

The challenges for companies and their boards in 2015 are expected to be intense, with a volatile economic and geopolitical landscape, the accelerating speed of technology change, and competitive disruption topping the list. The spotlight on corporate directors continues to intensify as regulators and investors (including activists) scrutinize the board's contribution to strategy, risk, and compliance. Drawing on insights from the KPMG network's interactions with directors and business leaders over the past 12 months, eight flags have emerged that boards should keep in mind as they consider and carry out their 2015 agendas.



Focus on the company's plans to grow and innovate.

The "new normal" of low growth will likely continue to challenge companies in 2015 – particularly with many western economies struggling to avoid deep recession, slowing growth in Asia, and a long list of geopolitical hotspots and uncertainties. The growth conundrum is a particular challenge for this generation of business leaders who, having gone through the financial crisis, are inclined to be more risk averse. In this environment, boards have a critical role to play in helping the company not only avoid missteps, but also take smart risks to grow, innovate, and stay competitive. What kinds of discussions is the board having about growth opportunities?

How do we ensure that the company's culture and processes create the right environment for growth through innovation? How do we measure and reward innovation success? Are we tapping into emerging markets? (The economic momentum in emerging markets has slowed, but the growth story isn't over; and each country presents its own set of risks and opportunities with different growth prospects and business climates.) Do we have – in the words of Eurasia Group's Ian Bremmer – a "worldview of the world" and how that might impact the company's strategy and growth plans?



Reassess the board's role in strategy.

The complex, volatile, and uncertain business environment today has made the "annual review and concur" model of the board's oversight of strategy obsolete. Globalization, new technologies, upstart competitors, and all the "what-ifs" looming around the bend require a frank reassessment of the board's role in strategy. An NACD report (released in October) proposes a framework for deeper board engagement in

strategy – from formulation, monitoring execution, and testing the continuing validity of assumptions, to recalibrating strategy throughout the year – and advocates for changing the "strategic rhythm" of the board. Use the report to benchmark your board's role in strategy and assess the need for greater engagement. It's a quick read, with recommendations you can put into practice.



Consider whether the board needs to recalibrate how its committees communicate and coordinate on risk oversight.

Despite the clear benefits of board committees (including increased focus on key risks), a complex committee structure poses its own risk of fragmented or balkanized board oversight. Do we have the right committee structure to oversee the major risks facing the business? Are risk responsibilities clear? Does the audit committee have too much on its plate? How do we communicate and coordinate the oversight

activities of standing committees? Consider overlapping committee memberships, particularly when inter-committee coordination is of strategic importance. Are committee chairs communicating regularly to make sure they understand what's going on in the other committees? Are committee reports to the board robust, or perfunctory?



Reassess the company's vulnerability to business interruption, and its crisis readiness.

As illustrated by recent geopolitical turmoil, financial crises, natural disasters, and pandemics, the global interconnectedness of businesses, markets, and risk poses challenges for virtually every company. Ensure that management is weighing a broad spectrum of what-if scenarios – from supply chain links and the financial health

of vendors to geopolitical risks and cyber threats. Is the company's crisis response plan robust and ready to go? Is the plan actively war-gamed and updated as needed? Does it take into account the potential failure of critical infrastructure – e.g., telecommunications networks, financial systems, transportation, and energy supplies?



Sharpen the board's focus on cyber risk and security.

Increasing threats to corporate information systems and intellectual property – as well as compliance risks, the potential for lawsuits, reputational damage, and loss of customers – have elevated cybersecurity to the board level and as a critical business priority (where it should be). Regulators worldwide have sharpened their scrutiny of companies' data security efforts, as well as disclosures and communications about cybersecurity risks and breaches. Ensuring the adequacy of a company's cyber defenses needs to be a critical aspect of risk management and oversight. Is cybersecurity risk given

regular and adequate time on the board's agenda? What are our biggest vulnerabilities and our most critical data sets? What are the results of our most recent penetration tests and external assessments of our cyber defences? Do we have a cybersecurity scorecard and a cyber-incident response plan? Help elevate the company's cyber risk mindset to an enterprise level, encompassing key business leaders (CEO, CIO, CFO, General Counsel, CRO, HR, etc.) and business decisions – from new product development to acquisitions and expansion into new geographies.



Do we have the right people on the board?

Is the board asking itself whether it has the right mix of skills, backgrounds, experiences, and diversity? Shareholders are: Activists are questioning whether long-tenured boards are keeping pace with the broad array of challenges facing their businesses. Governance experts are also weighing-in: As Ann C. Mulé and Charles Elson note,¹ “What boards need are industry-expert, independent directors.” In its studies on diversity gaps,² Egon Zehnder observes that “companies with global aspirations require boards with global capability,” and

that “the real purpose of increasing gender diversity is not simply to increase the number of women on the board, but to find exceptional directors who can help take the organization to the highest level of performance.” In short, lack of diversity can hamper the board’s performance – and the company’s. Have we squarely addressed the composition of our board – including gaps and obvious shortcomings in director performance – to ensure that we have the right mix to provide strategic direction and effective oversight of the company?



Set the tone and closely monitor leadership’s commitment to that tone, as well as the culture throughout the organization.

The year ahead will likely be one of tremendous pressure and change – and a good measure of complexity and uncertainty. In this environment, it is more important than ever to be acutely sensitive to the tone from (and example set by) leadership, and to reinforce the culture of the organization, i.e., what the company does, how it does it, and the culture of compliance and moral propriety. Is the board hearing views from those below senior management and outside the company? Are there dissenting views? Recognize when asymmetric risk – the over-

reliance on senior management’s information and perspective – is too high. Make time to visit company facilities and attend employee functions. The tone and culture throughout the company’s global operations and the extended organization is critical. How confident is the board that it has a good sense of the culture in the company’s global operations – far away from headquarters? Do the company’s compensation policies and practices send the right message about accountability and long-term performance?”



Promote engagement with shareholders, and prepare for activists.

In the recent Audit Committee Institute’s *Global Audit Committee Survey*, some 60 percent of respondents said that, as a result of the activist environment, their company has increased its level of engagement with shareholders – but 40 percent have not. Shareholder activism continues to be on the rise, as is the pressure on boards and management teams to engage with these investors. In a speech on December 3, 2013 in Washington, D.C., SEC Chair Mary Jo White said the “landscape has unquestionably changed,” and that “there is widespread acceptance of many of the policy changes that so-called ‘activists’ are seeking to effect.” She emphasized the

importance of proactive outreach to shareholders – “honest communications about how and why decisions are being made” – and said that “the board of directors is – or ought to be – a central player in shareholder engagement.” Do we understand the activists’ agenda? Have we conducted a vulnerability assessment? Do we know and engage with our largest shareholders, and understand their priorities? Executive compensation, management performance, strategy, separating unrelated businesses, capital allocation, and board composition are likely on their radar.

Also see KPMG’s [“On the 2015 Audit Committee Agenda”](#)

¹ “A New Kind of Captured Board,” *Directors & Boards*, First Quarter 2014

² Egon Zehnder, *2014 Global Board Index and Gender Diversity on Boards: Breaking the Impasse*

Contact

Wim Vandecruys
KPMG International
T +32 (0)11 28 66 31
E wvandecruys@kpmg.com

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2014 KPMG international Cooperative ("KPMG international"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG international. KPMG international provides no client services. No member firm has any authority to obligate or bind KPMG international or any other member firm vis-à-vis third parties, nor does KPMG international have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.
December 2014