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The Effective Board

INDEPENDENT AUDIT
BOARD REVIEW

December 2018

A time of joy – and uncertainty: for the board agenda in 2019?

A good board is always looking well into the future. During our board reviews we invariably hear that directors want to spend more time looking ahead rather than hearing about how things have turned out. And, as the immediate and longer-term future looks ever more difficult to anticipate (never mind forecast) maybe there needs to be a nuanced shift in how a board spends its time and how it discusses issues and proposals.

Perhaps it now needs to focus more on helping management assess those uncertainties and steer a course through the hazards. Couple this with the changes to the Board's own work resulting from the Code, and 2019 looks like a year when boards really must make sure they are looking well ahead and thinking through the potential impact of the looming big issues. Some of those we highlight below we've covered in more detail over the course of the year. But a New Year is always a good time to take stock and reflect. So here we give you some food for thought on what your board might need to do more of – and avoid doing – in 2019.

We send all our readers very best wishes of the Season.

Good practices to consider...	Things to avoid...
Give enough time to scenario planning, particularly the macroeconomic. Whatever the Brexit outcome, the UK economy looks set for a rocky year or two, with growth levels, exchange rates,	Putting scenario planning in the "too difficult" or "interesting but we don't have the time" categories. Beyond looking at variations on the budget, boards often seem reluctant to devote a

inflation, asset prices…all heading into the unknown. Boards generally don't seem to like spending time on the "unknown". But forewarned is forearmed and a forward-looking board will be helping management think through the potential economic risks to the sustainability of performance – and possibly even to the business model itself. Nobody will be certain of the answers – but hopefully the experience around the table and the insights coming from NED exposure to discussions elsewhere will help the executives as they try to think through what might happen.

meaningful part of the meeting to setting out a few possible landscapes. Strategy Day discussions are (quite rightly) more focused on the opportunities – and usually only come around once a year. And executive reporting (less appropriately) typically involves looking backwards at outcomes. This gives little scope for checking on how management are assessing the potential macroeconomic influences and the uncertainties, and how they are preparing. Some dedicated time, say every other meeting, to take a look at what could be looming and possible responses is likely to be time well spent, even if it is speculative.

Think globally – and create the space to stand back and think how international developments might have a direct impact. 2019 looks like being a year of volatility worldwide. Maybe that's nothing new and unpredictability is a constant feature. But with the fallout from trade tensions, less clear growth prospects in the mega economies that drive growth for everybody, and political uncertainties close to home across Europe, the coming year or two might be extreme.

Thinking too narrowly. International businesses are often well attuned to developments in local markets – but how many allow time at board level to think though the bigger trends and risks? And boards typically complain that they keep getting distracted by internal issues – so how many really get the time to think through the potential implications of global issues – and what might be done to weatherproof the business?

Think through what the future might look like for major suppliers and contractors. In the same way that there is value in looking at your own scenarios, make sure that there is a structured assessment of the risks for material relationships. 2018 has seen some extreme cases of service supplier downfalls – and as economic uncertainties mount, your key relationships might need an objective appraisal, along with potential "what if" scenarios.

Assuming that others will be running their business as well as you do – and that they are able to manage the risks to their sustainability. Management will no doubt be making their own assessments, drawing on external indicators and ratings, their own perceptions built through regular contact, and "word" they pick up from elsewhere. But counterparty risk is rarely given much of an airing at board level – and boards should at least be satisfying themselves that management are undertaking regular, thorough and objective assessments of material relationships and have developed risk mitigation responses.

Put Artificial Intelligence (AI) firmly on the board agenda – throughout the year. And that means looking at it from all angles – not just the product/service

Adopting a "we *think* management are on top of it" approach (a response we very often hear when asking how far a board is discussing AI). That often opportunity but the potential impact on the organisation in terms of process, people, information flows… We don't see enough of it, but good boards are thinking through how their agendas and discussions can best be structured to make sure they are proactively assessing the opportunities and risks, and then regularly coming back to it. And, if the NEDs are feeling unsure or ill-equipped in this new and fast-evolving area, bringing various experts in to help them understand where it's all heading.

involves being satisfied that there's a team looking at it…there's an innovation programme…we'll look at it during the Strategy Day…or, most worryingly, "I don't really understand it but think management do". With the speed of change and the impact across so many different aspects of the organisation, a response along these lines at board level is, quite simply, not enough. Boards should be getting in-depth analysis of how the organisation might be affected across all its operations, processes, products, market positioning, etc – along with an assessment of the investment needs, strategic risks and potential legal implications. And that needs to happen regularly, not just once a year.

Give more emphasis to how competitors are responding to change – again, particularly around AI. There are risks: you can't afford to lag, never mind stand still, whilst others forge ahead. Nor, on the upside, miss those opportunities that might be emerging as others become laggards.

Carrying on navel-gazing. We nearly always hear from directors that not enough time is spent considering the competition – and that's in a "normal" world. Now, we're entering a period of abnormal change, a revolutionary one many experts believe. That means that a very conscious, specific effort is needed to make sure the Board is kept up-to-speed on major competitor trends and initiatives – looking beyond the standard list to think through how a new competitive threat might come from an unexpected direction.

Keep truly on top of the relentlessly changing cyber risk environment – and make sure management are covering the angles. Of course, that doesn't mean becoming anywhere near experts. But it does mean making sure that the Board collectively can ask the right questions and understand the answers and is in a position to judge how the executive is responding and ensuring accountability across the organisation. It may be one of those areas where you just have to bring in an independent expert to support the Board, either at committee meetings or through expert briefings.

Accepting as inevitable that it's an area where the Board just has to rely on management. Of course, trusting management is essential – but challenging is part of the Board's role and that applies across all major risk areas. If the NEDs don't feel well-equipped to ask the right questions, they need to recognise this explicitly and develop a Plan B.

Part of what's needed is an understanding of the full "cyber risk universe", including exposures through third parties. Also, as most realise, it's about the Board discussing how the organisation will respond *when* the big one hits – not *if*. And it's a classic example of the Board needing to be a learning environment – where the mistakes or mishaps of others are specifically used as a guide to what to

	do or not do.
Keep data protection on the board radar. The GDPR processes and protections might now be in place – but there will be several years of learning to come, and a need for an ever-watchful eye on control effectiveness at the committee level.	Breathing a sigh of relief that GDPR is done and dusted – and letting it slip from sight or be subsumed under the general "cyber risk" heading. Quite what the enforcement approach and formal penalties might be largely remains to be seen. But it's glaringly apparent that appearing in the headlines for the wrong reason can lead to reputational damage that takes a long time to reverse.
Stay alert to the political pressure points. Most boards are now alert to the multi-directional pushes being exerted around remuneration and ratios, gender pay gaps, the "employee voice", diversity in all its forms… And most organisations are responding. These are unlikely to lessen – and politicians and the media will latch on to any weaknesses that suit their agenda.	Seeing these pressures as just more noise from the social responsibility and box-ticking fraternities. During 2018, boards have learnt a lot from the gender pay gap issue. Possibly the main lesson has been the need to be on the front foot. And from the outset to recognise that there are very valid strategic reasons for tackling these issues. They shouldn't be regarded as imposed irritants but as opportunities for a forward-thinking board to plan ahead.
Get on top of the Code changes. They are here – for many companies from New Year's Day. A board should be having in-depth discussions on how to respond to what are, in quite a few respects, significant changes. And within the next couple of months (at least for calendar-year-end companies), boards should have set out a clear path with actions and responsibilities defined for the year ahead.	Leaving it until the first draft of the Annual Report to decide what you'll be doing – whether around "Purpose, Strategy and Values"…"culture"…employee policies and voice…emerging risks…stakeholder considerations…etc... In the first year there will be some leeway and along with many others you'll be watching what peers are doing. But standing still or opting for boilerplate is likely to mean you stand out from the crowd, and not in a way you want.

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