Ahead of the curve

Board's strategic preparation for risks in 2024

Board Leadership Center (India)

March 2024

kpmg.com/in

KPMG. Make the Difference.

Introduction

In the complex landscape of modern business, the role of corporate boards in risk management has never been more critical. With the ever-evolving global economy, geopolitical tensions, and technological advancements, boards face a myriad of risks that can impact the stability and success of their organisations. From existential risks to predictable surprises, the task of identifying, assessing, and mitigating these risks requires careful consideration and strategic planning.

Understanding the risk landscape

Recent years have witnessed unprecedented shifts, from the emergence of ESG considerations to technological advancements, geopolitical uncertainties, regulatory changes, and rising inflation. Board of directors have always been at the forefront of navigating these complexities, necessitating strategic realignment and operational transformation.

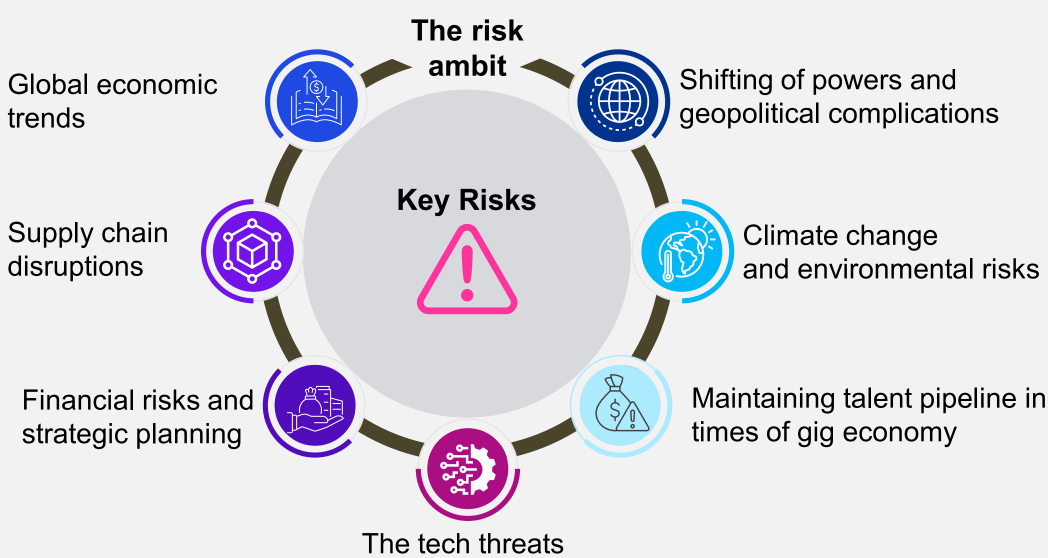
Amidst this landscape understanding the importance of existential risks and predictable surprises becomes important.

Existential risks, those threats that have the potential to cause catastrophic harm to humanity, loom large on the horizon. While these risks may seem remote or improbable, their potential impact cannot be ignored. Whether it's the threat of a global pandemic, a major cyberattack, or environmental catastrophe, boards must be prepared to address these existential risks head-on.

In addition to existential risks, boards must also be vigilant against **predictable surprises**—those events that, while not entirely unforeseeable, catch organisations off guard due to complacency or oversight. By anticipating and planning for these potential surprises, boards can better position their organisations to weather unexpected storms.

Top risks on corporate agenda

Drawing on insights from our interactions with leading board of directors, we highlight the following issues to keep in mind as boards consider and carry out their 2024 agendas.



Global economic trends:

As Indian economy continues to evolve, the risk landscape for Indian boardrooms undergoes a dynamic shift influenced by domestic and global economic developments. The ongoing geopolitical tensions, trade disputes, and economic uncertainties on the global stage can have far-reaching implications for the businesses. Fluctuations in currency exchange rates, commodity prices, and international trade policies can impact export-oriented industries and foreign investments. Boards need to closely monitor global economic indicators, assess the potential impact on their businesses, and devise strategies to mitigate risks arising from external economic factors.

Supply chain disruptions:

Supply chain issues have become a significant concern in the corporate boardroom due to their potential to disrupt business operations, impact financial performance, and undermine organisational resilience. To effectively navigate supply chain issues, boards must first assess the vulnerabilities and risks within their organisation's supply chain network. This involves identifying critical dependencies on a particular supplier or geography, evaluating supplier resilience, and pinpointing potential points of failure. By gaining a comprehensive understanding of supply chain challenges, boards can develop targeted strategies to mitigate risks and enhance resilience.

Financial risks and strategic planning:

One of the foremost risks that boards must address is the volatility and uncertainty in financial markets. Fluctuations in interest rates, currency exchange rates, and stock prices can have significant implications for the organisation's financial performance, liquidity, and capital allocation strategies. Boards must closely monitor market trends and developments, and work with management to develop robust risk management strategies to mitigate the impact of market volatility on the organisation.

In addition to market-related risks, boards must also be vigilant in managing credit and liquidity risks. With economic uncertainties and disruptions in supply chains, there is an increased risk of default by customers or counterparties, as well as challenges in accessing financing and managing cash flows. Boards should review the organisation's credit policies, assess the creditworthiness of customers and counterparties, and ensure adequate liquidity buffers to withstand unexpected shocks or disruptions.

Climate change and environmental risks:

With growing awareness of the environmental impact of business operations and heightened scrutiny from stakeholders, including investors, regulators, and the public, boards must proactively assess and manage climate and environmental risks to ensure long-term resilience and sustainability. One critical aspect for boards to consider is regulatory compliance and reporting. Compliance with environmental regulations and reporting requirements, including those outlined in the Business Responsibility and Sustainability Reporting (BRSR) framework, is essential. Boards should ensure robust systems and processes are in place to track and report environmental performance metrics, such as carbon emissions, water usage, and waste generation, in accordance with BRSR guidelines.

Shifting of powers and geopolitical complications:

One of the foremost geopolitical issues that corporate boardrooms must keep in mind is the potential for increased trade tensions and protectionist measures between countries. With elections often serving as catalysts for changes in government and policy direction, there is a heightened risk of shifts in trade policies, tariffs, and trade agreements. Boards should closely monitor geopolitical developments and assess the potential impact on their organisation's supply chains, markets, and international operations. Moreover, geopolitical instability and uncertainties can have ripple effects on financial markets and investor confidence, impacting stock prices, currency exchange rates, and capital flows. Boards should consider the potential implications of geopolitical events on the organisation's financial performance, liquidity, and capital allocation strategies. Robust risk management practices, including scenario planning and stress testing, can help boards prepare for various geopolitical scenarios and mitigate risks to the organisation's financial health.

Maintaining talent pipeline in times of gig economy:

One of the primary concerns for boards is ensuring the organisation's ability to attract and retain top talent in a competitive market. With the gig economy providing alternative employment opportunities and the rise of moonlighting allowing employees to pursue multiple jobs simultaneously, boards must assess their recruitment and retention strategies to remain competitive. This may involve offering competitive compensation and benefits packages, creating a positive work culture and employee experience, and providing opportunities for professional growth and development.

The talent crunch, characterised by a shortage of skilled workers in key industries and sectors, is a pressing challenge for boards in 2024. Boards must assess the organisation's talent needs and develop strategies to attract and retain skilled professionals in a competitive market.

The tech threats:

While GenAI holds the potential to revolutionise industries through innovative applications such as personalised medicine, autonomous vehicles, and predictive analytics, it also introduces new ethical, legal, and regulatory considerations. Boards must grapple with questions surrounding the responsible use of AI, including issues of bias, transparency, accountability, and unintended consequences. Furthermore, cyberattacks too have become increasingly sophisticated and prevalent. From ransomware attacks and data breaches to supply chain vulnerabilities and insider threats, cybersecurity incidents can have devastating consequences for businesses, including financial losses, reputational damage, and regulatory scrutiny further leading to data privacy concerns.

With heightened inspection on data privacy practices and increasing demands for transparency and accountability from stakeholders, boards must ensure that the organisation adheres to stringent data privacy standards and safeguards sensitive information from unauthorised access or misuse.

Assessing the impact of risks on the business:

Impact of these risks can manifest in various forms, including financial losses, reputational damage, operational disruptions, regulatory penalties, and legal liabilities. Assessing the impact of risks requires boards to consider both quantitative and qualitative factors and anticipate the potential ripple effects across different facets of the organisation.

Some tools that can help with risk identification and promote business resilience:

Environmental scanning: Directors can engage in continuous environmental scanning to monitor external developments, trends, and emerging risks that could impact the business. This includes tracking industry dynamics, regulatory changes, market trends, competitor actions, technological advancements, and geopolitical developments

Early warning systems: Boards can implement early warning systems and key risk indicators (KRIs) to monitor leading indicators of potential surprises and emerging risks. KRIs are quantitative and qualitative metrics that provide early signals of deteriorating risk conditions or deviations from expected performance. By tracking KRIs related to financial performance, operational metrics, compliance, and external factors, management can detect and respond to potential surprises before they escalate into crises

Scenario planning: Scenario planning involves developing and analysing multiple future scenarios based on different assumptions and drivers of change. Boards can conduct scenario workshops and simulations to explore various plausible futures and assess the potential impacts of different events or disruptions on the organisation. This helps management anticipate and prepare for a range of outcomes, including predictable surprises, by identifying vulnerabilities and opportunities for strategic adaptation

Cross-functional collaboration: Effective risk identification and management require cross-functional collaboration and information sharing across different departments and levels of the organisation. Organisations should encourage open communication channels, foster a culture of risk awareness and accountability, and leverage the collective expertise and insights of employees to identify and address potential surprises proactively

Risk assessment and stress testing: Boards can conduct comprehensive risk assessments and stress tests to evaluate the organisation's exposure to various risks and assess its resilience under different scenarios. This includes identifying key risk drivers, assessing their potential impact and likelihood, and quantifying the organisation's risk appetite and tolerance levels. Stress testing involves subjecting the organisation's operations, financials, and risk management systems to extreme scenarios to gauge their ability to withstand and recover from potential shocks

Expert advisory and consultation: Boards can seek input and advice from internal and external experts, including risk management professionals, industry analysts, legal counsel, and regulatory authorities, to assess the potential impact of complex or novel risks. Expert consultation provides boards with access to specialised knowledge, insights, and perspectives that enhance their understanding of emerging threats and their potential implications for the organisation.

What’s the role of the board?

The role of the board in effective risk governance is crucial for ensuring the long-term success and sustainability of the organisation. Firstly, the board provides **strategic oversight** by integrating risk management into the organisation's overall strategy and decision-making processes. This involves setting the tone at the top, regularly assessing risk appetite and exposure, and guiding management in identifying and addressing extraordinary risks through scenario planning exercises. Secondly, the board **composition and expertise** are paramount, as directors with diverse skills and knowledge in risk management, crisis response, and specialised areas can offer valuable insights and guidance. By prioritising **stakeholder engagement**, **fostering a culture of resilience** and adaptive capacity, and promoting **transparent communication**, boards play a pivotal role in building trust, enhancing organisational resilience, and navigating complex risk landscapes effectively.

Who can boards turn to for assistance ?

Internal resources:

Management: The first line of defense in managing business risks is the organisation's management team. Boards rely on management to provide timely and accurate information about the company's operations, risk exposures, and mitigation strategies. Management plays a crucial role in identifying, assessing, and addressing key risks across various business functions and departments

Chief risk officer (CRO): Many organisations appoint a chief risk officer (CRO) or establish a dedicated risk management function to oversee the organisation's risk management framework. The CRO collaborates with the board and senior management to identify, measure, monitor, and mitigate risks, ensuring alignment with the organisation's strategic objectives and risk appetite.

External advisors:

Consultants: Boards often engage external consultants and advisory firms with specialised expertise in risk management, regulatory compliance, cybersecurity, crisis management, and other areas. Consultants provide independent assessments, best practices, and recommendations to help boards understand and address key business risks effectively

Auditors: External auditors, such as accounting firms, play a critical role in providing assurance and validation of the organisation's financial statements, internal controls, and compliance with regulatory requirements. Auditors also offer insights into emerging risks and areas for improvement in the organisation's risk management practices

Legal counsel: Boards rely on legal counsel to navigate complex legal and regulatory landscapes, ensuring compliance with applicable laws, regulations, and industry standards. Legal counsel provides guidance on risk mitigation strategies, contractual arrangements, dispute resolution, and crisis management, helping boards anticipate and address legal risks proactively.

Industry associations and peer networks:

Industry associations: Boards leverage industry associations and trade groups to stay informed about industry trends, emerging risks, and best practices. Industry associations provide access to benchmarking data, networking opportunities, educational resources, and forums for sharing insights and experiences with peers

Peer Networks: Boards often participate in peer networking groups, such as director forums, roundtable discussions, and professional associations, to exchange ideas, perspectives, and lessons learned on managing business risks. Peer networks offer a collaborative platform for boards to learn from each other's experiences, challenges, and successes in risk oversight.

Regulatory agencies and government bodies:

Regulatory agencies: Boards monitor regulatory developments and engage with regulatory agencies to understand the implications of new regulations, enforcement actions, and industry standards on their organisation's operations and risk management practices. Regulatory agencies provide guidance, interpretations, and enforcement priorities to help boards navigate regulatory compliance requirements effectively

Government bodies: Boards collaborate with government bodies, such as central banks, financial regulators, and industry regulators, to address systemic risks, market disruptions, and policy initiatives that impact the broader economy and industry ecosystem. Government bodies play a key role in shaping regulatory frameworks, promoting market stability, and fostering collaboration among stakeholders.

KPMG in India contact:

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

kpmg.com/in

Follow us on:

kpmg.com/in/socialmedia