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On the board agenda

2020 vision for the year ahead

Prioritising board agendas will be particularly challenging in 2020 as the game-changing implications of technological and digital innovation, growing demands to address environmental and social issues, scrutiny of corporate culture, investor expectations for greater board engagement, diversity, and long-term performance all drive a sharper focus on positioning the company for the future. Combined with concerns about the economy – mounting trade tensions, resurging debt, a looming market correction – and the coronavirus attack, the year ahead will require a careful balance of near-term focus, mid-term agility, and long-term thinking.

Drawing on insights from our conversations with board directors and business leaders, we highlight 9 items that boards should keep in mind as they approach and execute their 2020 agendas:

- Link boardroom discussions on strategy, risk and global disruption.
- Engage in business continuity management and be ready with a crisis response plan.
- Understand how the company aligns profit and purpose.
- Be proactive in engaging with shareholders.
- Help set the tone and closely monitor the culture throughout the organization.
- Manage the risks and opportunities from emerging technology.
- Approach cybersecurity and data privacy holistically – as data governance.
- Make CEO succession and talent development a priority.
- Build the talent in the boardroom around the company's strategy and future needs.

Link boardroom discussions on strategy, risk and global disruption.

Trade wars, Brexit, growing nationalism, cyber-attacks on critical infrastructure, and the threat of military conflict in geopolitical hotspots, combined with an absence of global leadership and the deterioration of international governance, will continue to drive global volatility and uncertainty.

The US- China trade war has impacted the economy and caused fluctuations in the stock market since mid-2018. Trade tensions and tariff impositions by both parties have created uncertainties and concerns over the economic environment and business performance. While the signing of the phase one deal in January 2020 may slightly ease the tension for a short while, the US-China trade issues will likely become a hot topic again when the US presidential election approaches. Companies which rely heavily on selling to the US market need to stay alert on sudden imposition of new regulations and change of directions.

As Eurasia Group's founder and president has noted, this environment "will require more investment in scenario planning and stress testing. It also means drawing up contingency plans to shorten supply chains, cutting long-term fixed costs, and limiting business exposure to political relationships that have considerable potential to go south."

Help management reassess the company's processes for identifying the risks and opportunities posed by geopolitical disruption and their impact on the company's long-term strategy. Is there an effective process to monitor changes in the external environment and provide early warning that adjustments to strategy might be necessary? Help the company test its strategic assumptions and keep sight of how the big picture is changing: connecting dots, thinking differently, and staying agile and alert to what's happening in the world. In short, disruption, strategy, and risk should be hardwired together in ongoing boardroom discussions.

Engage in business continuity management and be ready with a crisis response plan.

Organisations are constantly exposed to internal and external disruptions that potentially affect business operations. While certain risks can be planned for, monitored and mitigated, other high-impact, hard-to-predict events are occurring more often. The US-China trade war, combined with the unprecedented protests against the extradition bill, and closely followed by the outbreak of coronavirus, posed tremendous pressure on many businesses especially those in mainland china and in Hong Kong.

Even the best-prepared companies will experience a crisis, and companies that respond quickly and effectively tend to weather crises better. Crisis readiness goes hand-in-hand with good risk management – identifying and anticipating risks and putting in place a business continuity management (BCM) framework to help manage crises or mitigate their impact.

The main goal of BCM is to ensure the recovery of crucial services within an acceptable timeframe following disturbances in an organisation's operations. A comprehensive BCM framework includes performing a business impact analysis to identify risks that could impact an organisation, evaluating existing protective measures, defining crucial assets for recovering important business functions, preparing a business continuity plan through considering various scenarios and testing the plan regularly.

We're clearly seeing an increased board focus on cultural risks as well as key operational risks across the extended global organisation – e.g., supply chain and outsourcing risks, information technology and data security risks, etc. Does the board understand the company's critical operational risks? What's changed in the operating environment? Has the company experienced any control failures? Is management sensitive to early warning signs regarding safety, product quality, and compliance? Is the company fully prepared to respond to crisis and possible disruptions?

Social and political events, natural and man-made disasters have caused some companies to put their crisis management plans into practice. These events also serve as a wake-up call for companies to re-examine the effectiveness of the internal systems and controls for dealing with unpredictable situations. Does the company have a dedicated unit that monitors and evaluates the situation and provides timely updates to the board? Is there sufficient and reliable infrastructure for the company to continue with its normal operations?

Help ensure that management is weighing a broad spectrum of what-if scenarios – from supply chains and the financial health of vendors to geopolitical risks, natural disasters, terrorist acts, and cyber threats. Is the company's crisis response plan robust and ready to go? Does it cover different scenarios? Is the plan actively tested or war-gamed and updated as needed? Does it take into account the loss of critical infrastructure – e.g., telecommunications networks, financial systems, transportation, and energy supplies? Does it include communications protocols to keep the board apprised of events and the company's response – and to address the company's stakeholders?

Understand how the company aligns profit and purpose.

Corporate growth and shareholder return still require the essentials - managing key risks, innovating, capitalising on new opportunities, and executing on strategy - but the context for corporate performance is changing quickly and, perhaps, profoundly.

Mounting societal issues – such as unemployment, income inequality, the climate emergency, diversity and inclusion – coupled with limited government solutions, continue to heighten expectations for corporations to address the gaps and rethink their responsibility to society.

In December 2019, the Stock Exchange of Hong Kong Limited (HKEX) released the revised ESG Reporting Guide, requiring all listed companies with financial years commencing on or after 1 July 2020 to publish their ESG reports in accordance with the new disclosure requirements. The revised ESG Reporting Guide introduced a new aspect on disclosure of climate related issues and required the board to make a statement setting out its consideration of ESG matters. All of these factors have changed ESG integration from simply nice-to-have to essential-to-have.

Many would now accept that a successful company must not only generate value for shareholders, but also contribute to a wider society. Similarly, companies who fail to deliver on a sense of purpose will ultimately lose the licence to operate from key stakeholders – as with diversity and inclusion, this is not a political correctness issue, but rather an essential component for sustainable growth. It is essential for the board to identify and evaluate ESG risks and opportunities in the context of the company's strategic objectives.

Are companies ready to integrate ESG concerns into their core business and embrace their true benefits? Can companies go beyond ESG regulatory compliance and take a systematic approach addressing the ESG issues that are critical to business and establish forward-looking business strategies for long term value creation?

Be proactive in engaging with shareholders.

Shareholder engagement continues to be a priority for companies as institutional investors increasingly hold boards accountable for company performance and demand greater transparency, including direct engagement with independent directors. They continue to challenge the board with tough questions around the broad topics in this agenda as well as specifics around their role in company strategy and risk evaluation, and the findings from their own self-assessment.

In order to ensure they have the full picture, boards should request periodic updates from management about the executive level engagement practices: Do we regularly engage with our largest shareholders and understand their priorities? Do they have access to the right people? What is the board's position on meeting with investors? And perhaps most importantly, is the company providing investors with a clear, current picture of its performance, challenges, and long-term vision?

Be mindful of the company's vulnerabilities to activist investors. Activism need not be short-term nor undermine the board's strategic thinking – done properly it can help focus the strategy and drive enhanced corporate governance. Play the role of activists by looking at the company from the outside-in and prompting change from within to benefit shareholders.

As reflected by the 2019 voting trends, strategy, executive compensation, management performance, ESG initiatives and board composition will remain squarely on investors' radar during 2020. We can also expect investors 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 2020.

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

Does the company make it safe for people to do the right thing? Headlines of sexual harassment, price gouging, aggressive sales practices, and other wrongdoing continue to put corporate culture front and center for companies, shareholders, regulators, employees, and customers.

Boards themselves are also making headlines – particularly in cases of self-inflicted corporate crises – with investors, regulators, and others asking, "Where was the board?"

Given the critical role that corporate culture plays in driving a company's performance and reputation – for better or, as evidenced by #MeToo, for worse – 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.

Understand the company's actual culture (the unwritten rules versus those posted on the notice board); use all the tools available – surveys, internal audit, hotlines, social media, walking the halls, and visiting facilities – to monitor the culture and see it in action. Recognise 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 into the middle and bottom levels of the organization? Make sure that incentive structures align with strategy and encourage the right behaviors, and 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.

Manage the risks and opportunities from emerging technology.

As digital technologies such as cloud computing, AI and blockchain continue to advance – both in capability and in application – their impact on risk assessment – both in terms of disruption as well as protection solutions – becomes as increasingly important as it is challenging.

Boards are increasingly aware that most companies' risk management processes are not fully robust – being unable to identify emerging and disruptive risks. Now more than ever is the time to firmly pose questions around this, and just as importantly to follow up robustly on the proposed actions. Are the company's risk management processes adequate to address the speed and disruptive impact of these advances, and to assess the continuing validity of the key assumptions that are the basis for the company's strategy and business model? Tomorrow's competitors are likely to be different from yesterday's.

Where disruptive technology is identified as a risk management opportunity does the business have the right skills to deliver on it? Understanding the risks and opportunities posed by technologies is a long way from being able to actively manage or leverage them which requires skills rarely found in current management but typically prolific within the millennial population.

Approach cybersecurity and data privacy holistically - as data governance.

In our conversations with directors, it's clear that many companies need a more rigorous, holistic approach to data governance – the processes and protocols in place around the integrity, protection, availability and use of data.

Boards have made strides in monitoring management's cyber security effectiveness with, for example: greater IT expertise on the board and relevant committees; company-specific dashboard reporting to show critical risks; and more robust conversations with management focusing on critical cyber security risks, operational resilience, and the strategies and capabilities that management has deployed to minimise the duration and impact of a serious cyber breach. Despite these efforts, given the growing sophistication of cyber attackers, cyber security will continue to be a key challenge.

Data governance overlaps with cyber security, but it's broader. For example, data governance includes compliance with industry-specific privacy laws and regulations, as well as privacy laws and regulations, such as the EU General Data Protection Regulation and the HK Personal Data (Privacy) Ordinance, which govern how personal data – from customers, employees or vendors – is 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 with 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 help develop a more rigorous approach around oversight of data governance:

- Insist on a robust data governance framework that makes clear how and what data is being collected, stored, managed, and used, and who makes decisions regarding these issues.
- Clarify which business leaders are responsible for data governance across the business – 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.

Make CEO succession and talent development a priority.

Few board responsibilities are more important than hiring and firing the CEO – a reality that continues to hit the headlines, particularly if the board is caught flat-footed. Given the complex and disruptive business and risk environment, it is essential that the company have the right CEO in place to drive strategy, navigate risk, and create long-term value for the enterprise.

The board should ensure that the company is prepared for a CEO change – planned and unplanned. CEO succession planning is a dynamic and ongoing process, and boards must always be thinking about developing potential candidates and planning for succession should start the day a new CEO is named. How robust are the board's succession planning processes and activities? Are succession plans in place for other key executives?

Clearly linked to the importance of having the right CEO is having the talent required – from the top of the organisation down through the ranks – to execute the company's strategy and keep it on track. Institutional investors are becoming more vocal about the importance of human capital and talent development programmes and their link to strategy. We expect companies will face an increasingly difficult challenge in finding, developing, and retaining talent that is required at all levels of the organisation. Does management's talent plan align with its strategy and forecast needs for the short and long term? Which talent categories are in short supply and how will the company successfully compete for this talent? More broadly, as millennials and younger employees 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? Remuneration committees should continue to sharpen their focus on talent development, and consider including succession planning and talent development as performance metric tied to pay plans.

Build the talent in the boardroom around the company's strategy and future needs.

Given the demands of today's business and risk environment, boards must increasingly focus on aligning their own composition with the company's strategy, both today and with a longer term view. The world has arguably changed markedly faster than boards, and the need for relevant experience, diversity and inclusion in the boardroom continue to be front and center for investors, regulators, and other stakeholders. How does your boardroom skills, experience and diversity record fare against the company's own goals, its strategy and its risk profile?

The increased level of investor and political engagement on this topic highlights frustration over the slow pace of change in boardrooms, and points to the central challenge with board composition: a changing business and risk landscape. Addressing competitive threats and business model disruption, technology innovations and digital changes, cyber risk, and global volatility requires a proactive approach to board-building and board diversity – which can be measured in so many ways: from race and gender, sexual orientation and disability, to geographical heritage. International diversity is especially important for businesses operating across many different markets. To be part of the solution everyone needs to be informed. Do all members of the board understand complex and compounding barriers that minorities face?

It's clear that board composition and diversity should be a key area of board focus in 2020, as a topic for communications with the company's institutional investors, enhanced disclosure in the annual report, and positioning the board strategically for the future.

The KPMG Board Leadership Centre

The KPMG Board Leadership Centre offers support and guidance to non-executive directors, whether managing a portfolio non-executive career or embarking on a first appointment. Membership offers you a place within a community of board-level peers with access to topical and relevant seminars, invaluable resources and thought leadership, as well as lively and engaging networking opportunities. We equip you with the tools you need to be highly effective in your role, enabling you to focus on the issues that really matter to you and your business.
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