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On the 2020 Board agenda

KPMG Singapore Board & Governance Institute

Prioritising board agendas will continue to be challenging in 2020 as game-changing implications of technological and 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-globalisation 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 work and conversations with directors and business leaders, we have highlighted some key issues that boards should note as they approach and execute their 2020 agendas.

STRATEGY (PERFORMANCE)

1. Identify geopolitical risks and opportunities and incorporate a geostrategy

A wide range of geopolitical events, cyber attacks on critical infrastructure, and escalating trade conflicts will continue to drive volatility and uncertainty. As Eurasia Group's founder and president Ian Bremmer, has noted, this environment "will require more investment in scenario planning and stress testing. It also means drawing up contingency plans to shorten supply chains, cutting long-term fixed costs, and limiting business exposure to political relationships that have considerable potential to go south." Boards should help management identify the risks and opportunities posed by geopolitical disruption and their impact on the company's long-term strategy.

2. Address sustainability and climate change risks

Climate change risk is becoming a significant strategic issue across many business sectors. Increasingly, central banks and financial regulators are starting to factor in climate change and its associated financial risks into their monetary policymaking given the potential for destabilising the financial systems.

With the Task-Force on Climate-related Financial Disclosures (TCFD) framework driving climate change disclosures, directors should encourage their management to start evaluating how climate-related risks and opportunities could affect the business in different regulatory, economic and climate scenarios.

GOVERNANCE (CONFORMANCE)

3. Approach cybersecurity and data privacy holistically – as data governance

Boards have made strides in monitoring management's cyber security effectiveness and addressing cyber security as an enterprise-wide business issue. Boards are now focused on establishing a holistic approach to data governance which encapsulates cyber security, compliance with industry-specific privacy laws and regulations, as well as new privacy laws and regulations, such as General Data Protection Regulation (GDPR) and Singapore Personal Data Protection Act 2012 (PDPA).

Data ethics is also an emerging issue – in particular, the way in which algorithms are programmed to eliminate potential biases and managing the tension between how the company may use customer data in a legally permissible way with customer expectations as to how their data will be used.

4. Build the talent in the boardroom around the company's strategy and future needs

Aligning boardroom talent with the company's strategy and future needs – both for the short–term and the long–term – should still be a priority. The 2018 Singapore Corporate Governance Code (revised CG Code) and Singapore Exchange (SGX) Listing Rules require companies to strengthen director independence. 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.

The revised CG Code also recommends that companies adopt and disclose a board diversity policy. These amendments pave the way for a progressive board composition featuring new skillsets, capabilities and ideas.

5. Help set the tone and closely monitor the culture throughout the organisation

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 organisational 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". Make sure that incentive structures align with strategy and encourage the right behaviours, and take a hard look at the board's own culture for signs of groupthink or discussions that lack independence or contrarian voices.

6. Take greater ownership of tax governance

Governments, community groups and the media are increasingly aligned in their desires to hold businesses accountable for paying the right amount of tax. If a company is perceived as not paying its "fair share", this can adversely impact its brand and reputation, and it may even affect its "social licence to operate" (and operate profitably) in local communities and the global marketplace. Boards should proactively and explicitly oversee tax risk, including the tax impact of the digital economy, and evolving tax requirements (such as Base Erosion Profit Sharing schemes).

7. Have a crisis response plan in place and practice it

Crisis readiness goes hand-in-hand with good risk management – identifying and anticipating risks and putting in place a system of controls to help prevent crises or mitigate their impact is critical in this era of intense media coverage and rapid information dissemination. The board can help ensure that management is weighing a broad spectrum of what-if strategic, operational and financial 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?

FUTURE PROOFING (TRANSFORMATION)

8. Link boardroom discussions on strategy, risk and global disruption

As digital technologies such as cloud computing, AI and blockchain continue to advance in terms of capability and application, their impact on risk assessment in terms of disruption as well as protection solutions becomes as increasingly important as it is challenging. Boards are increasingly aware that most companies' risk management processes are not fully robust – being unable to identify emerging and disruptive risks. 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.

9. Build a governance framework for innovation

Innovation has a direct impact on business issues such as growth strategy, investments, and the creation of new businesses. It also relates to an organisation's ability to adapt to external changes and risk profile. The board needs to look at creating that balance, where the current business is managed strategically, and concurrently, provide capacity, room and guidance for innovation to co-exist with the current business exploits. Good innovation governance starts with having clear understanding to the reason for innovation, the scope and the amount of risks a company is willing to take.

10. Ensure a workforce transformation strategy and a robust leadership pipeline.

Given the complex and disruptive business and risk environment, it is essential that the company have the right CEO in place to drive strategy, navigate risk, and create long-term value for the enterprise. At the same time, the revised CG Code now recommends that the nominating committee consider succession planning of key management personnel as well.

As businesses transform, new skills are emerging while others are becoming obsolete. Boards need to ensure that workforce transformation is not lagging far behind technological transformation. Does the human capital strategy ensure a robust pipeline of future leaders? Are succession plans in place for key executives? Which talent categories are in short supply and how will the company successfully compete for this talent?

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