. Resource scarcity (50%), climate change (39%) and human rights (39%) are recognised as the three most important issues to consider when developing strategy.

Despite income inequality being further down the list of issues to take into account when developing strategy, the needle has significantly moved from the results of the last survey (up 22%) of those citing “very much”. This is a positive development given income inequality still has a considerable macroeconomic impact.

How integral is ESG?

The disconnect between the perceived strategic importance of ESG and how much boardroom attention it actually receives is worrying.

From hurricanes to floods, our island communities are especially vulnerable to the escalating climate crisis. Organisations should be building awareness and resilience. As the transition to net zero accelerates, it's also important to review and possibly rethink how they operate. In turn, sustainability reporting will soon become a reality for our regional organisations, both directly via IFRS standards and indirectly via international connections. By way of example, companies reporting under the EU's Corporate Sustainability Reporting Directive (CSRD) are required to collect information about their upstream and downstream value chain, so it's inevitable that some of our Caribbean enterprises will be captured and will need to report as part of EU value chains. Any such reporting is coming under ever closer scrutiny. The governance risks include making claims that don't reflect reality – 'greenwashing'. The ultimate risk is the loss of key customers and investors as these stakeholders shift to greener and more socially-inclusive and responsible competitors.

The growing recognition of ESG as a topline strategic issue is therefore encouraging – more than half of respondents have built ESG considerations into their strategy and risk management. Looking at climate change in particular, an increasing proportion of respondents acknowledge that they need to take this into account when setting strategy.

Looking at the S in ESG, our survey highlights the importance of a company's social purpose and reporting on performance against this. This is important since increasingly our people in the Caribbean want to know that these enterprises are working to do well financially, while doing good by our close-knit societies and our environment.

How integral is ESG?

The disconnect between the perceived strategic importance of ESG and how much boardroom attention it actually receives is worrying. Continued

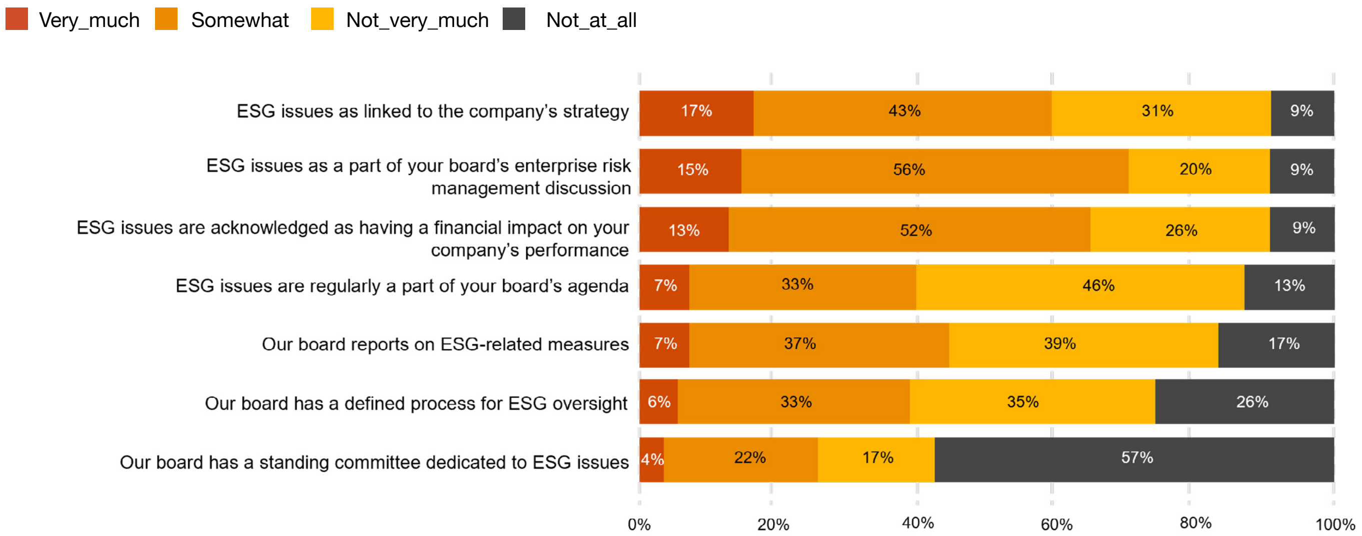
The question that few organisations answered is how to turn good intentions into effective governance structures and tangible results. Less than 10% of respondents strongly agree that ESG is regularly on the boardroom agenda or that they have a defined process for ESG oversight. ESG is also the area that boards acknowledge they know least about.

Given the stakeholder spotlight, the lack of board reporting on ESG is equally concerning. Although the new IFRS S1 and S2 sustainability disclosures have yet to become a compliance requirement, many forward-looking organisations in the Caribbean and worldwide are already reporting on the impact of climate change on their businesses, their own impact on the environment and the sustainability strategies and performance against them that underpin this. In contrast, nearly 40% of the respondents in our survey disclose very little about their ESG measures, while nearly 20% communicate nothing at all.

If we look at the findings as a whole, it's clear that ESG isn't yet embedded in governance, decision-making and reporting, which inhibits progress and heightens the attendant risks.

ESG on the agenda

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



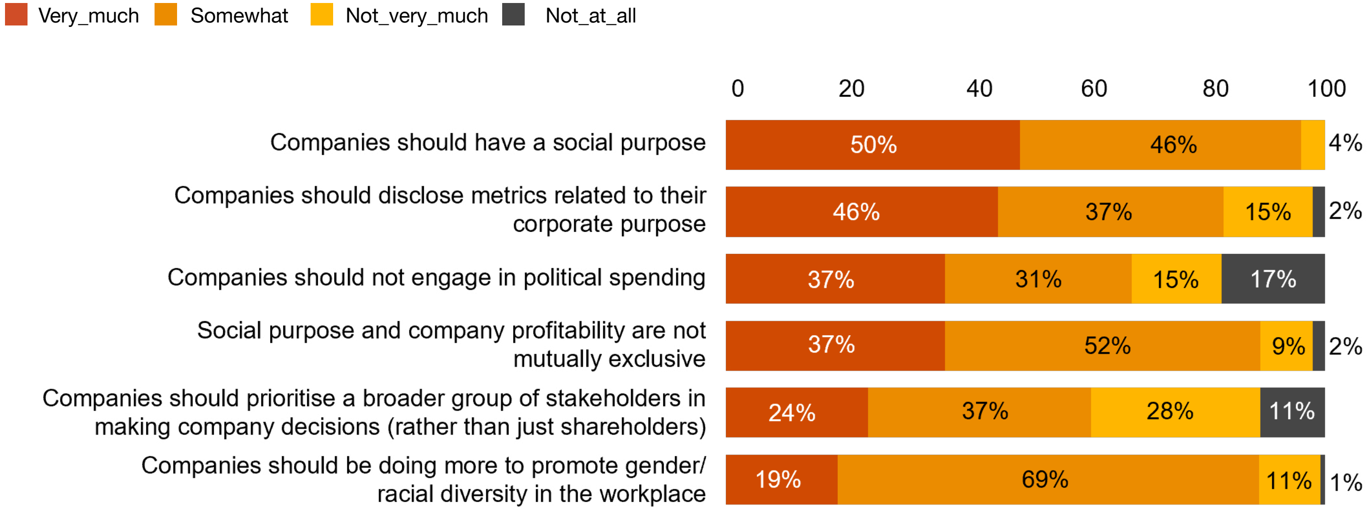
Source: Caribbean Corporate Governance Survey 2024

How integral is ESG?

The disconnect between the perceived strategic importance of ESG and how much boardroom attention it actually receives is worrying. Continued

The value of purpose and ethics

To what extent do you agree with the following?



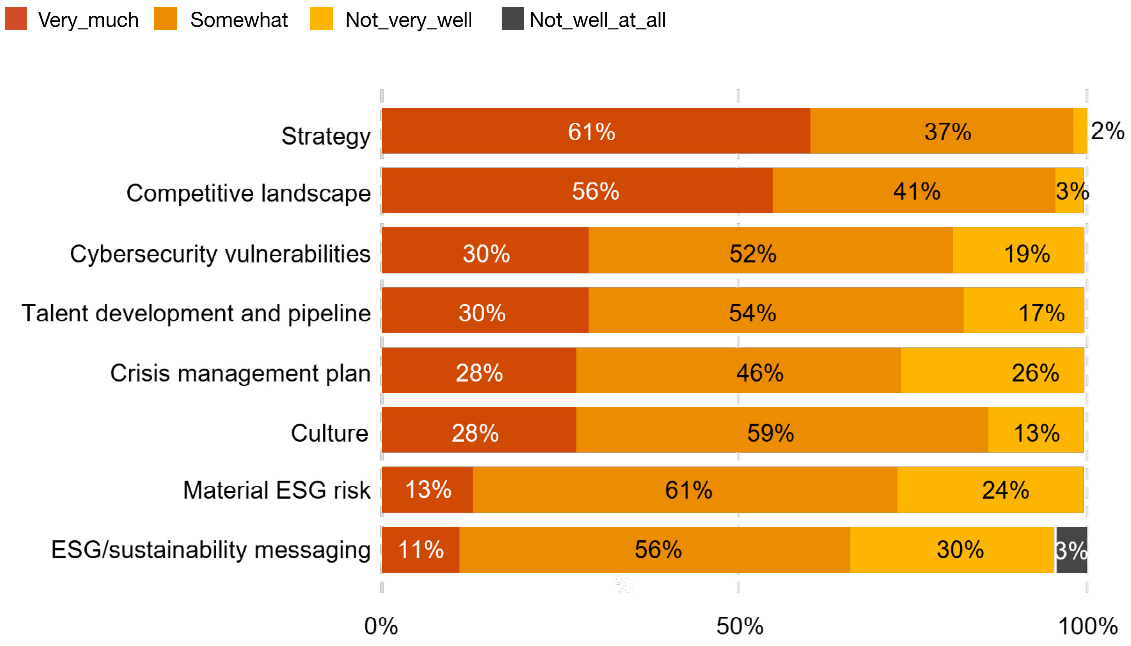
Source: Caribbean Corporate Governance Survey 2024

How integral is ESG?

The disconnect between the perceived strategic importance of ESG and how much boardroom attention it actually receives is worrying. Continued

Board-level understanding

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



Source: Caribbean Corporate Governance Survey 2024

ESG is the area that boards acknowledge they know least about. Just

11%

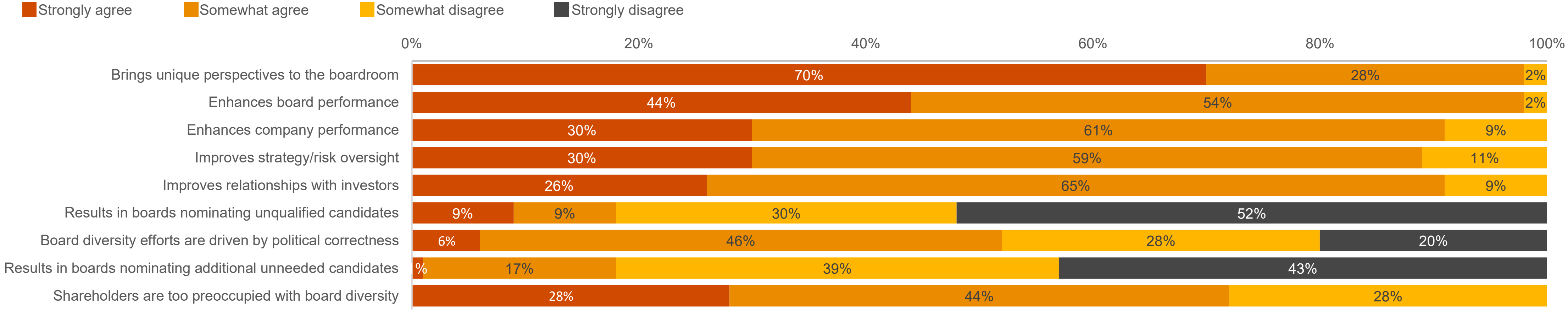
understand ESG/ Sustainability messaging very well.

How diverse is the board?

Boards still tend to be selected from a narrow pipeline, using the same narrow criteria. This limits the talent pool, makes it harder to keep pace with change and heightens the risk of group think.

The benefits of diversity

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



Source: Caribbean Corporate Governance Survey 2024

Boosting diversity is not only the right thing to do, it also makes good business sense. A range of **research** shows that organisations led by diverse boards are more innovative, create better outcomes for customers and deliver higher returns. For boards, the differential includes an increased pool of talent to draw from, broader experiences and a better reflection of the customers and clients being served, and employees being led. The results include an improved ability to deal with new and unfamiliar challenges. For example, recent **research** has revealed that organisations with diverse boards achieve higher ESG ratings.

The bulk of respondents in our survey are conscious of the benefits, including broadening perspectives and improving performance. But once again, awareness isn't being translated into action. Indeed, the dial on diversity and inclusion has barely moved since our last survey in 2022. Nearly a quarter have taken no action to boost boardroom diversity over the past two years. A further third have engaged in discussions, but got no further. This lack of progress is consistent across the territories represented in our survey.

Source: Ethan Moon, "Research: Firms with Diverse Boards Achieve Higher ESG Ratings", *Harvard Business Review*, October 2023.

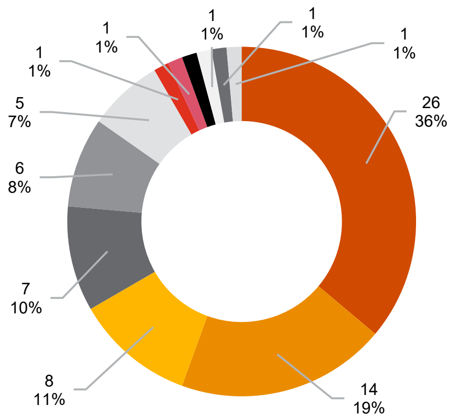
Source: "Diversity is the solution, not a problem to solve", *PwC UK*, June 2018

How diverse is the board?

Boards still tend to be selected from a narrow pipeline, using the same narrow criteria. This limits the talent pool, makes it harder to keep pace with change and heightens the risk of group think. Continued

Steps to boost diversity (if any)

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



- Replaced a retiring director with a director who increases the board's diversity
- N/A - Our board has not taken any action in the past two years
- Increased board size to add a diverse director
- Amended/modified the board's succession plan to ensure increased board diversity in the future
- Disclosed information about board diversity in the company's proxy statement
- Engaged with shareholders on the topic of board diversity
- Board already well diversified
- Board diversity has always been central in the selection of directors
- Disclosed information about board diversity in the company's proxy statment
- Just discussion at the board
- No discussion
- Replaced a retiring director with one of similar gender and professional qualification

Source: Caribbean Corporate Governance Survey 2024

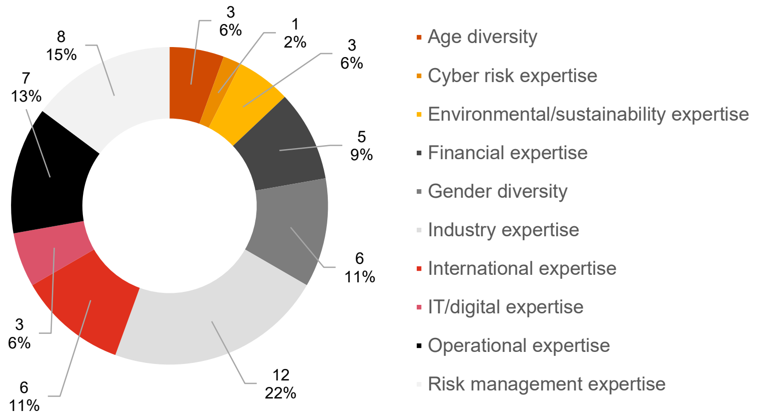
19% of respondents cite that their board hasn't taken any action in the past two years. The second highest response.

How diverse is the board?

Boards still tend to be selected from a narrow pipeline, using the same narrow criteria. This limits the talent pool, makes it harder to keep pace with change and heightens the risk of group think. Continued

Board selection criteria

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



Source: Caribbean Corporate Governance Survey 2024

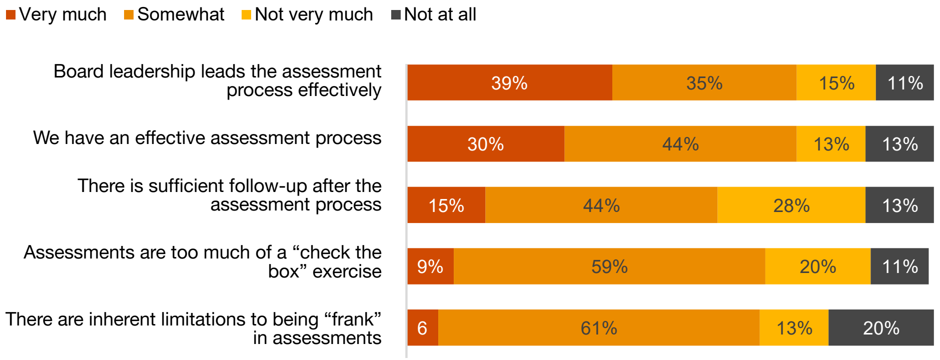
It's also clear from the survey that the selection criteria for board members are failing to keep pace with today's relentless rate of change, which reinforces the need for greater diversity of talent and perspective. Industry, risk and operational expertise continue to be the single most important attributes for board members. There is no doubting the value of this understanding, as maintaining a level of institutional knowledge and experience is vital. However boards also need to consider how to augment this with fresh ideas and people with expertise in other critical areas such as sustainability, new technology and underlying change management.

Who marks the homework?

Lack of independent boardroom assessment limits objectivity and insight.

Assessing the assessments

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



Source: Caribbean Corporate Governance Survey 2024

Board and committee assessments are a critical part of driving continuous improvement in board performance. If well-executed, assessments can provide real insights into how effectively directors carry out their responsibilities and work together as a team. The results can be translated into actionable take-aways that benefit the board and the organisation.

It’s therefore encouraging that nearly 60% of respondents have carried out an assessment in the past year, an increase from our last survey in 2022. That being said, a significant proportion believe that the process is no more than a check-the-box exercise, with limited leadership or follow-up from the Chair as leader of the Board. These misgivings partially stem from the fact that most assessments are carried-out in house rather rather than with the support and guidance of independent evaluators. Indeed, the proportion of independent evaluations (25%) has decreased since our last survey (31%). This lack of independence makes it hard for directors to be sufficiently frank about performance and behaviour within the board, and by extension to take meaningful steps thereafter.

60%

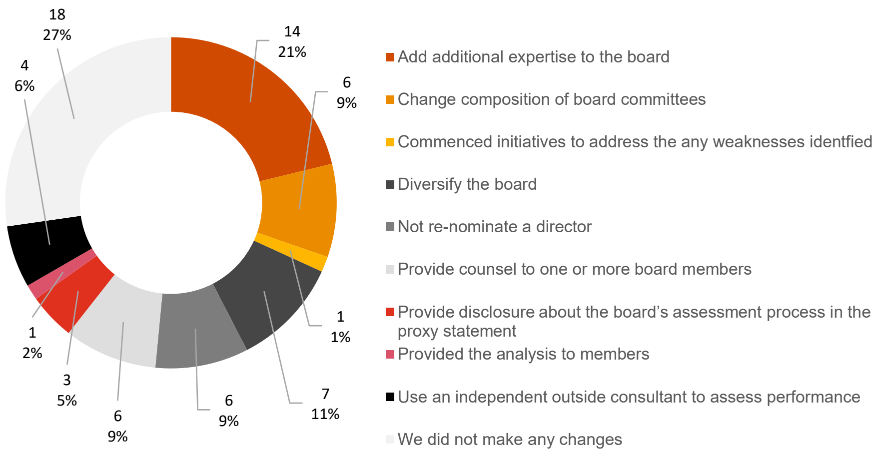
respondents have carried out an assessment in the past year, an increase from our last survey in 2022

Who marks the homework?

Lack of independent boardroom assessment limits objectivity and insight. Continued

Response to board/committee assessments

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)



Source: Caribbean Corporate Governance Survey 2024

The tendency to see board assessments as mere compliance exercises or to call their objectivity and credibility into question is reflected in the widespread lack of action on the outcomes of these assessments. Reluctance to act on the findings is especially prevalent in The Bahamas and Trinidad and Tobago. Even among those who do respond, very few have gone as far as changing the composition or boosting the diversity of the board. This is a missed opportunity to inform, improve and instil confidence in board effectiveness.

The way forward:

Five ways to make governance more relevant and effective

Our survey raises questions over whether boards are moving far and fast enough to address the rapidly-evolving challenges they face and to turn words into actions.

How can your organisation turn good intentions on governance into real results? Drawing on our work with public and private sector organisations across the Caribbean, **five priorities stand out:**

1.

Associate good governance with strength and opportunity

Governance is far more than just compliance. Taking a broader, more innovative and informed approach to governance can help boards to seize opportunities, stay ahead of uncertainty and meet changing stakeholder expectations. This includes using good governance to drive the E and the S in ESG.

2.

Refocus oversight and control

Be clear about the most pressing and impactful strategic issues facing your organisation and make sure your board is devoting an appropriate amount of oversight time to them. Overall, our survey shows that ESG, crisis management and executive pay are the issues most in need of extra attention.

Your board also needs appropriate expertise, experience and data to deal with these issues. This is likely to require a rethink and possible overhaul of training, selection criteria and information packs. Technology and ESG are among the areas where boards may need to broaden their skill sets. However change management could be just as important at a time when change is the one constant based on the industry and focus of an organisation.

3.

Get on the front foot on ESG

If ESG is a strategically critical issue, it should be at the centre of the boardroom agenda alongside other key priorities such as sales, share prices and returns.

To be effective, good governance needs to proactively make the E and the S part of the strategy, rather than waiting for regulation to drive the agenda. Organisations that understand both the threat and the opportunity are creating clear and transparent sustainability and societal commitments throughout their value chains and developing the governance structures to evaluate, enhance and enforce these goals.

To support these commitments, leading organisations are measuring and communicating emissions and the financial impacts of climate risk to business teams so they can mitigate the impacts and build them into their decision-making. As our survey highlights, they're reinforcing the urgency by building environmental and social goals into executive compensation.

Now is the time for our Caribbean boards to step up and lead their enterprises in making ESG an integral part of their strategy and putting the mechanisms in place to support executive teams in delivering. The organisations holding economic power in our communities play their part in combating climate change at its impact. We are a small part of the global environmental problem, but we must still clearly demonstrate that we are doing our part to solve it.

Leading organisations are also pre-empting IFRS regulatory reporting through voluntary disclosures to analysts and investors, many of which already go beyond the baselines envisaged by the International Accounting Standards Board (IASB).

The results can give an organisation a competitive advantage by attracting investors and increasing shareholder value, as well as demonstrating organisational resilience and adaptability.

4.

Make boardroom diversity a reality

Just like ESG as a whole, if diversity as a subset is a specific priority it should be built into the governance and culture of the organisation and reflected in the make-up of the board.

One starting point for broadening the lens on diversity is the executive pipeline. Even if boards recognise the need for change in principle, it's still common to hear that "we'd like to diversify but there aren't enough applicants from underrepresented groups" or "building up a suitable pool of qualified candidates could take many years". In reality, the people may well be there, but the search isn't broad enough.

It's therefore important to identify high potential employees from underrepresented groups and ensure that they have the mentoring and support to move up the management and executive directorship ladders. Progress through the pipeline can be supported by tracking development at each stage and intervening to tackle barriers in areas such as unconscious bias in the selection of candidates for promotion.

It's also important to similarly identify non-executive director candidates from within the business community who are able to bring varied skills, experience and perspectives to our boards. Care must be taken to avoid limiting the search to narrow social circles that can often miss the opportunity to harness wider skills and can result in severe "group think". Our organisations are also encouraged to remember that the pools of experience from which we draw can readily be widened beyond individual territories to our Caribbean region as a whole.

Just as important are steps to change attitudes within the board itself. Providing diversity training to board members to promote an understanding of different perspectives, setting clear diversity and inclusion goals to ensure a commitment to diverse representation and fostering an inclusive culture are just a few such examples. Regular board assessments also play a role in driving change. Conducting these assessments will help to analyse the current composition and identify areas for improvement. Moving the dial on diversity will take the collective responsibility of all board members. Changing attitudes takes the time and commitment, so consistency, perseverance and the desire to be more agile and diverse are key.

However, diversity doesn't necessarily guarantee inclusion. Even when membership is broadened, more vocal and experienced executives may dominate discussions. There is also a tendency to promote consensus, which while understandable, can close out different perspectives and new ideas. In order to benefit from fresh ideas and experiences, boards should therefore promote inclusion as well. That means opening the conversation up and changing the tone in boardrooms. It's also important to invest in board education to raise awareness of unconscious biases and other boardroom dynamics that reinforce conformity and discourage debate and dissent.

5.

Make assessments count

Regular board assessments can help to ensure that members are focusing the right amount of time on the right areas as demands change. Assessments can also help to gauge the performance of the board and identify any issues that need to be resolved. This could include negative board dynamics, poor performance, barriers to diversity and progress on ESG.

An in-house assessment can only go so far. Engaging an independent reviewer can bring greater objectivity and fresh insights to the process, while allowing board members to speak freely to the assessor without fear of repercussions. An independent assessment can also reassure stakeholders that the board is accountable and takes its responsibilities seriously.

About the survey

In late 2023, we surveyed 54 public and private sector directors from six Caribbean countries and a cross-section of organisation sizes, types and industries. The questions sought to gain insights into current governance practices, attitudes within boards and priorities for the future. By comparing the findings against our previous survey in 2022, we also sought to gauge progress and highlight areas in need of further attention. Our thanks to all of these directors for kindly sharing their time and insights.

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