



Picking up the pace

Corporate Governance Survey 2022 - The Bahamas

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A message from our ESG Leader

When we think of the high priority issues The Bahamas is currently facing, keeping our people safe and our economy stable, amidst a global pandemic rank high. The social and economic challenges brought on by COVID-19 have added to looming concerns, including the need to diversify other industries to create a more robust economy and introducing more sustainability practices to mitigate the risks and effects of climate change.

For the past few years The Bahamas has faced catastrophic economic and environmental impacts as a result of hurricanes. Most notable was Hurricane Dorian, which showed us the stark reality of the impact of climate change on our economy and revealed a vulnerability of the state of our island nation that demands us to act now. As our country continues to rebound, a heightened awareness about environmental threats, weaknesses and social and corporate governance issues have added additional layers of exposure for The Bahamas and its current state of affairs.

Yet, as the tide recedes it has also exposed various opportunities for businesses and stakeholders to continue to navigate the gray. Locally, the pandemic accelerated digital projects to the point that digital transformation is now a standing point of discussion on all Board agendas.

Amidst the growing concerns of our government and private sector, the question of how do we focus our business objectives to create a more thriving and sustainable future today is a common thread that suggests a need for us to create value for our stakeholders to help them move ahead confidently.

Collectively both the private and public sectors must not only understand the benefits of implementing an ESG framework (environmental, social and governance) but also connect ESG to the roles all organisations and Board of Directors undertake in order to implement policies that not only build trust among our clients and stakeholders but also ensure accountability and transparency in governance.

Many of our boards face the daunting task of not knowing where to start to foster more sustainable practices that will create a clear path towards a more resilient future. We start by understanding the importance of prioritising and implementing ESG strategies and implementing the necessary actions today to rebuild a more resilient country for tomorrow.



Kevin Cambridge
ESG Leader
PwC Bahamas

Introduction: The world has changed. Are we keeping pace in The Bahamas?

Welcome to **PwC Bahamas' Corporate Governance Survey 2022: *Picking up the pace*** - our exploration of boardroom readiness for a changing world. The survey sought to gauge the views of public and private sector board directors for listed and unlisted entities in The Bahamas on corporate governance and ESG matters, and the responses provide insights into the current landscape of boards, areas of opportunity and where decisive action is needed now.

We asked directors questions to help determine what level of discussion is happening in our boardrooms on key governance matters, 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 no longer determine the value of an entity. ESG has been a topic for several years, and although governance has been pre-eminent among the three ESG components, it still requires heightened board focus. Our boards will need to think in a more integrated manner to be effective.

We also see broad agreement about the positive implications of board diversity with relatively little dissent. Yet boards are still dragging their feet in making real change, struggling with a lack of leadership interest, and an over-reliance on director networks for sourcing new candidates. In fact, nearly 4 in 10 admit their boards have taken no action over the last two years as it relates to board diversity.

Our boards must be intentional about their priorities, realigning to properly manage a new world, with new challenges and stakeholder expectations if they are to achieve sustained outcomes for their stakeholders.

So how can your organisation get ahead? To help chart the way forward, we conclude with a five-point action plan for governance in this new world. The action plan aims to help you live up to stakeholder expectations, manage strategic risks and deliver on your purpose. The priorities not only include modifications to the boardroom agenda, but speak to a more fundamental shift in the make-up and mindset of our corporate community.

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

Snapshot

ESG on the board agenda

More than 60% report that ESG is at least somewhat linked to their company's strategy and acknowledge its financial impact. Yet only just over a quarter of directors report that ESG issues are a regular part of the board's agenda and only around 6% believe that their board understands ESG risks very well.



Focusing in not out

When asked about areas that need more time and attention in the boardroom, cyber/digital/technology came out on top (56%). ESG ranked 4th (38%), but may need more oversight and attention given its impact on strategy, governance and risk.

Directors want boards refreshed

Around a quarter of the directors believe that at least one fellow board member should be replaced. Of all, 44% would replace two or more fellow directors.

44%

would replace two or more fellow directors.

Snapshot

60%

plan to take action to address diversity issues



57%

believe performance targets are too easy to achieve

Board diversity struggles to get off the ground

Despite the need for broader perspective and representation, none of the Bahamian directors surveyed feel their boards are already diversified and 38% haven't taken any action to strengthen diversity over the past two years. **However, nearly 81% have or plan to take action to address diversity issues through investing in upskilling or retraining.**

Virtual board meetings take their toll

Nearly half of the directors believe that virtual meetings positively impact meeting efficiency. At the other end of the spectrum, **over 1 in 4 feel there has been a negative impact on director engagement and over 4 in 10 on the ability to voice dissent.**

The paradox of compensation

More than 37% of the directors support incentive plans as a way to enhance long-term shareholder value. 19% think that executives are already overpaid. Over 63% believe that compensation committees are too willing to approve overly generous packages/incentives and more than 57% feel that performance targets are 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

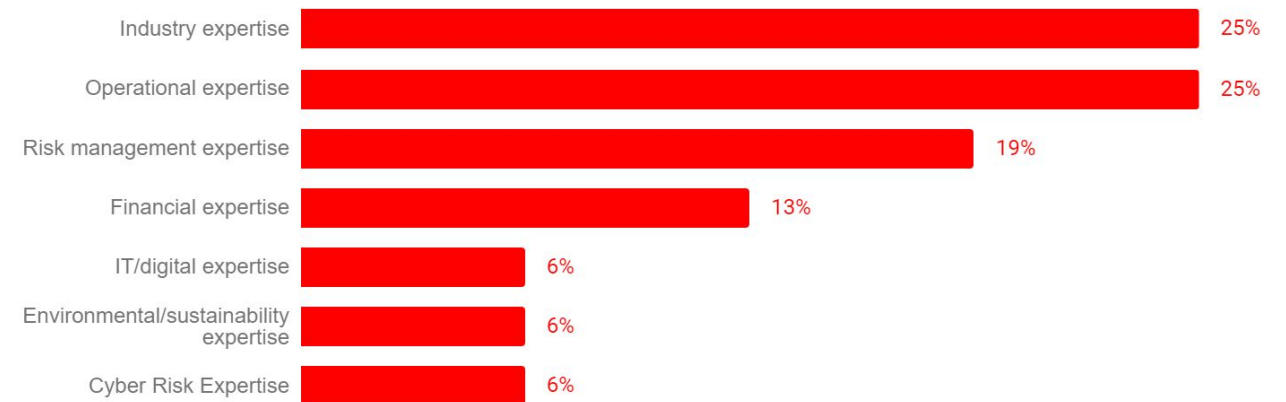
As governance functions continue to evolve, replacement and expansion efforts for directors continue to present new opportunities to enhance and strengthen board capabilities and effectiveness. Survey respondents in The Bahamas highlighted industry and operational expertise, in particular, as the top attributes they look for in new directors. Given the variety of risks and threats most businesses are facing as a result of the global pandemic, this is consistent with what we might expect. Both risk management and financial expertise featured strongly in our survey, however newer capabilities like digital and cybersecurity expertise are still not viewed as “must have” skills of a new board appointee.

In the wake of the Covid-19 pandemic and with growing competition in international business, digital and cyber expertise remain as leading drivers for business transformation projects globally. While directors do not rank these topics as more important factors in their recruitment of new board talent, could possibly point to Bahamian companies not having to face these pressures or the same risks. It could also indicate a lack of imagination and vision for the changing business landscape as brick-and-mortar firms actively reconsider their physical footprints, staff deployment, and customer needs in the era of social distancing and rising infection rates with new and troubling variants of the novel coronavirus. Board chairs should challenge their colleagues on whether the skills of tomorrow have adequately been identified and sourced today.

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?



Directors ranked industry and operational expertise as the top two most important attributes for board recruitment.

The need for improvement in board composition is further highlighted by a significant proportion of respondents (31%) indicating that their boards lack the appropriate skills and experience to provide effective governance over their organisations. That is quickly followed by lack of preparation for board meetings and reluctance to challenge management. However, half of respondents in our survey were not convinced that deficiencies in their fellow directors noted by others were apparent in their own experience. This suggests that concerns about board composition may be entity-specific and not pervasive across Bahamian firms.

Despite many board of directors enjoying long tenures, it was interesting to note that a majority of survey respondents believed that at least one board member required replacement to improve their board's effectiveness. This may possibly speak to inadequate processes, lack of rigour, or unwillingness to confront sub-par performance during annual self-assessment exercises. It may also be a feature of 1) the lack of significant outside shareholders (e.g. on BISX, many listed entities only have a minority of their authorised shares in the hands of the public, with most held by a parent entity or principal shareholder) and 2) the lack of shareholder communication/engagement that, were it more effective, might shed more scrutiny on board and director effectiveness. In any event, some change at the board level is clearly evident and board chairs will be challenged in delicately managing the question of replacing directors who are not as diligent as their peers or who are not contributing the right mix of skills needed at that level.

Figure 2
Board member challenges

Do you believe any of the following about any of your fellow board members?

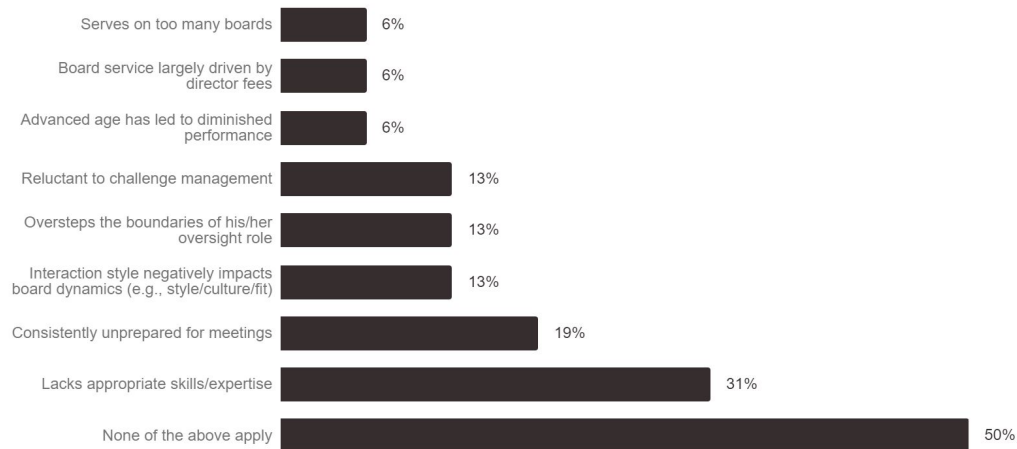
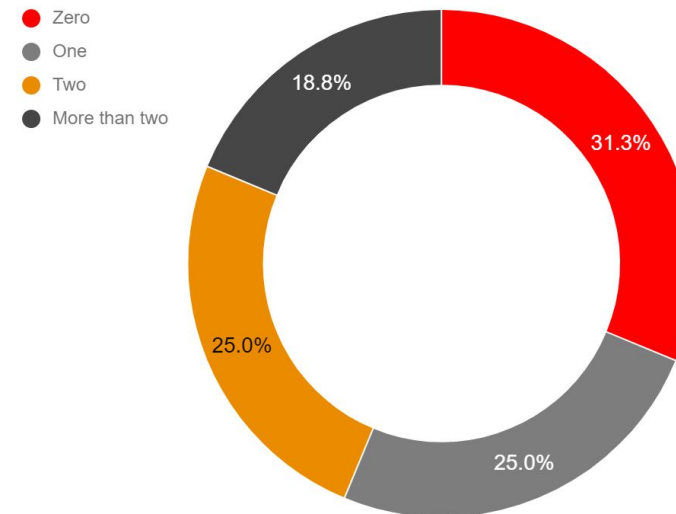


Figure 3
Refreshing the board

In your opinion, how many directors on your board should be replaced?



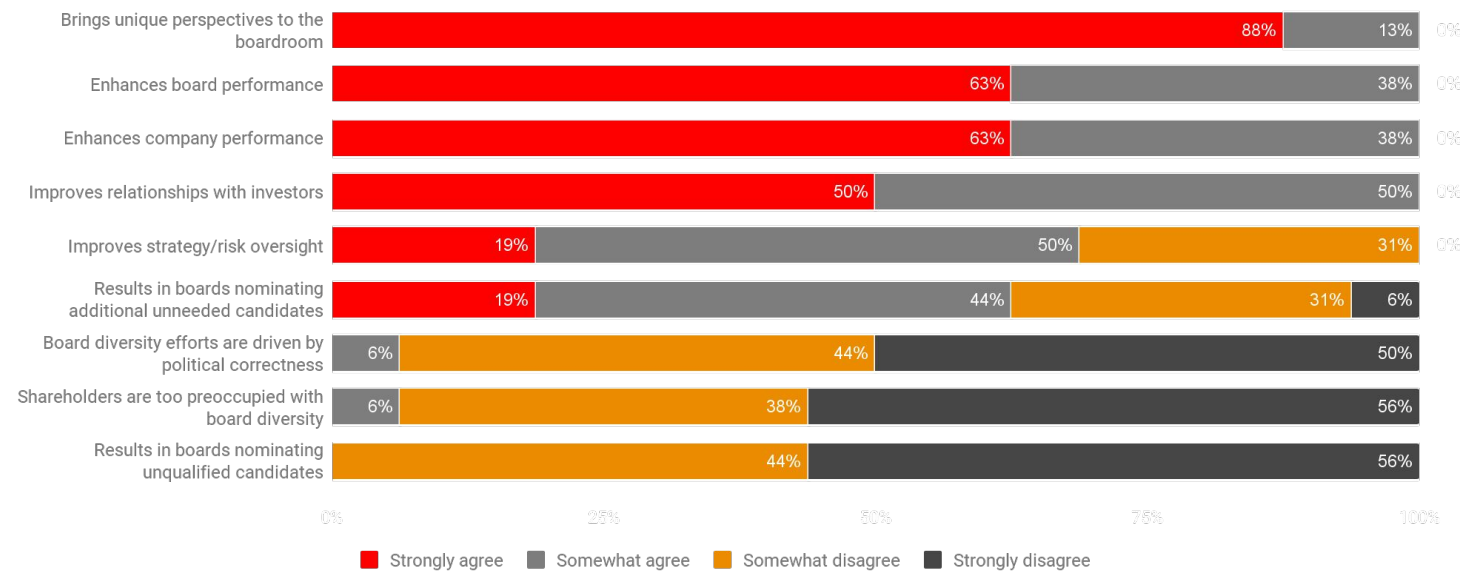
Diversity and Inclusion

The question of board diversity over the years has gone from a controversial topic to a goal widely welcomed by our survey respondents. An overwhelming number (88%) considered diversity and inclusion (D&I) key to adding unique perspectives to their firm's challenges and ability to meet those challenges. Clear majorities strongly agreed (with 100% either agreeing strongly or somewhat) that diversity enhances both board and company performance. Though these are considered advantages of diversity in the boardroom, a quick glance on The Bahamas International Securities Exchange's website suggests that significant work remains to be done in respect of gender diversity. Women continue to face challenges when seeking opportunities, gaining experience and developing professional relationships needed to get the attention of many nomination committees. Most Bahamian boards are over-represented by men. In some instances all male boards still exist in a country where women represent more than half of the population and female university graduates outnumber their male counterparts.

Directors see value in creating a diverse board as a cursor for board performance and bringing a fresh perspective to the norm but respondents feel that leadership impedes progress to ensuring diversity and inclusion.

Figure 4
The benefits of board diversity

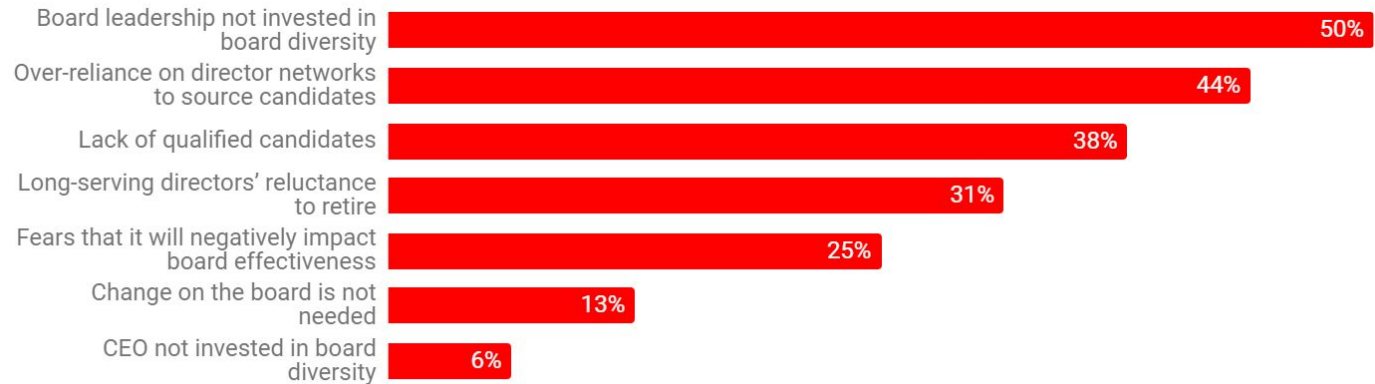
What are the advantages of having a diverse board (D&I)?



Though clearly valued, achieving board diversity has been a slow process, not just here but around the world. According to half of our respondents in The Bahamas, board leadership has simply not invested sufficiently in diversity efforts. Many admit that existing director networks have impeded more wide-ranging candidate searches which effectively locks out potential new appointments to achieve diversity goals. Other major challenges cited include a lack of qualified candidates (partly compounded by middling diversity efforts to increase the number of women in positions of leadership in business) as well as long-serving directors' reluctance to retire (denying any new opportunities). Nearly 25% of respondents admit that worries still exist that the goal of diversity and inclusion might even harm board effectiveness. This fear suggests that the road to more diversity at the board level will be long still and littered with obstacles unless bold and intentional changes are pushed at the very top.

Figure 5
Boards not invested in diversity

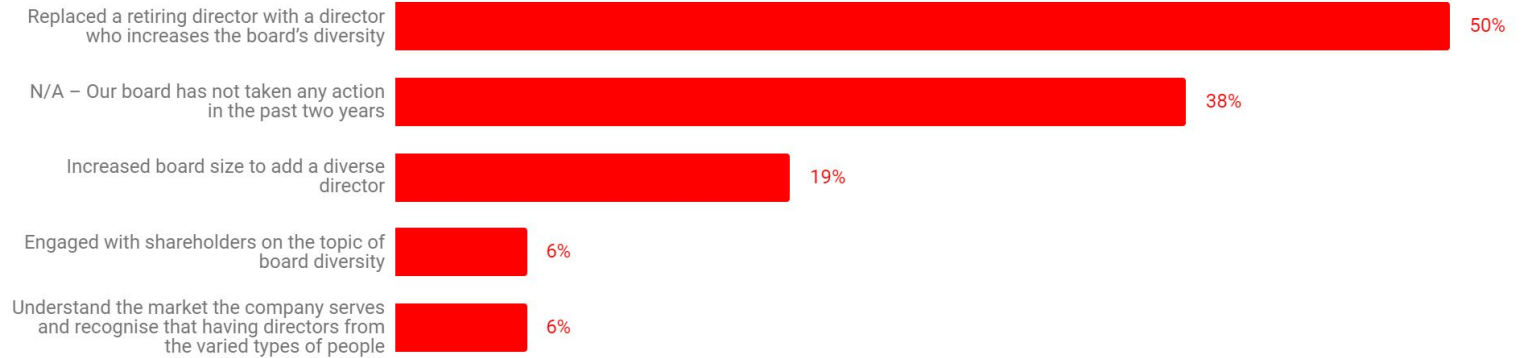
In your opinion, what has impeded efforts to increase board diversity in general (i.e., why haven't boards become diverse more quickly)?



Indeed, board diversity faces strong headwinds as indicated in our survey results on the question of action taken in the past two years to address the issue. As many as 38% of our respondents concede that no action has been taken recently to address diversity. Half of our respondents, though, point to retiring directors as a potential opportunity that has been used to improve diversity. However, given other data in the survey suggesting many long-serving directors are unwilling to step down right away, indicates change may be marginal in nature and slow-going. Encouragingly, nearly 20% have simply added board seats in an effort to speed things up.

Figure 6
Diversity actions

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



Board practices

Assessing board performance

Assessing performance, be it for individual directors, committees or the entire board, is the most effective way to ensure board members understand their duties and conduct effective good governance practices. Evaluating board performance affords a business the opportunity to identify strengths and inefficiencies in board performance that can be addressed before problems escalate.

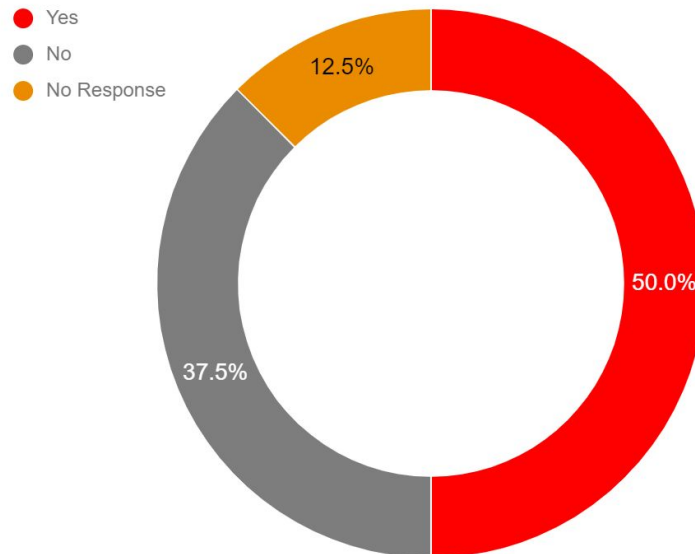
Implementing board evaluations or self evaluations may highlight specific areas where the board can improve its performance. Self-evaluations for example, are useful to assist boards with identifying potential problems or differences of opinion and addressing them before they get out of control.

Only half (50%) of the respondents underwent performance assessments in the past year, all of which were conducted internally. 37.5% indicated they were not assessed at all and 12.5% did not respond. These results suggest that approximately 50% of directors were not subject to performance assessments in the last 12 months, conveying a disregard by companies in The Bahamas towards the importance of board assessments and the value that such evaluations bring to strengthening board performance. Further, none of the directors were subject to independent external assessments suggesting that almost no Bahamian companies place significant value on such evaluations.



Figure 7
Board assessments

Has your board had an assessment in the past year?

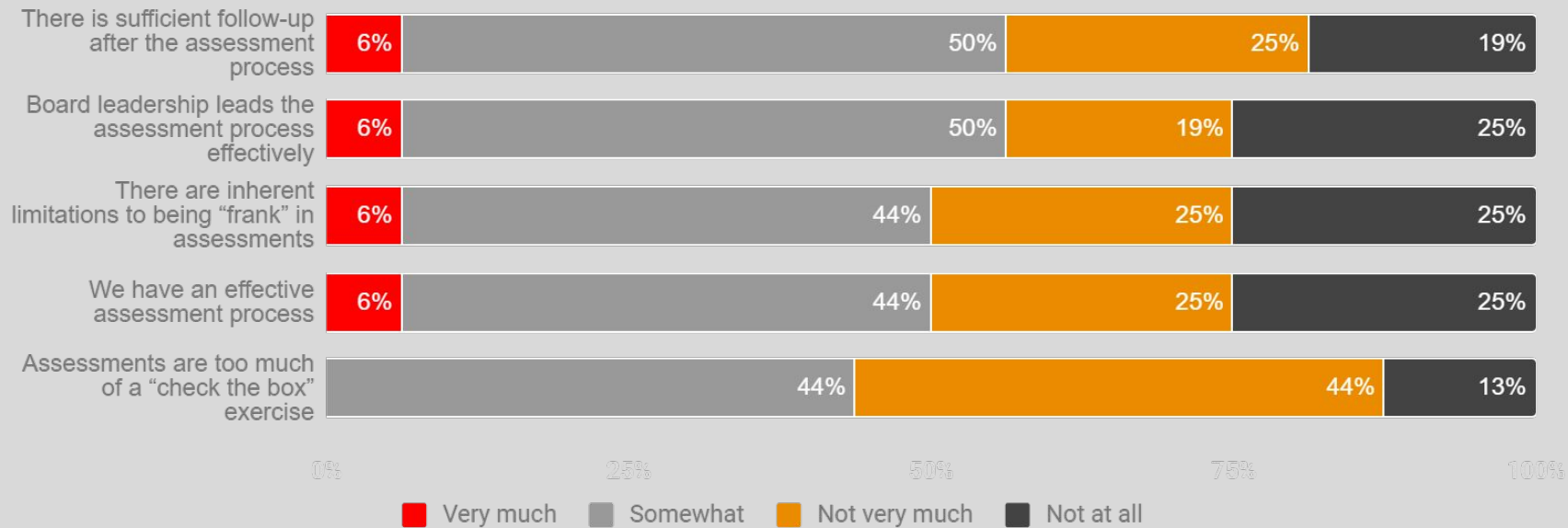


Of the directors who were assessed, 19% indicated that no follow-up was made by their board after the assessment, whilst a dismal 6% noted sufficient action had been taken to drive change and further concerning, only 6% of the directors regarded the assessment to be very effective. The already low assessment numbers are more gravely compounded by there being insufficient follow up by boards to address key action points identified from assessments, which frustrates opportunities to drive positive change and improve performance.



Figure 8
Board assessments aren't delivering

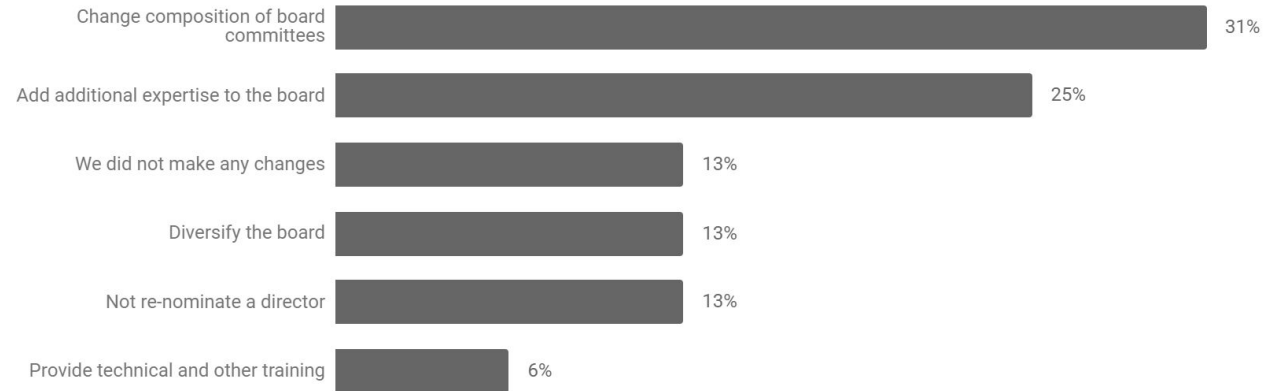
Regarding board committee self-assessments, to what extent do you believe the following?



The directors who were subject to board assessments revealed that change in the composition of board committees and recruiting additional expertise to the board were the top two changes made by the boards. At 13% in each instance, the respondents answered that the board decided to not make any changes, to diversify, and to not re-nominate a director, whilst providing technical and other training was a mere 6%.

Figure 9
Taking action

In response to the results of your last board/committee assessment process, did your board/committee decide to do any of the following?



Half of the directors who took the survey stated that they spent over 100 hours in their board oversight role annually. When asked about the effect of virtual meetings due to the Covid-19 pandemic, 69% regarded the shift as having a positive impact on meeting effectiveness and 44% indicated a positive impact on meeting efficiency. However, only 13% regarded there to be a positive impact on director engagement whilst 63% felt no impact resulted.

We asked the directors their opinion about areas of oversight that do not receive sufficient board time or attention and “cyber, digital and technology” topped the list at 56%. Second was ‘strategy’ at 50% and ‘succession planning’ rounded the top three at 44%. ESG followed at 38%.

Figure 10
Impact of virtual meetings

In your view how has the shift to virtual board committee meetings impacted the following:

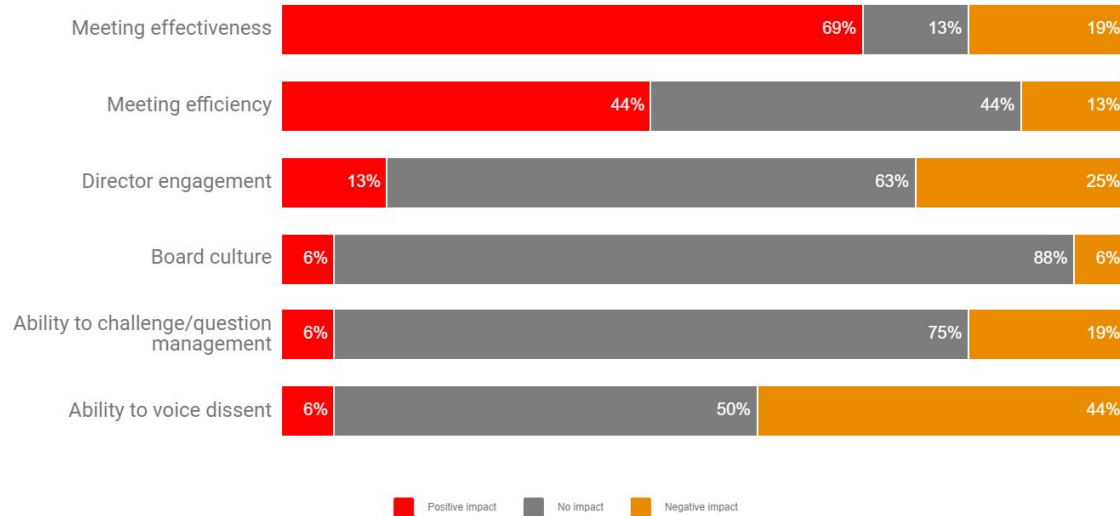
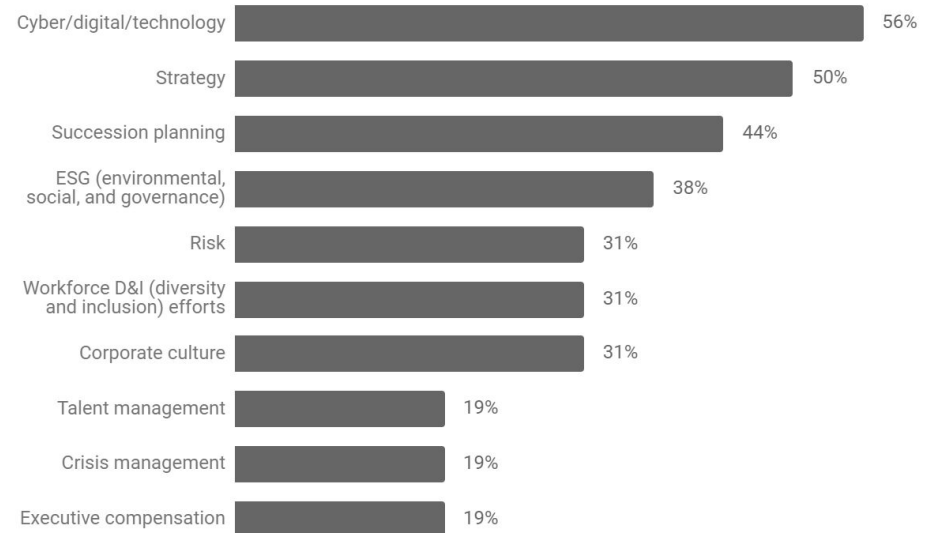


Figure 11
Areas in need of more oversight

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



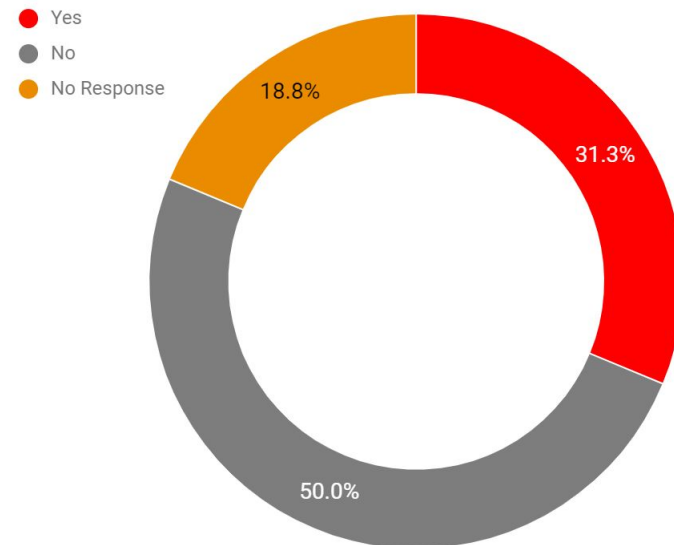
Shareholder communication

Open and transparent communication is an essential part of building and maintaining a healthy relationship with shareholders. In setting the tone from the top it becomes crucial that board members make it their business to directly engage with shareholders, thus promoting a culture where the voices of shareholders matter. Knowing that there is a direct and open line of communication increases shareholders' trust and confidence that the board remains committed to the organisation's vision and places value on their individual investments.

In the past, senior management has strategically protected board members from direct engagement with shareholders. However, with the increased push to promote ESG practices globally, director shareholder engagement becomes unavoidable; in fact, in many instances shareholders demand it. Despite the ongoing global pandemic and the threats faced by Bahamian businesses as a result, less than half (31.3%) of survey respondents reported that board members (other than the CEO) engaged directly with the company's shareholders during the prior year. The fact that 50% of survey respondents reported that board members had not engaged directly with shareholders, and 18.8% provided no response, is indicative, perhaps, that businesses do not place a significant value on director/shareholder engagement. Effective communication with shareholders (among other stakeholders) at the board level is a fundamental accountability mechanism which should be incorporated in every board's toolkit. This mechanism has potential and mutual benefits for shareholders and boards alike, namely it provides a platform for shareholders to address their concerns and simultaneously gives directors invaluable insight on the priorities of shareholders.

Figure 12
Engagement with shareholders

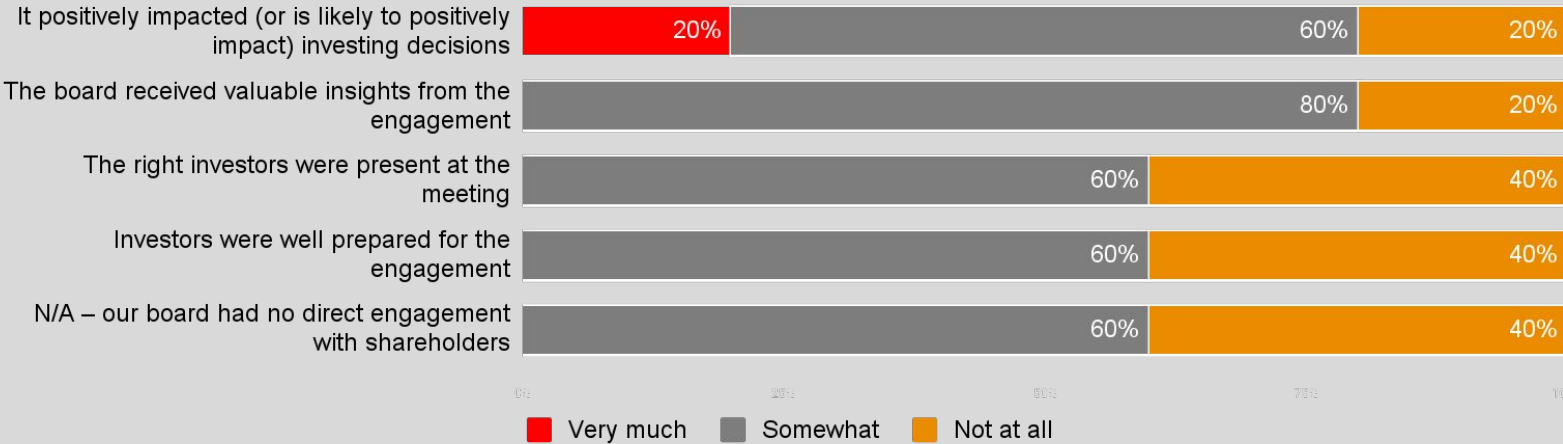
Has a member of your board (other than the MD/CEO) had direct engagement with shareholders during the past 12 months?



Generally, directors report positive views of direct shareholder engagement. The majority of survey respondents agreed that direct engagement with shareholders positively impacted investment decisions. The majority of survey respondents (60%) believed that “the right investors were present at the meeting” and that investors were well prepared for the engagement. This is positive feedback which suggests that shareholders are keen on understanding the strategies implemented by the board and will use the meeting as a means of holding the board accountable. Only 20% of directors reported that there was no positive impact and that the board received no valuable insight from its direct engagement with shareholders. Boards should implement strategies to ensure that directors and shareholders are getting the most out of shareholder engagement.

Figure 13
The value of shareholder engagement

To what extent do you agree with the following regarding your boards direct engagement with shareholders:

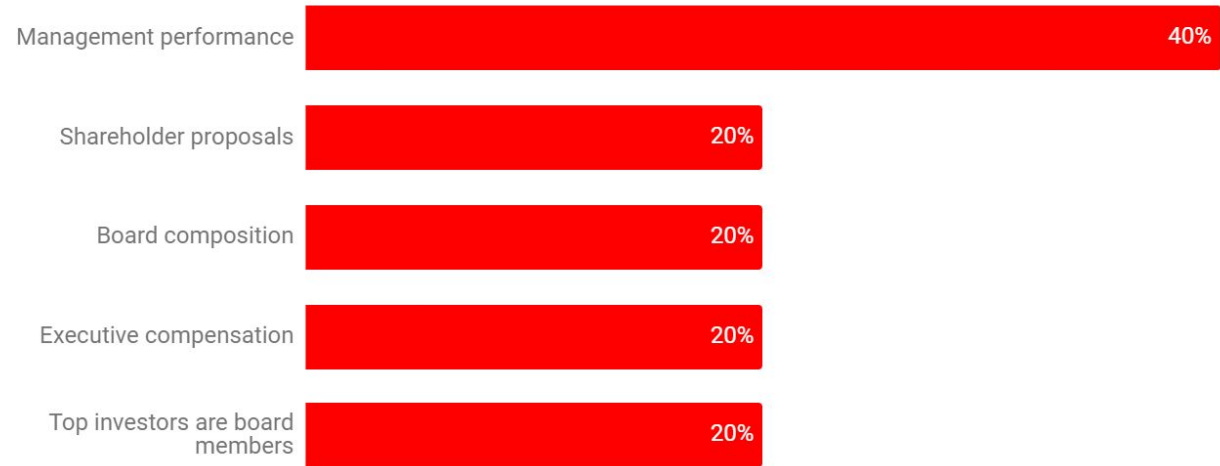


As ESG continues to gain traction globally, Bahamian directors should anticipate an increased demand from shareholders to be directly engaged by directors and informed on what the board is doing and its approach to ESG. It is notable that the results revealed that no board members engaged in direct communications with shareholders on the topic of ESG issues, strategy and risk management oversight. Bahamian companies would do well to embrace sustainability practices by implementing ESG strategies which include contributions from all environmental and social stakeholders. Boards must equally devote resources to ESG as they do to managing business risks.

Less than a majority of survey respondents (40%) report that a member of the board engaged in direct communications with shareholders on the topic of management performance. Other areas including board composition and top investors being board members received significantly less attention, although these areas are key principles of good governance. This may suggest the need for boards to actively engage members on the processes used in the determination and appointment of suitable members to the board. Shareholders should have confidence that the board has been constituted using best practices and that the consideration has been given to the presence of an independent director who is not only competent in the business sense but who is not dependent on the financial returns of the company.

Figure 14
Topics discussed with shareholders

On which of the following topics did a member of your board (other than the MD/CEO) engage in direct communications with shareholders?

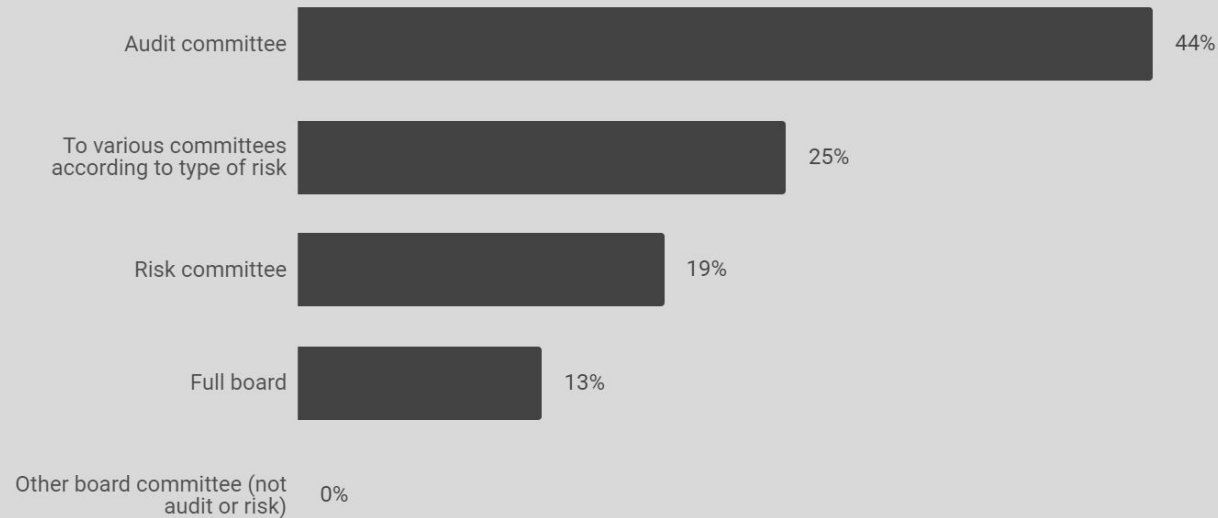


Strategy, risk and ESG

Based on the responses received, oversight of risk by boards is mostly allocated to audit committees. However, 25% of directors created various committees that could address specific risks which they have direct responsibility for.

Figure 13
Oversight of risks

How does your board primarily allocate oversight of risk?



While Bahamian directors agree there should be some level of ESG reporting, they also acknowledge the need for increased awareness in order that it is factored into the overall strategy, as it is not currently prioritised by many boards.



PwC selected eight hot issues and 69% of directors take income inequality into account when developing company strategy, with human rights and immigration to be the second and third highly considered matter. Half of the directors who responded see the importance of social movements (e.g. Black lives matter, LGBTQ, etc.), resource scarcity, climate change and employee retirement security, and subtly being covered in the company strategy, hence these are areas for improvement. 19% of directors consider health care availability/cost however another set of 19% of directors never consider this issue.

Strategy is understood very well by 63% of directors and 50% for competitive landscape. However, there are gaps to address in areas where there is only partial understanding for a large percentage. For example, Cybersecurity vulnerabilities are only somewhat understood by a whopping 69%, crisis management plan and ESG sustainability messaging - 50% and culture, talent development and pipeline and material ESG risks - 44%.

Figure 14
What matters when developing strategy

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

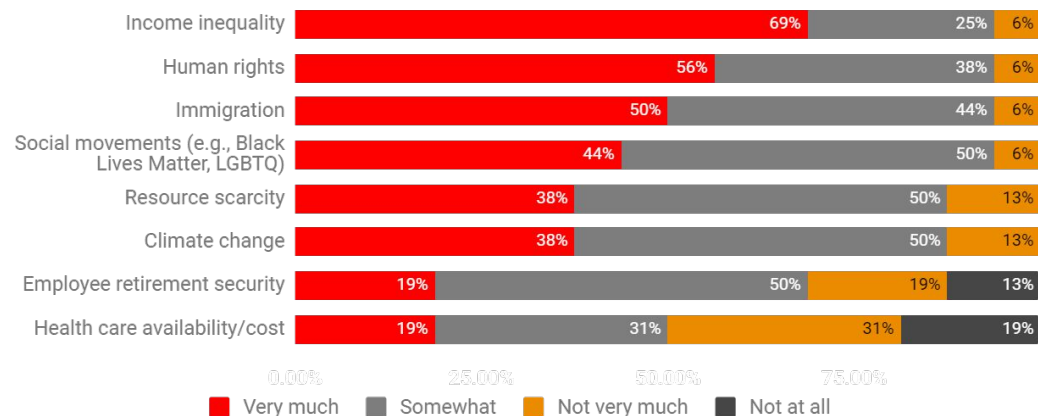
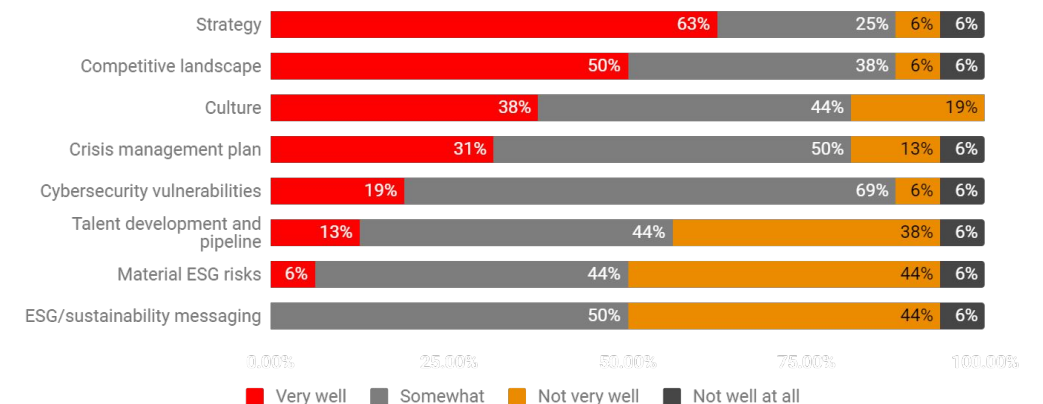


Figure 15
Board understanding

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



ESG is not really considered in the governance of most of the Board of Directors in The Bahamas. Only 19% of directors are sure that their board reports on ESG-related measures. 56% of board members confirmed that their board definitely has no defined process of ESG oversight, and 31% of them have no standing committee dedicated to ESG issues. However, 50%-56% of directors somewhat considered ESG issues as linked to the company's strategy and ESG issues as a part of your board's enterprise risk management discussions. 44% directors do not acknowledge ESG issues as having a financial impact on their company's performance and 56% of them agreed that ESG issues are not regularly a part of your board's agenda.

Majority of the directors however see that ESG reporting/disclosure should be a priority for management. Only a quarter of the directors know their shareholders care about ESG reporting/disclosures. In addition, without regulatory requirements on reporting or disclosing ESG, 38% of the companies do not provide ESG reporting/disclosures, and 31% of them prefer a voluntary or mandatory system reporting/disclosure. Based on the responses received, it is imperative that the board should have a directive first on how ESG must be addressed and reported.

Figure 16
ESG's influence on strategy

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

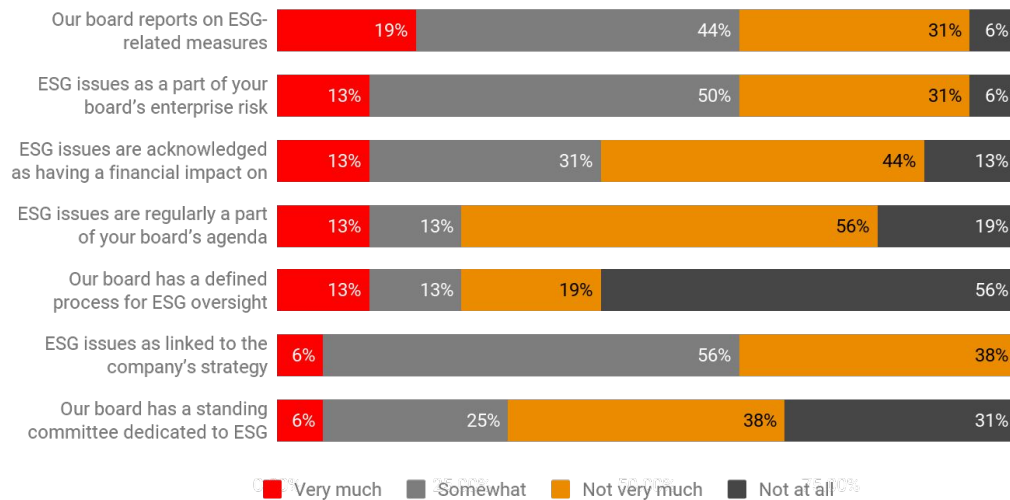
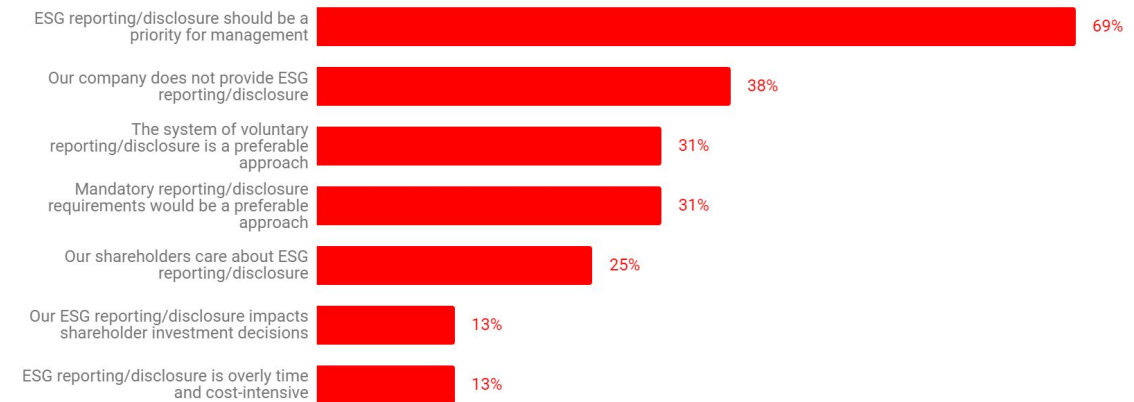


Figure 17
ESG reporting

Which of the following do you agree with as it relates to ESG reporting/disclosure?



The responses by Bahamian directors who took our survey indicate vulnerabilities in internal control oversight processes and crisis response plans.

Due to COVID-19, the directors noted long-term structural impacts including the increased ability of employees to work remotely, decreased employee travel, and reduced office locations.

Figure 18
Vulnerability to internal control oversight process

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

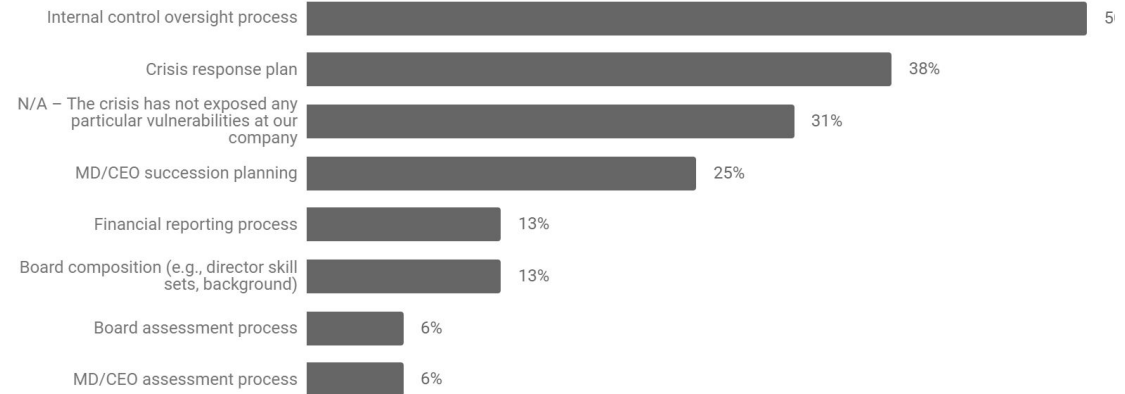
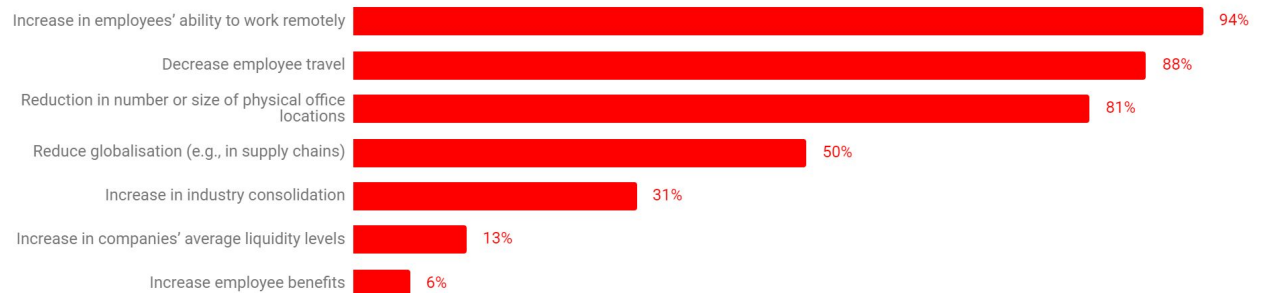


Figure 19
Long-term structural impacts

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



Executive compensation and talent management

Significance of executive pay

Executive compensation is an important element of corporate governance. Get it right, and it can be a useful tool to drive certain desired behaviours and outcomes internally, for example linked with company strategy and performance. Communicate it clearly and with transparency, and it doubles up as a valuable tool to indicate a company's culture and controls to external investors and other potential or actual stakeholders.

With opportunity comes risk and there are several pitfalls identified with getting executive compensation wrong. In previous regional studies, respondents have suggested that executive compensation could drive unethical behavior.¹ Policies that are not commercially competitive could result in companies being unable to retain their top talent, and linking compensation to unrealistic performance targets could result in a demotivated and disengaged leadership. In some territories, executive pay is a major political issue, with both shareholders and legislators drawing attention to perceived excesses. This has led to a rise in regulation and the strengthening of shareholder best practice guidelines.²

The results of the local survey on executive compensation in The Bahamas is therefore a valuable insight into how successfully Bahamian companies are perceived to be leveraging the impact of their executive compensation policies for the benefit of their organisations. It also provides several pointers on what can or should be done to extend this further and potential pitfalls that could be experienced later down the road (for example as a result of increased media scrutiny).

¹Directors of our fate: PwC's Corporate Governance Survey for Directors of Barbados companies, November 2018

²Getting the balance of executive pay right: PwC executive reward survey, January 2012

<https://www.pwc.co.uk/assets/pdf/getting-the-balance-of-executive-pay-right-pwc-executive-reward-survey.pdf>



Amount of compensation

The majority of respondents do not think that executives are overpaid (81%). Interestingly, however, although respondents do not think pay is excessive, a majority do feel that compensation packages and incentives as a whole are overly generous.

Compensation packages could include a combination of base salary, annual bonus, pension and other benefits and therefore there could be scope for companies to review and revise these additional methods of compensation.

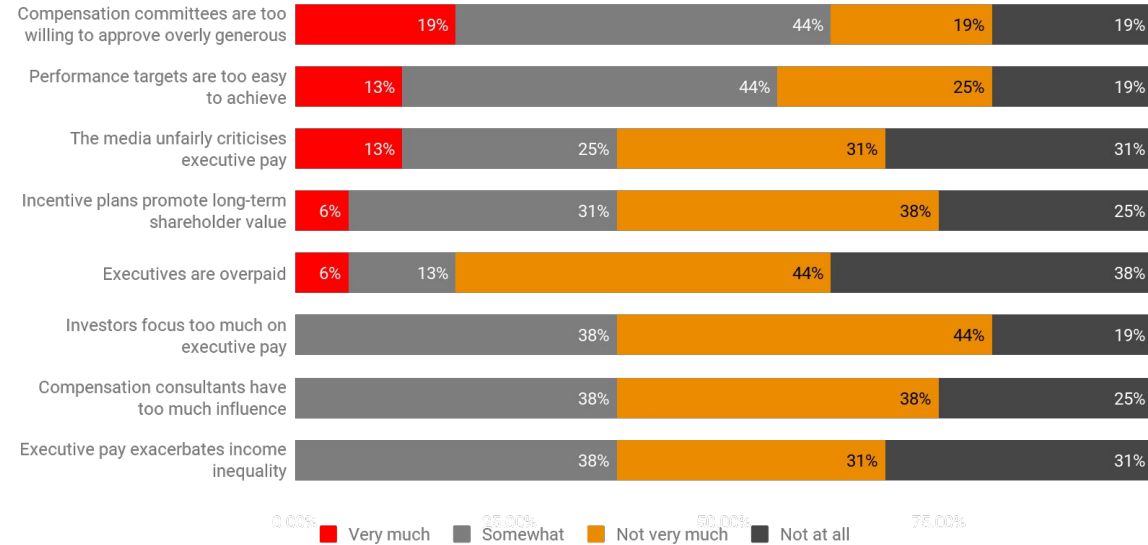
Drivers for compensation

There is debate as to whether current performance targets are too easy to achieve (57% think that this is the case). Despite the debate on overall target levels, there is overwhelming agreement on the desired metrics: in addition to financial metrics, respondents think that compensation plans should consider customer satisfaction (94%), employee engagement (81%) and good governance (ethical behaviour, succession planning and quality).

In terms of the drivers for compensation, of most concern is the majority view that plans do not currently promote long-term shareholder value (62%). Increased shareholder value is generally considered a key driver for company growth and it is therefore vital that the interests of shareholders are considered for a company to remain financially viable.

Figure 19
A fair reward

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



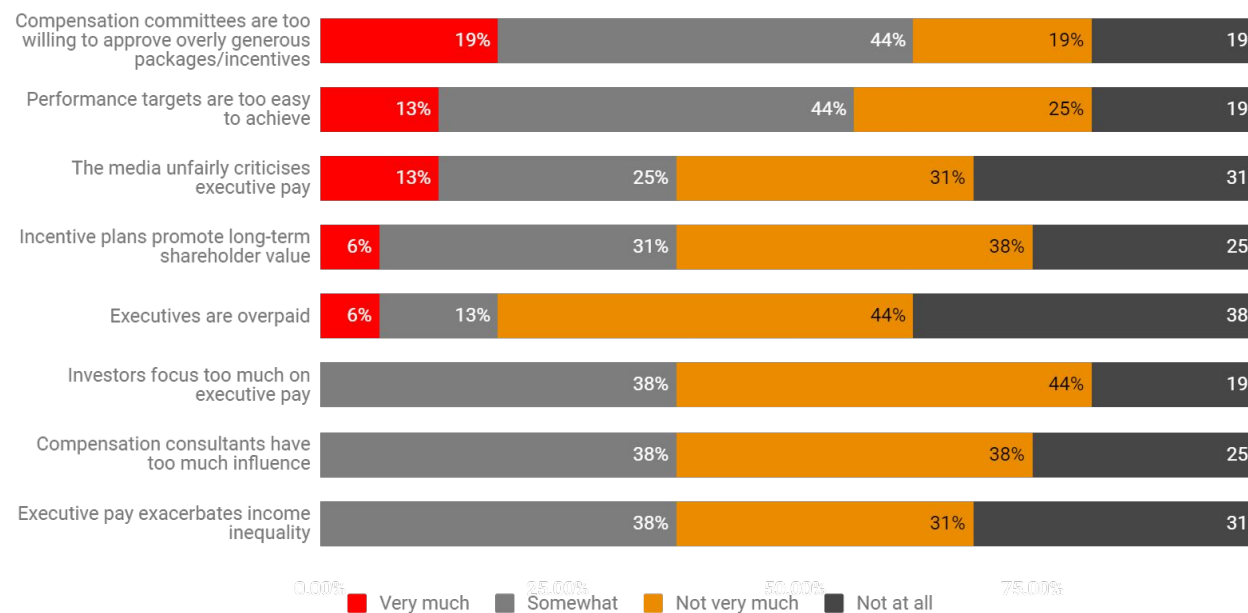
Review of compensation

Interestingly, unlike in other regions where executive pay is subject to intense scrutiny by shareholders and the public, respondents in The Bahamas do not believe executive pay is unduly focused upon or criticised by investors and the media.

In fact, rather than being too heavy, respondents think that executive pay should be subject to more robust assessment by the compensation committee which currently approves overly generous packages too willingly (63%). This assessment could perhaps be used to help increase executive compensation plans' promotion of long term shareholder value which is deemed as lacking currently. Compensation consultants could also be used for this purpose - 62% of respondents suggest that consultants do not currently wield too much, if any, influence on executive pay.

Figure 20
Non-financial metrics driving incentives

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



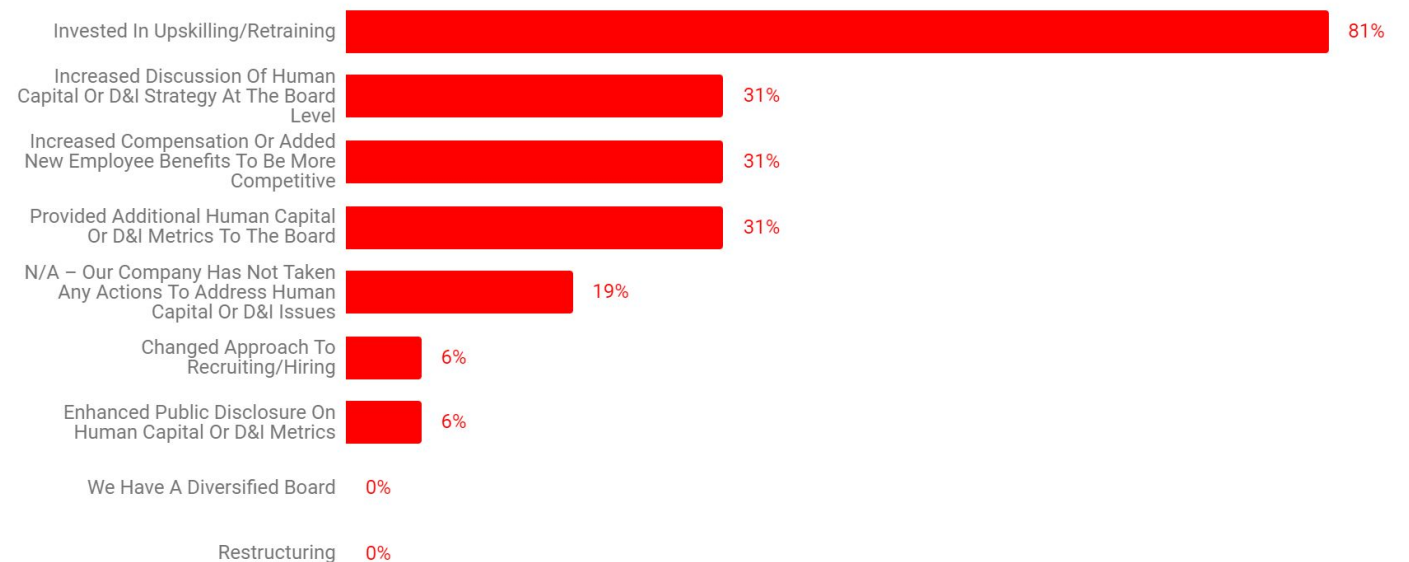
The broader environment

Employee upskilling continues to be a key measure companies are focusing on to address human capital and diversity and inclusion related issues. At 81%, the majority of the respondents selected they have invested or plan to invest in upskilling/retraining. It is an overwhelming majority that speaks to the broader vision that directors in The Bahamas are aware of the important role training and transformation plays at all levels of a company and its direct correlation to workforce diversity and inclusion.

Gender equality, race, age, diverse backgrounds and differing levels of experiences all constitute the need for representation that contributes to ensuring a healthy and effective working environment. While 31% of directors also feel increased conversations around diversity and inclusion (D&I) and human capital discussions are needed, an equal 31% also felt increased compensation and D&I metrics were also necessary steps to be included; suggesting that companies were taking or planning considerate measures to improve or address areas relative to D&I. Alternatively, of those surveyed, 19% of directors selected that their company has not taken any steps to address D&I issues.

Figure 21
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?



When it comes to going beyond an entity's purpose, 50% of Directors were in agreement that an entity should have a social purpose, while (38%) agreed to the following:

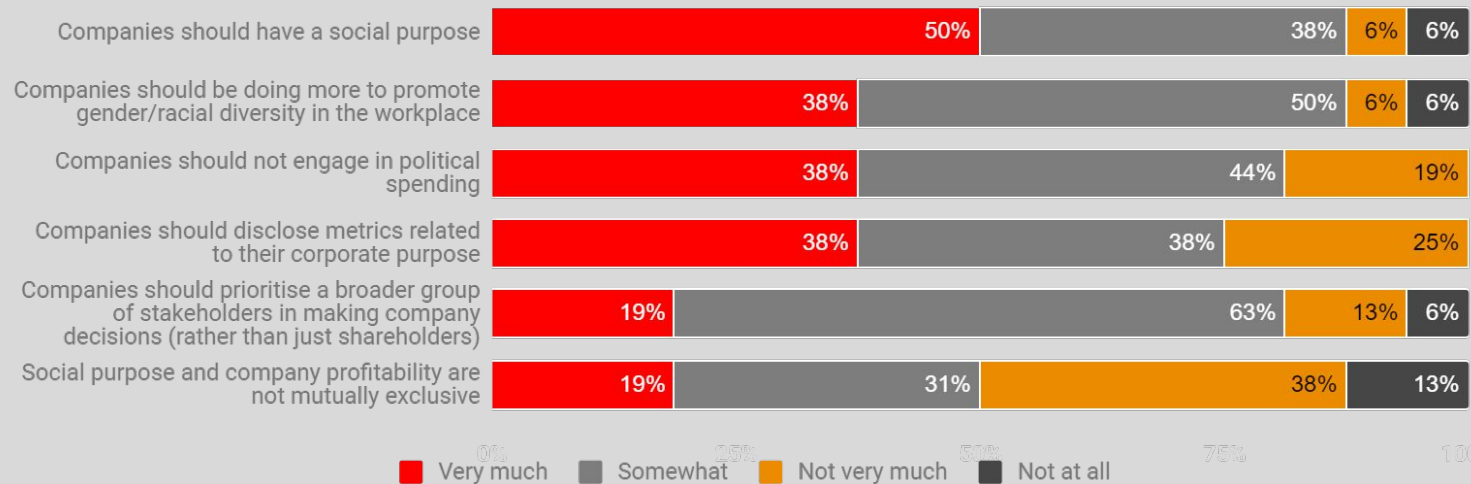
- Companies should be doing more to promote gender/racial diversity in the workplace
- Companies should not engage in political spending
- Companies should disclose metrics related to their corporate purpose

What is also notable is that a vast number of directors (63%) feel strongly that companies should engage other stakeholders in the decision making process rather than decisions resting solely with shareholders. This speaks to the importance of stakeholder engagement and the overall benefits to a company's success and its people.



Figure 22
Entity's wider purpose

To what extent do you agree with the following statements in respect of an entity's wider purpose?



Technological disruption continues to be a top concern among directors (63%). In the past few years digital transformation has been the number one driver for technological advancements and disruptions. Cybersecurity and risk issues are macro trends that have dominated the ongoing conversations about the impact of technology and the effectiveness of organisations to not only capitalise on the trends but to be impactful.

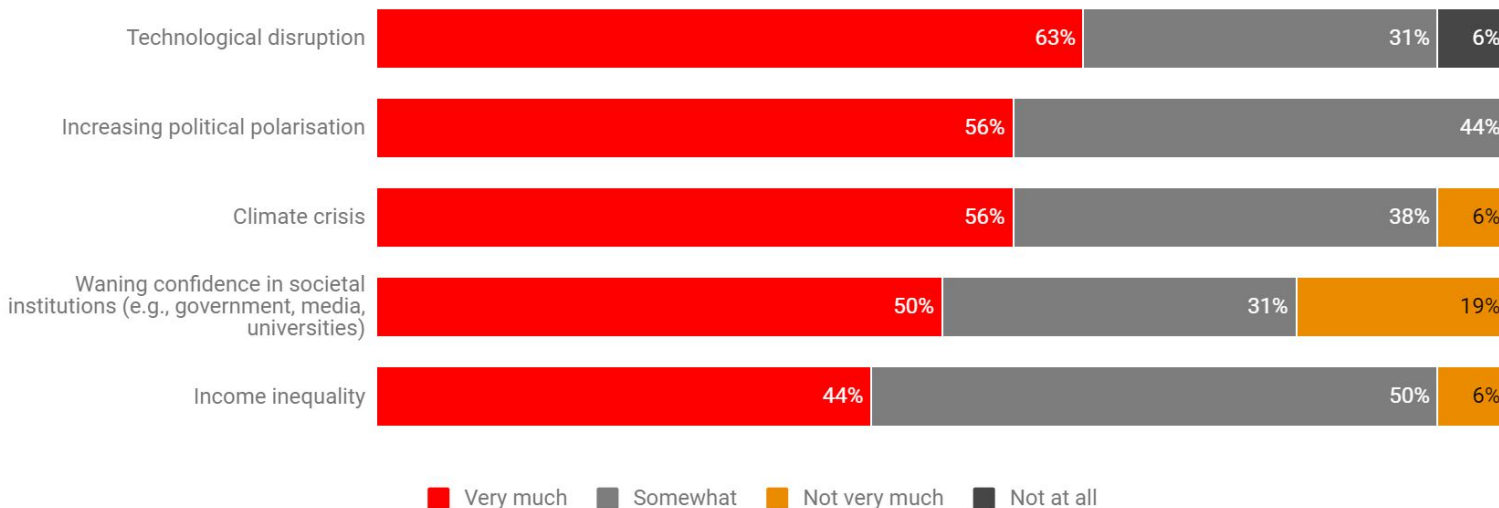
What is of note is that more than 50% of respondents (56%) are equally concerned about political polarisation. The Bahamas, like other countries in the region, is known for its partisan political landscape and the ideologies of a two-party system. With a population of less than 400,000 people, political polarisation can create disparity in doing business and can be seen as a threat to growth. Whereas bipartisanship is favored as an indicator to future growth and success for an organisation.

Climate change is another macro trend that directors feel is of major concern (56%). In The Bahamas what we have witnessed in the past three to five years like most Caribbean countries, is a major shift in environmental changes due to global warming. Most notable for the sub-region is an increase in hurricanes, a rise in sea levels and warmer temperatures. We need only look at the devastation caused by Hurricane Dorian to understand the concerns of directors in The Bahamas.

Figure 23

The macro trends keeping boards awake at night

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



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

Stronger governance that seeks to make some of these important non-financial and sustainability metrics central to an organisation's strategy, could help to bridge the disconnect between the level of executive rewards and their ability to drive improved performance. This includes more exacting targets and aligning objectives more closely with changing competitive demands and new priorities in areas such as diversity and net zero commitments. The need to have satisfied customers is understandable, and good governance and oversight should also seek to drive ethical behaviour at the executive level to the fullest extent, but unfortunately 22% of our respondents don't consider the reinforcement of this demand via compensation as necessary.

If organisations are struggling to turn intention into action, how can they pick up the pace of change? Drawing on the findings from our survey and our work with boards and businesses across the Caribbean, our five-point plan offers a way forward.

1

Re-examine board priorities

When asked which areas of board oversight demand more time and focus, there was no standout priority. Rather, there are a number of demands competing for attention, from succession planning through to ESG. 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 plays a critical role in all aspects of corporate governance. Its stamp stretches from setting the right 'tone at the top' and developing the right strategy to maintaining and monitoring business controls, from rewarding appropriate behaviour to communicating credibly and transparently with stakeholders.

Our survey highlights concerns about whether boards are equipped to fulfil this broad and vital remit. Activities are disconnected and time is limited, exposing boards to the risks of missing threats and allowing problems to spiral unchecked. Many directors expressed the view that their boards lack sufficient skills and a willingness to rigorously challenge management.

This is unsustainable. With change rapidly occurring, boards need to be able to pivot, applying the right risk lens to every decision and action. To achieve this, it's important to have the right people on the board – experienced, inquisitive, with diverse perspectives and with the willingness to constructively challenge. Board members also need to have the time needed to understand both today's fluid risk landscape and their legal and ethical responsibilities.

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

3

ESG warrants a bigger seat at the table

Strategy and performance on ESG as part of that strategy increasingly hold the key to brand reputation, stakeholder long term value creation and access to capital and talent. Identification and management of ESG issues are also essential elements of resiliency and risk mitigation.

Yet our survey indicates that social and environmental issues are still second order priorities within board discussions. It's therefore important to bring ESG further up the agenda. Ways to sharpen the focus include building ESG factors into board and executive team performance metrics and incentives.

4

It's time to tackle board diversity

Now more than ever, diversity on corporate boards is a business imperative. Employees and other stakeholders expect it. The opportunity to bring in fresh perspectives and connect more closely with customers makes board diversity a clear competitive differentiator.

So far, however, change has been far too slow. We therefore need real progress rather than words. A good starting point would be setting clear goals for board diversity and developing a diverse pipeline of candidates.

However simply adding new directors from diverse backgrounds to the board isn't enough. In order to benefit from their perspectives and experiences, boards should invest in 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.

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



5 Double down on board assessments

Boards need to be able to work together, challenge decisions and raise red flags. Regular board assessments are a critical part of ensuring that these foundations are in place, contributing to robust oversight while driving continuous improvement in board operations and performance.

Through both quantitative and qualitative evaluation, a well-executed assessment can provide real insights into how a board operates, how Chairs and directors work with one another and any problems that need to be addressed. The results are actionable takeaways that can make a real difference.

Yet barely half of the directors in our survey report that their boards have carried out such an assessment in the past year. Most of these were internal, which they recognise can impede frank discussions and effective follow-up and action.

There needs to be openness, clear direction and, ideally, independent evaluation at least on a two or three year cyclical basis, to make board assessments work for the good of the board and the business.

Conclusion:

As is evident from the survey results, the board respondents from The Bahamas are truly impacted by emerging trends as it relates to the Board Composition and Diversity. The global pandemic continues to impact the current landscape which the survey revealed has forced boards to evolve and recognise that diverse skill sets and equally a more diverse composition will be required to address these challenges.

The evolution of ESG as a global dynamic will continue to also place pressure on boards to position themselves similarly to evolve as opposed to being reactive to call for them to demonstrate performance beyond the typical key performance indicators traditionally characterised within their financial reports. Shareholders are now using ESG as one of many new benchmarks to evaluate the overall performance of their portfolios and this will continue to force boards to redefine the true definition of value.

A key statistic in our survey results indicated that diversity and inclusion are on the minds of 88% of our survey respondents. This is truly a sobering statistic particularly given the dynamics previously explained. It would be very useful to continue to monitor this statistic particularly as Boards look forward to ensuring that their operations are positioned not only to address challenges of today but are equipped with the human capital necessary to demonstrate that they are resilient enough to evolve with the changing times.

Technology and its impact on business has also been an area requiring a level of transportation, The pandemic has tested digital resilience from the perspective of causing businesses to look introspectively in ways which were in many cases optional in the past.

Digital presence has been catapulted to the forefront of board agendas as a standing item now being evaluated on a real time basis as a matter of survival. As we continue to face an uncertain future in many respects and the need to restrict human physical interaction continues, digital transformation will continue to be a relevant topic of discussion. This is even more evident as the survey indicated that technology disruption continues to be on the minds of 63% of our respondents.

This survey has provided some valuable insights on a myriad of topics we feel are relevant given the economic environment. We trust that the information included in this report is viewed as both timely and useful while providing some baseline information as it relates to the current landscape while providing a view of future trends.

About the survey

In late 2021, we surveyed 193 public and private sector directors from six Caribbean countries and a cross-section of organisation sizes, types and industries, including 16 Bahamian respondents. The questions sought to discover current governance practices, attitudes within boards and priorities for the future.

Our 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.



Kevin Cambridge
ESG Leader
PwC Bahamas
kevin.cambridge@pwc.com



Appendix

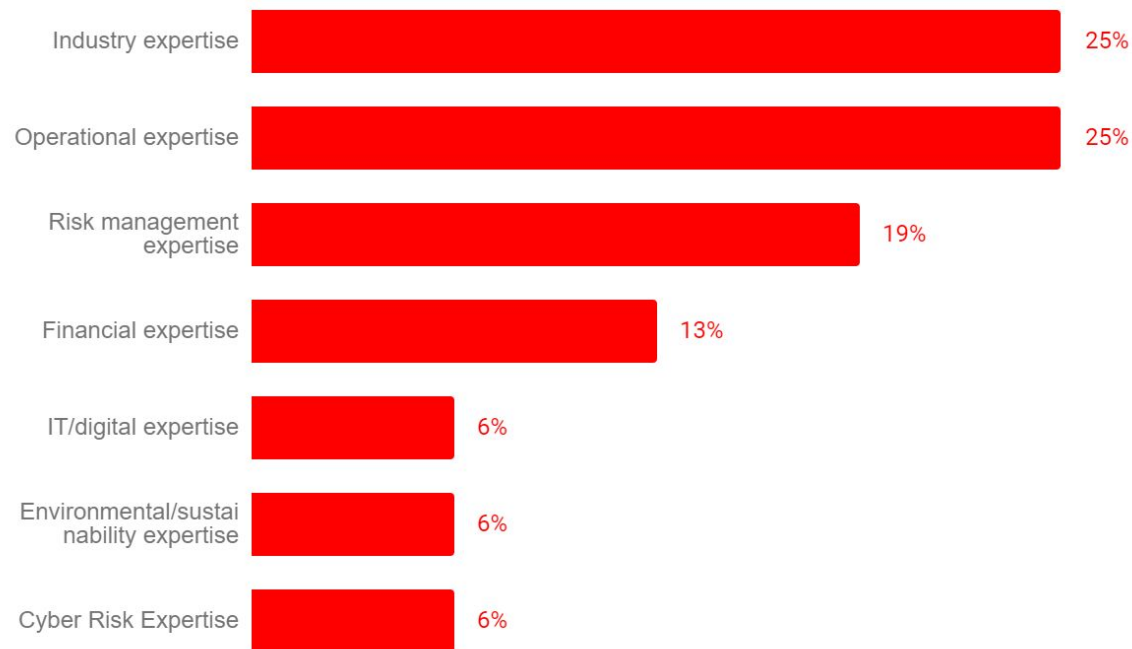


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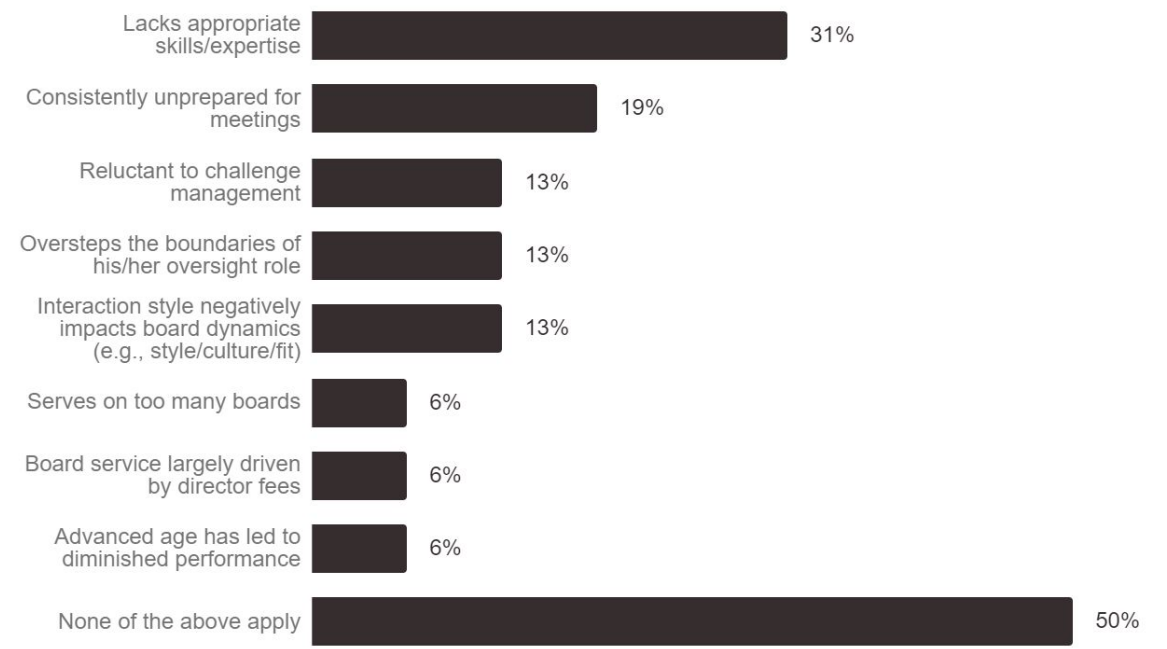
Complete survey findings

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)



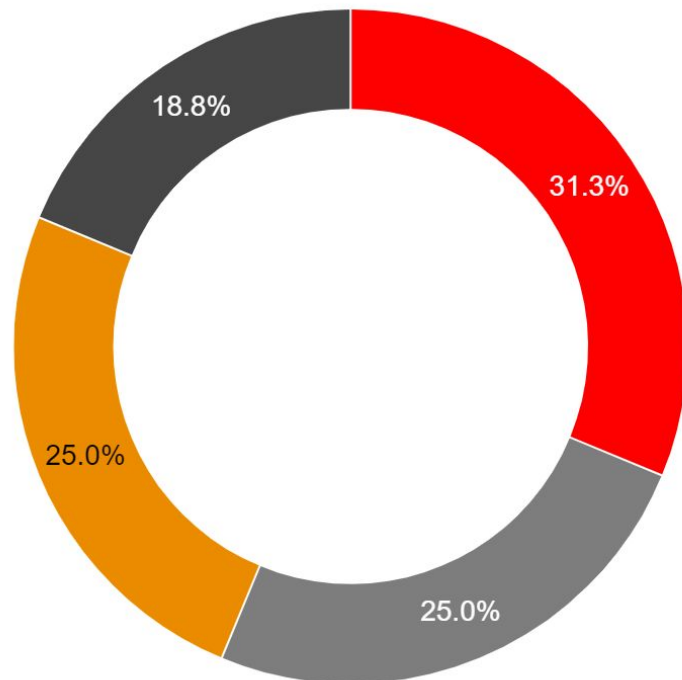
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Complete survey findings

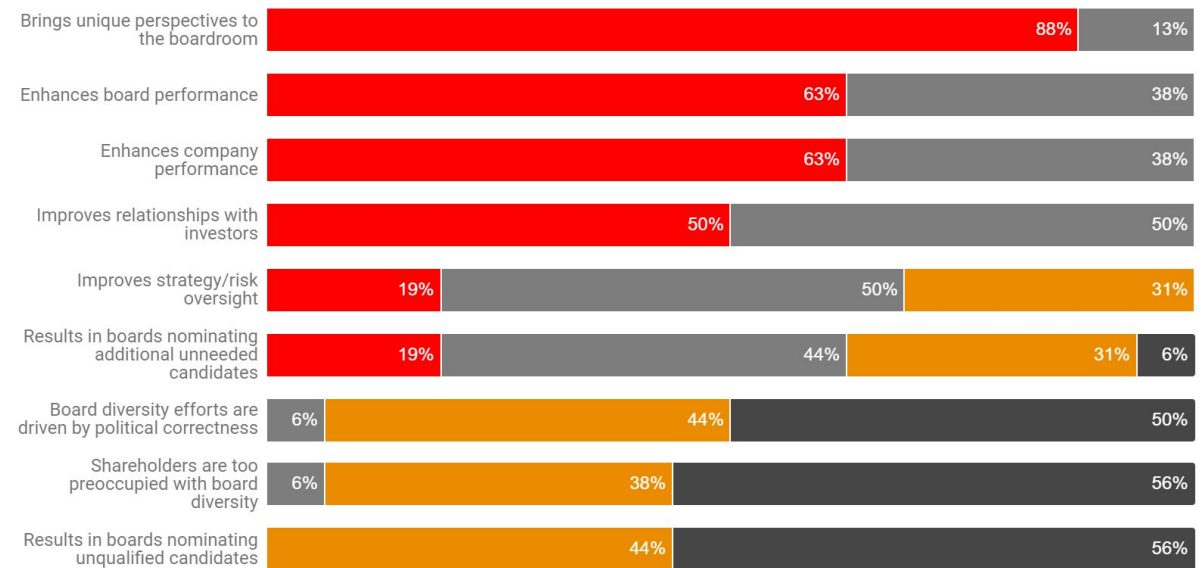
Board composition/diversity

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

- Zero
- One
- Two
- More than two



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



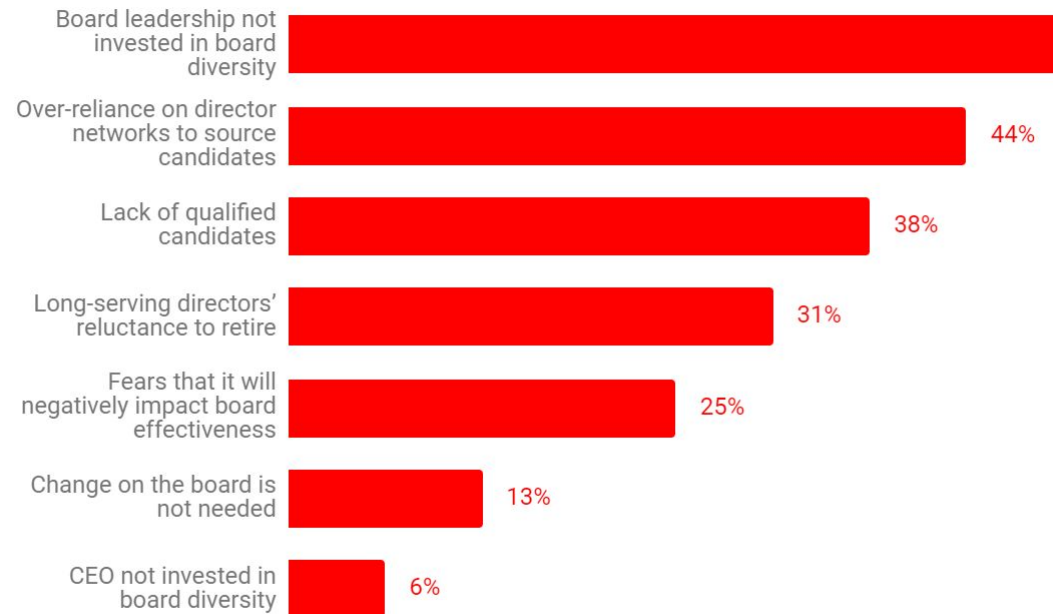
● Strongly agree ● Somewhat agree ● Somewhat disagree ● Strongly disagree

Appendix

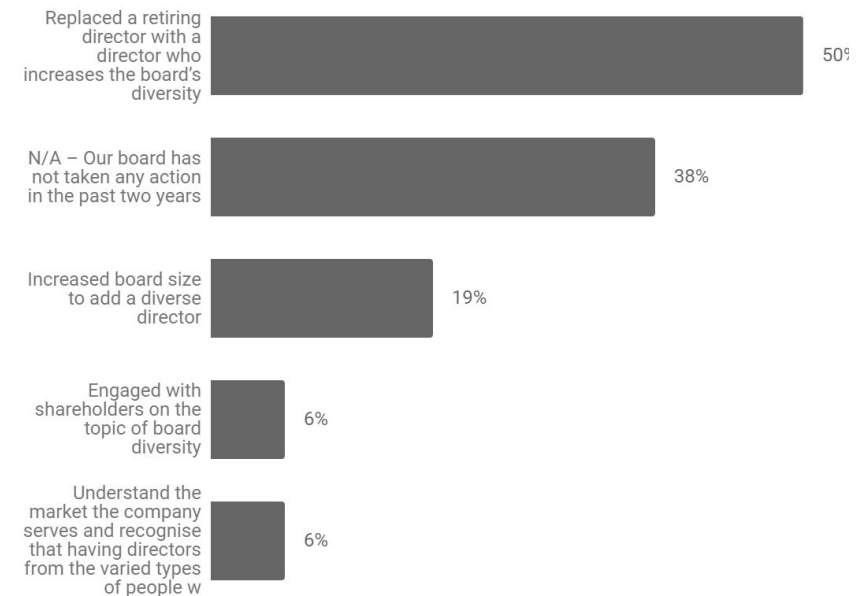
Complete survey findings

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)



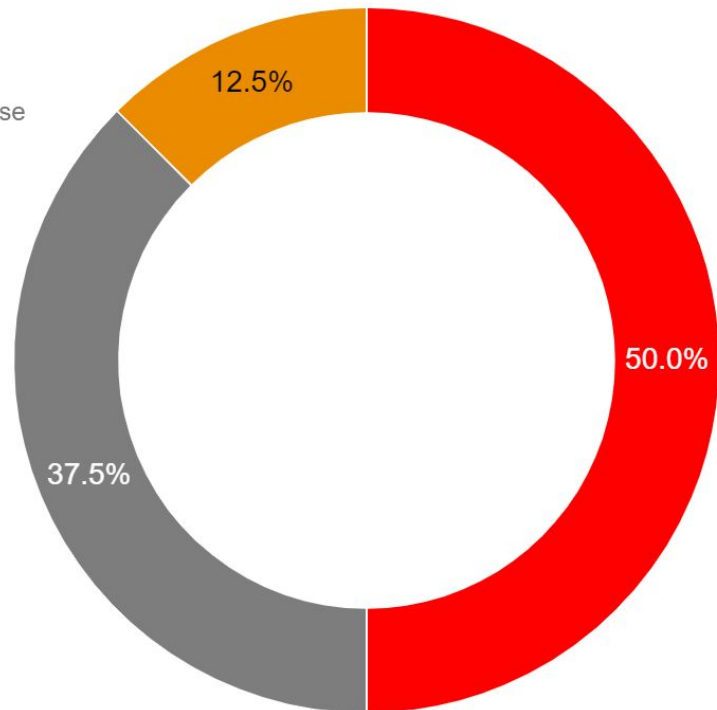
Appendix

Complete survey findings

Board practices

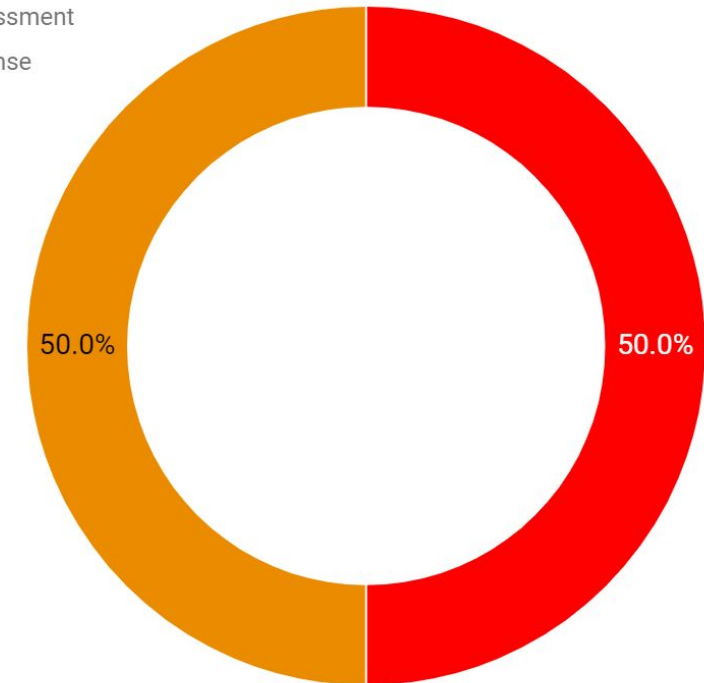
7. Has your board had an assessment in the past year?

- Yes
- No
- No Response



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

- Self assessment
- No response

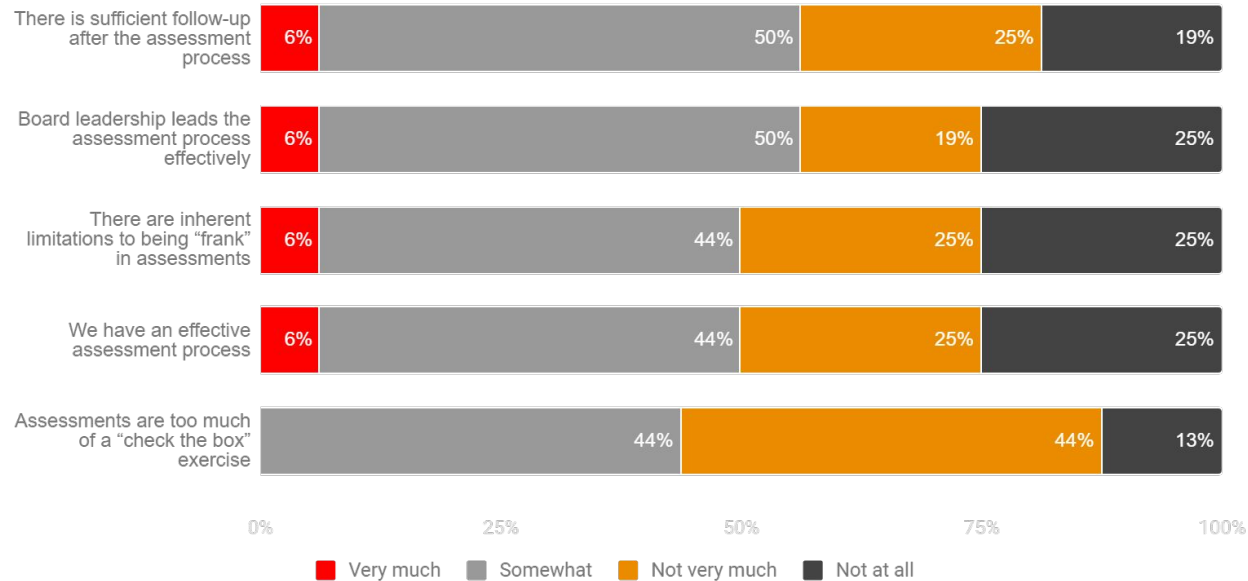


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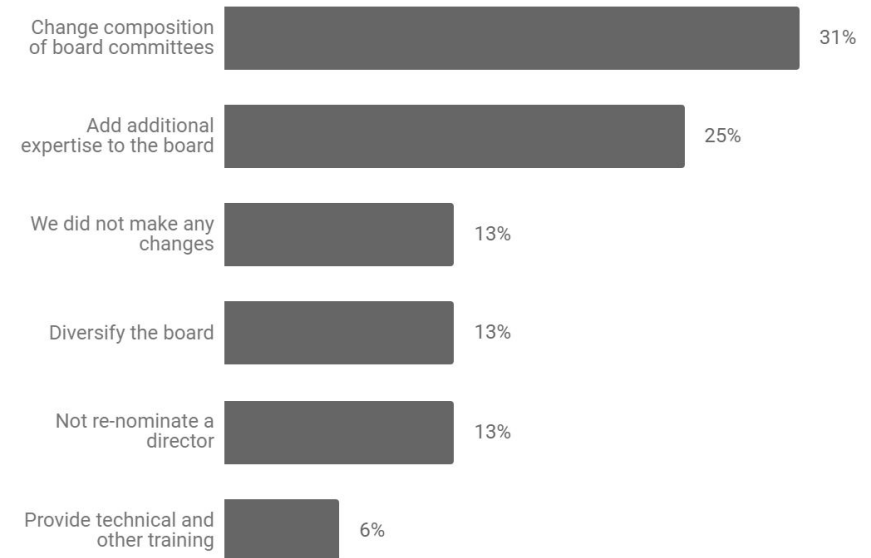
Complete survey findings

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)

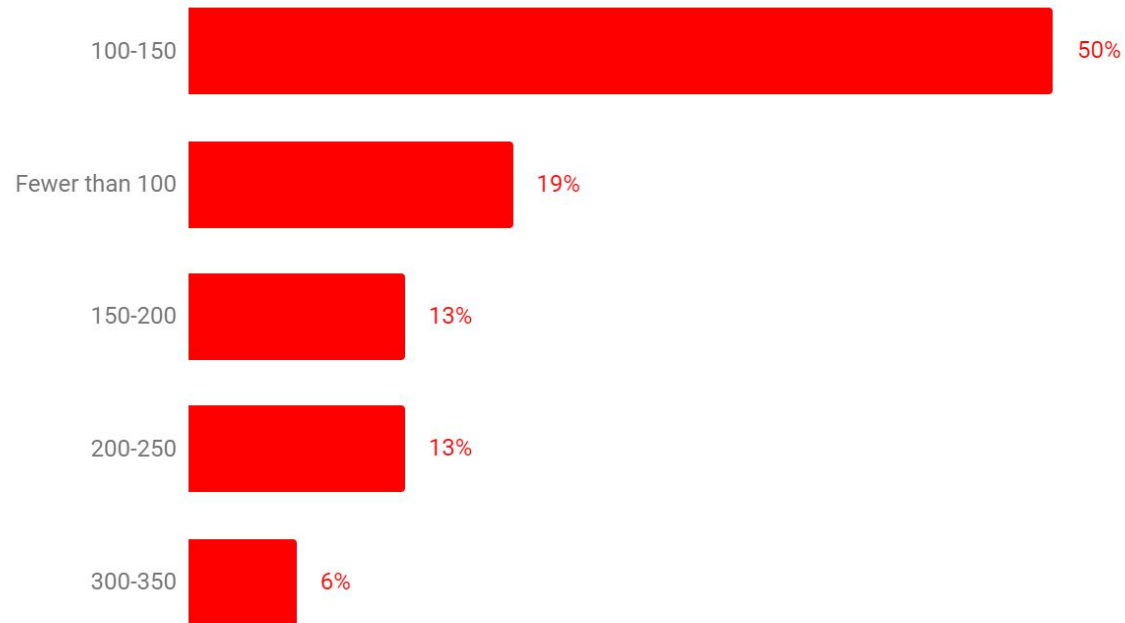


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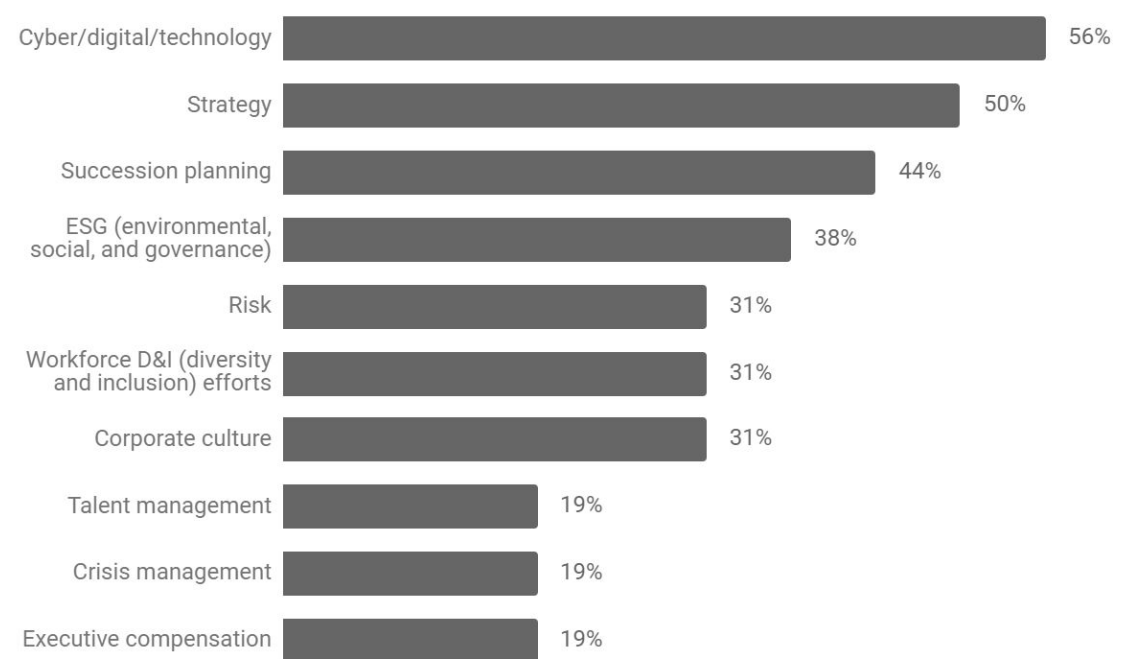
Complete survey findings

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)

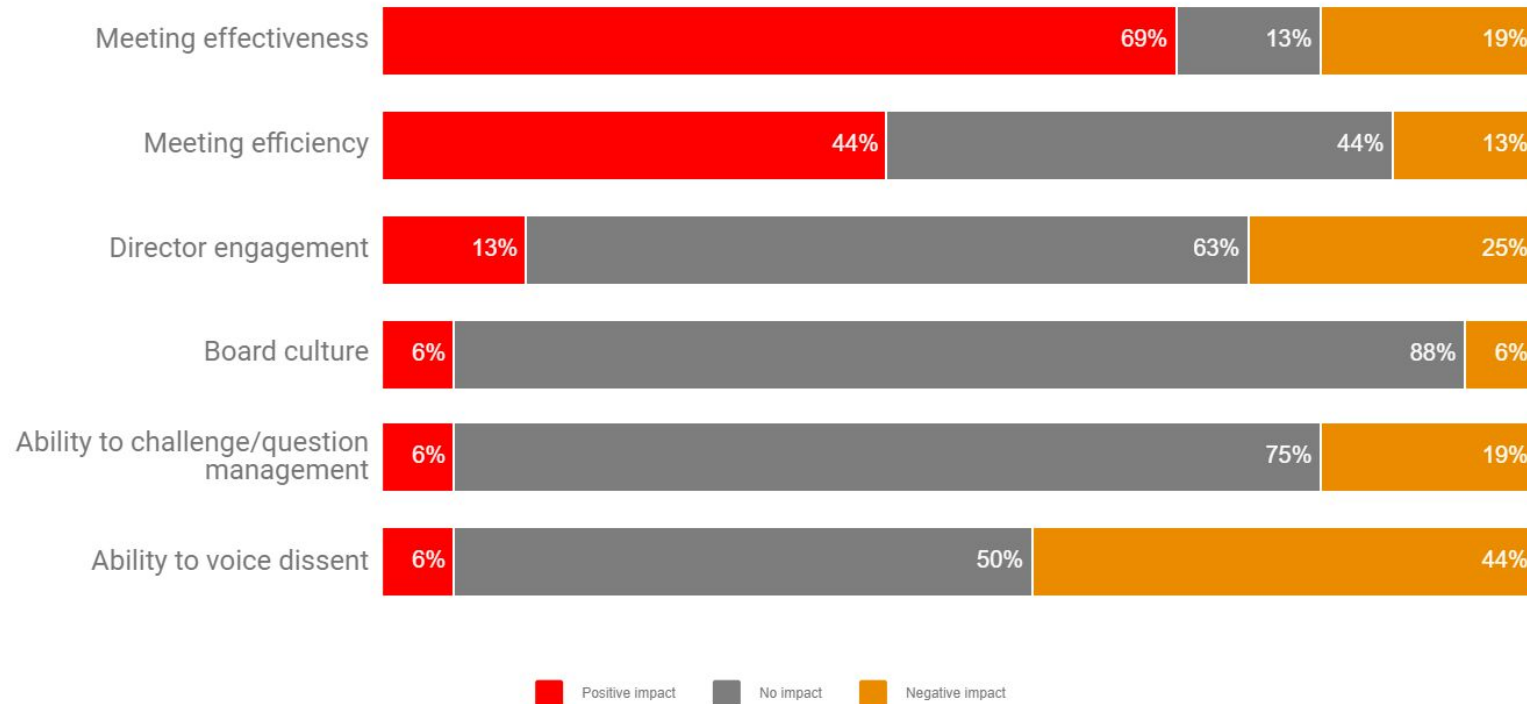


Appendix

Complete survey findings

Board practices

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

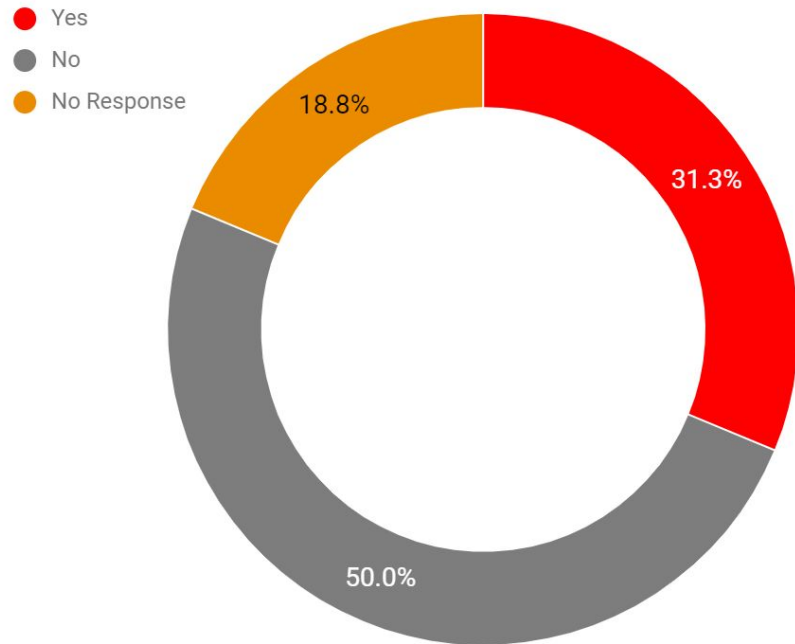


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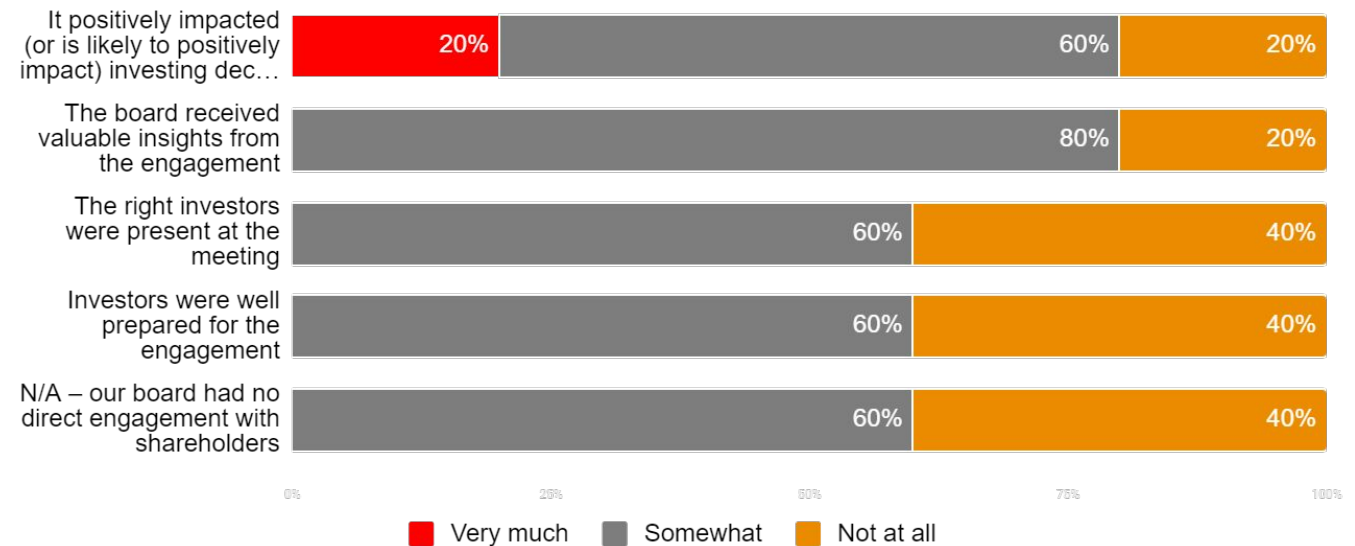
Complete survey findings

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?

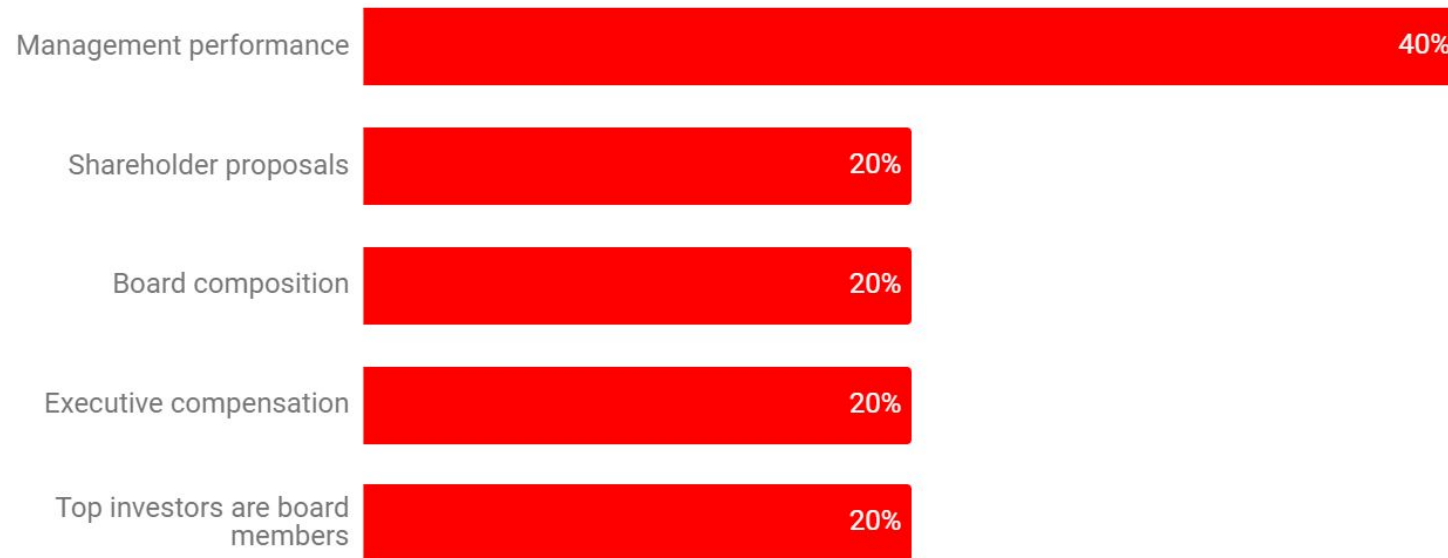


Appendix

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)

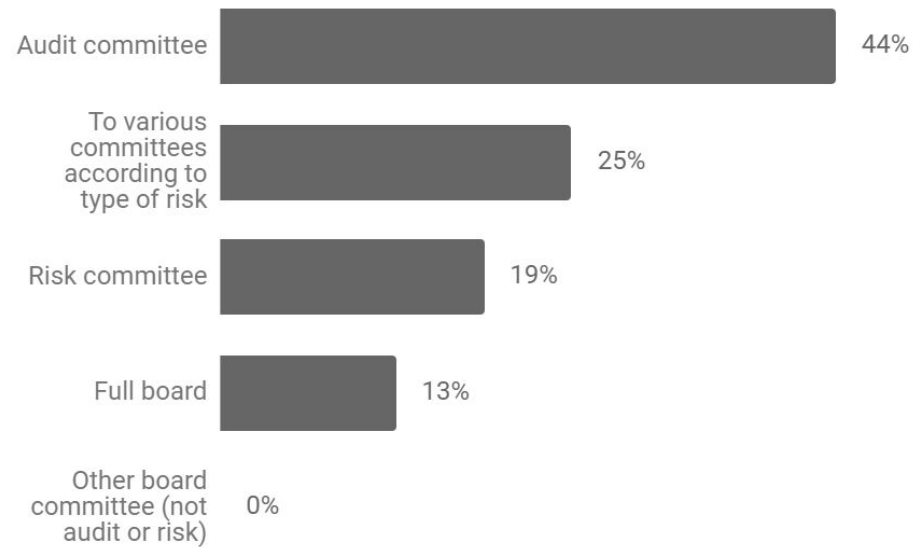


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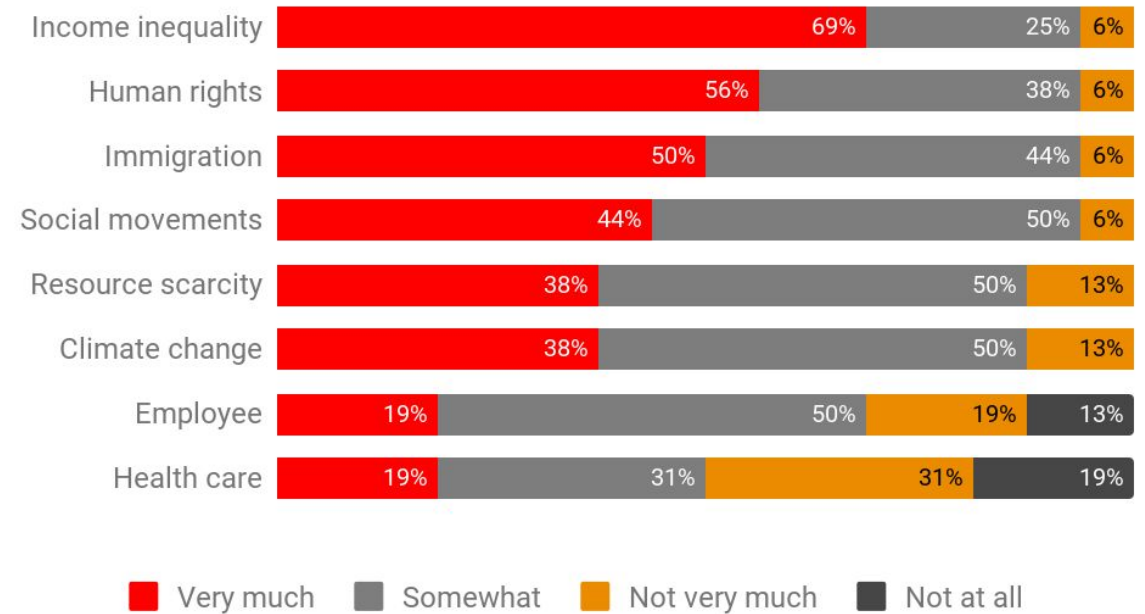
Complete survey findings

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?

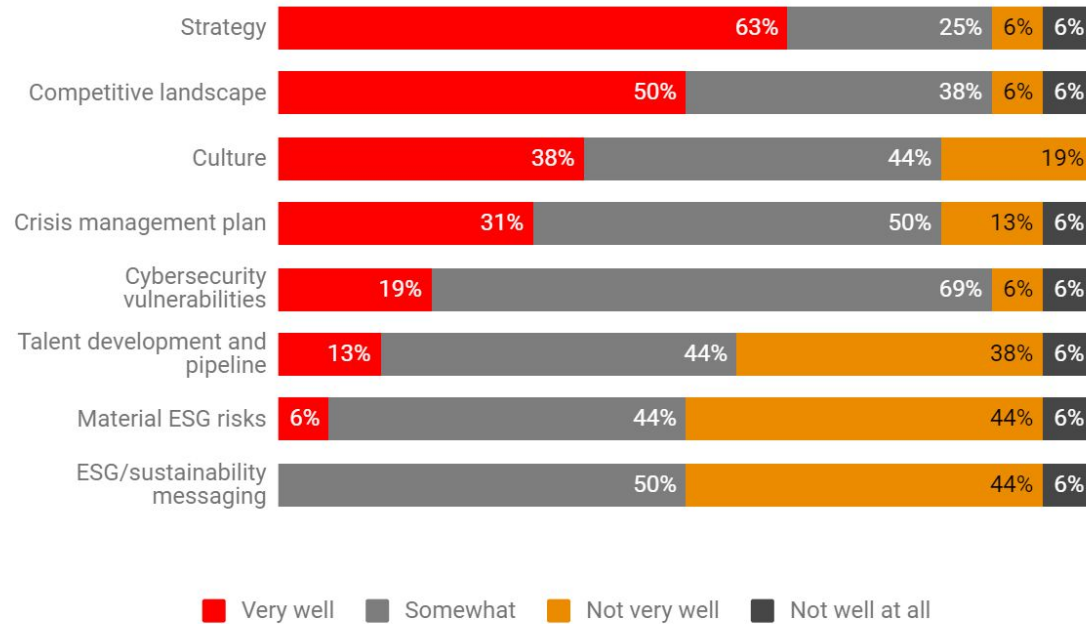


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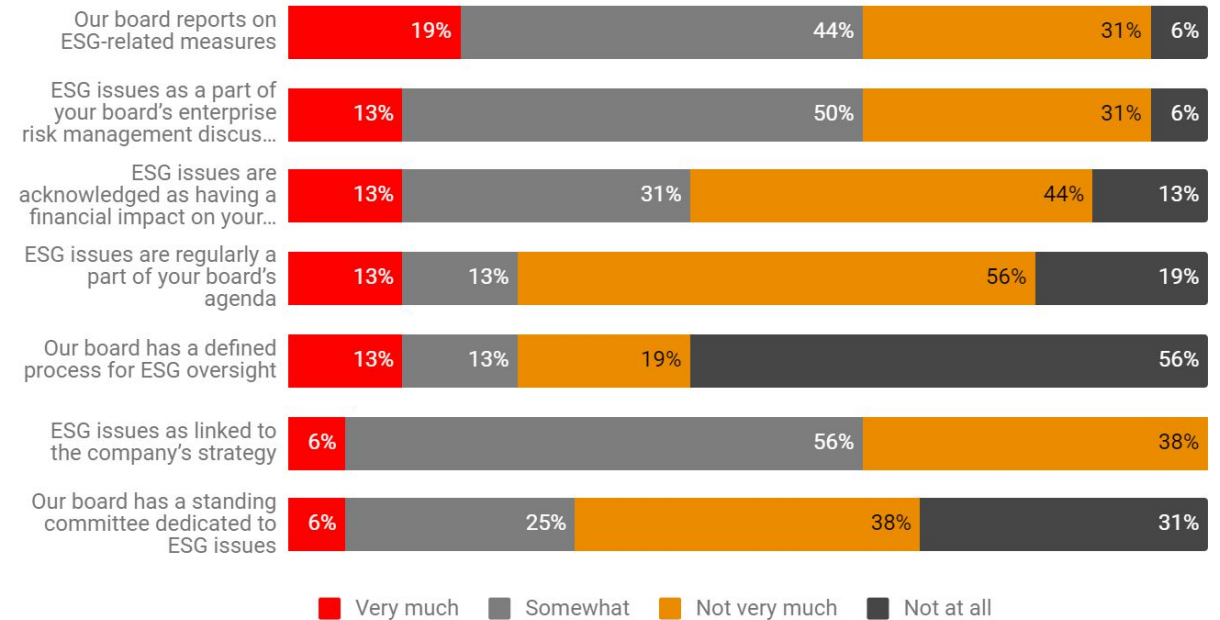
Complete survey findings

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:

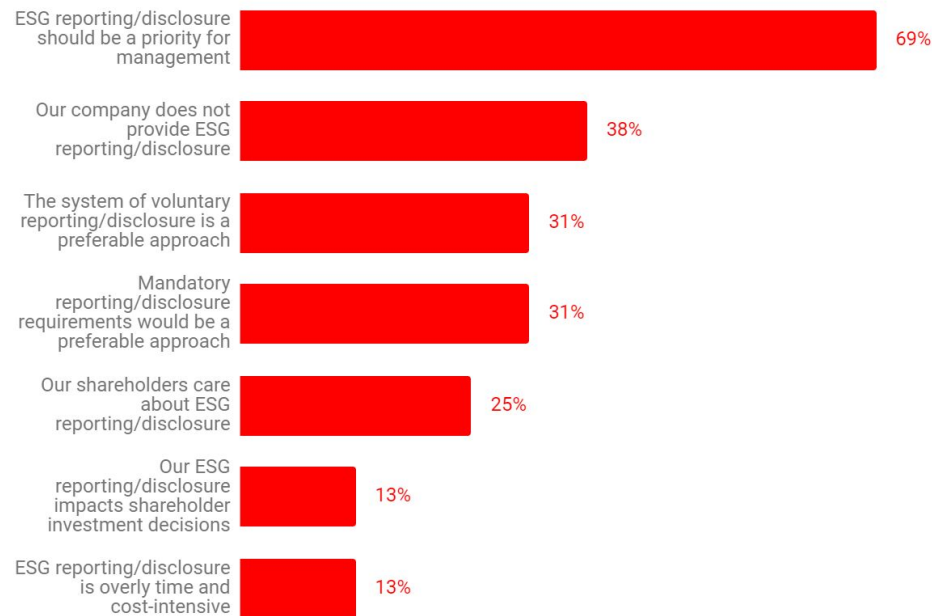


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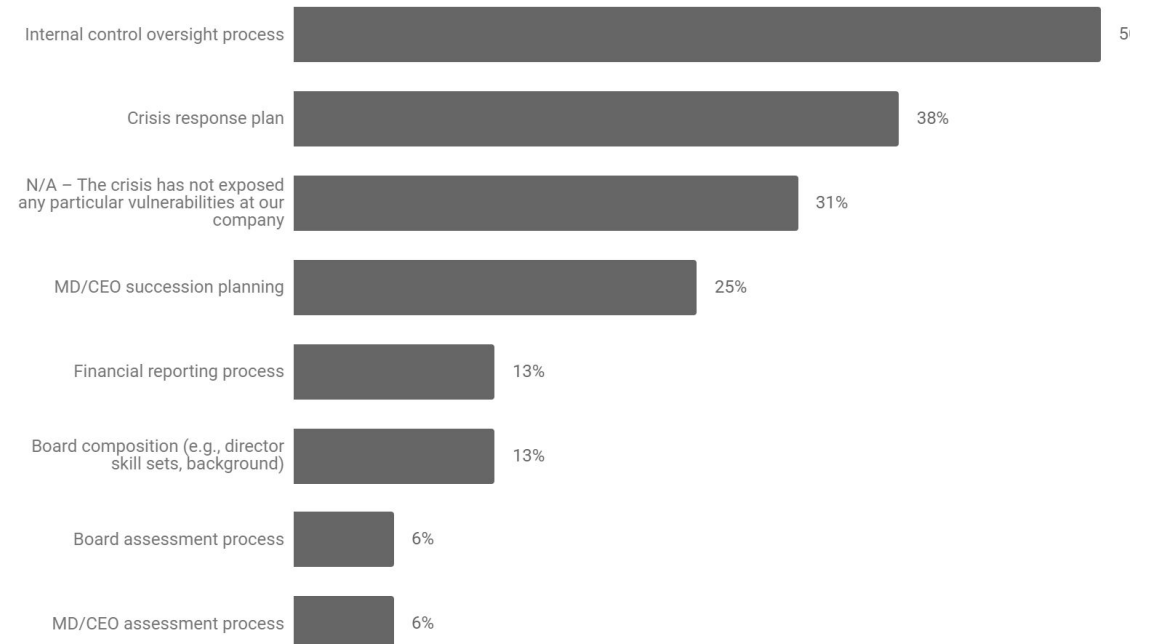
Complete survey findings

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)

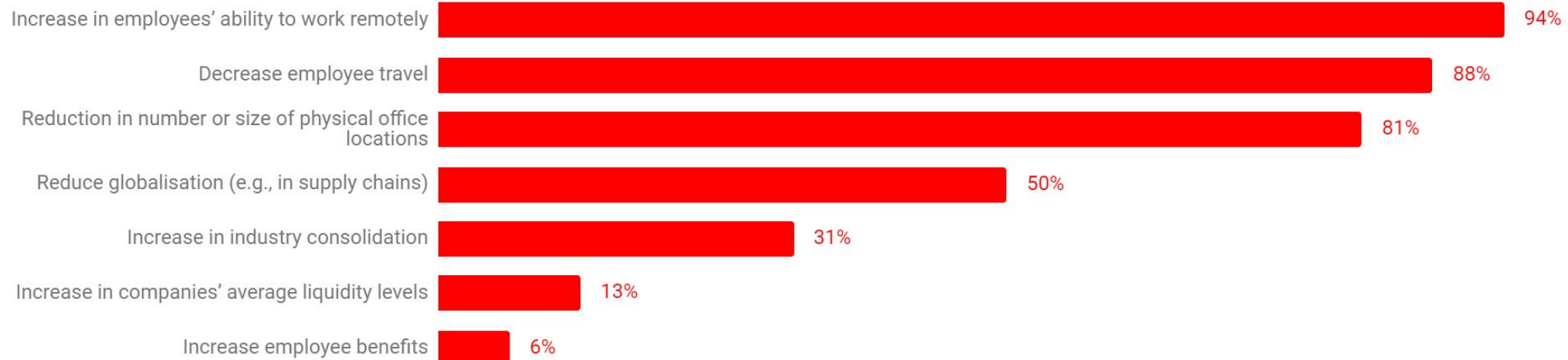


Appendix

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)

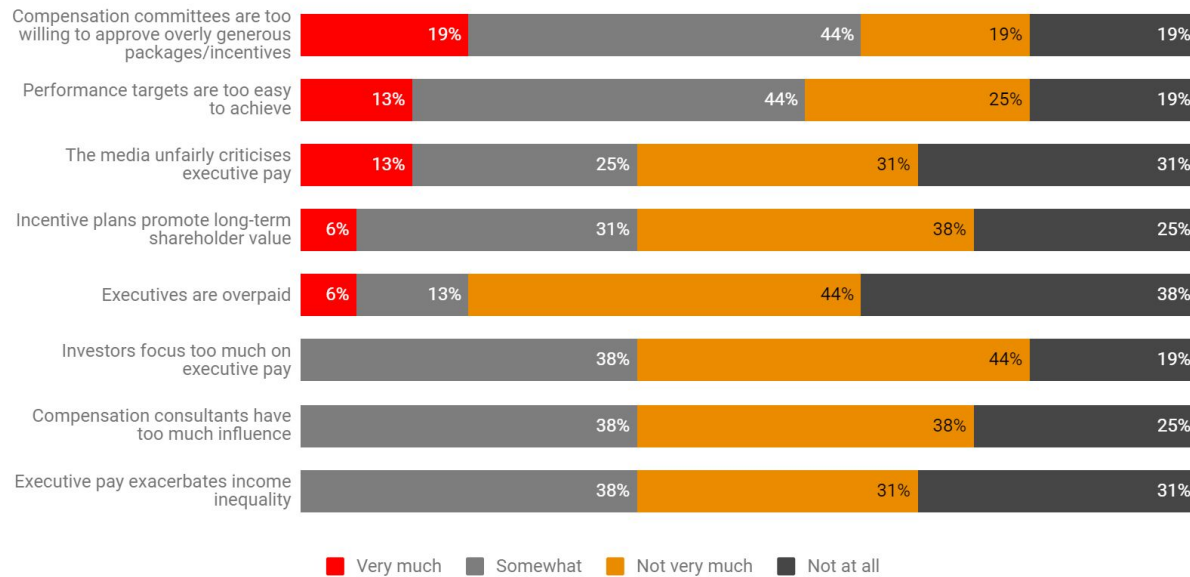


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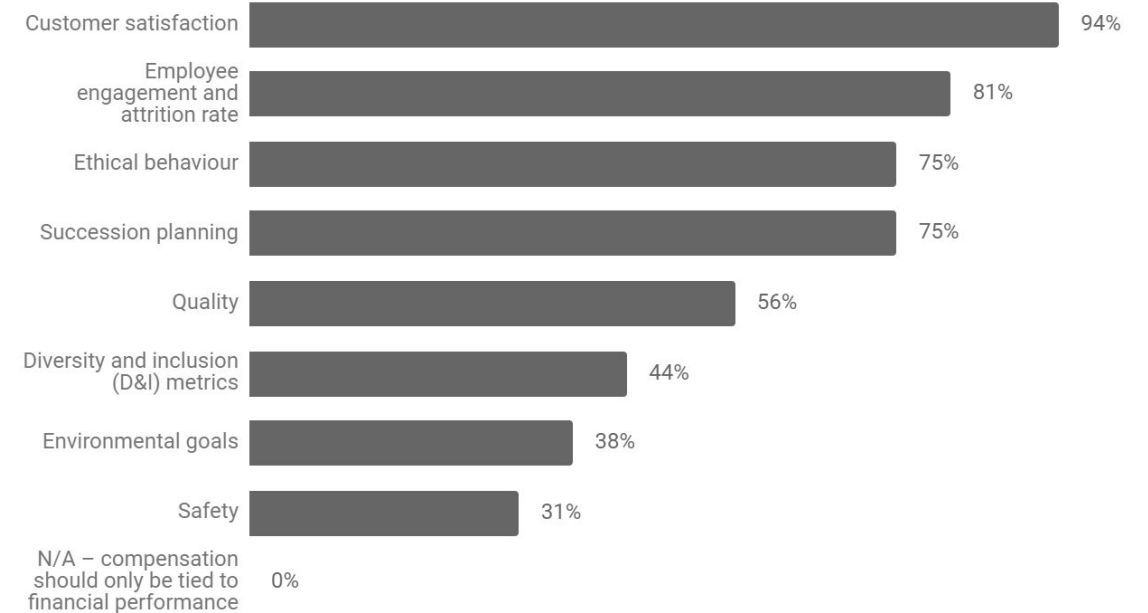
Complete survey findings

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)

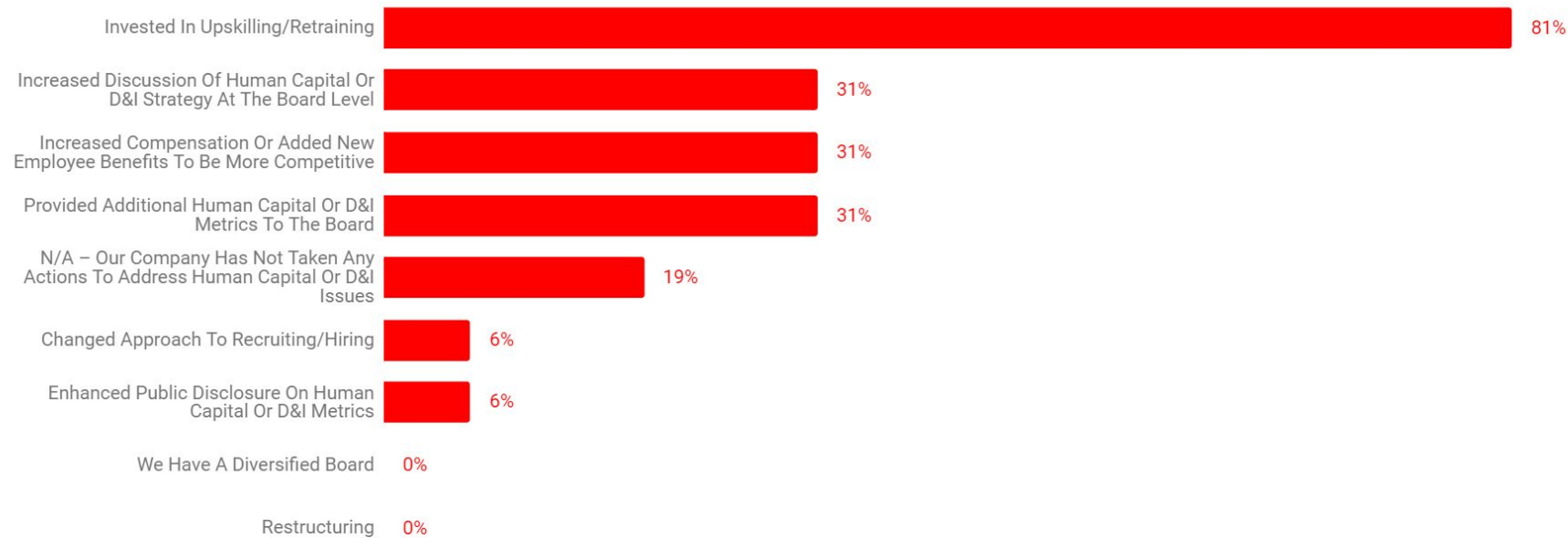


Appendix

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)

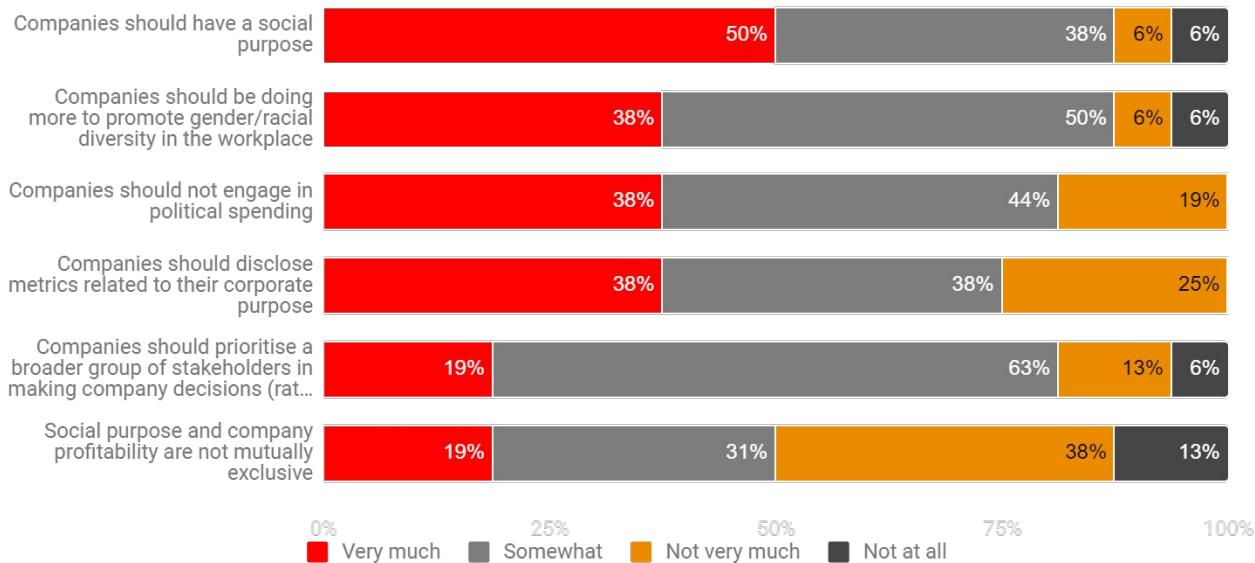


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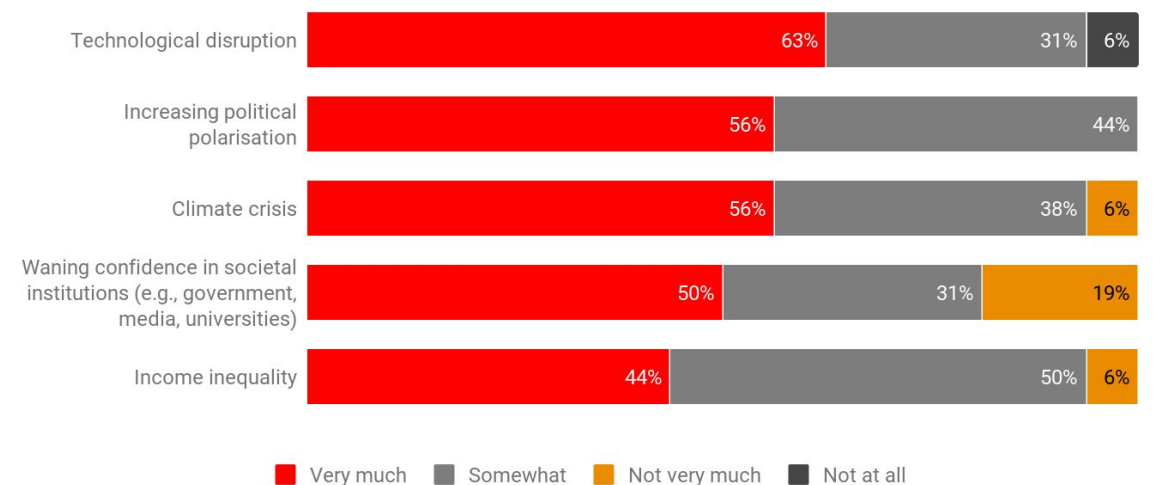
Complete survey findings

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?



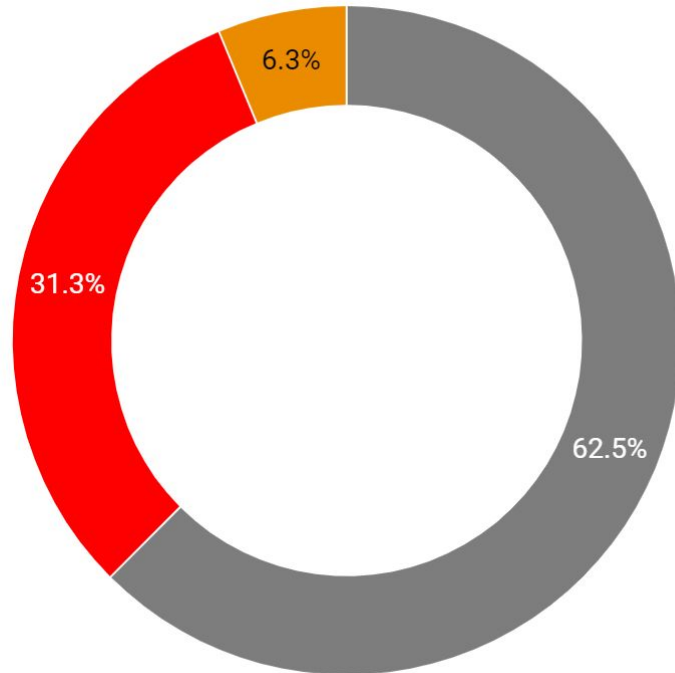
Appendix

Complete survey findings

Demographics

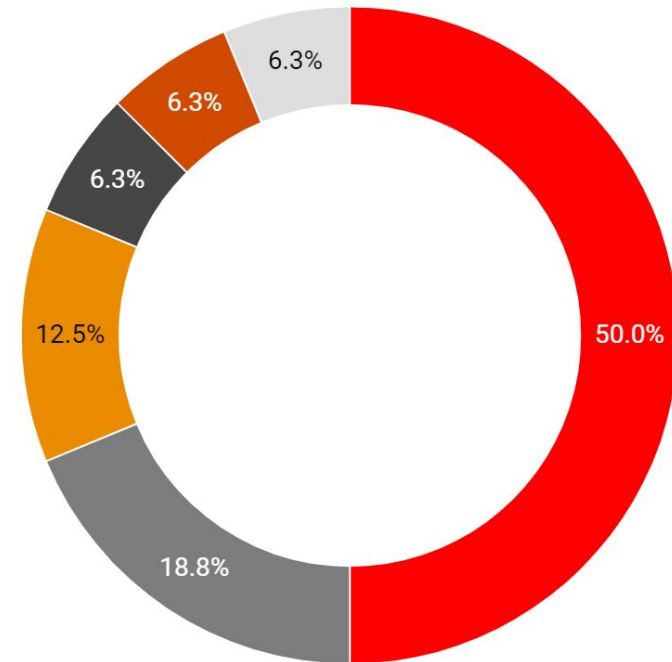
Gender:

- Male
- Female
- Prefer not to say



Age:

- 51-60
- 66-70
- 61-65
- 41-50
- 71-75
- Under 40



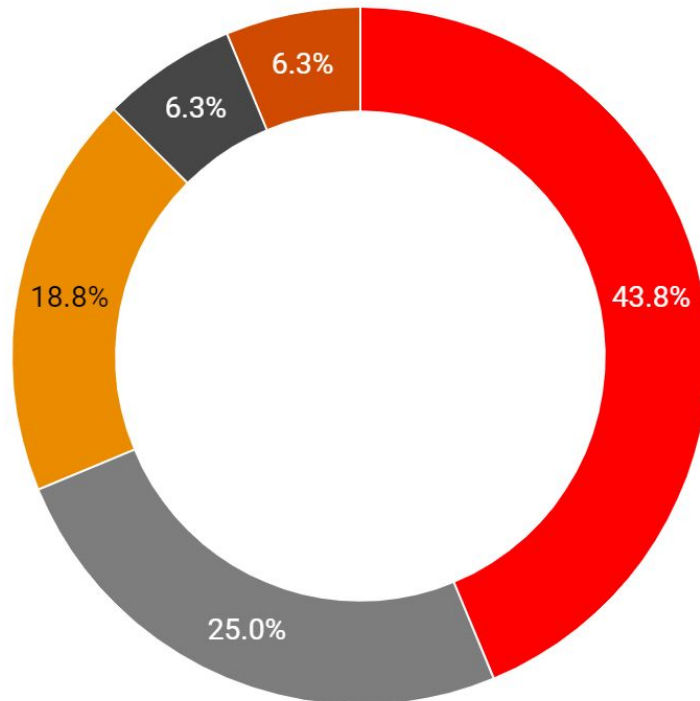
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Complete survey findings

Demographics

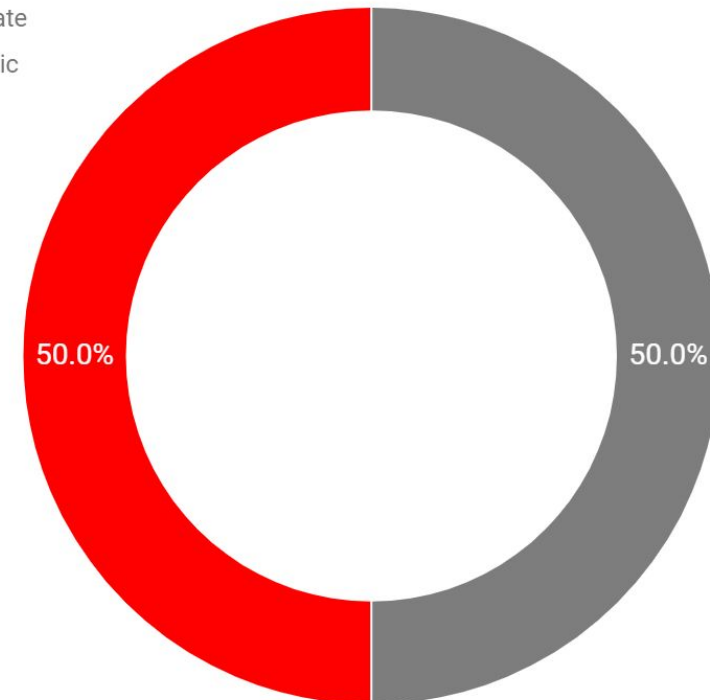
What are the annual revenues (USD) of the largest company on whose board you serve?

- More than \$20 million
- N/A - public sector
- \$1 to \$5 million
- \$15 - \$20 million
- \$5 to \$10 million



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

- Private
- Public

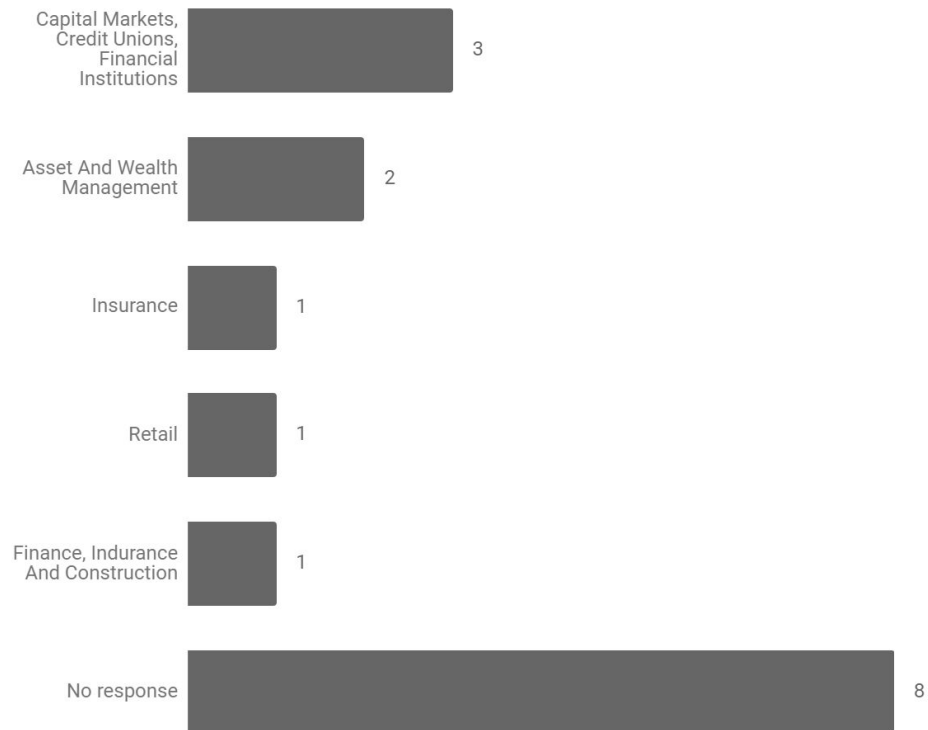


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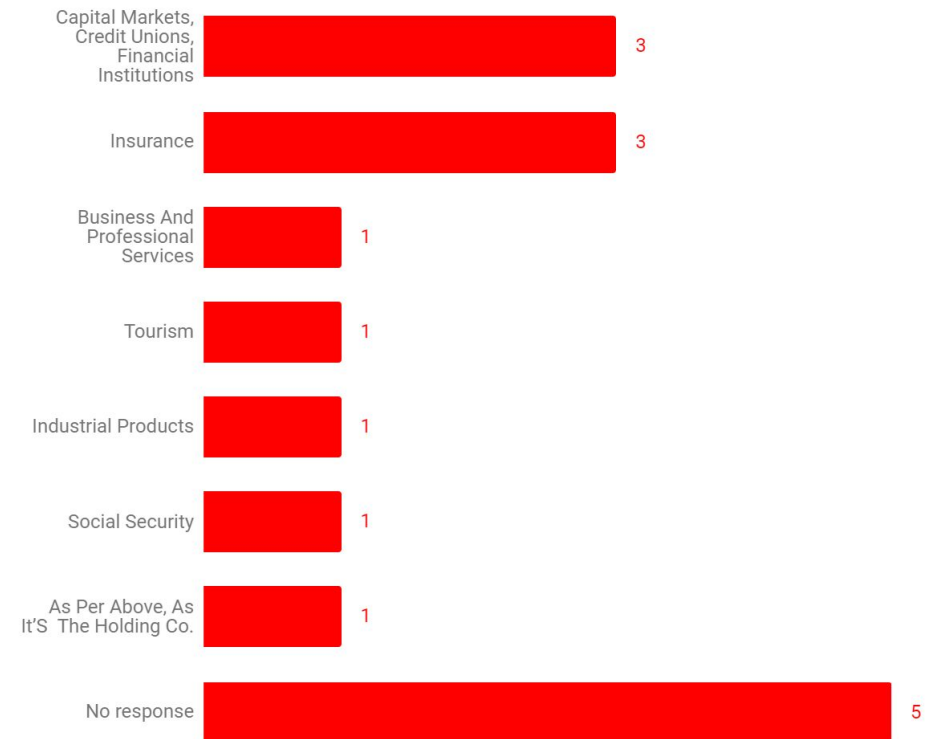
Complete survey findings

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)



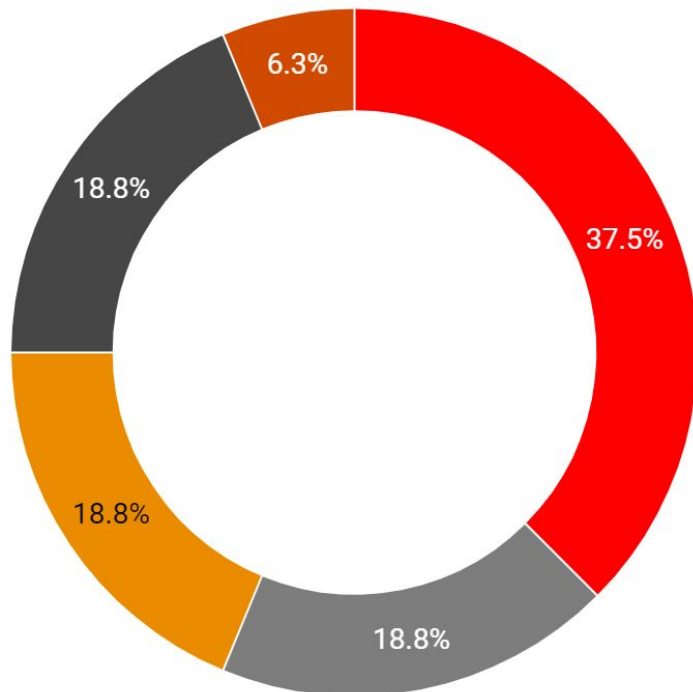
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Complete survey findings

Demographics

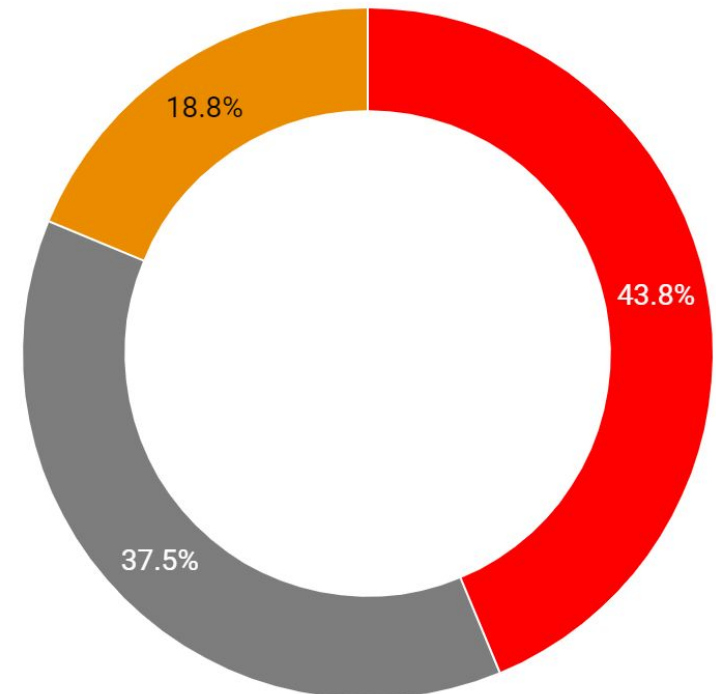
How long have you served on this board?

- More than 10 years
- 6-10 years
- 3-5 years
- 1-2 years
- Less than 1 year



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

- Non-executive Independent Chair
- Ceo Chair
- Other



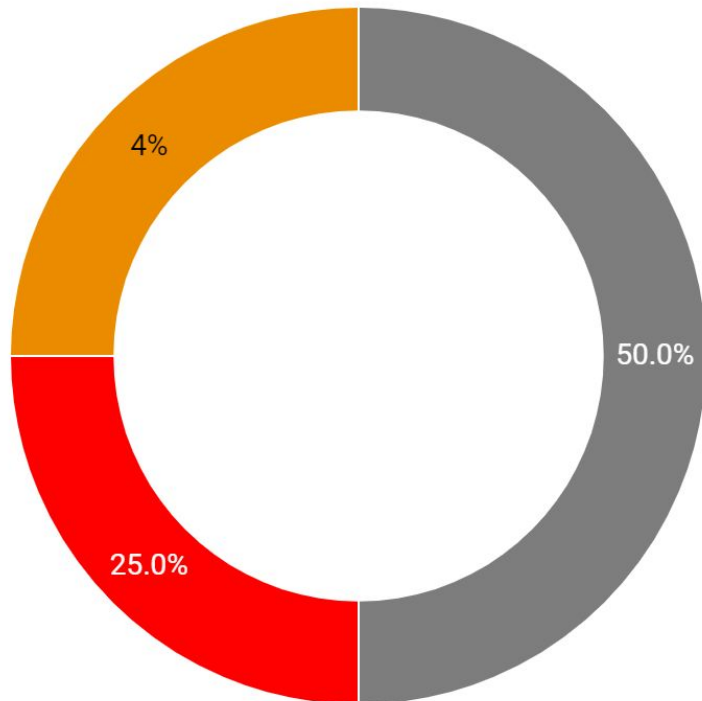
Appendix

Complete survey findings

Demographics

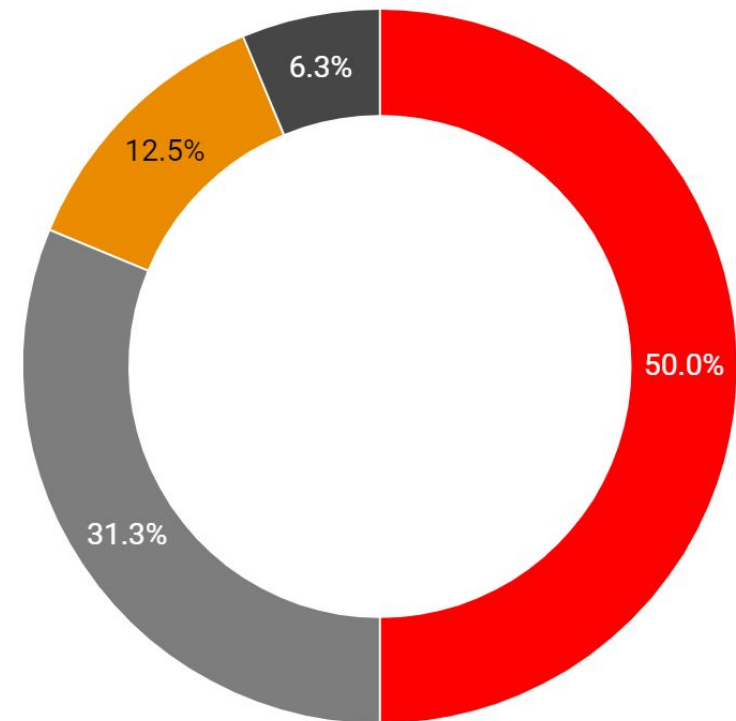
If you serve on a public company board, is it listed or not?

- Listed
- Not listed
- Public but no response



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

- None
- One
- Two
- Three



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