KPMG

December 2017

Across the Board

A newsletter for Australian Directors

Features

Across the Board December 2017

In this edition we hear from our new Chairman, Alison Kitchen on her insights on the current business environment. We delve into how you can more effectively manage and prepare your business for the challenges of cyber security and some of the critical factors in improving the survival rate for Australian companies. Finally, we analyse the key principles of integrated reporting plus the rise of the CMO in the age of the customer.

We trust you find this edition of interest. If you would like to discuss any of the articles featured here, as always, please contact your local KPMG partner.

For feedback on *Across the Board* please **contact us**.

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Interview with Alison Kitchen

KPMG Australia's first female Chair, Alison Kitchen has her eye on diversity, some challenging global headwinds, public trust in corporations, and breaking out of her comfort zone.

As the first female Chair of KPMG Australia, Alison Kitchen is aware that she is forging the way for women in leadership in corporate businesses across the country.

"Gender equality and diversity is incredibly important to me," she says. "It is frustrating that women are not a minority, and yet within the senior echelons of business we are. I'm unashamedly pushing gender first, because I think if we genuinely deal with gender diversity, then people will get used to the fact that 'new and different isn't so bad, sometimes it's good.'"

Kitchen's firm stance is actually an evolution in her thinking – she was once against boards implementing gender targets due to a personal goal to be rewarded based on her capabilities, not her gender.

"I spent a lot of my career anti quotas, because I didn't want anyone to say 'you're just making up the numbers'. But business has changed in 30 years, and I don't think young women today should have to waste time on things that I wasted time on."

Kitchen says quotas matter as unconscious bias is alive and well – meaning we automatically look for 'people like us' when filling roles.

"I do think that we need targets, as without clear targets, diversity and inclusion programs, and constant pressure, unconscious bias is deeply ingrained. I've had my unconscious bias training, and I still catch myself making mistakes in how I form assumptions about other people."

Public trust

Gender and diversity quotas are just one area Kitchen thinks boards need to keep an eye on – another is supporting the business in building and maintaining public trust.

"Public trust is something you have to earn and the only way you earn it is by demonstrating it. The board is therefore incredibly relevant because they set the tone at the top, and they set the framework for management to make decisions and behave. They are responsible for recognising, rewarding, and holding people to account where they see the wrong behaviours."

In her conversations with non-executive directors, Kitchen notices that this role is being embraced.

"I see it playing into how boards make decisions. They ask, 'How will the public respond to this? Is this something that's acceptable to the society in which we operate? Is this what our community wants us to be doing?'"

Major headwinds

The year ahead is likely to present many continuing headwinds for businesses, and Kitchen says boards will have to help steer their organisations through. The US economy, the growth of China, and technology are among them.

"The US has capacity to create some real headwinds for us. If the US is able to make the massive corporate tax rate cut from 35 percent to 20 percent, and we don't react here, that will be a massive disadvantage. If the US repatriate offshore funds – again that will suck investment dollars back into the US, away from other markets, and that will challenge us."

On China, Kitchen says people need to be aware of its ambitions and its impact in the global society.

"China will continue to grow, invest, and think big picture, and that will be good for us. It will be important to stay close with them."

When it comes to technology, Kitchen says the challenge is to understand the effect of constant change on people, employment certainty and security.

"It's important to focus on resilience, flexibility, open-mindedness, thirst for continuing knowledge and learning."

An outlook for business

Despite these challenges, Kitchen feels "quietly optimistic" about the outlook for Australian businesses in the year to come.

"Financial services keeps growing because superannuation keeps growing. The population keeps growing and therefore consumer demand and housing demand are growing. I think we're steady as we go – although low growth is the new norm."

Kitchen would like to see some more government-led investments to help infrastructure development along.

"There is some pent-up demand for big infrastructure, particularly in Melbourne, Sydney and Brisbane. Big projects are big sources of employment, and create more opportunities by which the rest of the business community can grow."

Personal focus

Kitchen's astute observations stem from around 34 years of experience at KPMG, working with clients across countless sectors. She remains the Lead Partner for ANZ's external audit, and had a focus on energy and natural resources for many years.

"I've always focused on getting the job done and doing it really well, and focusing on the business issue, not on me. My key to success has been thinking really hard about what everyone around me needs."

Kitchen says she ensures her teams deeply understand the client challenge, and are equipped to deliver.

"I'm clear on what I need from them, so I think, what will inspire them to deliver, to do this difficult thing, or to work these long hours?"

This determined nature led to her decision to campaign for the KPMG Chair role, which she describes as an "absolute privilege and a huge opportunity".

"The things you really want in life don't come easily, and you have to be prepared to put yourself out there, and be prepared to fail. But I had to be really thoughtful about putting my hand up for it, and accepting that there was a strong risk that I wouldn't get it. I really stepped outside of my comfort zone. And I think that has served me well!"

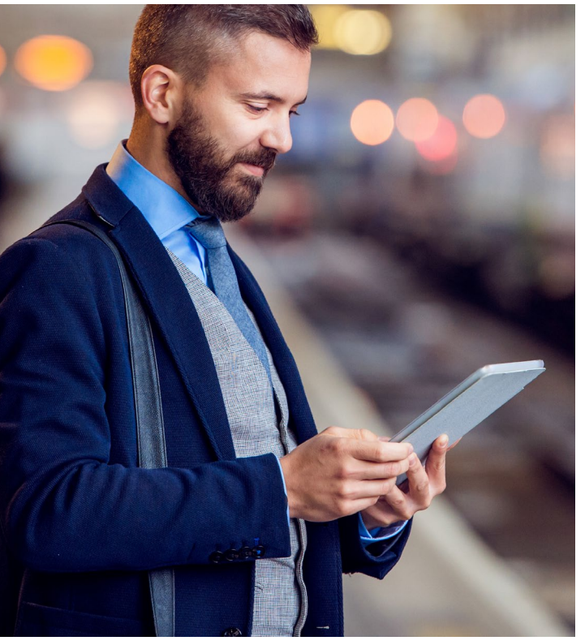
A firm year ahead

Kitchen's outlook for KPMG in 2018 and towards 2020 is one of agility and technology innovation.

"We will be increasingly underpinned by technology and how we use it to deliver. We are providing technology that our clients can use to outsource services as a platform on a licence basis. A tech-enabled whole-of-business consulting firm is where I see us being in 2020."

Cyber security knocking on boardroom doors – how does your company suit up?

As information becomes the most valuable asset of an organisation, Australia's company directors need more awareness of the business implications of cyber security exposure.



Australian companies are facing new statutory requirements which will impact cyber security awareness at board level. Amendments to the Privacy Act introduced mandatory breach disclosure requirements and businesses have been given to until February 2018 to prepare for the change.

Without a prudent cyber security capability and resilience plan, any organisation that houses third-party information is exposed to financial and reputational penalties in the event of a breach.

To assess how cyber security is viewed at the board level within Australia's top 100 companies, KPMG and other industry leaders conducted the ASX 100 Cyber Health Check in April. The study identified five key trends:

1. **Cyber security is a major and growing risk**. Boards and management increasingly recognise cyber security is a significant business issue and that the threat is increasing. A high 81 percent expect cyber security risk to increase in the near future.
2. **Tackling cyber security risk needs a culture of collaboration**. Cyber security risk must unite the business community, regulators, and government. Supply chain security is critical as more data is shared online, but 30 percent of the ASX 100 have still not assessed the security of third-parties.
3. **Boards take cyber security risk seriously and are improving their skills**. Boards are uniquely positioned to help management tackle cyber security risk, however, a high 67 percent of boards have not undertaken cyber security or information security training in the last 12 months. This is changing with 28 percent planning to do so.
4. **Companies are managing cyber security risk better but realise there is still more to do**. Directors believe companies are making strong progress in their cyber security risk defence. Most (87 percent) believe they have made an appropriate level of investment in cyber security defences, and of those, 66 percent plan to do more.
5. **Companies that manage cyber security risk effectively define and analyse their exposure**. More than a third (34 percent) of ASX 100 companies surveyed have clearly defined their cyber security risk appetite. However, 38 percent of companies are yet to define their risk appetite, which could have implications for how company directors make decisions around managing cyber security risk controls.

Boards becoming stakeholders

Insights from the survey show Australian boards recognise that cyber security is no longer the domain of 'IT risk' and is now considered one of the top business risks that requires focus, leadership and governance.

Gordon Archibald, Partner, Cyber Security Services, KPMG says boards must be stakeholders for cyber security capability and not simply observers.

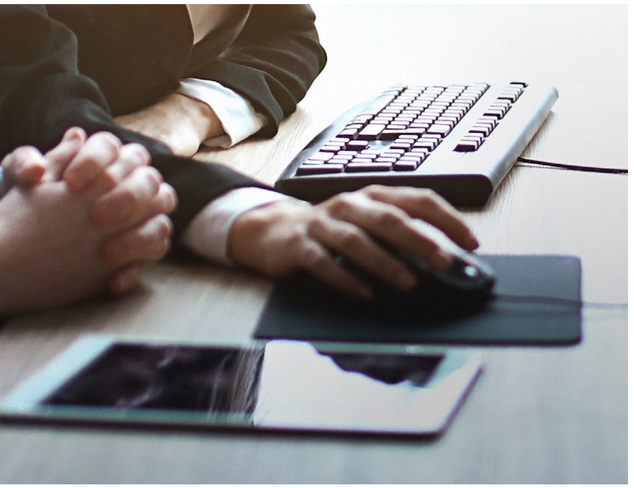
"I have presented to no fewer than 20 boards this year briefing them on the insights from the *ASX 100 Cyber Health Check* and discussing the emergence of cyber as a business risk, the increasing mandates for boards to have increased awareness and assurance with cyber security, including a focus on data security and privacy. Boards need to ask the business to provide assurance the right controls are in place to protect personal information," he said.

Archibald recommends three key questions the board needs to ask the business:

- What key risk indicators should I be reviewing at the executive management and boards levels to perform effective risk management in cyber?
- How do I have confidence that our cyber security program is ready to meet the challenges of today's and tomorrow's cyber threat landscape?
- What are the new cyber security threats and risks, and how do they affect our organisation?

Within the ASX100, organisations with a defined cyber security risk appetite tend to have boards with a clearer understanding of their critical assets and data. Boards of these organisations are regularly updated and have increased confidence in the controls and in the organisation's ability to respond and recover from a cyber security incident.

"Communicate too much and you can impact your reputation, but if you don't communicate enough you could be breaking the law. Crisis management planning at board level is essential," he said.



The Office of the Australian Information Commissioner publishes guides for regulatory compliance relating to privacy breaches.

"Since the ASX100 survey we are seeing more transformation from cyber security as an IT risk to a business risk, which involves legal, communications, HR and the executive management," Archibald said.

Lessons from afar relevant here

Archibald encourages Australian directors to learn from what is happening internationally as cyber attacks know no borders.

"Unfortunately we don't seem to learn from past mistakes and we are not learning from other jurisdictions," he said. "Europe and the US have breach disclosure laws and the impact has been significant, with some privacy breaches resulting with reputational impacts, significant fines and executives losing their jobs. Australian businesses need to learn from the good practices and the mistakes of companies in foreign jurisdictions."

"With the changes to the privacy act I predict in 2018 an Australia business will disclose a significant data breach within the next 12 months. Australian boards need to ensure the business is focused on protecting personal data and has a well-defined crisis management plan in place to manage any data breaches.

Training wheels in motion as boards seek awareness

The ASX100 survey uncovered a significant gap in education and training at the director level with more than two-thirds (67 percent) of boards not undertaking any cyber security (or information security) training in the prior 12 months.

Archibald said this is changing and boards are now very much more receptive to cyber training, which is important as they are a target like anyone else.

"Historically boards are not privy to the same level of training as employees and since attackers are looking for data and IP one of the key controls for that is education," he said. "Some organisations are targeting their own employees for training reasons and the board has been immune to this and not involved. The requirements for education and training is increasing as security has become a regular topic in the information being reported to the board."

With Archibald seeing more board members collaborate and share experiences, the level of education and awareness of cyber risks is also growing.

"There was a famous case in the US where retired Secretary of State Colin Powell went into business and was the victim of an attack on his Gmail account," he said. "The breach exposed sensitive corporate and personal information and demonstrated how board members are extensions of the businesses they advise."

Assess your risk appetite

The research found 38 percent of companies are yet to define their risk appetite, which, according to Archibald, limits the organisation's ability to use cyber security as a business enabler.

"In addition to fostering more self-assessment of cyber security risks, directors must providing guidance to the business around what is acceptable around cyber," he said. "Defining a cyber risk appetite is best practice."

"Risk appetite is a journey businesses are taking. Through more regular reporting, accountability and identifying key business risks, cyber can become a business enabler."

According to the KPMG CIO Survey 2017 confidence in cyber security is at an all-time low with only one in five respondents feeling very well prepared to respond to cyber attacks.

Archibald said as cyber security rises to the number one business risk companies face, boards are very mindful now of being accountable.

"Delegating responsibility is no longer acceptable and high-profile incidents like the Census fail shows executives need to be better prepared," he said.

Future focus – from audited to assured

Most (87 percent) of the ASX100 leaders believe they have made an appropriate level of investment in cyber security defences; however, Archibald cautions directors that more technology will result in better protection.

"Many businesses are struggling to staff cyber specialists and many are practicing a level of cyber hygiene that is unacceptable," he said. "Define the critical business functions and the enabling assets. There needs to be controls around the assets that have critical function."

Archibald said business leaders need to provide more direction and accountability to allow IT to focus on what really matters.

"You need to move away from being an audited organisation to an assured organisation. Penetration testing once or twice a year is good on the day, but useless the next as cyber attacks are always changing," he said. "It is time to move to continuous monitoring so the business has visibility and assurance over of controls in place to protect critical assets."

Archibald said board members who are proficient in cyber is desirable, but not essential. "Some boards have informed members, but the key thing is they have access to information. It is imperative for the board to be informed," he said.

Key indicators of cyber security maturity

- More frequent reporting to the board
- Appropriate investment levels
- Identifying what is important to the business
- Identifying the critical business functions
- Appropriate controls for the business functions
- Non-technical, risk-based reporting of exposure

To read the full report

Cyber security: the role of boards

Safe Harbour - A new lifeline for companies and their directors?

Safe harbour is designed to encourage "honest, diligent and competent directors to innovate and take reasonable risks"

Source: Explanatory Memorandum, Treasury Laws Amendment (2017 Enterprise Inventives No.2) Bill 2017

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When part 5.3A of the Corporations Act (the Act) was introduced into Australian law in June 1993, voluntary administrations became an option to restructure the affairs of struggling companies. The express purpose of the voluntary administration legislation was to maximise 'the chances of the company, or as much as possible of its business, continuing in existence'[1].

In 2017, 1,229 companies were placed into voluntary administration however only 270 will be restructured, the rest being liquidated.

So why, if the legal mechanisms are available to help struggling companies, are there so many that still fail?

There are three primary drivers:

1. Australian insolvent trading laws are draconian and impose personal liability on directors if they continue to trade a business and incur debts whilst insolvent.
2. Many contracts which companies operate under contain 'ipso facto' clauses which allow their suppliers and customers to cancel or vary contracts in the event that the company enters some form of insolvency proceeding, such as voluntary administration.
3. In many western economies, most notably the US, formal restructuring through court proceedings such as Chapter 11, is viewed as a normal way of ensuring that businesses remain viable and competitive, whereas here in Australia it's more often recognised as a pre-cursor to the company's demise.

The end result of the above is that in order to avoid personal liability, many business are placed into formal administration when alternative turnaround options may be available, this in turn leads to the value of the business being immediately eroded as contracts are lost and customers seek alternative, more 'reliable' suppliers.

1. The Corporations Act, section 435A(a)

Amendments to the Act

Following many years of debate, new legislation was passed by the Senate on 11 September 2017 and received Royal Assent on 18 September 2017. The legislation is focused around:

- protecting directors from insolvent trading liability whilst they pursue potential restructuring options and
- preventing counterparties from cancelling contracts should the company ultimately be placed to some form of insolvency proceeding, 'ipso facto' clauses which are common in most contracts.

Director protection from insolvent trading

Under the new legislation safe harbour protection for directors commences when they start developing one or more courses of action that are reasonably likely to provide a better outcome for the company than an immediate liquidation or administration. Key points to note:

- the protection commences once the director **starts developing** one or more courses of action, as opposed to commencing any form of restructuring activity
- the action must be reasonably likely to lead to a better outcome for **the company** rather than it being placed into administration or liquidation and
- the safe harbour protection covers all debts incurred directly or indirectly in connection with the course of action.

Additionally, while implementing the proposed course of action, directors must ensure that employee entitlements are being paid as and when they fall due, and that the company's tax reporting obligations are being met.

As with all new legislation, these principles are yet to be tested in court but the onus will be on directors to prove that they have satisfied the above criteria.

The new legislation provides guidance on the factors which may be considered when determining the better outcome test, these include whether the director:

- is properly informing themselves of the company's financial position
- is taking appropriate steps to prevent any misconduct by officers or employees of the company that could adversely affect the company's ability to pay all its debts
- is taking appropriate steps to ensure that the company is keeping sufficient financial records consistent with the size and nature of the company

- is **obtaining appropriate advice from an appropriately qualified entity** who was given sufficient information to give appropriate advice and
- is developing or implementing a plan for restructuring the company to improve its financial position.

The explanatory memorandum to the new legislation acknowledges that in many cases, directors operate in a rapidly changing and uncertain environment, often without the benefit of complete information.

However, the explanatory memorandum also states that directors who "merely take a passive approach to the businesses position or allow a company to continue trading as usual during severe financial difficult, or whose recovery plans are fanciful, will fall outside the bounds of the safe harbour".

Navigating the Safe Harbour

Australia's Turnaround Management Association has issued best practice guidelines on the key phases of the Safe Harbour legislation, these include:

Phase 1 – directors conduct an initial assessment of the business

- directors form an initial view on the risk of insolvency
- company seeks legal and financial advice
- documentation of steps taken and findings

Phase 2 – assess availability and resolve to enter Safe Harbour

- engage appropriately qualified advisors
- assess threshold tests and compliance with Safe Harbour provisions
- undertake discussions with key stakeholders as required
- resolve to enter the Safe Harbour (if appropriate)

Phase 3 – develop the plan

- stabilise the company's position
- form key committee's responsible for the plan
- formulate and approve the plan

Phase 4 – implement and monitor the plan

- regular review of the plan and key milestones
- maintain compliance with statutory obligations
- assess and amend the plan as necessary

Phase 5 – leaving the Safe Harbour

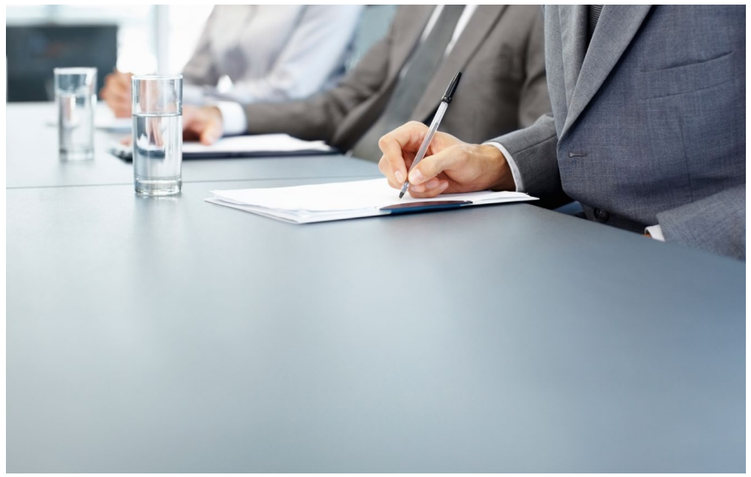
- assess whether the success of the course of action taken
- consider the need for a formal insolvency appointment

What's next?

The new legislation became law on 19 September 2017 (immediately following the date which it received Royal Assent). The provisions which allow directors to enter the safe harbour regime have immediate effect whereas the ipso facto amendments will commence for new contracts entered into on or after 19 March 2018.

These changes represent a real step forward in allowing diligent directors to take reasonable risks to allow their companies to trade out of financial difficulty. The breathing room which the new laws provide will hopefully see a greater survival rate for struggling Australian companies.

As with any restructuring, the key differentiator between success and failure will be those companies which identify the issues early, seek good professional advice and develop an achievable turnaround plan.



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Distance to default

Boards – critical to ensuring management deliver strategy and investor understanding

Nick Ridehalgh
Partner, National Leader, Better Business Reporting

Michael Bray
Director, Better Business Reporting

How applying the principles of integrated reporting can help

In brief:

- Significant shift in adoption of principles of integrated reporting by ASX 200 in FY17. Increasing focus on longer term value, as opposed to short-term earnings.
- Investors becoming more active demanding and rewarding a better understanding of long term strategies to create and preserve value through effective management and usage of scarce resources, including employees, customer relationships, technological innovation, and natural resources.
- AICD encouraging directors to consider principles of integrated reporting, to enable better explanation of strategy, business model and governance, risks, performance and prospects. Boards need to take lead.

Another reporting cycle gone and hundreds of pages of corporate reporting released, but do your investors know and understand your long term strategy and value story? For some organisations the answer may be a resounding yes. Others might not be so confident.

As a nation, the quality and insight provided in Australian corporate reports continues to lag behind those produced in other major capital markets. However, we are seeing a 'pull' from major investors for change – they want Boards to ensure their organisations better articulate their longer-term strategies, business models, governance, risks and opportunities, performance and prospects.

There is also a push from directors to reduce the volume of reporting, while demonstrating active governance over management's design and implementation of long term strategy and handling of strategic issues. More advanced boards are also keen to clearly demonstrate the quality of their 'integrated thinking'[2] in making major decisions.

The effort in communicating the value added by effective and active governance is worth it. As Larry Fink, CEO of the world's largest investor, Blackrock, said in an interview with the Australian Financial Review published on 31 October 2017, Blackrock watches and rewards companies who exercise effective governance over the implementation of business strategies by management. Doing so is a real competitive advantage that will be rewarded by investors if effectively communicated. Further, in a research paper published in *Accounting Organisations and Society*, a highly respected academic journal, a team led by Professor Mary Barth of Stanford University, found that high quality integrated reporting is positively associated with both stock liquidity and forecast future cash flows.

In the recent KPMG survey of corporate reporting trends of the ASX 200, '*Corporate Reporting – a significant shift towards adoption of the principles of integrated reporting*', we sense a significant shift towards Australian organisations providing more insightful reporting, with many using the principles of integrated reporting to help them.

This year:

- Twenty-five percent of organisations focused their reporting on value creation for shareholders and/or other stakeholders and not just explaining past financial earnings.
- Twelve percent of organisations disclosed specific strategic objectives to give the reader insight into how they are going to deploy this strategy. Turning that around, that means that 88 percent are not doing so – that is a big opportunity – there is a lot of hidden value available for reward by investors.

2. Integrated thinking: The active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects. Integrated thinking leads to integrated decisionmaking and actions that consider the creation of value over the short, medium and long term. As defined in the IIRC International Integrated Reporting Framework (December 2013).

- Over 50 percent of organisations have moved on from talking only about financial position and performance, and are now also including narrative on broader business performance; however most are not yet specifically connecting it to strategic objectives.
- Nine percent of organisations have described their business model with enough detail for readers to understand the key inputs, business activities and outputs, with another four percent explaining the broader outcomes, and linking them to key inputs. However, 87 percent not doing so is another big gap. There is opportunity for the majority of companies to better explain how value is created and sustained for their key stakeholders.
- Of great interest for boards is that in 2017 only five percent of organisations have included an 'active governance' summary, highlighting the key areas of focus and action by the board during the year, and the rationale for any changes made to the governance framework and board make-up. The 95 percent gap offers great potential for boards to communicate their value add, in effect confirming their effective governance (or the G in ESG).

The Australian Institute of Company Directors (AICD) believes that integrated reporting can offer useful principles for communicating an organisation's strategy, business model and governance, risks, performance and outlook, and is now encouraging directors to consider the aims and principles of the IIRC's International Integrated Reporting Framework in corporate reporting as relevant to their organisation and stakeholder needs. However they still note potential liability concerns with respect to making forward-oriented statements.

The Group of 100 (CFOs) continues to support a voluntary move towards integrated reporting.

Investor demand for and use of integrated reports is growing. In September 2017, 12 leading international investors, signed a statement emphasising the value of integrated reporting and recognising its importance in their capital allocation decisions.

"Better reporting and effective communication of how the business works in the long-term, through Integrated Reporting or other approaches, is valued by us and is important in how we allocate capital."

The signatories represent US$2 trillion of funds under management, and include Cbus, VicSuper, Aberdeen, Hermes and Aegon. The statement adds to earlier calls for integrated reporting by Blackrock, CalPERS and others.

David Atkin, CEO of Cbus, believes that many companies they invest in continue to struggle with the short-term focus of the market. He sees integrated reporting as one of the tools available to management and directors to help them not only better articulate their plans for the future, but also demonstrate the quality of the 'integrated thinking' within organisations.

Earlier this year, Louise Davidson, CEO of the Australian Council of Superannuation Investors (ACSI) closed the ACSI and Group of 100 Integrated Reporting conference by summarising the need for integrated reporting to help bridge the information gap between investors and corporates. She believes that:

"Integrated Reporting can play a significant role in helping rebuild trust through its role in catalysing corporate focus and disclosure on matters material to the stakeholders of the business."

Organisations who already use the principles of integrated reporting, are experiencing improved strategic alignment, and better engagement with not only investors, but also customers, employees and other key stakeholders. They are also reporting productivity benefits from business process improvement, and reduced management and board review time.

It is now time for Boards to take the lead in driving organisational change towards integrated reporting, including application of integrated thinking throughout their organisations. It is their responsibility to ensure that corporate reporting meets the information needs of investors and other key stakeholders. This is critical at the organisational level, as well as to ensure the competitiveness and attractiveness of the Australian capital market for leading global investors.

To read the full report

ASX 200 corporate reporting – shifting towards integrated reporting principles

The Age of the Customer – CMO's in CEO roles

Few Chief Executive Officers in Australian businesses have come directly from marketing and customer experience backgrounds, but with customer centricity vital to success in the digital age, the time is ripe for a new approach.

There is no question that thanks to technology and globalisation, customers expect more from businesses than ever before. The organisations that survive and thrive will be the ones that recognise this, harness every aspect of customer data they can gather, use it to understand exactly what their customers want, and reorient every step of their operations to align behind a refreshed customer centric strategy.

Lisa Bora
Partner, Customer, Brand & Marketing Advisory, KPMG

Nick Reynolds
CMO, Lenovo Asia-Pacific

While Chief Marketing Officers (CMOs) have not traditionally been 'first in line' for a Chief Executive Officer (CEO) position, the new demands placed on businesses by customers deem their insights immensely valuable for a major strategic role. They are well positioned to navigate companies through the staggering amount of digital disruption occurring, and to make the links between what customer data tells them, and where they should steer the business.

The CMO is in a predominantly 'externally facing' role, different from the COO/CFO/CIO/CHROs, which are often more focused on operations within the company. This means the CMO is well-positioned to understand the changes occurring in the digital economy, and to help steer an organisation to deliver on customer expectations. As boards look at their company talent pool for CEO successors, they should see that the CMO is uniquely positioned to leverage these changes to benefit their business.

KPMG's Customer Experience Excellence Centre US 2017 studies show that the rewards are there for organisations that focus on customer centricity:

- Revenue growth for organisations with CX leadership in F500 is doubled.
- Organisations in Top 25 with CX leadership have 7x growth.
- Profit growth in Top 25 with CX leadership is 5x EBITA.

Today, customers still interact with a company brand, product or service via traditional offline platforms such as bricks and mortar stores, call centres and on-the-road sales representatives. However, they are more often interacting with organisations online via websites, social media, apps, e- commerce and Artificial Intelligence (AI, such as voice robotics), and this is only set to grow. Given that growth is paramount to boards, the CEO and its executives should be focused on growth via all channels but with a growing disposition to digitally enabled channels and services – and CMOs can bring deep knowledge of market trends.

Brand is key

InterBrand Best Global Brands tracks the brand value of the world's top 100 Global Brands. It assumes a link between brand value in the eyes of consumers, and shareholder value – a link CMOs are uniquely accustomed to making. However, many boards underestimate the impact of a powerful brand, and therefore are missing the awareness of the full value the CMO can bring. Because CMOs are brand custodians, they have an important role to play in driving shareholder value by improving brand value. Interestingly, several studies have shown this positive correlation to exist:

CMOs leading the way into CEO roles

- **Gail Kelly:** ex-CEO Westpac, worked in marketing but also gained strategy, HR, commercial and consumer banking experience.
- **Kate Burleigh**: Intel Australia Ex-CEO who was Marketing Manager prior to her CEO role.
- **Jason Paris**: CEO of Spark Home Mobile and Business who previously held marketing roles at TVNZ and Nokia.
- **Gillian Franklin**: CEO of Heat Group, who worked in marketing before founding the cosmetic distribution business.
- **Mark Lollback**: CEO of GroupM, formerly CMO of McDonalds.

- When analysing European brands for the InterBrand Top 100, Stockholm School of Economics showed that high brand value companies derive more than 12.7 percent higher annual shareholder return than mid to low brand value companies.
- KantarMillwardBrown also showed this correlation to exist with their analysis of Top 100 BrandZ, finding that over 10 years the Top 100 Most Valuable BrandZ outperformed the S&P 500 Index by 39 percent.

Brand and customer experience

To compete in the future, organisations must focus on improving the overall customer experience (CX) by stepping up the customer journey at every touch point across all channels. This requires engaging data and technology, changing company cultures so that staff are aligned to the goal, changing the store experience, the online experience, customer communications and service pre- and post-sales, and in some cases offering 24/7 support. It also requires gathering the right customer data throughout every step to help inform business decisions at scale and in near to real time, and building customer advocacy to help fuel growth.

The Net Promoter Score

In many organisations, executive and employee compensation and the focus of daily activities is tied to CX scoring methodologies such as the Net Promoter Score (NPS). This leads to CEOs and companies being increasingly focused on improving the CX. For example, at Lenovo, the employee base has 10 percent of bonus compensation linked to CX NPS, which is comprised of six major elements for targeted improvement across the company covering: brand consideration, time to quote, delivery timeliness, product customer satisfaction, and first time issue resolution.

Therefore, to impact the brand value, the CMO must become more involved in many functional areas of the corporation beyond the traditional perceived view of a CMO remit of advertising and marketing communications alone, to what sophisticated CMO's deploy in taking a more powerful role in influencing customer engagement across the spheres of sales, distribution channels, customer service and post-sales support.

Why are few CMOs becoming CEOs?

Given these examples of the way business is moving forward into a digital and customer-driven world, it makes sense that boards should consider CMOs for future CEO positions. However, there are some roadblocks.

In Harvard Business Review (HBR), July to August 2017, an article The trouble with CMOs by Professor Kimberley White from the University of Virginia Darden School of Business, says that the top marketing job in the company is a minefield where many executives fail. White argues that there is often a mismatch between the expectations of a CEO, and the authority granted to the CMO. Often the CMO role is an important role leading the company efforts to grow revenue and profit, however the traditional CMO scope is limited to or perceived as 'marketing communications' such as events, communications, and advertising. When the CMO is not in control or influencing product development and launches, pricing, channel strategy and eCommerce capability, they are disempowered, and are also viewed as less relevant for a CEO role than some of their counterparts.

Another hurdle is the commonly short tenure of CMOs in their roles. According to a 2017 research report by Korn Ferry, it shows CMOs are one of the shortest-held roles in the C-Suite. A CMO's average tenure is around 4.1 years, versus CEOs at 8 years, CFOs at 5.1 years, CROs at 5 years and CIOs at 4.5 years. This lack of tenure will limit the opportunity for CMOs to be considered for the CEO job.

CMO changes required

The CMO typically needs to:

1. Understand CX pain and gain points and influence design principles and possess strong digital competency with AI, voice and automation awareness, as these are now central to the CX.
2. Have 'carried a bag', for example held a sales target or run a sizeable profit and loss.
3. Have strong financial knowledge talking to business value of their operation.
4. Broaden their skills outside of marketing communications, into sales, operations, product and strategy. They need to showcase a qualified growth mindset for the organisation.

Therefore, to be in line to be the next CEO, sophisticated marketers should not limit themselves to marketing communications. Rather, they should be prepared to influence the whole of an organisation in its consumer touch points.

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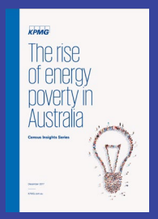

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