

# THREE BOARD AGENDA ITEMS FOR THE 21<sup>ST</sup> CENTURY

IRC SA conference

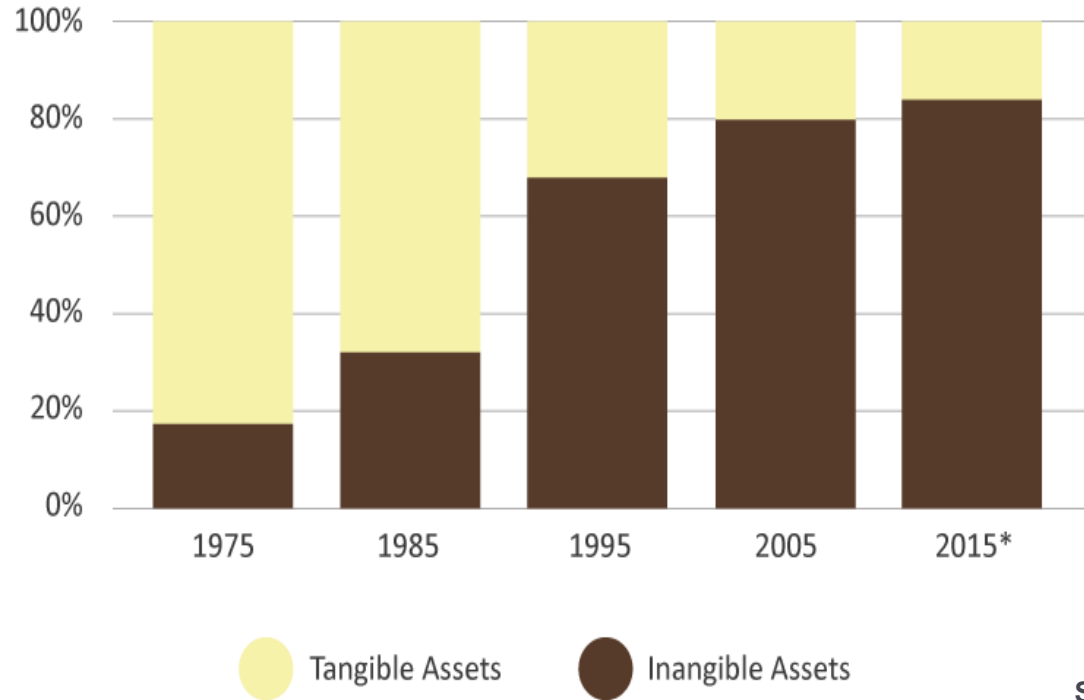
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Presented by Mervyn E King SC

# AGENDA ITEMS

1. Stakeholder relationships
2. Inputs to outcomes
3. IT governance and security

# COMPONENTS OF MARKET VALUE



Source: OCEAN TOMO LLC  
January 1, 2015

# INNOVATIONS IN CORPORATE REPORTING

- ★ Enhanced business reporting
- ★ Balanced score cards
- ★ Triple bottom line
- ★ Sustainability reporting
- ★ Each trying to communicate the intangible asset value

# BEYOND FINANCIAL REPORTING

- ★ Triple context
- ★ Report in monetary terms
- ★ FR critical but not sufficient
- ★ SR critical but not sufficient
- ★ The two in silos not sufficient
- ★ Geneva – how report on total value? (2010)
- ★ St James' Palace – IIRC established (2010-11)
- ★ IIRC Framework, December 2013

# VALUE TODAY

- ★ Yesterday, cash flow and book value
- ★ How does the company make its money?
- ★ The positive and negative impacts on the triple aspects of the company's business model and product
- ★ Enhancing the positives, eradicating or ameliorating the negatives
- ★ Embedding sustainability issues into strategy
- ★ As water is critical to the beverage manufacturer
- ★ Now value is seen through a value creation lens in a sustainable manner

# SHARE VALUE TO VALUE CREATION

- ★ Board decides how, affects and strategy
- ★ To create value in a sustainable manner
- ★ For its business, society and the environment
- ★ Success depends on:
  - ★ internal financial return
  - ★ external social, environmental and economic results

# THE ERROR OF CORPORATE LEADERS

- ★ Duty to the company not shareholders
- ★ Agency theory requires directors to obey
- ★ Independence of mind fettered
- ★ A company's health not its shareholder's wealth
- ★ Time has come to challenge maximising shareholder value
- ★ Distracts boards from building the company's health
- ★ Professors Stout (Duke) and Paine (Harvard)



# CONCEPTS ON WHICH KING IV IS BASED

- ★ Ethical leadership
- ★ Role of the organisation in society
- ★ Corporate citizenship
- ★ Sustainable development
- ★ Stakeholder inclusivity
- ★ Integrated thinking
- ★ Integrated reporting

Source: Foreword to King IV Report

## Sustainable development

Sustainable development, understood as "conducting operations in a manner that meets the existing needs without compromising the ability of future generations to meet their needs", is a primary ethical and economic imperative

### The organisation is an integral part of society

Organisations operate in a societal context, which they affect and by which they are affected.

### Corporate citizenship

As the organisation is an integral part of the broader society it has corporate citizenship status in society which affords it rights but also obligations and responsibilities.

It is also recognition that the broader society is the licensor of the organisation.

**Integrated thinking:**  
Takes into account the connectivity and interdependencies between the range of factors that affect an organization's ability to create value over time.

### Stakeholder inclusivity and responsiveness

It is by taking into account and responding to legitimate and reasonable needs, interests and expectations of stakeholders and by establishing relationships that an organisation becomes attuned to opportunities and challenges posed by the triple context in which it operates.

**Integrated annual report**  
'tells the story' of how - that is, the business model, by which the organisation creates value.

# FOUR OUTCOMES

- ★ Ethical culture and effective leadership
- ★ Performance and value creation in a sustainable manner
- ★ Adequate and effective controls
- ★ Trust, good reputation and legitimacy

# WHO ARE STAKEHOLDERS?

- ★ Parties who contract with the entity e.g. customers, employees , suppliers etc
- ★ Parties who have a non-contractual nexus with the entity e.g. civil society, local communities, NGOs, the environment
- ★ The State as legislator or regulator

# STAKEHOLDER RELATIONSHIPS

- ★ Have to be managed
- ★ Agenda item at each board meeting
- ★ Critical in integrated thinking
- ★ Who relates to stakeholders? - CSRO
- ★ Management time and eye off the ball?

# INTEGRATED THINKING

- ★ Every company dependent on relationships and resources
- ★ Mindset change at board & senior management level
- ★ Symphony
- ★ Knowledge of stakeholders' legitimate & reasonable NIE's
- ★ Greater stakeholder expectations
- ★ Agenda: stakeholder relationships

# STRATEGY

- ★ Strategy no longer stops at outputs
- ★ Board needs to be informed of stakeholder relationships
- ★ Board needs to be informed of value creation sources
- ★ Board needs to be informed of how the company makes its money and its affect on the economy, society and the environment
- ★ Board needs informed oversight
- ★ Agenda item: inputs to outcomes

## Inputs

Capitals, which may take the form of.

- Funding model
- Infrastructure
- People
- Intellectual property
- Raw materials
- Ecosystems services
- Relationships



## **Business Activities.**

- Research and development
- Planning
- Design
- Production/ conversion
- Product differentiation
- Market segmentation
- Distribution
- Service provision
- Quality control
- Operational improvement
- Relationship management
- After-sales service

## Outputs

- Products
- Services
- Waste
- Other by-products

## Outcomes

- Customer satisfaction.
- Profit/loss
- Shareholder return.
- Asset consumption.
- Contribution to local economy through taxes.
- Job creation
- Employee development and engagement
- Improved standard of living
- Environment impact
- License to operate

# DIGITAL STRATEGY

- ★ Should every business have a digital strategy?
- ★ Rather there must be a business strategy in a digital world

# THE CIO

- ★ Understand the long-term strategy of the business
- ★ Align with efficient and effective IT solutions
- ★ Strategically integrate IT into the business strategy
- ★ Exercise care and skill in developing IT solutions

# INFORMATION SECURITY

- ★ Develop an information security management system (ISMS)
- ★ Board should oversee the ISMS
- ★ Management is to implement the ISMS
- ★ ISMS should include :
  - ★ ensuring the confidentiality of information
  - ★ ensuring the integrity of information
  - ★ ensuring the availability of information and information systems in a timely manner

# RISK COMMITTEE

- ★ Risk (audit) committee should ensure IT risks adequately addressed
- ★ If necessary, call on expert advice
- ★ Should understand the overall exposure to IT risks from a strategic and business perspective
- ★ Ensuring that controls in place to address IT risks

# DR OR BC PLAN

- ★ Ability to recover from disaster or unexpected event
- ★ Must have a plan
- ★ Before the disaster or unexpected event
- ★ Perform an audit on Disaster Recovery Officer
- ★ Skill and capacity



# ISSUES

- ★ Alternate site
- ★ Data backup – hot, cold or warm
- ★ Insurance
- ★ Training of personnel under the DRO
- ★ Objectives of the audit plan
- ★ Cost benefit analysis

# CYBERSECURITY (1)

- ★ Much greater risk than DR today
- ★ 117339 attacks per day on IT systems 2012
- ★ Cost of managing and mitigating breaches are increasing
- ★ Losses in excess of US\$20M are more common

★ (PwC)

# CYBERSECURITY (2)

- ★ **Stuxnet** is a computer worm that was discovered in 2010. It was designed to attack
  - ★ industrial PLCs and SCADA systems. “Stuxnet reportedly ruined almost one-fifth of Iran's nuclear centrifuges”.
  - ★ **Primera Blue Cross** (March 2015): The company, a health insurer based in Washington State, said up to 11 million customers could have been affected by a cyberattack last year”.....
  - ★ **Anthem** (Feb 2015): One of the USA’s largest health insurers said that the personal
  - ★ (PwC)

# CYBERSECURITY (3)

- ★ **Anthem** (Feb 2015): One of the USA's largest health insurers said that the personal information of tens of millions of its customers and employees, including its chief executive, was the subject of a "very sophisticated external cyberattack."
- ★ **Sony Pictures** (Nov 2014) - President Obama and national security officials said North Korea was behind the attack.
- ★ **Staples** (Oct 2014) The office supply retailer said hackers had broken into the company's network and compromised the information of about 1.16 million credit cards.
- ★ **Home Depot** (Sept 2014) "About 56 million payment cards were probably compromised".
- ★ (PwC)

# TECHNOLOGY CONVERGENCE

- ★ Average is 3 electronic instruments
- ★ iPhone, iPad, laptop
- ★ Increases opportunity for attack
- ★ Presents greater risks of the leaking of information
- ★ Greater risk to obtain the data
- ★ Agenda item: IT governance and security

# 10 QUESTIONS BOARDS AND CEOs SHOULD BE ASKING

## *10 questions Boards and CEOs should be asking*

<i>Enhancing their cybersecurity strategy and capability</i>	<ol style="list-style-type: none"><li>1. Is our cybersecurity programme aligned with our business strategy?</li><li>2. Do we have the capabilities to identify and advise on strategic threats and adversaries targeting us?</li><li>3. Can we explain our cybersecurity strategy to our stakeholders? Our investors? Our regulators? Our ecosystem partners?</li></ol>
<i>Understanding and adapting to changes in the security risk environment</i>	<ol style="list-style-type: none"><li>4. Do we know what information is most valuable to the business?</li><li>5. Do we know what our adversaries are after/what they would target?</li><li>6. Do we have an insider threat programme? Is it inter-departmental?</li><li>7. Are we actively involved in relevant public-private partnerships?</li></ol>
<i>Advance their security posture through a shared vision and culture</i>	<ol style="list-style-type: none"><li>8. How was our last major event identified; in-house or government identified?</li><li>9. Who leads our incident and crisis management programme? Is our programme cross-functional/ inter-departmental?</li><li>10. How often are we briefed on our cyber initiatives? Do we understand the cyber risks associated with certain business decisions and related activities?</li></ol>

# CONCLUSION

- ★ The vision must be to have a stakeholder and company centric governance model which moves away from yesterday's primacy of the shareholder. It needs to be implemented mindfully to achieve the four outcomes of effective leadership, value creation, adequate controls and legitimacy of operations
- ★ We don't have to grope in the dark
- ★ We have the light – the IIRC Framework of December 2013 and King IV
- ★ Concepts whose time had come

THANK YOU

Prof Mervyn E King SC