



On the 2021 board agenda - Board Leadership Center

The impact of COVID-19 has been unimaginable on mankind. The global economy has been disrupted and we have seen changes, as never before in this, or perhaps even the previous few generations. The adverse impact of the pandemic has been social, economic, political, agricultural, psychological and at many more levels.

Global volatility – driven by trade and geopolitical tensions, resurging debt, technology and business model disruption, elevated cyber risk and regulatory scrutiny, and political gridlock in India and elsewhere – will add to the challenge. The pressure on employees, management, boards, and governance will be significant.

Along with the business, boards will continue to operate against a backdrop of tremendous uncertainty, an uneven global economic recovery, and heightened expectations of all stakeholders – investors, employees, customers, suppliers, and communities.

Many boards may see 2020-21 as an inflection point for corporate governance, with demands for greater attention to corporate purpose and stakeholder views, corporate culture and incentives, diversity and inclusion, the richness of boardroom dialogue and debate, and the company's (and board's) readiness for the risks and opportunities ahead – some of which may be backed up by investor votes against directors.



Nine key themes for boards to keep in mind



Maintain focus on management's response to COVID-19, while keeping sight of the bigger picture



Re-evaluate the company's focus on ESG and corporate purpose



Reassess whether crisis readiness and resilience plans are effectively linked to the company's key risks



Approach cybersecurity and data privacy holistically as data governance



Help set the tone and monitor the culture throughout the organisation



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



Be proactive in engaging with shareholders and activists



Factor emerging and disruptive technologies into the boards thinking around strategy and risk



Boardroom in the era of digitisation

2021 Agendas

Maintain focus on management's response to COVID-19, while keeping sight of the bigger picture

COVID-19 will continue to redefine business as usual for nearly all companies – and their boards – regardless of industry, size, or geography. Many leaders will face significant disruption and uncertainty – grappling with how to reopen, the implications of managing remote workforces, accelerating digital transformation, building more resilient supply chains, and strengthening connections with customers in the months to come. At the same time, some companies are finding new opportunities for growth in this uncertain environment.

Navigating the uncertainty will require a sharp focus on people, liquidity, operational risks, and contingencies while keeping sight of the bigger picture: strategy, risk, and resilience.

Leading practices for 2021

- With information about COVID-19 and the economy changing frequently, companies should expect to recalibrate their responses – and potentially reframe their thinking about how the COVID-19 crisis is impacting the business. Accordance to the work return the business demand and growth is flexible, which indicates that in the near future things become critical keeping current scenario in mind
- It is important to focus on human resource issues, particularly reopening plans, employee safety, engagement, and morale, as well as normalising work-from-home arrangements – while focusing on diversity and equity in the workplace
- Companies need to rethink how work is carried out and reassess the operational and policy implications of working remotely
- Understanding and compassion have become more important than ever: leadership and communication regarding the company's reopening plans and strategy will be critical to retaining the trust and confidence of employees, customers, and investors. The company's stakeholders will remember how they were treated during COVID-19.

Questions for Boards to consider

- **Is management considering more flexible work-from-home policies, longer-term, and the implications for workflow, efficiency, performance, talent development, and culture?**
- **Does the board think about the human resource issue i.e. employee safety, work from home arrangements, etc.?**
- **How will the board reframe the impact of pandemic on business?**
- **What will be the boards approach towards the strategies for future to face these kinds of situations?**

Re-evaluate the company's focus on ESG and corporate 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 COVID-19 is accelerating that change.

Leading practices for 2021

- The ongoing challenges of stagnant wages, income inequality, climate and environmental issues, health and safety, and diversity and inclusion – continue to spotlight business' role
- Employee and consumer activism regarding environmental, social, and governance (ESG) issues continues to grow, with millennials leading the way. Shareholders continue to submit more proposals on ESG issues – particularly the 'E' and the 'S' issues related to COVID-19
- There are increasing stakeholder demands for clearer disclosure of how the company is addressing ESG risks and opportunities – particularly climate change and diversity.

Questions for Boards to consider

- **Do boards have clear commitment and strong leadership?**
- **Which ESG issues are of strategic significance i.e., key to the company's long-term performance and value creation?**
- **How is the company embedding ESG into its core business activities (strategy, operations, risk management, incentives, and corporate culture)?**
- **What is the company's responsibility to society and the stakeholders it relies on for growth?**



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GOVERNANCE

Reassess whether crisis readiness and resilience plans are effectively linked to the company's key risks

COVID-19 is a stark reminder of the need to have robust enterprise risk management (ERM) processes that are closely linked to crisis preparedness and resilience.

Are the company's risk governance processes keeping pace with its changing risk profile?

Does the board understand who owns key risks at the management level, and would an empowered chief risk officer help create a more unified approach to risk?

The events and crises of 2020 suggest a several of fundamental questions for boards and management teams as they reassess the company's risks and readiness.

Leading practices for 2021

- COVID-19 has surfaced a range of heightened risks to manage, from employee and customer health and safety and managing remote workforces to the acceleration of digital transformation, changing customer demands, and vulnerable supply chains. Extreme weather events – droughts, wildfires, hurricanes, flooding, rising sea levels – illustrate the risks that climate change poses to companies, supply chains, and customers
- COVID-19 and social unrest have cast a bright light on a host of ESG risks that should be front and centre for business leaders – including employee well-being, pay equity, racial and gender diversity, and human rights, and how companies are meeting their commitments to stakeholders. Management will need to regularly reassess the risk landscape in light of the dynamic operating environment
- Companies need crisis response plans with a focus on agility, resilience and values – maintaining operations and company reputation in the face of disaster and learning from past crises. Identifying likely crisis scenarios and practicing responses using tabletop exercises is critical. Prepare for the worst-case scenarios (e.g., extended periods of supply chain disruption, substantial sustained reduction in sales and revenue, and the loss of key personnel) and consider having the board participate in these exercises
- Boards need to establish an additional committee, considering whether a finance, technology, risk, sustainability, or other committee would improve the board's effectiveness, can be a healthy part of the risk oversight discussion
- Whether risks should be reallocated among committees, and whether committees have directors with the necessary skills to oversee the risks their committees have been assigned.

Questions for Boards to consider

- **Do we have a complete inventory of the company's critical risks?**
- **Is the board ready with crisis plans closely linked to risk management, and are they prepared for the worst-case scenario?**
- **Does the board's committee structure bring the right focus and attention to the company's critical risks and its crisis readiness and resilience?**
- **Are the risk oversight responsibilities of each committee clear?**
- **Does that allocation of responsibilities still make sense – particularly in light of the changing risk environment?**

Approach cybersecurity and data privacy holistically as data governance

The accelerated shift to digital, that many companies are experiencing, underscores a trend we highlighted last year, the importance of taking a 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 cybersecurity effectiveness – for example, with greater IT expertise on the board and relevant committees, company-specific dashboard reporting of key risks, and more robust conversations with management focusing on operational resilience and the strategies and capabilities that management has deployed to help reduce the duration and impact of a serious cyber breach.

Despite these efforts, given the growing sophistication of cyber attackers, the shifts to remote work and online customer engagement, cybersecurity will continue to be a key challenge.

The broader challenge is data governance, encompassing compliance with industry-specific privacy laws and regulations, as well as new privacy laws and regulations that govern how personal data – from customers, employees or vendors – is processed, stored, collected, and used.

It also concerns the organisation’s data ethics policy and protocols – in particular, handling the conflict between how the company should use consumer data in a legally permissible way that satisfies customer needs.

Leading practices for 2021

- 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
- Insisting 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
- Clarifying 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.

Questions for Boards to consider

- **Does the Board of Directors understand importance of strategic data processing?**
- **Does the board reassessed through its committee structure – assigns and coordinates oversight responsibility for both the company’s cybersecurity and data governance frameworks, including privacy, ethics, and hygiene?**
- **How will the board ensure that the company has effective data governance framework?**

Help set the tone and monitor the culture throughout the organisation

COVID-19 has increased the risk of ethics and compliance failures, particularly given the heightened fraud risk due to employee financial hardship and the pressure on management to meet financial targets. Closely monitor the tone at the top and culture throughout the organisation with a sharp focus on behaviours (not just results) and yellow flags.

Headlines of lax data privacy protections, aggressive sales practices, and other lapses continue to put the corporate culture front and centre 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, we see boards taking a more proactive approach to understanding, shaping, and assessing corporate culture. Have a laser-like 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.

Leading practices for 2021

- Understand the company’s actual culture (how things get done versus the values statement in the employee handbook); use all the tools available – surveys, internal audit, hotlines, social media, walking the floor, 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
- Making sure that incentive structures align with strategy and encourage the right behaviours and take a hard look at the board’s own culture for signs of groupthink or discussions that lack independence or contrarian voices. Culture and strategy are inextricably linked
- If the company’s strategy has changed as a result of COVID-19 and related impacts, carefully consider what changes to the culture may be necessary to support the new strategy.

Questions for Boards to consider

- **How does the board gain visibility into the middle and bottom levels of the organisation?**
- **Is senior management sensitive to the human resource issues stemming from COVID-19, particularly the pressures on employees - health and safety, productivity, engagement and morale, and normalising work-from-home arrangements?**
- **Does the company make it safe for people to do the right thing?**
- **How will the board verify that the company has robust whistle-blower and other reporting mechanisms in place and employees are using them without fear of retaliation?**

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

Boards are increasingly focused on aligning board composition with the company's strategy, today and for the longer term. Talent and diversity in the boardroom are also top of mind for investors, regulators, and other stakeholders. That said, it's clear that the world is changing markedly faster than boards.

Boards should recognise priority and concentrate thoroughly on how talent is assessed and also their role in ensuring talent development. Increased level of investor engagement on this topic highlights investor frustration over the slow pace of change in boardrooms and points to the central challenge with board composition: a changing business and risk landscape.

Leading practices for 2021

- Addressing competitive threats and business model disruption, technology and digital innovation, cyber risk, and global volatility requires a proactive approach to board-building and board diversity – of skills, experience, gender, race/ethnicity, and sexual orientation and cognitive thinking.
- Board composition and diversity should remain a key area of board focus in 2021 – as a topic for communications with the company's institutional investors, enhanced disclosure in the company's annual report and Annual General Meeting notices, and to help position the board strategically for the future.
- Votes against directors by an increasing number of institutional investors for a lack of diversity should serve to sharpen every board's focus on diversity and inclusion as a business imperative.

Questions for Boards to consider

- **How can the board cope with external challenges and disruption to the company model?**
- **What steps will board take to evaluate the production of talent?**
- **Does the board understand the changing business and risk landscape? Has there been any plan for investor frustration over boardroom change?**



Be proactive in engaging with shareholders and activists

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. Institutional investors expect to be able to engage with portfolio companies – especially when there are governance concerns or when engagement is needed to make a more fully informed voting decision.

Leading practices for 2021

- In light of COVID-19, transparency, authenticity, and trust (or lack thereof) are increasingly important themes for engagement with shareholders.
- Boards and management must think about engaging not only with shareholders but with their own employees, customers, suppliers, and community stakeholders. Boards should request periodic updates from management about the company's engagement practices
- Strategy, executive compensation, management performance, ESG initiatives, human capital management, and board composition and performance will remain squarely on investors' radar during the 2021 proxy season.
- Organisation should also expect investors and stakeholders to focus on how companies are adapting their strategies to address the continuing impact of COVID-19 and the economic and geopolitical uncertainties and dynamics shaping the business and risk environment in 2021.

Questions for Boards to consider

- **How will the board communicate their preferences to the main shareholders and core stakeholders?**
- **What is the board's position on meeting with investors and stakeholders?**
- **Is the company providing investors and stakeholders with a clear, current picture of its performance, challenges, and long-term vision?**
- **Does the management have the right people on the engagement team? Which independent directors should be involved?**



With the advancement of digital technologies such as cloud computing, AI and blockchain – 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 than yesterdays.

Leading practices for 2021

- 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.
- Boards should focus on the newest technology innovations and general innovation beyond the business
- Boards should ensure that any emerging technology deployment requires an effective project and risk assessment mechanism consistent with the organisational risk management (ERM) system
- Boards should ensure that the organization meets the need of training and preparing for research, implementation and introduction of emerging technologies.

Questions for Boards to consider

- **Does the board suggest ways to boost organisational performance through new technologies?**
- **Where disruptive technology is identified as a risk management opportunity does the business have the right skills to deliver on it?**
- **Whether the boards have the necessary tools in this age of digital transformation to drive their businesses forward?**
- **How do boards boost their monitoring of emerging technologies?**

Digitalisation is transforming the way company works in multiple ways-including how the Board of Directors interacts with management teams. How is emerging technology able to improve the efficiency of the board?

Digitisation nowadays is amongst the top of the list of agendas for the boards in many organisations. The subject is now increasingly debated by boards, not just with management but also with the workers. The board members are also actively watching the new technological developments including artificial intelligence and blockchain and are strongly engaged in market models focused on the recent technological changes.

Leading practices for 2021

- The Boards should use technical development as it assists in the decision-making process based on data
- Work with management to identify the distinction between supervision and decision-making in the light of emerging technology deployment
- Work on understanding the impact of the digitisation on the firm and the board processes
- Member of Board need to raise their digital quotient if they are hoping to rule in a manner that has executives looking beyond today's borders.

Questions for Boards to consider

- **How boards will analyse the impact of digitisation in organisation?**
- **What are the barriers that usually block the path to digitisation?**
- **Where should businesses start with digitisation?**
- **What is the culture needed for digitisation?**



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