

# Mid-year observations on the board agenda

## KPMG Board Leadership Centre

**Low visibility and high volatility aren't new operating conditions, by any means. But the assumptions that have long driven corporate thinking – cost of capital and sources of energy, geopolitical norms and trade flows, the limits of technology and the security of data, workforce needs and expectations, and traditional competitive threats – continue to be shaken, some profoundly. In short, the fundamentals are changing.**

Approaching midyear, business leaders are bullish on growth and the opportunities ahead. According to [KPMG's CEO Outlook](#), around three-quarters (73%) of CEO's are confident in the growth prospects for their own company.

At the same time, the macro forces of generative artificial intelligence (GenAI), climate change, a multipolar geopolitical landscape, and the erosion of trust and healthy public discourse are sobering the outlook and prompting deeper boardroom conversations about risk and strategy, talent, and what the future will look like for the company, corporate, and the country.

The following observations and insights – based on our ongoing work with directors and recent conversations with business leaders – may be helpful as boards calibrate their agendas for the second half of 2024.

### Globalisation's pendulum swing

The continuing pull-back on supply chains is likely just one indicator of a broader pendulum swing that's reshaping the full-throttle globalisation of recent decades. Shifting from the "cheaper-faster" strategies enabled by highly complex, decentralised supply chains to greater or even hyper-localisation and control of a company's networks (suppliers, services, data/information, etc.) is clearly about the resilience of the company. But concerns about the resilience of national economies, and of the global business ecosystem, are also driving the momentum toward more centralised and local supply chains.

National industrial and security policies and "country-first" models are taking centre stage, and de-risking and friend-shoring (particularly in strategic sectors like chip technology and critical minerals) are hedges against geopolitical shocks and exposure to arbitrary local rules.

The recognition that the long run of growth driven by cheap capital, labour, and energy is giving way to the realities of a more challenging and costlier future is prompting conversations about the resilience of the global economic system.

As this globalisation reset unfolds, companies will face pressing questions. Is the company prepared to operate in a higher-cost (of capital, green tech/energy, labour) environment? What is the right balance between operating efficiently, maximising growth, and ensuring resilience? For corporate more broadly: How will companies use their agency and creativity to help create value not only through consumer-driven growth, but to help build the country's economic and industrial assets and capabilities—including the healthy, educated workforce necessary to stay competitive in an increasingly multipolar world?

### GenAI's trajectory

"Go faster, but slow down" is a prevailing tension with GenAI adoption, perhaps second only to distinguishing the hype from the reality. It is quickly becoming clear that GenAI will transform the way we work, with substantial near-term gains.

Longer term, the second and third order effects may produce a seismic shift in societal structures and change political and economic participation, with macro implications for business and society more generally.

While the trajectory of GenAI deployment is still uncertain, for many companies, 2024 will be the year they move from experimentation to larger-scale rollouts; 2025 may be the year of significant measurable results in workforce productivity; and in 2026, we may start to see some breakaway winners and losers, with significant business model implications and competitive fallout.

The companies that will excel in using GenAI technology at scale understand that it's also a leadership journey. Fundamentally changing what people do every day and how they work will require leadership, as well as skills and know-how to assess the company's processes and workflows and to decide where to insert GenAI to improve productivity. Successful adoption will also require the refinement of risk management frameworks to mitigate critical risks related to inaccurate data and results, bias and hallucinations, intellectual property, cybersecurity, data privacy and compliance, reputation, and talent.

Starting with an inventory of where GenAI is used, boardroom conversations are focusing on the reason(s) GenAI is being used, who has algorithmic accountability, whose data the algorithms are being trained on, how the company is monitoring for data bias, and how third- and fourth-party risks are being managed.

Three broader issues also loom for society: the use of GenAI tools to create mis-, dis-, and mal-information (MDM), which can critically undermine trust in institutions and the rational contest of ideas; the increasing energy needs of GenAI (for computing and cooling systems) which adds a layer of complexity to the fight against climate change; and workforce-related issues such as upskilling, reskilling, and downsizing.

## The business of climate: A bumpy ride ahead

One of the defining characteristics of the next few years will be the messy and deeply contested transition away from fossil fuels. As we note in [Climate in context: Geopolitics, business, and the board](#), a KPMG/ Eurasia Group paper, 2024 may be the coolest year of the rest of our lives. The urgency of climate risk continues to escalate as tangible impacts are felt in markets around the world, from drought hampering shipping through the Panama Canal to failing water supplies, wildfires and other extreme weather events, growing food scarcity, and migration crises.

Three factors are likely to determine whether/when the moment of disruption has arrived: the availability of viable alternatives, incentives to implement them, and readiness of society to adapt and accommodate them.

For much of the private sector, this tipping point and the transformational opportunities are already in view. Focused on growth potential and longer-term value creation – and pressed by investors and regulators – corporate capital is quickly emerging as a primary engine in the energy transition, with investments, knowhow, and innovation. Although the end point – a low/post-carbon economy – may be clear, expect a bumpy ride. Geopolitical contention, fragmented regulatory regimes and disclosure frameworks, technological innovations (and lagging infrastructure), and trade-offs between near- and longer-term performance are making energy transition an epic undertaking. Astute boards are deepening their climate conversations.

## Workforce (in)security

The complexity of issues factoring into talent and workforce well-being should result in chief human resource officers (CHROs) having a prominent voice and seat in the C-suite and in the boardroom.

Among the most pressing challenges are continuing changes regarding where work gets done (e.g., remote work, return to the office); the impact of GenAI on how work gets done; growing employee unrest and the resurgence of labour unions; and intensifying scrutiny of diversity, equity, and inclusion (DEI) efforts – even from the government itself.

In the past, technological change primarily impacted blue-collar workers, but with the arrival of GenAI, white-collar workers are also anxious about job security. Benefitting from the productivity increases GenAI promises, while maintaining a productive and engaged workforce, will hinge on having clear plans to reskill, upskill, and cross-skill employees, being honest about how their work is evolving, and offering a path for career development. Helping employees understand the mutual benefits of working with GenAI can be a helpful frame for the challenging workforce conversations and cultural changes ahead.

The competition for talent continues to intensify, with the added challenges of evolving workforce demographics, employees from different generations working side-by-side, and many employees looking for something other than money and security from their jobs. Workplace wellness and well-being programs, including flexibility in where and how work gets done, are even more important to employees today than several years ago. And DEI (by whatever name) continues to demand leadership's attention. Business leaders need to understand the mood of employees and what motivates them, and respond in ways that lead to a strong corporate culture built on mutual trust and a vision for long-term value creation.

## Digital threats and cyber readiness

Cybersecurity risk continues to mount, with GenAI tools aiding hackers in both the sophistication and efficiency of their efforts. The proliferation of criminal hackers, malware developers, and nation-state actors, the ubiquity of ransomware attacks, and ill-defined lines of responsibility for data security – among users, companies, vendors, and government agencies – are keeping cybersecurity risk high on board and committee agendas.

Readiness and resilience have become the critical watchwords for companies and boards today, recognising the need not only for a robust cyber incident response plan, but also periodic tabletop exercises to simulate how a cyber incident might unfold.

The company's cyber incident response policies and procedures should be reviewed and updated, as necessary. This would include a clear delineation of responsibilities of management's cybersecurity and risk management teams, management's disclosure committee, the legal department, and any outside advisors, as well as escalation protocols, and procedures for determining materiality and for the preparation and review of disclosures. Escalation protocols should also address when the board is notified and how internal and external communications are handled.

The ongoing threat posed by insiders – whether disgruntled or disengaged employees, hostile state-actors, or third-party vendors offshore and under the radar – should also prompt regular assessment of the company's process for deterring, detecting, and effectively responding to insider breaches.

## **Mis-, dis-, and mal-information (MDM)**

The growing prevalence of MDM is also hitting the boardroom radar given the significant reputational risks it poses. Inaccurate information – no matter the type, source, or motive – continues to undermine trust and exacerbate polarisation. GenAI technology gives the purveyors of MDM the ability to understand what resonates with their target audience and provides the tools to generate content – including deep-fake images, narratives, and voices – that is convincing enough to damage corporate reputations.

To get ahead of MDM, a company should first understand what disinformation narratives can materially impact the business, and who might be likely purveyors of MDM. What will cause investors, employees, or customers to lose trust in the company or its products and services? Second, what capabilities and processes does the company have in place (risk management, corporate communications, investor relations, corporate counsel) to prevent or counter disinformation? Having a clear narrative for the marketplace and building a surplus of trust with customers are essentials.

## **Talent, strategy, risk—a different TSR?**

The seismic changes and disruptions facing today's business are causing many boards to rethink their board oversight structure and processes, and how they are spending their time.

Some leading business thinkers are challenging the traditional measure of TSR (total shareholder return), emphasising a reorientation of the board's focus to help ensure robust attention to talent, strategy, and risk – a different take on TSR. These factors, they argue, determine more than any others whether a company creates long-term value.

Board conversations with the CHRO and CEO about talent typically take place during succession planning, but the deeper question for boards is how the organisation handles the broader challenge of talent management.

Getting out in the field to meet the company's up-and-coming talent is more important than ever; talking with employees will provide directors with a ground-level view and potentially different messages from those they hear from management in the boardroom. The transformative developments in GenAI and related digital technologies aimed at increasing productivity should be prompting sharper board attention to employee training. Major technology investments are only as effective as employees' ability and propensity to use the tools. As machines get better at being machines, humans must get better at being humans.

Given the current risk environment, which can seemingly impact strategic plans overnight, boards should vet the strategy at every board meeting. Inextricably linked to strategy and talent, of course, is risk – particularly mission-critical risks, risk appetite, and risk culture – which permeates the enterprise.

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