KPMG

Audit Committee Institute

On the 2016 Board Agenda

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 scrutinise the board's involvement in strategy, risk, and compliance. Drawing on insights from our interactions with directors and business leaders over the past year, six items have been flagged 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'. Understand the fundamental assumptions at the core of the company's strategy and the linkage to the risks faced by the business. 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 recognise 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? 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 'CEO Outlook 2015: The Growth Imperative in a More Competitive Environment' point to an increasing gap between talent needs and talent resources – created in large measure by the impact of globalisation, digitisation, 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 organisation.

Keep board composition front and centre.

Has board composition changed as the business and risk environments have become more complex? As globalisation, technology, business model disruption and other changes reshape the business landscape, are the skill sets on the board keeping pace? Does the organisation have the right people – not only for the business as it stands today but to help shape the company's strategy for the future? Is there continual assessment of whether the board has the right mix of skills, backgrounds, experiences, and diversity of thinking, and works effectively as a group? Is director performance squarely addressed? 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?

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 significant media attention that destroys value and disrupts normal business. It is critical to 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 of critical infrastructure – e.g., communications networks (phone and/or internet), financial systems, transportation, and energy supply – 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 organisation globally.

Refine and broaden boardroom discussions about cyber risk and security.

Despite the tremendous focus on cyber security, 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. What systems and process changes will be needed to comply with the requirements? Have management assessed their cyber risk and 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 organisation, with a security mindset, proper training, and preparation for incident response. Is cyber security 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 cyber security scorecard and a robust cyber-incident response plan?

Promote effective engagement with shareholders, including the activists.

Boards can expect shareholders to continue to seek greater input on issues such as executive remuneration, board composition and succession, corporate social responsibility and, increasingly, accounting matters. 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 remuneration and board leadership. Do we know who our largest shareholders are and understand their priorities? Do we understand the activist agenda? (Executive remuneration, 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?

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

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