VISIONARY

Seeing far and seeing wide: moving toward a visionary board

WomenCorporateDirectors FOUNDATION
globally accelerating best practices in corporate governance

In partnership with
KPMG Board Leadership Center

VISIONARY BOARDS

our
VISION

Introduction

Economic and geopolitical uncertainty, transformational technology, changing demographics, new global competitors, business model disruption—these are just a few of the external forces impacting companies today. The speed of change is accelerating rapidly: in 1960 the average age of an S&P 500 company was 60 years; today it's less than 15. The majority of the nearly 4,000 participants in the WCD Foundation/HBS/Spencer Stuart Global Board Survey indicate that growth prospects globally over the next three years are uncertain. Not surprisingly, of the approximately 1,300 CEOs who participated in KPMG's 2015 Global CEO Survey, almost one-third said they expected their companies to be transformed into a significantly different entity within the next three years.

Investors are watching. In a February 1, 2016, open letter to the CEOs of the largest U.S.-based companies, Larry Fink, Chairman and CEO of BlackRock, says that "without clearly articulated plans, companies risk losing the faith of long-term investors." He encourages companies to "articulate the vision and plans for the future … how the company is navigating the competitive landscape, how it is innovating, how it is adapting to technological disruption or geopolitical events, where it is investing and how it is developing its talent"; and he emphasizes the important role of the board to "review, understand, discuss, and challenge" company strategy.

We are proud to present WCD Foundation's third annual Thought Leadership Commission (the Commission) report. The first, *Going Beyond Best Practices: The Role of the Board in Effectively Motivating and Rewarding Executives*, sponsored by Pearl Meyer, was followed last year by *Enduring Across Generations: How Boards Drive Value in Family Owned Businesses*, sponsored by KPMG LLP (KPMG). KPMG's Board Leadership Center is pleased to work with WCD Foundation on the current report, *Seeing Far and Seeing Wide: Moving Toward A Visionary Board*. This report draws on input from a diverse, global group of directors and board advisors, representing decades of leadership in the boardroom.

The role of a board is to help guide the company successfully into the future while governing it for the present. Boards move toward the visionary when they excel at not only providing oversight and insight, but—importantly—foresight. This is a difficult job, and future focus and expansive thinking can make all the difference. Building and maintaining a visionary board is a journey, and every board starts in a different place; some are highly effective and looking to become more future-focused and expansive in perspective, while others have a long way to go as they progress toward effectiveness. This report is designed so that all directors, no matter where their board begins, can find insights, practical suggestions, and lessons learned to help them on their journey.

Susan Angele
Thought Leadership Commission Chair

Chapter 1

What are Visionary Boards and Why Do Companies Need Them?

In partnership with

KPMG Board Leadership Center

WomenCorporateDirectors FOUNDATION

globally accelerating best practices in corporate governance

Imagine two different scenarios in the boardroom of a retail women's clothing chain:

Scenario 1:

Directors arrive and immediately take their seats as the board meeting begins. They know each other well, having all served as CEOs, and are retired from the same industry. The chairman/CEO delivers a presentation. As he proceeds through his slides, he advises the directors that the sales and earnings are right on target for the quarter. Each committee chair then delivers his or her committee report, followed by a brief executive session in which the directors comment on how pleased they are with the state of the business based on the CEO's presentation. While the board meeting is in process, the daughter of one of the directors is at home trying on the party dress that she rented online from a small company she heard about on Facebook.

Scenario 2:

The directors arrive early for a pre-meeting breakfast that includes an outside speaker who is affiliated with a university that is developing experimental systems to 3D-print fabric from recycled materials. The directors include a former president of the Asia division of a global manufacturing company, a CEO of an organic food manufacturer, a CIO of a health care company, the founder of a social media company, and a former CFO of a chain of jewelry stores, among others. During the board meeting, the CEO, with input from the chief marketing officer, devotes significant time on the agenda to discuss consumer trends in clothing and seeks input from the directors on external changes they have seen that might impact the company going forward. This leads to a lively discussion that includes consideration of the emerging trends in wearable technology and the long-term opportunities and risks associated with demographic trends, including the increasing diversity of the U.S. population and the aging of the U.S. and global population. The next item on the agenda is capital allocation. Directors ask probing questions that touch on issues such as how the company's investments reflect long-term objectives as well as short-term needs, the process by which capital is allocated, and the results of and lessons learned from previous investments.

Comparing the two scenarios on the preceding page, the value of the more visionary board in Scenario 2 is obvious—the fresh perspectives and thoughtful discussion in this boardroom can be highly beneficial to a company as it moves forward. While the scenarios are fictional, they are drawn from situations the Commissioners have actually experienced. Even the most progressive boards may find aspects of Scenario 1 that resonate, and the full scenario continues to be found in boardrooms around the world. Scenario 2 embodies many of the recommendations in this paper: Board composition; sources of information; the board's agenda; meeting dynamics; and assessment of the potential implications of outside forces.

The right board composition offers the benefit of a broad range of experiences and perspectives to help inform and continuously pressure-test company strategy, including backgrounds that deepen the collective understanding of challenges and opportunities in emerging markets, the implications of technology and social media, and relevant trends based on learnings from other industries. As Susan Stautberg says, "a visionary board is by definition a diverse board—diverse in expertise, industry, geography, gender, ethnicity, and age." Chapter 2 addresses board composition.

Directors must understand the business, and given that, unlike management, they do not work full time in the organization, they experience what is referred to as information asymmetry. As in Scenario 2, boards benefit when they are able to look to executives and partner with management to define relevant metrics and develop scorecards. Directors look beyond the company, and visionary boards ensure that relevant information from outside finds its way in. Information is addressed in Chapter 3.

Chapter 4 moves into the boardroom. As boards become more visionary, how does the agenda change? What are the boardroom dynamics? The Commissioners offer practical suggestions that can be implemented in any boardroom to keep the agenda focused on what's important and enrich the conversation.

Finally, Chapter 5 discusses external forces. Visionary boards are future-focused and take a long- term view. Equally important, they use a wide lens to identify changes in the external environment and assess the implications for the company. In addition to the economic and geopolitical environments, three key external forces are critical: the company's relationship with investors, emerging technology, and social and environmental forces.

Recently, The Boston Consulting Group (BCG) examined companies that successfully maintained performance over a long period in the face of external shifts or disruption. In the study, *Turning Around the Successful Company*, BCG found that these companies held certain common characteristics, including:

- External orientation – actively striving to pick up and change signals from the outside environment
- Healthy paranoia – lack of arrogance, and awareness of competitive vulnerability even when short-term results are good
- Long-term perspective – focus on sustainable competitiveness
- Resource fluidity – ability and willingness to shift resources as needed

Lou Gerstner, who as CEO transformed IBM from a historic company that was near bankruptcy into the successful company it continues to be today, summed it up: "longevity is the capacity to change, not to stay with what you've got." (*McKinsey Quarterly*, September 2014).

Hallmarks of a Visionary Board

The Commissioners have experience with companies that range across a broad spectrum of maturity in countries with different approaches to, and different levels of development of, corporate governance.

Regardless of country or company, the goal is the same:

Boards must get the basics right—oversight of risk and selection and oversight of company leadership. In addition, boards add significant value when they also move toward the visionary—with a focus on the future, expansive thinking about the implications of changes in the external environment, and creation of a culture that enables the organization to achieve desirable change.

To this end, the Commissioners have identified the hallmarks of a visionary board, so that every board can assess itself against these hallmarks and draw on the suggestions in this report to consider how to move towards becoming a visionary board.

As identified by the Commission, a visionary board is a diverse board that:

- Focuses on the long term while overseeing the present.
- Insists on identification and assessment of external factors that may impact the company long term, including :
  - » Business models and new technologies, with new risks to consider
  - » Changes in demographics, the global economy, and the geopolitical landscape
  - » Emerging trends impacting customer/consumer needs, the competitive landscape, the talent pool, and/or the overall business environment.
- Anticipates disruption not only by seeing big patterns, but also “weak signals.”
- Focuses on key stakeholders, with particular attention to:
  - » The company’s impact on the environment and society, and the company’s sense of “purpose” or “mission”
  - » The company’s relationship/communication with investors
  - » Factors impacting the company’s reputation—with suppliers, customers, employees, and the community as a whole
- Sets the right tone by:
  - » Partnering with management to ensure that strategy is examined and adjusted with sufficient frequency to take full advantage of changes in the external environment,
  - » Pushing the company to overcome inertia and maintain relevance
  - » Monitoring and encouraging a culture of innovation, engagement, and empowerment
- Factors long-term considerations into:
  - » Succession planning—for the board as well as the CEO and other key executives
  - » Performance goals and compensation incentives
  - » Resource investment and allocation (both capital and talent).

Chapter 2

Board Composition: The Power of Difference

In partnership with

KPMG Board Leadership Center

WomenCorporateDirectors FOUNDATION

globally accelerating best practices in corporate governance

Visionary boards are by definition diverse

Wendy Luhabe sums up the key considerations that can help move a board in a visionary direction:

> "The 20th century was a good time for like-minded people to direct the world, but that's become a liability. In the 21st century, we need boards that inspire organizations to explore different ways of reaching decisions, or understanding disruptions, engaging with uncertainty, and resolving crises. Diversity is no longer negotiable; it is essential to thrive and tap into new growth prospects and opportunities. Boards can no longer afford to make assumptions about markets they know nothing about; they must tap into people who bring different perspectives from diverse parts of the world."
>
> —Quoted from *Women on Board: insider secrets to getting on a board and succeeding as a director*, by Nancy Calderon and Susan Stautberg, Quotation Media 2014.

Diversity. Different perspectives. Engaging with uncertainty. Resolving crises. Inspiring organizations. A visionary board will have all of these characteristics and more. As Mercedes Eleta says, these characteristics can be sought regardless of the maturity level of the company's corporate governance. While expressing concern that many family-owned businesses in Latin America do not have "professional boards" and are "lagging behind," she says there is an opportunity to "do two things at once," by recruiting for these characteristics while looking to professionalize a board by bringing in new, independent directors. And since "what was the sight for the past is not really the sight for the future," she says that "by getting outside directors who are more strategic, more visionary" at the outset, there is an opportunity to "evolve more rapidly."

Diversity Makes Everyone Better

An article in *Scientific American*, "How Diversity Makes Us Smarter," cites research indicating that people work harder and more creatively, and communicate better, when they are in the presence of others who are different from them. The article cites research studies that indicate that "when we hear dissent from someone who is different from us, it provokes more thought than when it comes from someone who looks like us." The article concludes: "[m]embers of a homogenous group rest assured that they will agree with one another; that they will understand one another's perspectives and beliefs.... On the other hand, people work harder in diverse environments.... They may not like it, but the hard work can lead to better outcomes." This is consistent with the experience of Izumi Kobayashi, who, as the only woman on a Japanese board, experienced a change during the first year of her tenure. At her first board meeting, the atmosphere was one of silence and conformity, but by the end of her first year, open comment and discussion in the boardroom had become more the norm. She believes that her presence in the boardroom brought "new air."

A recent survey of over 21,000 publicly traded companies globally examined the relationship between gender diversity and profitability. (*Is Gender Diversity Profitable? Evidence from a Global Survey*, Marcus Noland, Tyler Moran, and Barbara Kotschwar, Working Paper Series WP 16-3, Peterson Institute for International Economics, February 2016.)

The survey concludes:

- The presence of women in the C-level is associated with higher profitability.
- Although there was no correlation between a female CEO and higher profitability, there is some evidence that having women on the board may help.
- The payoffs of policies that facilitate women rising through the ranks could be significant.

The implications of this study are significant. Not only is gender diversity important because of the value it adds to the boardroom discussion, it could make a significant difference in company profitability if the presence of women in the boardroom facilitates attention to building a strong pipeline for talented women throughout the organization. For example, the *When Women Thrive* study (2016) by Mercer covering 583 companies across 42 countries, including data on 3.2 million employees, found that only 52% of organizations believe their board members are engaged in diversity and inclusion initiatives. A diverse board sends a clear signal to employees.

> *"Every man takes the limits of his own field of vision for the limits of the world."*
>
> *—Arthur Schopenhauer*

The Board Matrix

General experience	Director 1	Director 2	Director 3
Industry knowledge			x
“Out-of-the-box” thinking		x	x
Top government position	x		
Academic qualifications	x	x	x
U.S. connections	x	x	
Global connections/view		x	x
Diversity	x	x	x
Governance experience	x		
Environmental/social responsibility/ sustainable development	x	x	
Corporate and advisory boards			x
Independence	x	x	x
Financial expertise		x	

Corporate management/ entrepreneur	Director 1	Director 2	Director 3
Technology/e-commerce/IT		x	
New product development			x
Success in building or adding value to a growing/profitable business	x	x	
Branding/marketing/ communication/media			x
Strategic planning	x		
Financial/CEO	x		
Labor management		x	
Sales		x	x
External relations	x	x	x
Government/regulatory and public affairs	x		
Procurement/supply chain/ operations/customer service		x	
Strategic alliances/M&A		x	
Cybersecurity	x		
Risk Management			x

Source: WCD OnBoard Bootcamp

Given the complexities of modern business, a diverse set of perspectives to inform the boardroom discussion is essential. Diversity comes in many forms—across industries, geographies, ethnicity, gender, generations, and experience. It is critical that each board do the work and bring in the perspectives required to understand the issues and challenges that most impact the company's future. As illustrated in Scenario 2 presented at the outset of this report, directors with a mix of industries and backgrounds can add new insights to the boardroom discussion.

In the experience of the Commissioners, generational, gender, geographic, and ethnic diversity all play key roles in widening the lens of the board, alongside diverse business and organizational experiences. Is there a board member whose business has been disrupted and might be able to raise red flags that others would miss? Is there a board member who has successfully reinvented a company, and can inspire an organization by example? Does anyone have a deep understanding of technology? Innovation? Strategy?

The WCD/HBS/Spencer Stuart 2016 Global Survey of approximately 4,000 corporate directors found that 67% of the respondents saw strategy as the key area for the board to specialize in, yet only 33% indicated that strategy was a skill set represented on their board. What about talent? While attracting and retaining top talent was at the top of the list identified by survey respondents as one of the three biggest challenges to achieving strategic objectives, only 13% included expertise in HR/talent management among the top three skills most important for board service today.

As institutional and activist investors grow in influence, would the company benefit from a director who looks at the company from this point of view? Will someone who understands government, or someone with a background in health care, bring a valuable perspective? Depending on the existing board and its needs going forward, adding any or all of these areas of expertise can open the collective eyes of the board and move the discussion forward in previously unanticipated ways.

Currently, directors are recruited for their experience and often interviewed to assess how well they will fit in with the boardroom culture. As an additional step toward building a visionary board, consider a new component of the skills matrix and interview process.

The Commissioners suggest taking a hard look at prospective directors to assess the degree to which they are future-focused and broad in perspective. As Tshidi Mokgabudi says, "It's very important—visionary board members are strategic thinkers by nature." Maggie Wilderotter says, "you need visionary leadership on a board—individuals who can see not only what's happening now, but can see around corners to anticipate what's coming." Recruiting board members through this lens, either independently or with the assistance of a search firm, can bring fresh thinking and a new dynamic to the board. Consider using the initial conversations with a prospective board member to not only understand their experience and congeniality, but also their natural inclinations—do they have a broad intellectual curiosity? Do they stay on top of trends in the world as well as in the industry? How do they approach change? Do they have a proven ability to raise tough questions and express unpopular opinions in a constructive way? Do they have strong emotional intelligence?

Board evaluations and refreshment

Even the most visionary board will become myopic if not enough effort is made to keep it fresh. To keep the board future-focused and expansive in thinking, directors must be held accountable for meeting expectations and moving on if circumstances change. As the Commissioners attest, this is among the most difficult issues faced by any board, and handling it well requires courage and tact.

To be discussed in the next chapter, the Commissioners strongly believe it is essential to continue to learn in order to add value. And good learners make good teachers. A number of Commissioners serve as mentors to the company's senior leaders. Irene Chang Britt says that this helps for succession planning. For Maggie Wilderotter's board, mentoring is a formalized process.

Each director is assigned an executive mentee for a two-year period, with the expectation that the director and executive meet at least two to three times per year outside of board meetings.

With regard to strategy, most boards engage in an annual one- or two-day off-site at which the time is put to good use, with strategic discussions continuing throughout the day and at breakfast, lunch, dinner, and sometimes into the evening. A few Commissioners have gone further, partnering with management outside the boardroom as they explore the strategic implications of issues within the Commissioner's area of expertise.

Enhanced expectations for corporate directors put a spotlight on the often-thorny issue of individual director evaluations. As reported in the 2015 Spencer Stuart Board Index, while 98% of survey participants engage in annual board evaluations, only a third of the U.S. boards surveyed engage in annual evaluations that include the full board, committees, and individual directors. Boards in the United Kingdom engage in this practice more often since it is part of the UK Corporate Governance Code, which also recommends that FTSE 350 companies use an external facilitator for the evaluation process every three years. For helpful suggestions with regard to board and individual director evaluations, one of the Commissioners recommends "Rethinking Board Evaluation," by Holly Gregory, practicallaw.com, March 2015. As indicated in the article, parameters to assess an individual director should include:

Director commitment. Does the director attend and actively participate in meetings? Is the director appropriately prepared and informed? Is the director generally available as needed for special meetings? Does the director stay up-to-date with information about the company's business, market and regulatory developments, and other relevant knowledge?

Fiduciary duty. Does the director understand legal obligations to the company and its shareholders? Is the director objective and willing and able to challenge management constructively, as appropriate? Does the director respect the line between oversight and management? Is the director effective in expressing viewpoints? Does the director follow up regarding areas of concern?

Contribution. Does the director provide constructive criticism and thoughtful recommendations and generally exhibit good judgment? Does the director bring special skills, unique knowledge, or other special qualities to the board? Does the director's conduct engender mutual trust and respect within the board? Does the director listen to others?

Even with the best directors, circumstances change and the board may need skills and experience that are different from those that added value in the past. In *How Much Board Turnover is Best?,* George M. Anderson and David Chun studied board turnover and shareholder returns for S&P 500 companies from 2003 to 2013, finding that:

- Companies that replaced three or four directors over a three-year period outperformed their peers, suggesting an optimal amount of turnover.
- Most boards miss this optimal zone: In our study, board turnover fell outside it about two-thirds of the time.
- The worst performers tended to be companies with either no director changes at all in three years, or five or more changes.

The authors were careful not to suggest that board turnover alone would add value, but hypothesized that a certain level of turnover would be consistent with leadership and behaviors that drive long-term shareholder value.

The Commissioners have a range of views on age limits and/or tenure limits as tools for board refreshment. They recommend that these tools be considered and each board make its own determination.

A number of directors have had positive experiences with tenure limits. Maggie Wilderotter, who instituted a 15-year director tenure limit as chairman of Frontier Communications, says, "board members hit their stride in years 5 and 6 to 15, so it gives them a 10-year run as very strong experts helping their company."

Other Commissioners also serve on boards with tenure limits. And a number of U.S. institutional investors and proxy advisors have begun to question the independence of directors who have served on boards for periods of time

that they view as excessive. On the flip side, as a number of Commissioners have suggested, a tenure limit could force the resignation of a strong, valuable director.

With respect to independence, in certain circumstances a respected director who has been on the board for a long time may actually have a greater ability to stand up to a CEO than would a newer director. Given the range of experiences and pros and cons of these tools, the Commissioners recommend that directors consider the issue and determine whether age and/or tenure limits are appropriate for their boards.

Regardless of differing views on age and term limits, there is one opinion that the Commissioners hold unanimously: any limits should not be used as a substitute for effective evaluations and a robust process that aligns board composition with the company's long-term needs. A good practice is for the nominating and governance committee to meet after the strategy has been refreshed, and to ask, in light of the strategy and direction of the company: Do we have the right people on the board? And if not, what are we going to do about it?

The Impact of a Visionary Board

Maggie Wilderotter transformed Frontier from a "sleepy regional telephone company" to a "broadband platform" in 28 states. To accomplish this, as chairman and CEO she:

(1) Engaged in a rigorous board assessment ("Who was helpful and who was just taking up room?")

(2) Instituted a 15-year tenure limit for directors

(3) Transformed the composition of the board through a combination of implementing the tenure limit and asking certain directors to leave

(4) Recruited a diverse group of experienced directors with the skills and temperament needed to enable future growth

(5) Continues to refresh the board as the company changes, by means of a forthright evaluation process that is focused on the skills needed as the strategy evolves and the company continues to grow

(6) Brings in external speakers to educate the board on relevant trends, ("I try to keep them up-to-speed on outside-in versus just inside-out.")

(7) Educates the board on the company through frequent (three times a week) communication

(8) Uses the boardroom time for deep focus on strategy, with frequent updates as well as periodic deep dives

(9) Turbocharges succession planning by pairing each of the top 10 management leaders with a director for a two-year mentorship program.

She says Frontier's current board is "tenacious and courageous", and "passionate about the company."

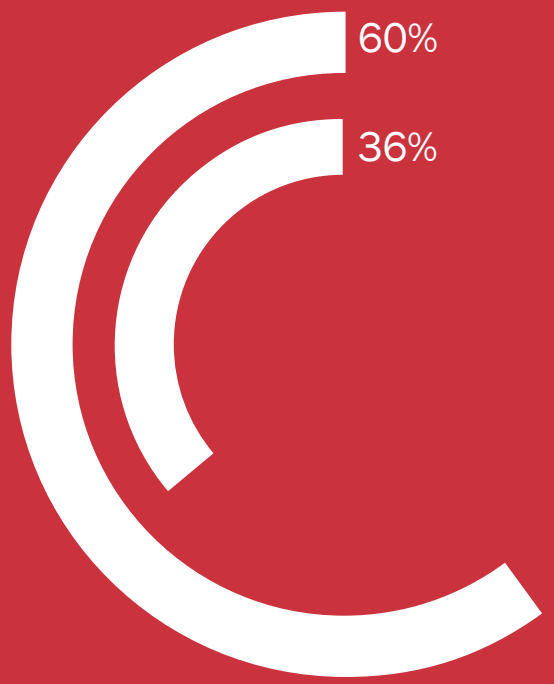
Chapter 2 Tips

Moving toward a visionary board: recommendations to consider

- Use a board matrix and update it often, to reflect the future needs of the company as well as present needs.
- Seek to keep the board's perspective broad—through diversity of expertise, industry, experience in key geographies, gender, ethnicity, and generations.
- Recruit for vision as well as experience. Do prospective directors think expansively? Are they future-focused? Do they have personal attributes that will lead them to stay relevant and add value for the next decade or more?
- Establish a process to ensure that the expectations for directors are clear and they are held accountable, including robust evaluations and appropriate follow-up.
- Develop a board succession process. Consider age and/or tenure limits, but don't rely on them exclusively, to respectfully exit directors as their expertise becomes less relevant to the company and to bring new directors with fresh, relevant experience onto the board.

Board Tenure

According to the WCD Foundation/HBS/Spencer Stuart Board Survey, **60%** of directors believe boards should have term limits while only **36%** actually have term limits on their board.



Chapter 3

Seeing Far and Seeing Wide: Information is Key

In partnership with

KPMG Board Leadership Center

WomenCorporateDirectors FOUNDATION

globally accelerating best practices in corporate governance

"Identifying weak signals is among the top purposes of a board," says Estelle Metayer. Independent directors, because they are not embedded in the business day-to-day, are in a position to spend their time in a way that grants them access to information about trends and issues that would not otherwise be on the company's radar, says Estelle; those directors can use that information to help guide the company both offensively and defensively. "One, is making sure the company does not miss opportunities," and the other, is helping the management team avoid "blind spots."

Perceiving weak signals and understanding potential implications for the company, is the work of a visionary board. As Carmen "Toti" Graham explains, "There's no more 'my country, my company, my customers.' In order to get the full picture, the board members need to know and understand what's going on in the world, including the trends in other industries as well as in the industry of the company. This information is essential to help them anticipate changes."

Of course, directors need sufficient knowledge of the company to understand the potential implications of external events. The Commissioners recommend taking a proactive approach, both when they first join the board and continuing during their tenure, to obtain information about company strategy, risk, and culture. KPMG Board Leadership Center's *New Director Onboarding (www.kpmg.com/directoronboarding),* contains suggestions for the onboarding process and recommends that directors "own their onboarding"—working with, but not relying solely on, management to provide the information they need.

> *"Vision is the art of seeing what is invisible to others."*
>
> *—Jonathan Swift*

Learning about the company is a job that is never finished. Directors routinely travel outside the boardroom for information—to locations that are instrumental to the company's growth, to retail stores and factories, and other locations that offer access to people and observations to enhance their relevant knowledge about the company, the industry, and emerging trends. As Darrin Hartzler says, "a visionary board elicits and encourages insights from employees up and down the hierarchy, and empowers front-line staff to identify trends or problems that call for a new approach."

Information provided for board meetings should enable directors to answer "yes" to the question: "Do I have the information I need to provide the appropriate level of oversight and make informed decisions?" Susan Angele describes the conversations in a series of director roundtables that KPMG led in cities across the United States: "There are frustrations—the information from management may be scrubbed and sanitized, it may be too voluminous to be useful, and it may be too focused on short-term results and not forward-looking enough." She suggests that boards consider identifying the key metrics—nonfinancial as well as financial—that will enable them to best keep a finger on the pulse of the organization and monitor performance against short- and long-term goals. "Metrics should be leading as well as lagging, so that the board is able to track progress against the strategy. For example, in addition to profit and revenue from the prior quarter, what about metrics showing trends in R&D spending, customer satisfaction, employee engagement, and brand equity?" Once the metrics have been identified, management and the board should collaborate to develop a format—graphs, heat maps, dashboards—that will be the most useful. Information should be balanced, identifying the risks, challenges, and weaknesses as well as the successes. And, of course, information must be provided to directors far enough in advance so that they have time to read and think about it prior to the board meeting. In addition, many Commissioners receive frequent updates between board meetings, such as weekly e-mails from the CEO.

Information developed by management is only the beginning. Tshidi Mokgabudi cautions, "I've seen boards lag behind when they rely on management for all of their information." The Commissioners read reports and analyses to help round out the view of the company from an external perspective: analyst reports on the company and its competitors, financial reports and other key regulatory filings for others in the industry as well as the company, transcripts of recent earnings calls (not only for the prepared remarks, but with particular attention to the question-and-answer period), any analysis that may have been done to determine vulnerability to an activist investor (and all of the communication, if any, between an activist investor and the company), employee engagement surveys, media (including social media) commentary, studies or surveys assessing reputation or brand strength, and significant input from key stakeholders such as customers, suppliers, and regulators.

Jack Welch, the former CEO of General Electric, has been quoted as saying, "If the rate of change on the outside exceeds the rate of change on the inside, the end is near." The Commissioners are highly conscious of the importance of understanding the rate of change on the outside, not only from the perspective of risk, but also from the opportunity perspective as well. Izumi Kobayashi says, "The organization may have people who have new ideas about interesting business models. But if the board doesn't understand the market, they may turn down a great idea." Irene Chang Britt agrees that the board must bring in awareness of the external environment. "We have an obligation to be the eyes and ears of the company, to be extra eyes and ears out into the world, to say 'this is happening, I wonder how it affects company strategy.'"

Many Commissioners underscore the importance of understanding trends in technology. Irene Chang Britt says that she spends time staying on top of technology trends by attending trade shows, using social media, and reading online. She feels so strongly about the importance of this knowledge that she has often emphasized it when speaking at director education events: "This is not for fun. Technology is going to affect us, and if you don't keep on top of it, if you don't have a Facebook page, if you don't have a Twitter account, then you limit your external antennae as a board director."

Evelyn Dilsaver's board is kept informed by deep dives into the competitive environment. "Where are the competitive threats coming from, what's their business model, how do they go to market, and how are they making their margins?" Izumi Kobayashi stresses the importance of understanding the environment in which the customers operate. When she was with the World Bank she visited Africa several times, and what she saw on her travels held the key to her understanding of the market. She found towns with no electricity lines, and therefore no realistic means of operating banks or ATMs. The residents did have cell phones, which were charged at a central location powered by a generator, and this is what they used to transfer funds. As a result of this observation, she was able to recognize that the business model for these locations needed to change.

Scenario 2 that begins this report, in which the board's day begins with a breakfast with an outside academic to discuss a new trend, is based on the experience of a number of the Commissioners. Boards are bringing in academics, futurists, and others who have information and perspectives that can help keep director perspectives broad. Elaine Eisenman sits on the board of a public retail company whose chairman is also the chairman of a number of other retail companies, both publicly- and privately-held. She describes a program attended by the directors and senior executives of all of these companies: "it's kicked off with a full board education day and then followed by two days of best practices in retail where a wide variety of experts from both inside and outside the industry come in. It's a great opportunity to learn about trends and issues in the industry as a whole, and also to share ideas."

Other Commissioners use other means, such as reading and participating in director education, trade shows, conferences, and other programs and events, to stay current and see for themselves what trends are emerging and what external forces might be in play. And it is important to capture insights from a wide variety of global media and information sources. Whatever the method, the message is clear—boards that desire to become more visionary set a high bar for individual directors to engage in continuous learning.

Information bias

Information (or the lack of it) can alter the boardroom discussion in unanticipated ways. In the article "Recognizing Negative Boardroom Group Dynamics," by Katharina Pick and Kenneth Merchant, appearing in *The Future of Boards: Meeting the Governance Challenges of the Twenty-First Century*, edited by Jay W. Lorsch, Harvard Business Review Press 2012, p. 123, the authors comment on what they call "shared information bias":

"Shared information bias is the tendency for groups to spend the most time and consideration on information that is shared by most of the group members, rather than on information that may be more important or valuable but is held by one or two members of the group. This bias can create some harmful misconceptions and blind spots."

As the environment becomes more complex and boards are more often populated by directors with diverse experiences and skill sets, does this bias come into play? Is information provided by management given more discussion time than external information of which only a few directors are aware? Is air time determined by the importance of the topic—or its familiarity? Does the board assess whether the right amount of time is being spent on the right topics as part of its annual evaluation process?

Chapter 3 Tips

Moving toward a visionary board: recommendations to consider

- Insist on a balanced view of the company from management—the bad as well as the good.
- Gather information about the company from a range of sources—the media, employees in the field, external analysts, and other stakeholders such as investors, customers, the community.
- Look outside, with relentless curiosity. Read, observe, consult experts and academics outside the industry, and seek to understand how emerging issues and weak signals might impact the company.

Chapter 4

Bringing Vision to the Boardroom Agenda

In partnership with

KPMG Board Leadership Center

WomenCorporateDirectors FOUNDATION

globally accelerating best practices in corporate governance

> *There were no actual villains, just inertia.*
>
> *—U.S. Supreme Court Justice Sonia Sotomayor*

A *Harvard Business Review* article, "Where Boards Fall Short," refers to the role of the board as "help[ing] the company thrive for years to come," and suggests: "At times that mission may require pushing management to challenge the status quo, ideally before the market signals that change is desirable. At other times it may require ignoring market pressures and backing a credible corporate strategy that will take years to bear fruit." The Commissioners agree with this description and believe that both the agenda and dynamics in the boardroom are critical if a board is to move toward visionary.

The Work of the Board

As one Commissioner says, "Often, board agendas don't vary from year to year unless the company runs into a crisis. We need to step back and really assess—what are the things we need to focus on as a board? And then make sure that the agenda is structured in a way to best enable it." At a high level, the work of every board (including the board committees, collectively) encompasses strategy, risk, oversight of the business, and succession. As boards move toward visionary, the degree of emphasis and the approach toward these areas changes.

Strategy

For too long, management's routine was to present to the board a fully fledged strategic plan embodied in a well-designed presentation. A successful board meeting was one in which the plan was approved without changes. The plan was often not referred to and never seen again in the boardroom. The following year's presentation contained a new finished plan and changes from the prior year were rarely mentioned.

Expectations for the board with respect to strategy have changed significantly. The world changes far too quickly—and events that should cause adjustments to the strategy come from too many directions—for an annual discussion to be frequent enough. And while the board must not overstep management when it comes to strategy, involvement at the appropriate level by a diverse, informed, and collaborative board can reveal blind spots, uncover opportunities that may not have been considered, and sharpen both the strategy itself and the planning needed for execution.

As directors consider the progress of their boards on the path toward visionary, the Commissioners offer these practical suggestions:

- **The agenda** – Consider a three-pronged approach to oversight of strategy: (1) a planned deep dive at a periodic off-site, (2) deconstructed components of focus throughout the year, and (3) a holding spot on every agenda. Most boards currently allocate one to two days for a periodic off-site that includes the leadership team as well as the board. The more open discussion and collaboration that is incorporated into this off-site, the more productive it is likely to be. In addition, a number of boards focus on key strategy-related issues during the course of the year. Consider crafting an agenda that includes internal and external perspectives focused on a key topic such as the competitive environment, talent, etc. And consider using the holding spot as a tool, such that development of the agenda for each meeting begins with reference to a template that includes an entry for discussion of a change in the environment that impacts strategy. The value of this approach is that it will keep the question top of mind. Even if there is nothing to discuss and the item comes off the agenda for a particular session, the chair and CEO will nevertheless have considered the question in the context of setting the agenda.
- **Identification and response to disruption** – Estelle Metayer explains the importance of identifying weak signals, and emphasizes that one of the important attributes of a visionary board is the outside perspective. While management is deep in the day-to-day business of running the company, the board will see trends in other industries, other geographies, and emerging technologies that can have a significant impact on the company over the long term. Consider whether sufficient attention is paid to discussion of the implications of relevant weak signals.

- **The "push and pull"** – Take time out to consider the degree of alignment between what management needs and what the board is providing. For example, should the board push harder for management to experiment and respond quickly to changes in external forces? Alternatively, is the board a voice on management's shoulder saying "wait, have you considered this?" In the experience of the Commissioners, both of these are needed at various times, and knowing when to take each approach can help sharpen the strategy and ensure that the company is moving at the right speed. Taking the time during an executive session to reflect on this issue and assess what's working and what can be improved can raise the game of the board as a whole.

Risk

As a matter of good governance, boards should consider their approach to the oversight of strategic, financial, operational, compliance, and reputational risk. The Commissioners recommend that the board oversee both the process for identification and management of risk, and also each of the key identified risks. One Commissioner says that in her experience, the risks should be allocated by the governance committee to ensure that each key risk has a "home," and the overall workload among the board and committees is reasonably balanced. While some boards have established risk committees, others allocate risk across committees, with strategy-related risk remaining the province of the full board.

Lucy Nottingham emphasizes the importance of a "risk-aware" board. A study supported by Marsh & McLennan Companies, conducted with the National Association of Corporate Directors (NACD) and Association for Financial Professionals, highlighted the frustrations with risk communication between the C-Suite and the Board, with directors noting that too often the information provided did not align to the organization's strategic and operational objectives. (See: http://www.oliverwyman.com/insights/publications/2014/feb/risk-communication-2014.html#.VvP360bxU3I). A more robust dialogue begins with a discussion of risk appetite, the amount of risk that the organization is willing to take in pursuit of value. If the conversation has not taken place, says Lucy, "the company will tend to stumble to a common understanding" with

Companies in Emerging Markets

Darrin Hartzler describes additional considerations relevant to companies in emerging markets: "Most of them are family firms, and board members are often overly deferential to imperial CEOs in these companies. Independent directors who keep a keen eye on trends, new technologies, and foreign entrants into other markets can help the companies anticipate and get out in front of what might be coming to their home market. Visionary boards in these markets are those that are able to help the company transcend the vision of the founder to update the company's strategy while respecting the traditions and identity of the firm. Outside directors from abroad—from the region or from global business centers—are often granted elevated status on the board due to their experience, and bringing these people onto the board can be useful in opening debate, particularly if they first establish relationships of trust with management and the other board members." As Carmen "Toti" Graham points out, "Companies in emerging markets are becoming more globally focused due in part to multiple free trade agreements, global finance and accounting requirements and organizations such as OECD (the Organization for Economic Development). As they participate more in the global stock and bond markets, their practices are coming under increasing scrutiny, and boards are working to enhance corporate governance."

the board frustrated with the information it receives to enable risk oversight. According to the 2015–2016 NACD Public Company Governance Survey, only 23% of public companies outside the financial services industry have a formal risk- appetite statement. Lucy says the exercise of developing such a statement is highly valuable: "the process and the conversation help illuminate the linkage between strategy and risk and lead to more integrated assessments. The risk appetite discussion provides a mechanism to assess strategy in the context of understanding the risks and what would be involved in managing them. Then the board is better equipped to say 'Is this what we want the company to take on? Is this what the company can take on?'"

In considering strategic risk, visionary boards not only assess the risk of acting, but also the risk of **not** acting. Continued success without vigilance leads to "status quo" risk: loss of standing in a changing marketplace. Elaine Eisenman describes the action taken by a shoe retailer when a new competitor emerged a number of years ago offering what was then considered an odd concept—selling shoes online. There was significant skepticism that consumers would buy shoes they couldn't try on, but the board took the risk of disruption seriously and encouraged management to make an investment, consistent with the company's risk appetite, to understand customer behavior with respect to online shoe sales. "We recognized that the more you try to create a safe space for your company, the more you're ensuring its failure," she says. As a result of these learnings, the company has developed an omnichannel presence (online, in-store, mobile), and the company president recently said that customers who shop through multiple channels spend two to three more times than those who shop in one channel only.

As Estelle Metayer says, an important role of the board is in pointing out management's "blind spots." A director who foresees a risk that hadn't otherwise been contemplated can make all the difference. Has management fallen in love with an acquisition in a country where it does not have sufficient understanding of the marketplace? Is the focus so strongly on short-term results that compliance is at risk? Is the organization moving too slowly (or too quickly) in executing on the strategy? By asking the right question at the right time, a director can cause management to develop plans to address a concern before it becomes a problem.

Regulation can also be a highly significant risk, both due to changes in the regulatory landscape and to changes in the company that can lead to gaps in compliance. Particularly in emerging markets, regulatory change can be frequent and substantial. For companies in these markets and also for companies in highly regulated industries, such as financial services and healthcare, greater foresight by the board, aided by regular briefings from the company's legal counsel and/or compliance officer, can be critical.

The organization: leadership succession, talent, culture

To quote Jack Welch: "An organization's ability to learn, and translate that learning into action rapidly, is the ultimate competitive advantage." ("Taming the Info Monster," *BusinessWeek*, June 22, 1998.) Many of the questions related to organizational talent and culture are more the province of management than the board. However, in the experience of the Commissioners the board can play a critical role in guiding the company to attract and retain the right leadership, align talent with strategic direction, and monitor culture.

When management members do not share the same vision, strong leadership by the board is critical. Elaine Eisenman describes a situation in which members of the management leadership team strongly and vocally disagreed with the CEO's vision for change. The board engaged in an intensive, independent review and determined that the CEO's case for change was not only consistent with, but necessitated by, the direction of the marketplace. The board's support of the CEO's position carried weight internally and externally and enabled the organization to move forward. Even in less polarized situations, strong and visible support by the board during a time of change can send a message to the organization and provide the CEO with an extra boost of confidence to execute difficult decisions.

Additionally, whether the company is public, founder-led, or family-owned, short-term and long-term succession planning is important. This is an area in which many boards fall short, particularly for family-owned and founder-led private companies. The 2013–2014 NACD Private Company Governance Survey found that 23% of companies have no process or discussions regarding CEO succession. The Commissioners recommend that CEO succession be planned

from two perspectives—what happens in the event of a sudden occurrence, and what is the long-term plan. Particularly for private and family businesses, characterizing the discussion as a routine, standing agenda item that is a matter of sound governance regardless of the CEO's age or tenure can help take emotional considerations out of the discussion. The Commissioners suggest that CEO succession be reassessed annually, and that directors consider whether the succession plan needs to be adjusted in light of changes to company size, scope, and strategy, and whether planning is taking into account the skills it takes to lead in a complex, global, connected world.

And succession planning does not end with the CEO. Irene Chang Britt serves as a mentor to executives in her companies, positioning her well to develop talent and also add personal insights to the succession discussion. As boards take steps toward the visionary they should also look hard at the talent below the CEO. Is the CFO simply counting the beans or is she/he playing a key role in strategy? Does the CIO have the business acumen to offer recommendations that will enable the company to leverage technology for full advantage? Does the head of HR know what it takes to attract and retain a strong, diverse workforce that may span three or even four generations?

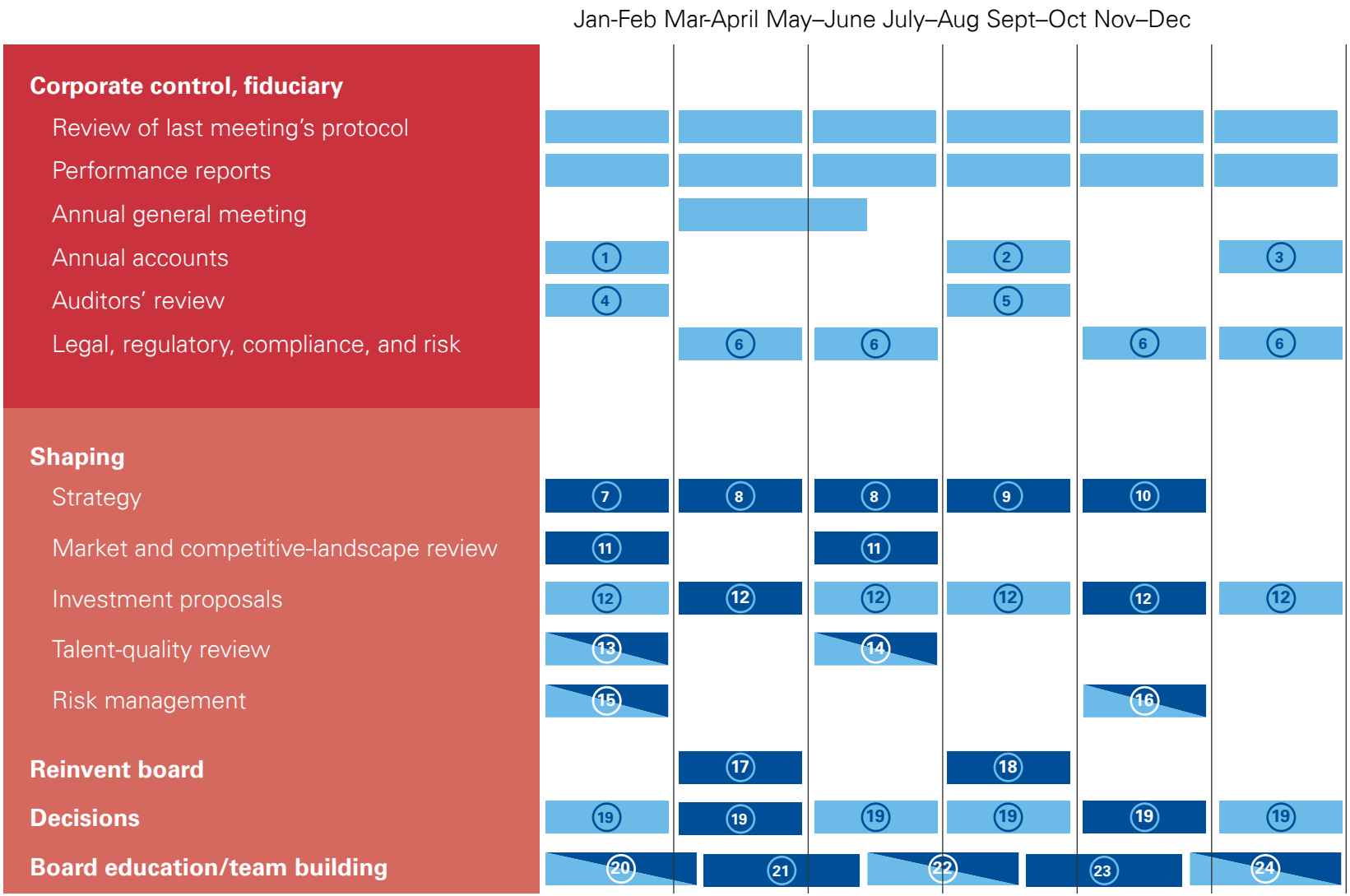
In moving toward visionary, the Commissioners recommend that the board take an expansive approach with regard to talent. "Vision without execution is hallucination," Thomas Edison is believed to have said. While organizational talent is up to management and often too detailed to rise to the boardroom agenda, boards that move toward visionary take steps to look at talent from a strategic perspective. Indeed, in a report prepared by Marsh & McLennan Companies and the NACD on *Governing the Global Company: Oversight of Complexity*, talent management was one of the top issues identified by directors of global companies. "Look for the skill areas that the company is going to need for the future," says Irene Chang Britt. As part of the strategic planning discussions, does the board seek information to understand significant talent capabilities or gaps associated with various strategic options? What is the company's approach to adding skill sets: develop internally, make experienced hires, acquire whole teams and companies or outsource? What process is followed to determine which option is best in particular circumstances? Is the organization developing talent across its operations and geographies, or are leaders being drawn from a single geography, business unit, or functional area of the organization? Are the right incentives (financial, promotional, and engagement) embedded into the organization to reach managers who can drive change? Are the dots connected—do the organizational structure, performance metrics, and compensation incentives align to keep the organization moving in the right direction?

Lastly, and perhaps most importantly, is organizational culture. One of the Commissioners recalled the classic Peter Drucker quote: "Culture eats strategy for breakfast." Assessing culture is difficult. Culture includes unspoken norms and traditions—the way things get done (or don't get done) in that spot in the organization that one Commissioner refers to as "the boiler room," referring to the places deep in an organization where day-to-day implementation takes place. Changing culture is even more difficult, but it can be done.

"We were able to move from internally focused and slow-paced to more externally focused and faster, by changes that included bringing in a number of new leaders, identifying and empowering those throughout the organization who were on board with the change, and aligning goals and incentives to strategic milestones at all levels of the organization," says Susan Angele. Directors themselves are not likely to directly change organizational culture from the boardroom, but monitoring the culture enhances understanding of the organization's true capabilities, raises red flags if culture begins to shift away from the company's values, and adds depth to discussions of strategy and leadership. Some questions to consider: What are the components of organizational culture that made the company successful to begin with? Where does the culture lie across the spectra: External versus internal focus? Relationships or processes? Individual autonomy versus centralized control? Open to experimentation or risk-averse? Is there a strong culture of ethical conduct and compliance? Are the existing culture and company strategy aligned? If not, what needs to change?

The forward-looking board agenda

The Commissioners believe that the importance of keeping strategy front and center on the board's agenda cannot be emphasized enough. One Commissioner recommends comparing the annual agenda to one suggested by Christian Casal and Christian Caspar in "Building a forward-looking board," (*McKinsey Quarterly*, February 2014).



Details on selected activities (all others are self-explanatory, as labeled)

Fiduciary

1. Annual accounts
2. Annual budget directives
3. Next year's budget
4. Auditors' report
5. Audit planning approach
6. Audit committee reviews

Strategy

7. Set framework for the year
8. Define broad options
9. Outline/select options
10. Approve final strategy approach
11. Review strategic and competitive position, key performance indicators

Investment

12. Engage in ongoing review of investment proposals

Talent

13. Set talent-review objectives for the year
14. Review top 30–50 people

Risk

15. Determine risk-review objectives for the year
16. Conduct annual risk review, including mitigation approaches

Board reinvention

17. Conduct board 360° evaluation
18. Determine approach for board-process enhancement

Decisions

19. Engage in decision making, e.g., on budgets, investments, M&A, and key nominations

Board education

20. Travel with sales staff, customer visits
21. Visit R&D facilities
22. Visit new geographies
23. Inspect production sites
24. Attend customer conference

Dynamics: Encouraging Future Focus and Expansive Thinking in the Boardroom

It's not difficult to think of a circumstance in which a group of smart, informed people followed a well-established process and made a decision that could not have been more wrong in retrospect. Misjudging the challenges of entering a new geography. Overestimating the value of an acquisition. Underestimating a competitive threat. Missing a shift in customer trends. While not every board can be right all the time, the Commissioners have found that an atmosphere that encourages diverse viewpoints and open discussion dramatically increases the odds of getting it right.

Board culture can be changed to be made more open, but it isn't easy. "When I first joined my board," Izumi Kobayashi says, "it was quiet, and it almost seemed that there was some sort of agreement that we would not ask difficult questions." Izumi spoke up and continued to make comments and ask questions. Eventually, the culture of the board changed, as the other directors also become more active and engaged.

In the experience of the Commissioners, there are different types of practices that can help in creating the right environment for open discussion. Evelyn Dilsaver describes a board where the CEO lists three things that went well and three things that didn't go so well at each meeting. She says this helps avoid potential situations where "you know something is going on, but you never see the CEO acknowledge it."

Other Commissioners create the right atmosphere through use of questions. Irene Chang Britt asks the CEO at her company "what keeps you up at night?" and opens discussion of potential disruption with the question "what if?" Jana Schreuder asks "the five whys", digging deeper and deeper into an issue with each "why." She says that once you get past the first few "whys" you get beyond the surface assurances and into a deeper, more thoughtful conversation. And Estelle Metayer says a lot of useful input comes up when the chairman of one of her boards systematically goes around the table and asks each participant, "is there something we've missed?"

Jim Kristie references the importance of flushing out and examining dissenting views when key decisions are being made. He recalls the discussion he published in his Second Quarter 2012 issue of *Directors & Boards* Magazine, pp. 20–21, regarding the designation of a "devil's advocate" to identify and articulate the best arguments against a recommended decision. By designating an individual to present the opposing view, the key information and arguments on both sides can be examined objectively before a decision is made. A similar concept, of two different management teams, each of which is tasked with presenting the best case for or against a position, respectively, has worked well in the experience of a number of the Commissioners.

Another useful meeting tool, according to Kent Thiry writing in *Directors & Boards*, is around-the-room feedback and comments after a significantly robust discussion. "If at least 40% of the total board time is not a general and engaged discussion, as opposed to directors listening to presentations, you are at serious risk of getting far less value…." Thiry writes that this practice brings out insights that would not otherwise have come up during the course of the discussion—linking the decision to other big issues facing the company, or pointing out implications not previously considered such as organizational issues, capital markets issues, implementation challenges, or potential reputational impact.

Julie Allen says that when the board is confronted with a crisis, the level of anxiety can make sound decision-making difficult. She describes a situation in which it made all the difference that one board member, as well as the board's advisors, had experience with issues similar to the one facing the board. They were able to help the board "stay calm, filter out the noise, and focus on the endgame." This enabled the board to pull together as a group, and ultimately engage in a highly successful transaction. Experienced outsiders can also help when it comes to discussions about strategy, in Jyoti Narang's experience.

Estelle Metayer describes the importance of raising questions in the right context. "If someone says 'what about blockchain' when everyone is getting ready to leave, it gets lost." She suggests that directors share information about what they're seeing externally, and build in time to discuss the implications. "If the intelligence we have is not consistent with the company's vision for the future, we can say 'management, please pay attention to xyz, or alternatively, can you explain why this is not important to you?'"

And Phyllis Campbell and Gabrielle Sulzberger offer a sound reminder to make sure you understand the culture, particularly for directors who serve on boards outside their home country. In some regions, says Phyllis, the concept of "debate" in a boardroom would be inappropriate, while a softer approach might lead to a more effective discussion about the issues. On the other hand, Gabrielle says, constructive debate is expected in boardrooms in the United States, Israel, and elsewhere.

The Board's Relationship with Management

The Commissioners stress the importance of exercising emotional intelligence to keep the conversation constructive. The wrong tone, as one Commissioner cautions, can demoralize management: "Be careful not to create a 'flock of pigeons' effect, where the board swoops in, makes a big mess and then flies away." With a strong management team, a well-informed, insightful board, and the right tone, discussions will be collaborative, far-reaching and productive. Getting the tone right takes emotional intelligence. As Estelle Metayer says, "You want to be supportive but at the same time get them thinking about things they may not have looked at. There is a fine balance between management knowing you're there to support them but at the same time to push them as well."

Asking thought-provoking questions can help keep the focus at the right level. Consider an open and free-flowing discussion including the board and senior leadership at which questions such as these are raised:

1. Is at least one emerging competitor in our industry following a different business model—even if at the moment that model looks financially unattractive?
2. Is the way we make money aligned with how value is created for customers? Are customers balking at price increases or added fees?
3. How durable are the key components of our existing business model—things like the customer value proposition, resources and processes, and the profit formula? Are any at risk of being undercut by external forces or new competitors?
4. Will the strategic assumptions that underlie our business model—assumptions about risk, differentiation and growth—hold true as our industry changes?

Quoted from "Knowing When to Reinvent," by Mark Bertolini, David Duncan, and Andrew Waldeck, Harvard Business Review, December 2015.

The Psychology of Decision-making

One Commissioner said that unconscious bias can negatively influence decision-making. She suggests reading "Cognitive Bias in Director Decision-Making," by Delaware Vice Chancellor Travis Lester. In the article, Vice Chancellor Lester writes:

"Groupthink is the most important bias for boards of directors to watch out for. People inherently desire harmony and tend to avoid speaking out. No one likes to make waves in a group. Dissent does not have to be suppressed with an iron fist; it can be suppressed more easily through social ties. People even self-suppress: they avoid raising matters that are uncomfortable."

He says that understanding cognitive biases and seeking to minimize their impact can lead to better decision-making. As you consider the potential impact of groupthink on your board, also consider how these other common psychological biases might be impacting the board's decisions (all bias descriptions are derived from Vice Chancellor Lester's article):

Anchoring – This is the tendency to develop an estimate by reference to one that has already been expressed. For example, the article cited a study in which estimates were made by reference to a suggested number, even though the suggested number had been selected at random. If management estimates the size of a potential market, does the board anchor its assessment on the estimate or does it dig in to understand management's assumptions?

Framing – How a problem is described may impact the outcome. Is the board less willing to take a risk on an opportunity if there is a question about the likelihood of gain, but more likely to take a risk on the same opportunity if the directors believe there is a chance the initiative might help avoid loss? By looking at a decision from different perspectives, framing bias can be minimized.

Confirmation – It is human nature to place greater weight on facts that support a preexisting view than on facts that counter against a long-held belief. The more successful and confident an individual is, the more critical it is for them to consider and remain on guard against this bias. A diverse board of independent thinkers with differing viewpoints (and differing biases), can help.

The Role of the Chairman or Lead Director

As expectations rise around the globe for stronger, more effective—and visionary—boards, a brighter light is being shone on chairmen and lead directors to create an environment and culture for the board to maximize its potential. “The act of simply separating the CEO and chair roles does not gurantee independence, effectiveness, or long-term focus,” wrote Ronald P. O’Hanley, president and CEO of State Street Global Advisors, to the board members of companies held by one of the largest asset managers in the world. “Attention should be placed on the overall manner in which a company empowers their board to be more independent. This requires us to ask tough questions and truly engage with company leadership and their boards to understand the effectiveness of their governance structures.”

Tough questions and engagement from asset owners and asset managers is only a start. In the minds of the Commissioners, effective questioning and engagement has to be embraced and embodied by board leaders themselves. “The chairman must be both a visionary thinker as well as understand the role of chairman,” says Tshidi. “Open-ended questions allow the board to fill in the answers, as opposed to closed questions that drive an agenda. Then, when more direct questioning is required, knowing to whom to direct those more pointed questions helps drive more vibrant discussions by bringing in diverse views.”

But the chair or lead director’s vision must also see beyond the board and c-suite. “A visionary chair encourages management to bring in senior leaders from around the business. It’s about scheduling time for the future...the people who are actually running the businesses.” And Maria cautions about the negative effects of an “overly strong chair.” “The environment has to support directors who can leave ideology behind,” she says. “You’re no longer a political animal.”

Chapter 4 Tips

Moving toward a visionary board: recommendations to consider

- Design an agenda that keeps strategy and the factors that affect it – front and center.
- Oversee risk broadly—strategic risk as well as financial, operational, reputation and compliance risk.
- Monitor succession planning of critical roles, not just the CEO, and ensure that the overall talent strategy supports the strategic plan.
- Pay attention to boardroom dynamics, and look out for biases that might impact decision-making.

Chapter 5

360 Vision: External Forces

In partnership with

KPMG Board Leadership Center

WomenCorporateDirectors FOUNDATION

globally accelerating best practices in corporate governance

> *"Change is the law of life. And those who look to the past or present are certain to miss the future."*
>
> *—John F. Kennedy*

Visionary boards—those that are future-focused and expansive in thinking—by our definition, take a broad perspective and consider the implications of external forces. As many of the Commissioners have pointed out, boards must ensure that their companies understand and constantly evaluate three critical external forces: (1) the continuing rise of shareholder/investor influence on public companies; (2) the fast-paced changes and disruptive impact of technology, and (3) societal and environmental forces. Effective boards monitor these issues from a defensive perspective. Visionary boards also consider how these forces can be leveraged for long-term growth.

Investors

Those who have not been directly approached by activist shareholders often fail to anticipate the intense scrutiny that accompanies such an approach. As those Commissioners who have experience with activist shareholders attest, the approaches tend to be well-funded and backed by extensive data on the company and the industry. Activists directly and publicly challenge company strategy and operational decisions, often seeking to join the board and, in some circumstances, calling for the resignation of the CEO and some or all of the sitting directors. The term "activist shareholder" covers a broad spectrum, from sophisticated investors who bring data and insight regarding the company's strategy and operations, to more transactional agents who seek nothing more than a quick boost to the company's stock price.

As a separate but related force, large institutional investors are becoming more vocal regarding their expectations for the directors they, as shareholders, elect. Their influence has increased—for a company that has been approached by an activist investor, having its top investors understand the company's strategy and know and respect its board and management provides a critical defense.

The Commissioners recommend that boards of public companies closely follow the numerous activist approaches that play out publicly in the media, to assess potential implications for their companies, and consider the following:

- Work with an external expert to periodically assess the company's vulnerability to activist investors, and ensure that a plan is in place if the company is approached. According to the NACD 2015–2016 Public Company survey, more than 45% of the approximately 1,000 survey respondents do not have a plan to respond to a challenge from an activist investor. The Commissioners stress the importance of evaluating objectively, without defensiveness or bias, critiques and recommendations that come out of an assessment as well as those that come in the form of a letter from an activist. As Julie Allen says, "You just have to be open minded. Your perception may be that Darth Vader is coming, but often something they're saying is actually right."
- Insist on an appropriate and well-managed process for engagement with top investors. The board should assess management's strategy for engaging with investors and the key messages being communicated. In addition, a strategy for director engagement should be considered. One director, such as the nonexecutive chair or lead director, may be selected to serve as the face of the board to investors, in coordination with management including the head of Investor Relations, and the general counsel or corporate secretary. Investors who hear directly from the board about issues such as CEO succession planning, executive compensation, and the board's role in strategy, gain knowledge and develop relationships that provide comfort that the directors are doing their job in governing the company.

Moving from defensive toward visionary, the Commissioners suggest that directors ask this question: What can we learn from those of our stakeholders who have a long-term focus and a thoughtful, external perspective informed by teams of researchers engaged in studying and analyzing the company? This approach is a reframing that may lead directors to consider the same information, such as vulnerability studies and investor feedback, from a deeper perspective. Is there particular data or a particular metric that is important to investors that the board has not sufficiently considered? Would the company benefit from stronger integration between strategy and governance? One of the Commissioners relates a comment from an investor regarding concerns about a siloed approach among many board committees—committees assessing risk, compensation, and board composition often act independently, when ideally, all would link seamlessly to support and inform company strategy. Whether or not these concerns might require defensive measures, a visionary board looking from the opportunity perspective can assess how these enhancements might be adopted to elevate the game and increase the board's ability to drive long-term value.

Apart from issues affecting public companies, challenges can arise in private companies as well. A number of Commissioners suggest that independent directors of private companies ensure that they develop a strong understanding of the (potentially conflicting) goals and concerns of their various investors. If the company is family-owned, how are different family interests managed? What about any outside investors —what are their goals and what is their time frame? Directors of family-owned businesses will find a discussion of these issues along with practical suggestions in *Enduring Across Generations: How Boards Add Value in Family-Owned Businesses*, the 2015 WCD 2015 Thought Leadership Commission report.

What Investors Want Boards to Know

NACD's *Investor Perspectives: Critical Issues for Board Focus in 2016,* reflects input from the investor community. Among the topics were questions that the investors indicated boards should consider, including:

- How well does the board understand the specific priorities of our company's top shareholders?
- Do our investors understand how the board provides oversight and guidance to management on business strategy and the oversight of risks, with an eye to medium- to long-term performance?

Technology

Any consideration of visionary boards must address technology, and the first question should be whether the board is sufficiently capable of even knowing what questions to ask and how to assess the answers. Does the board include one or more tech-savvy directors? Does it have access to a technology advisory board or external advisors? If the answer to both of these questions is "no," it is simply impossible for a board to be visionary in today's world, and depending on the industry, it may not even be effective.

Given the impact of technology and the speed of change, boards should be in a position to understand the implications from an opportunity perspective as well as from a risk perspective. What is the company's technology strategy? How does management stay on top of trends? Has management appropriately leveraged the opportunities associated with data analytics, the cloud, social media, mobile, platforms, the Internet of Things, 3-D printing? Is the company's head of technology a business-savvy strategic thinker with a seat at the leadership table, or simply a technician who keeps the computers running? Are there technological advancements, within the industry or elsewhere, that might provide a strategic advantage? Boards approach technology and cybersecurity in different ways. Some have established committees to focus on these issues and others consider it the responsibility of the full board. The key is to ensure that these issues are appropriately considered and discussed.

Cybersecurity: Three questions to ask

While most directors understand that they are expected to monitor cybersecurity, there is room for improvement in the quantity and quality of the information they receive. In a global survey of 1,000 IT executives, only 22% said their IT security lead briefs the board on cybersecurity strategy. (2015 Global Megatrends in Cybersecurity, p. 3, sponsored by Raytheon, Ponemon Institute February 2015.)

The United States Securities and Exchange Commission (SEC) issued a clear warning in 2014 in a speech by former SEC Commissioner Luis Aguilar: "boards that choose to ignore, or minimize, the importance of cybersecurity oversight, do so at their own peril". (Remarks at New York Stock Exchange Conference, June 10, 2014.)

- As suggested in KPMG's *Connecting the Dots: A Proactive Approach to Cybersecurity Oversight in the Boardroom*, consider these questions:
- What are the new cybersecurity threats and risks, and how do they affect our organization?
- Is our organization's cybersecurity program ready to meet the challenges of today's and tomorrow's cyber threat landscape?
- What key risk indicators should I be reviewing?

The Disruptive Dozen

Consider the implications of these trends, profiled in *No Ordinary Disruption: The Four Global Forces Breaking All the Trends*, by McKinsey:

1. Genomics
2. New Materials
3. Energy Storage
4. Advanced Recovery of Oil and Gas
5. Renewable Energy
6. Robotics
7. Autonomous Vehicles
8. 3-D Printing
9. Mobile Internet
10. Internet of Things
11. Cloud Computing
12. Automation of Knowledge Work

Is there someone in management—or on the board—who is familiar with these trends and understands the risks and opportunities they may present to the business?

"Generating sustainable returns over time requires a sharper focus not only on governance, but also on environmental and social factors facing companies today."

—Larry Fink, CEO of BlackRock

Environmental and social considerations

KPMG's *Boardroom Questions: Corporate Citizenship and Sustainability – profit meets purpose* summarizes how issues such as climate change, income inequality, and environmental sustainability might impact companies over the long term. Potential implications for directors to consider include:

- **Reputational risk**: Brand and reputational damage if a corporation or its suppliers are seen to be harming society or the environment
- **Commercial and financial risk**: Potential impact on profitability. Expansion plans could be at risk, particularly in markets that have less trust in business
- **Legal risk**: Regulators and investors may take legal action over social and environmental issues
- **Social risk**: Action by workers, communities or the public can interrupt operations

- **Regulatory risk**: Increasing amounts of regulation on social and environmental issues heighten the risk of non-compliance
- **Physical risk**: Operations and supply chains are at risk from the physical impacts of climate change such as flooding and storms
- **Also consider talent risk**: The inability to recruit and retain the best talent the company needs; if potential candidates and employees see a gap between their values and the values of the company.

The Commissioners recommend considerations of these issues, from both a risk management perspective and an opportunity perspective. For some companies, these issues are already top of mind throughout the organization when decisions are made. For others, they are considered only sporadically or not at all. If not already part of the organization's DNA, visionary boards can ensure that the right questions are raised.

As millennials grow in impact as both customers and employees, these questions will become integral to a company's ability to attract top talent and satisfy customer needs. And, in the opinion of the Commissioners, they are not on the radar as much as they should be. The WCD/HBS/Spencer Stuart 2016 Global Board Survey results indicate that less than 15% of the approximately 4,000 directors counted issues such as economic justice, environmental sustainability, or equal rights for women among the top three political issues most relevant to them as a corporate director. However, company stakeholders are highly interested in social responsibility and sustainability issues—$1 out of every $6 under professional management took social responsibility-related issues into account, and a leading recruiting firm calls sustainability and social responsibility issues a "beacon for top talent." Halla Tomasdottir says that in her experience, people "expect their companies to do well with all stakeholders and show real concern for people and community as well as the environment in the way that they do their business." She views this as "a very hardcore issue," and says "I just don't think you can maximize shareholder wealth anymore without really appealing to people that are asking corporations to be very different agents of behavior in our societies."

Darrin Hartzler suggests engagement with stakeholders, including international non-governmental organizations (NGOs), regarding new projects that will have a large impact on the local community in emerging markets. He says, "While engagement with NGOs is becoming the norm for large international players, only visionary local firms engage, demonstrating sensitivity and understanding of the great threats posed by environmental and social risks. Visionary boards insist on robust engagement on these issues. International companies also recognize that they are held to a higher standard than local companies, and are often a target of NGOs. They need to be able to navigate in this area with care."

And Jane Diplock points to the growing global importance of Integrated Reporting, which brings together financial, environmental, social, and governance information. More and more, global stock exchanges and investors are recommending integrated reports, and for good reason—the guiding principles developed by the International Integrated Reporting Council Board on which Jane serves as lead independent director and deputy chair are:

- Strategic focus and sustainability of the business model
- Future orientation
- Connectivity of information
- Responsiveness to stakeholders and inclusiveness
- Conciseness, readability, and materiality.

This framework for reporting also proves valuable in the boardroom. "As a board, you're seeing a more holistic view of how you look at your company and what you take into account when you're looking at a risk analysis and valuation," Jane says. "Integrated thinking changes the way the company looks at itself and how investors look at it."

Visionary boards recognize the importance of this holistic view, and can push to ensure that sufficient attention is paid to social responsibility and environmental sustainability, both from a risk perspective and for competitive advantage. The link between these issues and long-term value is summed up by Nestle, one of the largest food companies in the world, in its 2014 Annual Report to Shareholders:

> "... to be successful over time we need to create value for our shareholders while at the same time creating value for society.... To prosper we have to take a long-term view, framed in a robust set of principles and values that are based on respect: respect for people, respect for the environment, and respect for the world we live in."

Recovering from Crisis: The Long-Term Perspective

Jyoti Narang was an executive at the company that owns the Taj Hotel in Mumbai, India, in 2008, when it was overrun by terrorists who staged coordinated attacks across the city that resulted in the deaths of over 150 people. In the aftermath, the company did far more than would have been done if they were simply looking at options from the perspective of a measurable short-term return on investment. “No employees were laid off while the hotel was closed for repair. The company set up a trust for victims and families that were hurt across the city. And when we redid the hotel it was bigger and better.” These are the sorts of decisions that, while not easily quantifiable, build and sustain reputations and loyalty. While decisions like these are typically the province of management and not the board, a board that sees the broad picture assesses the company’s crisis preparation and priorities, and plays an important role in supporting a long-term, “people first,” approach.

Chapter 5 Tips

Moving toward a visionary board: recommendations to consider

- Seek to understand the interests of the company’s investors, and ensure that they understand the company’s long-term vision and the role of the board.
- Recognize that technology is one of the most critical forces impacting companies today, and ask how the company is positioned to maximize its opportunities and manage its risks.
- Assess the company’s position on social and environmental issues, and consider whether management’s view on these matters is sufficiently long term.

CONCLUSION

Visionary boards see far and see wide. Boards that move in the direction of becoming more visionary, by being future-focused and expansive in thinking, position themselves to better guide their companies through the volatility, uncertainty, and complexity of our global business environment.

The hallmarks of a visionary board, as listed in Chapter 1, offer a model against which boards can assess their progress by using the recommendations and practical advice in this paper to move in a more visionary direction. Are they sufficiently focused on the long term? Are they insisting on the identification and assessment of external factors that may impact the company long term? Are they anticipating disruption? Focusing on key stakeholders? Setting the right tone? And factoring long-term considerations into shorter-term goals and incentives?

This report contains a road map for boards that are looking to become more visionary. We focused on the key considerations of board composition, information, agendas, and dynamics, as well as external forces. As boards move toward visionary, they ensure that the composition of the board changes as the needs of the company and the business environment change, and they hold individual directors to a high standard of accountability. Directors gather the information they need from a broad range of sources, to help them as they assess the implications of external changes, and so that they can help management see around corners and avoid blind spots. They follow agendas that keep a strong focus on strategy, risk and the organization's talent and culture. They operate with transparency, and respectfully challenge, paying particular attention to unconscious biases that might influence decision-making. They are externally focused, and keep the expectations of investors, the impact of technology, and the company's environmental and social impact firmly in view. And they do not allow themselves to become complacent—they are always learning, asking questions, and enhancing their practices as they move forward on a continuing journey to be visionary.

WCD Foundation Board

Susan Stautberg

Nancy Calderon

Kapila Kapur Anand

WCD Foundation Thought Leadership Commission

Susan M. Angele
Chair
United States

Catherine A. Allen
United States

Julie M. Allen
United States

Irene Chang Britt
United States

Phyllis J. Campbell
United States

Maria Livanos Cattaui
Switzerland

Patricia Cross
Australia

Julie Hembrock Daum
United States

Evelyn Dilsaver
United States

Jane Diplock AO
New Zealand

Elaine Eisenman
United States

Mercedes Eleta de Brenes
Panama

Carmen Rosa (Toti) Graham
Peru

Darrin Hartzler
United States

Fatima Al Jaber
UAE

Izumi Kobayashi
Japan

James Kristie
United States

Shawn Lankton
United States

Wendy Luhabe
South Africa

Melissa L. Means
United States

Estelle Métayer
Canada

Tshidi (Grace) Mokgabudi
South Africa

Jyoti Narang
India

Lucy Nottingham
United States

Jana R. Schreuder
United States

Gabrielle Sulzberger
United States

Halla Tómasdóttir
Iceland

Maggie Wilderotter
United States

More on the WCD Foundation Board and WCD Foundation Thought Leadership Commission members can be found at www.kpmg.com/us/wcdbios.

Editorial Staff

Judy Macdonald
United States

Director, Women's Initiatives, KPMG LLP

Ari Weinberg
United States

Associate Director, Board Leadership Center, KPMG LLP

For More Information

To download a PDF of this report, go to **www.womencorporatedirectors.com** and find the Thought Leadership Council page under "WCD Initiatives," or go to **http://www.womencorporatedirectors.com/?page=_ThoughtLeadership**.

A copy of the report can also be found at **kpmg.com/us/wcd**.