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On the 2022 Board agenda

KPMG Singapore Board & Governance Institute

As the world transitions into a post-pandemic future, renewed optimism is surging across the global economy. But to stay relevant, companies will have to stay agile. From incorporating a "remote everything" approach for business models to reinventing supply chains to meet evolving demands, harnessing resilience is proving to be a critical differentiator. As countries reopen their economies and companies recalibrate their agenda, one thing is clear: the impetus for today's boards to empower their companies to reimagine, rethink, and reset has never been greater.

By tapping on insights gained from our work and conversations with directors and business leaders, we have highlighted key considerations that boards can incorporate as they approach and execute their agendas for 2022.

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

Given the volatile and increasingly fluid business environment, take time to reassess the board's engagement in strategy. Investors are expecting boards to engage with their management in strategy discussions. This calls for the greater adoption of a collaborative mindset. Start the conversation by asking key questions like: How can the board help management examine the implications of pressing and potentially existential strategic questions and decisions? Is management setting the right context, providing meaningful materials, and maximising the board's contribution? Incorporating the following elements into discussions may be helpful:

- **Encourage management to revisit the strategic planning process.** Can the current process keep pace with the speed and impact of megatrends? Does it capture the risks and potential disruptions that await on the horizon?
- **Develop a vivid picture of the future.** Make time for the board to have meaningful "what-if" discussions. This should take top priority and should be conducted in a focused manner. Do ensure to devote time to less-likely scenarios without being overly theoretical. Risks and scenarios related to issues like climate, Environmental, Social, and Governance (ESG), human capital, and supply chain should be high on the agenda.
- **Incorporate resilience into the strategy discussion.** Embracing resilience allows companies to navigate through uncertainties with viable, strategic options. This ensures that they stay competitive and adaptable to new approaches.
- **Relooking ideas from the board's point of view.** Management is involved in running the business, looking around the corner for opportunities and staying competitive – as they should be. Board members are likely to pick up broader perspectives and signals from their activities – and may be seeing and hearing things from a different viewpoint than management.

Embed ESG, including climate risk and diversity, equality and inclusion (DEI) issues, into risk and strategy discussions

The intense regulatory focus on climate change, DEI, and ESG-related risks is expected to continue in 2022. Companies might have to deal with "transition risks" as they embark on strategies to reduce their reliance on carbon and its impact on the climate. According to the Task Force on Climate-related Financial Disclosures (TCFD, these refer to the potential risks that companies might face as they go green. These include, policy, tax, legal actions, technology changes, market responses, and reputational considerations amongst others. Ensuring that the management adequately addresses transition risks and climate change risks will be a key challenge for board members. Oversight of these risks and opportunities is a significant challenge, involving the full board and potentially multiple board committees.

Engage proactively with shareholders, activists, and other stakeholders

Institutional investors and other stakeholders are increasingly holding boards accountable for company performance by demanding greater transparency. This includes a proclivity for direct engagement with independent directors on big-picture issues like strategy and ESG. Issues like transparency, authenticity, and trust are no longer just confined to the realm of investors. There is a growing trend of employees, customers, suppliers, and communities who are holding companies and boards accountable for their actions. As we move ahead, adopting an "activist mind-set" is key. One way that the board can monitor the effectiveness of a company's engagement strategies is to request for periodic updates from the management. With economic and geopolitical uncertainties shaping the business and risk environment in 2022, expect investors and stakeholders to pay closer attention to the way companies adapt their strategies.

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

Talent development strategies will also be in the spotlight in 2022. The challenges of finding, developing, and retaining talent has created a talent war. A labour constrained market has only accelerated this. A key question worth addressing: Does the board understand the company's talent strategy and its alignment with the broader strategy and forecast needs for the short and long-term? As companies chart the journey ahead, having the right CEO in place to drive culture and strategy, navigate risk, and create long-term value for the enterprise can make a difference. Whether planned or unplanned, the board should ensure that the company is prepared for a CEO change. Given the dynamic and sustained nature of CEO succession planning, the board should always be focused on developing a pipeline of potential CEO candidates as well as all other C-suite positions.

Approach cybersecurity and data privacy holistically as data governance.

Despite making strides in monitoring the way management ensures cybersecurity effectiveness, cybersecurity will continue to be a key challenge ahead. Data governance will also pose a key challenge, encompassing elements like data privacy law compliance, regulations, and data ethics. To ensure a more holistic approach, boards may need to reassess how it manages cybersecurity and data governance. Asking questions like "Is the current data governance framework robust?" or "Who is responsible for data governance?" might be a good starting point. Boards may also need to reassess how it assigns and coordinates oversight responsibility for the company's cybersecurity and data governance frameworks. This includes aspects like including privacy, ethics, and data hygiene.

Reassess the company's crisis prevention and readiness efforts.

Do ensure to periodically reassess the clarity and appropriateness of risk oversight responsibilities among the board's committees. Crisis prevention and good risk management go hand in hand. Aside from identifying and anticipating risks, companies also need to put in place a system of reporting and controls. This will help prevent or mitigate the impact of such risk events. Planning for a broad spectrum of what-if scenarios can help the management better prepare for the future. This includes having a firm understanding of critical operational risks like mission critical company and industry risks.

Help set the tone and closely monitor the culture of the organisation.

Beyond results, keep a sharp focus on behaviours and yellow flags. Closely monitor the tone at the top and analyse the culture throughout the organisation. With the rise of social media, organisational crises have the potential to hit corporate reputations fast and hard. This is accelerated when the crisis is self-inflicted. Boards are taking a more proactive approach to understand the company's actual culture. This includes both the unwritten rules and the rules that employees are meant to adhere to. To monitor the culture and see it in action, use all available tools. These include elements like surveys, internal audit, hotlines, social media, virtual town halls as well as walking the floors, and visiting facilities.

Think strategically about talent and diversity in the boardroom.

Board composition, diversity, and renewal have been key areas of board focus in the last few years. Yet, investors have been frustrated over the relatively slow pace of change in boardrooms. Recognising the benefits of fuller and more transparent disclosures on aspects like board diversity and gender diversity, regulators from key and regional markets like Australia, the UK and Malaysia have introduced related requirements for companies listed in their exchanges. The Singapore Exchange (SGX) is the latest to mandate this. From 2022, SGX-listed companies will be required to set a board diversity policy that addresses aspects like gender, skill, and experience. They are required to describe the board diversity policy and disclose details such as targets, plans, timelines, and progress in their annual reports. Board composition, diversity, and renewal should remain a key area of board focus in 2022, as a topic for communications with the company's investors and other stakeholders, enhanced disclosure in the company's annual report, and most fundamentally to position the board strategically for the future.

Strengthen tax governance and unlock process enhancement opportunities

Tax governance is an increasing focus area for tax authorities around the globe. As part of its tax strategy and transformation, boards should consider a more proactive approach to tax governance. This unlocks opportunities to harness process enhancements like technology transformation processes. It also helps organisations better manage key tax governance risks.

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