Strategic Board Involvement & Oversight

Effective Risk Evaluation & Mitigation

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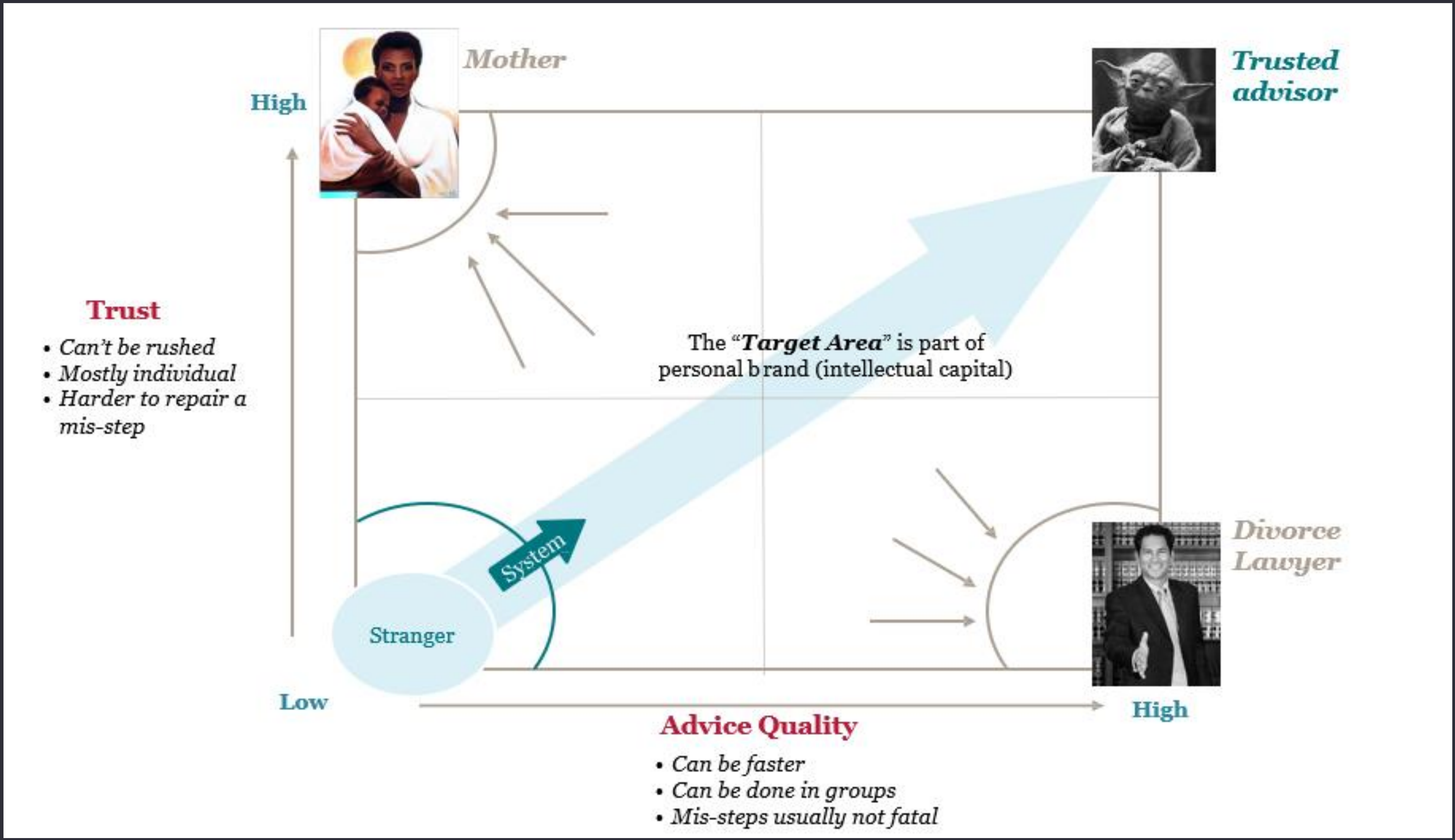
Agenda

1. Our destination
2. Crystal ball – Megatrends, Transformation & LTV
3. Out of depth – EY Global Board Risk Survey
4. Remedy – Second Bounce of the Ball
5. The 4Cs of THAR

This is where we are going but first...



The next 20yrs will be the most disruptive and exciting we have ever seen, driven by four global forces

In FY20, we've seen a step change in the focus on – and importance of – long term value creation in the market

This focus on long-term value creation, purpose and stakeholder outcomes has intensified in the context of the COVID-19 crisis

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An inclusive economy – in which there is widespread access to opportunity – is a stronger, more resilient economy. This crisis must serve as a wake-up call and a call to action for business and government to **think, act and invest for the common good** and confront the structural obstacles that have inhibited inclusive economic growth for years.

Jamie Dimon
Chairman & CEO, JPMorgan Chase & Co.

This is a pivotal moment for business. It's clearer than ever before that success is about more than our bottom line today; it's also about helping those around us thrive in the long-term. **CEOs don't have to choose anymore between doing what's good for business and good for their stakeholders. They can – and must – do both.**

Carmine Di Sibio
Global Chairman & CEO, EY

It is in times of great disruption and uncertainty that our ability to **stay grounded in our sense of purpose** and remain true to our identity is of the utmost importance. We are steadfast in our mission to empower every person and every organization on the planet to achieve more.

Satya Nadella
CEO, Microsoft

Our shareholders want us want us to do what's in the **best interests of the long-term health of this company**. Our employees are essential to that. When it comes to taking care of employees, the goals should be: keep them well, keep them employed and keep them mentally healthy.

Brian Moynihan
Chairman & CEO, Bank of America

Long term value focuses on value delivered across multiple stakeholders

People value

The value a company creates through the employment and development of people, in terms of its culture, engagement, leadership, know-how and skills

Client value

The functional or emotional value a company creates through products and services created to meet customer needs, and the innovation required to evolve those products and services

Societal value

The value created through a focus on the environmental, social, and economic impact across the value full value chain. This includes the relationships between a company and all other external stakeholders, including suppliers, government, and communities.

Financial value

The monetary value created by the company's productivity, including revenue generation, cost optimization and capital structure

What we have learned

When companies get it right

- **Outperformance of market value** in excess of 8% per annum and up to 14 times over a longer period
- **Customer growth and experience** - revenue per customer and number of customers as well as enhanced customer experience
- **Heightened employee engagement, productivity and quality of service** – an inspired workforce is more efficient
- **More effective recruitment processes** - attract and retain a higher calibre of talent, allowing less recruitment and training costs
- **Ability to outperform competitors** with respect to:
  - Innovating in a disrupted market
  - Accelerating products to market
  - Expanding into new markets
  - Driving transformation further and faster
  - Make significant M&A moves to optimize portfolio

Reasons companies don't get it right

- Letting short-term financial pressures dominate longer-term value drivers
- Executives not "walking the talk"
- Compensation packages not aligning with what is important for purpose
- Lack of leadership conviction through the organisation
- Wrong KPIs
- Other significant decisions must be made over allocation of capital, balancing financial and other stakeholder values and even portfolio decisions that significantly reinforce embedding of purpose

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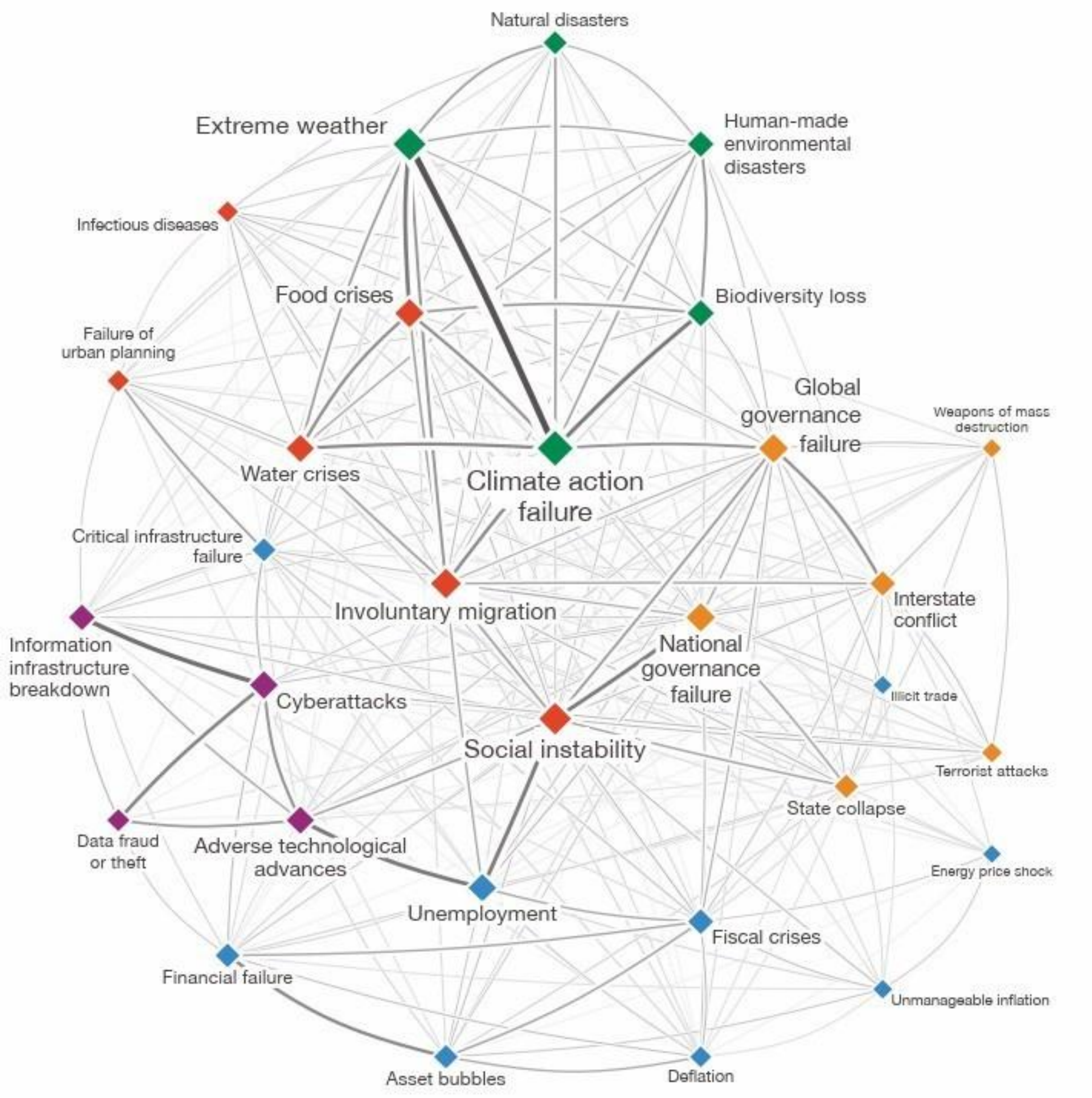
Global Risks Interconnections Map, 2020



Source: World Economic Forum - Global Risks Report, 2020

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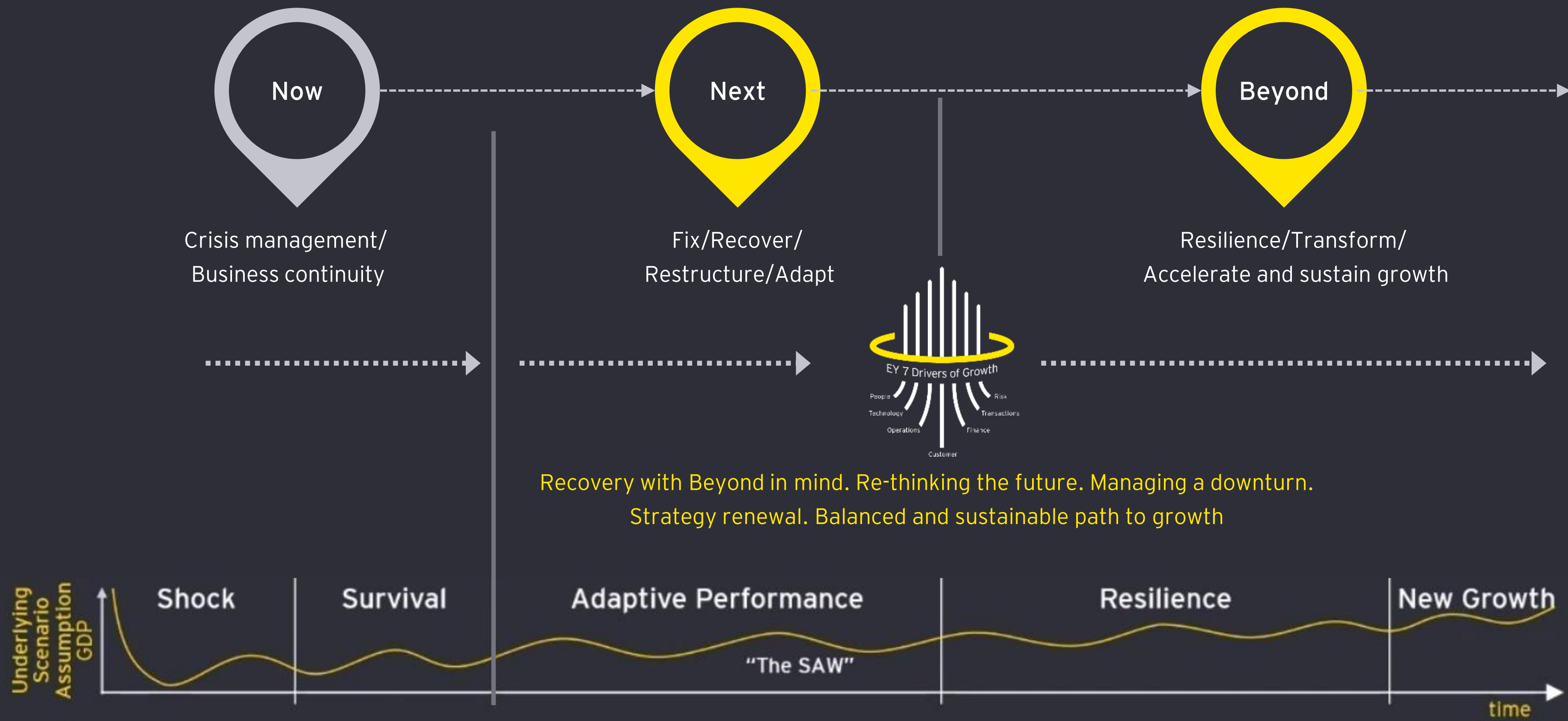
5. Q & A

EY Global Risk Survey 2020

- Nearly 80% of board members felt unprepared for a major risk event like COVID-19
- Less than 25% of board members are very satisfied with their effectiveness in overseeing changes to the risk landscape and adjusting the organization’s risk appetite accordingly.
- Only 40% of board members satisfied with the management of new and emerging risks - citing talent and skill sets as the top obstacles
- Fewer than 20% of board members are extremely confident in risk reporting from management on a range of significant issues, including business megatrends, new and emerging business models and culture, and conduct-related risks
- Only 21% are very satisfied with the accuracy, completeness and breadth of the risk reports they do receive.
- Only 64% of board members believe their composition and represented skill sets are adequate for overseeing the organization’s risk management.

Boards will need to reposition strategic advice to align Now, Next and Beyond



How to navigate through the **NOW, NEXT & BEYOND**

Companies across the globe are facing business disruption.
At EY, we look across the three horizons of the NOW, NEXT and BEYOND to help you take relevant positive actions.

Creating long-term value

CONSUMER
Growing reputation and trust through demand fulfilment and innovative offerings.

HUMAN
Creating an inclusive culture of personal development and purpose.

SOCIETAL
Building trust in capital markets and having genuine social and environmental impact.

FINANCIAL
Leading long-term growth through margin optimisation, cost optimization.

NOW

Safeguard business continuity through effective crisis response planning

Shock and re-start

Respond and continue

- Protect Workforce and People
- Secure Financial Stability
- Continue Operations

NEXT

Ignite recovery through business adaptation and stronger enterprise resilience

Continued crisis and slow recovery

Adapt operations

- Fix Supply Chain
- Re-start production
- Ensure Customer Access
- Reduce Cost
- Streamline Structures, Portfolio, Footprint

Increase resilience

- Achieve lower and more agile cost base
- Increase workforce flexibility
- Optimize Supply Chain - mitigate geo-risk, create buffers, enhance agility
- Maximize digital customer access
- Enhance digitization, automation,
- Back-up with cyber security

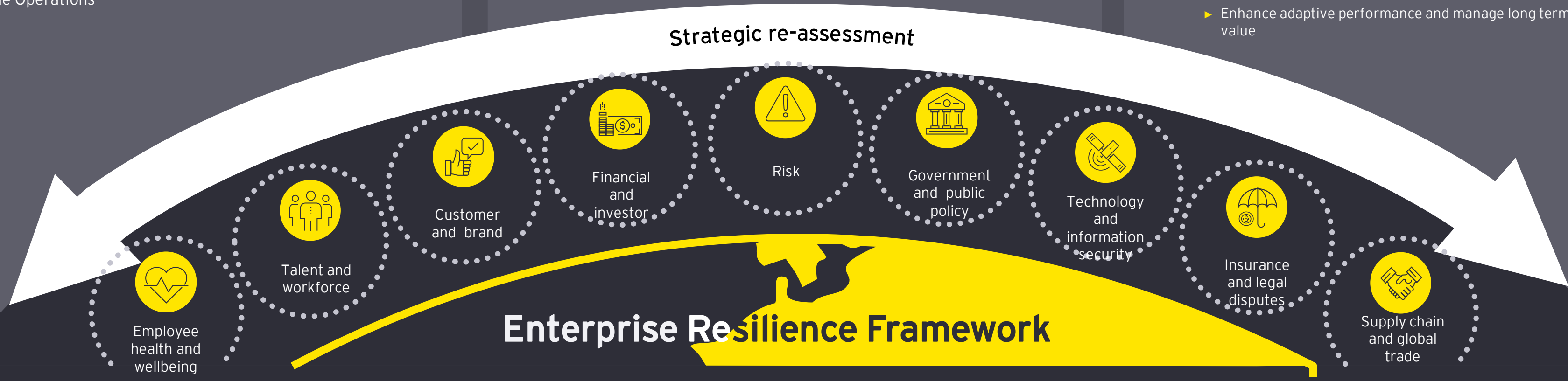
BEYOND

Deliver long-term value creation by reframing and transforming business

The "Reframed Future"

Reframe

- Redefine purpose, competitive advantages and business model
- Seize new growth opportunities, pursue acquisitions and divestitures
- Continue to lean into digital, enable full digital enterprise (virtual and digitized work, re-balanced channel mix, accelerated digital marketing)
- Create a platform for customer-inspired innovation
- Enhance adaptive performance and manage long term value



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Board trends…

Complexity	Significant increase in complexity - economy, technology (consumer, enterprise, operations, digital), regulatory, data, geographic scope
Risk	Heightened risk - cyber security, war for talent, reputational, geopolitical
Transparency	Calls for increased transparency on remuneration and diversity
Stakeholders	Growing pressure from multiple stakeholders - institutional investors, activists, proxy access, governments, public involvement through social media
Adding value	Not just a governing body, Boards are being leveraged as a competitive advantage to complement and support management and add value
Board Composition & Diversity	Demand for highly qualified and exceptional Directors is growing and increasingly specialist skills are required in the Boardroom. Need for diversity across gender, race, ethnicity, age are paramount
Succession	Proactive Board succession planning, including committee rotations, are becoming best practice

What the future holds for tomorrow's boards

"Team" effectiveness vs. simply "Board" effectiveness	Fully functioning high performing teams
Talent Agenda	Focus on development, thorougher and better timed succession planning
Impact of technology	Devaluing of the *physical* 'Board Meeting'; revaluing the Board meeting *virtually* as a team on a daily basis
Broader stakeholder concerns	Increased stewardship & accountability

Is your Board too busy?

- Is there enough airtime in the boardroom for debate aimed at informed decisions, rather than "presentations"?
- Is everyone crystal-clear on the mission and the strategy, and the differences between them?
- Does the board have a good "dashboard" for measuring progress on the right qualitative measures, as well as strictly financial terms?
- Is there enough "specific skill" input from the non-execs, as well as generic business expertise?
- Are there pockets that instinctively resist change?
- Is the fabric of the team woven by contact between formal meetings?
- Are details debated before there is agreement on conceptual approaches or business models?
- Are the non-executives providing effective stretch and challenge to the executives?
- Are the executives contributing as board members, in addition to their regular line/functional roles?
- Does the Chairman speak first, or last? Is the Chairman sure that everyone who wants to say something is able to say it?

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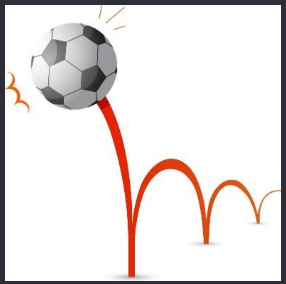
Anticipate the second bounce of the ball

> *"What are the second or third order consequences of a particular decision?"*
>
> Alex Gorsky
> CEO, Johnson & Johnson



8 Lessons for Boards on Strategic Risk

1. Scenarios that threaten strategic intent
2. Organisational risks
3. Over the horizon
4. Externally triggered/imported risks
5. Game-changing scenarios
6. Critical operational risks
7. Large transactions, capital expenditure programs and transformations
8. Integrated approach

The competency of a board to discern strategic risks is tightly bound into strategic thinking and the strategic planning process.

1. Make time to set out the most pertinent and recent internal and external events, drivers of performance, sector health and organisational (people) strengths and weaknesses.

2. Find a process to glean insight independently and without bias from the executive and the board on scenarios that concern them the most.
   a) Build scenarios with plausible likelihoods of realisation and clear material implications.
   b) Be careful not to confuse issues (things that have already happened) with risks (things that may or may not happen).
   c) Encourage members of the board and management to lift their gaze from issues that are preoccupying them this quarter.

The competency of a board to discern strategic risks is tightly bound into strategic thinking and the strategic planning process.

3. Collectively stress test the scenarios and resolve what the most significant ones are that generate uncertainty, for better or for worse.

    a) Bear in mind, this is rarely an objective exercise and it's a real test of the experience and judgement of those in the room.

    b) Focus on the most significant dozen or so.

4. Consider current mitigating factors that may or may not include internal controls, whether there is an adverse, stable or positive trend with time for the scenario, and the limit of your appetite for that risk scenario.

The competency of a board to discern strategic risks is tightly bound into strategic thinking and the strategic planning process.

5. There are three alternatives:
   a) Accept the risk and do nothing more. There is no practical or commercially sensible response to the scenario; it becomes a volatile feature of our strategy.
   b) Do nothing more yet. We accept the risk is real and warrants action, but we are uncertain of an optimal response. Research an optimal response and execute.
   c) Do something now. The scenario as represented is currently unacceptable without further mitigation, so act now.

6. Hold the CEO and executive team accountable for changing the risk/reward balance at a sensible frequency — rarely longer than six-monthly.

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4 Ways to Advance Board Oversight of Risk

1. Reprioritizing top risks to keep pace with market disruption – encourage stronger alignment and more rigorous oversight of key emerging risks

2. Turning risk into strategic value – look at "upside" opportunities that risks can provide to achieve performance management goals and strategy objectives by leveraging external data sources in risk identification and improving monitoring of risk responses.

3. Redefining risk reporting to reflect the dynamic risk landscape – adjust risk reporting to reflect the new risk landscape, including new reporting on emerging risks, and ask for more predictive insights

4. Evolving the board's role in ERM – focus on emerging and existential risks on the board agenda, and utilize external experts to upskill the board, advise on specialized risks, and stay on top of megatrends to identify risks and uncover opportunities

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10 Principles for Effective Board Risk Oversight

1. Understand the company's key drivers of success
2. Assess the risks in the company's strategy
3. Define the role of the full board and its standing committees with regard to risk oversight
4. Consider whether the company's risk management system – including people and processes – is appropriate and has sufficient resources
5. Work with management to understand and agree on the types (and format) of risk information the board requires
6. Encourage dynamic and constructive risk dialogue between management and the board, including a willingness to challenge assumptions
7. Closely monitor the potential risks to the company's culture and its incentives structure
8. Monitor critical alignment – of strategy, risk, controls, compliance, incentives and people.
9. Consider emerging and interrelated risks: What's around the next corner?
10. Periodically assess the board's risk oversight processes - do they enable the board to achieve its risk oversight objectives?

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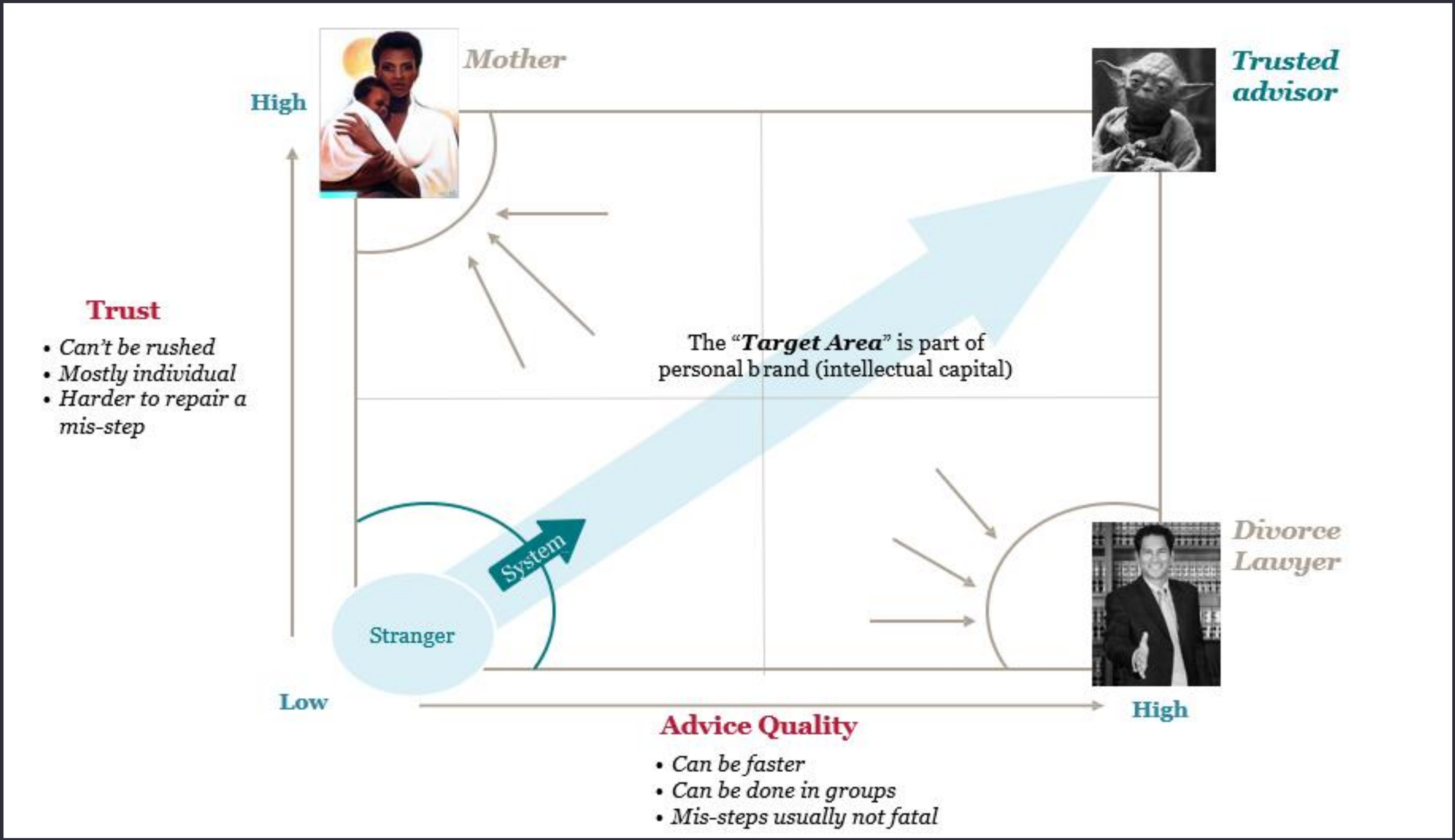

T H A R

- Results
- Accountability
- Healthy Conflict
- Trust

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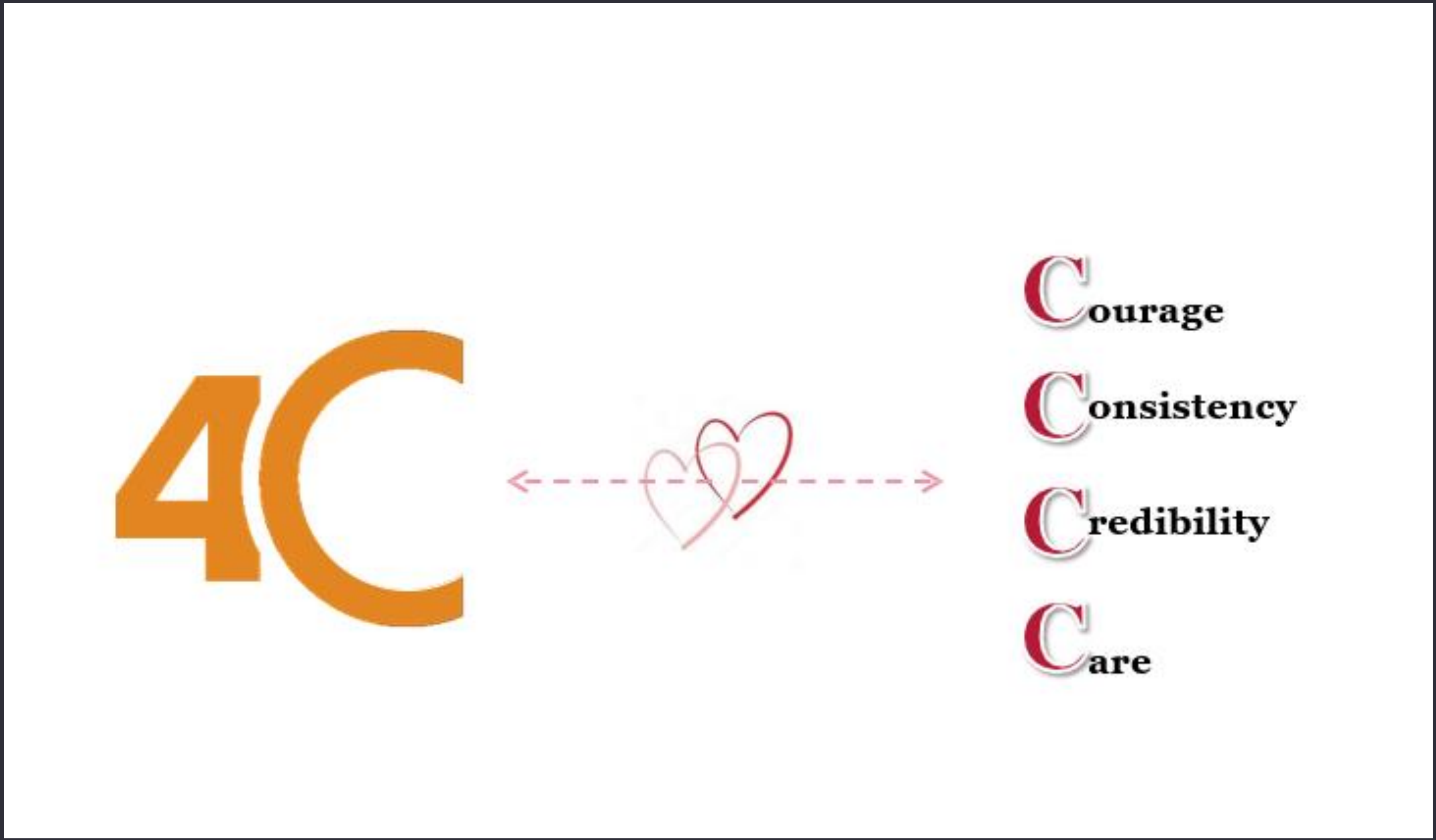
Build and Earn Trust



Build and Earn Trust

Credibility (and competence)

- How well do I master my role?
- How well do I know my client's business?
- To what degree am I committed to my mandate?
- Am I a positive role model (e.g., response time, organizing information, etc...)?
- Do I treat confidential information appropriately?
- Do I adhere to the values of my clients?

Consistency (and congruence)

- Do I keep my commitments?
- How well do I meet the expected standard of delivery?
- Do I show consistent behavior?
  Do I consistently "walk my talk"?
- Do I always play fair (e.g., in conflict situations)?
- Is my presence and appearance consistent with my abilities?
- Are my thoughts (about my client) consistent with what they see and hear from me?

Courage (to be honest)

- Do I share my real opinion?
- Do I admit if I don't know the answer/the business?
- Am I honest, e.g., when giving feedback?
- Am I transparent about risks and opportunities?
- Am I honest about my limits and my boundaries?
- Do I communicate clear rules?
- Do I allow people to see the "real person" behind my role?

Care

- Am I really interested to support my clients/to let them shine?
- How well do I understand their concerns and needs?
- Do I always treat my clients with respect?
- Do I protect my clients' interest even when they are not in the room?
- Am I responsive to the feedback and needs of my clients?
- Do I share information that is helpful for my clients?
- Am I accessible and available for them?

Board strategic involvement should focus on 7 Drivers of Growth

Get in touch

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Q & A

Building a better working world