Recalibrating for the new reality

2022 Board Leadership Conference Highlights

The 2022 KPMG Board Leadership Conference—a virtual program for corporate board directors—featured live conversations with preeminent leaders and luminaries on the pressing issues driving business priorities and boardroom agendas.

From our conference conversations, for your boardroom conversations

Keeping up with the times: Agility and accountability in a stakeholder world

With investor and stakeholder views of corporate success and value creation changing fast, business and boardroom leaders should also be adjusting. As one director noted, "We're well past the era of the board seeing the company's mission as solely focused on the bottom line." A company's ability to succeed increasingly hinges on "how well it melds business objectives with policy and social issues." The shift to stakeholder capitalism—greatly accelerated by the events of 2020–21—has sharpened the focus on corporate responsibility and business' role in society, with more CEOs taking public stands on social issues. Ongoing disruption and uncertainty and deeper board engagement in strategy, risk, and ESG issues are also driving more frequent communication between the board and CEO. Like the companies they oversee, boards today have to be faster and more agile in responding to the issues facing the company and its leadership. Such agility may also mean replacing an underperforming CEO more quickly.

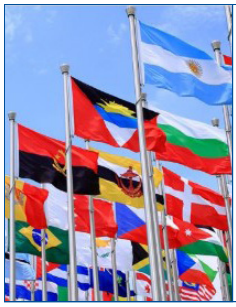
Additional reading

On the 2022 board agenda

Geopolitical risks and bright spots ahead

As highlighted in Eurasia Group's *Top Risks for 2022*, there's plenty for companies and their boards to consider on the geopolitical front in 2022: China's zero-COVID policy potentially impacting emerging market growth and global GDP; the increasing dominance of big tech—giving rise to regulatory questions around data protection and privacy unknowns ahead of U.S. elections; and the challenges of transitioning to a lower-carbon economy, for starters. While the geopolitical landscape remains complicated, there are reasons for optimism: the COVID pandemic is likely becoming endemic; U.S.-China tensions will likely be overshadowed by economic cooperation and codependencies; and most advanced industrial democracies are, by and large, faring well.

Additional reading



Eurasia Group's Top Risks 2022

Driving major transformations with overcommunication and "true north"

Business model disruptions—sparked by COVID-related shifts to "digital everything," changing consumer behaviors and employee expectations, and a dynamic risk landscape—are putting corporate transformations to the test. Defining the end state of a transformation and having an experienced team as well as a strong ecosystem of expertise are pivotal to the outcome. Good governance around the transformation initiative, including early engagement with, and regular reporting to, the board is critical to keeping the effort focused on "true north." Importantly, over-communicating to employees and making people part the process can help overcome organizational resistance and draw out the resilience in the company's culture.

A difficult road back to trust and transparency

The problem seems intractable: Nearly half of Americans get their news and information from social media,[1] where algorithms amplify and accelerate the spread of misinformation with little (if any) counterbalance. Distrust in the media abounds, with implications for news and the public square, corporate reputations, and the trust that drives open societies. With traditional journalism struggling under cost cuts and shrinking attention spans, the road back to trust and public discourse based on a "shared reality" will be challenging—particularly given the polarized and largely unregulated state of social media. Corporate culture, responsible algorithms, regulation, and renewed investment in journalism will all shape how today's infodemic unfolds and whether the currency of trust regains its value.

Climate change driving innovation

As the urgency of addressing climate risk mounts, innovation and the role that business plays are in the spotlight. The ascendency of nongovernmental actors in dealing with climate change (reinforced by limited progress at COP26 in Glasgow) has moved climate conversations front and center in boardrooms as investors increasingly hold boards accountable for a company's action—or inaction. How companies prepare for a lower-carbon economy and respond to calls for greater transparency about their climate impact are increasingly integral to corporate risk, strategy, and reputation. Though bumpy and potentially transformational for many companies, the transition from fossil fuels to clean energy is already driving innovation and change—as a business imperative, responsibility, and opportunity.

Additional reading

Boardroom climate competence: Getting ahead of the curve

Managing the cybersecurity trade-off (won't get any easier)

The trade-off between security and usability will continue to challenge companies' cybersecurity efforts in an increasingly complex and interconnected world. The shift to "remote everything," acceleration of digital strategies, increasing sophistication of hacking, surge in ransomware attacks, and ill-defined lines of responsibility—among users, companies and their supply chains, and government agencies—have raised the stakes on cybersecurity as a critical business and reputational risk. As companies strive to balance security, usability, and cost, the board's understanding of technology issues as well as the policies and geopolitical forces impacting cyber risk and data governance practices will be critical—along with keeping the fundamentals in focus. What are the company's most valuable digital assets and how are they being protected? What is the company's response plan—including disclosures to investors—for a major breach? Are the company's talent and resources keeping pace with evolving cyber threats?

[1] Mason Walker and Katerina Eva Matsa, News Consumption Across Social Media in 2021, Pew Research Center, September 20, 2021.

On the 2022 audit committee agenda

The crises of 2020-21 and the disruptions they've triggered—from accelerating technology transformations to upending long-standing "norms" of the workplace, business models, and the economy—have added significant stress and strain to financial reporting processes and the risk and control environment. "The labor-constrained environment has compelled audit committees to reevaluate what inspires, attracts, and retains talent in the finance organization as well as internal audit." Those same conditions have also brought greater focus for audit committees on how audit firms are staffing engagements, and "bringing the right skills and experiences to the audit." Additionally, while the audit committee's responsibility for oversight of cybersecurity and IT risk varies by company and industry, a key area of focus is cyber controls in the context of internal controls over financial reporting, as well as the adequacy of management's disclosure controls and procedures for cyber breaches—which have been the focus of SEC attention.

Additional reading

On the 2022 audit committee agenda

On the 2022 compensation committee agenda

Many compensation committees have taken on responsibility for oversight of human capital management, as reflected in updated committee names and charters, and in some cases, the addition of human resources experience. For 2022, do a deep dive into how the company's pay structure aligns with its current strategy. While the approach should be "noses in, fingers out," it's important to communicate why the company's policies are in the best interest of the company and shareholders. In addition to the link between pay and performance, consider how executive pay aligns with the company's values and culture. In considering whether to tie executive compensation policies to ESG, look at the company's ESG strategy and determine what measures define achieving it. If ESG metrics are added to the incentive program, clearly communicate them, and ensure consistency among those disclosures wherever they appear. Finally, solicit feedback from the company's largest shareholders during the proxy off-season.

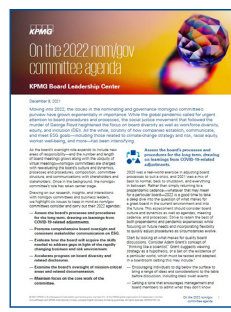
Additional reading

On the 2022 compensation committee agenda

On the 2022 nom/gov committee agenda

Nom/gov committees should take a hard look at board processes, succession planning, and committee structure, and determine what adjustments made during COVID they may want to keep going forward. Many boards are adopting a hybrid approach that incorporates in-person and virtual meetings, but the mix should be tailored to the board's needs and dynamic. Shifts in strategy in recent years may require revamping succession planning processes with an eye toward a different mix of leadership skills, both in the C-suite and in the boardroom. Finally, reassess committee structures to avoid gaps and overlap. Look at how the risk profile of the company has changed and map it to the full board and its key committees. Update committee charters accordingly. And as many boards refresh their composition by bringing on first-time directors, the committee should help ensure that new directors get extra mentoring to help them get up to speed and contribute.

Additional reading



On the 2022 nom/gov committee agenda

About the KPMG Board Leadership Center

The KPMG Board Leadership Center (BLC) champions outstanding corporate governance to drive long-term value and enhance stakeholder confidence. Through an array of insights, perspectives, and programs, the BLC—which includes the KPMG Audit Committee Institute and close collaboration with other leading director organizations—promotes continuous education and improvement of public and private company governance. BLC engages with directors and business leaders on the critical issues driving board agendas—from strategy, risk, talent, and ESG to data governance, audit quality, proxy trends, and more. Learn more at kpmg.com/us/blc.

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