On the 2022 board agenda

KPMG Belgium
Board Leadership Center

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As the Belgium economy tries to move forward amidst the ongoing pandemic, and companies reposition for the future, it is increasingly clear that resilience and strategy are proving to be the great differentiators of the pandemic era. From pivoting to "remote everything" and focusing on workforce well-being to deepening digital engagement with customers and recalibrating supply chains, the ability to quickly adapt to dramatic disruptions and dislocations has defined the survivors and thrivers.

The unprecedented events of the past two years have clearly put corporate governance processes, including board oversight, to the test. Demands for action on Environmental, Social and Governance (ESG) performance (including climate risk), increased cyber security risks (including ransomware attacks), economic and supply chain challenges, a fast-changing regulatory landscape and other factors impacting the global risk environment will continue to challenge even those boards at the top of their game.

In short, boards are at a pivotal moment. As one director recently observed, the need for today's boards to help their company "reimagine, rethink, and reset is probably a once-in-a-generation opportunity."

Drawing on insights from our latest BLC global survey work and interactions with directors and business leaders, we highlight eight issues here for boards to keep in mind as they consider and carry out their 2022 agendas:

1. Deepen the board's engagement in strategy and in envisioning the future
2. Embed ESG – including climate risk – into risk and strategy discussions
3. Engage proactively with shareholders and other stakeholders
4. Make talent, human capital management and CEO succession a priority
5. Approach cyber security and data privacy as holistically as data governance
6. Reassess the company's crisis management capabilities
7. Help set the tone and closely monitor the culture of the organization
8. Think strategically about talent and diversity in the boardroom

1. Deepen the board's engagement in strategy and in envisioning the future

Given the volatile and fluid business environment ahead – managing remote workforces, employee activism, digital transformations and other accelerating megatrends, building more-resilient supply chains and strengthening connections with customers whose behaviors, preferences and expectations are changing – take time to reassess the board's engagement in strategy. Review the alignment of corporate purpose, culture, values and strategy. And identify specific practices to drive quality boardroom discussions about strategy and the future.

A fundamental question for every board is whether boardroom conversations are, in fact, conversations. Does the board allocate sufficient agenda time to meaningful, two-way discussions between management and the board about forward-looking issues – challenging assumptions and considering scenarios (likely and unlikely) – versus reviewing historical, compliance-related information which, while essential, can crowd out valuable agenda time?

Effective engagement in strategy discussions (which investors expect) increasingly calls for a collaborative mindset: How can the board help management think through the implications of pressing and potentially existential strategic questions and decisions? And is management helping to set the context, providing meaningful materials to the board to prepare directors for those critical conversations and maximize the board's contribution?

In our discussions with experienced directors over the past year, a number of elements and practices were highlighted that may be helpful:

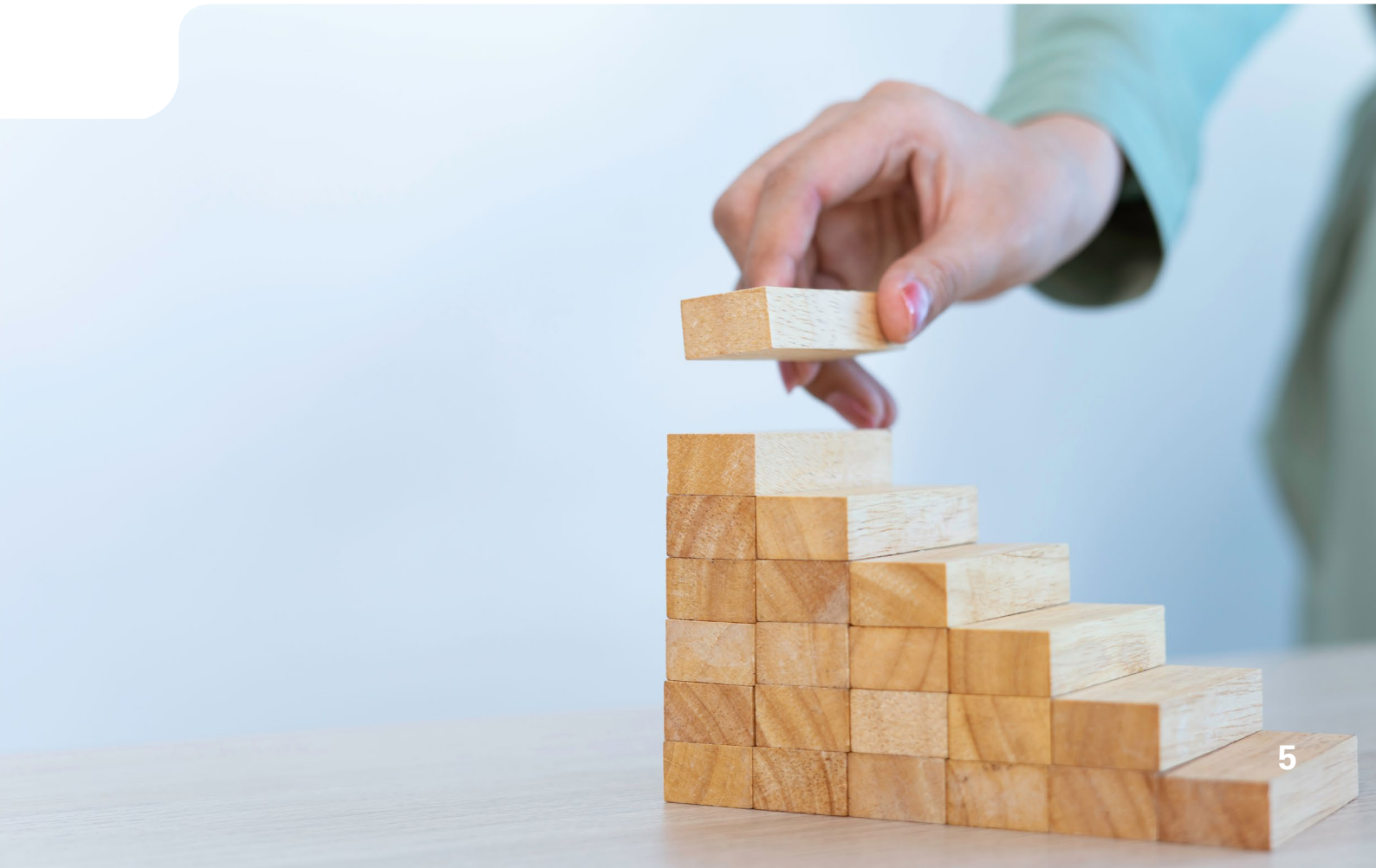
— Encourage management to revisit the strategic planning process. Is the process adequate in light of the speed and impact of megatrends – and does it capture the risks and potential disruptions on the horizon? Does the process challenge the validity of key assumptions that the company's strategy and business model are based on? Is it an iterative process – with milestones and opportunities to recalibrate – and does it bring in perspectives from throughout the organization, beyond the inner team?

— Develop a vivid picture of the future. This is never an easy undertaking, and it's particularly challenging today, given the level of uncertainty and transformational changes underway. Where are the company's industry and competition (both industry competitors and those in adjacent industries) headed? What might the business look and feel like in two, five or ten years? Make time for the board to have meaningful "what-if" discussions in a focused and urgent way – including devoting time to less-likely scenarios (without getting overly theoretical). Risks and scenarios related to climate, ESG, human capital and supply chain should be front and center.

— Make resilience part of the strategy discussion. Full resilience is not only the ability to bounce back when something goes wrong; it's also the ability to get back up with viable strategic options for staying competitive and on the offensive.

— Understand the value of the board's lens. Management is immersed in running the business, looking around the corner and staying competitive – as they should be. Board members are likely picking up broader perspectives and signals from their activities – and may be seeing and hearing things differently than management.

— Consider your purpose: What's your purpose/vision? How have you articulated it? Is it clear for your stakeholders: your people, customers, investors, etc.? Does it explain what you do, who you are, what you stand for?



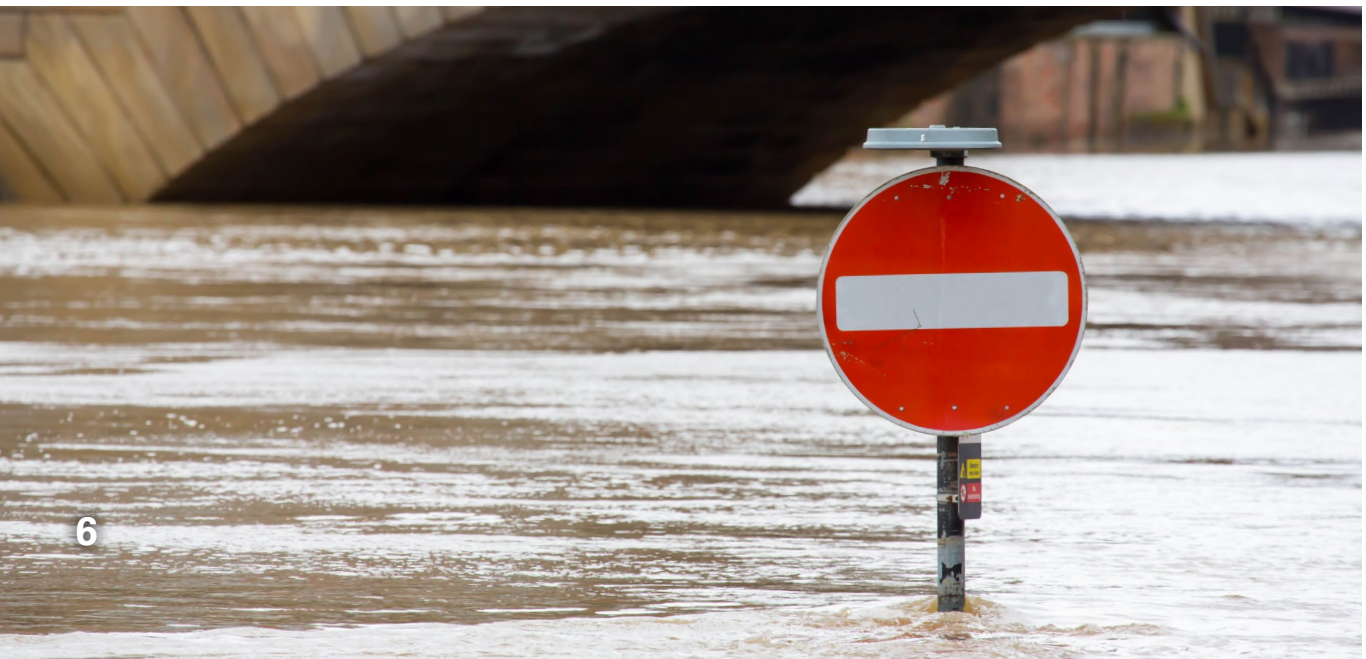
2. Embed ESG, including climate risk, into risk and strategy discussions

How companies address climate change and other environmental issues, as well as social and governance topics (better known by the abbreviation ESG) is now viewed – by investors, research and ratings firms, activists, employees, customers, and regulators – as fundamental to business resilience and value creation. We expect the intense regulatory focus on these issues to continue in 2022.

The clamor for attention to climate change as a financial risk has become more urgent, driven by a confluence of factors, the most visible of which is the accelerating physical impact of climate change, including the frequency and severity of floods, wildfires, rising sea levels and droughts, as well as concern by many experts that the window for preventing more dire, long-term consequences is rapidly closing. Related to climate risk are the "transition risks" that companies face as they work in conjunction with countries, regulators, and other stakeholders to reduce reliance on carbon and its impact on the climate. The Task Force on Climate-related Financial Disclosures (TCFD) defines these transition risks as "risks associated with the transition to a lower-carbon economy, the most common of which relate to policy, tax, and legal actions, technology changes, market responses and reputational considerations." A challenge for boards is to help ensure that these transition risks are properly addressed by management, together with other climate change risks.

Monitoring the rapidly changing legal and regulatory developments regarding climate change is critical as regulators and policy makers globally are placing greater demands on companies to take action. The recent COP26 summit enhanced the awareness of climate change as a priority through the International Sustainability Standards Board (ISSB)[1] and the Glasgow Financial Alliance for Net Zero (GFANZ)[2].

1. A new standard setter for sustainability reporting - KPMG Belgium (home.kpmg)
2. About | Glasgow Financial Alliance for Net Zero (gfanzero.com)



As noted in our webinar on climate change[3], there has been a shift in mindset in among Belgian companies over the past few years: they are increasingly serious about doing the right thing. Investors are pushing for responsible investments and more transparency; new regulation and reporting requirements, such as the Corporate Sustainability Reporting Directive (CSRD)[4], are forcing (large) companies to look more closely at their sustainability strategies; and the European regulator, ESMA, has included climate-related matters in their public statement on European common enforcement priorities for 2021 annual financial reports.[5]

In the transition to low-carbon economies, financial institutions have a critical role to play in redirecting financial flows to sustainable activities, acting as catalyst in the transition. In parallel, climate and environmental risks create a threat to the stability of the banking sector, as they generate vulnerabilities amongst the counterparties of banks. For these reasons, climate and environmental risks are high on the regulatory agenda for 2022. As illustrated in its guidelines published in 2020[6], the ECB expects banks to explicitly incorporate climate and environmental risks in their business models and strategy and manage associated risks accordingly.

While climate change is the principle issue, it does not stand in isolation. Therefore, the other ESG topics are also relevant to boards today. Leading board management is one where the range of ESG topics are tackled.

After determining which ESG issues are of strategic significance, several fundamental questions should be front and center in boardroom conversations about the company's ESG journey:

— What are the ambitions in terms of ESG-associated issues, considering both the resilience of long-term activities and the impact the company is willing to have on the society?

— How is the company embedding them into core business activities (strategy, operations, risk management, R&D, incentives and corporate culture) to drive long-term performance?

— Is there a clear commitment and strong leadership from the top, and enterprise-wide buy-in?

Oversight of these risks and opportunities is a significant challenge, involving the full board and potentially multiple board committees. For example, elements of climate and ESG oversight likely reside with the audit and remuneration committees – and other committees, like an ESG or sustainability committee, may have responsibilities as well. Overlap is to be expected, but this puts a premium on information sharing and communication and coordination among committees. It also requires that committees have the expertise to oversee the issues delegated to them.

3. Climate change: a journey for boards - KPMG Belgium
4. The KPMG Survey on Non-Financial Reporting 2020 - KPMG Belgium
5. ESMA enforcement priorities for 2021 - KPMG Belgium
6. ECB publishes final guide on climate-related and environmental risks for banks (europa.eu)

3. Engage proactively with shareholders and other stakeholders

Given the intense investor and stakeholder focus on climate risk, ESG and long-term value creation, engagement with shareholders and stakeholders should be a priority. Transparency, authenticity and trust are not only important to investors, but increasingly to employees, customers, suppliers and communities – all of whom are holding companies and boards to account.

To best understand the views of its key stakeholders, the board should request periodic updates from management as to the effectiveness of the company's engagement activities:

— Does the company engage with and understand the priorities of its largest shareholders and key stakeholders?

— Are the right people engaging with these shareholders and stakeholders – and how is the investor relations (IR) role changing (if at all)?

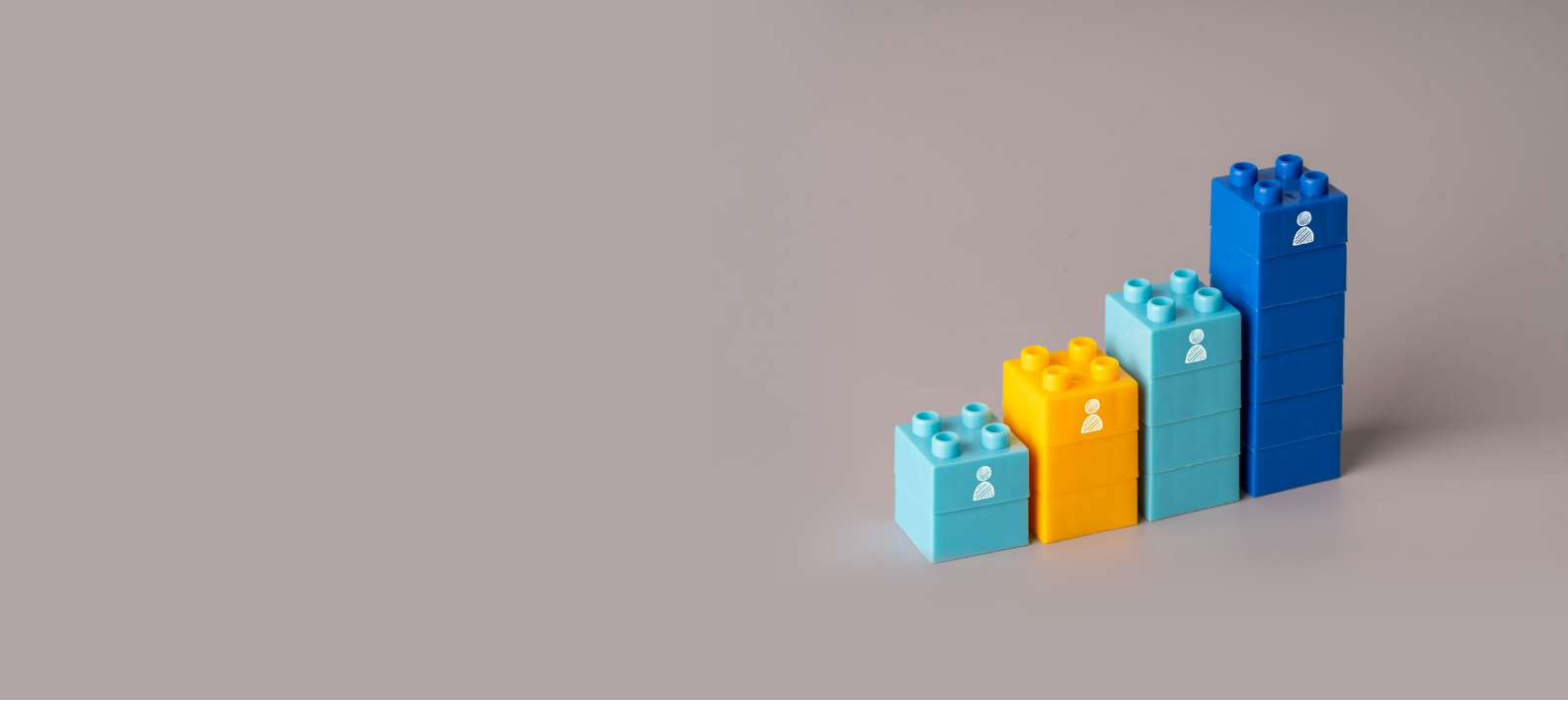
— What is the board's position on meeting with investors and stakeholders? Which (independent) directors should be involved?

— What is the culture on the ground? What's the employee experience?

In short: Is the company providing investors and other stakeholders with a clear, current picture of its performance, challenges and long-term vision – free of "greenwashing"? Investors, other stakeholders, and regulators are increasingly calling out companies and boards on ESG-related claims and commitments that fall short – and all indications are that they will continue to do so.

Strategy, executive remuneration, management performance, climate risk, other ESG initiatives, human capital management and board composition and performance will remain squarely on investors' radar during the 2022 AGM season. We can also expect investors and stakeholders to focus on how companies are adapting their strategies to address the economic and geopolitical uncertainties and dynamics shaping the business and risk environment in 2022.

While activist investors may be less active in continental Europe than in the US or UK, for example, having an "activist mind-set" can still be a useful tool. Whether you're listed or unlisted, looking at your company from an activist point of view can help you challenge yourself and your board to think differently and find where you can unlock value.



4. Make talent, human capital management and CEO succession a priority

The events of 2020-2021 further highlighted the strategic importance of human capital management (HCM) issues – including those employee and supply chain health and safety issues that are critical to the company's performance and reputation. Over the next five years, workforces are expected to be disrupted by churn, the need for reskilling, upskilling and new ways of working.

Given the risks and opportunities that will come with these changes – including labor scarcity and a continued war on talent – boards should be more engaged in the oversight and communication of HCM-related matters.

In 2022, we can expect continued scrutiny of how companies are adjusting their talent development strategies. The challenges of finding, developing, and retaining talent, amid a labor-constrained market have created a war for talent.

— Does the board have a good understanding of the company's talent strategy and its alignment with the company's broader strategy and forecast needs for the short and long term?

— Which roles throughout the organization are mission critical, and what are the challenges keeping those roles filled with engaged employees?

— Which talent categories are in short supply, and how will the company successfully compete for this talent?

— Does the talent strategy reflect a commitment to D&I (Diversity and Inclusion) at all levels?

— What automation is expected and how will it impact existing and future roles and skills needed?

— More broadly, as millennials and younger employees – who increasingly choose employers based on alignment with their own values – join the workforce in large numbers and talent pools become globally diverse, is the company positioned to attract, develop and retain top talent at all levels? Here, as with our first priority, it's important to ensure your company has a clear, well-articulated purpose.

Pivotal to all of this is having the right CEO and board in place to drive culture and strategy, navigate risk and create long-term value for the enterprise. Succession planning is important for all organizations, though the process and implementation may differ depending on the specificities of the particular organization. This may range from having succession planning on the radar to implementing a dynamic and ongoing process to create a pipeline of potential CEO candidates (and other key executives):

— How does the board get to know the high-potential leaders two or three levels below the C-suite – especially in a work-from-home environment when office visits and board-executive in person meetings may not be feasible?

— How are you motivating the next generation(s) to stay engaged and informed? How are you preparing them for a role on the board?

5. Approach cyber security and data privacy as holistically as data governance

The rapid shifts that companies have made during the pandemic to keep their businesses up and running – remote work arrangements, supply-chain adjustments, and increased reliance on online platforms – have been a boon to organized crime, hacktivists, and nation states. Cyber attacks of all types proliferated during the pandemic, highlighting the far-reaching implications for supply chains and operations, as well as the ongoing cyber security challenge facing companies.

Boards have made strides in monitoring management's cyber security effectiveness – for example, with greater IT expertise on the board and relevant committees, company-specific dashboard reporting to show critical risks and more robust

conversations with management. Despite these efforts, the acceleration of digital strategies, remote work and hybrid work models, increased regulatory scrutiny of data privacy and the growing sophistication of cyber attackers all point to the continued cyber security challenge ahead.

The board should be:

— Expanding the strategic conversation around cyber security to align business goals with security needs (also see priority #1 for more on the board's role in strategy discussions).

— Ensuring alignment with management – including CISO (Chief Information Security Officer) – on the security plan.

— Ensuring their organization's ability to sustain operations, recover rapidly and manage the consequences when a cyber attack occurs (also see priority #6 the board's role in reassessing the company's crisis management plan).

As we've noted, data governance overlaps with cyber security, but it's broader. Data governance includes compliance with industry-specific privacy laws and regulations, as well as privacy laws and regulations that govern how personal data – from customers, employees, or vendors – are processed, stored, collected and used. Data governance also includes the company's policies and protocols regarding data ethics, in particular, managing the tension between how the company may use customer data in a legally permissible way and customer expectations as to how their data will be used.

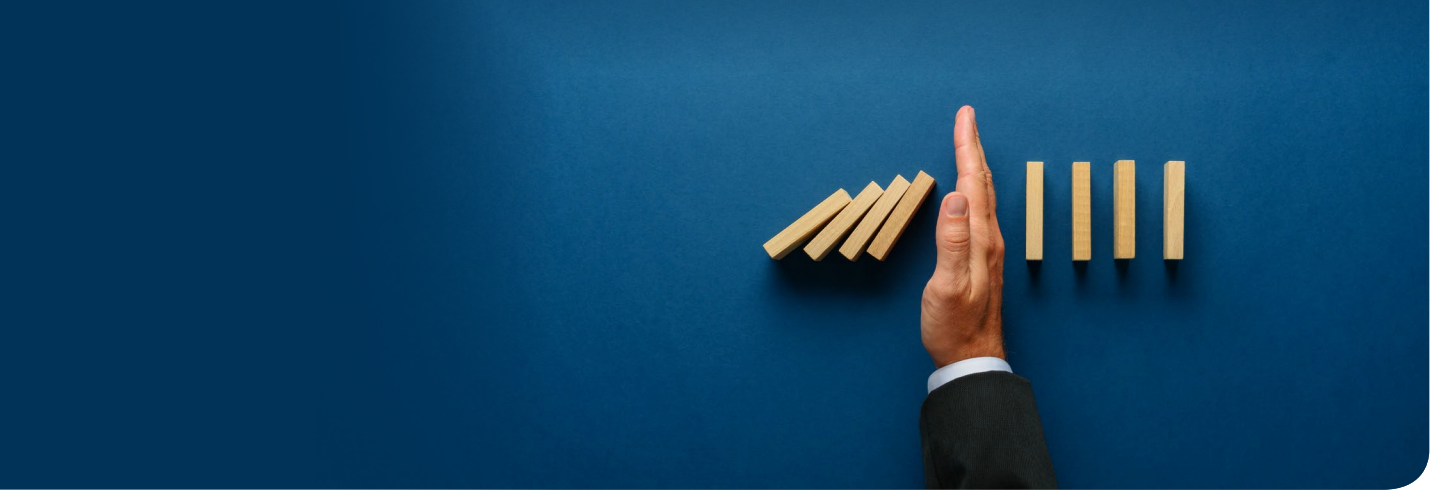
Managing this tension poses significant reputation and trust risks for companies and represents a critical challenge for leadership.

To oversee cyber security and data governance more holistically:

— Insist on a robust data governance framework that makes clear how and what data are being collected, stored, managed and used, and who makes decisions regarding these issues.

— Clarify which business leaders are responsible for data governance across the enterprise, including the roles of the chief information officer, chief information security officer and chief compliance officer.

— Reassess how the board – through its committee structure – assigns and coordinates oversight responsibility for both the company's cyber security and data governance frameworks, including privacy, ethics and hygiene.



6. Reassess the company's crisis management capabilities

The litany and severity of crises that companies have faced in recent years looms large, with crisis management now featuring more prominently than ever in boardroom conversations.

Crisis prevention goes hand-in-hand with effective risk management. Effective crisis management enables companies to react quickly, and in a structured and thoughtful way, once a critical incident or crisis occurs.

However, in practice, we see that current crisis management systems in many organizations are limited to IT-related business continuity and disaster recovery plans (BCPs/DRPs) and when a crisis does occur, these are often outdated. An overall crisis management framework that covers crisis prevention, crisis treatment and post-crisis remediation is often not in place.

Boards have a role to play in ensuring their companies have a good crisis management system in place:

Be prepared – pre crisis considerations

— Do we have a crisis management framework in place that addresses the loss of IT, personnel, infrastructure, reputational risk, as well as parties critical to the eco-system of the organization?

— Which mechanisms are in place to ensure that crisis management framework, including the business continuity plans (as well as the business impact assessment, recovery time and point objectives) are kept up to date and that the related controls are operating effectively?

— Is the organization aware of the crisis management approach and are key stakeholders properly trained on this? Are crisis simulations performed on a regular basis?

Deal with the unexpected – crisis considerations

— Have we defined criteria for considering an event as an actual "crisis" as opposed to an "incident" which can, for example, be managed at department/entity level and for which the Crisis Management Team does not have to be activated?

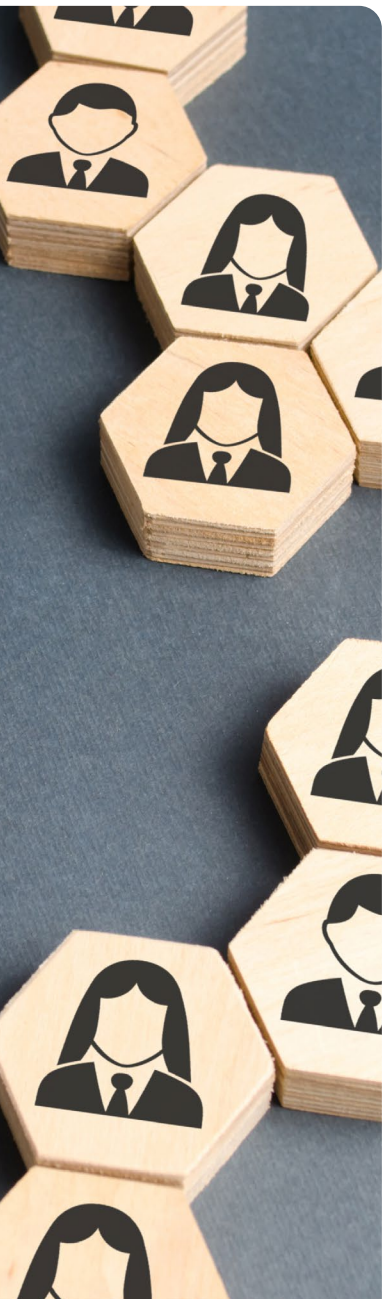
— Do the employees know when and how they should report important events and how related facts need to gathered and communicated?

— Has the standard composition of the Crisis Management Team been defined and has its operating mode been defined?

Adapt and learn – post crisis considerations

— How are we organized to return to the (new) normal?

— What did we learn from the crisis, and how can we use that for improving our crisis management framework for the future?



7. Help set the tone and closely monitor the culture of the organization

Closely monitor the tone at the top and culture throughout the organization with a sharp focus on behaviors (not just results) and yellow flags (e.g. management control overrides or favorable supplier/procurement terms). Is senior management sensitive to human resource issues, particularly the pressures on employees (both in the office and at home), employee health, safety and well-being, productivity, engagement and morale and normalizing work-from-home arrangements? Does the company make it safe for people to do the right thing? Is leadership equipped with the skills required to manage teams and keep them connected while working remotely or in a hybrid setting, including paying particular attention to an increased fraud risk?

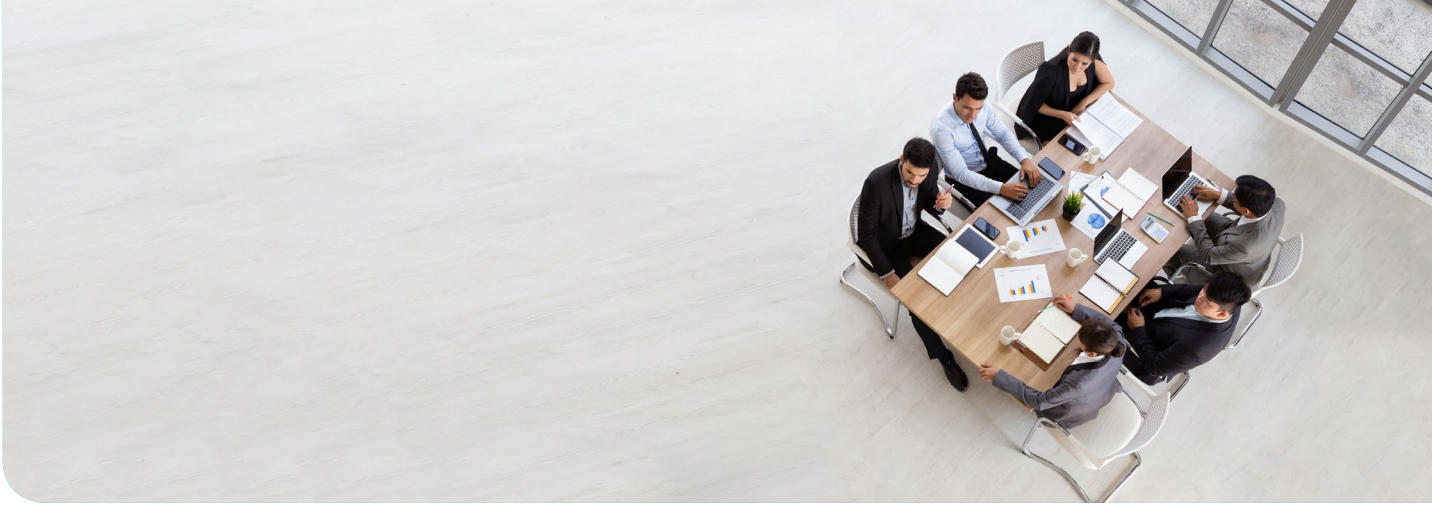
Headlines of harassment, price gouging, aggressive sales practices, misuse of COVID-related relief and other wrongdoing continue to put corporate culture, leadership, and incentives front and center. With the near-instantaneous speed of social media, corporate crises (particularly when self-inflicted) are hitting corporate reputations fast

and hard, with investors, regulators and others increasingly asking, "Where was the board?"

Given the critical role that corporate culture plays in driving a company's performance and reputation, we see boards taking a more proactive approach to understanding, shaping and assessing corporate culture. Have a laser focus on the tone set by senior management and zero tolerance for conduct that is inconsistent with the company's values and ethical standards, including any "code of silence" around such conduct. Be sensitive to early warning signs and verify that the company has robust whistle-blower and other reporting mechanisms in place and that employees are not afraid to use them. Closely monitor the reporting systems to understand how claims are addressed and resolved and identify trends. If the company has a sizeable workforce and few or no claims, the board should dig deeper.

Understand the company's actual culture (the unwritten rules versus those values employees are supposed to adhere to); use all the tools available – surveys, internal audit, hotlines, social media, virtual town halls, as well as walking the floors, and visiting facilities – to monitor the culture and see it in action. Recognize that the tone at the top is easier to gauge than the mood in the middle and the buzz at the bottom. How does the board gain visibility in the middle and bottom levels of the organization? Make sure that incentive structures align with culture and strategy and encourage the right behaviors. Take a hard look at the board's own culture for signs of groupthink or discussions that lack independence or contrarian voices. Focus not only on results, but the behaviors driving results.

There's an ongoing trend since the start of the pandemic whereby a lot of people are (considering) leaving the company to change jobs. Consider checking the current turnover rate and digging into the underlying reasons, – e.g. how the pandemic has been handled internally, the company's strategy going forwards with regards to hybrid working, new expectations or values, etc. – to see if this is something that is impacting your company.



8. Think strategically about talent and diversity in the boardroom

Boards, investors, regulators, and other stakeholders are increasingly focused on the alignment of board composition with the company's strategy. 57% of global participants (61% in Belgium), in a recent Global BLC pulse survey, said that the second most important reason they recruit new directors is a strategic necessity to stay competitive (the number one reason was to replace a retiring director). Addressing competitive threats and business model disruption, technological innovation and digital changes, climate and ESG risks, cyber risk and global volatility requires a proactive approach to board-building and board diversity – of skills, experience, thinking, gender and race/ethnicity.

Globally, we see increased investor engagement concerning the topic of diversity – most notably in the US and UK – and, more specifically, regarding the relatively slow pace of change in boardrooms. Interestingly, 59% of global participants (72% in Belgium) of our Global BLC pulse survey, said that if they were to rebuild their board to best meet their company's needs for today and the future, the board's composition – including diversity of skills and backgrounds – would be moderately different from its current makeup. Where is your board?

In Belgium specifically, according to Spencer Stuart's 'Boards Around the World' research[7]:

— 70% of boards in Belgium have at least 30% female directors;

— 35% of Belgian board members are female, though only 4% of CEOs and 5% of chairs; and

— 31% of Belgian board members are foreign.

While the conversation about diversity may not get as much attention here in Belgium, diversity is a useful tool in terms of value creation and positioning the board strategically for the future, whether your company is listed or unlisted. For large, listed companies, in particular, awareness of the topic is increasing and the investor community is taking notice of this trend.

7. Boards Around the World | Spencer Stuart

About the Board Leadership Center

The Board Leadership Center offers non-executive and executive board members and those working closely with them (including CROs and Heads of Internal Audit) a place within a community of board-level peers. It also offers access to topical seminars and more technical Board Academy sessions, invaluable resources, thought leadership and lively and engaging networking opportunities.

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