On the 2016 board agenda

Board Leadership Center

Exploring issues. Delivering insights. Advancing governance.

The road ahead for companies in 2016 will be particularly challenging given the level of global volatility and uncertainty—e.g., the geopolitical environment, commodity prices, interest rates, currency fluctuations, slowing growth in emerging markets—as well as technology advances disrupting established industries and business models. In this environment, the spotlight on corporate directors will continue to intensify as investors and regulators scrutinize the board's involvement in strategy, risk, and compliance. Drawing on insights from our interactions with directors and business leaders over the past year, we've highlighted six items for boards to keep in mind as they consider and carry out their 2016 agendas.

Deepen the board's engagement in strategy and assess the continuing validity of assumptions at the core of the strategy.

Given global volatility and uncertainty—and the forces disrupting corporate business models and entire industries—the board's traditional "review and concur" role in strategy is no longer adequate. Addressing these uncertainties and market forces requires a new level of board engagement in strategy, working closely with management in a "continuous process."[1] Understand the fundamental assumptions at the core of the company's strategy. How robust is management's process to monitor the continuing validity of these assumptions? Does the monitoring process provide timely signals indicating when a strategic adjustment may be necessary? Does the board engage with management on strategy on an ongoing basis and have a deep understanding of the business environment so that it can recognize when a strategic correction may be required? Is the board on guard against status quo thinking—particularly when the company is doing well? Do the company's short-term actions and targets align with its strategy and promote long-term value creation?[2] Does the company's long-view consider sustainability issues (e.g., environmental, social, health and safety) and the benefits of "shared value"—to the company, its customers and employees, the supply chain, and other stakeholders?

Make talent development a strategic priority.

The findings in KPMG's Annual CEO Survey[3] point to an increasing gap between talent needs and talent resources—created in large measure by the impact of globalization, digitization, and demographic shifts, as well as increasing expectations that functional leaders (R&D, technology, HR, finance) take on more strategic roles. Is there a plan—aligned with strategy—that forecasts talent needs for both the short-term and the long-term? Which talent categories will be in short supply—and how will the company successfully compete for talent in those areas? More broadly, as Millennials join the workforce in large numbers and talent pools become globally diverse, how well is the company positioned to attract, develop, and retain top talent at all levels? While CEO succession planning is already a priority for most boards, leading boards are going further with direct involvement in succession planning for key roles such as the CFO, and monitoring talent development and succession planning throughout the organization.

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

As illustrated by recent geopolitical turmoil and terrorist acts, natural disasters, threatened pandemics, cyber breaches, and more, the global interconnectedness of business poses challenges for virtually every company. In addition, failures of integrity—even isolated incidents—can generate media attention that distracts and disrupts normal business. Ensure that management is weighing a broad spectrum of what-if scenarios across the company's supply chain and sales and distribution channels. Is the company's crisis response plan robust and ready to go? Is the plan regularly tested and updated? Does it take into account the potential loss

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1 *Report of the NACD Blue Ribbon Commission on Strategy Development*, October 2014

2 *Report of the NACD Blue Ribbon Commission on The Board and Long-Term Value Creation*, September 2015

3 *U.S. CEO Outlook 2015: The Growth Imperative in a More Competitive Environment, KPMG*

of critical infrastructure—e.g., communications networks (phone and/or internet), financial systems, transportation, and energy supplies—and the loss of a key business leader? How quickly—and appropriately—a company reacts in a crisis can have a significant and long-lasting impact on its reputation and performance. Set the tone and closely monitor leadership's commitment to that tone, as well as the culture throughout the organization globally.

Refine and broaden boardroom discussions about cyber risk and security.

Despite the tremendous focus on cybersecurity, the cyber-risk landscape remains fluid and opaque, even as expectations rise for more-engaged oversight. As the cyber landscape evolves, board oversight—and the nature of the conversation—must evolve as well. Discussions are shifting from prevention (*cyber breaches will happen*) toward detection and containment, and increasingly focused on the company's "adjacencies" which can serve as entry points for hackers. A critical role for the board is to help elevate the company's cyber risk mindset to an enterprise level, encompassing key business leaders, and to help ensure that cyber risk is managed as a business or enterprise risk—not simply an IT risk. Do discussions about M&A, product development, expansion into new geographies, and relationships with suppliers, customers, partners, advisers, and other third parties take cyber risk into account? Help ensure that awareness of—and accountability for—cyber security permeates the organization, with a security mindset, proper training, and preparation for incident response. Is cybersecurity given regular and adequate time on the board's agenda? Does the board need a separate committee to focus on it? Where are the company's biggest vulnerabilities and how is it protecting its most critical data sets? Do we benchmark against others in our industry? Do we have a cybersecurity scorecard and a robust cyber-incident response plan?

Promote effective engagement with shareholders, including the activists.

In Spencer Stuart's 2015 Governance Survey, 70 percent of respondents said management or the board proactively reached out to the company's large institutional investors and shareholders—up from 62 percent in 2014. Boards can expect shareholders to continue to seek greater input on issues such as proxy access, say on pay, board composition and refreshment, political contributions, and corporate social responsibility. Understand how management communicates and engages with its key shareholders, and clarify the board's role in investor communications—particularly on issues such as executive compensation and board leadership. Do we know who our largest shareholders are and understand their priorities? Do we understand the activist agenda? (Executive compensation, management performance, strategy, separating unrelated businesses, capital allocation, and board composition are likely on their radar.) Have we conducted an activist vulnerability assessment and taken appropriate follow-up action?

Keep board composition front and center.

Has board composition changed as the business and risk environments have become more complex? As globalization, technology, business model disruption and other changes reshape the business landscape, are the skill sets on the board keeping pace? Do we have the right people—not only for the business as it stands today but to help shape the company's strategy for the future? Continually assess whether the board has the right mix of skills, backgrounds, experiences, and diversity of thinking, and work effectively as a group. Are we squarely addressing director performance? When recruiting new directors, are we casting a wide net to enhance the overall strength and diversity of the mix? Is there a robust onboarding process that enables new directors to contribute from day one? As Heidrick & Struggles notes, "Now, as the idea of board refreshment continues to gain currency, spurred on by concerns about diversity, board composition is being cast in the spotlight and put under the microscope."[4]

Also see KPMG's "On the 2016 Audit Committee Agenda" at kpmg.com/blc.

[4] Heidrick & Struggles Board of Directors Survey, 2015

About the KPMG Board Leadership Center

The KPMG Board Leadership Center champions outstanding corporate governance to help drive long-term corporate value and enhance investor confidence. The Center engages with directors and business leaders to help articulate their challenges and promote continuous improvement. Drawing on insights from KPMG professionals and governance experts worldwide, the Center delivers actionable thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting and audit quality, and more—all through a board lens. Learn more about the Board Leadership Center's programs, resources, and insights for directors at KPMG.com/BLC.