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Hot Topics
The 2014 boardroom agenda

As boards gear up for the 2014 proxy season, new and emerging issues are coming into focus. This month's *Hot Topics* article highlights a few issues that may be expected next year. These topics were discussed on the December 13 Deloitte Dbriefs webcast titled "2014 Boardroom Agenda: 2013 Observations and a Look Ahead." For further discussion and statistics related to the emerging topics, please refer to the replay of the *Deloitte Dbriefs webcast*.

Role of the board

Figure 1: Deloitte Governance Framework

The Deloitte Governance Framework (see Figure 1) offers an end-to-end view of corporate governance. It forms the basis for the tools that may help boards and executives identify opportunities to improve effectiveness and efficiency. The framework outlines five critical elements of an organization's governance program that reflect the oversight responsibilities of the board: performance, strategy, governance, talent, and integrity.

Risk and culture sit at the core of the governance framework, indicating the importance of strong risk management and integrity. The Framework provides context for the roles of the board and management in executing the organization's governance program. It is meant to guide discussions regarding the effectiveness of the boards' skills, processes, information, and behavior. Each topic addressed in this article aligns under the corresponding governance element of the Framework. (For example, leadership structure falls under the talent element and board compensation is aligned with the governance element).

Risk oversight

Figure 2: Boardroom Agenda Topics

Boardroom Agenda Topics
- **Risk oversight**
- **Board composition**
- **Leadership structure**
- **Succession planning**
- **Executive compensation**
- **Shareholder activism and engagement**
- **Social and environmental concerns**
- **Staying ahead of 2014 proxy season topics**
- **Cyber security**
- **Big data and data analytics**
- **Regulatory and other developments**

Risk oversight is embedded in all the board's activities and continues to serve as a key discussion item on the agenda. Initially, the board needs to define its role in fostering a risk-intelligent culture. Deloitte suggests that a risk-intelligent enterprise is one where leaders understand that every action that can create value also carries potential for risk. Risk-intelligent organizations consider potential threats and strategically select the risks needed to pursue value before making any decision. The board should assist management in incorporating risk intelligence into the company's strategy. Similarly, boards should understand and accept an appropriate risk appetite, continually assess the maturity of the risk governance process, and seek to ensure that the organization discloses the risk story to its stakeholders.

Board composition and leadership structure

Board composition is at the heart of sound governance. Investors and other stakeholders are focused on whether the company has the right people at the table, as well as the board's process to recruit directors. In 2014, an increased focus on individual director roles and qualifications is expected. Likewise, declassification of boards and leadership structure will remain a hot topic for the upcoming proxy season. Boards are likely to strive for a closer alignment of the skills needed with the qualifications of directors. Discussion around tenure, independence, and diversity of current board members is also expected.

Succession planning

Succession planning for the CEO and other members of management and the board is likely to remain a vital part of the board agenda. *The Conference Board CEO Succession Trends (2000–2012)* publication noted interesting trends*:*

- "Over the past 25 years, there has been a decline among S&P 500 firms in the number of appointments of new CEOs with at least 20 years' experience within the company; and
- Inside promotions of seasoned executives to CEO fell by nearly one-half to 30 percent of total successions in 2012 from 58 percent at the end of the 1980s, and compared with 46 percent in 1996."

Boards are advised to address CEO succession planning and to include both internal and external candidates in a robust process.

Boards are encouraged to focus on the broader talent topics at their companies, taking a role in understanding and inquiring about development programs for C-suite executives and their broader employee base. Board succession should be a continual process that leverages leading practices and includes a matrix that aligns skills and experiences with those needed to oversee a company's strategic vision.

Executive compensation

Executive compensation remains a hot topic on boardroom agendas. Despite a small number of S&P 1500 companies with failed say-on-pay votes, each year boards should remain diligent about the pay-for-performance analysis each year. When a company is faced with an unsuccessful say-on-pay vote, it should proactively address changes to executive compensation plans with its shareholders. In 2014, compensation committees should also consider independence requirements for its members, proposed SEC regulations on CEO pay ratios, and NYSE and NASDAQ requirements. In addition, boards should continue to stay ahead of SEC activity under the Dodd-Frank Wall Street Reform Act and Consumer Protection Act, including clawbacks, director and employee hedging, and enhanced pay-for-performance disclosures.

Shareholder activism and engagement

Shareholder activism and engagement have taken center stage during many boardroom discussions. *A new era in corporate governance* has emerged in which shareholders are requesting interaction with directors, rather than just with the investor relations officer or members of the management team. According to a 2013 survey[1] by

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[1] *Board Shareholder Engagement Survey – 2013 Report*, National Investor Relations Institute, October 25, 2013.

the National Investor Relations Institute, those who reported board-shareholder contact in the past two years said the average number of direct communications was nearly five, with 20 percent of these communications a result of activist or shareholder proxy proposal activities.[2] Shareholder activism has increased the pressure on companies during the past several years and few companies are immune. Shareholder engagement can help reduce the chances of shareholder activism.

Social and environmental concerns

There has been a resurgence of social and environmental concerns expressed in the shareholder proposal process. In 2013, common proposals addressed political is significant activity on the sustainability front as investors become increasingly concerned about long-term effects on the environment. The SEC removed rulemaking on disclosure of political spending from its 2014 priorities, which can be seen as a setback for investor advocates who rallied behind the cause. At the same time, companies are looking to develop voluntary standards for disclosing political contributions.

Staying ahead of 2014 proxy season topics

As companies begin to gear up for the 2014 proxy season, some hot topics are expected to remain the same, including: say on pay, proxy access, board declassification, and majority voting. There is a change in focus from the large cap companies, many of which have adopted policies in these areas, to small- and mid-cap companies. Further, there continues to be a focus on board composition, including, specifically director independence and diversity. It will be interesting to see how investors will target change in these areas. And, as noted above, proposals in the corporate social responsibility area focused on disclosures of corporate political contributions and sustainability reporting are likely to continue.

Cybersecurity

Cybersecurity will continue to be a *Hot Topic* in 2014. In the United States, the average cost of a data breach is $188 per lost or stolen record, or an average of $5.4 million per organization breached.[3] Aligning cybersecurity with the company strategy, and understand the risks involved with protecting the company's assets. One key to a strong cyber system is an effective risk management program, which includes cybersecurity awareness and education programs, policies, monitoring and reporting, and accountability.

Big data and analytics

Data analytics is another topic that is expected to remain on board agendas in 2014. Many boards are still working to understand how analytics can help identify risks and opportunities that may otherwise go undetected. Understanding what big data is, why it is important, how it can be applied, and knowing the right questions to ask are top of mind for directors. A recent article published in the *NACD Directorship* magazine*,* The Real Deal with Big Data**,**[4] discusses how analytics, applied to big data, "can flag possible biases in management thinking, marketplace inefficiencies, and emerging

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[2] *Ibid.*

[3] *Managing Cyber Security as a Business Risk: Cyber Insurance in the Digital Age,* Wall Street Journal, 2013. Data collected from the Ponemon Institute research report: 2013 Cost of Data Breach Study: Global Analysis, 2013.

[4] NACD Directorship, *The Real Deal With Big Data*, September 20, 2013

developments.” By establishing big data and data analytic policies and processes in place and discussing them in the boardroom, companies can position themselves to identify high returns and impact enterprise value.

Regulatory and other developments

SEC Chair Mary Jo White, appointed in April 2013, has been transparent in her desire to make significant impact with the implementation of regulations under the Dodd-Frank Act and the Jumpstart Our Business Startups Act (JOBS Act).She also plans to create a stronger enforcement program to enhance investor protection. She made several significant staff changes, and new commissioners were appointed. Management should work with boards to make sure directors are informed of regulatory changes and developments.

Concluding thoughts

Boards should remain focused on their core responsibilities of monitoring performance, advising on and working with management to set and monitor strategy, establishing effective governance policies, reviewing talent management and CEO succession planning, and helping to set a culture founded on integrity. Each topic outlined in this article should be considered as part of the core board responsibilities. Although some of the topics appeared on 2013 boardroom agendas, including leadership structure and executive compensation, boards should remain mindful of trends, investor viewpoints, and leading practices in each of these areas. Further, boards should be aware of emerging topics, including those included in this article, such as cybersecurity and data analytics. As the governance landscape evolves, it is important for boards to remain vigilant and informed as new topics continue to make their way onto boardroom agendas.