



On the 2019 Board agenda

KPMG Board Leadership Centre



Board agendas should continue to evolve in 2019 as the game-changing implications of technology/digital innovation, scrutiny of corporate culture and leadership, growing demands for companies to address environmental and social issues, and investor expectations for greater board engagement and diversity and long-term corporate performance all drive a sharper focus on positioning the company for the future. Combined with a slow-growth economy, uncertainty around Brexit, trade tensions and political concerns, the year ahead will require a careful balance of near-term focus, agility, and long-term thinking.

Drawing on insights from our conversations with board chairs, board members and company secretaries over the past twelve months, we have highlighted ten issues that, in our opinion, boards should keep in mind as they approach and execute their 2019 agendas.

1. Boardroom composition

Take a hard look at the board's composition: Is the talent in the boardroom aligned with the company's strategy and future needs?

Given the demands of today's business and risk environment, aligning boardroom talent with company strategy – both for the short-term and the long-term – should be a priority.

Whether it's addressing a gap around technology or finding people who have international experience, talent needs to be part of the strategy discussion. Boardroom composition and succession should start with clarity over the company strategy and a clear view of the needs of the business over a range of time horizons, closely followed by an examination of the skills gaps in relation to those needs. Before developing plans for long-term succession, consider using skills matrices to identify current and future skills gaps and think about the time requirements, on-boarding, the role of ongoing professional development and the output from the annual board evaluation exercise. Think about both 'business as usual' and emergency scenarios.

Be cognizant that boards are now in the firing line with investors, proxy advisors and the media looking to hold directors to account for a wide range of issues including board diversity, succession planning, independence, tenure, over-boarding and disclosure.

In particular, expect proxy agencies to recommend voting against the nomination committee chair where: the roles of the chief executive and chair have not been split; where a senior independent director has not been appointed; where the board has not conducted an external evaluation of its effectiveness within the past three years; or where an individual who has a significant conflict of interest, or whose past actions demonstrated a lack of integrity or inability to represent shareholder interests is nominated (or re-nominated) to the board.

2. Disruption, strategy and risk

Recognise that connecting digital disruption with risk management and strategy is more important and more challenging than ever.

Advances in digital technologies such as cloud computing, robotic process automation, machine learning, artificial intelligence (AI), and blockchain - and the *speed* of these advances - are disrupting business models and transforming how companies do business.

As discussed in the 2018 NACD Blue Commission Report, [Adaptive Governance: Board Oversight of Disruptive Risks](#), traditional enterprise risk management processes may not be designed to address the disruptive risks posed by these digital advances, or to assess the continuing validity of key assumptions on which the company's strategy and business model are based. Help management reassess the company's processes for identifying the risks and opportunities posed by digital advances and for assessing their impact on the company's strategy.

Does management have an effective process to monitor technology changes in the external environment? Does the process provide early warning that adjustments to strategy might be necessary?

Understand how the company collects, protects, analyses, and uses data. What are the goals of the company's digital strategy and how can the use of big data and advanced analytics help drive the business? Does the company have the right tools, technology, resources and talent to develop a quality big data programme? How do we determine what information drives value for the organisation (e.g., insights into customers, employees, suppliers, business processes) and how do we manage the data in a responsible, ethical manner?

Help the company test its strategic assumptions and keep sight of how the big picture is changing by connecting dots, thinking differently, and staying agile and alert to what's happening in the world. In short, digital disruption, strategy, and risk should be hardwired together in boardroom discussions.

3. Long-term value creation and the company's role in society

[Help focus the company on long-term value creation and understand the views of all key stakeholders.](#)

Major investors continue to voice their expectations for companies to focus on long-term value creation and the factors driving it: strategy and risk, talent, R&D investment, culture and incentives, and environmental, social, and governance (ESG) issues - particularly climate change and diversity. At the same time, these investors stress the importance of the sustainability of the company's business model.

In his 2018 [Letter to CEOs](#), BlackRock's Larry Fink expanded on this theme, emphasising *purpose* and a *stakeholder-focused model of governance*: "Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders. It will succumb to short-term pressures to distribute earnings, and, in the process, sacrifice investments in employee development, innovation, and capital expenditures that are necessary for long-term growth. It will remain exposed to activist campaigns that articulate a clearer goal, even if the goal serves only the shortest and narrowest of objectives. And ultimately, the company will provide subpar returns to the investors who depend on it to finance their retirement, home purchases, or higher education."

Calling Fink's letter "both inspiring and blunt," William W. George, Senior Fellow, Harvard Business School, suggested that, "There should be no debate between the stakeholder value model and the advocates of creating shareholder value. Shareholder value is the *result* of having a clear mission and set of values that motivate employees to serve customers".

The new [2018 UK Corporate Governance Code](#) now reflects this more inclusive corporate purpose by including - as a fundamental principle - that a successful company not only generates value for shareholders, but also contributes to wider society. The Code also specifically 'requires' that boards should understand the views of key stakeholders and describe in the annual report how their interests have been considered in board discussions and decision making. It's not yet clear how boards will report in practice, but the starting point is likely the identification of both the key stakeholders and the key decisions made by the board.

Remember, the board's job is not to balance the interests of the company with those of other stakeholders. Rather - as alluded to by Frink and George above - it is to weigh up all the relevant factors in considering the course of action that will best lead to the success of the company.

This shareholder/stakeholder debate may seem philosophical, but we believe it is a discussion every board should have, as it raises practical questions about the company's strategy and how that strategy should be communicated to investors and other stakeholders.

4. Talent management and inclusion

[Make CEO succession and talent development throughout the organisation a priority.](#)

Few board responsibilities are more important than hiring and firing the CEO. Given the complex and disruptive business and risk environment today, it is essential that the company have the right CEO in place to drive strategy, navigate risk, and create long-term value for the enterprise. The board should ensure that the company is prepared for a CEO change, whether planned or unplanned. CEO succession planning is a dynamic and ongoing process, and boards should always be thinking about developing potential candidates. Succession planning should start the day a new CEO is named. How robust are the board's succession planning processes and activities? Are succession plans in place for other key executives? Our publication [Getting the right CEO](#) looks at this issue in more detail.

Closely linked to the importance of having the right CEO is having the talent required - from the top of the organisation down through the ranks - to execute the company's strategy and keep it on track. Institutional investors are becoming more vocal about the importance of human capital and talent development programs and their link to strategy. We expect companies will face an increasingly difficult challenge in finding, developing, and retaining talent at all levels of the organisation. Does management have a talent plan that aligns with its strategy and forecast needs for the short and long term? Which talent categories are in short supply and how will the company successfully compete for this talent? More broadly, as Millennials join the workforce in large numbers and talent pools become globally diverse, is the company positioned to attract, develop, and retain top talent at all levels?

5. Corporate culture

[Assess, monitor, and reinforce culture as a strategic asset and critical risk.](#)

Corporate culture is front and centre for companies, shareholders, regulators, employees, and customers - as it should be for every board. Headlines of sexual harassment, bullying and other wrongdoing - with corporate culture as the culprit - have put boards squarely in the spotlight: Where was the board? And what is it doing to fix the culture?

Given the critical role that corporate culture plays in driving a company's performance and reputation - for better or, as evidenced by the #MeToo movement, for worse - we see boards taking a more proactive approach to understanding, shaping, and assessing corporate culture. Indeed, the 2018 UK Corporate Governance Code now 'requires' that the board should assess and monitor culture. Among the messages we hear: Have a laser focus on the tone set by senior management and zero tolerance for conduct that is inconsistent with the company's values and ethical standards, including any "code of silence" around such conduct. Be sensitive to early warning signs and verify that the company has robust whistle-blower and other reporting mechanisms in place and that employees are not afraid to use them.

Understand the company's actual culture (the unwritten rules versus those posted on the office wall); use all the tools available - surveys, internal audit, hotlines, social media, walking the floors and visiting facilities - to monitor the culture and see it in action. Recognise that the tone at the top is easier to gauge than the mood in the middle and the buzz at the bottom. How does the board gain visibility into the middle and bottom levels of the organisation? Do employees have the confidence to escalate bad behaviour and trust their concerns will be taken seriously?

Make sure that incentive structures align with strategy and encourage the right behaviours, and take a hard look at the board's own culture for signs of groupthink or discussions that lack independence or contrarian voices. Focus not only on results, but the behaviours driving them.

6. Cyber security

[Refine boardroom discussions about cyber security and data privacy as risk management issues.](#)

Cyber threats have become more sophisticated and aggressive, with implications for nearly every facet of business. Any organisation is vulnerable to attack. Boardroom discussions should be moving from prevention to *detection, containment, and response* - and to addressing cyber security as an enterprise-wide business issue that affects strategy, compliance, product development, M&A, expansion into new geographies, and relationships with vendors, suppliers, and customers. A robust boardroom dialogue is vital to helping the company learn to live with cyber risk and making cyber security a core competency across the business.

How frequently is the maturity of the company's cyber security risk management framework evaluated? How is the company keeping up with regulatory changes and new legal requirements? Is the company staying abreast of industry practices and connecting with law enforcement? Does the company have an incident readiness and response plan that has been reviewed and tested? Is the board getting the information it needs (cyber dashboard) to oversee cyber security efforts?

What risks does the use of big data pose, and who is responsible for making decisions about the collection and use of data? Privacy rules like the General Data Protection Regulation (GDPR) should prompt rigorous assessments of companies' data practices. Indeed, with data privacy linked so tightly to trust and reputation, a running reality check is essential.

7. Crisis management

[Reassess the company's crisis prevention and readiness.](#)

Crisis prevention and readiness has taken on increased importance and urgency for boards and management, as the list of crises that companies have found themselves facing in recent years continues to grow. Crisis prevention goes hand-in-hand with sound risk management - identifying and anticipating risks, and putting in place a system of controls to help prevent crises from happening and mitigate their impact when they do occur.

We're seeing an increased focus by boards on cultural risks as well as key operational risks across the extended global organisation e.g., supply chain and outsourcing risks, information technology and data security risks, etc. Does the board understand the company's critical operational risks? What's changed in the operating environment? Has the company experienced any control failures? Is management sensitive to early warning signs regarding safety, product quality, and compliance?

Help ensure that management is weighing a broad spectrum of what-if scenarios from supply chains and the financial health of vendors to geopolitical risks, natural disasters, terrorist acts, and cyber threats. Is the company's crisis response plan robust and ready to go? Is the plan actively tested or war-gamed and updated as needed? Does it take into account the loss of critical infrastructure e.g., telecommunications networks, financial systems, transportation, and energy supplies? Does it include communications protocols to keep the board apprised of events and the company's response? Of course, even the best-prepared companies will experience a crisis, but companies that respond quickly and effectively tend to weather crises better.

8. Geopolitics

[Understand and mitigate your geopolitical risk exposures.](#)

As reported in a recent survey from Towers Watson and Oxford Analytica, [How are leading companies managing today's political risks?](#), it's been a tumultuous year in geopolitics. Beyond the spectre of Brexit and the prospect of a UK general election, the US has become locked in an escalating trade war with China; rising oil prices have led to severe riots, strikes and protests in Jordan, Brazil and Mexico; and emerging markets more generally have been pummelled by adverse economic conditions.

Concerns about geopolitical risk can have a significant impact on board decision making whether that be scaling back operations in a country, reconfiguring supply chains or moving money out of local banks; or holding back from planned investment as a result of geopolitical risk concerns. Practically all companies have either global suppliers, global customers, global investors or global competitors. As a result, scenario planning as a strategic tool is set to gain even more traction in the boardroom in 2019.

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9. Shareholder engagement

[Prioritise shareholder engagement as institutional investors increasingly hold boards accountable for both performance and governance standards.](#)

Investors are demanding greater transparency, including direct engagement with non-executive directors. They are asking tough questions and want to understand the board's role in strategy and risk as well as understanding whether boards are robustly evaluating their own effectiveness.

Be mindful of shareholder concerns and the company's vulnerabilities to activist investors by proactively engaging with shareholders and addressing their concerns. Activism need not be short-term nor undermine the board's strategic thinking – if done properly, it can help focus the strategy and drive enhanced corporate governance. Does the board understand investor views? Is the company prepared to respond to activist intervention? Play the role of activists by looking at the company from the outside-in and prompting change from within to benefit shareholders.

10. Regulation

[Greater regulation will be an on-going trend.](#)

Whether moving quickly to innovate and capitalise on opportunities in new markets, leveraging new technologies and data and/or engaging with more vendors and third parties across longer and increasingly complex supply chains, most companies face heightened compliance risks. Coupled with the complex global regulatory environment - the array of new environmental, financial services, and data privacy regulations - these compliance risks and vulnerabilities will require vigilance.

Help ensure that the company's regulatory compliance and monitoring programmes are up to date, cover all vendors in the global supply chain and clearly communicate the company's expectations for high ethical standards. Take a fresh look at the effectiveness of the company's whistle-blower programme. Does the board receive regular reports on whistle-blower complaints and how these were addressed? What is the process used to filter complaints that are ultimately reported to the board?

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