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On the 2024 board agenda

Board Leadership Centre

Heading into 2024, companies face unusual disruption and uncertainty – wars in Ukraine and the Middle East, trade and geopolitical tensions, economic volatility, persistent inflation and higher interest rates, technology and business model disruption, elevated cybersecurity risk, climate risk, and more. Advances in artificial intelligence (AI) – most notably in generative AI – and continued increase in regulations will add to the challenge. This document is a summary of our observations and recommendations for boards in the coming year.

In this volatile operating environment, demands – from investors, regulators, employees, and other stakeholders alike – for greater disclosure and transparency will continue to intensify, particularly around the oversight and management of risks to the company's operations and strategy. The pressure on management, boards, and governance will thus be significant.

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

Link boardroom discussions on strategy, risk, and global disruption

Much has changed in the geopolitical and global economic environment. Organizations face a deluge of risks, including the escalation of the wars in Ukraine and the Middle East and the continuing deterioration of the US–China relationship.

These and other risks, including supply chain disruptions, cybersecurity, inflation, interest rates, market volatility, and the risk of a global recession – combined with the deterioration of international governance – will continue to drive global volatility and uncertainty.

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

Some topics for the directors to consider are:

Help the management reassess the company's 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.

Is there an effective process to monitor any changes in the external environment and provide early warning that adjustments to strategy might be necessary? That includes risk management, as well as business continuity and resilience. It calls for frequent updating of the company's risk profile and more scenario planning, stress testing strategic assumptions, analyzing downside scenarios, considering the interrelationship of risks, and obtaining independent third-party perspectives.

Companies need to think about 'events' and how they will impact the company's business model and strategy. However, it is also critical to understand the underlying structural shifts taking place – geopolitical, demographic, technological, economic, climate, global energy transition, societal, etc. – and the longer-term implications.

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

In 2023, we saw advances in the development and use of generative AI and its ability to create new, original content, such as text, images, and videos. Indeed, generative AI has started to become an important topic 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, and developing marketing plans. However, the risks posed by the technology are significant, including inaccurate results, data privacy and cybersecurity risks, intellectual property risks (including unintended disclosure of the company's sensitive or proprietary information and unintended access to third-party IP), as well as compliance risks posed by the rapidly evolving legislation globally.

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

- 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 are the organization's peers using the technology?
- How is management 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 is management monitoring rapidly evolving generative AI legislation, and ensuring compliance?
- Does the organization have the necessary generative AI-related talent and resources, including in finance and internal audit?

Boards should also assess their governance structure for board and committee oversight of generative AI. In addition to the full board's engagement in overseeing AI, do certain committees have specific oversight responsibilities, including perhaps taking deeper dives into certain aspects of generative AI?

Maintain focus on cybersecurity and data privacy

Cybersecurity risk continues to intensify. The acceleration of AI, the increasing sophistication of hacking and ransomware attacks, the wars in Ukraine and the Middle East, and ill-defined lines of responsibility – among users, companies, vendors – have elevated cybersecurity risk and its place on board and committee agendas.

The growing sophistication of the cyber threat points to the continued cybersecurity challenge – and the need for management teams and boards to continue to focus on resilience. Breaches and cyber incidents are going to happen, and organizations must be prepared to respond appropriately when they do. In other words, it's not a matter of if, but when.

While data governance overlaps with cybersecurity, it's broader and includes 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. The directors should consider:

- How robust and up to date is management's data governance framework?
- Does it address third-party cybersecurity and data governance risks?

Embed the company's strategically significant climate and ESG issues in risk and strategy discussions

Expect the intense focus on ESG to continue in 2024. How companies manage material climate and other ESG risks and how they address critical diversity, equity, and inclusion (DEI) issues is seen by investors, research and ratings firms, employees, customers, and regulators as fundamental to the business and critical to long-term value creation.

The clamor for attention to climate change as a financial risk has become more urgent, driven by reports that the global temperatures expected to reach new highs over the next five years; the frequency and severity of floods, wildfires, rising sea levels, and droughts; growing concern about climate-related migration and displacement; and concern by many experts that the window for preventing more dire long-term consequences is rapidly closing.

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? The ESG issues of importance will vary by company and industry. For some, it skews towards environmental, climate change, and emission of greenhouse gases. Others may emphasize DEI and social issues.
- How is the company addressing these issues as long-term strategic issues and embedding them into core business activities (strategy, operations, risk management, incentives, and corporate culture) to drive long-term performance?
- 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?

Keep abreast of management's preparations for new climate and sustainability reporting requirements

An important area of board focus and oversight will be management's efforts to prepare for dramatically increased climate and ESG disclosure requirements for companies in the coming years.

While certain companies have been providing climate related financial disclosures in their financial statements, boards should also be monitoring regulations, if any, that will form the basis of any future requirements in the legislation for companies to report on governance, strategy, risks and opportunities, and metrics relating to sustainability matters, including risks and opportunities arising from climate change in accordance with the new standards issued by International Sustainability Standards Board (ISSB).

Companies will need to keep abreast of ongoing developments and determine which standards apply, and the level of interoperability of the applicable standards. For companies having entities outside the country, there need to be considerations for different materiality thresholds. The US and ISSB consider financial materiality — in which information is material if investors would consider it important in their decision-making — whereas the UK and EU use the concept of "double materiality", through the lenses of the financial effect on the company and the impact the company has on the wider community and environment.

This will be a major undertaking, with cross-functional management teams involved and multiple board committees overseeing different aspects of these efforts.

A key area of board focus will be the state of the company's preparedness – requiring periodic updates on management's preparations, including gap analyses, materiality assessments, resources, assurance readiness and any new skills needed to meet regulatory deadlines.

Enhance communication and coordination 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 growth, risk management and oversight. Many of the risks companies must address today are interrelated. While many companies historically managed risk in siloes, that approach is no longer viable and poses its own risks. Investors, regulators, 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, the nomination, compensation, and audit committees may each have some overlapping oversight responsibility for climate, human resources management, and other ESG risks. If cybersecurity and data governance oversight reside in, for example a technology committee, the audit committee may also have certain oversight responsibilities (like 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.
- Insisting on focused, appropriately detailed, and robust committee reports to the full board.

Essential to effectively managing a company's risks is having an up-to-date inventory of risks and maintaining critical alignments – of strategy, goals, risks, internal controls, incentives, and performance metrics. 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.

Make talent 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 hybrid flexibility), interesting and purposeful 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 labor-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?

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. Equally important is the need to ensure that the company is prepared for a CEO change – planned or unplanned, on a permanent or emergency interim basis. The following are vital questions for board members to consider:

1. How robust are the board's succession planning processes and activities?
2. Has the succession plan been updated to reflect the CEO skills and experience necessary to execute against the company's long-term strategy? Those strategies may have changed over the last two years.
3. Are succession plans in place for other key executives? How does the board get to know the high-potential leaders in the organizational layers – 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.

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 recognize that many boards may not have experts in all the functional areas such as cybersecurity, climate, human resources, and may instead choose to engage outside experts.

Developing and maintaining a high-performing board that adds value requires a proactive approach to board building and diversity – of skills, experience, thinking, gender 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 2024, as a topic for communications with the company's institutional investors and other stakeholders, enhanced disclosure in the annual report, and most fundamentally, positioning the board strategically for the future.

Contacts

Abdullah Akbar
Partner, Audit &
Head of Board Leadership Centre
E: amakbar@kpmg.com

Dr. Samer Abdallah
Partner, Advisory
E: samerabdallah@kpmg.com

Kamran Sial
Partner, Tax
E: ksial@kpmg.com

Mohammed Alkhlaiwi
Partner, Audit
E: malkhlaiwi@kpmg.com

Contributors

Peter Bannink, Head of Marketing and Thought Leadership
Muayad Alelaiwi, Manager, Arabic Content Lead
Madhawi Al-Rajhi, Senior Analyst, Marketing and Thought Leadership

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