

BOARD EXPECTATIONS: EFFECTIVE RISK MANAGEMENT & CORPORATE GOVERNANCE

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Grant Thornton

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LEARNING OBJECTIVES

- **Understanding how board maturity impacts expectations of CFO and financial leaders**
- **Executing on the Board's ever-changing expectations**
- **Being a catalyst for continuous improvement in your organization**

BOARD EVOLUTION

Ram Charan's Three Phases of Board Evolution:*

Ceremonial board

- CEO communicates little with board between meetings –
- Board perfunctorily performs a compliance role –
- Largely anonymous to the public –

Liberated board

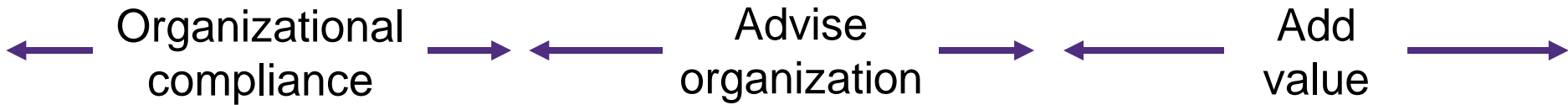
- Corporate governance driven/Sarbanes-Oxley compliant –
- Active with CEO and current on trends –

Progressive board

- Effective as a team and efficient with CEO –
- Working relationship with CEO and adds value –
- Forward looking on trends –
- Self-evaluates and ensures success of company longer than any member –

*Charan, R., (2005). Boards that deliver, San Francisco, CA: John Wiley & Sons, Inc.

THE BOARD'S EXPECTATIONS



1 Quality Financial statements with no surprises

2 Good accounting team and processes

3 Current on trends

THE BOARD'S EXPECTATIONS

1 Quality Financial statements with no surprises

Ceremonial

- Annual audited financial statements provided after the fact
- High level monthly financials emailed or mailed with no management commentary

Liberated

- Active dialogue with management about financial results at least quarterly
- Approve annual financial statements in advance of final issuance

Progressive

- Regular (monthly or more often) financial results provided in executive summary format with management analysis and supporting detailed information

THE BOARD'S EXPECTATIONS

2 Good accounting team and processes

Ceremonial

- Interact with the top financial person is (i.e. CFO) 1-2 times per year

Liberated

- Audit committee established to oversee accounting team and auditor
- Are involved in hiring the top financial people
- Obtain summary information about risk assessment and controls

Progressive

- Audit committee directs internal auditors
- Benchmark accounting team to best practices

THE BOARD'S EXPECTATIONS

3 Current on trends

Ceremonial

- Rely on the CEO to provide macro trends that impact the business

Liberated

- Require management to perform industry benchmarking
- Accounting team to advise the board (or AC) on accounting rule changes

Progressive

- Enterprise risk management plan established, tracked and reported quarterly

THE DYNAMIC CFO

FOUR CRITICAL ROLES



With the rapid pace of change in the business landscape, economic and regulatory climate and technology innovation – the role of the CFO has continued to evolve to meet the needs of this dynamic environment.

Today's CFOs are dealing with more complexity and facing challenges they've never encountered before – and that is not likely to change.

THE DYNAMIC CFO

FOUR CRITICAL ROLES

Business Skills

Operations

Skills	Knowledge	Behavior
Reporting <ul style="list-style-type: none"> • Core financial expertise • Analytical • Technology literacy • Presentation skills • Graphic Communication 	Processes & procedures <ul style="list-style-type: none"> • Legal requirements • Compliance and risk • Internal control • Reporting, performance measures & systems • Organizational structure 	Service excellence <ul style="list-style-type: none"> • Demonstrate effective execution • Teamwork • Instil confidence

Strategic Advisor

Skills	Knowledge	Behavior
Decision support <ul style="list-style-type: none"> • Core financial expertise • Technology literacy • Process improvement methodology • Provides guidance on future business needs • Project management skills 	Business knowledge <ul style="list-style-type: none"> • Commercial experience • Compliance and risk understanding • Legal environment awareness 	Proactive & influencing <ul style="list-style-type: none"> • Demonstrate effective communication • Adopt a consultant mindset • Teamwork • Instil confidence and inspire respect • Be a leader of change

Reactive ← → Proactive

Score keeper

Skills	Knowledge	Behavior
Book keeping <ul style="list-style-type: none"> • Core financial expertise • Technology literacy 	Past events <ul style="list-style-type: none"> • Performance measurement • Organizational structure and processes • Compliance and risk awareness 	Explain <ul style="list-style-type: none"> • Comment on past performance • Teamwork • Instil confidence

Guardian

Skills	Knowledge	Behavior
Governance & control <ul style="list-style-type: none"> • Governance expertise • Technology literacy • Process improvement • Project management 	Risks <ul style="list-style-type: none"> • Internal control focus • Compliance and risk knowledge • Legal environment knowledge • Business awareness • Organizational structure and processes 	Enforce & embed <ul style="list-style-type: none"> • Watchdog • Teamwork • Instil confidence and inspire respect

Accounting Skills

CFO EXPECTATIONS

What your CEO (and the Board) Secretly Thinks of You

Must overcome perceptions

- Has weak interpersonal skills – 40%
- Has weak leadership skills – 35%
- Lacks commercial (non-finance) experience – 32%
- Is too narrowly focused – 30%
- Lacks big-picture vision – 24%
- Is focused on value and efficiency instead of on growth – 19%
- Is seen as a safeguard, not a visionary – 15%

*KPMG 2014 survey The View From The Top

CFO EXPECTATIONS

CFO Survey

Where are you planning to make improvements to the finance function in the next year (process or technology)?

(Select all that apply)



*Key processes refer to accounts payable / accounts receivable

Grant Thornton 2015 CFO Survey

INFLUENCING BOARD PROGRESSION

Team Sport

- CFO will not be able to do this alone
- First step is aligning with the CEO
 - What is not working
 - What areas do we continually look for outside perspective
 - Who on the board can we use as allies?

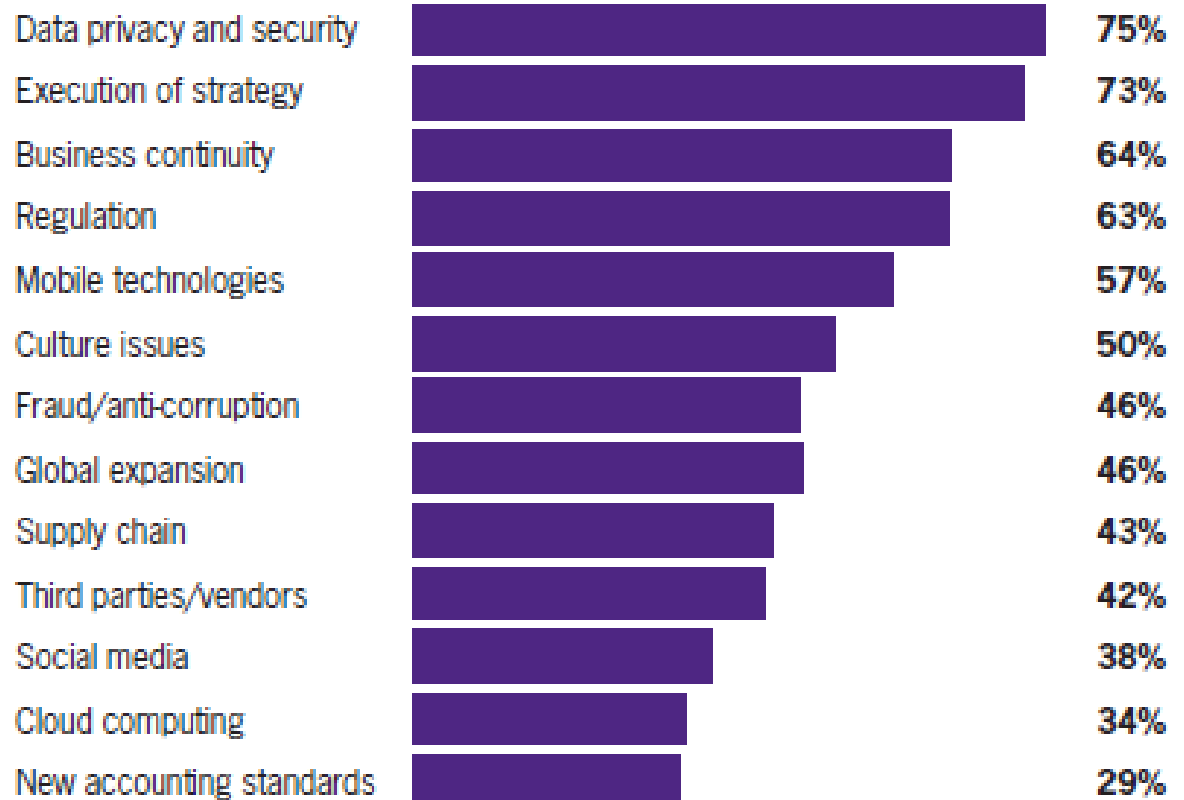
- Refer to handout –

CURRENT ON TRENDS

Audit Committee Risks:

Identify the top risk areas that have the potential to affect the organization's growth*

Audit committees said



*Grant Thornton 2015 Governance, Risk and Compliance Survey

CURRENT ON TRENDS

Enterprise Risk Management (ERM):

What steps is your organization taking, or planning to take, to enhance your approach to risk management? Select all that apply.*

	Percent
Increased focus on risk management	58%
Better analytics and risk-modeling	33%
Integrating with operations and business strategy	36%
Refining existing ERM approach	31%
Investing in GRC technology	31%
Implementing ERM initiatives	27%
Conducting a third-party risk assessment	11%
None	16%
Other	0%

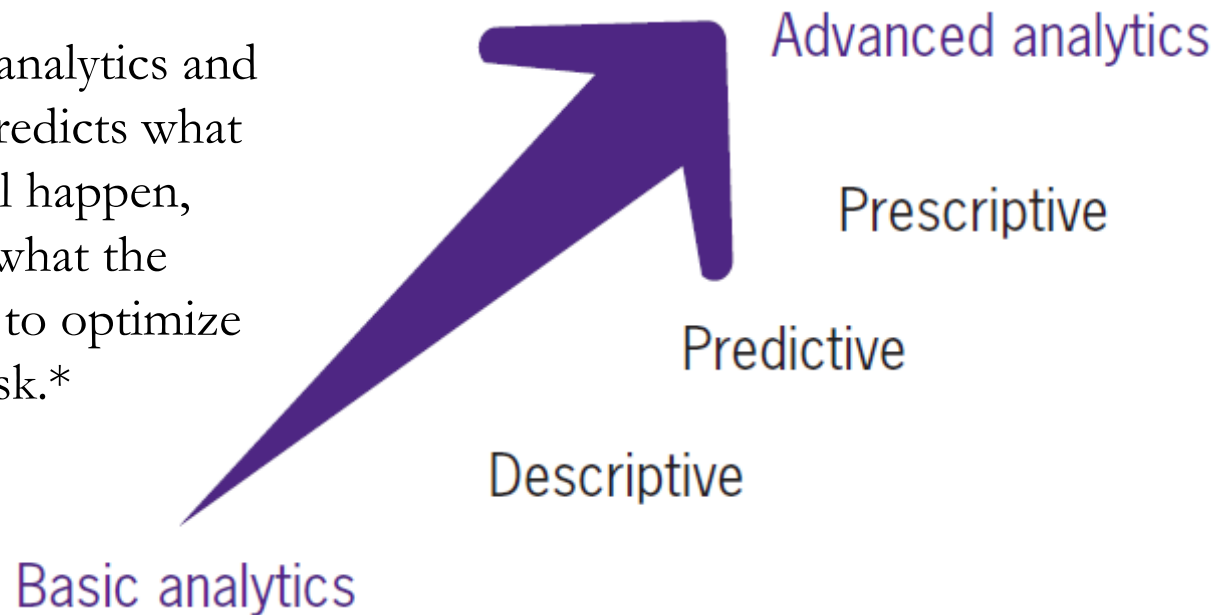
*Grant Thornton 2015 Governance, Risk and Compliance Survey

CURRENT ON TRENDS

Data Analytics:

Prescriptive analytics

- builds upon descriptive analytics and predictive analytics; it predicts what will happen, when it will happen, why it will happen and what the best course of action is to optimize outcomes and reduce risk.*



*Grant Thornton *Prescriptive analytics:
Winning in a competitive environment*

CURRENT ON TRENDS

Cybersecurity:

When asked what steps has your board taken in its oversight of data privacy and security (including cyber) risks? Select all that apply.*

Requesting regular assessments and reporting from management	69%
Reviewing policies, procedures and controls related to data security	64%
Ensuring ongoing monitoring and regular testing	49%
Ensuring the organization has cyberinsurance	18%
Including an IT expert as a board member	16%
Hiring a third-party IT specialist to advise at the board level	16%
None	13%
Other	2%

*Grant Thornton 2015 Governance, Risk and Compliance Survey

GRC SURVEY



Take the 2016 Governance, Risk and
Compliance Survey

Survey closes January 28, 2016



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Accounting Skills

THE PHASES OF BOARDS*

	<i>Phase 1: Ceremonial</i>	<i>Phase 2: Liberated</i>	<i>Phase 3: Progressive</i>
Group Dynamics	<ul style="list-style-type: none"> • CEO all powerful; directors passive • No productive dialogue in boardroom 	<ul style="list-style-type: none"> • Directors free to speak up in boardroom <i>but ...</i> dialogue is fragmented, a few directors overstep bounds, tangents drain energy, and most of the time no consensus is reached. • Board pledges to improve <i>but ...</i> focuses on mechanical solutions and does not act on self-evaluation with conviction. 	<ul style="list-style-type: none"> • Directors gel as a group. Mutual respect and trust among directors and management. One or two directors emerge as facilitators to channel lively debates. Everyone participates and consensus is very frequently achieved on key issues. • Self-evaluation gives tool for continuous improvement and directors take results seriously
Information Architecture	<ul style="list-style-type: none"> • Management tightly controls information flow. • Usually not the right amount of information. Information is summarized at very high level, and presentations run long. 	<ul style="list-style-type: none"> • Management willingly makes company transparent to board <i>but ...</i> is frustrated by ad hoc demands by some directors that leave management scrambling. • Board asks for more information <i>but ...</i> what they get is not packaged well and doesn't help the directors understand the guts of the business. 	<ul style="list-style-type: none"> • Information is focused, timely, regular, and digestible. • Management anticipates board needs. • Directors learn the business.
Focus on Substantive Issues	<ul style="list-style-type: none"> • Compliance only. Usually rubber-stamps CEO's decisions. 	<ul style="list-style-type: none"> • Board desires to make a contribution <i>but ...</i> overwhelmed by issues, becomes driven by compliance and routine operating issues. 	<ul style="list-style-type: none"> • Board and CEO jointly set twelve-month agenda. Board focuses on issues that are value-added and anticipatory, as well as those that are compliance-related.