

Midyear observations - on the board agenda

Board Leadership Center



Indian economy is growing relatively at a fast pace despite geopolitical tensions around the globe. While this seems good news, businesses might have to deal with an endless array of long-standing challenges like rising cybercrime, supply chain hiccups and increasing inflation, to name a few. To operate well against the uncertainty caused by geopolitical situations and

economic volatility, boards need to ensure their companies stay nimble and agile, whilst continuing to stay on course to implementing their long-term plans.

As the dynamics of the business environment keep changing, Board Leadership Center suggests mid-year observations for boards to consider as they calibrate their 2022 agendas.

Economic volatility

Greater geopolitical instability and surging inflation have been added to the mix of macroeconomic factors that corporate leaders must account for when making business decisions. While most global GDP forecasts¹ continue to point to growth, deceleration is expected into next year¹, with some forecasting a recession in some nations. While recession in India is unlikely, the executives must re-evaluate the crisis prevention plans against the possible consequences of a global slowdown on India.

It has been more than 40 years since the global economy has experienced inflation at current levels. With a widening current account deficit, increasing crude prices and foreign disinvestments, the RBI has maintained its forecast of inflation in India for FY22-23 at 6.7%².

Record-high GST revenue³ may signal economic recovery. However, this may be attributed to rising prices and better compliance. India has not witnessed a corresponding rise in employment and purchasing power, and demand is predicted to remain low.



Points to consider

- Companies must be cautious about the impact that inflation will have on pricing, contracting and fulfillment
- While the RBI has not so far increased the interest rates in its monetary policy, as aggressively as other central banks around the world, executives must strategically prepare for changes that can impact the financing plans
- Companies must account for an all-time low value of the rupee against the dollar in their pricing strategy and make contingency plans for further rupee depreciation
- The corporates that rely heavily on imports may need to rethink their supplier base and supply chain networks
- Considering contradictory macroeconomic reports, companies should account for all possible positive and adverse scenarios in strategic decisions for the fiscal year.

1. On the board agenda- midyear observations, June 2022, published by KPMG International

2. Monetary policy: RBI leaves inflation projection for FY23 unchanged at 6.7%-Published by Economic Times, August 2022

3. GST collections in April touch all-time high of Rs 1.68 lakh crore - Published by Economic Times, May 2022

The Russia Ukraine War

While the world was recovering from the aftereffects of the Covid pandemic, the Russia-Ukraine conflict added concerns around supply chain disruption, economic volatility, cybercrimes and, above all, safety and future of the workforce. Organisations with operations in war-affected areas ensured the safety of their workers on priority and simultaneously prepared themselves for the economic impacts and operational disruption to come.

Expectations for companies to make public statements on the war (as many global companies have done) and decisions on divestitures in Russia and/or assistance to Ukrainian refugees reinforce the importance of having a clear internal process for determining whether to take a public position and articulating the company's public positions on this and other major crises with consistency. Recognising that the implications for companies will vary by sector and geographic reach, we underline several issues that require the attention of the board.



Points to consider

- The well-being of employees and those affected by the war
- Macroeconomic, trade and supply chain issues
- Increased cybersecurity risks
- The need to reassess the company's disclosures regarding the risks posed by the war
- Considering the company's public position on a range of issues related to the war
- Geopolitical volatility and the company's risk profile.

Supply chain disruptions

Supply chain disruption has forced many companies and industries to rethink their supply chain models. The crisis accentuated the reliance of businesses on a particular geography to fulfil their manufacturing needs. While economies are dealing with the aftermath of the pandemic, the added pressure of geopolitical uncertainties and economic volatility are haunting. Companies are reassessing their supply chain strategies, identifying risks and vulnerabilities, and designing and implementing plans to improve resilience and sustainability. In the near term, the board can help ensure that significant projects being undertaken by management-to rethink, rework and restore critical supply chains are carried out effectively. At the same time, boards will need to sharpen their focus on the company's efforts to manage a broad range of ESG risks in its supply chain, which pose significant regulatory and compliance risks as well as critical reputation risks for the company.



Points to consider

- Updating supply chain risk and vulnerability assessments
- Diversifying the supplier base
- Re-examining supply chain structure and footprint
- Reducing dependency on China and developing more local and regional supply chains
- Deploying technology to improve supply chain visibility and risk management
- Improving supply chain cybersecurity to reduce the risk of data breaches
- Developing plans to address future supply chain disruptions.

Committee oversight responsibilities

Given the increasing number and complexity of risks companies face today, many boards are delegating specific risk oversight duties to standing committees for a more intensive review of issues and risks than the full board can undertake. Depending on the company size and industry, we see boards delegating to various standing committees the responsibility to support the board's oversight of a range of enterprise risks, including mission-critical risks, climate, ESG, human capital management, cybersecurity and data governance, legal and regulatory compliance, supply chain, M&A, among others.



Boards may need to reassess whether their delegation of risk oversight responsibilities to each standing committee is clear, properly aligned, and coordinated across committees, particularly when there is a risk of overlap. For example, the nominating and governance (or sustainability committee), compensation and audit committees likely have responsibility for the oversight of ESG issues. HCM (Human Capital Management) issues-from ethics and compliance to talent development and performance incentives may also touch different committee agendas.

The challenge for the board is to clearly define the risk oversight responsibilities of each committee, with the goal of ensuring that management has implemented an appropriate system to manage these risks, i.e., to identify, assess, mitigate, monitor, and communicate about these risks, and update as the company's risk profile changes.

Points to consider

The oversight responsibility of audit committee or risk management committee versus other standing committees for:

- Periodic risk inventories and assessments for the category of risk
- The quality of risk information, data, communication and reporting (internal and external), including the quality of data and information included in the company's voluntary sustainability reports
- Monitoring enterprise risk management performance
- Internal and external assurances regarding risk assessments and controls
- Monitoring internal controls to mitigate the risk and respond if a risk event occurs (The audit committee's responsibility to oversee internal control over finance reporting is clear; however, there may be a need for more clarity regarding the role of the audit committee and standing committees in overseeing the broader internal control environment.)



The new employer/employee dynamic

Understanding the employee/employer “reset” that’s well underway accelerated by the pandemic and evident in the Great Resignation is one of the top challenges facing companies today. We will look at the factors driving employees’ needs and expectations- from personal well-being and work-life balance to alignment with the company’s purpose- and key questions facing business leaders and boards.



Points to consider

- Is the new employee mindset here to stay?
- Why and how should boards deepen their understanding of the employee experience?
- What are the challenges and opportunities posed by employee activism?
- How is the new dynamic impacting corporate recruiting and talent retention strategies?

Climate Risk

As climate change, sustainability and other ESG issues are gaining traction, it’s time that boards comprehensively assess the environmental and social footprint of business activities.

The Business Responsibility and Sustainability Reporting (BRSR) of the SEBI prescribe reporting methodology on climate risks and mitigation strategies, among others, which shall be mandatory for the top 1,000 listed companies from the current financial year. In light of regulations from SEBI, guidelines from MCA and possible regulation from RBI on climate risk and sustainability, it is necessary for boards to consider certain fundamental questions.



Points to consider

- Does the board need to establish a separate committee, apart from audit committee, for oversight of sustainability reporting?
- Has the company formulated an effective plan for meeting environmental requirements of regulatory bodies and more comprehensive reporting standards that are likely in the near future?
- What should be the committees’ approach for steering ESG related issues?
- In view of growing investor demands to incorporate climate issues in core business processes, does the company wish to report on mission-critical climate risks and transition risks above and beyond the legal requirements?
- Does the company plan to pledge to reduce greenhouse gas emissions, as many companies have done? How does the board plan to limit impact on profitability and develop sustainable alternatives?
- As companies are increasingly expected to declare or meet the declared net-zero targets, does the management periodically apprise the board on progress and strategies?

Cybersecurity

With a greater dependence on data and subsequent cybersecurity threats, especially since the pandemic, the board needs to periodically assess the company's data governance policy, cybersecurity risks, the ability to detect early warning signs and reporting infrastructure. The Cyber Security Directions of the Indian Computer Emergency Response Team (CERT-In) have made it mandatory for companies to report data breaches and leaks within six hours with effect from 25 September 2022. Further regulation is expected to strengthen data privacy rules.



Points to consider

- Is the board adequately equipped with the talent to manage cybersecurity risks?
- Does the company need to reassess its disclosure of privacy policies and increase customer control over data?
- Does the board periodically assess the crisis prevention plan of the management?
- Does the company have appropriate reporting infrastructure in light of increasing regulation on data governance?
- Does the board consider the investors' expectations regarding disclosure of cybersecurity risks, including mission-critical and industry-specific risks?

Voting by institutional investors

The share of institutional investors in voting, and dissenting, has seen an upward trend over the past few years. As institutional investors vote against both ordinary and special resolutions, including ESOPs, dividends, board remuneration, director and auditor appointments and reappointments, it is prudent for companies to understand and address their expectations.



Points to consider

- How does the board understand the demands of each category of investors and strive to bridge the gap?
- Does the board effectively communicate the rationale behind the proposals with the investors?
- Does the board identify the key areas of interest for institutional investors, including ESG, climate risks, remuneration, etc.?
- In case where a significant share of institutional investors vote against proposals, does the board actively listen to the alternative suggestions put forth?

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