



NACD Pacific Southwest / USC Marshall School of Business Corporate Directors Symposium: “Governing in the Digital Age”

On November 8, 2018, NACD Pacific Southwest and USC Marshall School of Business hosted the annual Corporate Directors Symposium at The California Club in downtown Los Angeles. Titled “Governing in the Digital Age: Board Leadership Matters,” the symposium featured directors and a range of governance experts who delved into thought-provoking and forward-looking discussions on an array of topics important for all boards – from cyber security to artificial intelligence to management performance.

Following are key takeaways:

1) Nominating and Corporate Governance Roundtable

- The composition of a board is a pivotal component for a board’s success. With increasing pressure from shareholders to increase board diversity, boards should add diversity as a factor to the skills matrix when identifying potential board members. However, remember that no one qualification should be over-emphasized when evaluating diversity and skill sets. For example, knowledge of digital technology is important, but the individual needs to be well-rounded enough to contribute to the company as a whole and not only be a digital expert.

2) Compensation Roundtable

- In our tech-driven economy, innovation is vital. But innovation involves experimentation, and experiments often fail. Companies need to find new ways to capitalize on advancing technology. As they do, they must recognize upfront that some of their efforts will result in failure. When assessing management, boards should scale back their emphasis on short-term compensation rewards and instead prioritize long-term equity programs. The latter more accurately compensate managers who successfully navigate through their teams’ inevitable failures – while learning from these setbacks – and ultimately achieve new and innovative successes that benefit their companies over the long run.

3) Audit/Risk Roundtable

- The audit committee of a board covers a broad range of responsibilities, and as such, workloads can prove excessive. When boards enter this territory, consider setting up a separate risk committee based on the culture and organization of the company. An effective board must at once be defensive, managing and providing oversight on internal risks, and offensive, predicting and planning for future risks. Boards cannot afford to neglect either side of the equation.

4) Cyber Roundtable

- In today’s world all companies are technology based in some capacity, so cyber security is an imperative topic for the board. The level of tech-literacy on a board will impact how the cyber security strategy is developed and implemented. Therefore, it is important for the board to be technology literate, and either have a cyber expert on the board or hire outside counsel to fill this void. The board should know management’s cyber plan, the company’s cyber insurance, and what the current threats are. If there is a cyber-attack, bring in PR experts to help with crisis management and, if needed, re-branding. The key is to have everything in place before a breach occurs so that you are completely prepared.

5) M&A Roundtable

- When acquisitions serve as a pillar of a company’s growth strategy, that company’s board should have a committee dedicated to deals. Experts advised that at least two or three directors – depending on a board’s size – should have substantial M&A experience and expertise to lead

this type of committee. This committee should oversee important facets of acquisitions, from the initial financial structure of deals to ensuring that the staffs and cultures of M&A targets can mesh with the buying company. While this committee will lead acquisition oversight, its members should regularly update other directors to make sure the full board is informed and capable of weighing in as needed on any given acquisition. Diversity of thought on a board is, as noted above, critical.

6) Digital Strategy Roundtable

- With the world digitally transforming, it is crucial for companies to create and execute on a digital strategy. Often, this means transforming an organization. Understanding this, directors should constantly re-educate themselves on the concept of digital and, as needed, consult outside experts to keep abreast of shifts in technology and changes within specific industries. As companies grow and advance technologically, they should consider the need for a Chief Technology Officer. Targeted leadership is essential when implementing a digital strategy

7) Capital Formation in the Digital Age Fireside Chat

- The role of directors varies greatly from the role of management. The SEC sees the board as playing a vital role for the company. The board sets the tone at a top level to ensure compliance with the law and that the company represents the shareholders well. Since the SEC also deals with the protection of data, public companies should also expect to be questioned about their disclosure around cybersecurity. There are a lot of foreign cyber hackers that put data at risk. Boards should study this and ensure they have the necessary protocols and protections in place.

8) AI - Overview and Investors Perspective in the Digital Age Fireside Chat

- Artificial intelligence crunches data at almost unimaginable rates, recognizes patterns and makes predictions. Businesses are using AI for everything from analytics to human resources to robotic manufacturing, and it is advancing faster than anticipated. Companies that ignore AI risk being left behind by competitors. AI will improve productivity, foster growth and reduce costs. Directors should familiarize themselves with their companies' data and tech capabilities, their uses, and the potential for AI to create new opportunities.

9) Talent and Culture in the Digital Age Panel

- Technology is often disruptive to a business. It requires rapid innovation and creative approaches, increases risk, threatens jobs, and can create generational shifts. Therefore, in the digital age, it is important to establish your company's culture and values and stick to them. As a director, you need to know how employees are actually doing/feeling beyond what is reported by the CEO. Employee surveys are a start, but doing something with that data proves you are really listening. Ask for actionable steps that incorporate the feedback from employee surveys and encourage transparency in the workplace.

10) Marketing and Communications in the Digital Age Panel

- The digital age has eliminated the luxury of time. There was once enough time to plan, message, curate and distribute. Now, marketing and communications are often reactionary. Strategies must shift and many companies need to reinvent the ways they approach communications. This is especially the case with millennials, who are now the largest demographic in the United States. Therefore, companies need to cater to millennials' preferred modes of communication. This generational shift amplifies the need for boards to become digitally aware and to study emerging customer bases and pools of employees. It is important to anticipate trends: What can happen in three years and how can we plan for it?

11) Operation Supply Chain in the Digital Age Panel

- The digital age is turbulent because of rapid, unrelenting innovation. Companies should embrace new technologies and tools such as big data, analytics, digital platforms, block chain, and modifying supply chain software. Technology will take the supply chain to the next level, but

disruptive technology is evolving very quickly and faster than adoption. This gap is creating dysfunction. Get ahead of technology by allocating capital on specific projects dedicated to technology innovation.

12) Privacy, Transparency and IP in the Digital Age Panel

- Boards should be thinking about how to integrate cyber security and privacy given the shifting regulatory dynamic. Cyber security has evolved and is now pivotal for the continuity of the business. The risk should be separated from audit and there should be a crafted strategy. Assume you have been breached and then prepare a plan for that event. The strategy should include allocating a budget to fund infrastructure for combating cyber risk and maintaining privacy. However, look at data protection with a critical eye because overprotection will inhibit opportunity.

13) Plenary Panel – Blue Ribbon Commission Report - Risk Management in the Digital Age

- Often, board members do not feel well-equipped to take risks that could impact the business model, reputation, success or revenue of a business. It is important for boards to foster a culture that is built on tackling these issues. Develop a heat map of potential risks and proactively addressing them. The board should regularly challenge how the company adapts to and thinks about risk. Use advisory boards to help identify new information or risks. Experts also suggested regularly assessing each board member's knowledge and whether each is tech-savvy.

14) What it Means to be a Director in the Digital Age Keynote Address

- Today, directors need to move faster than the speed of needs. Does the current board fit a company's needs? Is it open to change? There should be serious and in-depth evaluations of board members, and needed changes should be made immediately and constructively to move the company forward. The board should be nimble, so examine whether term limits make sense for your board, and ask, would a refresh of the board help? Recognize if board members are actually contributing. They should be aware of not only evolving technology but how to response to, and capitalize on, the opportunities tech presents.

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Special thanks to Moira Conlon and Financial Profiles for providing this event recap.