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On the 2019 Board agenda

KPMG Singapore Board & Governance Institute

Board agendas should continue to evolve in 2019. Game-changing implications of technology/digital innovation, scrutiny of corporate culture and leadership, growing demands for companies to address environmental and social issues, and investor expectations for greater board engagement, diversity and long-term corporate performance will drive a sharper focus on positioning the company for the future. Combined with a slowing economy, de-globalization pressures, trade tensions and geopolitical concerns, the year ahead will require a careful balance of near-term focus, agility, and long-term thinking.

Drawing on insights from our conversations with board chairs, board members and company secretaries over the past twelve months, we have highlighted some issues that, in our opinion, boards should keep in mind as they approach and execute their 2019 agendas.

1. Boardroom composition

Aligning boardroom talent with the company's strategy and future needs – both for the short–term and the long–term – should be a priority. Recent changes to the Singapore Corporate Governance Code (revised CG Code) and Singapore Exchange (SGX) Listing Rules require companies to look at their board composition and strengthen director independence.

From January 2019, the revised CG Code recommends for companies to adopt and disclose a board diversity policy which includes qualitative and measurable quantitative objectives (where appropriate), as well as to report on progress. From January 2022, the rules on the nine-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board will take effect. These amendments will pave the way for a progressive board composition featuring new skillsets, capabilities and ideas.

Boards should develop a board skills competency matrix in relation to the board's strategic direction. This should highlight the current and desired board composition requirements, current and future skills gaps, and time requirements to meet the new listing rules. They also need to be cognizant that regulators, investors and the media are increasingly holding the board accountable for a wide range of issues including board diversity, succession planning, independence, tenure, over-boarding and disclosure.

2. Disruption, strategy and risk

Advances in digital technologies such as cloud computing, robotic process automation and blockchain – and the speed of these advances – are disrupting business models and transforming how companies do business. Connecting digital disruption with risk management and strategy is more important and challenging than ever. The board plays a critical role in challenging the enterprise risk management process to ensure it is dynamic, relevant and connected to the company's strategy. Some questions to ask: Does management have an effective process to monitor technology changes in the external environment? Does the process provide early warning that adjustments to strategy might be necessary? How is the use of big data and advanced analytics driving the business? Is data being managed in a responsible, ethical manner?

3. Long-term value creation and the company's role in society

The revised CG Code recommends that boards consider and balance the needs and interests of material stakeholders as part of its overall responsibility to ensure that the best interests of the company are served. In addition, companies need to disclose their strategy and key areas of focus in relation to the management of stakeholder relationships during the reporting period in their annual reports. Boards should ensure that the mechanisms to engage in key concerns extend beyond material ESG factors to drive strategy and long-term sustainability. Is there sufficient information to show how the company is focused on long-term value creation and has taken the views of all key stakeholders into consideration?

4. Talent management and inclusion

CEO succession planning is a dynamic and ongoing process, and boards should develop potential candidates systematically so as to be prepared for a CEO change, whether planned or unplanned. How robust are the board's succession planning processes and activities?

The revised CG Code now recommends that the nominating committee consider succession planning of key management personnel as well. Does the human capital strategy ensure a robust pipeline of future leaders? Are succession plans in place for key executives? Are existing employees able to utilize existing and emerging digital technologies efficiently and effectively?

5. Corporate culture

The revised CG Code recommends boards to put in place a code of conduct and ethics, set the appropriate tone-from-the-top and desired organizational culture, and ensure proper accountability within their companies. The board should focus on the tone set by senior management and reinforce that there is zero tolerance for conduct that is inconsistent with the company's values and ethical standards, including any "code of silence". Align incentive structures with strategy and encourage the right behaviors.

6. Cyber security

Boardroom discussions should be addressing cyber security as an enterprise-wide business issue. A robust boardroom dialogue is vital to helping the company learn to live with cyber risks and making cyber security a core competency across the business. How frequently is the maturity of the company's cybersecurity risk management framework evaluated? Privacy rules such as the General Data Protection Regulation (GDPR) and Singapore Personal Data Protection Act 2012 (PDPA) should prompt rigorous assessments of companies' data practices. What risks do the use of big data pose, and who is responsible for making decisions about the collection and use of data?

7. Crisis management

Crisis prevention and readiness has taken on increased importance and urgency for boards and management, as the list of crises that companies have found themselves facing in recent years continues to grow. Crisis prevention goes hand-in-hand with sound risk management controls. The board can help ensure that management is weighing a broad spectrum of what-if scenarios. Is the company's crisis response plan robust and ready to go? Is the plan actively tested or war-gamed and updated as needed?

8. Geopolitics

As highlighted in Eurasia Group's Top Risks 2019, every single geopolitical development that matters has been trending negatively. Concerns about geopolitical risk can have a significant impact on board decision making. Practically all companies have either global suppliers, global customers, global investors or global competitors. As a result, scenario planning as a strategic tool is set to gain even more traction in the boardroom in 2019.

9. Shareholder engagement

Investors are becoming more active in pushing companies to adopt corporate governance best practices. While retail investors are still quite focused on the financial and dividend performance of a company, they are also becoming sophisticated and have greater interest in a company's strategies, development initiatives, operational performance, investment outlooks and even corporate social responsibility. Does the board understand investor views? Is the company prepared to respond to activist intervention?

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