Top 10 Boardroom Concerns as Pressures Mount around Hot-Button Issues

WomenCorporateDirectors Highlights Top Challenges for Boards

NEW YORK – July 30, 2018 – Concerns around activist investors, lack of diversity, corporate reputation, and disruptive technologies are raising increasingly tough questions in the boardroom, according to **WomenCorporateDirectors (WCD)**, the global membership organization of women board members. "Many companies today are finding themselves at a crisis point across a number of areas, with the burden to resolve hot-button issues flowing up to the board," says **Susan C. Keating**, CEO of WCD.

At the **2018 WCD Global Institute** in New York – which convened more than 200 directors and governance experts from 20 countries around the world – attendees voiced common concerns that public companies and large, privately-controlled companies are grappling with. "At the same time leadership teams are trying to innovate and not have their companies become obsolete in five years, the pressures from investors, media, and the public are dominating many board agendas," says Keating.

Following are ten of the top concerns among directors right now, drawing from discussions at the Global Institute and experiences attendees shared with their peers.

Top 10 Boardroom Concerns

1. **What image is corporate leadership projecting?** Companies are becoming increasingly forced to listen to concerns from activist investors, giving new urgency to maintaining good optics with this group – and walking the walk. **Kimberly Ross**, who serves on the boards of The Chubb Corporation, Nestlé, and PQ Corporation, says "You don't want to look like a board or a management team that is entrenched. The best defense is a proactive board and management team not only around strategy, but also around the composition of the board, including diversity. This means being nimble and making changes in skill sets recruited for the board depending on what the times call for."
2. **How can reputation be accounted for in the business model?** "Many companies are struggling with how to incorporate their reputation into their bottom line," says **Dr. Anastassia Lauterbach**, a director at Dun & Bradstreet Corp. and Wirecard AG and Chair of the Board of Censhare AG in Germany. "Organizations such as Facebook – but many others, too – are battling public perceptions about who they really serve: their advertisers or their users? The Information Age is over, and we are now in the Reputation Age. This entails shifting from monetizing eyeballs to a model that doesn't

really exist right now at the same scale of profitability. With public companies, who need to deliver quarterly results, the challenge is that much greater."

3. **How are activists gaining support among key investors?** "The nature of activism has changed dramatically in the past five to ten years," says **Bill Jenks**, of KPMG UK's investor relations consultancy Makinson Cowell. "It used to be dominated by smaller firms focused on short-termism and stripping companies of cash before moving on quickly to the next opportunity. More recently activists have emerged with enormous financial, analytical, and legal resources behind them – firms with $20-30 billion under management taking multi-billion-dollar positions in mega-cap companies. Their resources and experience have allowed them to become much more effective in overcoming voting structures and cultural barriers to change, and they now have much more underlying support from institutional shareholders."
4. **Which issues are making the company vulnerable?** Preparing for investor scrutiny requires taking a hard look at weak links in the organization. **Tiffany Campion**, Senior Attorney - Takeover Defense and Shareholder Activism at Latham & Watkins, LLP, observes that "activists are looking for vulnerabilities. One vulnerability could be not having a strong, well communicated long-term strategy, or there may be risk factors around social issues that haven't been addressed or don't appear to have been addressed by the company's public communications." And, in today's environment, #metoo types of sexual harassment incidents raise red flags. "Activists may not be motivated by these incidents specifically but can use them to claim that the board has a more general failure of oversight over management."
5. **What are the barriers to good decision-making by the board?** "One of the key governance processes that has remained underexamined is the way boards make decisions," says **Susan Angele**, Senior Advisor of Board Governance at U.S. audit, tax and advisory firm KPMG LLP's Board Leadership Center, which co-produced a report launched at the Global Institute, "**Decision-Making in the Visionary Boardroom**." "With greater scrutiny on boards today, the process for getting to the ultimate decision can hold as much consequence as the decision itself. So as directors seek to ensure that they are supporting their decisions through a sound process, an increasingly important part of governance is recognizing blind spots and innate biases that may detrimentally influence board discussion."
6. **How are new technologies creating their own demand?** "Tell us the problem and we'll find the solution": this was the traditional model of how new products were developed in organizations. "But those days are gone," says **Adriana Karaboutis**, Chief Information and Digital Officer, National Grid plc, and director at Advance Auto Parts and Perrigo Company plc. "Now we see new technologies driving new business models, new customer engagement opportunities, and whole new businesses. Gone are the days where the business largely drove the bus and told the technology organization what they needed. Now the business leadership and the board have to become very adept in understanding new technology and what's out there. What's becoming possible as new technology and digital services emerge can drive what's being offered – and create its own demand in the market."

7. **What is the right governance structure around innovation?** Cultivating a culture of innovation in a company is not just about putting out a bunch of new ideas in an unfocused fashion. “Both boards and management teams can get nervous about the velocity of change in the digital space, and then can get tempted to expend resources across a number of areas to play catch-up,” says **Rick Chavez**, Partner at Oliver Wyman. “But like all other management disciplines that have come before, innovation is its own management discipline. Employing the discipline of constraints and thinking about new initiatives as an investor would – much like a start-up does when working with few resources – provides the rigor, focus, and governance needed for companies seeking to innovate.”
8. **How can companies create a culture of innovation?** “In the energy business, we all have access to the same technology and the same sources of capital,” says NextEra Energy Chairman and CEO **Jim Robo**. “So we have to win with our talent, with our team that is focused on innovation. Today, innovation means understanding all the Big Data generated from the smart grid and predicting when problems are likely to occur, and fixing them, before our customers lose power. Innovation means being the largest player in the U.S. energy storage business, which has the potential, when combined with wind and solar energy, to deliver a reliable renewable energy product that can reduce our nation’s dependence on traditional power generation sources.”
9. **How will artificial intelligence affect how work gets done?** “Over the last three to five years, there has been a convergence of three trends that have unleased huge advances in what machines can do,” says **Susan Lund**, a partner at McKinsey Global Institute. “There is the wider availability of digital data, the cost of storing and processing that data has fallen sharply, and there has been a jump in mathematical advances that allow us to process the mountains of data. These advances have enabled us to have artificial intelligence do things that it didn’t used to be able to do. After years of slow progress in AI, there has been a huge acceleration in what machines can do. Over the next decade – even if you look at a midpoint automation scenario – 15 to 20 percent of work that’s done in the U.S. or Europe will be replaced by either robots or AI algorithms or a combination of the two.”
10. **How is technology affecting the workforce?** Disruptive technology is affecting different workers at different rates. **Marina Brogi**, a director at Salini Impregilo and Banco Desio e della Brianza, explains that “for Europe, Japan, and other regions with aging populations, automation in general becomes that much more necessary because of the decrease in the working-age population. Certain groups of workers who are used to dealing with older-generation machines may be able to more easily adapt to working with a new generation of machines. Compared to those workers who are tied to machines, more problems arise with people who were trained to perform parts of complex and specialized *processes* that have been disrupted. These highly trained workers feel that they’re no longer part of the useful decision-making process as they were before, and actually tend to be more difficult to reconvert.”

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About WomenCorporateDirectors Education and Development Foundation, Inc.
The WomenCorporateDirectors Education and Development Foundation, Inc. (WCD) is the only global membership organization and community of women corporate directors. A 501(c)(3) not-for-profit organization, WCD has 80 chapters around the world. The aggregate market capitalization of public companies on whose boards WCD members serve is over $8 trillion. In addition, WCD members serve on numerous boards of large private and family-run companies globally. For more information visit www.womencorporatedirectors.org or follow us on Twitter @WomenCorpDirs, #WCDboards.

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