EY Center for Board Matters

Eight priorities for boards in 2020

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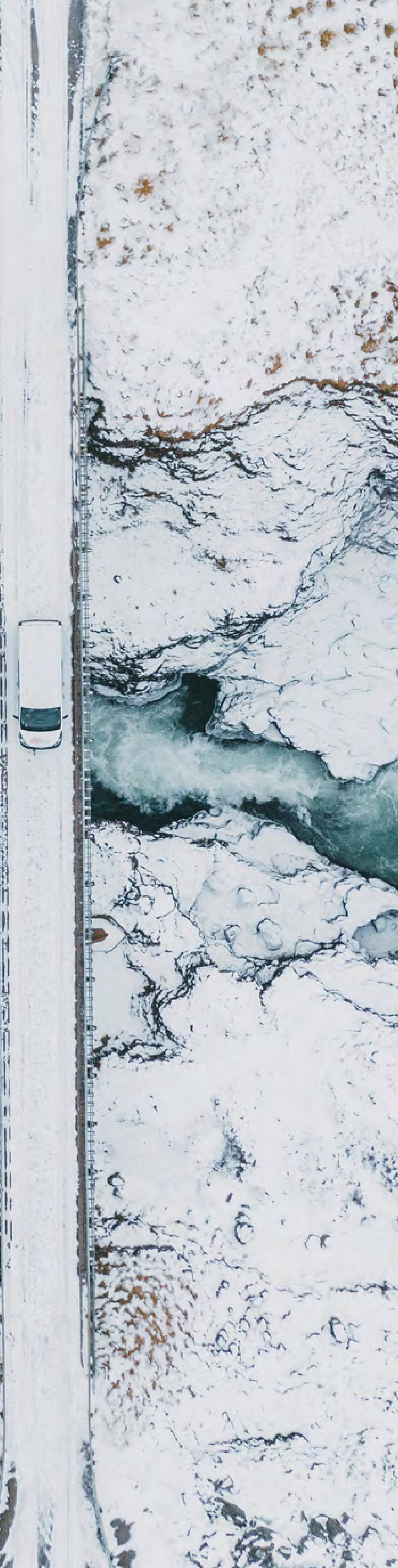
Building a better working world



Eight priorities for boards in 2020

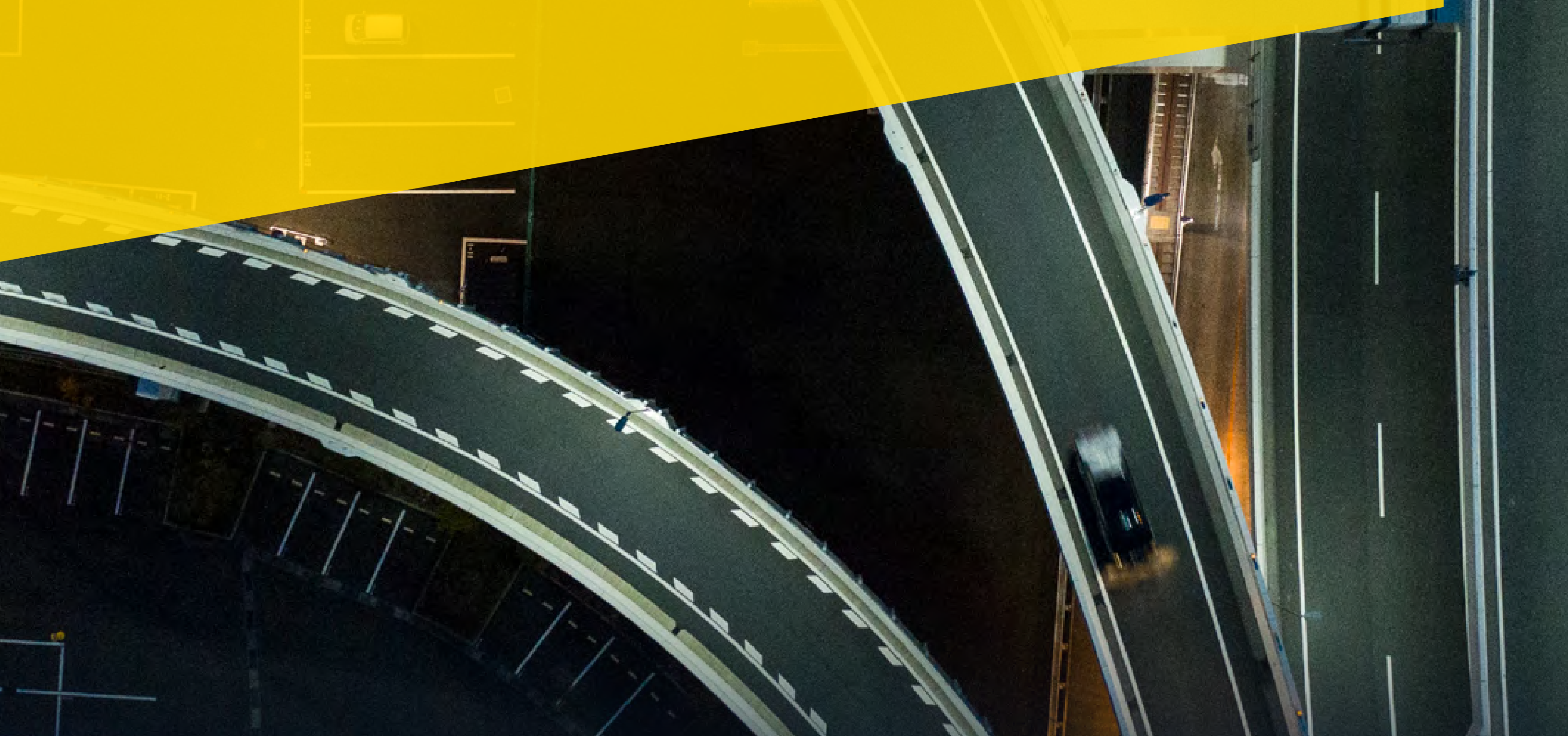
Boards will continue to be tested in 2020 as their work demands more diverse competencies, innovative thinking, complex problem-solving and stronger governance. Boards will need to allocate additional time to understand and address factors that contribute to sustainable long-term value creation while meeting urgent challenges stemming from economic, geopolitical, technology and social developments.

To support boards as they enter the new decade, the EY Center for Board Matters has identified the following board priorities for 2020.

- Strategically prepare for growth amid increased uncertainty
- Accelerate the talent agenda and activate culture as a strategic asset
- Evolve enterprise risk management
- Prioritize cybersecurity and data privacy
- Address geopolitics from a strategic perspective
- Embrace ESG as a business imperative
- Redefine and better communicate long-term value
- Take a continuous improvement approach to board effectiveness

Board priority for 2020

Strategically prepare for growth amid increased uncertainty



Questions for the board to consider

- Is the board effectively monitoring megatrends, new technologies and economic signals to gather early insights on potential impacts on the business?
- Is the board taking steps to continue bringing an *outside-in* perspective to the boardroom and keeping a pulse on disruptive technologies and innovation drivers?
- What methods is the board using to stay well-informed about key stakeholder demands, interests and preferences that can affect future strategic direction?
- Is the board allocating enough time for discussion of and planning for different economic scenarios and outcomes in a range of time frames?
- Amid ongoing uncertainty, is the board overseeing allocation of capital and other resources in a way that protects assets, optimizes operations and executes on long-term strategies for growth — both playing it safe and doubling down?

Current economic, geopolitical and social signals are mixed, creating uncertainty across business environments and requiring companies to consider both defensive and offensive strategies.

Boards must help their companies face uncertainty by embracing the duality of strategy, meaning they must strategize for challenges beyond the horizon while driving current business results.

Companies that fare best in these conditions don't just play it safe, they also allocate resources to double down on growth, even during uncertain times. This means boards must continue to influence management teams to protect assets and optimize operations while also encouraging prudent risk-taking to maximize opportunities for growth.

Taking care of and optimizing the business includes protecting the brand, enhancing stakeholder loyalty, divesting out of activities that are not core to purpose and strategy and purpose, strengthening margins and optimizing cost structures. It also means staying focused on the fundamentals such as alignment to core values and ethical behaviors, cybersecurity defenses and strong governance.

Doubling down on growth can mean investing in new technologies, maintaining a focus on R&D and innovation and strengthening customer relationships by proactively engaging to understand their current and unmet needs. It can also mean undertaking strategic acquisitions, gaining new insights through data analytics or transitioning to more agile computing.

Our research has found[1] that executives in large multinational corporations were far less likely to be focused on pursuing new market opportunities, and far more likely to be focused on securing the present in uncertain times. Entrepreneurs, on the other hand, are far more likely to look for opportunity in uncertainty to gain market leadership or first-mover advantage. Leading management teams and boards view these strategic approaches as *both-and*, not *either-or*. Deploying a dual strategy by making defensive moves simultaneously with bold actions is the best way for companies to position themselves for the long term amid increasing uncertainty.

Developing the most appropriate business responses to uncertainty requires boards and management to deepen their insights into the current and future demands of key stakeholders, including investors, customers, employees, regulators and the communities where their companies operate. Boards should have a clear understanding of business and industry megatrends and their drivers, both historical and forward-looking, and gain clear insight into what customers and employees want today and in the future. Boards that consider scenario planning for a wider range of possibilities to identify specific trigger points for action and those that have substantive strategy discussions on an ongoing basis (i.e., not just once a year) will be well-prepared to address this increased uncertainty.

> "Companies that fare best in these conditions don't just play it safe, they also allocate resources to double down on growth.

1 *Play it safe or double down?*, EYGM Limited 2019.

Board priority for 2020

Accelerate the talent agenda and activate culture as a strategic asset

Questions for the board to consider

- Does the board set the right tone at the top, including by dedicating adequate time to talent and culture discussions, at the board and committee levels?
- Has the company's culture been intentionally defined in the context of its strategy, and is there a shared understanding of the culture throughout the organization?
- How frequently does the board receive reports on the health of the organization's culture? If there are gaps or problem areas, how are they being addressed?
- Do the company's senior leaders understand the trends affecting the workforce of the future, and are they driving the necessary shifts in culture, training and development?
- Is the board receiving relevant data and spending enough time with the chief human resources officer (CHRO) to oversee culture and talent strategy?
- How is the company integrating human capital and culture metrics and performance into earnings calls, analyst meetings and its external financial reporting to better communicate long-term value?

Growing trends are continuing to change the future of work. Digitization is having a significant impact across all industries, affecting all businesses and the workforce globally. Employees are adapting to new technology, and new skills are needed to keep up with ongoing technological disruption.

Today's workforce now includes five generations of workers: traditionalist, baby boomer, Gen X, millennial and Gen Z. In addition, the very nature of employment and worker profiles are changing rapidly to make greater use of contingent, contract, remote and robotic workers. Despite these different workforce demographics, all workers want work that is purposeful and better aligned with their needs and values.

Boards are increasingly being charged with understanding and addressing an array of workforce issues and trends. To start, they should focus on governance in the broader context and see that the company's purpose, vision, mission, strategy, and culture are aligned and broadly understood by all stakeholders. Boards should look to oversee the company's strategy for workforce agility and related cultural initiatives to address broad impacts on business and the workforce, plan for change and future skills, diagnose and realize diverse workforce potential, and drive leadership development and adaptability.

Boards should embrace a *trust but verify* oversight approach using analysis of direct and indirect metrics for culture and human capital intelligence. This can include analysis of employee engagement scores and pulse surveys, external sources (e.g., social media), turnover and attrition measures, employee exit interviews, promotion schedules and criteria, diversity and inclusion metrics, pay equity data, employee education budget per full-time employee, and some direct interaction between board members and lower-level employees (e.g., visits to company facilities).

Boards should also confirm that external reporting effectively communicates how the company is creating competitive advantage and long-term value through its human capital and culture (including decision-useful, quantitative and qualitative data), and how both the board and management are addressing human capital management and development. There is growing market interest for this information, as demonstrated by a recent proposal by the Securities and Exchange Commission to call for enhanced human capital disclosures and the continued development of external frameworks that companies can leverage in measuring and reporting on human capital and culture.

The CHRO should be a strategic resource for the board on these matters as boards redefine their scope of oversight of human capital and the workforce. Part of setting the right tone is making sure culture and human capital management are a board priority that is regularly addressed, monitored and adjusted to align with the company's strategy and long-term objectives.

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All workers want work that is purposeful and better aligned with their needs and values.

Board priority for 2020

Evolve enterprise risk management

Questions for the board to consider

- Is the board using external perspectives and independent data to identify and monitor emerging risks?
- Does the organization conduct risk assessments frequently enough to capture new risks and adjust its risk appetite accordingly?
- Does the board allocate enough time on the agenda for open discussion and brainstorming on emerging risks and trends?
- How can the organization improve its ERM practices and processes with the use of scenario planning, stress testing and technology-enabled risk analytics?

In late 2019, we surveyed 500 directors and CEOs from around the world on the topic of risk. The full results of the survey will be released in early 2020, but several key findings illustrate a need to evolve ERM.

We found that current ERM processes are considered effective in assessing traditional risks, but not as effective in assessing and managing emerging and atypical risks. Of the board members surveyed, 73% say ERM at their organization is more than somewhat effective in managing traditional risks. However, only 40% say the same about atypical and emerging risks. To address this issue, leading boards are integrating external perspectives and independent data into their ERM process to expand scope and promote fresh thinking and challenge internal biases. They are also dedicating additional time to deliberate the strategic implications of more sophisticated perspectives and data to their current business models and strategic planning.

Less than one quarter of boards reported being very satisfied with their effectiveness in adjusting risk appetite in response to the rapid changes in the risk landscape. Considering the interrelated nature of risk and the fluidity of today's risk landscape, the risk assessment processes and risk appetite considerations need to be more dynamic. As a result, companies are conducting risk assessments on a more continuous basis and are adjusting their risk appetite and changing controls and audit plans to address shifting market and regulatory developments, such as the impacts of technology disruption, changes in customer sentiment and evolving geopolitical and regulatory issues.

Our survey further found that human capital and talent issues, such as talent shortages and failure to upskill workers, are viewed as an emerging issue, particularly with CEOs. This supports the increased time presently being spent by directors in their oversight of culture and talent within their committees and board agendas. In the board's discussions around talent, it will be critical to identify whether the organization has the skill sets and competencies required to effectively manage the key risks faced by the organization. But just adding human capabilities won't be enough; boards are also expecting management to optimize risk management functions, and deploy more advanced risk-monitoring techniques by leveraging smart digital tools to better identify, assess and mitigate new and emerging threats.

While prevention and uncompromising business fundamentals will always remain a priority, boards are calling for more sophisticated crisis planning and better organizational preparedness to respond and recover from crisis events. Scenario planning and simulation exercises related to crises should help organizations prepare, but our survey indicates that only 19% of organizations undertake these tasks very frequently. To increase preparedness and improve resiliency, boards should evaluate the organization's crisis threats and vulnerabilities (from a likelihood and impact perspective) and verify that management has appropriate plans in place to address such risks. Boards should then confirm that management is periodically testing their plans by running simulations on the risks that pose the greatest threat to the organization, with board members periodically participating in this process.

Finally, boards are seeking enhanced risk reporting from management to better oversee risk management and uncover strategic opportunities. Our survey shows that fewer than 20% of boards are confident in the risk reporting from management, and they want more information on significant risks such as the drivers and results of economic uncertainty; business environment megatrends; new and emerging business models; consumer, social and other trends that could challenge the organization's current strategy; and culture and conduct-related risks. They also would like to see management deploy real-time reporting using predictive and prescriptive data analytics. For example, forward-looking insights could include scenarios and predictions of upcoming geopolitical challenges, supply chain disruption related to trade and potential impacts of regulatory changes — thus providing the board with a better forecast of the types of risks that might materialize and when.

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Board priority for 2020

Prioritize cybersecurity and data privacy

Questions for the board to consider

- What resources is the board using to enhance its competency on cybersecurity and data privacy topics and better understand emerging threats as well as legal and regulatory developments?
- What information has management provided to help the board assess which critical business assets and partners, including third parties and suppliers, are most vulnerable to cyber attacks?
- How does the board evaluate the company's culture as it relates to cybersecurity and data privacy? Are employees routinely trained? What security awareness messaging is regularly conveyed to employees? Are performance bonuses at stake?
- Is the company maintaining a defensible narrative with its customers and users regarding the collection, use and protection of their personal information?
- Has the board practiced a cyber-breach simulation with management in the last year?

Cybersecurity continues to be a top priority for companies. In 2019, we learned that CEOs ranked national and corporate cybersecurity as the biggest challenge for the global economy in the next 5 to 10 years.[2]

Relating to this concern, we recently published *What boards are doing today to better oversee cyber risk*, which describes steps boards can take to strengthen their oversight of cybersecurity and guide management in developing and maintaining effective cybersecurity risk management programs (CRMP).

In 2020, boards should continue to expand their knowledge and oversight of cybersecurity matters, especially with the spreading digitization of business and growing use and significance of big data and machine learning. As companies increasingly collect huge volumes of data, concerns about the protection and privacy of data are rapidly growing. As a result, data protection and privacy laws are quickly evolving in the US and increasingly strengthened and enforced in many jurisdictions outside the US.

One of the most important things boards can do is to set the tone that cybersecurity and data privacy are critical business issues that span the entire enterprise — not just the IT function. They can enhance their oversight by regularly addressing cybersecurity and data privacy at the board level, even if specific oversight is allocated to a committee. They should also regularly hear from management — in particular the chief information security officer or equivalent, in executive session — on the effectiveness of the CRMP; data collection, storage and use policies; incident and breach escalation protocols; and employee training on cyber and privacy hygiene. Boards should complement management's reporting and information by expanding access to and engagement with independent third-party experts about the evolving cyber and data security threat landscape, risk management techniques and progressive oversight activities.

Operationally, boards should understand the degree to which their companies are adopting and implementing a *trust by design* philosophy by building cybersecurity and data privacy into the foundation of any company change, including an M&A transaction, when designing or redesigning products, services and processes, and when deploying technologies. Beyond this information, boards should know about the what, how and why of the company's data collection, storage, use and sharing systems, practices and policies.

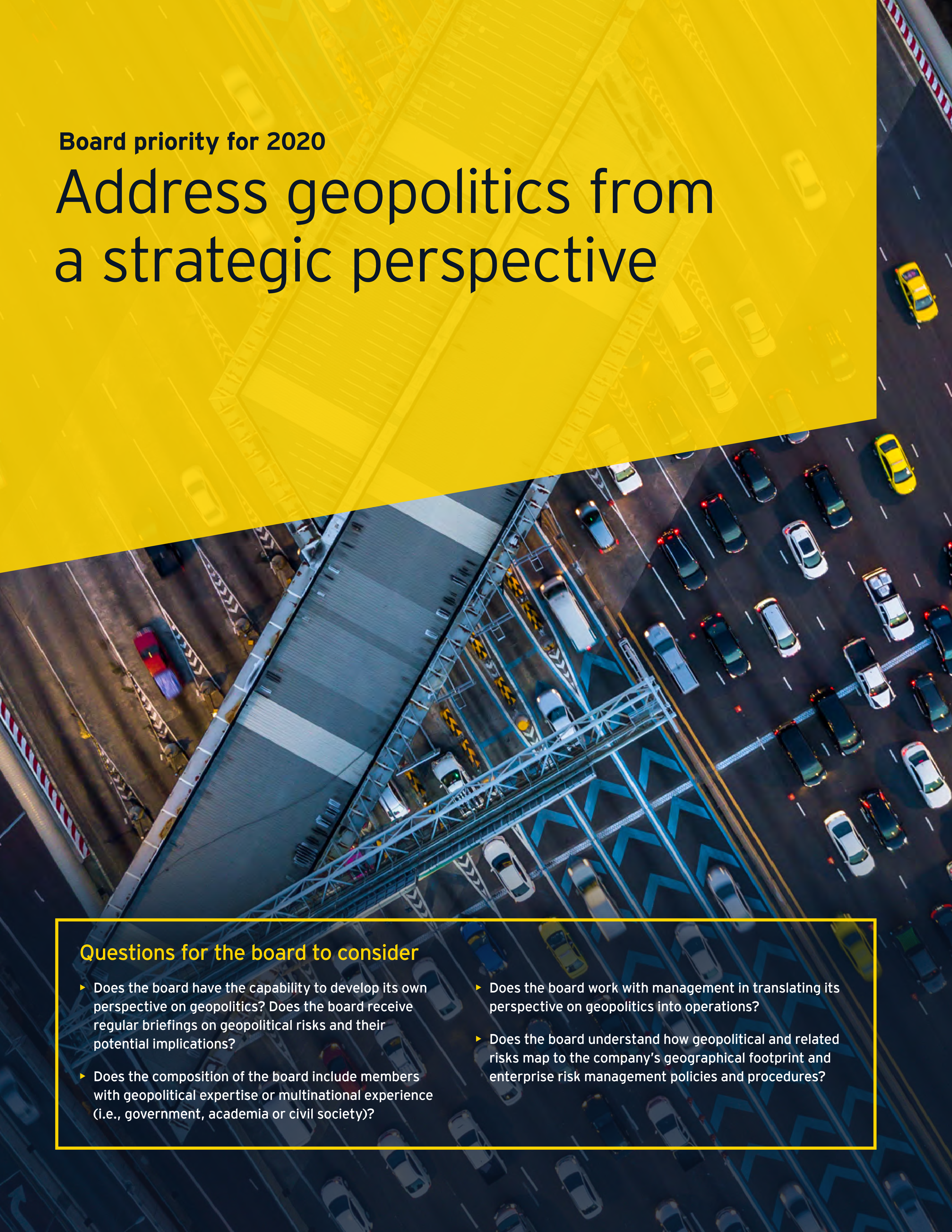
It is critical that boards learn from management the digital assets and data at risk, the probability of risk and the estimated financial cost of an actualized threat. Reviewing these risk assessments with management enables boards and management to define the appropriate risk appetite for their businesses. Together they can determine how to collect and capitalize on personal data in a way that also protects privacy.

Management and boards are increasingly recognizing the value of having an independent and objective third party periodically assess, validate and report to the board on the effectiveness of their cybersecurity programs — including processes to identify, assess and manage third-party and supply chain risks. To get an even clearer picture of the company's responsiveness, boards and management both should periodically participate in tabletop exercises and simulations.

More specific to data privacy, boards should carefully examine governance issues around emerging consumer and individual concerns about privacy, consent, data ownership, the growing body of work around data ethics, and their companies' compliance with applicable and emerging data privacy laws. Importantly, boards of companies doing business in California should examine their companies' plans for compliance in 2020 with the array of new consumer privacy rights under the California Consumer Privacy Act, not to mention General Data Protection Regulation in Europe. Also, as federal privacy legislation continues to be an active topic in the political arena, boards should regularly engage with management around what-if scenarios to assess risks and the company's preparedness.

Companies can enhance stakeholder trust in how they are addressing and governing cybersecurity and data privacy by expanding their risk oversight disclosures. We observed across-the-board increases in 2019 proxy statements of disclosures about board oversight and risk management of cybersecurity. Stakeholder demand for expanded transparency, including about data privacy, can be expected going forward.

2 *For CEOs, are the days of sidelining global challenges numbered?*, EY CEO Imperative Study, EYGM Limited, 2019.



Board priority for 2020

Address geopolitics from a strategic perspective

Questions for the board to consider

- Does the board have the capability to develop its own perspective on geopolitics? Does the board receive regular briefings on geopolitical risks and their potential implications?
- Does the composition of the board include members with geopolitical expertise or multinational experience (i.e., government, academia or civil society)?
- Does the board work with management in translating its perspective on geopolitics into operations?
- Does the board understand how geopolitical and related risks map to the company's geographical footprint and enterprise risk management policies and procedures?

In recent years, the global economy has remained strong not because of positive geopolitical developments, but despite negative ones.

Toward the end of 2019, it became clear that resilience is being tested, with U.S. Federal Reserve Chairman Jerome Powell citing trade policy uncertainty as a drag on the US economic outlook[3] and executives ranking geopolitical, trade and tariff uncertainty as the greatest external risk to growth in our October 2019 Global Capital Confidence Barometer.

For many years, companies leveraged internationalization strategies while geopolitical trends were generally neutral to favorable in terms of their impact on the business environment. Yet increasingly, developments including Brexit, tariffs, and the weakening of long-standing alliances and coalitions suggest that the pendulum is swinging back with vigor — geopolitics has returned as a major force in shaping global markets and, in turn, corporate performance. The academic community has warned, "there exists a real risk that we are at a tipping point where political and social forces reverse or reshape the long-term trend toward globalization…on which many long-term corporate strategies and valuation models rest."[4]

In this changing geopolitical environment, the minimum requirement for board members will be to stay informed about the geopolitical risks facing the company and its business environment, including both the sources of risk (e.g., politics at the international, national, sector or local levels) and their impact across the organization (e.g., sales, supply chain, human capital, finance, reputation). A recent survey of global C-level executives conducted by our Geostrategic Business Group shows that most (58%) assess their board to be spending more time on political risk than just two years ago.[5]

Boards will be challenged to develop with management a strategic perspective to address geopolitics and integrate geopolitical risk analysis into decision-making. Where a company's enterprise risk management (ERM) program is effective and linked to strategy, geopolitical risk assessment and management can be integrated into that program, along with other external risks such as economic, social, technological, legal or environmental.

Geopolitical and other external risks need consistent monitoring and dynamic incorporation into strategy and operations across the company's entire ecosystem, from suppliers to partners to customers. This is crucially important: nearly 60% of respondents to our survey indicated that their company's overall strategy bears impact from political risk at either a high or very high level. To maintain a practical and forward-looking perspective, boards need regular briefings from independent experts and management. Ninety-seven percent of respondents from companies that today do not obtain insights from external sources believed doing so would improve their company's political risk management; nearly half indicated it would highly improve it.[6] Boards should support management in building the capability to anticipate, assess and manage the consequences of geopolitical disruption and to turn these capabilities into a competitive advantage that creates, preserves and realizes value.

> "Geopolitical and other external risks need consistent monitoring and dynamic incorporation into strategy and operations across the company's entire ecosystem.

3 Jerome H. Powell at the Challenges for Monetary Policy symposium, sponsored by the Federal Reserve Bank of Kansas City, www.federalreserve.gov/newsevents/speech/powell20190823a.htm, 23 August 2019.

4 "Special Issue Introduction: International Strategy in an Era of Global Flux," Informs website, doi.org/10.1287/stsc.2019.0087, 24 June 2019.

5 The EY Political Risk Survey was conducted between October and November 2019. The respondent audience consisted of over 1,000 global executives (60% of whom are CEOs, CFOs or CROs), and included representation from 30 countries and 7 sectors. Full results will be issued in early 2020.

6 Ibid.

Board priority for 2020

Embrace ESG as a business imperative

Questions for the board to consider

- Have management and the board sufficiently engaged with investors, consumers, employees and other stakeholders to understand their key priorities and concerns around ESG issues?
- Does management regularly assess and does the company clearly articulate what ESG factors are material to the business and how those factors are managed to minimize risk and maximize strategic opportunities?
- Do corporate disclosures explain how ESG is integrated into the company's strategic plan and risk management processes? Do the disclosures meet the information demands of key stakeholders?
- Has the company considered whether enhanced reporting would reduce the burden associated with responding to various ESG-related surveys or the challenges raised by external ESG ratings?

At the start of 2018, $12 trillion US-domiciled assets under management were categorized as environmental, social and governance (ESG) investment strategies, up from $8.7 trillion at the start of 2016. This represents one in every four dollars of the total US assets under professional management.[7]

That amount may be poised to rise further. Some of the world's largest asset managers are increasing their integration of ESG across their investment processes to maximize risk-adjusted returns.

In today's age of increasing transparency and choice, performance related to ESG factors is increasingly important to investors as they make investment and stewardship decisions, as well as consumers and employees who are considering ESG in determining which companies to support and serve. Companies are paying attention and continuing to adapt their value proposition while taking action to meet growing demands — both internal and external — for ESG information and performance.

Consider, for instance, that many US companies, including some of the most prominent, continue to support the Paris Agreement together with data showing that most US consumers are willing to pay extra for products that are delivering environmental sustainability.[8] Consider also data showing that about one third of US adult consumers are willing to pay more for a product when the brand's corporate values align with their own,[9] and that more leading companies are taking public stands on environmental and social issues that have resulted in more purposeful brands and increased stock prices.[10]

To compete, boards should encourage their companies to continue to develop and better communicate their ESG value proposition and opportunities. Boards can support management in building frameworks to identify and measure ESG factors that are material to the business and the company's competitive position. External, market-driven reporting frameworks such as the Sustainability Accounting Standards Board are a good starting point, but companies will need to determine which factors are most relevant to their business.

The communication component is critical — investors and consumers are demanding it. And, if companies don't explain their long-term value with meaningful ESG data, third party ESG data and ratings providers will do this for them using estimates for unreported data. Companies must own this narrative to provide accurate, comparable data to the market and to effectively communicate what factors are most relevant to their sustainability and success.

Boards should deepen their understanding of the fast-evolving significance of ESG to its investors, employees, customers and other key stakeholders, including regulators who are looking into how companies should address ESG issues. As they engage with key stakeholders on strategy and megatrends, boards and management should look to simultaneously determine and address the highest ESG-focused needs and priorities of their key stakeholders. When boards lead in this area, companies can realize new competitive advantages, increase stakeholder support and grow corporate value.

> “More leading companies are taking public stands on environmental and social issues that have resulted in more purposeful brands and increased stock prices.

7 *Report on US Sustainable, Responsible and Impact Investing Trends 2018*, US SIF: The Forum for Sustainable and Responsible Investment, 2018.

8 "The U.S. May Be Withdrawing From The Paris Climate Agreement But American Consumers Are Buying In," *Forbes* website, www.forbes.com/sites/kensilverstein/2019/11/12/the-us-may-be-withdrawing-from-the-paris-climate-agreement-but-american-consumers-are-buying-in/#3d3f79196905, 12 November 2019.

9 "Yes, Brands: Your Position on Social Issues Matters to Consumers," *Chief Marketer* website, www.chiefmarketer.com/yes-brands-your-position-on-social-issues-matters-to-consumers, 18 November 2019.

10 "Why Walmart and Other Companies are Sticking with the Paris Climate Deal," *The New York Times* website, www.nytimes. com/2019/11/06/opinion/climate-change-walmart-paris.html, 6 November 2019.

Board priority for 2020

Redefine and better communicate long-term value

Questions for the board to consider

- How does the company define long-term value? How would a broader definition of value, supported by data, KPIs and other nonfinancial metrics, allow the company to better articulate its value to investors, other stakeholders and the markets?
- What information or communications do key investors and other stakeholders need to invest their capital, talent and resources in the company for the long term? Does the company address those needs in decision-useful ways?
- Does management work collaboratively so that all the company's communications taken together consistently explain the company's value proposition and strategy?
- Are management's disclosure controls and procedures designed to enable the accuracy, reliability and understanding of nonfinancial measures used and disclosed?

Earlier this year we released a report[11] that explored why and how boards should guide management to focus on the long-term, better understand stakeholder needs and objectives, and improve communications about how their companies create value.

Since then, the topic has gained significantly more attention, especially following the Business Roundtable's August 2019 updated statement on corporate purpose.[12]

A broad group of business leaders, market participants, governance and legal professionals and academics agree that for-profit corporations should positively serve non-investor stakeholder interests in ways that also serve investors. In doing this, companies can improve competitive positioning and address some of the issues giving rise to increased social and income inequity, geopolitical risks and environmental concerns. In turn, they enhance stakeholder trust and support and create long-term value.

This is a heady proposition. And one that is increasingly supported in the marketplace and by multiple studies and data. But what steps can boards encourage their companies to take to realize this potential?

To start, boards will need to strengthen their forward-looking orientation and long-term strategic planning in the coming year. Companies can successfully develop and execute strategy only when they identify and look to address key stakeholder needs, take a longer-term view and invest in the value drivers that will support company sustainability and performance through short-term disruption.

More concretely, boards should assess more objectively how corporate value is reflected in intangible assets, such as human capital, culture, innovation and corporate governance. These assets, in particular human capital, can comprise over 50% of a company's market capitalization and should be well understood and appropriately communicated. Next, boards need to encourage management to develop better ways to identify, measure and communicate value, including using valuation frameworks and with data, KPIs and substantive nonfinancial metrics, and narrative disclosures such as those developed by the Embankment Project for Inclusive Capitalism.[13] Another fundamental step is for boards to shift focus away from short-term financial results toward longer-term success generated by investment in research, innovation, technology, sustainability and human capital.

Companies can benefit from disclosing what they are doing and why, particularly if they can explain how these actions drive long-term value. For example, if companies are using capital to adapt and upskill their workforces to new technology, they should communicate the story around that strategic effort to investors and other stakeholders. They should also strive to develop and disclose metrics that show the competitive gains, tangible and intangible benefits, and other drivers of long-term value resulting from those strategic efforts.

Companies make disclosures in many ways, some required by regulators, and others demanded by investors and the marketplace. Different communication vehicles are intended for different purposes. Even so, boards should encourage their companies to intentionally communicate their value proposition and strategy consistently across all relevant communications. Additionally, as communications to a broader set of stakeholders expand, boards should make sure that management disclosures of certain non-financial KPIs are subject to the appropriate controls and procedures to promote the same accuracy, reliability and consistency as financial data subject to regulatory review.

By guiding their companies to look at value with an expanded lens and to clarify and better communicate value over a longer term, boards can demonstrate sustained value to investors and other stakeholders, even in periods of volatility and downturn.

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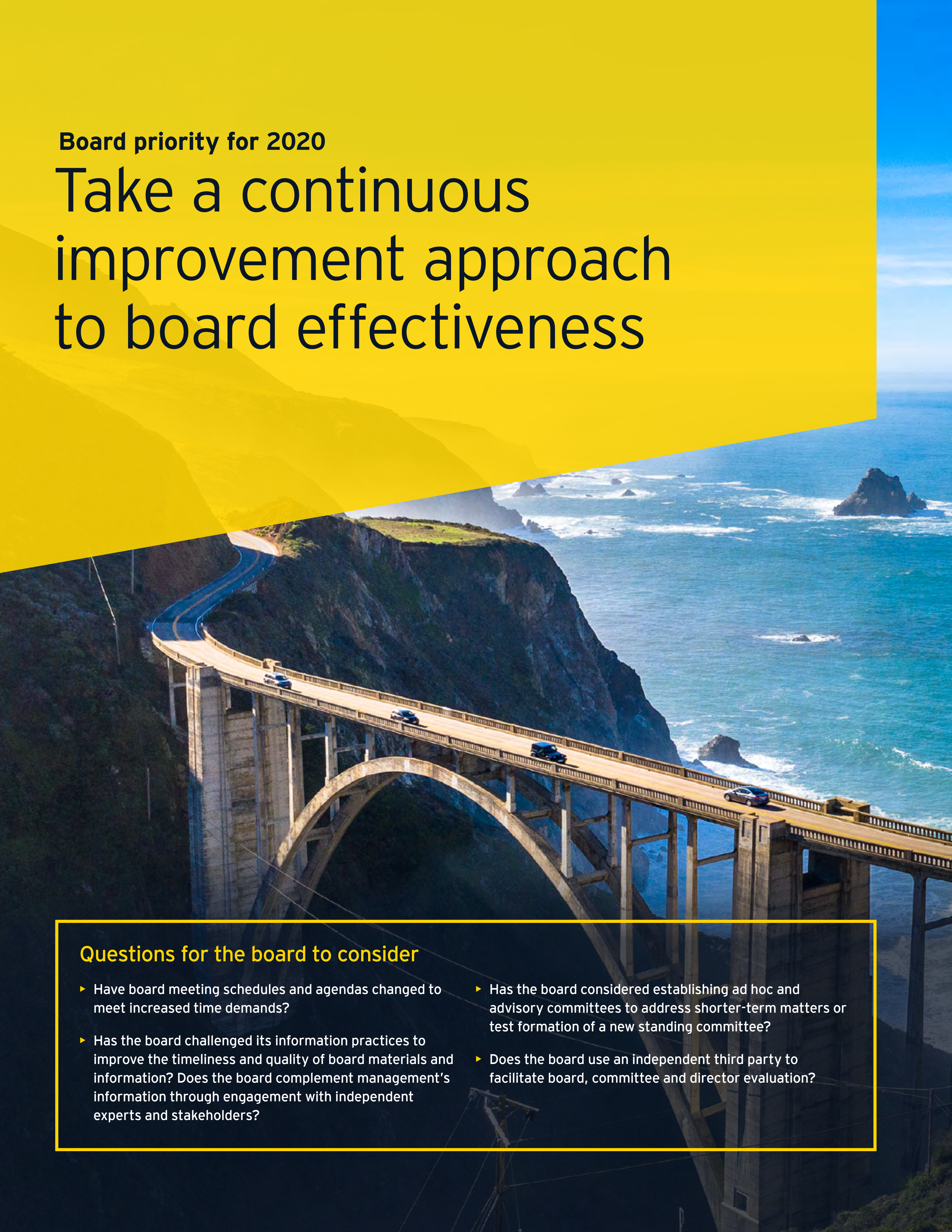
11 *How long-term value can be redefined and communicated*, Ernst & Young LLP, 2019.

12 "Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans,'" *The Business Roundtable* website, www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans, 19 August 2019.

13 *Embankment Project for Inclusive Capitalism*, Coalition for Inclusive Capitalism, www.ey.com/Publication/vwLUAssets/ey-at-embankment-project-inclusive-capitalism/$FILE/EY-the-embankment-project-for-inclusive-capitalism-report.pdf, 2019.



Board priority for 2020

Take a continuous improvement approach to board effectiveness

Questions for the board to consider

- Have board meeting schedules and agendas changed to meet increased time demands?
- Has the board challenged its information practices to improve the timeliness and quality of board materials and information? Does the board complement management's information through engagement with independent experts and stakeholders?
- Has the board considered establishing ad hoc and advisory committees to address shorter-term matters or test formation of a new standing committee?
- Does the board use an independent third party to facilitate board, committee and director evaluation?

Certain core characteristics and behaviors have been and remain foundational to board effectiveness. Yet as business environments change, so too must the board competencies and practices that drive board effectiveness.

Boards can enhance effectiveness by staying true to core leadership characteristics and continually improving and modernizing their practices to meet current and future demands. The foundation of board effectiveness is built on the tone at the top, effective information practices and a culture of continuous improvement.

As always, boards need to clearly maintain a culture of ethics and integrity, paired with a forward-looking orientation and entrepreneurial spirit that are in alignment with the company's purpose and strategy. Board culture and the actions of every board member should communicate a mindset of continuous learning and commitment to personal performance improvement. The board's tone from the top should be demonstrated throughout the company and apparent in the way management and others do business and engage with company stakeholders.

Effective boards will continually assess the relationships, communications and overall dynamics with management and between directors. Board dynamics need to nurture and enhance trust, candor, positive skepticism, collaboration and deep deliberation of board matters. These dynamics are necessary for better board insights and stronger decision-making.

As board agendas continue to expand to address new, significant and ever-emerging matters, boards need strong and tailored information practices that provide them with timely and relevant information. To make sure their information needs are met, effective boards will continually assess the quality, timeliness, sources and flow of board information. Importantly, boards should more regularly complement management's information with data and insights provided by independent sources so that they understand the latest developments and progressive oversight practices. Boards cannot be passive in waiting for this kind of information to come to them — they must actively seek out and obtain information and new learning. They can then proactively challenge their agendas and meeting schedules, better allocate more time, increase dialogue with management and independent experts, complete scenario plans with management and strengthen engagement with stakeholders. To further demonstrate a mindset of continuous learning and performance improvement, boards and individual directors should regularly participate in education programs that are tailored to the company's business and industry as well as the skill set of the board itself.

Rigorous board evaluation will improve board effectiveness by testing the board culture, composition, structure, practices and dynamics that drive performance. Investors, regulators and other stakeholders are seeking greater board effectiveness, accountability and diversity. Boards can address their own goals of enhancing effectiveness as well as stakeholder concerns by designing and implementing a tailored board evaluation process that is led by a trusted third party who can be successful in eliciting valuable and candid feedback from directors. When boards engage in a rigorous evaluation process, they can identify areas for growth and change to improve performance and optimize composition in ways that can enhance long-term value. Boards can also describe their evaluation process and high-level results to investors and other stakeholders in ways that can foster understanding and trust.

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The foundation of board effectiveness is built on the tone at the top, effective information practices and a culture of continuous improvement.

Looking ahead

The role of board directors will grow increasingly complex in the years to come. Emerging technologies, changing social demographics, customer preferences, a volatile geopolitical environment and an accelerating climate crisis are among the megatrends redrawing today's risk landscape and redefining long-term value. We believe that considering these eight board priorities now will help boards succeed in the new year and beyond.

EY Center for Board Matters contacts

EY Americas CBM Leader

Stephen Klemash
+1 412 644 7461
stephen.klemash@ey.com

Regional CBM Leaders

Canada
Fred Clifford
+1 416 943 2489
fred.clifford@ca.ey.com

Central
Cigdem Oktem
+1 404 817 4203
cigdem.oktem@ey.com

Julia Poston
+1 513 612 1557
julia.poston@ey.com

East
Chris Bruner
+1 215 448 2289
chris.bruner@ey.com

Financial Services
Paul Haus
+1 212 773 2677
paul.haus@ey.com

Israel
Ariel Horowitz
+972 3 6270939
ariel.horowitz@il.ey.com

Latin America North
Lupita Castaneda
+52 555 283 8691
guadalupe.castaneda@mx.ey.com

Latin America South
Flavio Machado
+55 11 2573 6955
flavio.a.machado@br.ey.com

West
Robyn Bew
+1 213 240 7578
robyn.bew@ey.com

Lee Dutra
+1 415 894 8220
lee.dutra@ey.com

Looking for more?

Access additional information and thought leadership from the EY Center for Board Matters at **ey.com/us/boardmatters**.

- How long-term value is being redefined and communicated
- What companies are sharing about cybersecurity risk and oversight
- What boards are doing today to better oversee cyber risk
- Five ways to enhance board oversight of culture
- How and why human capital disclosures are evolving
- How companies are evolving board evaluations and disclosures

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