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On the 2023 Board Agenda

KPMG Nigeria Board Governance Centre

January 2023

In 2023, Boards can expect their oversight and corporate governance processes to be put to the test by a range of challenges – including global economic volatility, supply chain disruptions, cybersecurity risks/ransomware attacks, regulatory and enforcement risks, and social risks, including pay equity and the tight talent market.

The business and risk environment has changed dramatically over the past year, with greater geopolitical instability, surging inflation, and the prospect of a global recession added to the mix of macroeconomic risks companies face in 2023. The increasing complexity and fusion of risks unfolding simultaneously, and the increased interconnectedness of these risks up the ante for boards to have holistic risk management and oversight processes.

In this volatile operating environment, demands from employees, regulators, investors, and other stakeholders for greater disclosure and transparency – particularly around cybersecurity, climate, and other environmental, social, and governance (ESG) risks – will continue to intensify.

Drawing on insights from our latest survey work and interactions with directors and business leaders, we highlight ten issues to keep in mind as boards consider and carry out their 2023 agendas.

Maintaining focus on addressing political and macroeconomic risk

Heading into 2023, developments in supply chain disruptions, insecurity, fuel scarcity, upcoming general elections, recent CBN's monetary policy on the introduction of new naira notes and re-introduction of the cashless policy, the possible policy reversal if ruling party fails to clinch the Presidential ticket, continued FX scarcity, cybersecurity, inflation, interest rates, market volatility, trade tensions, and the risk of a global recession – combined with the deterioration of international governance – will continue to drive local volatility and uncertainty.

This environment will call for continual updating of the company's risk profile and more scenario planning, stress testing strategic assumptions, and analysing downside scenarios. Leaders will need to assess the speed at which risks are evolving, their interconnectedness, the potential for multiple crises at the same time, and whether there is flexibility in the company's strategy to pivot.

Critical concerns remain:

- Is there an effective process to monitor changes in the external environment and provide early warning that adjustments to strategy might be necessary?
- Is the company prepared to weather an economic downturn? Are stress tests sufficiently severe?
- Should organizations adopt a cautious strategy for the first half of 2023, in view of the change in Government at all levels in May 2023?
- Is business continuity and resilience part of Board discussions

As organizations prepare for 2023, it is important that Boards move discussions toward what needs to be heard and not what management thinks they want to hear.

Building and maintaining supply chain resilience

Boards should help ensure that management's initiatives to rethink, rework, or restore critical supply chains are carried out effectively, such as:

- Updating supply chain risk and vulnerability assessments
- Diversifying the supplier base
- Re-examining supply chain structure and footprint
- Developing more local and regional supply chains, despite security challenges
- Deploying technology to improve supply chain visibility and risk management
- Improving supply chain physical and cyber-security to reduce the risk of theft, loss of resources data breaches
- Developing plans to address future supply chain disruptions

Importantly, are supply chain initiatives being driven by an overarching vision and strategy? Who is leading the effort, connecting critical dots, and providing accountability?

Committee structure and risk oversight responsibilities

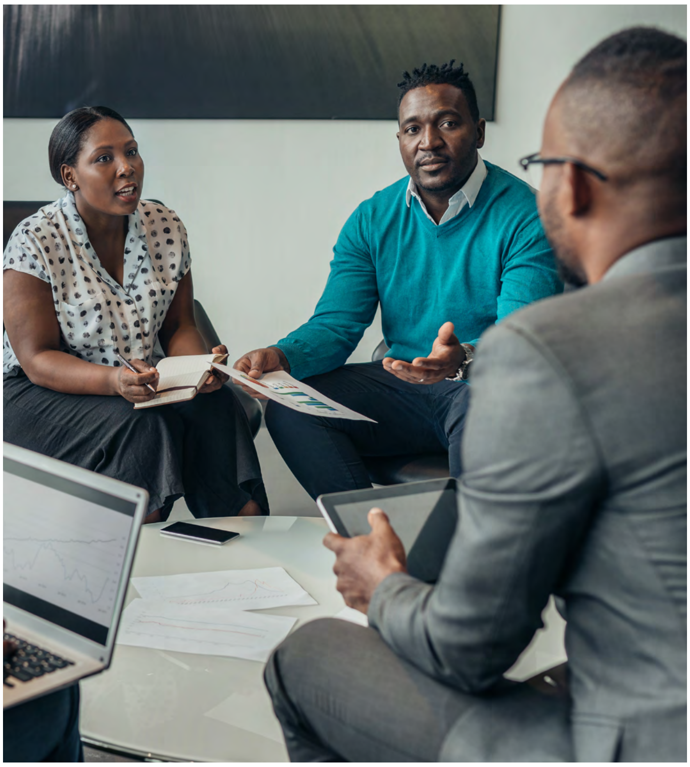
The increasing complexity of risks unfolding simultaneously requires a more holistic approach to risk management and oversight.

Given this challenging risk environment, boards should reassess the risks assigned to each standing committee by; reducing the major risk categories assigned to the audit committee beyond its core oversight responsibilities (financial reporting and related internal controls, and oversight of internal and external auditors) by transferring certain risks to other committees or potentially creating a new committee.

The challenge for boards is to clearly define the risk oversight responsibilities of each standing committee, identify any overlap, and implement a committee structure and governance processes that facilitate information sharing and coordination among committees. While board committee structure and oversight responsibilities will vary by company and industry, we recommend four areas of focus:

- Are board/Committee members, individuals with time, experience and skill sets necessary to oversee areas of risk such as cybersecurity, data privacy, supply chain, geopolitical, climate and other ESG-related risks?
- Does another board committee(s) have the time, composition, and skill set to oversee a particular category of risk? Is there a need for an additional committee, such as a technology, sustainability, or risk committee? Is there a need for new directors with skill sets or experience to help the board oversee specific risks?
- Identify risks for which multiple committees have oversight responsibilities, and clearly delineate the responsibilities of each committee. To oversee risk effectively when two or three committees are involved, boards need to think differently about how to coordinate committee activities.
- To manage the skills and communication gap between separate audit and risk committees, some boards have also ensured that the chairpersons of the two committees are both members of the two committees as this helps to cross-breed ideas.

The full board and each standing committee should play a key role in helping to ensure that (from top to bottom) 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.



Embedding ESG including climate risk and Diversity, Equity & Inclusion (DEI) in risk and strategy discussions

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 monitor regulatory developments in these areas.

- Boards should ensure that these issues are priorities that the company follows through on commitments
- ESG activities must be embedded into core business activities (strategy, operations, risk management, incentives, and corporate culture) to drive long-term performance
- There must be clear commitment, strong tone-at- the-top and enterprise-wide buy-in. Are there clear goals and metrics?
- Boards must be sensitive to the risks posed by greenwashing

Organisation's stance on social and political issues

Social and political issues are moving front and center in the boardroom as employees, customers, investors, and stakeholders sharpen their scrutiny of a company's public positions – or silence.

When should a position be taken on controversial issues, if at all and what are the potential consequences?

- Consider what role the board should play in establishing parameters for the CEO as the voice of the company.
- Boards could have written policies or an informal understanding that the CEO will confer with the Board through the Chair before speaking on a controversial issue.
- Some organisations have cross-functional management committees to vet issues on a case-by-case basis to determine when speech is appropriate.

Further to our survey of Directors and business leaders, a number of criteria or considerations for determining whether or not the CEO should speak out on highly charged social and political issues were identified:

- Is the issue relevant to the company and its strategy? Is it in alignment with the company's culture, values, and purpose?
- How will speaking out resonate with the company's employees, investors, customers, and other stakeholders? In a tight labour market, employees often choose where to work based on company values, including its willingness to speak out on certain issues, such as DEI.
- Speaking out can be as powerful as not speaking out on certain issues. How do the CEO and the board come to terms with that ambiguity and risk, and weigh the consequences of speaking out or not?
- As the views of stakeholders are not uniform, how should CEOs and companies manage the inevitable criticism of their choice to speak or not speak? Having felt the backlash of speaking out on social/political issues, some companies have adjusted their approach to take action without trumpeting what they're doing.
- Make sure that the company's lobbying is aligned with its speech.

Holistic approach to cybersecurity, data privacy and artificial intelligence (AI) as Data Governance

The acceleration of AI and digital strategies, the increasing sophistication of hacking and ransomware attacks, and ill-defined lines of responsibility – among users, companies, vendors, and government agencies – have elevated cybersecurity risk and its place on board and committee agendas.

Boards should look out for and monitor regulatory developments on Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure, as well as management's preparations to comply.

While data governance overlaps with cybersecurity, it's broader and 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 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:

- Insist on a robust data governance framework that makes clear what data is being collected, how it is 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 the company's cybersecurity and data governance frameworks, including privacy, ethics, and hygiene.

An increasingly critical area of data governance is the company's use of AI to analyse data as part of the company's decision-making process. Boards should understand the process for how AI is developed and deployed. What are the most critical AI systems and processes the company has deployed? To what extent is bias – conscious or unconscious – built into the strategy, development, algorithms, deployment, and outcomes of AI-enabled processes? What regulatory compliance and reputational risks are posed by the company's use of AI, particularly given the global regulatory focus on the need for corporate governance processes to address AI-related risks, such as bias and privacy? How is management mitigating these risks?

Many directors may be uncomfortable with responsibility for overseeing AI risk because of their lack of expertise in this area. But boards need to find a way to exercise their supervision obligations, even in areas that are technical, if those areas present enterprise risk, which is already true for AI at some companies. That does not mean that directors must become AI experts, or that they should be involved in day-to-day AI operations or risk management. But directors at companies with significant AI programs should consider how they will ensure effective board-level oversight with respect to the growing opportunities and risks presented by AI."

Maintaining focus on business resilience in an election year

Business resilience is the ability of an organization to quickly adapt to disruptions while maintaining continuous business operations and safeguarding people, assets, and overall brand equity. Since the COVID pandemic, resilience has emerged as one of the most searched words in business. Organizations are plagued with survival concerns and resilience is at the heart of how they bounce back from a setback or how well they can withstand business turmoil.

Pre-election periods have seen a number of critical issues which continue to plague the operations of business such as new monetary policies on forex and new currency, faster rate of completion of capital projects by government which may impact business operations, increased regulatory requirements from organsations. Insecurity and banditry across the country also continue to dampen growth in major sectors of the economy.

Going into an election year, businesses in Nigeria would be greatly challenged and will be faced with a lot of uncertainties, order cancellation, increased cost of credit, talent flight (Japa), low demand, increased savings, cost optimization strategies to mention a few.

Post-election survival will be crucial and a lot of businesses would likely have strategy refresh sessions pre and post elections, to ensure their continued relevance and survival. Boards will be saddled with a new type of resilience readiness.

Maintaining focus and resilience* will require Boards challenging and questioning management's crisis response plans. Key Questions boards should ask include:

**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, such as ransomware, a cyberattack, or a pandemic.*

- Does the company understand its critical operational risks, including mission-critical company and industry risks? Have these been fortified with changes in the operating environment?
- Is the company's crisis response plan robust and ready to go? Is the plan actively tested or war-gamed and updated as needed?
- Is management sensitive to early warning signs regarding safety, security, product quality, and compliance?
- Has the company experienced any control failures, and if so, what were the root causes?
- Are there communication protocols including internal and external communications protocols to keep the board, regulators and the public apprised of events and company's responses?

Making talent, Human Capital Management (HCM) and CEO succession a priority

Most companies have long said that their employees are their most valuable asset. COVID-19; the difficulty of finding, developing, and retaining talent in the current environment; and an increasingly knowledge-based economy have highlighted the importance of talent and HCM – and generated the phenomenon of employee empowerment – causing many companies and boards to rethink the employee value proposition.

While the most dramatic change in the employee value proposition took place during the pandemic, employee empowerment hasn't abated, and employees are demanding fair pay and benefits; work-life balance, including flexibility; interesting work, and an opportunity to advance.

They also want to work for a company whose values – including commitment to DEI and a range of ESG issues – align with their own.

In 2023, we expect continued scrutiny of how companies are adjusting their talent development strategies to meet the challenge of finding, developing, and retaining talent amid a labor-constrained market. 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?

What are the challenges in 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 millennials and younger employees 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?

In addition to monitoring global developments, boards should discuss with management the company's Human Capital Management (HCM) disclosures in the Annual Report and Financial Statements – including management's processes for developing related metrics and controls ensuring data quality – to help ensure that the disclosures demonstrate the company's commitment to critical HCM issues. HCM will likely be a major area of focus during 2023 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 board should help ensure that the company is prepared for a CEO change – whether planned or unplanned, on an emergency interim basis or permanent. 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.

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? In many cases, those strategies have changed over the last two years. 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?

Public and external parties' engagement

Given the intense investor and stakeholder focus on executive pay and director performance, as well as climate risk, ESG, and DEI, particularly in the context of long-term value creation, engagement with shareholders and stakeholders must remain a priority.

Institutional investors and 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, ESG, and compensation. 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.

The board should request periodic updates from management about the company's engagement activities:

Does the company know, engage with, and understand the priorities of its largest shareholders and key stakeholders?

Are the right people engaging with these shareholders and stakeholders – and how is the investor relations (IR) role changing?

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In short: Is the company providing investors and stakeholders with a clear picture of its performance, challenges, and long-term vision – free of greenwashing? Investors, other stakeholders, and regulators are increasingly calling out companies and boards on ESG-related claims and commitments that fall short.

Strategy, executive compensation, management performance, climate risk, other ESG initiatives, DEI, HCM, and board composition and performance will remain squarely on investors' radar during the 2023 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 2023. Having an "activist mindset" is as important as ever.

Talent expertise and diversity in the boardroom

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

Developing and maintaining a high-performing board that adds value requires a proactive approach to board-building and diversity – of skills, experience, thinking, gender, ethnicity and social background. While determining the company's current and future needs is the starting point for board composition, there is a broad range of board composition issues that require board focus and leadership – including succession planning for directors as well as board leaders (the chair and committee chairs), director recruitment, director tenure, diversity, board and individual director evaluations, and removal of underperforming directors.

Board composition, diversity, and renewal should remain a key area of board focus in 2023, as a topic for communications with the company's institutional investors and other stakeholders, enhanced disclosure in the Annual Report and Financial Statements, and most fundamentally, positioning the board strategically for the future.

About the KPMG Board Governance Centre

The KPMG Board Governance Centre (BGC) is a dedicated forum that provides Board members with insights and resources to keep abreast of current and emerging governance issues.

The KPMG BGC offer thought leadership and timely resources including periodic seminars and round tables to host the exchange of views and support Board members (including Board sub-committee members) in clarifying and enhancing their governance practices amid rapidly evolving corporate governance landscape in Nigeria.

Learn more: ***http://bit.ly/board-governance-centre***

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