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# On the 2024 board agenda

KPMG Nigeria Board Governance Centre

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**In 2024, companies should expect to face unprecedented disruptions and uncertainty driven by trade and geopolitical strains, economic volatility, ongoing inflation, and increased interest rates. Furthermore, there are disruptions in technology and business models, heightened cybersecurity threats, climate-related risks, and the impact of advancing artificial intelligence (AI) coupled with intensified regulatory measures, all contributing to the complexity of the business landscape in Nigeria.**

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

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

## Link boardroom discussions on strategy, risk, and global disruption

The current geopolitical and global economic landscape has undergone significant changes, exposing companies to a multitude of risks ranging from increasing fuel prices, policy uncertainty, foreign exchange scarcity, infrastructure deficit, security issues, currency devaluation, exit of multinational companies and investors amongst others. Additionally, businesses have to contend with challenges such as supply chain disruptions, cybersecurity threats, inflation, fluctuating interest rates, market volatility, and the looming possibility of a global recession.

At the same time, companies are grappling with potential disruptions to their business models and strategies due to the rapid advancement of digital technologies, particularly artificial intelligence (AI), including generative AI, and blockchain. Reflecting on these complexities, it is crucial for boards to assist management in re-evaluating the company's processes for identifying and navigating the risks and opportunities arising from geopolitical, economic, technological/digital, social, and environmental disruptions. This reassessment should extend to understanding the impact on the company's long-term strategy and the associated decisions regarding capital allocation.

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 processes. This necessitates regular updates to the company's risk profile, increased scenario planning, stress testing of strategic assumptions, analysis of potential downside scenarios, consideration of the interrelationships between risks, and seeking independent third-party perspectives. Companies should not only focus on reacting to specific 'events' but also proactively assess how these events may impact their business model and strategy. Furthermore, it is crucial to gain a deep understanding of the underlying structural shifts occurring in various domains, including geopolitics, demographics, technology, economics, climate, the global energy transition, and societal dynamics. Recognizing these longer-term implications is essential for informed decision-making and strategic planning.

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

In 2023, there were significant strides in the development and utilization of generative AI, particularly in its capacity to generate novel content like text, images, and videos. The advent of generative AI has become a central topic of discussion in numerous boardrooms as both companies and boards strive to comprehend the potential opportunities and risks associated with this rapidly evolving technology.

The potential benefits of generative AI span across different industries and might include automating business processes such as customer service, content creation, product design, developing marketing plans, improving healthcare, and creating new drugs. However, the inherent risks linked to this technology are substantial. These include the potential for inaccurate results, concerns about data privacy and cybersecurity, risks to intellectual property (including unintentional disclosure of sensitive or proprietary company information and unintended access to third-party intellectual property), as well as compliance challenges arising from the swiftly changing legislative landscape on a global scale.

Due to the strategic significance of generative AI for most companies, boards should actively monitor management's initiatives to establish and uphold a governance structure and policies governing the development and utilization of generative AI. This involves considering the following aspects:

- 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 company'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 organisation 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 (should) 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 and data privacy risk continues to intensify. The acceleration of AI, the increasing sophistication of hacking, ransomware attacks and data breaches as well s the ill-defined lines of responsibility – among users, companies, vendors, and government agencies – have elevated cybersecurity risk and data privacy risks, and its place on board and committee agendas.

The evolving complexity of cyber threats underscores the ongoing challenge of cybersecurity, emphasizing the necessity for management teams and boards to maintain a strong focus on resilience. Acknowledging that breaches and cyber incidents are inevitable, organizations must prioritize being well-prepared to respond effectively when such events occur. The emphasis is shifting from a question of "if" to "when."

Regulators and investors are demanding transparency into how companies assess and manage cyber risks while building and maintaining resilience. Also, the need for strong data protection measures have become more pressing in an age where personal data has replaced oil as the new currency

Additionally, there is a growing recognition that data governance, which encompasses compliance with industry-specific laws, regulations, and privacy laws governing the processing, storage, collection, and use of personal data, plays a crucial role in cybersecurity. Data governance extends beyond mere regulatory compliance to include policies and protocols related to data ethics, particularly in 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 board should ask the following questions: How robust and up to date is management's data governance framework? Does it address third-party cybersecurity and data governance risks?

In 2023, the enactment of the Nigeria Data Protection Act led to the establishment of the Nigerian Data Protection Commission, which was empowered to enforce adherence to the Act. This reflects the proactive stance of the Nigerian Government in advancing efforts to ensure that all companies falling under the purview of the Act comply with the specified data protection guidelines. Thus, underscoring the importance for the board to ensure that management is earnestly prioritizing compliance with the Act, thereby mitigating the risk of incurring fines, sanctions, and legal convictions.

## Embed the company's prioritised sustainability and climate change issues in risk and strategy discussions

Companies should expect the intense focus on sustainability/ESG to continue in 2024. How companies manage material (strategically significant) sustainability and climate change risks is being regarded by stakeholders including investors, activists, employees, customers, and regulators as fundamental to the business and critical to long-term value creation.

The clamor for attention to sustainability and climate change as a financial risk has become more urgent. Also, the frequency and severity of floods, rising sea

levels, and droughts; and concern by many experts that the window for preventing more dire long-term consequences is rapidly closing.

Regulators and policy makers globally are placing greater demands on companies to act – and ESG disclosures have become a priority on the list of actions required. Similarly, many investors continue to view material ESG issues as important. Similarly, many investors continue to view material ESG issues as important.

Several fundamental questions should be front and centre 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 emphasise Diversity, Equity and Inclusion (DEI) and wider 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 climate and sustainability reporting requirements

A critical focus area of board's attention and oversight will be management's initiatives to prepare for the unprecedented surge in climate and ESG disclosure requirements for companies in the coming years. Consequently, the board and its various committees will need to direct their attention to evaluating the company's readiness. This will require management conducting gap analyses, materiality assessments, and an assessment of the adequacy of existing resources, as well as identifying any new skills required to meet regulatory demands. Beyond the compliance challenge, companies must ensure that disclosures are not only consistent and accurate but also navigate the potential liability associated with greenwashing.

This significant undertaking will require the involvement of cross-functional management teams, including any management ESG committee – perhaps led by the Head of Sustainability or ESG controller – with multiple board committees including the Board Sustainability Committee (where it exists) overseeing these initiatives. This represents a substantial change and, consequently, a noteworthy opportunity to reassess reporting methodologies to align with stakeholders' needs and regulatory requirements. Companies should not overlook the chance to leverage new metrics for gaining insights into aspects of the business not previously considered, potentially uncovering changes necessary for the long-term success and resilience of the business.

## 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 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, 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, the nomination & governance, remuneration, sustainability and audit committees may each have some overlapping oversight responsibility for climate, human capital management (HCM), and other ESG risks. If cybersecurity and data governance oversight reside in (say) a technology committee, the audit committee may also have certain oversight responsibilities (say, 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 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.

## Clarify when the CEO/company should speak out on social issues

Polarising social and political issues are moving front and centre in the boardroom. With employees, customers, investors, and stakeholders sharpening their scrutiny of a company's public positions, when should a CEO or company speak out on controversial issues, if at all? As many companies have experienced firsthand, the consequences of speaking out – or remaining silent – can be significant.

When does the company have a responsibility to take a position?

Consider what role the board should play in addressing this question and establishing parameters for the CEO and the company. Some boards have written communication governance policy; others have an informal understanding that the CEO will confer with board leadership before speaking on a controversial issue while some other companies have cross-functional management committees to vet issues on an ongoing basis to determine when speech is appropriate.

We've gleaned a number of considerations or criteria from directors and business leaders for determining whether or not the CEO should speak out on highly charged social and political issues:

- Is the issue relevant to the company and its strategy? Is it aligned with the company's culture, values, and purpose?
- How will speaking out resonate with the company's employees, investors, customers, and other stakeholders? Understanding in advance the issues of importance to each group is vital. Employees increasingly choose where they work based on company values.
- As the views of stakeholders are not uniform, how should CEOs and companies manage the inevitable criticism of their decision to speak or not speak? Having felt the backlash of speaking out on social/political issues, some companies have adjusted their approach to taking action without publicising what they're doing.
- Not speaking out can be as powerful as 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?
- Make sure in advance that the company's lobbyingand political contributions are aligned with its speech.

## 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 in the face of a labor-constrained market and a significant turnover of skilled professionals.. To this 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.
- 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? Those strategies may 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 in the marzipan 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 recognise that many boards may not have experts in all the functional areas such as cybersecurity, ESG, HCM, etc., 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, 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 2024, as a topic for communications with the company's institutional investors and other stakeholders, enhanced disclosure in the Annual Report and Accounts, 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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