

# On the 2024 board agenda

## KPMG Board Leadership Centre

**Heading into 2024, companies face unprecedented disruption and uncertainty – wars in Ukraine and the Middle East, trade and geopolitical tensions, economic volatility, persistent inflation and higher interest rates, technology and business model disruption, elevated cybersecurity risk, climate risk, and more. Advances in artificial intelligence (AI) and heightened regulation will add to the challenge.**

In this volatile operating environment, demands – from investors, regulators, employees, and other stakeholders – for greater disclosure and transparency, particularly around the oversight and management of risks to the company's operations and strategy, will continue to intensify. The pressure on management, boards, and governance will be significant.

Drawing on insights from our latest survey work and interactions with directors and business leaders, we highlight nine issues to keep in mind as boards consider and carry out their 2024 agendas.

### **01 Link boardroom discussions on strategy, risk, and global disruption**

Much has changed in the geopolitical and global economic environment. Companies face a deluge of risks, including the escalation of the wars in Ukraine and the Middle East; the continuing deterioration of the US–China relationship; the potential for massive political and social disruption caused by misinformation or disinformation; and the continued polarisation of society.

These and other risks, including supply chain disruptions, cybersecurity, inflation, interest rates, market volatility, and the risk of a global recession – combined with the deterioration of international governance – will continue to drive global volatility and uncertainty.

At the same time, companies face potential disruption to business models and strategy posed by accelerating advances in digital technologies such as artificial intelligence (AI), including generative AI and blockchain.

Help management reassess the company's processes for identifying the risks and opportunities posed by disruption – geopolitical, economic, technological/digital, social, and environmental – and the impact on the company's long-term strategy and related capital allocation decisions.

Is there an effective process to monitor any changes in the external environment and provide early warning that adjustments to strategy might be necessary? That includes risk management, as well as business continuity and resilience. It calls for frequent updating of the company's risk profile and more scenario planning, stress testing strategic assumptions, analysing downside scenarios, considering the interrelationship of risks, and obtaining independent third-party perspectives.

Companies need to think about 'events' and how they will impact the company's business model and strategy. However, it is also critical to understand the underlying structural shifts taking place – geopolitical, demographic, technological, economic, climate, global energy transition, societal, etc. – and the longer-term implications.

### **02 Monitor efforts to design and maintain a governance structure for the development and use of generative AI**

2023 saw major advances in the development and use of generative AI and its ability to create new, original content, such as text, images, and videos. Indeed, generative AI has been the focus of discussion in most boardrooms as companies and boards seek to understand the opportunities and risks posed by the technology – a challenge given the pace of the technology's evolution.

The potential benefits of generative AI vary by industry but might include automating business processes such as customer service, content creation, product design, developing marketing plans, improving healthcare, and creating new drugs. However, the risks posed by the technology are significant, including inaccurate results, data privacy and cybersecurity risks, intellectual property risks (including unintended disclosure of the company's sensitive or proprietary information and unintended access to third-party IP), as well as compliance risks posed by the rapidly evolving legislation globally.

Given the strategic importance of generative AI to most companies, boards should be monitoring management's efforts to design and maintain a governance structure and policies for the development and use of generative AI. Think about:

- How and when is a generative AI system or model – including a third-party model – to be developed and deployed, and who makes that decision?
- How are the company's peers using the technology?
- How is management mitigating the risks posed by generative AI and ensuring that the use of AI is aligned with the company's values? What generative AI risk management framework is used? What is the company's policy on employee use of generative AI?
- How is management monitoring rapidly evolving generative AI legislation, and ensuring compliance?
- Does the organisation have the necessary generative AI-related talent and resources, including in finance and internal audit?

Boards should also assess their governance structure for board and committee oversight of generative AI. In addition to the full board's engagement in overseeing AI, do (should) certain committees have specific oversight responsibilities, including perhaps taking deeper dives into certain aspects of generative AI?

### 03 Maintain focus on cybersecurity and data privacy

Cybersecurity risk continues to intensify. The acceleration of AI, the increasing sophistication of hacking and ransomware attacks, the wars in Ukraine and the Middle East, and ill-defined lines of responsibility – among users, companies, vendors, and government agencies – have elevated cybersecurity risk and its place on board and committee agendas.

The growing sophistication of the cyber threat points to the continued cybersecurity challenge – and the need for management teams and boards to continue to focus on resilience. Breaches and cyber incidents are going to happen, and organisations must be prepared to respond appropriately when they do. In other words, it's not a matter of if, but when.

Regulators and investors are demanding transparency into how companies are assessing and managing cyber risk and building and maintaining resilience. For example, the SEC now require public companies to disclose material "cybersecurity incidents" within four business days.

While data governance overlaps with cybersecurity, it's broader and includes compliance with industry-specific laws and regulations, as well as privacy laws and regulations that govern how personal data – from customers, employees, or vendors – is processed, stored, collected, and used. Data governance also includes 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. How robust and up to date is management's data governance framework? Does it address third-party cybersecurity and data governance risks?

### 04 Embed the company's strategically significant climate and ESG issues in risk and strategy discussions

Expect the intense focus on ESG to continue in 2024. How companies manage *material* climate and other ESG risks and how they address critical diversity, equity, and inclusion (DEI) issues is seen by investors, research and ratings firms, activists, employees, customers, and regulators as fundamental to the business and critical to long-term value creation.

The clamor for attention to climate change as a financial risk has become more urgent, driven by reports that the summer of 2023 was the hottest on record, with global temperatures expected to reach new highs over the next five years; the frequency and severity of floods, wildfires, rising sea levels, and droughts; growing concern about climate-related migration and displacement; and concern by many experts that the window for preventing more dire long-term consequences is rapidly closing.

Regulators and policy makers globally are placing greater demands on companies to act – and climate disclosures are a priority for many regulators.

Similarly, many investors continue to view *material* ESG issues as important. As BlackRock Chairman Larry Fink wrote in his March 2023 Annual Chairman's Letter to Investors: "Many of our clients also want access to data to ensure that material sustainability risk factors that could impact long-term asset returns are incorporated into their investment decisions."

In this environment, several fundamental questions should be front and centre in boardroom conversations about climate and ESG.

- Which ESG issues are material or of strategic significance to the company? The ESG issues of importance will vary by company and industry.  
For some, it skews towards environmental, climate change, and emission of greenhouse gases. Others may emphasise DEI and social issues.
- How is the company addressing these issues as long-term strategic issues and embedding them into core business activities (strategy, operations, risk management, incentives, and corporate culture) to drive long-term performance?
- Is there a clear commitment with strong leadership from the top, and enterprise-wide buy-in?
- In internal and external communications, does the company explain why ESG issues are materially or strategically important? Indeed, some companies are no longer using the term 'ESG.'

## 05 Keep abreast of management's preparations for new climate and sustainability reporting requirements

An important area of board focus and oversight will be management's efforts to prepare for dramatically increased climate and ESG disclosure requirements for companies in the coming years.

In the EU large company's should have established a roadmap to CSRD and compliance with the issued reporting standards (ESRSs). The standards would apply to all large companies in the European Union, including subsidiaries of foreign parent companies, with phased introduction starting in 2024. Public interest entities with more than 500 employees would need to apply ESRS for 2024 year-ends (reporting in 2025), other large companies that don't fall into the former criteria would need to comply for 2025 year-ends (reporting in 2026), and an ultimate non-EU parent company under the non-EU parent scoping would need to apply the applicable ESRS for its 2028 year-end (reporting in 2029). Assurance of the CSRD reporting is required.

In the UK certain companies have been required to provide climate related financial disclosures in their 2023 Strategic Reports, boards should also be aware of the UK Sustainability Disclosure Standards (UK SDS) that will form the basis of any future requirements in UK legislation for companies to report on governance, strategy, risks and opportunities and metrics relating to sustainability matters, including risks and opportunities arising from climate change. The UK SDS will be based on the IFRS Sustainability Disclosure Standards issued by the International Sustainability Standards Board (ISSB), and the UK endorsed standards will divert from the global baseline only if necessary for UK specific matters.

Also under the SEC's proposed climate disclosure rule, companies, including foreign registrants, will need to provide an account of their greenhouse gas (GHG) emissions, the environmental risks they face, and the measures they're taking in response. Crucially, according to the proposed rule, issuers will be subject to mandatory limited assurance initially, with mandatory reasonable assurance being phased in for accelerated and large accelerated filers. In addition, some information will need to be disclosed in the notes to the financial statements.

Companies will need to keep abreast of ongoing developments and determine which standards apply, and the level of interoperability of the applicable standards. For example, there are different materiality thresholds. The US consider financial materiality — in which information is material if investors would consider it important in their decision-making — whereas the UK and EU use the concept of 'double materiality', through the lenses of the financial effect on the company and the impact the company has on the wider community and environment.

A key area of board focus will be the state of the company's preparedness — requiring periodic updates on management's preparations, including gap analyses, materiality assessments, resources, assurance readiness and any new skills needed to meet regulatory deadlines.

In addition to the compliance challenge, companies must also ensure that disclosures are consistent, and consider the potential for liability posed by detailed disclosures.

This will be a major undertaking, with cross-functional management teams involved, including any management disclosure committee and management's ESG committee — perhaps led by an ESG controller — with multiple board committees overseeing these efforts. This is a big change and as a result a big opportunity to rethink reporting to make sure it meets stakeholders' needs while it meets the requirements.

Don't lose sight of the opportunity to use the new metrics to understand aspects of the business you may not have thought about in this way before — they can uncover changes that need to be made for the long-term success / resilience of the business.

## 06 Enhance communication and coordination among the board and its committees

The increasingly complex and dynamic risk environment — and the fusion of risks unfolding simultaneously — requires a more holistic approach to risk management and oversight. Many of the risks companies must address today are interrelated. While many companies historically managed risk in siloes, that approach is no longer viable and poses its own risks. Investors, regulators, ESG rating firms, and other stakeholders continue to demand higher-quality disclosures about risks and how boards and their committees oversee them.

Many boards are reassessing the risks assigned to each standing committee. In the process, they are often assigning multiple standing committees oversight responsibility for different aspects of a particular category of risk. For example, the nomination, compensation, and audit committees may each have some overlapping oversight responsibility for climate, Human Capital Management (HCM), and other ESG risks. If cybersecurity and data governance oversight reside in (say) a technology committee, the audit committee may also have certain oversight responsibilities (say, over internal and disclosure controls and procedures).

Given these overlapping committee risk oversight responsibilities, boards should encourage more effective information sharing and coordination among committees by:

- Identifying areas where committee oversight responsibilities may overlap and developing a process for frequent communication and discussion of committee activities in these areas.
- Maintaining overlapping committee memberships or informal cross-attendance at committee meetings.
- Conducting joint committee meetings when an issue of strategic importance to multiple committees is on the agenda.
- Holding periodic meetings of committee chairs to discuss oversight activities.
- Insisting on focused, appropriately detailed, and robust committee reports to the full board.



Essential to effectively managing a company's risks is having an up-to-date inventory of risks and maintaining critical alignments – of strategy, goals, risks, internal controls, incentives, and performance metrics. The full board and each standing committee have a role to play in helping to ensure that management's strategy, goals, objectives, and incentives are properly aligned, performance is rigorously monitored, and that the culture the company has is the one it desires.

## 07 Clarify when the CEO/company should speak out on social issues

Polarising social and political issues are moving front and centre in the boardroom. With employees, customers, investors, and stakeholders sharpening their scrutiny of a company's public positions, when should a CEO or company speak out on controversial issues, if at all? As many companies have experienced firsthand, the consequences of speaking out – or remaining silent – can be significant.

Given recent boycotts of companies that have spoken out on controversial issues and the increasing polarisation of society, many companies may be less willing to speak out. With an election in the near future what is the company's position on corporate political activity and political speech? When does the company have a responsibility to take a position?

Consider what role the board should play in addressing these questions and establishing parameters for the CEO and the company. Some boards have written policies; others have an informal understanding that the CEO will confer with board leadership before speaking on a controversial issue. Some companies have cross-functional management committees to vet issues on an ongoing basis to determine when speech is appropriate.

We've gleaned a number of considerations or criteria from directors and business leaders for determining whether or not the CEO should speak out on highly charged social and political issues:

- Is the issue relevant to the company and its strategy? Is it aligned with the company's culture, values, and purpose?
- How will speaking out resonate with the company's employees, investors, customers, and other stakeholders? Understanding in advance the issues of importance to each group is vital. Employees increasingly choose where they work based on company values.
- As the views of stakeholders are not uniform, how should CEOs and companies manage the inevitable criticism of their decision to speak or not speak? Having felt the backlash of speaking out on social/political issues, some companies have adjusted their approach to taking action without publicising what they're doing.
- Not speaking out can be as powerful as speaking out on certain issues. How do the CEO and the board come to terms with that ambiguity and risk, and weigh the consequences of speaking out or not?
- Make sure in advance that the company's lobbying and political contributions are aligned with its speech.

## 08 Make talent, HCM, and CEO succession a priority

Many companies have long said that employees are their most valuable asset. And employees continue to demand fair pay and benefits, work-life balance (including flexibility), interesting work, and opportunities to advance. Recent union strikes and a resurgence of organised labour signal a challenging labour environment ahead. In 2024, we expect continued scrutiny of how companies are adjusting talent strategies to meet the challenge of finding, developing, and retaining talent amid a labour-constrained market. To that end:

- Does the board understand the company's talent strategy and its alignment with the company's broader strategy and forecast needs for the near and long term?
- What are the challenges to keeping key 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 DEI at all levels?
- As talent pools become generationally and globally diverse, is the company positioned to attract, develop, and retain top talent at all levels?

Pivotal to all of this is having the right CEO in place to drive culture and strategy, navigate risk, and create long-term value for the enterprise. Equally important is the need to ensure that the company is prepared for a CEO change – planned or unplanned, on a permanent or emergency interim basis.

- How robust are the board's succession planning processes and activities?
- Has the succession plan been updated to reflect the CEO skills and experience necessary to execute against the company's long-term strategy? Those strategies may have changed over the last two years.
- Are succession plans in place for other key executives? How does the board get to know the high-potential leaders in the marzipan layers – two or three levels below the C-suite?

CEO succession planning is a dynamic, ongoing process, and the board should always be focused on developing a pipeline of C-suite and potential CEO candidates. Succession planning should start the day a new CEO is named.

## 09 Think strategically about talent, expertise, and diversity in the boardroom

Boards, investors, regulators, and other stakeholders remain focused on the alignment of board composition with the company's strategy – particularly director expertise and diversity.

Increased investor engagement on this issue points to a central challenge with board composition: Having directors with experience in key functional areas critical to the business while also having deep industry experience and an understanding of the company's strategy and the risks to the strategy.

It is important to recognise that many boards may not have experts in all the functional areas such as cybersecurity, climate, HCM, etc., and may instead choose to engage outside experts.

Developing and maintaining a high-performing board that adds value requires a proactive approach to board building and diversity – of skills, experience, thinking, gender, ethnicity and social background. While determining the company’s current and future needs is the starting point for board composition, there is a broad range of board composition issues that require board focus and leadership – including succession planning for directors as well as board leaders (the chair and committee chairs), director recruitment, director tenure, diversity, board and individual director evaluations, and removal of underperforming directors.

Board composition, diversity, and renewal should remain a key area of board focus in 2024, as a topic for communications with the company’s institutional investors and other stakeholders, enhanced disclosure in the Annual Report and Accounts, and most fundamentally, positioning the board strategically for the future.

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