



Hitting the ground running

Becoming a non-executive director
KPMG Board Leadership Centre



For any new director, a learning curve comes with the territory. Just how steep that learning curve is, however - and how quickly a new director is able to contribute meaningfully to the work of the board and its committees - can hinge directly on the quality of the induction process.

Understanding the business – its operations, strategies, risks, competitive landscape, and management team – as well as the responsibilities and culture of the board and its committees takes time. But a structured induction programme – including essential information and briefing materials, quality discussions with key people, and a “roadmap” for getting up to speed – can greatly accelerate a new non-executive director’s integration and contribution to the board’s work.

Directors joining their first board face the added challenge of understanding the unique role of a non-executive director – and how it differs from that of management – in helping to oversee and guide the business forward.

Formal induction programmes help ensure that new board members understand their responsibilities, current issues and the circumstances of the organisation. However, the on-boarding needs for new board members will vary from director to director depending on a number of factors, including the director’s background and experience, and the role

the director is expected to play on the board and board committees. As a result, a new member should be prepared to take responsibility for their induction programme – working with management and others to determine how best to get up to speed and build a strong foundation for informed oversight.

In the following pages, we discuss a number of things for new directors to consider as part of an overall on-boarding framework, including:

- Suggested reading
- An initial orientation session
- Follow-up one-on-one meetings with key people in the organisation – to develop a deeper understanding of the business, its key governance processes, and its leaders.

Ultimately, a robust on-boarding process should help position a new director to engage in a healthy ongoing dialogue with management, fellow directors, and others with insights into the company and the business environment in which it operates.



Checklist

On appointment

The terms of appointment of a board member should be clearly set out at the time of appointment. All board members should have a clear understanding of:

- ✓ What will be expected of them in the role, including the time commitment
- ✓ How their individual performance will be appraised
- ✓ The duration of their appointment and how often it may be renewed

1 Suggested background reading materials

A new board member will want to review a number of corporate documents and background materials early on. The specific documents will vary in line with the role, but are likely to include:

Information about the company:

- Financial statements and interim financial reporting for the previous two years
- Earnings releases and materials used for analysts' calls for the past year or two
- The most recent materials provided to the board (and any relevant committees), as well as board and relevant committee minutes
- The organisation's strategic plan, as well as information prepared by management or third parties regarding customer needs, the existing competitive landscape and emerging competitors
- Third party assessments including analyst reports, vulnerability studies, and any communication from activist or institutional investors regarding the organisation or board. Consider social media too

- The organisational structure chart - as well as the biographies of the organisation's leadership team and the succession plans for the CEO and other key executives
- Recent reports assessing the organisation's reputation, culture, and the strength of its brand(s); and, if not otherwise included, presentations made to the board during the past year on risk, strategy, succession and crisis management
- Reports on the organisation's compliance programme as well as any significant investigations and/or litigation

Information about the board and its committees:

- Corporate governance guidelines
- Matters reserved for the board
- Committee terms of reference
- A description of the organisation's directors and officers liability insurance
- Policies applicable to directors such as the organisation's Code of Conduct, conflict of interest policies, insider trading policies and others

2 Initial orientation

While the length and formality of an initial orientation session will vary from company to company, it should provide new board members with an overview of:

- The business – including its products and services, customers, and competitors, as well as the key risks faced by the organisation
- The overall financial status of the organisation and its key business units
- The company's short-term and long-term strategy
- The organisation's processes for identifying and managing risk
- The organisation's culture

Who participates in the initial orientation session will vary, depending on how the organisation's orientation process is structured – e.g., whether the initial orientation is viewed as the first step in a more lengthy process, or whether it is viewed as a more comprehensive orientation session. Depending on the

approach, only a few executives might participate in the initial orientation session – e.g., the CEO, CFO, General Counsel and Company Secretary - or a number of others might participate as well, including perhaps each member of the C-suite as well as key subject matter experts.

3.

Developing a deeper understanding of the organisation and the board

Regardless of whether it is part of a formal or structured orientation process, a new board member will want to have one-on-one discussions with a number of key leaders of the business to gain a better understanding of the organisation – the culture, strategy, key risks, strengths, areas of concern – and to get to know the leaders outside of the formality of the boardroom.

Initially, it may be helpful to get the “lay of the land” by meeting separately with the chairman of the board, senior independent director and the Company Secretary - each of whom can be valuable sources of information and insight. What are the hot-button issues facing the organisation? What issues have management and the board been spending the most time on? What governance processes work well - or not so well? What is the culture of the company – and of the board?

The Company Secretary and/or General Counsel can provide information about the board from a legal and process point of view, including the committee structure, the role of each

- The organisation's strategic direction - and key risks to the strategy
- Effectiveness of risk management processes and the overall control environment
- Tone and culture of the organisation – including ethics/legal/regulatory compliance as well as whether the organisation is future-focused, innovative, open to reinvention as necessary

The business leaders also will have important insights to offer on issues that are specific to their areas of focus and responsibility. In the Appendix, we have identified possible issues to explore.

committee, and how the committees coordinate and communicate about oversight activities. The Company Secretary and/or General Counsel also can provide advice on the responsibilities of a director and any independence requirements as well as an update on significant litigation, investigations, or other compliance related matters.

In the weeks and months following the initial orientation session, a new board member may also want to meet one-on-one with other leaders in the business: CEO; CFO; CRO; CIO; CISO; heads of sales, operations, marketing and HR; to get their views on a number of key company-wide issues, including:

- Strengths and weaknesses of the management team and the board
- The company's acquisition strategy including any potential acquisitions underway

Board members can also get a good understanding of the organisation through both social media and talking to people beyond the C-suite. Get out of the head office and visit the factories, stores and operations, as applicable to the organisation.

4.

No “one size fits all”

A good on-boarding process – which is key to getting a new board member up to speed and in a position to contribute to the work of the board – is not a “one size fits all” process, and may vary considerably depending on the size of the organisation and on the background, experience, and areas of interest of the new director.

While management obviously plays a key role in shaping the on-boarding programme, every new board member needs to take charge of his or her own on-boarding in order to make sure that it is properly tailored and focused.

Ultimately, a good on-boarding process should provide information about the company that will enable a director to add value based on their unique experience and perspective.

Education, or professional development, should never stop. Continually seeking out relevant information (from internal and external sources) and a deeper understanding of the business, the competitive landscape, and emerging opportunities and threats, will be essential to providing effective oversight and bringing insight and foresight to the boardroom dialogue.

Appendix: Other potential discussion topics

Chairman or Senior Independent Director

- How the board interacts with the CEO and other officers, and how important decisions are made (formal and informal processes)
- Toughest issues facing the board/committees
- Board culture – including openness and candour of communications and debate among management and the board, and among directors
- Committee chairs
- Expectations and role of committee members
- Board composition – skills, background, experience and expertise
- Results of the last two board assessments

CEO

- Any significant issues or concerns identified by other business leaders?
- On what does the CEO expect to spend the most time over the next few months?
- What are the top opportunities and challenges for the organisation?
- How can the skills and background of the new board member - and board members generally - be best leveraged for the benefit of the board and the company?

CFO and/or Chief Accounting Officer/Financial Controller

- Earnings trends
- Disclosure philosophy, including the level of transparency and use of non-GAAP measures
- Adequacy of the control environment, including fraud controls
- Capital allocation processes, and degree of alignment between short-term and long-term objectives

Chief Risk Officer (or equivalent role)

- How the CRO gains a view of risk across the enterprise and how key risks are aggregated
- Aspect(s) of risk management posing the greatest challenge to the company
- CRO's view of the company's risk awareness, appetite and tolerance
- How the CRO views the tone and culture of senior management
- How the company's risks compare to others in the industry
- Strengths and weaknesses in the board's risk oversight processes

CIO and CISO

- How the company manages data security, compliance, cyber risk, major IT investments, and other "defensive" IT risks
- How the company leverages IT "offensively" for strategic advantage
- Nature and frequency of CIO communications with the board/audit committee
- Company policies/practices for data governance, use of social media, and adoption of emerging technologies

COO

- How the organisation leverages its supply chain for strategic advantage
- The organisation's business continuity and crisis management plans
- The organisation's philosophy with respect to social responsibility issues in terms of both substantive policies and degree of transparency

Chief HR Officer

- The organisation's remuneration policy, overview of remuneration arrangements and linkage between remuneration incentives and both short-term and long-term strategic goals
- How the organisation attracts, motivates, and retains top talent and the diverse mix of skills, experiences and backgrounds needed to design and implement strategy

Chief Marketing/Sales Officers

- How the organisation defines its target customers and what methods it uses to understand and develop products that address customers' needs
- The organisation's approach to innovation and market disruption
- How the organisation monitors and leverages evolving social, economic and political trends
- The strategic planning process, the frequency with which the strategy is reviewed, the process by which external trends are assessed with respect to their implications for strategy, and the measures and metrics used to track progress

About the KPMG Board Leadership Centre

The KPMG Board Leadership Centre champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programmes and perspectives - including the Audit Committee Institute - the KPMG Board Leadership Centre engages with directors and business leaders to help articulate boardroom challenges and promote continuous improvement. Drawing on insights from KPMG professionals and governance experts worldwide, the Centre delivers practical thought leadership on risk and strategy, talent and technology, globalisation and compliance, financial reporting and audit quality, and more – all through a board lens.

For more information on the work of the Board Leadership Centre please contact:

Timothy Copnell

Associate Partner

KPMG Board Leadership Centre

KPMG LLP

15 Canada Square

London E14 5GL

Tel: 020 7694 8855

e-Mail: tim.copnell@kpmg.co.uk

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.

© 2018 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

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