Board agenda 2022

April 2022

home.kpmg/in

As India focuses on reopening and companies reposition for the future, it is increasingly clear that resilience – of strategy, the organisation, and operating muscle – is proving to be the great differentiator of the pandemic era. The ability to quickly adapt to dramatic disruptions and dislocations has defined the survivors and thrivers.

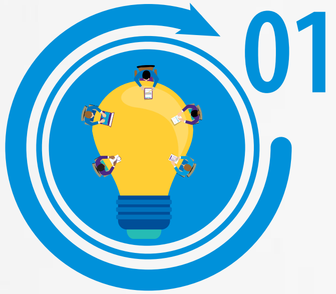
The unprecedented events of the past two years have clearly put corporate governance processes, including board oversight, to the test. Demands for action on ESG performance, including climate risk, increased cybersecurity risks (including ransomware attacks), economic and supply chain challenges, a fast-changing regulatory landscape, and other factors impacting the global risk environment will continue to challenge even those boards at the top of their game.

Drawing on insights and interactions with directors and business leaders, we highlight 10 issues here for boards to keep in mind as they consider and carry out their 2022 agendas.

© 2022 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Key themes

Board's comprehensive engagement in corporate strategy and purpose in envisioning the future



Incorporating ESG, climate issues into risk and strategy discussions

Engage proactively with shareholders, activists, and other stakeholders

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

Resolve cybersecurity and data privacy concerns under data governance

Reassess the company's crisis prevention and readiness efforts

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

Think strategically about talent and diversity in the boardroom

Rethink digital strategy towards current financial, operational and business model

Acknowledge and factor-in the employee diversity and inclusion as criteria for gauging the impact

© 2022 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Board's comprehensive engagement

in corporate strategy and purpose in envisioning the future

Given the volatile and fluid business environment ahead – managing remote workforces, employee activism, digital transformations, building more-resilient supply chains and strengthening connections with customers– take time to reassess the board's engagement in strategy. Identify specific practices to drive quality boardroom discussions about strategy and the future.

A fundamental question for every board is whether boardroom conversations are, in fact, conversations. Does the board allocate sufficient agenda time to meaningful, two-way discussions between management and the board about forward-looking issues – challenging assumptions and considering scenarios (likely and unlikely) – versus reviewing historical, compliance-related information which, while essential, can crowd-out valuable agenda time.

Effective engagement in strategy discussions (which investors expect) increasingly calls for a collaborative mindset:

- How can the board help management think-through the implications of pressing and potentially existential strategic questions and decisions?
- Is management helping the boards with pre-read material to prepare for critical conversation and maximise contribution?

In our discussions with experienced directors over the past year, a number of elements and practices were highlighted that may be helpful:

- Encourage management to revisit the strategic planning process. See if the process is adequate in-line with the megatrendsand does it capture the risks and potential disruptions on the horizon? Does the process challenge the validity of key assumptions that the company's strategy and business model are based on? Is it an iterative process – with milestones and opportunities to recalibrate – and does it bring in perspectives from throughout organisation, beyond the inner team?
- Develop a vivid picture of the future. This is never an easy undertaking, and it's particularly challenging today, given the level of uncertainty and transformational changes underway. Where are the competitors (both industry competitors and those in adjacent industries) headed? What might the business look and feel like in two, five, or ten years? Make time for the board to have meaningful "what-if" discussions in a focused and urgent way – including devoting time to less-likely scenarios. Risks and scenarios related to climate, ESG, human capital, and supply chain should be front and centre.
- Make resilience part of the strategy discussion. Full resilience is not only the ability to bounce back when something goes wrong; it's also the ability to stand back up with viable strategic options for staying competitive and on the offense.
- Understand the value of the board's lens. While management is immersed in running the business and staying competitive, board members can pick up broader perspectives and may see things things differently than management

© 2022 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Incorporating ESG, climate issues

into risk and strategy discussions

How companies address climate change, and other ESG risks is now viewed – by investors, research and ratings firms, activists, employees, customers, and regulators – as fundamental to the business and critical to long-term sustainability and value creation. Expect the intense regulatory focus on these issues to continue in 2022.

The clamor for attention to climate change as a financial risk has become more urgent, driven by a confluence of factors, the most visible of which is the accelerating physical impact of climate change – including the frequency and severity of floods, wildfires, rising sea levels, and droughts – as well as concern by many experts that the window for preventing more dire long-term consequences is rapidly closing. Related to climate risk are the "transition risks" that companies face as they work – in conjunction with countries, regulators, and other stakeholders – to reduce reliance on carbon and the impact on the climate. A challenge for boards is to help ensure that these transition risks are properly addressed by management – together with other climate change risks.

One of the key insights of the KPMG 2021 CEO Outlook report mentions "With increased stakeholder pressure to build back better, global organisations are supercharged to increase investment into environmental, social and governance (ESG) priorities and stay true to their purpose". Environmental climate change risk has seen a change from toping the chart to number 1 risk along with others as compare to ranked number 4 last year.[1]

Moreover, the International Financial Reporting Standards (IFRS) Foundation announced the formation of the new International Sustainability Standards Board (ISSB). The ISSB will develop a comprehensive global baseline of high-quality sustainability disclosure standards which are focused on enterprise value. The standards will help investors understand how companies are responding to ESG issues, like climate, diversity etc. to inform capital allocation decisions.

Oversight of these risks and opportunities is a significant challenge, involving the full board and potentially multiple board committees.

Several fundamental questions should be front-and-centre in boardroom conversations about the company's ESG journey. Has the company determined which ESG issues are of strategic significance?

- In order to drive long term value creation, how is the company factoring them into core business activities such as strategy, operations, risk management, incentives, and corporate culture?
- Is there an enterprise-wide clear commitment and strong leadership from the top towards addressing the ESG issues and ready for constructive deliberation within the board and with the management?
- Is management adequately equipped with the reporting infrastructure to respond to likely corporate reporting requirements from the relevant regulators?
- How is the board resolving oversight of opportunities and risks challenges developing from multiple board committees?

1. KPMG 2021 CEO Outlook and KPMG 2020 CEO Outlook COVID-19 Special Edition

© 2022 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Engage proactively

with shareholders, activists, and other stakeholders

Given the intense investor and stakeholder focus on climate risk, ESG, and DEI, particularly in the context of long-term value creation, shareholders and stakeholders' collaboration should be a paramount. Institutional investors and other stakeholders are increasingly holding boards accountable for company performance and are continuing to demand greater transparency, including direct engagement with independent directors on big-picture issues like strategy and ESG. Indeed, transparency, authenticity, and trust are not only important to investors, but increasingly to employees, customers, suppliers, and communities – all of whom are holding companies and boards to account.

To best understand the views of its key stakeholders, the board should request periodic updates from management as to the effectiveness of the company's engagement activities:

- Does the company engage with, and understand, the priorities of its largest shareholders and key stakeholders?
- How frequently does the management presents to the board on the outcome of shareholders opinion and extent of reach? Is board able to decipher the opinion and issues of shareholders affecting the organisation's operations, business process etc.?
- Are the right people engaging with these shareholders and stakeholders – and how is the investor relations (IR) role changing (if at all)?
- What is the board's position on meeting with investors and stakeholders? Which independent directors should be involved?
- Is the company providing investors and other stakeholders with a clear, current picture of its performance, challenges, and long-term vision?

Strategy, executive remuneration, management performance, climate risk, other ESG initiatives, and human capital management, and board composition and performance will remain squarely on investors' radar during the 2022 AGM season. We can also expect investors and stakeholders 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 2022.

© 2022 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Make CEO succession plan

Talent and human capital management a priority

The events of 2020-2021 further highlighted the strategic importance of human capital management (HCM) issues – including employee retention, remuneration, training & developments, health and safety issues that are critical to the company’s performance and reputation. The impact on human capital issues is likely to be anticipatedly staying as a concern and continue at the top of the board's oversight agenda as a driver of creation of long-term value.

Consider management’s processes for developing HCM-related metrics and the controls for ensuring data quality – and help ensure that the disclosures demonstrate the company’s commitment to critical human resources issues.

In 2022, we can expect continued scrutiny of how companies are adjusting their talent development strategies. The challenges of finding, developing, and retaining talent, amid a labor constrained market has created a war for talent.

- Does the board have a good understanding of the company’s talent strategy and its alignment with the company’s broader strategy and forecast needs for the short and long-term?
- Which roles throughout the organisation are mission critical, and what are the challenges keeping those roles filled with engaged employees?
- Which talent categories are in short supply and how will the company successfully compete for this talent?

More broadly, as millennials and younger employees – who increasingly choose employers based on alignment with their own values – 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?

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. The board should ensure that the company is prepared for a CEO change – whether planned or unplanned, on an emergency interim basis or permanent. The board should always be focused on developing a pipeline of potential CEO candidates as well as all other C-suite positions. Succession planning should start the day a new CEO is named.

- How robust are the board’s succession planning processes and activities?
- Is the nomination committee reviewing the plans at least once per year – but likely more often in these uncertain times?
- Are succession plans in place for other key executives?
- How does the board get to know the high-potential leaders two or three levels below the C-suite – especially in a work-from-home environment when office visits and board-executive in person meetings may not be feasible?

© 2022 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Resolve cybersecurity and data privacy concerns

under data governance

The rapid shifts that companies have made during the pandemic to keep their businesses up and running – remote work arrangements, supply-chain adjustments, and increased reliance on online platforms – have been a boon to organised crime, hacktivists, and nation-states. Cyberattacks of all types proliferated during the pandemic, highlighting the far-reaching implications for supply chains and operations, as well as the ongoing cybersecurity challenge facing companies.

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 to show critical risks, and more robust conversations with management. Despite these efforts, the acceleration of digital strategies, remote work and hybrid work models, increased regulatory scrutiny of data privacy, and the growing sophistication of cyber attackers all point to the continued cybersecurity challenge ahead.

As we've noted, data governance overlaps with cybersecurity, but it's broader. Data governance includes compliance with industry-specific privacy 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 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 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.

To oversee cybersecurity and data governance more holistically:

- Does the board understand current/potential vulnerabilities and what processes management has in place to counter with such cyberthreats?
- 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 enterprise – 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 cybersecurity and data governance frameworks, including privacy, ethics, and hygiene.
- How frequently does the policies are reviewed and updated while responding to the challenges posed by evolving cyberthreats?

© 2022 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Reassess the company's crisis prevention

and readiness efforts

The litany and severity of crises that companies have found themselves facing in recent years looms large, with crisis prevention and readiness now featuring more prominently than ever in boardroom conversations. Crisis prevention goes hand-in-hand with good risk management – identifying and anticipating risks and putting in place a system of reporting and controls to help prevent or mitigate the impact of such risk events.

We're clearly seeing an increased focus by boards 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 company understand its critical operational risks, including "mission critical" company and industry risks?

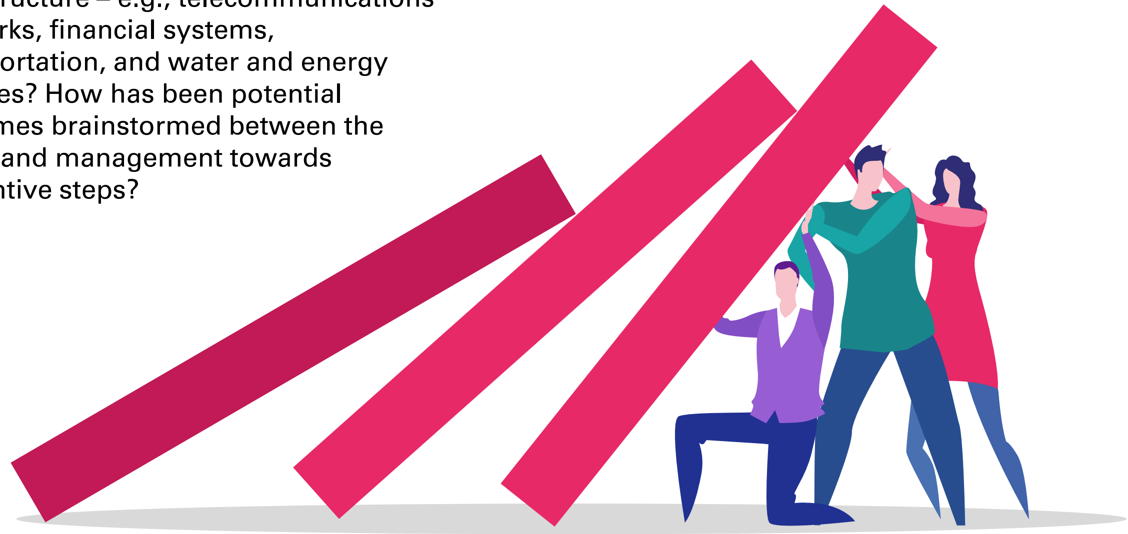
What's changed in the operating environment? Has the company experienced any control failures, and if so, what were the root causes? Is management sensitive to early warning signs regarding safety, product quality and compliance?

Periodically reassess the clarity and appropriateness of risk oversight responsibilities among the board's committees – being mindful to not overload the audit committee's agenda and recognising the importance of good communication and coordination among committees, as certain risks likely touch multiple committees.

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?
- 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 water and energy supplies? How has been potential outcomes brainstormed between the board and management towards preventive steps?
- Assess whether crisis contingency and resilience plans are effectively linked to the company's key identified risks?
- Are there communications protocols to keep the board apprised of events and the company's response?

Even the best-prepared companies will experience a crisis; but companies that respond quickly and effectively – and with a robust communication strategy – tend to weather crises better.



© 2022 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Help set the tone and closely monitor

the culture of the organisation

The events of 2020-2021 have increased the risk of ethics and compliance failures, particularly given the increased 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 behaviors (not just results) and yellow flags. Is senior management sensitive to human resource issues, particularly the pressures on employees (both in the office and at home), employee health, safety and well-being, productivity, engagement and morale, and normalising work-from-home arrangements? Does the company make it safe for people to do the right thing?

With the near-instantaneous speed of social media, corporate crises (particularly when self-inflicted) are hitting corporate reputations fast and hard, with investors, regulators, and others increasingly 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 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. Closely monitor the reporting systems to understand how claims are addressed and resolved, and identify trends. If the company has a sizeable workforce and few or no claims, the board should dig deeper.

Understand the company's actual culture (the unwritten rules versus those values employees are supposed to adhere to); use all the tools available – surveys, internal audit, hotlines, social media, virtual town halls as well as walking the floors, 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 organisation? Make sure that incentive structures align with culture and strategy and encourage the right behaviors.

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:

- How sensitive is senior management towards human resource related concerns such as pressures on employees, health and safety related issues, productivity, inclusion and morale, and comforting remote working?
- Does the company encourage people to do the right thing?
- Does the board have clear insights on the tone set by the management and zero tolerance for practice against the company's ethical standards and value?
- Is the board sensitive to early warning indicators?
- Is there a robust whistle-blower and other incident reporting mechanisms in existence? Are such methods transparent to employees explaining coverage of relevant safeguards such as anonymity, confidentiality etc.?

© 2022 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Think strategically

about talent and diversity in the boardroom

Boards, investors, regulators, and other stakeholders are increasingly focused on the alignment of board composition with the company's strategy – with diversity front-and-centre.

Indeed, the increased level of investor engagement on this issue highlights investor frustration over the relatively 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, technological innovation and digital changes, climate and ESG risks, cyber risk, and global volatility requires a proactive approach to board-building and board diversity – of skills, experience, thinking, gender, and race/ethnicity.

Our recent survey report highlighted, more than 50 percent of directors in India share concerns regarding identification of areas important for company's future due to lack of diverse views. And organisation's are focused on hiring board members with diverse background and skills, however, lack of robust pipeline remains a challenge.[2]

Board composition, diversity, and renewal should remain a key area of board focus in 2022, as a topic for communications with the company's institutional investors and other stakeholders, enhanced disclosure in the company's annual report, and most fundamentally positioning the board strategically for the future:

- Does the board have a strategic approach to build a diverse board?
- What are the barriers towards constitution of adequate composition inclusive of diversity?
- What is the board's outlook on onboarding diverse and inclusive board member in terms of favorable or neutral?

2. KPMG Director Pulse Survey 2021

© 2022 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Rethink digital strategy

towards current financial, operational and business model

The boards, markets participants including stakeholders are counting on digital operations and as a result digital transformation has found its way into one of the critical strategic agenda on the boardroom. The question now is how rapidly an entity can move to the new digitally driven business and operating models.

There has been a paradigm shift as to how people work. The pandemic has transformed approach of people towards working model, flexibility, and mobility etc. We can further anticipate an acceleration of delivery model of work and most of these potential working models would be driven by digital platforms.

To oversee company digital strategy readiness:

- How responsive is the management in transformation towards digital shift in integrating supply chain, automation of operations, decision making process, improved planning etc?
- Is there a consensus on digital technology innovation to build digital talent base, functional and professional skills and creation of pervasive digital environment between board and management?
- What is the frequency of reassessment of existing policies and guidelines anchoring digitisation agenda?
- Is management and board working collectively to outline the boundaries between decision making and oversight while deciding to implement new technology?
- Does management engage in discussion with the associations and industry representatives regarding digitisation expectations?

© 2022 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Acknowledge and factor-in the employee diversity and inclusion

as criteria for gauging the impact

The respective corporate leaders are making an attempt to clutch the best talent resource and critical new future skills, fill the talent shortage on a short term and long term basis and enable creative prospects to engage, develop and hold-on to their most valued employees.

A constant focus on inclusion and diversity helps uniting people's differences such as gender or race culture and sexual orientation in the workplace.

The organisations are making progress towards gauging the importance of diversity and inclusion. However, given the lack of relevant talent pool amid the recovering pandemic situation their exist challenges in accessing the ideal workforce:

- Is there an understanding as to how management perceives relevance of employee inclusion and diversity within the company with the board?
- How effective is the management at drawing out the views, ideas, and concerns of in connection with inclusion and diversity?
- Is there a harmony in the event warranting to rebuild the employee policies and guidance to best meet your company's needs for today and the future between board and management?
- Does the diversity policies and guidance demonstrate transparency and trust in the boardroom?
- Does the talent strategy reflect a commitment to DEI at all levels?

© 2022 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

KPMG in India contact:

Ritesh Tiwari
Partner
Board Leadership Center
E: riteshtiwari@kpmg.com

home.kpmg/in

Follow us on:
home.kpmg/in/socialmedia

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011 Phone: +91 22 3989 6000, Fax: +91 22 3983 6000.

© 2022 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

This document is for e-communication only.