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BOARD PERSPECTIVES: Risk Oversight

IS YOUR BOARD FUTURE-READY?

Most organizations face an uncertain future that will be shaped by a mix of exciting market opportunities and emerging threats. With unrelenting, continuous and disruptive change the norm, board members must ask themselves a fundamental question: “*Are we future-ready?*”

“Future-ready” may strike some as another buzz term. If one can set aside the initial skepticism and take stock of the ever-increasing complexity in the business environment, the term raises an important question when used in the context of the capabilities of a given board and the strategic underpinnings of the company it governs. Simply stated, do the board’s composition, focus and agenda position it to best serve the company? Is the board ready to represent its stakeholders and achieve sustainable, long-term growth and profitability?

Key Considerations

The term “future-ready” captures an action orientation that directors should consider carefully as they strive to increase the confidence with which they face a dynamic future. How do directors assess whether the boards on which they serve and the companies they oversee are truly future-ready? Below are eight suggestions for preparing to be a future-ready board.

Engage in big picture, out-of-the-box, bold and disruptive strategic thinking. Enough agenda time and focus should be allocated to engage in future-oriented thinking. Future-ready boards integrate disruption considerations into setting strategy, challenge strategic assumptions, explore “what if” questions, review scenario and contrarian analysis results, consider mergers and acquisitions and partnering opportunities, and reimagine the company’s position within the value chain. The future-ready board is resourceful in discovering outside perspectives and integrating them into the dialogue with management to stimulate fresh points of view about market developments and trends and their strategic implications — particularly when there are shifts in strategic context.

For example, the future-ready board is sensitive to the vital signs of disruptive change and acts on those signs in pursuing market opportunities and addressing emerging risks. It is proactive in ensuring that management integrates disruption considerations into strategy-setting, performance management and decision-making and insists on addressing disruptive risks in discussions with management. The prepared board is committed to continuous education and networking both in and outside the industry while striving to learn as fast as the world is changing.

When warranted, challenge the CEO and management team to take a long-term focus in a constructive manner. The focus of a future-ready company is on balancing the entrepreneurial drive to create enterprise value with the appropriate prudence to protect enterprise value. The right mindset is to achieve this balance consistent with the board- and CEO-approved risk appetite, such that neither the emphasis on creating value nor on protecting it is too disproportionately strong relative to the other. To support

this balance, the future-ready board must have a deep understanding of the business so it can add value to the CEO’s decision-making in a constructive manner. It should consist of a diverse group of independent directors who are prepared to challenge key assumptions underlying the strategy and business model, evaluate management and company performance, exercise appropriate due diligence, and ask the tough questions when necessary — all with the objective of supporting the CEO in delivering long-term shareholder value.

Ensure management focuses on appropriate sustainability objectives while delivering acceptable financial results. The future-ready board is mindful of the developing interest in the impact of environmental, social and governance (ESG) issues on long-term value creation, and ensures that management keeps ESG in focus when formulating strategy and policy. There are evolving business cases around ESG performance and reporting, voluntary initiatives and disclosures by competitors, and the specter of possible regulation, legislation and proxy battles in specific ESG areas, particularly climate change and diversity. All fuel the future-ready board’s focus on integrating sustainability considerations into the strategy-setting process.

Foster diversity in skills, experience and perspectives in the boardroom, C-suite and management ranks. Diversity starts at the top. Emphasis on diversity in director selection and in the C-suite facilitates the desired diversity outcomes within the executive ranks and throughout the organization. Gender diversity and pay equity are important priorities in many industries. The future-ready board understands that a diverse organization is likely to be better positioned to attract and retain top talent, expand into new markets, and gain and sustain competitive advantage. Most

importantly, it is focused on maintaining a talented, diverse executive bench that facilitates succession plans.

Think and act digitally. The future-ready board has access to the expertise and experience needed to understand how digital disruption can affect the organization and its business model, value proposition and industry. For example, it has an eye on the demographic, social and technological trends affecting the workplace and ensures that management has processes in place to evaluate their implications to the company's labor model and make adjustments as necessary. It encourages management to align the velocity of the organization's key decision-making processes to the speed of change. It also encourages management to be immersed in digital business concepts, building digital ecosystems and leveraging digital hyperscaling platforms that can facilitate rapid growth. A future-ready board ensures that management digitizes new and enhanced products and services to strengthen customer engagement and relationships and deploys digital technologies to improve operational performance and information for decision-making.

Focus on innovation performance. The future-ready board allocates time for discussing the company's innovation strategy and culture. It encourages open discussion on direction and progress. It insists on supporting the dialogue with appropriate innovation-specific metrics. The scorecard should tell the full story of how the innovation and growth strategy is performing relative to competitors, customer feedback, return on investment

targets and the effectiveness of the company's innovation culture and capabilities.

Foster effective communication with shareholders. The future-ready board places a premium on communicating with shareholders in proxy reports, at annual meetings, and through other venues in accordance with the securities laws on relevant topics (e.g., CEO evaluation and succession, executive compensation, the board's nomination and selection process, strategic direction, and emerging issues).

Nurture a flexible, adaptive, resilient and ethical culture. Future-ready directors ensure that the incentives and reward system in place for management are in line with the company's risk appetite and that the organization is sufficiently adept and agile in navigating change in a complex, changing business environment. They work closely with the CEO to ensure that the company's culture is aligned with the enterprise's strategy and core values, the mood in the middle is aligned with the tone at the top, and any gaps between the current and desired cultures are addressed in a timely manner.

The above suggestions are not intended to be exhaustive, but they represent a good start at improving the board's future readiness. There is, of course, the inevitable need for "blocking and tackling" around board oversight of matters such as executing strategy, establishing accountability for results, and monitoring and reporting on performance. In addition, the board must be reputation and brand image conscious. But these oversight activities alone will not deliver future readiness.

Questions for Boards

Based on the risks inherent in the entity's operations, has the board considered the above suggestions to enhance its future readiness?

How Protiviti Can Help

Protiviti assists boards and executive management with assessing the enterprise's risks, either across the entity or at various operating units, and the capabilities for managing those risks. We help organizations identify and prioritize the critical enterprise risks that can impair their reputation, brand

image and enterprise value. Our intent is to help companies increase the robustness of their business strategy and confidence in facing a dynamic world through better anticipation and management of risks arising from the strategy, as well as risks to successful execution of the strategy.

Is It Time for Your Board to Evaluate Its Risk Oversight Process?

The TBI Protiviti Board Risk Oversight Meter™ provides boards with an opportunity to refresh their risk oversight process to ensure it's focused sharply on the opportunities and risks that truly matter. Protiviti's commitment to facilitating continuous process improvement to enable companies to confidently face the future is why we collaborated with The Board Institute, Inc. (TBI) to offer the director community a flexible, cost-effective tool that assists boards in their periodic self-evaluation of the board's risk oversight and mirrors the way many directors prefer to conduct self-evaluations. Boards interested in using this evaluation tool should visit the TBI website at <http://theboardinstitute.com/board-risk-meter/>.

Learn more at
www.protiviti.com/boardriskoversightmeter

Protiviti is a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders confidently face the future. Protiviti and our independently owned Member Firms provide consulting solutions in finance, technology, operations, data, analytics, governance, risk and internal audit to our clients through our network of more than 75 offices in over 20 countries.

We have served more than 60 percent of *Fortune* 1000® and 35 percent of *Fortune* Global 500® companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

Protiviti partners with the National Association of Corporate Directors (NACD) to publish articles of interest to boardroom executives related to effective or emerging practices on the many aspects of risk oversight. As of January 2013, NACD has been publishing online contributed articles from Protiviti, with the content featured on <https://blog.nacdonline.org/authors/42/>. Twice per year, the six most recent issues of *Board Perspectives: Risk Oversight* are consolidated into a printed booklet that is co-branded with NACD. Protiviti also posts these articles at protiviti.com.