

**Deloitte.**

Directors' Alert: 12 issues for 2012  
When Uncertainty Reigns



## Contents

Introduction .....	1
Global economy .....	2
Risk Oversight .....	3
Strategy, growth, and performance .....	4
Operational management .....	5
Capital, cash, and liquidity management .....	6
Mergers and acquisitions .....	7
Organisational structure .....	8
Talent management .....	9
Sustainability and corporate responsibility .....	10
Regulation and compliance .....	11
Transparency in corporate governance .....	12
Board success .....	13
Conclusion .....	14
Contacts .....	16

## Introduction

# Doing business in the new “normal” economy

The years since the 2008 financial crisis have been called the worst global economic downturn since the Great Depression of the 1930s. The uncertain and often volatile business environment has created significant challenges to which organisations have often had to respond quickly by adapting strategies and operations. This publication examines some of the top challenges likely to face companies, and their board of directors, in 2012.

The purpose of this publication is not to provide solutions to the issues discussed. The best approach for any organisation will depend on its own particular circumstances. Instead, our objective is to assist directors in identifying issues of importance to their organisations, and to help promote boardroom discussion around the strategies management has put forward to address the challenges and seize the opportunities that lie ahead.

Many companies' initial response to the financial crisis was to employ the same strategies that carried them through previous recessions – downsizing staff, reducing operations, and postponing investments until economic conditions returned to normal.

Past downturns, however, were shorter and less severe than this one. Companies could hold off investing in their operations for the duration of the downturn without risking long-term harm to their viability. Economic conditions returned to normal relatively quickly, and reinvestments in the business could be made at a time when revenue growth and profitability had recovered.

Today, waiting until conditions return to “normal” isn't an option – after more than three years of uncertain economic and market conditions that show little sign of abating, this is the new normal. Although for many companies, revenue growth may remain weak and profitability continues to be under pressure, companies that continue to wait to reinvest in their businesses may be risking their longer-term competitive ability.

Managing costs, however, isn't the only challenge facing organisations.

Perhaps more than ever, businesses need to attract, retain, motivate, and develop top talent – not an easy task when flattened corporate growth rates limit avenues for career growth.

Organisations need strategic plans that are far more nimble than those of the past, so they can be adjusted and realigned in response to sudden and constant changes in operating conditions.

Amid continuing market volatility, risk must continue to be monitored closely. And past experience isn't always a benefit, especially for organisations whose industries and markets have been radically transformed since 2008.

This publication offers insights from governance specialists from Deloitte member firms (“Deloitte”) around the globe – Asia, the Middle East, Europe, Southern Africa and the Americas; these specialists have provided local and international perspectives on these and other top boardroom priorities within the context of today's uncertain business environment. Each article includes questions that directors may ask to further explore the issues with their own boards. In addition, articles are supported with tools and resources so directors can “dig deeper” to broaden their understanding of the issues and improve their board's effectiveness in dealing with them. These additional resources can be obtained by contacting your Deloitte partner.

## Global economy

# Keep your seatbelts fastened, continued turbulence ahead

A dramatic drop in global manufacturing activity in the second half of 2011, and slowing GDP growth in the key emerging markets of China, India, Brazil and Southern Africa, have caused economists to warn that the global economy may return to a recession in 2012. On the other hand, despite these negative indicators, several economists believe a double dip recession will be avoided in 2012, particularly if policymakers succeed in finding solutions to the European sovereign debt crisis and the U.S. budget problems<sup>1</sup>.

The only thing likely to be certain about the global economy in 2012 is continued uncertainty – unless, things get worse.

If global economies sink into a recession, which some European countries may be very close to doing, the recovery rate will be slower than it was after 2008. Oil prices, for example, are much higher than they were in early 2009, which could slow economic recovery, the International Energy Agency has warned<sup>2</sup>. Then, fast growing emerging markets, which were able to sustain their strong GDP growth, led the global recovery; today, however, China, India, and Brazil, are seeing their economies slow due to weak demand for goods and services from Europe and the United States.

In November 2011, major central banks took steps to keep markets liquid in an attempt to avoid a situation similar to the credit crunch that followed the 2008 financial crisis. However, governments that used massive stimulus spending in 2009 to further liquidity and spur economic growth are unlikely to be able to afford such programs in 2012.

After several years of economic uncertainty, boards are well aware of their organisations' need to carefully monitor changing market conditions. When creating and reviewing strategic plans, boards must challenge the economic and business assumptions that provide the foundation of those plans to ensure they are both reasonable and take into account different scenarios, including the risks created by changes to market liquidity and financing. When assessing the potential impact of deteriorating economic conditions, boards should ensure that management's analysis looks beyond the company's own walls to assess, for example, the ability of suppliers to continue meeting their contractual arrangements and customers maintaining their order levels and ability to pay invoices on a timely basis.

1. "Factories stall worldwide, U.S. jobless claims rise," Reuters, December 1, 2011. "Unrealized Assumptions Could Alter 2012 Forecasts," The Wall Street Journal, December 8, 2011.
2. "Oil prices could strangle economic recovery hopes: IEA," Reuters, November 24, 2011

### Questions to ask:

- Do we receive regular briefings on the state of the economy in the jurisdictions in which our company operates? Have we identified key indicators pertaining to our company and its markets to help us directly gauge how economic changes are affecting our organisation? Do these indicators include those that enable the board to assess the economies' effect on suppliers, customers, and other partners?
- Is our business plan based on reasonable economic and marketplace assumptions? Have we developed scenarios to model how different economic events would impact our business?
- Has the board reviewed and approved a contingency plan to be implemented if the economy suddenly weakens? Is that plan able to accommodate changes to marketplace liquidity and the availability of financing?

## Risk oversight

# Keeping risk and opportunity in balance

The 2008 financial crisis exposed severe weaknesses in many organisations' risk management practices, under which assessments of strategies and opportunities focused on the potential benefits while discounting the associated risks, if not ignoring them altogether.

More than three years later, companies around the globe have implemented far more robust risk management practices. With the continuing uncertainty in the global economy, risk management continues to top the agendas of many boards. The question, however, is whether risk is now over dominating boardroom discussions? Boards that once focused too exclusively on the upside of an opportunity may have since adopted a highly intensive risk focus that causes them to see only the downside risks. If so, these organisations may be suffering risk paralysis – being afraid to act on an opportunity that would create value for the organisation today.

Organisations suffer when viable opportunities are missed just as much as when legitimate risks are ignored. Organisations need to develop a risk intelligent culture that fosters "smart" risk-related decision-making, in which the organisation would determine how much risk it is willing to take on and how those risks will be managed and mitigated so the organisation both preserves and creates value.



### Questions to ask:

- Do we take an appropriately balanced view of risk and opportunity?  
Are we too aggressive or too risk adverse when assessing opportunities?
- Do we have a "risk intelligent" culture within the boardroom and the management suite? Is the organisation taking steps to embed that culture throughout our operations and business units?
- Does management keep the board apprised to the organisation's key risk indicators and the steps being taken across the organisation to mitigate those risks?

# Strategy, growth, and performance

## How agile is your strategy?

A business environment in which capital markets, exchange rates, consumer confidence levels, and other factors fluctuate from day to day with extraordinary volatility creates unprecedented challenges for organisations in executing their longer-term strategies.

Strategic plans set out objectives to be realised over the longer-term – typically between three to five years – and those goals must remain focused if they are to be achieved. At the same time, however, a strategic plan must be flexible so it can be adapted and realigned to continuing changes in market conditions.

In their oversight of strategy, therefore, boards need to carefully monitor changes in marketplace conditions that could affect the organisation's ability to achieve its strategic goals. Together with management, boards should identify the high level risk indicators related to the organisation's strategic objectives. When reviewing reports on the progress the company is making towards executing its strategy, boards should rigorously question the underlying

numbers and assumptions related to market trends and key activities within the industry, such as mergers and acquisitions. Many boards also require that certain activities, decisions, and transactions greater than a specific size or complexity be reported to them, with periodic updates on matters of lesser size or other topics.

Since directors are normally recruited to the board for their business knowledge and experience, their insights provide significant value to the organisation in setting, monitoring and, when necessary, realigning strategy. With all of their other responsibilities and the time required to address them, however, boards need to carefully plan the topics and timing of their discussions of strategy, performance, and growth and make it a standing agenda item for board meetings.

### Questions to ask:

- Do we monitor the effect that changing market conditions may have on our organisation's strategy? Do we consider different scenarios and how those conditions would affect our ability to achieve our strategy?
- What processes does the company use to identify and evaluate changes in its operating environment? Are these findings reported to the board so the board can consider them when assessing strategy?
- Have we worked with management to set key performance indicators related to strategy, and does the board receive timely reports on them?

## Operational management

# A strategic role in operational management

Increasingly boards of directors have expanded their responsibilities for oversight of their organisation's strategy to also include oversight of strategic operational issues, because they reflect the status and consequences of strategy execution. The agendas of these boards typically alternate between discussions of strategy at one meeting and operational issues at the next meeting.

This is a broad scope for a board because operational management encompasses activities included in the delivery of products or services that ranges through process design, cost management, employee remuneration, succession planning, innovation, compliance, and more. It is through the combination of these processes – resources, people, knowledge, technology, and facilities – that the organisation delivers on its commitments, which will often cover a range of policy and strategy considerations. For example, organisations no longer manage their supply chains solely from the perspective of enhancing their efficiency and effectiveness; they now also focus on meeting various corporate social responsibility objectives, such as ethical sourcing, sustainability, and partner selection.

Boards can add significant value by working with management on strategic operational issues, including those related to market, product, and location strategies. This often involves obtaining an external perspective of the practices of other companies, industries, and countries. Many boards' role in operational management includes supporting and instigating growth and efficiency initiatives as well as sponsoring innovation to be delivered through operational changes in the organisation.



### Questions to ask:

- Does our board play an appropriate role in the oversight of operational management and the execution of strategy?
- Do we receive reports on key performance indicators needed for us to understand the operational issues facing the organisation and to guide the board's input into the development of short, medium, and long-term goals and objectives?
- Does our board receive regular reports on strategic and tactical operational matters, including those related to efficiency, effectiveness, performance benchmarks for competitors and other industries, customer satisfaction indices, and other reports on the execution of strategy?

# Capital, cash, and liquidity management

## Making the best use of cash in hand

In the days immediately following the 2008 financial crisis, the freeze up of certain credit markets made liquidity a critical issue for organisations and their boards to manage. Since then, and despite continuing economic uncertainty and the risk that sovereign debt problems may create for many financial institutions, global bankers have worked to avoid a return to a global liquidity crunch.

Today, despite the continuing slow growth of many markets, companies have built up sizeable cash reserves. In part, these are funds that have been saved after three years of squeezing costs out of their organisations while deferring making most new investments until global economies improve. But is such a strategy still viable or advisable?

The challenge for companies is to determine the best use for the cash they have in hand. If it is to protect that cash, boards should assess the risks to it. These include assessing counterparty risks, the problems that may be unique to operating in specific markets or jurisdictions, or whether it is necessary to modify the capital allocation within a group.

On the other hand, boards may query whether or not the cash should be put to better use. Given that the global economy is unlikely to return to pre-2008 conditions, organisations may be at risk if they continue to wait until better times before reinvesting in their infrastructure, people, research and innovative activities, acquisitions, and other areas that will be essential to their future viability and growth.



### Questions to ask:

- What potential financing risks does our organisation face? Do our current cash reserves provide sufficient protection from these risks?
- Is our company making the best use of its cash in hand? If we are continuing to accumulate cash holdings by keeping costs out of the business, is that strategy putting our longer-term viability at risk? Are we making sufficient reinvestments in our business?

## Mergers and acquisitions

# When every company is “in play”

Global merger and acquisition activity has been steadily increasing since mid-2010, and will likely continue to do so in 2012. Private equity firms made acquisitions topping \$144 billion in 2011 and are likely to continue to be key players<sup>1</sup>. Corporations, which have up to 50 percent more cash on their balance sheets than five years ago, may look to acquisitions to offset slower growth in the United States, Europe, and elsewhere.

In this environment, every company is potentially “in play,” if not as an acquirer than as a target of one.

With many sophisticated, well-funded buyers in the market, organisations looking for acquisitions need to approach the market with a solid M&A strategy. In reviewing this strategy, boards should first consider the strategy’s overall objectives: is it to reach a specific growth objective or is it purely defensive? Other important considerations include:

- Alignment with the company’s overall business strategy – acquisitions must be compatible with and supportive of overall strategy and be in the best interests of key stakeholders.
- The focus on potential acquisitions – strategies should define the parameters of an “ideal” deal against which potential acquisitions can be assessed.
- Corporate culture – deals that look good on paper rarely live up to expectations when they involve organisations with significantly different cultures.

- Structure and financing – determining the appropriate deal structure and identifying financing at the outset helps ensure the transaction lives up to expectations.

Board members of a target company are often offered seats on the combined company board, which ensures the post-merger board has members with a solid knowledge of the acquired company. Unless managed carefully, however, such an arrangement may reduce board efficiency, particularly if the membership of the combined board is too large for effective decision-making or culture differences among the board members inhibits team building.

When an acquisition or divestiture is proposed, the board should determine how the transaction will be communicated to the organisation’s stakeholders, such as through meetings, web sites, webcasts, etc. Information should be clear and transparent, provide a balanced view of the opportunities and risks, and be presented with sufficient time for shareholders to assess it in advance of a shareholder vote.

---

1. Bloomberg Global Legal Advisory Mergers & Acquisitions Rankings Q3 2011, pg 2. “A Resurgence of M&A Activity in 2011 and What to Expect in 2012,” Industrial Distribution, September/October 2011.



### Questions to ask:

- Have we considered the position of our organisation? Are we an acquirer or more likely to be the target of one?
- Has the board reviewed and approved a proactive M&A strategy for the organisation? Does it include both offensive and defensive game plans?
- Has the board developed a strategy for communicating the details of a proposed transaction to the organisation’s stakeholders?

## Organisational structure

# Global, flexible, flat, and networked

In a global marketplace, organisations have had to adapt business strategies, corporate structures, marketing plans, and even production capabilities to meet the needs and preferences of different domestic markets. Globalisation has also created a greater mobility of labour; to enhance their competitiveness, many companies have transferred functions to jurisdictions with educated workforces and lower labour costs.

With more diverse workforces, many companies are building increasingly flexible organisations to accommodate different work preferences – flex time, telecommuting, part time work, aging workers, and independent consultants. To maximise flexibility while maintaining stability and reducing costs, organisations have had to re-engineer business processes, redesign jobs, outsource activities, and take other actions to increase efficiency. Such changes are challenging to manage; employees need time to adapt to process changes while organisations must respond quickly to the competitive pressures that often drive those changes.

To further speed their response to customers and other stakeholders, organisations are flattening their hierarchies and structures. Many are forming networks with strategic partners, joint ventures, and others to increase flexibility; reduce costs for employee benefits, office and plant space; finance new initiatives; and further flatten their organisations.

These organisational changes create management challenges. Business operations often span multiple jurisdictions and time zones. Because they remain ultimately responsible for the end product or service, while having to rely on outsourcing providers and strategic partners for the quality and reliability of their goods and services, companies may need to implement new control structures to mitigate risks across their globalised, networked organisation.

Boards must determine how to apply effective oversight of a diverse, multijurisdictional organisation. Board membership may need to be adjusted to reflect the diversity in the organisation. Boards must also ensure that the “tone at the top” and its supporting values are consistent and relevant when translated across a multicultural environment, particularly for operations in countries where business practices are tainted by corruption. Similarly, organisations that move functions to jurisdictions with lower labour costs must take care that their operations are not exploitive and that they comply with fair business and labour practices.

---

“Strategy should be the primary driver of an organisation’s structure, which should be designed to achieve the goals and objectives of the company and each of its major business units. Organisational structures should be adjusted and adapted to the company’s business needs.”

Joaquin Moreno, Independent Member  
of the Board of Directors, Ecopetrol.

### Questions to ask:

- Do we fully understand all of the risks that extend across the company globally? Are we confident that our outsourcing providers and strategic partners are identifying and mitigating the risks they face? Are we providing regular oversight of the global control structure?
- Are we satisfied that our organisational values are relevant to everyone and are shared and supported across our multicultural environment? Are our network partners’ values consistent with our values?
- How well does our organisation adapt to process changes? Do employees have sufficient time and support to learn and become comfortable with new methods and processes in order to achieve expected efficiency improvements?

## Talent management

# Understanding the talent, strategy, and risk continuum

“Our people are our most important asset” is a much used phrase in the corporate lexicon, though it is often difficult to find evidence of corresponding action and accountability.

Human resources and compensation committees, for example, spend much of their time focused on compensation practices in response to shareholder demands for a “say on pay,” new regulatory requirements, and media scrutiny of executive pay packages. The broader issues of talent management tend to reach the committee’s agenda only when a gap exists among senior management officers.

Organisations recognise that talent management is closely linked to strategy, since top talent is needed to drive top performance. However, developing and retaining that talent is increasingly difficult when the organisation itself isn’t growing enough to create sufficient opportunities for people to build their management and leadership skills. What is less recognised is the link between talent management and risk. Inappropriate actions on the part of an individual, or group of individuals, resulted in the demise of, or serious financial or other damage, to many companies.

Boards and executives who explicitly embed talent into their risk management processes tend to make more informed, proactive and hence more effective investment in talent. The reason for this is that they realise that they understand that achieving desired business results hinges

as much on an organisations talent as anything else – and they know that getting the right talent is not a simple, mechanical exercise that just “happens”.

If people truly are considered to be an organisation’s greatest asset, they should be managed as such even if talent is not an item that is recognised on the balance sheet. Organisations that take a longer-term view to managing talent will seek to protect this asset, including at times when revenue growth may be less than expected.

Understanding the strategic and risk implications associated with talent management, and properly integrating those issues, can create a competitive advantage for organisations. In their oversight of strategy and risk in relation to talent management, boards may want to consider whether their mandates should include:

- Ensuring a corporate culture in which talent management is recognised as a top priority at all times.
- Approving a corporate code of conduct that incorporates the organisation’s key values.
- Oversight and tailoring of talent management processes, including those to identify, retain, motivate, and develop key employees.
- Oversight of and input into the organisation’s human resource strategy.
- Investing in development of leaders at all levels to guide their organisations in this new age of uncertainty.

### Questions to ask:

- Does the board understand all of the strategic and risk implications associated with our organisation’s people and the development of talent?
- Does our organisation truly view people as a strategic asset and are we taking appropriate steps to ensure the renewal of our talent resources?
- How well do leaders in our organisation understand the capabilities and aspirations of their teams? Do they spend sufficient time helping their people set goals and providing feedback and coaching to enable meaningful development?

# Sustainability and corporate responsibility

## An integral component of organisational strategy

Sustainability has become inexorably linked to organisational success. Customer demand is creating markets for new, “green” products and services. Organisations in supply chains are insisting that their partners work with them to improve sustainability throughout the chain, or be replaced by companies that will. Ratings analysts give sustainability increasing weight in their evaluations of companies, investors are factoring it into their decision making, and shareholders are holding companies accountable for their sustainability activities. Growing numbers of workers say their preference is to work for organisations that make a conscious effort to be socially and environmentally responsible. Regulators are focusing on practices related to environmental health and safety, materials bans, packaging and product labels, labour standards, recycling, energy, and, in many jurisdictions, carbon emissions.

In this environment, boards need to ensure that their organisation views corporate sustainability as more than just good corporate citizenship – it must be an integral component of its overall business strategy.

Sustainability initiatives can strengthen an organisation’s reputation, competitiveness, the morale of employees, and ability to attract capital. They have enabled many companies to streamline processes, reduce costs, and strengthen their public image, thereby creating value and improved competitive positioning. At the same time, however, sustainability is also a critical risk consideration. Unanticipated changes in regulations or the sustainability policies of supply chain partners can suddenly transform business environments in a way that may make existing business models unviable.

With their responsibility for the oversight of organisational strategy and the identification and mitigation of risk, boards have a clear responsibility for the oversight of sustainability activities. Many boards choose to go beyond an oversight role. Given that short-term concerns often demand the near total attention of management, it is often up to the board to address the longer-term issues around sustainability, such as by integrating the organisation’s sustainability program in the governance structure.

### Questions to ask:

- Does our organisation have a sustainability vision and strategy supported by suitable sustainability policies? Have they been reviewed and approved by the board?
- Does the board understand the sustainability opportunities and the sustainability risks, not just to the organisation but also to directors? Has the organisation carried out a sustainability risk analysis?
- What are the organisation’s policies regarding setting goals and measuring performance in economic, environmental, and social areas? What information is disclosed on sustainability issues, and is the board required to review and approve those disclosures?

## Regulation and compliance

# The next wave of regulation

Around the globe, governments and regulators are introducing new rules in response to issues ranging from financial stability to environmental protection to combating terrorism. While each new regulation may have merit, since few jurisdictions have removed existing rules to make way for new ones, the cumulative effect is proving onerous for business.

In South Africa, companies have to ensure that legal and regulatory compliance costs are aligned to business objectives and compliance programs are built into existing management and business processes, responsibility and accountability.

There are emerging governance trends which means Boards will have to spend more time on risk management, including regulatory compliance e.g.:

- Ensuring alternative dispute resolution to enable business to preserve business relationships, by speedily solving problems;
- Ensuring the role of the compliance function (part of the overall risk management process), and the framework and processes put in place to ensure compliance with regulatory requirements are critical, given the potential for increased Directors' liability under the new Companies Act.
- Considering issues related to integrated reporting.

The new Companies Act contains a number of provisions that directly impact directors and the prescribed officers i.e.:

- The codified standard of conduct, which having been set so high, may have the unintended consequence of directors not being prepared to take difficult decisions or expose the company to risk. In this regard, the Act has codified the business judgement rule, and provides for the indemnification of directors under certain circumstances, as well as the possibility to insure the company and its directors against liability claims in certain circumstances;
- Personal liability where a third party suffers loss or damage where a director or prescribed officer did not adhere to the standard of conduct. A director or prescribed officer of a company may be held liable for any loss, damages or costs sustained by the company as a consequence of any breach by him or her of a duty contemplated;
- Declaration of conflicts of interest and the consequences of non-compliance; and
- Disclosure of all remuneration received by directors and prescribed officers in the annual financial statements.

Building better working relationships with regulators may also ease the transition to new regulations. For their part, regulators may be able to provide directors with a better understanding of the intent of the new rules, allowing companies to minimize the cost and disruption created by their introduction. In return, boards may help regulators better understand the potential impact of the proposed rules.

### Questions to ask:

- Are we aware of all the proposed new regulations affecting our organisation and the cost of their implementation? Have we determined the board's role in implementing the new rules, and how the new regulations may affect the board?
- Has our organisation adopted a proactive approach that would enable us to manage the implementation of new rules as a portfolio, instead of having to respond to each new requirement as it arises?
- Have we built strong relationships with key regulators? Are we liaising with them to gain a better and earlier understanding of the new rules that may affect our organisation?

# Transparency in corporate governance

## Telling it like it is

In recent years, a greater dialogue has emerged between many boards and their shareholders to the benefit of both parties. Shareholders have been able to voice their opinions on issues of importance to them, such as a “say on pay,” while boards have the opportunity to share their views on key issues such as strategy and risk management, compensation, disclosure issues, and corporate sustainability.

To facilitate their interaction with shareholders, some boards have initiated face-to-face meetings with key shareholders while others identify one or more directors as a key board contact for shareholders wishing to communicate. While these approaches may be a feasible interface with a limited number of institutional and other larger investors, the board’s outreach to most stakeholders continues to be through written reports and other disclosure documents.

For investors, analysts, and other stakeholders, the most useful annual reports, news releases, and other disclosure documents are those that are written in clear, unambiguous, straightforward language that “tells it like it is.” When regulatory filings are complete and disclosure documents are easy to understand, for example, regulatory staff will likely have fewer questions and, therefore, be able to expedite their review of the filings.

Written communications provide organisations with the opportunity to tell their story and build stronger relationships with stakeholders. For this reason, many companies are going beyond the mandatory disclosures, such as by publishing an easy to understand letter from the board to shareholders that provides greater insight into how the board views a topic or provides more information about board processes. Companies may also wish to consider providing an executive summary at the front of lengthy disclosures.

---

According to the International Integrated Reporting Committee (IIRC), the integrated report combines the different strands of reporting (financial, management commentary, governance and sustainability reporting) into a coherent whole that explains and organisations ability to create and sustain value. The IIRC anticipates that the integrated report will become and organisations primary report.

### Questions to ask:

- Has the board developed and disclosed to shareholders a clear written policy that outlines the practices the board will follow to engage shareholders?
- Does the board understand the expectations that shareholders and other stakeholders have in terms of the topics and level of detail they expect in communications from the company and the board?
- Do our reports and other disclosures clearly present the position of the company and the board in language that is straightforward, easy to understand, and free of unnecessary technical jargon?

## Board success

# The demands and expectations keep growing

Regular assessments of board performance coupled with director education programs to improve the effectiveness of the board, its committees, and individual directors is a best practice at any time. Today it is an imperative.

Organisations and their operating environments evolve continuously, but rarely at the rate and extent of the past few years. Companies in some industries were immediately transformed by the 2008 financial crisis. Organisations in many other industries have had to steadily reinvent themselves in response to ongoing changes in their marketplace.

Few companies are the same as they were four years ago and boards need to keep pace with the change occurring in their organisations. Some directors may no longer have the right skills and experience to understand the new challenges, opportunities, and circumstances faced by their companies. Others who serve on multiple boards may not have sufficient time for their growing boardroom responsibilities. As a result, boards may need to recruit directors who can bring a different set of expertise and experience to the board.

Since 2008, many boards have taken on greater, more collaborative roles to work with management on issues

such as strategy execution, sustainability, and talent development. Individual directors may have stepped into new roles, such as independent board chairs who become spokespersons for their organisations, not just with shareholders but with all stakeholders, a responsibility they may share with management and the CEO.

Yet while the demands and responsibilities of the boardroom have increased, the time available to address them has remained relatively constant. Boards have done what they can to “work smarter” by streamlining processes, improving the focus and quality of the information provided to them, and other steps.

In the 1990s, regulators suggested that boards could improve their governance capabilities and strengthen individual directors’ accountability by reducing their size to create a more effective working group. Given the significant increase in their responsibilities and the complexity of issues facing boards today, some boards may wish to revisit their size and structure. This time, however, the focus may be on ensuring that they are not too thinly populated to undertake all of their responsibilities effectively.

### Questions to ask:

- Do we have a clear development plan for the board and individual directors?  
Do we conduct annual assessments of the board, its committees and individual directors, and do we incorporate the findings of these assessments into our board development plan?
- Are we confident that the board, as a whole, has the right mix of knowledge and experience to be able to address all of the board’s responsibilities effectively?
- Are we able to devote sufficient time to each area of responsibility? Have some directors or committees become overburdened with new responsibilities they may have been required to take on in recent years?



## Conclusion

# Shifting to the new business paradigm

As the articles in this publication have discussed, the global business environment has changed dramatically in recent years and is likely to continue to do so. Boards of directors have an important role to play in helping their organisations shift to and succeed in the new global economic and business paradigm. Their fiduciary duties and the role they play in the development and oversight of strategy and its execution, the identification and mitigation of risk, development and oversight of senior management, and other responsibilities gives directors a unique perspective and opportunity to guide their organisations through significant changes.

This publication discusses some important issues for boards in 2012, but there are many others including those that are unique to an industry, operating jurisdiction or individual organisation.

Since many of these issues will evolve rapidly, and because new ones are continually emerging, directors need to educate themselves to keep pace with the challenges facing their organisations and to commit to helping their companies address those challenges. Directors need to ensure they have sufficient time to carry out their responsibilities as directors. They need to make time to fully review board materials and documents in advance of meetings, participate actively on board committees, and maintain the knowledge of the issues and confidence to ask probing questions to get to the answers the board needs in order to make decisions.



Directors may also find valuable insights to be gained through networking with directors of other organisations. Several social media websites are available to bring together board members and to provide them with a forum for sharing ideas and experiences. Many business schools offer education programs for directors that often use real-life case studies to help directors build their knowledge of emerging trends and issues and build the skills they require to lead their companies in addressing these challenges.

The discussion of issues presented in this publication includes suggested questions for directors to ask to help focus on the needs of their own boards and organisations. It also offers additional resources for directors to use to further their knowledge of specific topics. We hope this publication serves as a catalyst for discussion at your board and we encourage you to contact your Deloitte partner to continue the conversation.



# Contacts



**Mark Victor**  
Governance, Risk and Compliance  
Director – Risk Advisory  
Deloitte South Africa  
Cell: +2782 772 3003  
Email: mvictor@deloitte.co.za



**Carla Clamp**  
Governance  
Associate Director – Risk Advisory  
Deloitte South Africa  
Cell: +2782 570 0379  
Email: cclamp@deloitte.co.za



**Thabile Nyaba**  
Risk  
Associate Director – Risk Advisory  
Deloitte South Africa  
Cell: +2783 376 1826  
Email: tnyaba@deloitte.co.za



**Kriba Moodley**  
Compliance  
Associate Director – Risk Advisory  
Deloitte South Africa  
Cell: +2783 327 4500  
Email: kmoodley@deloitte.co.za



**Duane Newman**  
Sustainability  
Director – Risk Advisory  
Deloitte South Africa  
Cell: +2782 783 5057  
Email: dneuman@deloitte.co.za



**Jaco Pretorius**  
Sustainability & Integrated Reporting  
Associate Director – Risk Advisory  
Deloitte South Africa  
Cell: +2783 270 9470  
Email: japretorius@deloitte.co.za



**Nina Le Riche**  
Director – Risk Advisory (Cape Town)  
Deloitte South Africa  
Cell: +2782 331 4840  
Email: nleriche@deloitte.co.za



**Gareth Bell**  
Associate Director – Consulting  
(Human Capital)  
Deloitte South Africa  
Cell: +2782 900 1045  
Email: gbell@deloitte.co.za



**David Conradie**  
Director – Human Capital  
Deloitte South Africa  
Cell: +2782 469 1010  
Email: dconradie@deloitte.co.za



**Dave Kennedy**  
Service Line Leader – Risk Advisory  
Deloitte South Africa  
Cell: +2782 780 9812  
Email: dkennedy@deloitte.co.za



**Sidesh Maharaj**  
Business Unit Leader – Risk Advisory  
(Johannesburg)  
Deloitte South Africa  
Cell: +2783 297 4777  
Email: simaharaj@deloitte.co.za



**Elton Bosch**  
Business Unit Leader – Risk Advisory  
(Pretoria)  
Deloitte South Africa  
Cell: +2783 285 8435  
Email: eltbosch@deloitte.co.za



**Navin Sing**  
Business Unit Leader – Risk Advisory  
(Kwazulu Natal)  
Deloitte South Africa  
Cell: +2783 304 4225  
Email: navising@deloitte.co.za



**Marius Alberts**  
Business Unit Leader – Risk Advisory  
(Cape Town)  
Deloitte South Africa  
Cell: +2782 450 7387  
Email: maalberts@deloitte.co.za



**Jens Kock**  
Business Unit Leader – Risk Advisory  
(Namibia)  
Deloitte Namibia  
Cell: +2648 1124 5457  
Email: jkock@deloitte.co.za





## [www.corpgov.deloitte.co.za](http://www.corpgov.deloitte.co.za)

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's approximately 170,000 professionals are committed to becoming the standard of excellence.

### **Disclaimer**

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

© 2012 Deloitte Global Services Limited

Produced by Creative Solutions at Deloitte, Johannesburg. (803460/Sue)