Midyear observations on the board agenda

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Low visibility and high volatility have long been integral to the business landscape in India. However, many of the foundational assumptions that have guided corporate strategy— such as geopolitical dynamics, capital costs, energy sources, trade patterns, technological limits, data security, workforce demands, and traditional competitive pressures— are now being profoundly disrupted. In short, the core fundamentals are shifting.

As we move into the latter half of the year, business leaders remain optimistic about growth and the opportunities ahead. Despite high confidence in their companies' growth prospects, macroeconomic forces like generative artificial intelligence (Gen AI), climate change and the emergence of a multipolar geopolitical environment are tempering the outlook. These factors are sparking more in-depth boardroom discussions on risk management, strategy, talent, and the future trajectory of businesses in this evolving landscape.

Drawing from our engagements with industry veterans and thought leaders, we have identified key issues that can guide board agendas as they navigate the second half of 2024.

Strengthening governance

Recent regulatory updates emphasise the growing role of boards and audit committees in enhancing governance and oversight.

Audit committee plays a pivotal role in approving Related Party Transactions (RPTs), with an important amendment excluding director and KMP remuneration (unless they are part of the promoter group) from RPTs. Additionally, audit committees can ratify transactions exceeding pre-approved limits within a set timeframe.

Considering uncertainty, risk management is a greater focus, with the gap between consecutive risk management committee meetings increased to 210 days to provide ease of business.

For boards of directors, a new three-month timeline has been introduced to fill vacancies in board committees. Additionally, prior intimation for board meetings has been shortened to two working days, focusing on meetings related to fundraising.

Shareholder approval for director appointments must be obtained within three months or at the next general meeting, streamlining the appointment process.

Regulatory bodies like National Financial Reporting Authority (NFRA), Financial Reporting Review Board (FRRB), Quality Review Board (QRB), Securities and Exchange Board of India (SEBI), overseas regulators, etc. review financial statements, the Quality Review Board (QRB) has identified common non-compliances in audit practices, particularly in Engagement and Quality Control Standards and CARO. Audit committees are responsible for reviewing these areas, ensuring audit quality and integrity, and preventing reporting errors that could undermine investor confidence.

Questions for boards to consider:

- Are we fully leveraging the audit committee's role in approving and overseeing RPTs to ensure compliance and transparency?
- Do we have a clear plan to fill any vacancies in our board committees within the new three-month timeline to maintain governance continuity?
- Is the reduced two-day notice for board meetings sufficient for all directors to prepare effectively, especially for critical decisions on fundraising?
- How are we ensuring our risk management committee meets the evolving demands of oversight, given the increased gap between meetings?
- Are we regularly reviewing the timelines for director appointments and reappointments to meet shareholder approval deadlines and avoid delays?

Globalisation's pendulum swing

Geopolitical uncertainties, trade tensions and changing national policies have made businesses rethink on their supply chain strategies. The trend is moving from highly globalised, cost-driven models to more controlled, regionalised supply chains, which is evident in India as well. The focus has clearly shifted to enhance resilience and self-reliance, guided by transformative initiatives like 'Atmanirbhar Bharat', Make in India, and the Production Linked Incentive (PLI) schemes. All these initiatives are aimed at boosting domestic manufacturing and reducing dependency on imports.

India's approach emphasises leveraging strengths in skilled labour, robust infrastructure, and a growing focus on sustainability to strengthen its competitive edge globally. Unlike many other regions facing steep rises in capital, labour, and energy costs, India continues to prioritise long-term investments in building a self-sufficient ecosystem, positioning itself as a key player in the evolving global supply chain landscape.

Questions for boards to consider:

- How can we mitigate the risk of supply chain disruptions considering the current geopolitical volatility and India's increasing reliance on domestic sources? Are there untapped opportunities in regional partnerships that could balance resilience and cost-efficiency?
- As we move towards a more centralised supply chain, how are we maintaining agility and avoiding potential over-reliance on a limited number of suppliers? How are we re-evaluating our risk exposure considering fluctuating energy and labour costs?
- Given the rising costs of raw materials, capital, and energy, what specific innovations or strategic pivots can we introduce to preserve margins while maintaining supply chain integrity?
- How are we leveraging new data analytics tools to increase transparency in our supply chain, and are we adequately prepared to respond to potential bottlenecks and real-time disruptions?
- What strategic investments in infrastructure or technology should we prioritise to accelerate the transition from 'cheaper and faster' to more sustainable and resilient supply chains without compromising our competitive edge?

Gen AI's trajectory

The tension of 'go faster, but slow down' defines GenAI adoption, along with the challenge of separating hype from reality. GenAI is set to transform Indian industries like IT, finance, and manufacturing by improving efficiency. Over time, it may reshape economic structures, employment models, and social participation.

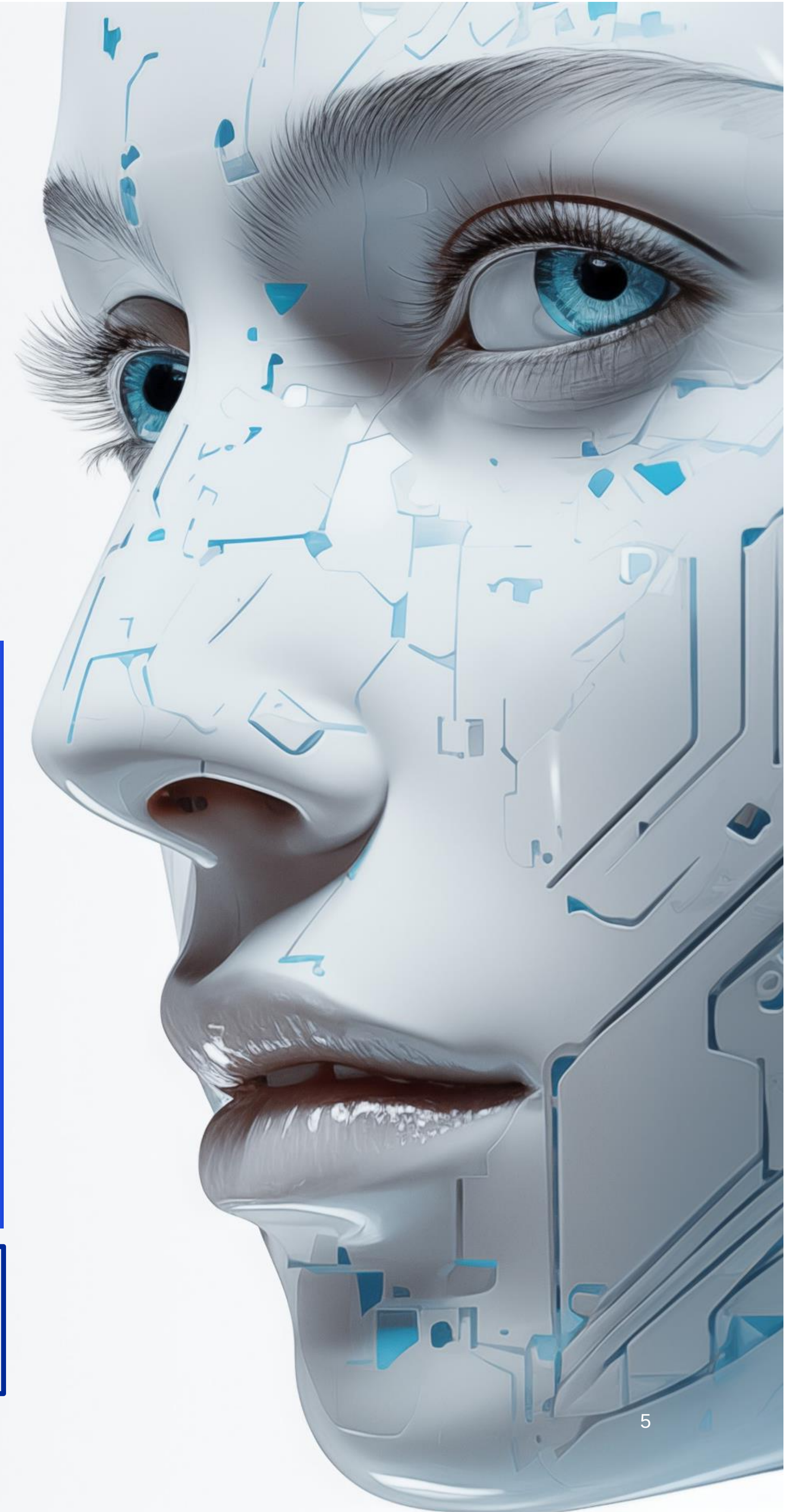
As companies shift from experimentation to large-scale implementation in 2024, significant productivity gains are expected by 2025, with clear market leaders and laggards emerging by 2026. To scale GenAI effectively, leadership must rethink workflows and enhance productivity, while strong risk management frameworks are needed to address data accuracy, bias, intellectual property, cybersecurity, privacy, compliance, and talent retention. Boardroom discussions now focus on GenAI's rationale, algorithm accountability, data bias monitoring, and managing third-party risks.

Societal concerns like misinformation, climate impact, and workforce downsizing are also pressing issues that boards must tackle. Additionally, GenAI's rising energy demands further complicate the climate crisis and workforce skills development.

Questions for boards to consider:

- Are we moving fast enough with GenAI to stay competitive by 2025? How are we benchmarking our GenAI initiatives against early movers in key sectors like finance and manufacturing?
- In scaling GenAI, what concrete steps are we taking to truly transform our workflows beyond superficial changes?
- How are we systematically addressing the inherent risks in AI governance—particularly in algorithmic accountability and bias—without stifling innovation? Are our internal controls and audits equipped to flag issues early?
- What proactive strategies are in place to manage potential labour market backlash? How are we balancing productivity gains with job displacement, and are we prepared to upskill our workforce?
- How are we positioning ourselves to deal with potential regulatory scrutiny as GenAI evolves, and are we preparing to pivot if global AI governance standards outpace India's?
- With growing threat of mis-, dis-, and mal-information (MDM), what counter-narratives are we developing to protect our brand from disinformation campaigns? How are we building a surplus of trust to mitigate the effects of MDM attacks?
- How are we quantifying the financial risk from regulatory breaches or failure to meet reporting deadlines, particularly as international standards like the EU's AI Act start influencing local regulations?

India's AI regulatory landscape is evolving quickly. While no national AI law exists yet, Indian companies should monitor international frameworks, particularly the EU's AI Act, which may guide future Indian regulations. The EU's risk-based approach, categorising AI applications by risk and imposing strict compliance on high-risk systems, could shape India's standards.



The business of climate: A bumpy ride

The next few years are likely to be defined by a complex and contentious shift away from fossil fuels, as climate risks intensify. India's vulnerability to extreme weather conditions, water shortages, and food insecurity makes climate adaptation urgent. According to a report titled 'State of India Environment 2024' by Centre for Science and Environment (CSE), India experienced extreme weather events on a staggering 318 out of 365 days in 2023, impacting all states and union territories[1].

Corporate capital, driven by long-term value and investor pressure, is key to the transition through investment and innovation. While the goal of a low-carbon economy is clear, the path is fraught with geopolitical tensions, fragmented regulations, and balancing short- and long-term goals. The regulatory landscape is adding pressure, with SEBI's Business Responsibility and Sustainability Reporting (BRSR) framework mandating climate-related disclosures for the top 1,000 listed companies. Companies must report on sustainability metrics like GHG emissions, biodiversity, and resource use. The Reserve Bank of India (RBI) has also introduced a draft framework for banks to assess climate-related financial risks in lending practices[2].

This aligns with global trends, including the EU's Corporate Sustainability Reporting Directive (CSRD), which requires Scope 3 GHG emissions disclosure, adding complexity for companies operating across jurisdictions. Indian companies must evaluate their capabilities to gather, verify, and report emissions data, requiring cross-functional teams from legal, finance, sustainability, IT, and audit. Larger firms may need dedicated ESG professionals and automated systems to ensure compliance with these evolving standards. As companies navigate this transition, forward-thinking boards are deepening climate discussions to stay ahead, balancing the challenges of infrastructure, compliance, and market readiness.

Questions for boards to consider:

- With climate risks now a top priority, what bold steps can we take to accelerate renewable energy transition, and establish leadership in sustainability to capture early market share?
- Are we forming strategic alliances with governments or NGOs to capitalise on large-scale energy initiatives? How are we using these partnerships to shape regulatory frameworks?
- Given the fragmented regulatory environment, how are we ensuring compliance across different jurisdictions, and are we prepared to navigate conflicting regulations to avoid penalties or reputational risks?
- How are we addressing the increased risk of stranded assets in high-carbon industries within our portfolio? Do we have a phased divestment plan to transition away from these assets without sacrificing short-term financial performance?
- How are we equipping ourselves to withstand the economic impacts of climate-induced shocks, such as extreme weather events, in the next two to three years? What specific investments are we making in adaptive infrastructure and operational resilience?

[1]Boardroom wake-up call: Climate change is closer than you think, KPMG in India, September 2024
[2]India cenbank releases draft disclosure framework for banks to address climate risks, Reuters, February 2024

Workforce (in) security

The complexity of issues surrounding talent and workforce well-being demands that Chief Human Resource Officers (CHROs) play a central role in both the C-suite and boardroom discussions. Among the key challenges are shifting work models, such as the balance between remote work and returning to offices, the impact of GenAI on job roles, increasing employee unrest, and growing focus on diversity, equity, and inclusion (DEI) initiatives.

While technology once primarily affected blue-collar jobs, GenAI now sparks anxiety among white-collar workers. Companies need clear strategies to reskill, upskill, and cross-skill their teams, ensuring that GenAI adoption is seen as a career-enhancing opportunity, not a threat.

The competition for talent in India is intensifying, compounded by changing workforce demographics and the fact that employees across generations are working together. In this increasingly competitive talent market, employees are demanding more than just financial stability—they seek purpose, flexibility, and a workplace that prioritises well-being. Successful DEI efforts must now focus on inclusion as a core driver of both engagement and productivity.

Questions for boards to consider:

- As concerns about job displacement rise, how can we transform GenAI implementation into a growth opportunity while ensuring talent retention?
- With increasing pressure for workplace wellness and flexibility, are we adapting our employee value proposition quickly enough to meet evolving needs?

  How can we build a corporate culture that embraces technological change as key to future-proofing careers?
- Are we preparing our workforce for future roles, and do we have a strategic plan that goes beyond reskilling to create new career pathways alongside Gen AI advancements?
- Are we conducting deep-dives into our DEI initiatives and measuring the impact of these initiatives not just on the surface, but on the systemic changes in corporate culture and productivity? How are we linking inclusion efforts to measurable performance outcomes?

Digital threats and cyber readiness

Cybersecurity risk continues to mount, with GenAI tools aiding hackers in both the sophistication and efficiency of their efforts. The proliferation of criminal hackers, malware developers, and nation-state actors, the ubiquity of ransomware attacks, and ill-defined lines of responsibility for data security—among users, companies, vendors, and government agencies—are keeping cybersecurity risk high on board and committee agendas.

Readiness and resilience have become the critical watchwords for companies and boards today, recognising the need not only for a robust cyber incident response plan, but also periodic tabletop exercises to simulate how a cyber incident might unfold.

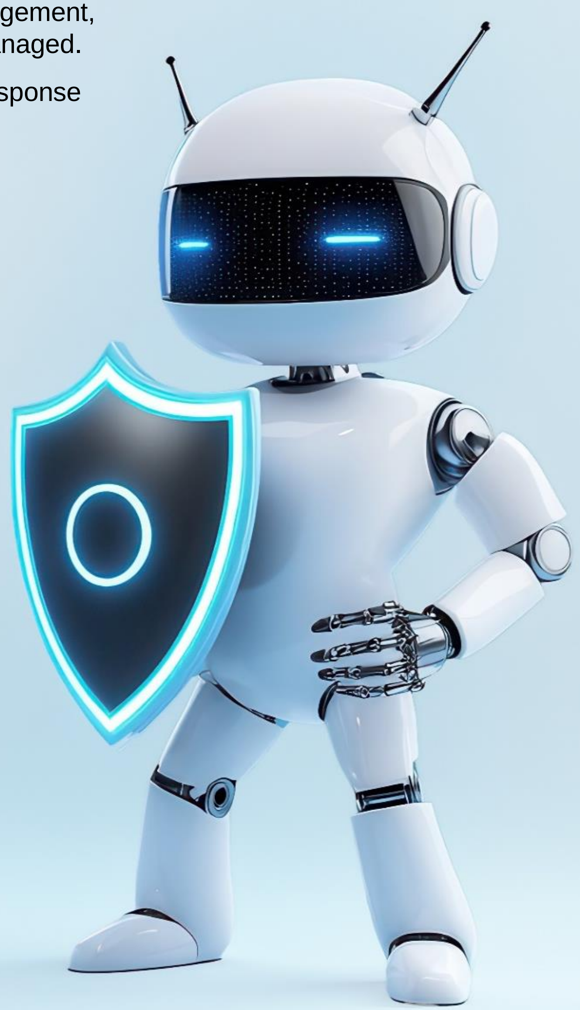
It is time that companies regularly review and update their cyber incident response plans, ensuring clear roles for cybersecurity teams, legal, management, and outside advisors. Escalation protocols must define when and how the board is informed and how internal and external communications are managed.

The ongoing insider threat—whether from employees, state actors, or third-party vendors—also demands routine assessments of detection and response processes.

Questions for boards to consider:

- How can we enhance our ability to respond to cyber incidents quickly enough to meet the six-hour reporting requirement under CERT-In guidelines? Are we overhauling our response teams and technologies to meet this stringent timeline?
- In light of increasing state-sponsored cyber threats and GenAI-enabled attacks, how are we recalibrating our risk models and response protocols? Are we equipped to respond in real-time to nation-state attacks?
- How are we embedding cybersecurity training at all levels of the organisation to ensure not just top-down awareness but bottom-up vigilance too?
- Are we ready to shift our cybersecurity focus from perimeter defense to an integrated strategy that includes behavioral analytics and insider threat detection? How can we strengthen internal monitoring mechanisms?
- How are we preparing for the convergence of AI, climate, and cyber regulations? Are we considering the long-term implications of non-compliance or reactive strategies?

Cybersecurity regulations in India are also tightening. Under the Indian Computer Emergency Response Team (CERT-In) guidelines, companies must report cybersecurity incidents within six hours of detection, far stricter than international standards. Additionally, a fresh push is being given to counter spam and unsolicited commercial communication with the department of telecom (DoT), regulator TRAI, and private telcos initiating new programmes to counter the menace that is also leading to cyber frauds and phishing attacks[3]. As companies navigate these regulations, they must strike a balance between timely disclosures and avoiding "over disclosure" which can lead to confusion and regulatory scrutiny.



[3]DoT, Trai and telcos give renewed thrust to counter spam, cyber fraudsters, The Times of India, September 2024

Talent, strategy, risk – a different TSR?

Seismic changes in India are prompting boards to rethink their oversight structures, shifting focus from traditional measures like TSR (total shareholder return) to a broader emphasis on talent, strategy, and risk management—critical for long-term value creation.

Board conversations with the CHRO and CEO about talent typically take place during succession planning, but the deeper question for boards is how the organisation handles the broader challenge of talent management.

Getting out in the field to meet the company's up-and-coming talent is more important than ever; talking with employees will provide directors with a ground-level view and potentially different messages from those they hear from management in the boardroom. The transformative developments in GenAI and related digital technologies aimed at increasing productivity should be prompting sharper board attention to employee training. Major technology investments are only as effective as employees' ability and propensity to use the tools.

Given today's volatile risk environment, boards should scrutinise strategy at every meeting, linking it closely with talent and risk management, especially around mission-critical risks and risk culture.

Questions for boards to consider:

- How are we redefining TSR to include a more nuanced understanding of talent, strategy, and risk, and how are we using these redefined metrics to guide long-term decision-making in a volatile market?
- Are we moving beyond traditional succession planning and focusing on building talent pipelines that can navigate the disruptive changes brought by GenAI and other emerging technologies? How are we preparing our workforce for future leadership roles?
- What steps are we taking to align our strategy and talent with evolving risks in 2024, particularly those posed by geopolitical instability, technological disruptions, and climate change?
- How can we leverage our strategic goals to build a more adaptable and innovative workforce that embraces change as a driver of growth, rather than a threat?
- What key risk indicators (KRIs) are we monitoring to ensure that our model remains capable of responding to emerging risks without compromising on long-term value creation?

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