



On the 2018 investor agenda

Board perspectives



Reflecting on the events of 2017 and recent conversations with members of the institutional investor community, several high-level themes related to board operations and board leadership on environmental, social, and governance (ESG) issues are likely to be top of mind for investors this year.

Board Operations

Since the financial crisis nearly 10 years ago, investors have become increasingly attentive to why and how directors come to serve on portfolio company boards and whether directors are carrying out their duties effectively and adding value. Investors continue to scrutinize all aspects of board operations, from board skills matrices, diversity, tenure and succession processes to the efficacy of the board evaluation process.

Board diversity. Last year, the world's largest money managers announced plans to focus on board diversity and hold directors—particularly nomination and governance committee chairs—responsible for lack of progress. Boards should expect this focus to intensify; investors typically provide a de facto one-year grace period after such pronouncements. They will inquire about diversity and delve into search and succession processes. The “Boardroom Accountability Project 2.0” calls on boards to disclose the race and gender (and, optionally, sexual orientation) of their directors, along with directors’ experience and skills, in a matrix format. *Are we prepared to present a convincing and credible argument that the board has the right mix of skills, backgrounds, and personalities?*

Board evaluations. Consistent with the desire to understand board performance and dynamics, shareholders are interested in understanding how

boards are using the board evaluation process for self-improvement and board refreshment.

What, if anything, should we consider changing to be best-in-class? Do we have a compelling story to tell in proxy disclosures and shareholder discussions about our evaluation process?

Corporate culture. Events of 2017 put corporate culture and tone at the top front and center. Investors will want to understand how the board keeps abreast of company culture. *Does the board understand the culture at all levels of the company? What information does the board need to gain adequate insight into human capital issues?*

Board leadership on ESG

Recent surveys have shown that ESG is not necessarily high on the list for board and business priorities but is indeed top of mind for investors. Management and boards must prepare to bridge this gap.

Environmental. Several large institutional investors have expressed interest in gaining a deeper understanding of how companies are managing risks related to issues such as climate change. The Financial Stability Board’s Task Force on Climate-Related Financial Disclosures has published recommendations for disclosure of climate-related financial risks. Also, major institutional investors have shown a willingness to use their proxy votes when they are not satisfied with the company’s

climate-related disclosures. In some cases, they even supported shareholder proposals calling for greater transparency. *How are we conveying the board's role in oversight of climate-related risks? Is the company prepared to answer questions about decisions regarding disclosure frameworks?*

Social. From the #metoo campaign and questions around workplace sexual harassment and gender pay equity to CEO pay ratio disclosure, the events of 2017 catapulted human capital issues to the forefront. Questions about how companies are managing these risks are on investors' agendas. *How do we effectively inform ourselves regarding the treatment of employees? Does the company have the right systems in place to provide these insights?*

Governance. While 2018 places a heightened emphasis on environmental and social concerns, governance will also be relevant given the commencement of the first stewardship code in the United States. The Investor Stewardship Group (ISG), formed by several large U.S.-based institutional investors, announced a corporate governance framework for U.S. institutional investor and boardroom conduct, effective January 2018. The framework details six principles that ISG believes are fundamental to good corporate governance. *Are we aligned with the ISG principles and do we demonstrate such alignment? If not, can we explain why?*

About the KPMG Board Leadership Center

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