



Midyear observations: On the board agenda 2023

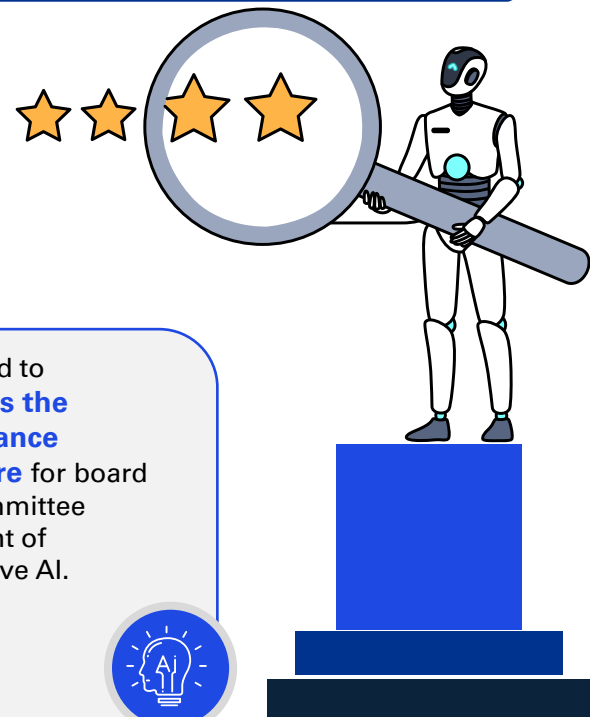
KPMG Board Leadership Center (India)

As we are at the mid-year point, the board agenda, and the role of board of directors, remains very dynamic. The geopolitical landscape remains in a constant state of flux, shaped by mixed signals on global economic state-of-play, emerging trends, and plenty of discussion on generative artificial intelligence (AI).

Drawing on insights from our interactions with veteran directors and business leaders, we highlight the following issues to keep in mind as boards consider and carry out the action points for the remainder of 2023-24 financial year, and beyond.

Generative artificial intelligence

In the early months of 2023, major advances in the development and use of generative AI made headlines—including the promises and perils of the technology and its ability to create new, original content, such as text, images, and videos. Indeed, generative AI is being discussed in most boardrooms, as companies and their boards are seeking to understand its associated opportunities and risks—a challenge given the pace of the technology’s evolution.



We hear three recurring themes

The need for **board education** so that all directors have a basic understanding of generative AI, its potential benefits and risks, and how the company might use the technology



The importance of establishing and **updating governance structure and policies** regarding the use of the technology by the company and its employees



The need to **reassess the governance structure** for board and committee oversight of generative AI.



Board and committee oversight of generative AI

We hear from many directors that there is not necessarily one committee that has oversight responsibility for generative AI. Rather, given its strategic importance, oversight is often a responsibility for the full board. Board members also emphasise that director education is critical to help ensure that the board as a whole is up to speed on the topic. Whether the board has or seeks directors with generative AI expertise or uses outside experts is an issue for each board to consider. Some directors caution against bringing on a “specialist,” but acknowledge that having board members with significant business technology experience could be helpful.

Geopolitical and economic risks and uncertainty

Geopolitics, often described as the chessboard of global affairs, represents the intricate interplay of politics, geography, power, and diplomacy on the world stage. It is a realm where nations jostle for influence, negotiate alliances, and contend over resources. In today's interconnected world, geopolitical dynamics have a profound impact on businesses. According to many advisors, at the macro level, the era of convergence has given way to one defined by fragmentation.

Therefore, boards must assume the role of geopolitical navigators, steering their organisations through the complexities of international relations and global affairs. Some discussion pointers include:



Globalisation

As globalisation continues to blur national boundaries, the impact of geopolitics extends beyond borders. Economic interdependence, the flow of information, and international supply chains all intersect with geopolitics

Power dynamics

The dynamics between nations define the global balance of power. Geopolitical competition and cooperation among these actors shape global outcomes

Conflict

Geopolitical rivalries can escalate into conflicts, with states competing for territorial control, regional dominance, or access to resources. As we write this paper, there was a number of theaters around the world where conflicts are playing out in full or limited force

Trade and Economics

Geopolitical tensions can disrupt trade relations, affecting global economies. Trade wars, sanctions, and export controls are tools in the geopolitical toolbox

Cyber security

From a political, social, and geopolitical perspective, there is potential for massive disruption caused by misinformation or cyber espionage (often taking the form of loss of intellectual property)

Climate change

While traditionally not considered a geopolitical issue, climate change is increasingly shaping global affairs. Competition for access to the Arctic's melting resources and concerns over climate-induced migrations are examples.

As we continue to navigate the complexities of geopolitics; adaptability, diplomacy, and cooperation become indispensable tools for charting a course toward a more stable and prosperous world. A continual updating of the company's risk profile and more scenario planning, stress testing strategic assumptions, and analysing downside scenarios will be essential to staying agile. Boards need to hear diverse perspectives from a variety of sources. Rather than reacting to events, taking a forward-looking approach—without trying to forecast specific risks—can be helpful.

Crisis readiness and resilience

Assessing management’s crisis response plans should be a board priority. Are crisis response plans robust, actively tested or war-gamed, and updated as needed? Do they include communications protocols to keep the board apprised of events and the company’s response, as well as to determine if and when to disclose matters internally and/or externally?


Make business continuity and resilience part of the discussion. Resilience is the ability to bounce back when something goes wrong and the ability to stand back up with viable strategic options for staying competitive and on the offense in the event of a crisis. “Focus on resilience and prepare for the idea of disruption and practice dealing with disruption.”



ESG and related disclosures

In the ever-evolving landscape of corporate governance and responsible business practices, the acronym ESG—Environmental, Social, Governance—has emerged as a powerful compass, guiding organisations toward ethical, sustainable, and socially responsible conduct.

The driving forces behind ESG adoption

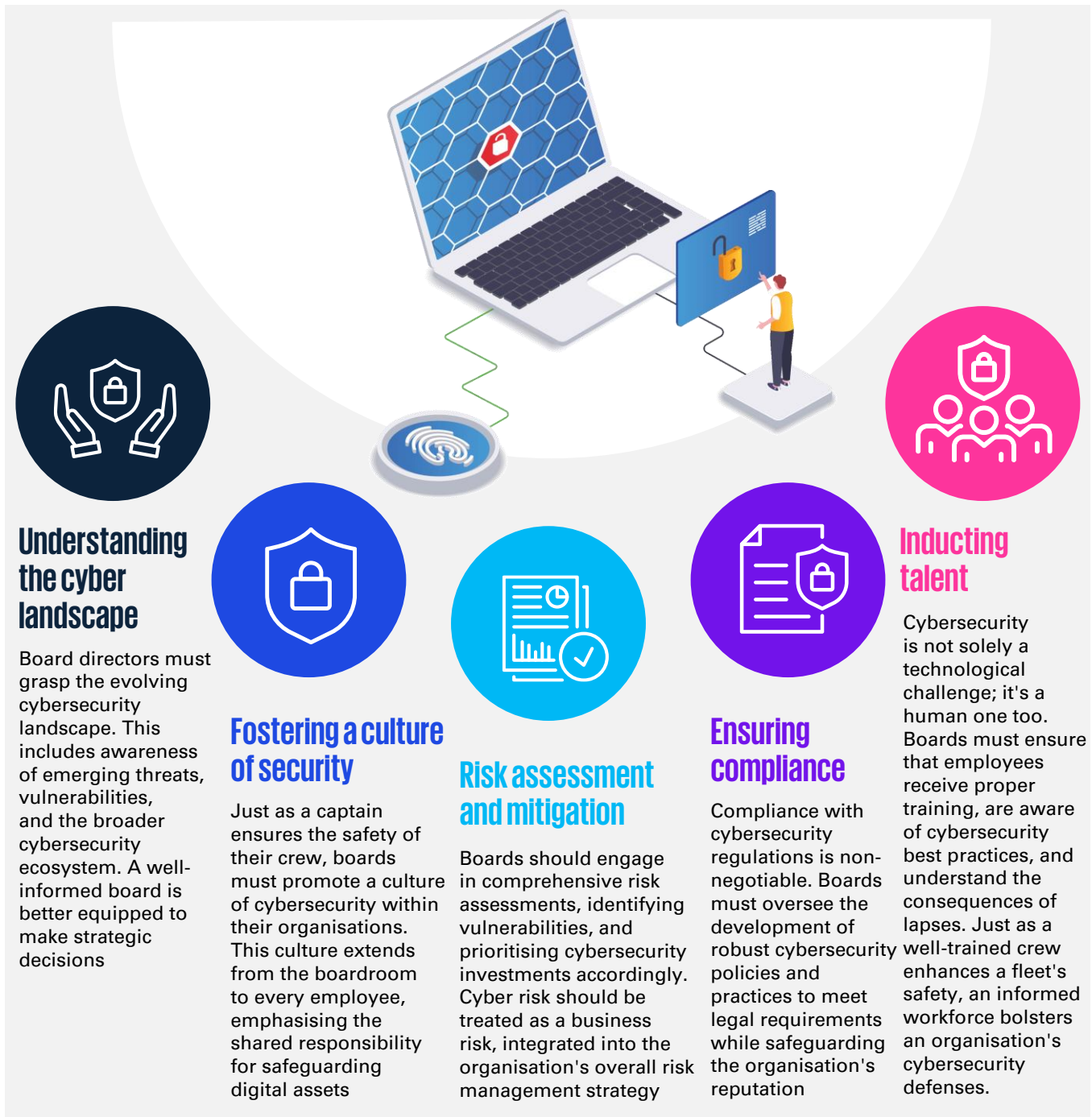
<p>Investor demand 1</p> <p>Investors are increasingly factoring ESG performance into their investment decisions. ESG-aligned companies often enjoy better access to capital, reduced financing costs, and a competitive advantage</p> 	<p>Consumer expectations 2</p> <p>Consumers are becoming more discerning, preferring products and services from socially and environmentally responsible companies. Brands that embody ESG principles resonate with a growing segment of conscious consumers</p> 	<p>Regulatory pressure 3</p> <p>Governments worldwide are tightening regulations related to ESG disclosures and performance. Non-compliance can result in legal consequences and reputational damage</p> 	<p>Risk mitigation 4</p> <p>ESG practices help companies identify and manage risks proactively. This includes reputational risks, supply chain vulnerabilities, and climate-related risks, which can have significant financial impacts</p> 
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Demands for higher-quality climate and other ESG disclosures should be prompting boards and management teams to reassess and adjust their governance and oversight structure relating to climate and other ESG risks—and to closely monitor SEBI, and global regulatory developments in these areas.

Cybersecurity: Safeguarding the digital fleet

The modern organisation is akin to a digital fleet, sailing through cyberspace's vast and treacherous seas. This fleet comprises invaluable digital assets, sensitive data, and interconnected systems that steer the organisation's course. However, these waters are fraught with perils – cyberattacks, data breaches, ransomware, and espionage threaten to disrupt the fleet's voyage and compromise its integrity.

The board's responsibility: Anchoring cybersecurity



Nurturing talent and related strategy

In the vast sea of business operations, an organisation's talent is the crew that keeps the ship afloat and propels it forward. Talent management, often considered the lifeblood of an organisation, involves not only recruiting and retaining skilled individuals but also nurturing and developing their potential.

In today's fast-paced and competitive business environment, the importance of talent management cannot be overstated. Several factors contribute to the dynamic nature of the workforce:

1. Skills and expertise:

As businesses evolve, so do the skills required. The crew must possess the skills necessary to navigate through changing market conditions and technological advancements

2. Diversity and inclusion:

Embracing diversity ensures a broader range of talents, perspectives, and experiences. Inclusive environments foster creativity and innovation

3. Digital transformation:

The digital age demands that crew members are digitally literate and adaptable to new technologies. Continuous learning is paramount.

Key principles of effective talent management

Attracting talent

Just as seasoned captains choose the finest sailors, board directors must steer their organisations toward attracting top talent. A robust recruitment strategy, competitive compensation, and an appealing corporate culture are essential sails in this journey

Retention strategy

Once the crew is onboard, retaining them is paramount. Talented individuals, like skilled sailors, are often sought after. Boards must implement retention strategies that include career development, mentorship, and opportunities for growth

Diversity and Inclusion

An inclusive crew brings a wealth of perspectives and experiences. Boards should champion diversity and inclusion efforts that resonate with the global workforce, ensuring that the organisation's talent pool is broad and varied. Also, boards must promote equality in their organisations. Pay equity, gender balance, and equal opportunities are not only ethical imperatives but also drivers of success

Cultivating future captains

Boards must recognise and nurture future leaders within the organisation. Identifying high-potential individuals and providing them with opportunities for leadership development ensures a continuous pipeline of capable leaders. Besides, boards can invest on mentorship programmes, leadership training, and executive education that enables future captains to chart their courses

Adapting to modern era workstyle

The digital age has redefined the workplace. Boards must adapt to the rise of remote work, leveraging technology to manage and engage with their distributed workforce effectively. With changing times organisations must embrace flexibility and agility in their talent management strategies. This includes accommodating different work styles, offering flexible arrangements, and fostering a culture of adaptability.

Communication and coordination among board committees

As the issues and topics highlighted above suggest, the increasing complexity and fusion of risks unfolding simultaneously requires a more holistic approach to risk management and oversight. Rarely does a risk fit neatly into a single, siloed category, and risks are often interrelated. A siloed approach to managing risks—such as generative AI, environmental, social, and other ESG risks, compliance risks, and geopolitical risks—is no longer viable. Investors, regulators, ESG rating firms, and other stakeholders are demanding higher-quality disclosures about a variety of risks and how boards and their committees are overseeing their managements.

In this challenging environment, many boards are reassessing the risks assigned to each standing committee; in the process, they are often assigning oversight responsibility to multiple committees for various aspects of a particular risk. Given the overlapping committee oversight responsibilities,

a challenge for boards is to encourage more effective information sharing and coordination.

We see boards taking various approaches:

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

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30 years
and beyond

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