On the 2024 board agenda

Board Leadership Center (India)

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As we approach the year 2024, enterprises find themselves confronted with unparalleled disruptions and uncertainties. Amidst the backdrop of a resilient economy, India's trajectory is shaped by the convergence of technological advancements, socio-political shifts, and environmental imperatives. While economic growth remains robust, navigating through global economic uncertainties, technological disruptions, and evolving regulatory landscapes may pose formidable challenges. Embracing digital transformation and sustainability imperatives emerge as cornerstones for sustainable growth. Furthermore, geopolitical dynamics add layers of complexity, necessitating a keen understanding of regional and global interplays.

Amidst this volatile operational backdrop, the call for increased disclosure and transparency from various stakeholders gains prominence, particularly pertaining to the oversight and management of risks impacting the company's operations and strategic direction. The pressure on management, boards, and governance structures is poised to be substantial, as the need for clarity in navigating these multifaceted risks becomes paramount in the eyes of stakeholders.

As we chart our course forward, it is imperative to remain agile, adaptive, and aligned with the pulse of the evolving Indian business landscape, leveraging opportunities and mitigating risks to steer organisations towards prosperity and resilience in the years ahead.

Drawing on insights from our survey work and interactions with directors and business leaders, we highlight ten issues to keep in mind as boards consider and carry out their 2024 agendas:

- Link boardroom discussions on strategy and risk
- Monitor and maintain a governance structure for the use of generative AI
- Maintain focus on cybersecurity and data privacy compliance
- Identify the company's ESG issues and embed them in risk and strategy discussions
- Foster a culture of integrity and transparency in matters of conflict of interest
- Enhance communication among the board and its committees
- Make talent, human capital management (HCM), and CEO succession a priority
- Think strategically about talent, expertise, and diversity in the boardroom
- Safeguard against geopolitical and economic volatility
- Ensure good corporate governance standards with blistering growth

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Link boardroom discussions on strategy and risk

Companies today are grappling with a rapidly evolving array of risks that span across various dimensions of their operations and external environments. From traditional risks such as economic volatility, supply chain disruptions, and market fluctuations to emerging threats like cybersecurity breaches, regulatory changes, and geopolitical instability, organisations are confronted with a multifaceted landscape of uncertainties. Moreover, the ongoing digital transformation and increasing interconnectedness of global markets have introduced new complexities, including data privacy concerns, technological disruptions, and the proliferation of misinformation.

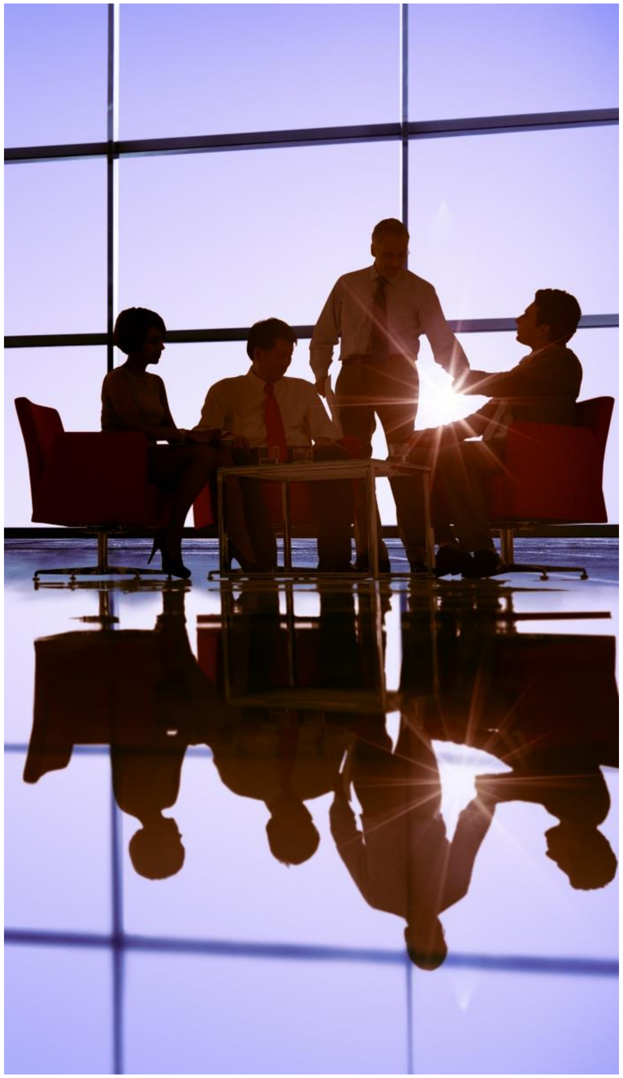
At the same time, companies face potential disruption to business models and strategy posed by accelerating advances in digital technologies such as GenAI.

To cope with these changes, company management needs to reassess their processes for identifying the risks and opportunities posed by disruption—geopolitical, economic, technological/digital, social, and environmental—and the impact on the company's long-term strategy and related capital allocation decisions.

Boardrooms should become the focal point of integrating strategic deliberations with risk assessments. Board members should actively engage in assessing strategic risks, conducting scenario analyses, defining risk appetite, integrating ESG considerations, continuously monitoring risk profiles, and obtaining independent third-party perspectives.

By fostering a culture of strategic risk management and embedding risk considerations into boardroom discussions, organisations can navigate global disruptions, seize strategic opportunities, and drive sustainable growth in an uncertain world.

Does management have an effective process to monitor changes in the external environment and provide early warning that adjustments to strategy might be necessary?



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Monitor and maintain a governance structure for the use of generative AI

2023 saw major advances in the development and use of generative AI. Indeed, it has been the focus of discussion in most boardrooms as companies and boards seek to understand the opportunities and risks posed by the technology—a challenge given the pace of the technology's evolution.

The potential benefits of generative AI vary by industry but might include automating business processes such as customer service, content creation, product design, developing marketing plans, improving healthcare, and creating new drugs. The risks posed by the technology are significant, including inaccurate results, data privacy and cybersecurity, intellectual property (including unintended disclosure of the company's sensitive or proprietary information and unintended access to third-party IP), and compliance risks posed by efforts across the globe to regulate generative AI.

Given the strategic importance of generative AI to most companies, boards should be monitoring management's efforts to design and maintain a governance structure and policies for the development and use of generative AI.

Among the areas of focus:

- How are we mitigating the risks posed by generative AI and ensuring that the use of AI is aligned with the company's values?
- What generative AI risk management framework is used? What is the company's policy on employee use of generative AI?
- How and when is a generative AI system or model—including a third-party model—to be developed and deployed, and who makes that decision?
- How is management monitoring and upholding the rapidly evolving generative legal, regulatory, and ethical standards?
- Does the organisation have the necessary generative AI–related talent and resources?
- Does the board and/or committees have any governance structure and specific oversight responsibilities with respect to generative AI?

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Maintain focus on cybersecurity and data privacy compliance

The recent years have seen a surge in cybersecurity threats, with companies facing not just the traditional challenges but also navigating the complexities brought forth by evolving technologies. In this era of rapid digitisation, cyber threats are becoming more sophisticated and prevalent. The responsibility falls squarely on the shoulders of boards to not only acknowledge these challenges but to proactively steer their organisations through the cybersecurity web.

Central to this endeavour is the imperative to monitor management's preparations for compliance. With data privacy regulations tightening globally, companies are not only obligated ethically but also legally to safeguard the personal information entrusted to them. The question boards should be asking is not just whether their organisation is compliant today, but how well-prepared are they for the compliance landscape of tomorrow?

Key considerations for board members include establishing a robust cybersecurity framework aligned with industry best practices and regulatory requirements, conducting regular risk assessments and cybersecurity audits, fostering a culture of cybersecurity awareness and training across the organisation, appointing dedicated cybersecurity experts or committees to oversee cybersecurity initiatives, and collaborating with industry peers and regulatory authorities to stay abreast of emerging threats and regulatory developments. By proactively addressing cybersecurity and data privacy compliance, boards can enhance resilience, protect shareholder value, and uphold customer trust in an increasingly digital-centric environment.

Questions for boards to consider:

- How well-aligned are our current cybersecurity measures with the ever-evolving threat landscape, and what steps are we taking to ensure our defences remain robust against emerging risks?
- How frequently are we conducting comprehensive assessments of our organisation's cybersecurity posture?
- What strategies do we have to proactively monitor and adapt to changes in data privacy regulations?
- Beyond compliance, how are we fostering a culture of cybersecurity awareness across all levels of the organisation?
- What measures are in place to monitor third-party vendors and ensure they uphold cybersecurity standards?
- In the event of an incident, how well-prepared are we to handle crisis communications, both internally and externally, to mitigate reputational damage?
- How are we balancing the need for transparency in data collection and usage with the imperative to protect customer privacy?

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Identify the company's ESG issues and embed them in risk and strategy discussions

As Environmental, Social, and Governance (ESG) considerations gain prominence globally, integrating them into boardroom discussions on risk and strategy is essential for sustainable business practices and long-term value creation. In the context of India, where ESG factors increasingly influence investor decisions and regulatory frameworks, board members must prioritise ESG integration to mitigate risks, enhance reputation, and drive stakeholder value.

Most investors continue to view material ESG issues as important, and boards should prioritise the following key considerations when addressing ESG issues:

Identifying material ESG factors relevant to the organisation's industry and stakeholders

Integration into strategy: Embed ESG considerations into the company's strategic planning process

Risk Management: Develop strategies to assess and mitigate material ESG-related risks

Regulatory compliance: Stay abreast of ESG regulations and standards

Innovate: leverage ESG opportunities for innovation and market differentiation

Stakeholder engagement: Foster transparent communication with all stakeholders and engage to understand their ESG expectations and concerns

Metrics and reporting: Establish clear ESG metrics and incorporate them into risk assessment and performance evaluation frameworks

Supply chain responsibility: Assess the ESG practices of suppliers and partners

Diversity and Inclusion: Promote diversity and inclusions across the organisation

By embedding ESG considerations into risk and strategy discussions, boards can enhance resilience, foster sustainable growth, and contribute to the broader social and environmental objectives of the Indian economy.

In this environment, several fundamental questions should be front and center in boardroom conversations about climate and ESG:

- Which ESG issues are material or of strategic significance to the company?
- How is the company addressing these issues as long-term strategic issues and embedding them into core business activities and strategy?
- Is there a clear commitment with strong leadership from the top and enterprise-wide buy-in?
- In internal and external communications, does the company explain why ESG issues are materially or strategically important?

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Safeguard against geopolitical and economic volatility

In the contemporary landscape, guarding against geopolitical and economic volatility stands as a critical imperative for boards aiming to fortify their organisations against uncertainty. Recent trends underscore the unprecedented challenges stemming from geopolitical tensions, trade disruptions, and economic instabilities, further compounded by global crises like pandemics and regional conflicts. To effectively navigate this terrain, boards must employ proactive strategies such as scenario planning, diversifying supply chains, and bolstering risk management frameworks to predict and mitigate potential impacts.

Board members should remain vigilant regarding geopolitical shifts, recognise the interdependence of global markets, and assess the organisation's vulnerability to geopolitical and economic risks. By prioritising readiness and adaptability, boards can equip their organisations to weather volatility and seize emerging opportunities amidst a constantly evolving landscape. Key areas of focus on this regard may include:

- How does the current geopolitical climate impact our organisation's operations, supply chain, and strategic initiatives? Are we adequately assessing and monitoring geopolitical risks in key regions where we operate or source materials?
- What contingency plans do we have in place to address potential disruptions? How can the board collaborate with management to ensure that risk management processes and contingency plans are robust and effectively implemented across the organisation?
- How diversified is our organisation's supply chain, and what steps can we take to further mitigate risks associated with geopolitical and economic volatility?
- How do changes in currency exchange rates, interest rates, or trade policies impact our financial performance and long-term viability?

- Have we conducted stress tests or scenario analysis to evaluate the resilience of our business model and financial projections under different geopolitical and economic scenarios?
- Are there opportunities for strategic partnerships or alliances that could help mitigate geopolitical risks or capitalise on economic opportunities?
- What role can technology and digitalisation play in enhancing our organisation's agility and responsiveness to geopolitical and economic challenges?

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Enhance communication among the board and its committees

The increasingly complex and dynamic risk environment—and the fusion of risks unfolding simultaneously—requires a more holistic approach to risk management and oversight.

Many of the risks, companies must address today are interrelated. While many companies historically managed risk in silos, that approach is no longer viable and poses its own risks.

Investors, regulators, ESG rating firms, and other stakeholders continue to demand higher-quality disclosures about risks and how boards and their committees oversee them.

Many boards are reassessing the risks assigned to each standing committee. In the process, they are often assigning multiple standing committees oversight responsibility for different aspects of a particular category of risk. For example, if cybersecurity and data governance oversight reside in a technology committee (or other committee), the audit committee will still have certain oversight responsibilities (e.g., over internal and disclosure controls and procedures). Given these overlapping committee risk oversight responsibilities, boards should encourage more effective information sharing and coordination among committees by:

- Identifying areas where committee oversight responsibilities may overlap and developing a process for frequent communication and discussion of committee activities in these areas
- Maintaining overlapping committee memberships or informal cross-attendance at committee meetings
- Conducting joint committee meetings when an issue of strategic importance to multiple committees is on the agenda
- Holding periodic meetings of committee chairs to discuss oversight activities

Additionally, all boards should insist on focused, appropriately detailed, and robust committee reports to the full board.

The full board and each standing committee have a role to play in helping to ensure that management's strategy, goals, objectives, and incentives are properly aligned, performance is rigorously monitored, and that the culture the company has is the one it desires.

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Foster a culture of integrity and transparency in matters of conflict of interest

In today's dynamic corporate landscape, fostering integrity in matters of conflict of interest is paramount for boards to uphold transparency and trust. With the evolving regulatory landscape and heightened public scrutiny, proactive management of conflicts of interest is essential. Recent trends highlight the increasing complexity and diversity of conflicts that boards encounter, ranging from financial interests to personal relationships and industry affiliations. To navigate these challenges effectively, boards must adopt proactive approaches such as promoting transparency, implementing robust disclosure mechanisms, and establishing clear recusal protocols. Some of the key considerations for board members in this regard include:

Duty of loyalty

Uphold the duty of loyalty to the organisation above personal or external interests, prioritising the best interests of the company at all times

Full disclosure

Promptly disclose any potential conflicts of interest, including financial interests, relationships, or affiliations that may impact decision-making

Avoidance of bias

Maintain objectivity and impartiality in decision-making processes, avoiding undue influence from personal relationships or financial interests

Continuous awareness

Stay informed about evolving regulations, ethical standards, and best practices related to conflicts of interest, ensuring compliance and proactive risk management

Lead by example

Demonstrate commitment to integrity and ethical conduct, setting a precedent for ethical behaviour throughout the organisation.

Deliberate on the steps that the board can take to continuously improve its processes and mechanisms for identifying, disclosing, and resolving conflicts of interest in a timely and effective manner.

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Ensure good corporate governance standards with blistering growth

In the midst of blistering growth, organisations often face the temptation to compromise on corporate governance standards in pursuit of rapid expansion and profitability. This compromise can manifest in various ways, including overlooking regulatory compliance, diluting transparency, and neglecting stakeholder interests. Common practices may include prioritising short-term gains over long-term sustainability, granting excessive executive compensation without adequate performance metrics, and failing to establish independent oversight mechanisms.

Recent trends have underscored the consequences of such compromises, ranging from regulatory scrutiny and legal liabilities to reputational damage and loss of investor trust. To effectively manage this risk, boards must adopt proactive approaches such as strengthening governance structures, enhancing transparency and accountability, and embedding ethical principles into the organisation's culture. Key considerations for board members include:

By prioritising governance excellence amidst rapid growth, boards can safeguard the organisation's long-term success and mitigate risks associated with compromising on corporate governance standards.

Steadfast commitment to governance standards: Ensure that the board reaffirms its commitment to upholding corporate governance standards as fundamental pillars of organisational success

Fostering a culture of integrity and accountability: Cultivate a corporate culture that prioritises integrity, transparency, and accountability at all levels

Regular evaluation of growth strategies and ethical frameworks: Regularly assess the alignment of growth strategies with ethical principles and governance frameworks

Effective oversight and risk management: Strengthen board oversight mechanisms to monitor and mitigate risks associated with rapid growth including compliance risks, operational risks and reputational risks

Engagement with stakeholders and investors: Maintain open and transparent communication with stakeholders and investors regarding governance practices, performance, and strategic direction.

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Make talent, HCM, and CEO succession a priority

Many companies have long said that employees are their most valuable asset and employees continue to demand fair pay and benefits, work-life balance (including flexibility), interesting work, and opportunities to advance. In 2024, we expect continued scrutiny of how companies are adjusting talent strategies to meet the challenge of finding, developing, and retaining talent amid a labour-constrained market. To that end:

- Does the board understand the company's talent strategy and its alignment with the company's broader strategy and forecast needs for the near and long term?
- What are the challenges to keeping key roles filled with engaged employees?
- Which talent categories are in short supply and how will the company successfully compete for this talent?
- Does the talent strategy reflect a commitment to DEI at all levels?
- As talent pools become generationally and globally diverse, is the company positioned to attract, develop, and retain top talent at all levels?

Boards should discuss with management the company's HCM disclosures, including processes for developing related metrics and controls to help ensure data quality. HCM will likely be a major area of focus given the high level of investor interest in the issue.

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 company needs to be prepared for a CEO change—planned or unplanned, on a permanent or emergency interim basis.

- How robust are the board's succession planning processes and activities?
- Has the succession plan been updated to reflect the CEO skills and experience necessary to execute against the company's long-term strategy?
- 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?

CEO succession planning is a dynamic, ongoing process, and the board should always be focused on developing a pipeline of C-suite and potential CEO candidates. Succession planning should start the day a new CEO is named.

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Think strategically about talent, expertise, and diversity in the boardroom

Boards, investors, regulators, and other stakeholders remain focused on the alignment of board composition with the company's strategy—particularly director expertise and diversity.

Increased investor engagement on this issue points to a central challenge with board composition: Having directors with experience in key functional areas critical to the business while also having deep industry experience and an understanding of the company's strategy and the risks to the strategy. It is important to recognise that many boards may not have experts in all the functional areas such as cybersecurity, climate, HCM, etc., and may instead choose to engage outside experts.

At this point, rotation of directors can prove to be a blessing in disguise. According to a regulatory requirement of The Company's Act, an independent director cannot serve more than two consecutive terms of five years each. With the mandate completing a decade, by April 2024, many independent directors are set to retire. It offers a unique chance for boards to refresh their composition and bring in individuals with diverse expertise.

The market demands of today are vastly different from a decade ago, with technological advancements, geopolitical shifts, and sustainability imperatives reshaping the business terrain. The retirement of independent directors, therefore, presents an opportune moment to align boards with the contemporary challenges and opportunities that lie ahead.

Board composition, skill sets, diversity, and renewal should remain a key area of board focus in 2024, as a topic for communications with the company's institutional investors and other stakeholders; enhanced disclosure in the company's proxy; and most fundamentally, positioning the board strategically for the future.

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