KPMG

# Navigating uncertainty: The long view

## Insights from the 2018 KPMG Board Leadership Conference

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Save the date

**KPMG Board Leadership Conference**

January 7–9, 2019

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The KPMG Board Leadership Center champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programs and perspectives—including KPMG's Audit Committee Institute, the WomenCorporateDirectors Foundation, and more—the Center engages with directors and business leaders to help articulate their challenges and promote continuous improvement of public- and private-company governance. Drawing on insights from KPMG professionals and governance experts worldwide, the Center delivers practical thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting and audit quality, and more—all through a board lens.

To learn more about KPMG's Board Leadership Center, visit kpmg.com/blc.

# Conference sponsor

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# Navigating uncertainty: The long view

The demands on the board's time and agenda continue to mount as a host of critical issues—from business model disruption and uncertainty around economic growth, tax, trade, and infrastructure policies, to cyber risk and geopolitical tensions—collide and reshape the governance landscape. At the same time, expectations for board performance continue to grow in many areas, such as strategy, risk, compliance, and culture, innovation, transparency, and more.

Dennis T. Whalen, Leader, KPMG Board Leadership Center

More than 225 directors, luminaries, and KPMG leaders gathered in San Diego January 8–10 to discuss the issues shaping boardroom and business agendas. Based on these discussions, it's clear that, as the business and risk environment becomes more complex, the board's ability to prioritize and devote enough time to substantive issues becomes more challenging. While the near term can't be ignored, whether it's uncertainty in Washington or responding to the crisis of the day, the message from investors and other stakeholders is clear: They expect boards to help keep companies focused on long-term strategy and growth.

"With major institutional investors growing in influence and continuing to emphasize long-term performance and value creation, the 'investor lens' has become an essential gauge for calibrating the board's agenda and, indeed, for reassessing the board's role in guiding the company forward," said Dennis Whalen, leader of KPMG's Board Leadership Center. How has the governance environment—and the expectations for companies and boards—evolved in recent years? How has the board's oversight evolved to keep pace? Is the board focused on the issues that are critical to the company's long-term performance and sustainability, and that are top of mind for investors? Is the right talent and culture in place—in the business and the boardroom—to navigate the disruption and uncertainty ahead? Does the company understand the expectations of shareholders, customers, and employees?

Jose R. Rodriguez, Executive Director, KPMG's Audit Committee Institute

While financial reporting integrity continues to be job number one for audit committees, expectations for more forward-looking agendas "highlight the importance of leadership and talent in the finance organization, and

# Conference takeaways at a glance

- The speed of disruption and change will continue full force, driven by technology and digital.
- Communicating the company’s strategy for long-term growth and sustainability—and how it integrates environmental, social, and governance (ESG) issues—is increasingly a hallmark of good governance.
- Strengthen the board’s line of sight into the company’s culture, at every level.
- Build a board that is fit for purpose looking forward, recognizing that diversity and healthy turnover are key.
- Make shareholder engagement a priority—and consider how the company’s disclosures can better tell its story.

focusing internal audit on key operational and strategic risks beyond financial reporting, including culture and tone at the top. Diversity at the committee level should also be considered as it drives better oversight and decision making," said Jose Rodriguez, executive director of KPMG's Audit Committee Institute.

National affairs analyst and author John Heilemann interviews presidential historian and Pulitzer Prize–winning author Doris Kearns Goodwin

Kicking off the event, Lynne Doughtie, KPMG LLP's chairman and CEO, introduced presidential historian and Pulitzer Prize-winning author Doris Kearns Goodwin and MSNBC national affairs analyst John Heilemann, who shared their insights on the near-term challenges facing the country and the pivotal forces that will shape the country's prospects in the longer term. They agreed that two defining features of American politics today—and among the greatest challenges facing the country—are "polarization and populism." And a key question is: How can we unify the country in the face of these forces driving division? Goodwin provided historical context, and recounted other times in history when the country experienced polarization and populism, and how the country's leaders guided the country through these times.

In a second keynote, Michael Lewis, financial journalist and author (*Moneyball*, *The Big Short*, *The Undoing Project*) shared his insights and lessons learned from his career as a journalist and writer. Of particular interest from a board perspective, Lewis talked about the work of the psychologists Amos Tversky and Daniel Kahneman, the subjects of *The Undoing Project*, about patterns of human irrationality that can distort decision making. According to Lewis, our minds are always making "probabilistic calculations, but without actual statistics." In other words, our biases and the stories we make up, rooted in our memories, effectively replace probability judgments. Our gut instincts and intuition are often wrong. The message for directors: We have to "undo" much of what we have learned—including our biases—in order to make better decisions.


Financial journalist and author Michael Lewis (right) talks with Jeff Cunningham, professor, Arizona State University Thunderbird School

# The economy, tax reform, and geopolitics

The United States is enjoying the benefits of a "snowflake economy: nearly perfect, but fragile," said Constance Hunter, KPMG chief economist. "We've got good growth, low interest rates, and low inflation, but it's difficult to sustain this level of perfect." Hunter identified a number of potential upside risks for 2018, including stronger global growth, corporate tax reform, and infrastructure spending—as well as potential downside risks, including trade protectionism, a substantial stock market decline, higher interest rates, weak wage growth, and a strong dollar. "The short-term growth outlook depends heavily on the pace of inflation and fed rate hikes, and long-term growth depends heavily on productivity dividends."

Eurasia Group president and founder Ian Bremmer

And while the true effects of the recent U.S. tax reform may not be understood for years, the reduction in the statutory rate—placing the United States in the middle of its country peer group—is expected to help drive growth.

Constance Hunter, KPMG chief economist

While the economic outlook is good, the geopolitical is far less promising, according to Eurasia Group's Ian Bremmer. "When global geopolitics becomes more important than global economics—and I believe it has—you know it's a challenging environment." The likelihood of a geopolitical crisis—a mistake could lead to a confrontation—has risen significantly. China's role in the world is big and getting bigger, its current president has more power than his predecessors, and the United States' "America First" policy is leaving a power vacuum that China is willing to fill. In 2018, China's economic influence will be greater than that of the United States, boosted by its investment in state-owned enterprises. While the potential for a trade or military war between the United States and China is low, technology is another story, in Bremmer's view. China has emerged as a "tech superpower," bolstered by heavy government investment in artificial intelligence and other futuristic technologies, while most United States investment in technology is through the private sector.

# Long-term growth and sustainability

In a January 2018 post for the Harvard Law School Forum on Corporate Governance ("Engagement—Succeeding in the New Paradigm for Corporate Governance"), noted attorney Martin Lipton described an "accelerated interest in sustainability, ESG, corporate social responsibility, and investment for long-term growth and value creation" by a broad range of business leaders as well as by the policy positions of the three largest index fund managers, BlackRock, State Street, and Vanguard, as to what they expect in the way of governance and engagement.


Stephen Brown, Lydia Beebe, Chris Cernich, Lyndon Park

Panel members discussed the expectations of the major institutional investors, including their expectations for companies to focus on long-term value creation and the factors driving it—strategy and risk, talent, research and development investment, culture and incentives, as well as sustainability and ESG issues, particularly climate change and board composition and diversity.

Among questions for board consideration: Do we have a coherent long-term strategy? How closely do our short-term actions and targets connect with that strategy? Can the management team, and members of the board, articulate that connection? Do current and potential shareholders have a clear understanding of the connection to make informed investment decisions?

Conference discussions also highlighted a fundamental question that many boards are wrestling with: Is ESG really an important business issue for companies and boards today, or is it more of a social "do good" issue or perhaps a reputation risk?

According to Stephen Brown, senior advisor, KPMG's Board Leadership Center, while some view ESG as a soft brand issue disconnected from core business processes, "I think it's fair to say that the tide is changing. More companies are realizing that a focus on ESG issues improves company performance and competitive position—and investors are pressuring companies to treat ESG as an important business issue." As panel members noted, major institutional investors continue to emphasize the importance of ESG issues to corporate performance and long-term value creation and preservation. Large pension funds are also applying pressure by incorporating ESG analysis into their investment decisions—viewing ESG lapses as red flags signaling potential trouble.

Panel members agreed that ESG issues will remain a priority and perhaps even grow in importance as deregulatory efforts on environmental and social issues may drive investors to step in to fill the void. Panel members emphasized the following areas for board focus:

— Do we understand what ESG issues—risks and opportunities—are of strategic significance to the company, and are on the minds of investors, customers, and employees?

— How are we integrating these ESG issues into our strategy?

— Have we shaped the company's key ESG messages to investors and other stakeholders in the context of strategy and long-term value creation?

— Does the board have the right composition, structure, and processes to oversee ESG in the context of strategy and long-term value creation?

# Reputation risk

The #MeToo movement and headlines of sexual harassment scandals and allegations have rightly highlighted the importance of corporate culture as both a risk and a driver of long-term performance.

Conference discussions about culture—what a company does and how it does it—focused on the importance of the board having a clear line of sight on the company's culture and various ways that the board might improve its line of sight. While culture starts at the top, the culture at all levels of the organization (the mood in the middle and buzz at the bottom) is also critical. Panelists and attendees discussed various methods boards can employ to help gain an understanding of the company's culture—particularly the behavior and culture in the middle that is so difficult for the board to assess. As one speaker said, "Feet on the ground can help verify what you are hearing from management about the culture. Trust but verify."

In addition to commonly used tools to assess culture—such as employee exit interviews, whistleblower hotlines, input from internal auditors, engagement/satisfaction surveys, employee turnover rates, and visits to company locations outside of headquarters—other tools discussed included attending town hall meetings, holding director "office hours" open to all employees ahead of board meetings, and attending trade shows to get a sense of the company's reputation. In addition, speakers suggested considering feedback from external sources, such as recruiting websites and other sources of customer reviews and complaints, as part of the mix of information to supplement the board's view of culture.

Among key questions boards might consider: Do employees have the confidence to escalate bad behavior and trust it will get results? Are incentive structures aligned with strategy and do they encourage the right behaviors? Take a hard look at the board's own culture for signs of groupthink or discussions that lack independent or contrarian voices.


Joseph Grundfest, Nicholas Donofrio

# Disruption and innovation

"You can't talk about innovation without talking about disruption, because disruption is everywhere," said Mike Nolan, vice chair of Innovation & Enterprise Solutions for KPMG, who led a discussion on innovation and disruption. "There are no boundaries, and there's no industry or organization that's safe from the impact and pace of disruption," Nolan said. Developments like artificial intelligence, blockchain, the internet of things, platform business models, and so many other trends that were not even in the conversation as little as a few years ago are disrupting business models today. These technology developments are all-consuming, as business leaders try to make sense of them—and then make the right decisions and investments to help their companies succeed.

In this environment, innovation is critical, and boards can play a key role as agents of change and champions of innovation. Nolan emphasized three ways that boards can support management teams in their innovation efforts:

— **Be intentional.** Management needs to be intentional in its innovation vision, strategy, and execution, and boards can hold management's feet to the fire.

— **Create a culture where innovation can thrive.** How can the board support and encourage the CEO to make an innovative culture one of his or her top priorities?

— **Choose leadership talent that is right for the organization in its innovation journey.** Working with leadership, the board can help determine what sort of emphasis to place on innovation—whether it is central to the business strategy or an incremental priority.

# Board composition and diversity

Given the demands of today's business and risk environment—not to mention the ongoing scrutiny of investors, regulators, and the media—a critical priority for most every board today is to align boardroom talent with company strategy, both for the short term and for the long term as strategy evolves. As one panel member said, "In building a board that is fit for purpose looking forward, boards need to recognize that diversity and healthy turnover are key."

During a preconference luncheon, Doughtie and nearly 100 directors and governance professionals gathered to discuss the challenges to diversifying corporate boards and defining what a diverse board means. Leaders representing the WomenCorporateDirectors Foundation, Ascend Pinnacle, the Black Corporate Directors Conference, Quorum, and the Latino Corporate Directors Association each introduced their organizations and goals.

"The discussion is no longer about whether diversity is important; it's about moving the needle," said Susan Angele, senior advisor, KPMG Board Leadership Center.

David Chun, chief executive officer of Equilar, discussed efforts to build a diverse director database and some of the challenges to collecting diversity data, particularly around the identification of ethnicity, background, and orientation.

Attendees acknowledged that progress on diversifying boards has been slow and offered a number of suggestions to accelerate progress:

— Measure and reward executives who drive diversity within their companies, including working with the CEO to identify diverse executives who may benefit from serving on outside boards.

— Advocate for diversity as part of board refreshment by highlighting companies with long-tenured directors.

— Require consideration of a diverse slate of directors for open seats of SEC-registered U.S. public companies (a "Rooney" rule for boards).

— Push for diversity on board committees, including committee chairs.

— Enhance "board readiness" training and education for current executives and senior leaders to help expand the pool of candidates.

— Consider whether/how the board appropriately mirrors the makeup of the organization, its customers, and other stakeholders.

— Insist on diversity among corporate service providers, including lawyers, bankers, accountants, and others.

Susan Keating, S.K. Gupta, Lynne Doughtie, John Rogers, Jr., Susan Angele, David Chun, Esther Aguilera

# Cyber risk and security

Not only is the cyber threat not going away, it's growing more sophisticated and aggressive, with implications for nearly every facet of the business. Hacks at Equifax and other prominent organizations punctuate the new reality that any system "on the grid" is vulnerable. Boardroom discussions should be moving from prevention to detection, containment, and response—and to addressing cyber risk as an enterprise-wide business issue impacting strategy and risk, compliance, product development, mergers and acquisitions, expansion into new geographies, and relationships with vendors, suppliers, and customers.

As the threat landscape evolves, boards should consider whether the company's cyber risk and response plan has kept pace. Speakers emphasized the importance of having a clear plan and robust escalation processes to respond quickly and effectively when an incident occurs. Threats should be presented to management and the board "quickly and in a way they can understand," said one director. "Internally, know who manages what, and which information is conveyed and when."

Speakers offered the following additional takeaways for boards:

— View cyber as a risk and a governance issue. From a privacy standpoint, boards should ask, "Is what we are doing what the customer expects?" From a security standpoint, boards should ask, "How are we protecting data that we collect from third parties?"

— Be aware of specific groups that present the most dangerous and persistent threats to the organization.

— Have a plan in place for becoming compliant with the General Data Protection Regulation (GDPR), effective in May 2018. GDPR applies to companies that collect data on citizens in European Union (EU) countries (even those with no business presence in the EU). Even if a company isn't subject to GDPR, one speaker noted, "Customers may ask if you are compliant."

— Build and leverage relationships with law enforcement. "Understand what you need, and how they can help."

— Expect ambiguity. "The language around cyber is not intuitive. Get used to hearing complicated concepts. Computer forensics can be spectacularly slow. Executives will want answers right away, but getting them takes time."

— Get educated at a high level on what new technologies, such as blockchain, big computing, artificial intelligence, cognitive computing, and mass computing, mean. "Understand the risks of new technology for your company. Look at how the world is changing with respect to your data."


Ronald Plesco, Jr., Carter Leuty, Phyllis Schneck, Andrew Serwin

# Audit in focus

Frank Casal, KPMG's vice chair of Audit, moderated a panel on audit quality, and panel members discussed the state of audit quality today, areas of possible improvement in the near and longer term, the use of data and analytics (D&A) in the audit, the PCAOB's new auditor's reporting model, and the need for transparency around the audit committee's oversight of the external auditor. The PCAOB's standard on the auditor's reporting model (approved by the SEC in October) will require the auditor to communicate in the auditor's report any critical audit matters (CAMs) arising from the current period's audit or to state that the auditor determined that there were no CAMs. Since the requirement to communicate CAMs is not effective until audits for fiscal years ending on or after June 30, 2019 (for large accelerated filers), panel members suggested audit committees use that time to discuss the new reporting requirements with their auditor and to develop appropriate protocols. The panel also discussed ways that companies are using D&A in their financial reporting, internal audit, and finance functions, and how external auditors are incorporating the use of D&A into their audits, as well as some of the challenges they face.

Frank Casal, Cynthia Fornelli, Marc Macaulay, Blythe McGarvie

# Financial reporting

Claudia Allen, senior advisor, KPMG Board Leadership Center, moderated a panel on financial reporting and disclosure hot topics, which focused on the financial reporting implications of the Tax Cuts and Jobs Act (TCJA), implementation of the FASB's new revenue standard, as well as other accounting changes on the horizon, the use of non-GAAP financial measures and other operating metrics, and the SEC's new pay ratio rules and other proxy disclosures. Since companies are required to recognize the effect of tax law change in the period of enactment, the effects must be recognized in companies' 2017 financial statements. Whalen discussed how the tax law changes could impact the tax provision and financial statements for 2017. Thomas Kim, partner at Sidley Austin, reminded audit committee members to consider how the TJCA might affect Management's Discussion and Analysis and risk factor disclosures in 2017 10-Ks. As to implementation of the new revenue standard (effective January 1, 2018 for calendar year public companies), panel members recommended two broad areas of focus for audit committees. First, understand how management has determined the transition impact of adopting the new standard—which must be disclosed in the company's 2017 10-K as a Staff Accounting Bulletin (SAB) 74 transition disclosure. What has the external auditor done to evaluate the transition impact? What are the external auditor's recommendations regarding the adequacy of the SAB 74 disclosure? Second, discuss with management and understand the company's readiness to operate and report under the new standard in 2018; key areas of focus include the impact on internal control over financial reporting, the standard's new disclosure requirements, and the impact on disclosure controls and procedures.

Claudia Allen

Dennis Whalen

Thomas Kim

# Board committee peer exchanges

The Conference concluded with small group peer exchanges (10–12 directors), which offered attendees the opportunity to engage in candid, off-the-record discussions about the challenges and emerging issues driving the agendas and practices of audit, compensation, and nominating/governance committees. Below are some of the key insights and takeaways from the peer exchanges.

## Audit committee peer exchanges

While there was some variation in the topics discussed during the eight audit committee peer exchanges facilitated by KPMG partners, five topics generated the most discussion—with the topic of **corporate culture** front and center in all the peer exchanges. As the #MeToo movement and the sexual harassment scandals have demonstrated, a negative incident can violently shake a company's reputation in an instant. There was much discussion about the role of the full board and its committees in assessing and overseeing culture. While there was agreement that the full board has primary responsibility and must have a clear line of sight into culture, audit committee members identified important areas of audit committee focus, including:

— Taking a fresh look at the effectiveness of the company's whistleblower hotline. "Is there a pattern of complaints?" "Does the audit committee see all the complaints? If not, what is the process to filter the complaints before they go to the audit committee?"

— Does internal audit conduct an audit of the culture of the organization? "The audit committee needs to dig in here, and discuss with the chief audit executive how the culture audit might be improved, and ask the auditor to do some benchmarking."

— Have internal audit take the lead on the development of a culture dashboard for the full board—and focus on how the dashboard can be improved over time. But "a dashboard alone is not sufficient. It's important that members of the board get the full story, not just the data."

A second key area of focus was **cybersecurity**. Not only is cyber risk not going away, it's growing more sophisticated and aggressive, with implications for nearly every facet of the business. "It's critical to have a plan in place before things blow up—and they will; it's just a matter of magnitude." Peer exchange attendees agreed that cyber risk often falls under the audit committee, but "you need a process to bring it up to the full board. Keep it in front of the full board at every board meeting, and a cyber dashboard is important to show trends and how the company is responding." Among other key areas of audit committee and board focus: How frequently is the maturity of the company's cybersecurity risk management framework evaluated? How is the company keeping up with new regulatory changes and legal requirements? Is the company staying abreast of industry practices and connecting with law enforcement? Do we have an incident readiness and response plan that has been reviewed and tested? Who leads the plan? Is the board getting the information/reports it needs (cyber dashboard) to oversee cybersecurity efforts? And is there a C-suite executive who can effectively communicate with the board on cyber issues in business context and language the board understands?

A third topic that generated considerable discussion during the peer exchanges was **CAMs—or critical audit matters**. The PCAOB's new standard on the auditor's reporting model will require the auditor to communicate CAMs arising from the current period's audit in the auditor's report. As noted above, since the requirement to communicate CAMs is not effective until audits for fiscal years ending on or after June 30, 2019 (for large accelerated filers), peer exchange attendees discussed steps audit committees can take with their auditors to prepare for the new CAM reporting requirement. Among the suggestions:

— "Do a pilot. What would the CAMs look like if you had to report them now?" "Use the 2017 10-K to write a report to bring to your next audit committee meeting."

— "Your auditors should be talking to the audit committee about CAMs. If they're not, press them." "Ask the audit partner how we compare with our industry peers."

— "If a multinational company reports key audit matters under [International Standards on Auditing] in the UK, take a look at those. There are subtle differences, but they should not be completely different."

The bottom line: Audit committees will want to discuss the new CAM reporting requirements with their auditor and develop a protocol under which the audit committee will learn, as far in advance of the issuance of the audit report as possible, the issues that the auditor intends to communicate as CAMs, what the auditor intends to say in the audit report regarding the CAMs, and how the auditor's statements will compare to management's disclosures regarding the same issues.

Given the increasing focus by institutional investors—as well as customers, employees, and other stakeholders, it is perhaps not surprising that there was considerable focus on **sustainability/ESG reporting and communications**. The demands for sustainability reporting are growing—"You can see a wave coming." But as a peer exchange attendee said, companies are struggling with it. "We're doing reports as we are asked by investors, but the reports don't mean much. It's a lot of numbers." "How do we report something that's useful, because the numbers don't tell the full story?" Peer exchange attendees agreed that an important first step in crafting sustainability/ESG messages and reports is understanding the information needs of the company's stakeholders, as investors, employees, customers, and regulators may seek different information. For example, information in the annual "citizenship report" may not address the information needs of investors, who are focused on the impact of sustainability and ESG issues on long-term performance. Since comparable metrics-based data is prized by investors, one option discussed is to use metrics proposed by SASB or another widely recognized standard setter. As one peer exchange attendee noted, "it's important to shape the key ESG messages to investors in the context of strategy and long-term value creation."

Finally, the financial reporting implications of the TCJA—which was the focus of a panel discussion during the conference—was a key area of focus during the peer exchanges, with attendees discussing in greater detail how ASC 740 should be applied and the need for disclosures related to the new law and any recorded provisional amounts.

## Compensation committee peer exchange

Jannice Koors, senior managing director, Pearl Meyer, facilitated a peer exchange discussion among compensation committee members, who were particularly interested in the impact of the new tax law on executive compensation, CEO pay ratio disclosures, as well as a range of other executive compensation issues.

The HR 1 act, sometimes called the **Tax Cuts and Jobs Act**, includes a number of important changes that may impact the design and administration of executive compensation plans. Among the changes are significant changes to Section 162(m), which limits the deductibility of annual compensation paid to "covered employees" to $1 million per executive Previously, the CFO was excluded from the definition of "covered employees"; the Act expands the definition of "covered employees" to include the CFO. Also, section 162(m) previously provided that performance-based compensation (including stock options and other performance-based equity awards) was not subject to the $1 million deduction limit; the Act eliminates the performance-based exception, which will result in a significant increase in disallowed tax deductions. The law also expands the covered employees population because once the person is a covered employee, that person is always covered. However, companies will have more flexibility to design their compensation plans and awards—and to exercise discretion—without worrying about compliance with the former 162(m) rules. The Act grandfathered certain existing performance-based compensation arrangements. A key priority for the compensation committee is to review existing incentive plans to determine whether any changes should be made to plan design in light of the tax changes or because section 162 (m) no longer encourages employee performance compensation. Of course, for long-term performance plans, the compensation committee may also have to consider making adjustments to 2017 performance to "back out" the impact of the change in corporate tax rate and other tax changes on performance.

One of the key issues facing companies in the first year of **CEO pay ratio** disclosures is not knowing how the CEO pay ratio will compare to peers. "While investors and directors know the ratio is of limited value, we can expect the financial press and critics of executive pay to shine a bright light on the ratio." Employees will know who is paid below the median, and we can expect local legislative proposals to tax "excessive pay." "But the numbers are what they are, and compensation committees need to focus on communications plans to explain the numbers—particularly if the CEO pay ratio is high relative to peers."

The compensation committee peer exchange touched on a broad range of other executive compensation topics, including pay for performance, the pros and cons of total shareholder return as a stand-alone performance measure, internal pay equity, short-term versus long-term performance incentives, and investor communications and engagement regarding executive compensation.

### Nominating and governance committee peer exchanges

Theodore Dysart and Lee Hanson, both vice chairs at Heidrick & Struggles, facilitated peer exchange discussions among nominating and governance committee members. Among the topics of discussion:

What is the role of the nominating/governance committee in establishing the **optimal board size—the number of directors**—to staff board committees and operate effectively as a board? "It's not about looking for a person, but identifying the need." One director discussed the process of self-evaluation and self-nomination used to reduce board size following a merger. Another director discussed the challenge of increasing the size of the board following a public listing from private-equity ownership, and another director described the process whereby the board settled on 10 directors as the optimal size for effective board oversight. "What we are really trying to assess is: What is the optimal board size for effective oversight?" "Larger boards often feature too many voices and too many directors who can hide."

Views differed on mechanisms for managing board refreshment, including the use of **age and tenure limits**; however, most agreed that boards (and directors) need to be more mindful of managing turnover in order to refresh the board. One director suggested that boards need to be more attentive to including a range of ages represented on the board. Others countered that the current time commitment required of directorship limits the ability for mid-career executives to serve on a board.

Several attendees stressed the need for greater diversity and representation of **women** on both public and private boards, as well as the need for greater independent voices on private company boards. According to one director, "the diversity challenge is due to a lack of priority, not a lack of talent." "If you put a list forward with candidates, biases come out," said one attendee who suggested a "blind" evaluation for new board candidates to make the process "totally objective and totally independent."

Directors also discussed the challenges of working with an "intractable" **chairman and lead director** in the director recruiting process. "We are struggling with the process of recruiting new directors, given the continuing foot-dragging of former directors and owners," said one attendee. "We are pushing to have a well-defined process in order to overcome that tension."

# Peer exchange facilitators

**Claudia Allen** – Senior Advisor, Board Leadership Center, KPMG LLP

**Susan Angele** – Senior Advisor, Board Leadership Center, KPMG LLP

**Robert Arning** – Vice Chair, Market Development, KPMG LLP

**Stephen Brown** – Senior Advisor, Board Leadership Center, KPMG LLP

**Mark Clemens** – Office Managing Partner, Orange County, KPMG LLP

**Lisa Daniels** – Office Managing Partner, Silicon Valley, KPMG LLP

**Theodore Dysart** – Vice Chairman, Heidrick & Struggles

**Scott Flynn** – Partner, Audit, KPMG LLP

**Robert Garrett** – Office Managing Partner, New York, KPMG LLP

**Lee Hanson** – Vice Chairman, Heidrick & Struggles

**Sidney Ito** – Partner, Advisory, KPMG in Brazil

**Jannice Koors** – Senior Managing Director and Western Region President, Pearl Meyer & Partners

**Marc Macaulay** – Partner, Audit, KPMG LLP

**Jose Rodriguez** – Partner in Charge and Executive Director, Audit Committee Institute, KPMG LLP

**Philip Smith** – Partner, Audit Committee Institute, KPMG LLP

**Dennis Whalen** – Leader, Board Leadership Center, KPMG LLP

**Melinda Xanthos** – Office Managing Partner, Phoenix, KPMG LLP

**Timothy Zanni** – Partner, Audit, KPMG LLP

# Conference speakers and panelists

**Esther Aguilera** – President & CEO, Latino Corporate Directors Association

**Claudia Allen** – Senior Advisor, Board Leadership Center, KPMG LLP

**Susan Angele** – Senior Advisor, Board Leadership Center, KPMG LLP

**Lydia Beebe** – Director, Aemetis Inc., Kansas City Southern

**Ian Bremmer** – President and Founder, Eurasia Group

**Stephen Brown** – Senior Advisor, Board Leadership Center, KPMG LLP

**Frank Casal** – Vice Chair, Audit, KPMG LLP

**Christopher Cernich** – Partner and Managing Director, Strategic Governance Advisors

**David Chun** – CEO, Equilar

**Jeffrey Cunningham** – Professor of Global Leadership, Arizona State University, Thunderbird School of Global Management

**Gerald Czarnecki** – Director, Jack Cooper Holdings, NuraHealth; Chairman and CEO, Deltennium Group, Inc.

**Nicholas Donofrio** – Director, Advanced Micro Devices, Delphi Automotive, Liberty Mutual, The MITRE Co., National Association of Corporate Directors

**Lynne Doughtie** – Chairman and CEO, KPMG LLP

**Theodore Dysart** – Vice Chairman, Heidrick & Struggles

**Cynthia Fornelli** – Executive Director, Center for Audit Quality

**John Gimigliano** – Principal in Charge, Federal Legislative and Regulatory Services, KPMG LLP

**Doris Kearns Goodwin** – Presidential Historian and Pulitzer Prize–winning Author

**Joseph Grundfest** – William A. Franke Professor of Law and Business, Stanford Law School; Director, KKR & Co., Financial Engines Inc.

**S.K. Gupta** – Managing Director, Ascend Pinnacle

**Lee Hanson** – Vice Chairman, Heidrick & Struggles

**John Heilemann** – National–affairs Analyst, NBC News and MSNBC; Coauthor, *Game Change* and *Double Down*

**Constance Hunter** – Chief Economist, KPMG LLP

**Susan Keating** – CEO, WomenCorporateDirectors

**Thomas Kim** – Partner, Sidley Austin LLP

**Jannice Koors** – Senior Managing Director and Western Region President, Pearl Meyer & Partners

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