KPMG

On the 2025 board agenda

KPMG Board Leadership Centre

Saudi Arabia's cabinet approved the budget for fiscal year 2025 on 26 November 2024. The government repeated its commitment to balancing public spending that drives its economic diversification and expansion strategy while also ensuring fiscal sustainability. Projected robust growth in the non-oil economy will continue to drive broader economic activity, and thus non-oil revenues, in 2025. Vision 2030 initiatives designed to restructure and diversify the domestic economy—including approved sectoral and complementing regional strategies—will remain key drivers of government spending and investment. These efforts aim to attract investment, develop the labor market, and create sustainable job opportunities.

It is our view that boards of directors in Saudi Arabia have a significant benefit of a promising budget as compared to the boards operating in other geographies. However, we continue to believe that the boards can expect their oversight and corporate governance processes to be put to the test in 2025 as companies face unprecedented disruption and uncertainty—ongoing and intensifying wars in Ukraine, the Middle East and Sudan, elevated trade and geopolitical tensions, economic uncertainty, high interest rates, technology and business model disruption, elevated cybersecurity risk, climate risk, and more. Advances in artificial intelligence (AI) and heightened regulation globally will continue to add to the challenge. This document is a summary of our observations and recommendations for boards in the coming year.

Drawing on insights from our conversations with directors and business leaders, we highlight eight issues to keep in mind as boards consider and carry out their 2025 agendas.

Maintain focus on how management is addressing the risks and opportunities related to geopolitical and economic shifts and global disruption

The wars in Ukraine, the Middle East and Sudan, continuing US-China and US-Russia tensions, the potential for political and social disruption posed by disinformation and cyberattacks, and elevated geopolitical and trade tensions globally—combined with economic risks, including interest rates, market volatility, and the risk of a global slowdown—will continue to drive volatility and uncertainty.

At the same time, the continuing pull-back on supply chains is an indicator of a broader pendulum swing that's reshaping the full-throttle globalization of recent decades.

Shifting from the "cheaper-faster" strategies enabled by highly complex, decentralized supply chains to greater or even hyper localization and control of a company's networks—suppliers, services, data/information—is clearly about resilience of the company.

As this globalization reset unfolds, companies will face pressing questions:

- ❑ Is the company prepared to operate in a higher-cost (of capital, green tech/energy, labor) environment?
- ❑ What is the right balance between operating efficiently, maximizing growth, and ensuring resilience?
- ❑ Does management have an effective process to monitor changes in the external environment and provide early warning that adjustments to strategy might be necessary?

This includes risk management as well as crisis readiness and 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.

The boards need to help management reassess the company's processes for identifying the risks and opportunities posed by this global disruption—and the impact on the company's long-term strategy and related capital allocation decisions. It is also critical for the boards to understand the underlying structural shifts taking place—geopolitical, demographic, technological, economic, climate, global energy transition, societal, etc.—and the longer-term implications on the companies.

Understand the company's GenAI strategy and related risks, and closely monitor the governance structure around the company's deployment and use of the technology

As GenAI moves from market buzz toward business value and large scale roll out, it is critical that boards understand the opportunities and risks posed by the technology, including how GenAI is being used by the company, how it is generating business value, and how the company is managing and mitigating its risks.

The companies that will excel in using GenAI technology at scale understand that it's also a leadership journey. Fundamentally changing what people do every day and how they work will require leadership, as well as skills and know-how to assess the company's processes and workflows and to decide where to deploy GenAI to improve productivity. Successful adoption will also require the refinement of risk management frameworks to mitigate critical risks related to inaccurate data and results, bias and hallucinations, intellectual property, reputation, talent, and compliance with emerging AI legislation and regulation globally.

Given the strategic importance of the technology, GenAI will be a critical priority for boards in 2025. We offer the following suggestions to help boards focus and structure their oversight efforts.

Understand the strategy to develop business value with GenAI and monitor the trajectory of deployment

Boards are seeking to understand what this technology means for the company—including its operations, products and services, business model, and strategy. The board should be satisfied that the C-suite can articulate the primary impact they expect GenAI to have on the company—e.g., new business models, new product or revenue streams, and/or increased operating efficiency. The board should also probe management about:

- the expected impact on the company's revenue and cost over the next one, three, and five years as its customers, competitors, and suppliers roll out GenAI.
- what revenue is at risk? What new revenue can be generated?
- what costs will be reduced?
- what price pressure or opportunity does the company see?

Monitor management's governance structure for the deployment and use of GenAI, including the management and mitigation of GenAI risks

Given the strategic importance of GenAI and the complexities and risks associated with the technology, it is critical that the board focus on management's policies for the development of a governance structure and processes for the deployment, and use of GenAI. Key issues/topics to be addressed in management's governance structure include:

- How and when a GenAI system or model—including a third-party model—is to be developed and deployed, and who makes that decision.
- How the company's peers are using the technology.
- How management is mitigating the risks posed by GenAI and ensuring that the use of AI is aligned with the company's values. Whether the management has put in place an AI risk management framework and steps taken to ensure compliance with applicable laws and regulations, and what is the company's policy on employee use of GenAI?
- Whether the organization has the necessary AI -related talent and resources, including in finance and internal audit.

How the company is ensuring the quality and accuracy of GenAI output

Achieving the hoped-for productivity and efficiency improvements with GenAI will depend on the quality of the company's data and how it is processed and stored. Boards need to have insight into how management is ensuring the quality and accuracy of GenAI output and whether the company is making the right investments in IT infrastructure to help ensure data quality.

Assessing board oversight

Many boards are still considering how best to oversee GenAI. For most companies, oversight is largely still at the full board level, where major strategic and/or transformational issues typically should be addressed. However, some board committees, such as the audit committee or a technology or risk committee, may already be involved in overseeing specific GenAI issues.

Oversight structures will likely evolve as GenA programs evolve. Ultimately, oversight of GenAI, like oversight of sustainability, may touch all or most board committees. Another important question for boards is whether they have the knowledge, access to experts, and ongoing education to effectively oversee the company's use of GenAI.

Probe whether the company's data governance and cybersecurity governance frameworks and processes are keeping pace with the growth and sophistication of data-related risks

The explosive growth in the use of GenAI is also prompting more rigorous assessments of data governance frameworks and processes more generally, as well as the steps being taken to help ensure that management's cybersecurity risk management practices are keeping pace with increasingly sophisticated cyber threats enabled by GenAI. This is a significant undertaking requiring board attention. Three key areas of board focus are:

The adequacy of the company's data governance framework and processes While companies typically develop their data governance framework based on their industry and company-specific facts and circumstances, there are a number of data governance frameworks that they might consider.

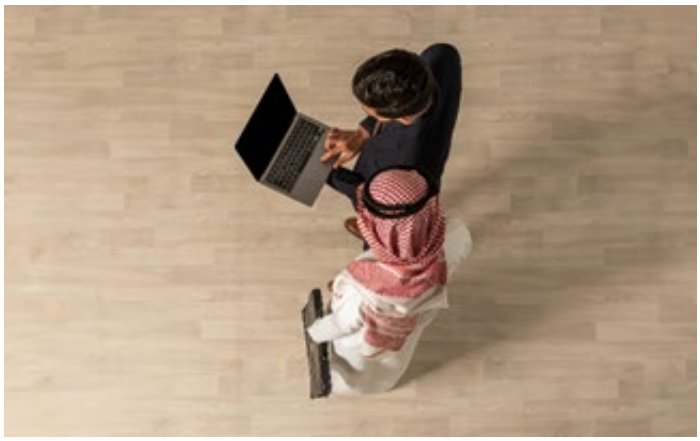
The frameworks vary in many respects, but generally focus on data quality, data privacy and security, data stewardship, and data management. Data governance includes compliance with industry-specific privacy laws and regulations, as well as privacy laws and regulations that govern how personal data—from 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.

In its oversight of data governance, the board should 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, and

- identifies 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.



How management is enhancing cybersecurity risk management processes to address AI risks

Many companies and their boards have devoted substantial time and resources to understanding cybersecurity risk, and making sure the company has the right governance, technology, and leadership in place to manage and mitigate cybersecurity risk. However, with GenAI developments, the risk of data breaches and malware attacks continues to mount, with GenAI enabling cybercriminals to scale their attacks in terms of speed, volume, variety, and sophistication.

Boards should be sharpening their focus on the company's cybersecurity posture, including periodically reviewing management's cybersecurity risk assessment; taking a hard look at supply chain and third-party risks; insisting on a cybersecurity scorecard (e.g., volume, nature, and materiality of attacks), and understanding (and periodically reassessing) the company's cyber incident response plan.

Structuring board oversight of cybersecurity and data governance

For many companies, much of the board's oversight responsibility for cybersecurity and data governance has resided with the audit committee. Many audit committees also have significant oversight responsibilities for legal/regulatory compliance, which includes compliance with evolving data privacy and AI-specific laws and regulations globally. As we discuss in On the 2025 audit committee agenda, given the audit committee's heavy agenda, it may be helpful to have another board committee monitor and do the heavy lifting related to cybersecurity and data governance.

Keep environmental and social issues embedded in risk and strategy discussions, and monitor preparations for new reporting requirements

How companies address climate change, human capital management, diversity, and other ESG issues continues to be viewed by many investors, research and ratings firms, activists, employees, customers, and regulators as fundamental to the business and critical to long-term value creation. However, the pushback against ESG—including the backlash against green policies and climate disclosures in the US and Europe and energy industry concerns about the costs associated with a rapid shift from oil and gas to renewable energy—has caused many companies to reassess their ESG initiatives.

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 toward environmental, climate change, and emission of greenhouse gases (GHG). Others may emphasize diversity and social issues.
- How is the company addressing ESG issues strategically 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? If the company is no longer using the term "ESG," does the terminology used (e.g., "sustainability") clearly convey the company's priorities in this area?

As discussed in more detail in our On the 2025 audit committee agenda, management's efforts to prepare for new reporting and assurance initiatives that will dramatically increase climate and sustainability disclosure requirements for companies in the coming years will be an important area of board focus and oversight.

CEO succession and talent development

Few board responsibilities are more important than hiring and replacing the CEO. A key question for the board is whether its CEO succession planning process is keeping pace and evolving to identify the CEO skills, traits, characteristics, and experiences necessary to drive the development and execution of the company's long-term strategy and position the company for the future.

In our recent conversations with directors, they have emphasized the importance of devoting significant time and attention to identifying "what" the company needs in a future CEO before addressing the "who." The board should develop a list of the top six or eight—but probably no more than ten—skills, traits, characteristics, and experiences needed in a new CEO.

Identifying the "what" is a complex and time-consuming process. What will be the impact of new technologies, such as GenAI, on the business and strategy? Will navigating geopolitical turbulence and ESG become more important to the business? What skills, experience, and traits will be required of the future CEO and how might they differ from those of the current CEO? What will be non-negotiable? With clarity on the "what," the board should identify potential internal and external candidates.

Clearly linked to the importance of having the right CEO is having the talent required—from the top of the organization down through the ranks—to execute the company's strategy and keep it on track. As companies gear up to deploy GenAI at scale, there will be increased demand for technology professionals with AI-related skills such as model development, algorithmic development, and ensuring data quality. At the same time, companies may need ESG, climate, and sustainability expertise to manage those risks and opportunities, and to gather, organize, calculate, assure, and report the necessary ESG, climate, sustainability and GHG emissions data, and to develop the necessary internal controls.

Institutional investors have been vocal about the importance of human capital and talent development programs and their link to strategy. We expect companies will face an increasingly difficult challenge in finding, developing, and retaining the talent required at all levels of the organization.

We recommend that the Board should look into the following questions:

- Does management's talent plan align with its strategy and forecast needs for the short and long term?
- Which talent categories are in short supply and how will the company successfully compete for this talent?
- More broadly, 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?

Help set the tone, monitor the culture, and keep abreast of management's efforts to build stakeholder trust

Does the company make it safe for people to do the right thing? Headlines of sexual harassment, price gouging, aggressive sales practices, and other wrongdoing continue to keep corporate culture front and center for companies, shareholders, regulators, employees, and customers.

Boards themselves are also making headlines, with investors, regulators, and others asking, "Where was the board?"—particularly in cases of self-inflicted corporate crises.

Given the critical role that corporate culture plays in driving performance and reputation, we see boards taking a more proactive approach to understanding, shaping, and assessing corporate culture. We recommend that:

- the boards to have a laser-like focus on the tone set by senior management and zero tolerance for conduct that is inconsistent with the company's values and ethical standards, including any "code of silence" around such conduct.
- be sensitive to early warning signs and verify that the company has robust whistleblower and other reporting mechanisms in place and that employees are not afraid to use them.
- understand the company's actual culture (the unwritten rules versus those posted on the staffroom wall); use a variety of tools—surveys, internal audit, hotlines, social media, walking the halls, and visiting facilities—to monitor the culture and see it in action.
- make sure that incentive structures align with strategy and encourage the right behaviors and take a hard look at the board's own culture for signs of groupthink or discussions that lack independence or contrarian voices. Focus not only on results, but the behaviors driving results.

The boards should consider what will cause investors, employees, or customers to lose trust in the company or its products and services? What capabilities and processes does the company have in place (risk management, corporate communications, investor relations, corporate counsel) to prevent or counter disinformation? Having a clear narrative for the marketplace—and building a surplus of trust with customers—are essential.

Revisit risk oversight responsibilities and the allocation of issues among committees

The increasing complexity and fusion of risks unfolding simultaneously requires a more holistic approach to risk management and oversight. At the same time, investors, regulators, rating firms, and other stakeholders are demanding higher-quality disclosures—particularly on climate, GenAI, cybersecurity, and other ESG risks—and about how boards and their committees oversee the management of these risks.

Given this challenging risk environment, many boards are delegating risk oversight responsibilities to standing committees for a more intensive review than the full board could undertake. We see boards delegating to various committees the responsibility to support the board's oversight of mission-critical risks, as well as other risk categories such as climate, ESG, HCM, cybersecurity, data governance, legal and regulatory compliance, supply chains, M&A, and more.

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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 boards consider the following:

- As the risks that boards oversee grow in volume and complexity, evaluate whether committee scope-creep is a concern and consider whether any oversight responsibilities could/should be transferred or assigned to another or new committee. 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?

- Recognize that risk rarely fits neatly into a single, siloed risk category. While many companies historically managed risk in siloes, that approach is no longer viable and poses its own risks.

- Identify risks for which multiple committees have oversight responsibilities and clearly delineate the responsibilities of each committee. For example, in the oversight of climate and other ESG risks, the sustainability committee, audit committee, remuneration committee, and even nomination committee likely each have some oversight responsibilities. And where cybersecurity and AI oversight resides in a technology committee (or other committee), the audit committee may also have certain responsibilities. To oversee risk effectively when two or three committees are involved, boards need to think differently about how to coordinate committee activities.

Essential to effectively managing a company's risks is maintaining critical alignments—of strategy, goals, risks, internal controls, incentives, and performance metrics. Today's business environment makes the maintenance of these critical alignments particularly challenging. 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.

Think about the company's future needs and whether the board's composition and succession planning is appropriate

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.

Indeed, the increased level of investor engagement on this issue points to the 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 will not have "experts" in all the functional areas such as cybersecurity, climate, GenAI, ESG, etc., and may need 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 race/ethnicity.

While determining the company's current and future needs—the "what," as discussed previously in CEO succession planning—is the starting point for board composition, a broad range of board composition issues require board focus and leadership, including succession planning for directors as well as board leaders (the lead director and committee chairs), director recruitment,

director tenure, diversity, board and individual director evaluations, and removal of underperforming directors. Boards need to "tell their story" about the composition, skill sets, leadership, and functioning of the board and its committees.

Board composition, diversity, and renewal should remain a key area of board focus in 2025, 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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Board Leadership Centre

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