



# *Concerns About Risks Confronting Boards*

Second Annual Board of Directors Survey | 2011



## **Table of Contents**

1 | Introduction

2 | Executive Summary

3 | About the Research

4 | Concerns About Risks Confronting Boards

11 | Risk Minimization Observations

12 | About EisnerAmper

13 | Contacts

# Concerns About Risks Confronting Boards

Second Annual Board of Directors Survey

## Introduction

*Concerns About Risks Confronting Boards* explores the issues facing American boards today, including financial risk, privacy and data security, succession planning, regulatory changes and fraud. What the results make clear is that a company's reputation is paramount and all risks threaten this fragile asset.

The Executive Summary outlines the results, but we invite you to read on to understand more about what we are hearing from board members. Reputational risk is clearly top of mind with additional heightened concern about risks associated with regulatory compliance, CEO succession planning and information technology (IT). We hope you find this report useful and that you'll share your thoughts and ideas with us.



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## Executive Summary

*Our board of directors' survey respondents identified their key concerns about risks. Analysis of results and EisnerAmper's assessment of current industry trends result in these key findings, summarized below:*

- > Reputational risk has overtaken regulatory compliance risk as their primary concern.** Directors identified the various risks that were most important to their boards with 69 percent identifying reputational risk as most important. This percentage skyrockets with the addition of their concerns about the elements of reputational risk including IT risk, product risk, outsourcing risk, privacy and data security, and risk due to fraud.
- > IT alignment to business goals is clearly a C-Suite issue.** The directors identified IT issues as a key concern for them and their CEOs. In the high-speed information age we live in, information technology optimization, cloud computing and protection is an essential part of most businesses.
- > Dodd-Frank and financial reform are top regulatory concerns.** Regulatory compliance risks continue to be an issue. Not surprisingly, 61 percent of the directors surveyed have concerns about regulatory compliance with their focus mostly on the effects from Dodd-Frank and financial reform. While not specifically asked about "Say-on-Pay," the whistleblower provisions and capital constraints, these are on their minds.
- > The reality of IFRS is not clearly understood.** 49 percent of the directors see accounting standards as a key concern when they think about regulatory compliance. This high awareness is controversial since only two percent of their companies have already implemented IFRS. An additional 14 percent of them are not aware of their companies' status and 59 percent have not even begun. 21 percent of the directors identified that their CEOs have a strong understanding of the preparations for IFRS implementation. They go on to identify IFRS as the most important area for gaining knowledge for the CFO and not necessarily the CEO or themselves. Disconnects are apparent.
- > It's time again for growth strategies and M&A.** 2010's strategic discussions were dispersed among a long list of topics—growth was cited by 16 percent of the directors. In 2011, 41 percent of the respondents cited growth and 18 percent cited M&A as the most talked about topics in the boardroom. When asked about investment areas, 73 percent of the directors then identified M&A and other asset purchases as opportunities for their companies in the current economic environment.
- > Time is the directors' most precious commodity.** When asked if the new proxy disclosure rules had caused them to reduce the number of boards they serve, they all said no. When asked why changes were made, 35 percent of the respondents cited the excessive time commitment for serving on a board as their main reason for changing the number of boards served. Time requirements for the boards continue to increase to concerning levels. In fact, 14 percent of the directors went on to say that the additional time is an ongoing concern. In looking ahead, they see compensation issues and a host of board changes on the horizon.

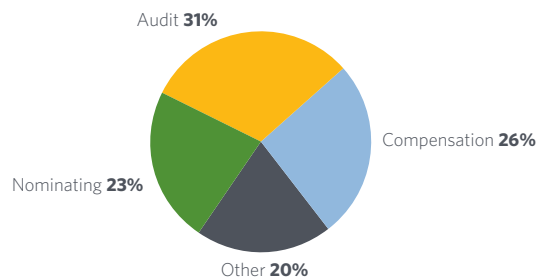
# Concerns About Risks Confronting Boards

## Second Annual Board of Directors Survey

### About the Research

EisnerAmper LLP's second annual Board of Directors Survey was designed to gain insight into the risks being discussed in American boardrooms. The directors were polled via a web-based survey sent to the EisnerAmper database plus *NACD Directorship* magazine's subscriber database. The survey was conducted during the months of October 2010 through February 2011 and measures the opinions of 142 directors serving on the boards of publicly traded and private companies, of which 31 percent serve on Audit Committees.

**Figure 1:**  
Respondents' Profile of Committees Served



EisnerAmper Intelligent Data (EisnerAmper ID) uses proprietary market research conducted by EisnerAmper and leading market research firms, along with analysis from EisnerAmper's partners and principals, to produce insightful articles, events and data designed to educate and stimulate discussion on the issues of most interest to business leaders today.

The survey results were prepared by EisnerAmper, and are accompanied by EisnerAmper's observations of industry trends and issues. While EisnerAmper believes the information is from reliable sources, it should not be relied upon as, or considered to be, investment advice.

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## Concerns About Risks Confronting Boards

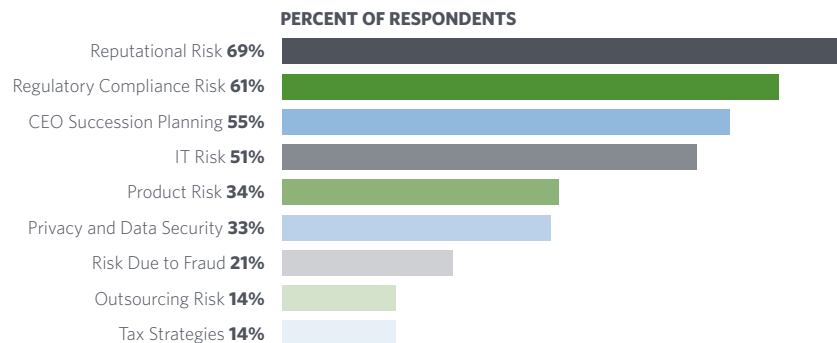
*“Protecting brand, company and personal reputation is not a new concept. However, its heightened awareness along with concerns on privacy and data security, IT, outsourcing, product failure and fraud have made reputation a focus of American boards. Operating in a viral world where information and data travels at incredible speeds makes this issue the most impactful with enormous ramifications.”*

**Steven Kreit**  
Partner  
EisnerAmper LLP

The list of risks concerning today’s board of directors keeps growing. Figure 2 presents the risks, other than financial risk, that our survey respondents identified as important to their boards. Each respondent identified numerous risks. Topping the list was reputational risk at 69 percent. This comes at a time when corporate America has numerous companies with compromised reputations due to product or service quality, management decisions and information breaches. Respondents cited other areas of risk management as important to their boards that are clearly linked to reputational risk. For instance, 51 percent of directors identified IT risk, 34 percent identified product risk, 33 percent identified privacy and data security, 21 percent identified risk due to fraud and 14 percent said outsourcing risk was the most important area of concern for their board. When taken as a whole, the risks that impact reputation are very significant.

Many factors contribute to these concerns. The tools of today’s business heavily revolve around information technology, the Internet, the speed and degree of data transmission, and the pervasiveness of social media. Cloud computing, social media and accelerated product life cycles are just the latest contributors to risk. Cloud computing is becoming more of a reality for companies trying to wrestle with the vast amount of data they need to move quickly (and safely) around a global marketplace. Are boards notified when cloud computing is being used? Social media can make or break a brand and the fine line between the two must be managed. Product life cycles continue to shrink with the need for more speed, more brand building, more data and of course the burden of more risk. In conclusion, directors are facing more complex business issues than ever before, all of which require additional research on their part to stay abreast of risks and opportunities.

**Figure 2:**  
**Aside from Financial Risk, which of the Following Areas of Risk Management Are Most Important to Your Boards?**



# Concerns About Risks Confronting Boards

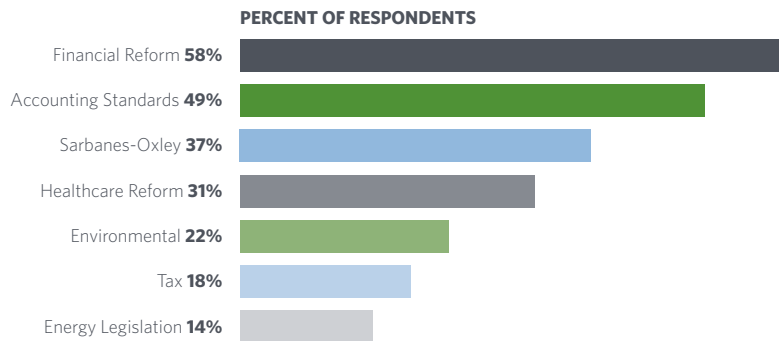
## Second Annual Board of Directors Survey

Regulatory compliance risk is here to stay. 61 percent of respondents see this as a major board of director concern and its components seem to continually expand. Figure 3 shows that 58 percent of the respondents are concerned with financial reform. Dodd-Frank and tighter capital markets have boards reviewing the ramifications on their businesses. The shareholder involvement with the "Say-on-Pay" vote as part of the proxy statement puts the executives and their compensation front and center for public input. Boards are also concerned with the potential lack of company involvement as dictated by the Dodd-Frank whistleblower provisions whereby employees are encouraged to go directly to the SEC for a bounty award if they see non-compliance activity. These regulations designed to protect the consumer are being digested (and also challenged) by corporate America and hence the high amount of concern by board members.

*"Risk management has never been more complex. Boards and management are challenged with keeping current with emerging regulatory and other compliance challenges. Routine reviews and process checks are now critical. New rules springing from Dodd-Frank add another dimension of concerns."*

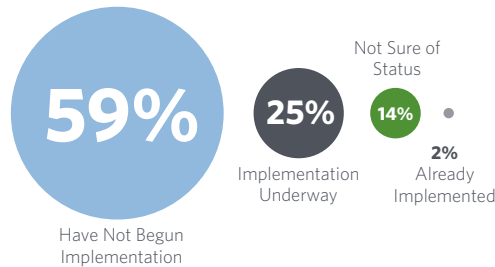
**Jim Mack**  
Partner, Chair  
Consulting Services  
EisnerAmper LLP

**Figure 3:**  
**Which Areas of Regulatory Compliance Risk are the Primary Concerns of Your Board?**



The lack of implementation of IFRS is very low with only 2 percent of the respondents noting that their companies have already implemented IFRS (See Figure 4). An additional 14 percent of the directors are not aware of their companies' status and 59 percent state their companies have not begun IFRS implementation. Yet, accounting standards was identified by 49 percent of the respondents as a primary concern of regulatory compliance risk. 21 percent of the directors identified that their CEOs have a strong understanding of the preparations for IFRS implementation. They go on to identify IFRS as the most important area for gaining knowledge for the CFO and not necessarily the CEO or themselves. Disconnects are apparent. IFRS and its ultimate timeline is not clearly understood. Comments from the SEC support this with their concerns about understaffing and the new requirements under Dodd-Frank.

**Figure 4:**  
**For the Companies Where You Serve as a Director,**  
**Please Identify the Status on IFRS Implementation:**



*"The significant rule making requirements coming out of Dodd-Frank puts pressure on the SEC staff to keep up. Given the demands on their already limited resources, staff work on the IFRS roadmap may be negatively impacted."*

**Peter Bible**  
 Partner, Co-Chair  
 Services to Public  
 Companies  
 EisnerAmper LLP

73 percent of survey respondents said the current economic environment is offering their company renewed opportunities in mergers and acquisitions, or other asset purchases (Figure 5). This is an increase from 2010 where 65 percent of the respondents identified M&A opportunities. In 2010, there were very few areas of investment interest other than M&A. While M&A is clearly a strategy, available capital tempers this and the directors see internal growth and expansion (51 percent) and strategic staffing (37 percent) as other new investment opportunities available in the current economic environment. Growth is top of mind for the boards with Figure 6B also showing 41 percent of the represented boards engaged in strategic discussions on the topic. This does not seem significant if it were not for the low amount of respondents focused on growth from last year's survey at only 16 percent.

**Figure 5:**  
**Does the Current Economic Environment Offer the Companies You Serve**  
**New Investment Opportunities Versus Last Year?**

New Investment Opportunities	% Responded Yes*
M&A	73%
Internal Growth & Expansion	51%
Strategic Staffing	37%
Commercial Real Estate	16%
IT Infrastructure	14%
Other	4%

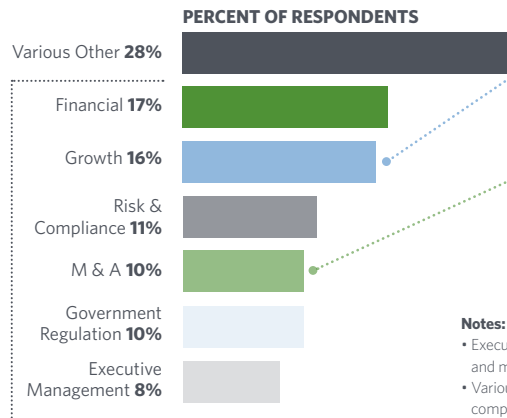
**Note:** Respondents could choose multiple answers

Figures 6A and 6B compare the strategic topics discussed most often in the boardrooms in 2010 versus 2011. 2011's responses seemed much more scattered versus the more consensus-oriented 2011 results. 2011 suggests a back to basics return to growth strategies for further company sustainability. Status quo will not do. It's interesting to note this was an open-ended question on the survey, so the topics and the reduction in topics suggest an improved focus that the boards have with 2011 strategic discussions.

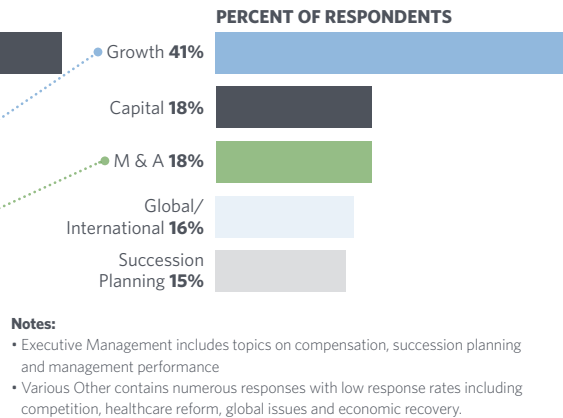
# Concerns About Risks Confronting Boards

## Second Annual Board of Directors Survey

**Figure 6A:**  
Six Strategic Topics Discussed Most Often  
in the Boardroom (2010)



**Figure 6B:**  
Five Strategic Topics Discussed Most Often  
in the Boardroom (2011)



**Notes:**

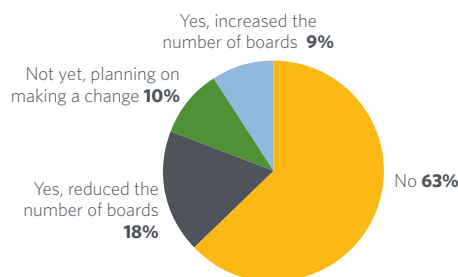
- Executive Management includes topics on compensation, succession planning and management performance
- Various Other contains numerous responses with low response rates including competition, healthcare reform, global issues and economic recovery.

“Board members are emerging from many of the constraints of the recession and are focused on growth, M&A and supporting their executives to address business in the current economic environment.”

**Michael Breit**  
Partner, Co-Chair  
Services to Public  
Companies  
EisnerAmper LLP

Over the past 12 months, the respondents have not significantly changed the number of boards on which they serve. A modest 18 percent reduced the number of boards (See Figure 7) and all directors emphatically said that the new proxy disclosure rules did not cause them to reduce any board positions (See Figure 8).

**Figure 7:**  
Have You Made a Change over the Past 12 Months  
to the Number of Boards That You Serve?



**Figure 8:**  
Did The New Proxy Disclosure Rules  
Cause You to Reduce the Number  
of Boards That You Will Serve?

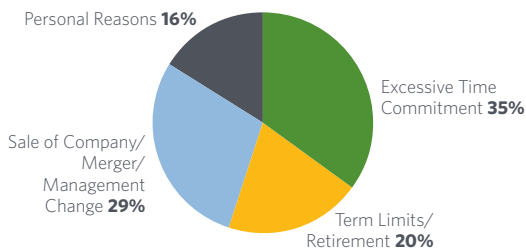
No **100%**  
Yes **0%**

However, when the board members were asked why they made changes, 35 percent cited excessive time commitment. Keeping abreast of current issues, risks, regulatory changes and the companies’ business is becoming more and more demanding. The increased level of M&A has also had its effect with 29 percent leaving a board due to a change at the company they served.

*"Human Capital when leveraged creates the most sustainable ROI for a business. This concept extends beyond the executive team to the boardroom. The current complexion of the American boardroom is being challenged by shareholders and the government."*

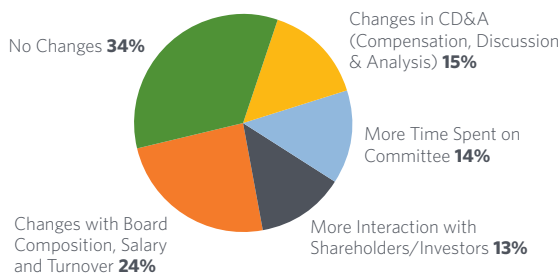
**James Hatch**  
Partner, Chair  
Human Capital  
Advisory Services  
EisnerAmper LLP

**Figure 9:**  
**What Was The Reason for Changing the Number of Boards That You Serve?**



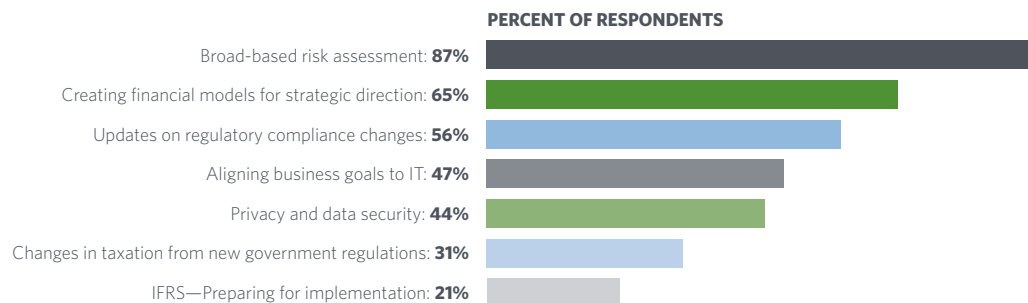
When the directors look ahead to potential board changes and consider the new proxy rules, they see CD&A (Compensation, Discussion & Analysis) changes and even more committee time requirements. 24 percent of the respondents identified a variety of changes that would result including lower board salaries, reductions in the number of boards that each director would want to serve, board composition changes and companies having a more difficult time recruiting new board members. Long gone are the days of casual board members; there is work to be done and many people are watching carefully.

**Figure 10:**  
**What Changes Do You Expect For Board of Directors as a Result of the New Proxy Disclosure Rules?**



We asked board members for their view of their CEOs and whether they have a strong understanding of some important issues facing businesses today (See Figure 11).

**Figure 11:**  
**In Your Opinion, Do You Feel that CEOs Have a Strong Understanding of These Topics?**



# Concerns About Risks Confronting Boards

## Second Annual Board of Directors Survey

More than 50 percent of the directors feel that their CEOs have a strong understanding of broad-based risk assessment (87 percent), creating financial models for strategic direction (65 percent) and updates on regulatory compliance changes (56 percent). They feel that 47 percent of their CEOs have a strong understanding of how to align their business goals to IT. With IT becoming more of an essential business topic, they go on to identify IT in their top 3 areas for CEOs to gain more knowledge and education (See Figure 12). If we were able to look back a few years, we suspect that information technology would not have risen to this level of strategic imperative.

*"The need for knowledge for boards and the C-Suite has grown exponentially with more emphasis on IT, cloud computing, branding and government regulations."*

**Neil Goldenberg**  
Partner  
EisnerAmper LLP

Privacy and data security is only ranked by 44 percent of the directors surveyed as an area of strong understanding by the CEO. This highly ranked risk of concern to boards warrants additional time and attention by the entire C-Suite given its potentially huge affect on reputation and brand in the event of a breach of personally identifiable information. The directors also noted relatively low numbers for the level of knowledge of their CEOs for IFRS and tax changes.

Directors were asked to rank their need for gaining more knowledge in the same areas where their CEOs and CFOs need more education. They align themselves with their CEOs for needing more education on broad-based risk assessment and updates on regulatory compliance changes (See Figure 12). Then they depart citing creating financial strategy models for themselves and IT-related knowledge for their CEO. As stated earlier, the importance of aligning IT to business goals as well as protecting their company is well understood and squarely placed on the shoulders of the CEO, not the CFO.

The directors align themselves with their CFOs with their joint need for more knowledge of creating financial models for strategic direction. Then, as expected, they see their CFOs requiring more information on implementing IFRS and in understanding tax changes.

**Figure 12:**  
Directors Ranked in Order from Highest to Lowest the Areas of Interest for Gaining More Knowledge/Education

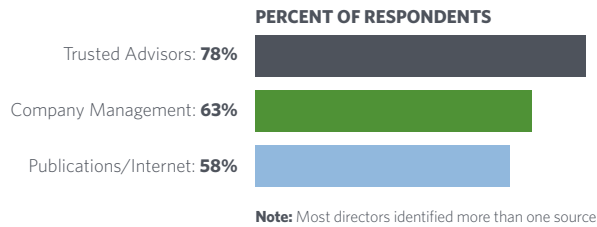
	Director	CEO	CFO
Broad-based risk assessment	1	1	
Updates on regulatory compliance changes	2	2	
Creating financial models for strategic direction	3		3
Aligning business goals to IT		3	
Changes to tax from new government regulations			2
IFRS—Preparing for implementation			1

The directors note that they rely on company management as one of their essential sources for new information on the ever-growing cache of pertinent topics. This is reinforced with the advice and counsel of trusted advisors and their own research and readings (See Figures 13 A and B).

*"The government's concern for more regulation, transparency and enforcement has thrust public companies into a very complex environment. This is on top of their day-to-day challenges with global markets, accelerated product and service life cycles and financial difficulties. It appears that the load on the boards and executives is at an all-time high point. The depth and breadth of expertise required has increased."*

**Neal Godt**  
Partner  
EisnerAmper LLP

**Figure 13A:**  
**Directors' Primary Sources for New Information (2010)**



**Figure 13B:**  
**Directors' Primary Sources for New Information (2011)**



# Concerns About Risks Confronting Boards

## Second Annual Board of Directors Survey

### Risk Minimization Observations

The survey results enable EisnerAmper to make several recommendations to address concerns and risks in the boardroom.

- 1. Protect. Protect. Protect.** Reputational risk needs constant monitoring and analysis of the broader issues including: Privacy and data security, IT, outsourcing, product risk and fraud. Brand, company and personal reputation can change overnight. The speed of today's business was unimaginable in years past, but its impact is real and protection is the name of the game.
- 2. Understanding Regulatory Changes is Not an Option.** Dodd-Frank financial reform, Sarbanes-Oxley, healthcare reform, environmental, energy and tax legislation constitute a list of topics too overwhelming for any board to thoroughly master. Furthermore, as IFRS deadlines approach, the SEC is being challenged to keep up with the demands of implementation. Both companies and the government itself are having a hard time coping with the sweeping changes. Trusted advisors, industry experts and company management are essential resources for the board rely on in order to understand evolving risks, legislative and regulatory changes, as well as underlying financial performance.
- 3. CEO Succession Planning Offers Risks and Opportunities.** Planning for the changing of the guard can be the life or death of a company (and its board). Understanding the future state of business in a global economy and the CEOs' evolving requirements is a serious task calling for additional talent to assist the boards.
- 4. Expect More Changes on the Board of Directors.** As businesses evolve with mergers, acquisitions and divestitures, the constitution of many boards will change with departures and new members joining and having to get up to speed. "Say-on-Pay" and the proxy disclosure rules may cause some directors to retire. If all of that doesn't affect board members, the ever-increasing time requirements for serving on a company's board will, and may cause some members to step down or reduce the number of boards on which they serve.

## About EisnerAmper

EisnerAmper is one of the leading accounting and business advisory services firms and is among the largest firms in the United States, and the top five in the Northeast. The firm features 170 partners and principals and approximately 1,200 professionals. EisnerAmper is a PCAOB-registered firm that provides services to public companies in the areas of audit, tax advisory services, internal audit, Sarbanes Oxley/404 services, pension audits, litigation support and other consulting services. The firm is one of the nation's largest auditors of SEC registrants, and has the largest public company practice of any regional firm based in the Northeast, providing services to more than 150 publicly held companies.

**EisnerAmper is focused on helping companies navigate successfully through the opportunities and challenges they face.**

Potential exists in a new market or an innovative service line or a product that will change an industry. Realizing potential takes hard work, dedication, and vision. That's management's job. It also requires advisors with deep business expertise together with financial know-how. That's where EisnerAmper comes in. EisnerAmper's accounting, audit, tax and advisory services professionals help management unlock the potential they see in today's global marketplace. At EisnerAmper, we're focused on helping companies navigate successfully through the opportunities and challenges they face as they seek to compete effectively, enhance products and services, and improve systems and procedures.

# Concerns About Risks Confronting Boards

## Second Annual Board of Directors Survey

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Michael has extensive Securities and Exchange Commission experience and has been involved in the initial public offerings of several premier broadcasters and cable TV operators. Michael has also participated in numerous due diligence efforts relating to the formation of programming ventures and acquisition of sports franchises. In addition, he possesses significant retail experience, having served many retailers throughout his career. As a Certified Fraud Examiner, Michael has led cable TV defalcation investigations and has served as an expert witness in several arbitration and litigation matters.

An active community member, Michael serves as Treasurer and Director of WISE (Working in Support of Education), a leading New York City based non-profit dedicated to serving educational needs.

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Steven Kreit is an Audit Partner with significant expertise in serving entrepreneurial growth companies across major markets, including life sciences, pharmaceuticals, media, technology, manufacturing and distribution. He has extensive experience auditing public companies and working with the SEC.

Steven has assisted clients with initial public debt offerings and numerous registration statements, including drafting sessions with investment bankers, attorneys, and ensuring compliance with SEC rules and regulations. He has led numerous training sessions on critical topics including audit methodology and Section 404 of the Sarbanes-Oxley Act. In addition, he has been quoted in professional publications and contributes articles to the firm's newsletters.

Previously, Steven was with a Big 4 accounting firm. He is a member of the New York State Society of Certified Public Accountants (NYSSCPA) where he serves on their SEC Practice Committee. Steven is a member of the Board of Directors of the Hewlett East Rockaway Jewish Center.



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