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Risks and opportunities ahead

Insights from the 2023 KPMG Board Leadership Conference

Disruption, uncertainty, risk, and opportunity permeated all facets of the discussions at the Board Leadership Conference (June 13–16 in Carlsbad, California), where more than 200 directors, KPMG leaders, governance experts, and speakers addressed the challenges and opportunities posed by the high level of disruption and uncertainty companies are facing today.

Widening the aperture

Amid growing geopolitical risk and disruption, global economic volatility and inflation, a new phase of the Russia-Ukraine war, domestic polarization, risks posed by generative AI developments, regulatory developments, and more, pressure for boards and audit committees to calibrate their agendas and oversight practices continues to mount.

Whether it's dealing with disruption and uncertainty, overseeing a growing array of risks, or questioning whether changes in the business and risk environment require a shift in strategy, speakers and panelists reiterated the importance of having a diverse set of experiences and skills in the boardroom and throughout the organization, hearing diverse opinions from outsiders, and cultivating and reinforcing a culture that supports execution of the company's strategy and earns the trust of stakeholders.

Keynote speakers including Katie Couric, Judy Woodruff, and Leon Panetta widened the aperture by addressing the macrochallenges facing the country and the world—from disinformation to political polarization and climate risk—and emphasized the importance of leadership from corporate America in the defining months ahead.

Economic and geopolitical landscapes

As speakers and panel members emphasized, much has changed in the geopolitical and global economic environment, and companies face "an onslaught of risks." At the macro level, we have shifted from an era of convergence to one defined by fragmentation and de-risking. From the end of World War II until a few years ago, there was a "a coming together" on trade, capital flow, and accounting standards, but the current environment is marked by divergence and fragmentation. As one geopolitical observer noted, "China was expected to become more like the US, but that hasn't happened."

The geopolitical hot spots highlighted include the following:

- **The escalation of the Russia–Ukraine**, war which is entering a dangerous phase with a Ukrainian counteroffensive underway and the possibility for more escalatory outcomes. Conditions appear to be in place for Western support of Ukraine for the immediate future, but prospects for a diplomatic resolution are off the table for the foreseeable future.
- **The continuing deterioration of the US–China relationship**, described as one of "managed decline." While it appears that neither side wants escalatory incidents, they cannot be entirely ruled out.

- **The disruptive potential of generative AI**. From a political, social, and geopolitical perspective, there is potential for massive disruption caused by misinformation or disinformation.
- **The polarization of society**. As one observer noted, "The geopolitical risk I worry most about is the polarization of our society, and our country's vulnerability to misinformation."

These and other risks, including supply chain disruptions, cybersecurity incidents, inflation, interest rates, market volatility, and the risk of a global recession—combined with the deterioration of international governance—will continue to drive global volatility and uncertainty.

This environment calls for realistic assessment of the company's capabilities in managing global geopolitical and economic risk and uncertainty—and that includes risk management, as well as business continuity and resilience. A continual updating of the company's risk profile and more scenario planning, stress testing strategic assumptions, and analyzing downside scenarios will be essential for staying agile.

Business leaders and boards need to assess the speed at which risks are evolving, their interconnectedness, the potential for multiple crises at the same time, and whether there is flexibility in the company's strategy to pivot. Directors should ensure that they hear diverse perspectives, that the right people are talking to the board, and that a variety of voices are heard.

Boards should be sharpening their oversight of how management is reassessing the company's processes for identifying and managing these risks and their impact on the company's strategy and operations.

- Is there an effective process to monitor changes in the external environment and provide early warning that adjustments to strategy might be necessary?
- How has the company's risk profile changed as its supply chain has been reshaped?
- Is the company prepared to weather an economic downturn?

As one speaker noted, risk events matter, but it's much more important to think about the broader structural environment that raises and lowers the probability of each risk and to understand the different possibilities. Rather than focusing on events, which is reactive, take a forward-looking approach that doesn't focus on forecasting specific risks.

Boards can help management keep sight of how the big picture is changing: connecting dots, thinking differently, and staying agile and alert to what's happening in the world. Use a variety of curated sources and open-source information to obtain different views. Disruption, strategy, and risk should be hardwired together in boardroom discussions.

Also, challenge and question management's crisis response plans: Are they robust, actively tested or war-gamed, and updated as needed? Do they include communications protocols to keep the board apprised of events and the company's response, as well as to determine if and when to disclose matters internally and/or externally?

Make business continuity and resilience part of the discussion. Resilience is the ability to bounce back when something goes wrong and the ability to stand back up with viable strategic options for staying competitive and on the offensive in the event of a crisis. As one speaker suggested, "Focus on resilience and prepare for the idea of disruption and practice dealing with disruption."

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Generative AI, virtual reality, and digital disruption

Advances in generative AI, an emerging metaverse, and the steady march of 5G and blockchain mean that almost all businesses and boards are grappling with the fast-changing digital world.

While the business use cases of virtual reality continue to grow beyond gaming—including virtual marketplaces and digital twins/simulations—the implications of AI as an accelerant for digital transformation and disruption dominated the conversation.

Panel members discussed the rapid advances in the development and use of generative AI—the promises and perils of the technology—and its ability to create new, original content, such as text, images, and videos. Indeed, generative AI has been a focus of discussion in most every boardroom, as companies and their boards seek to understand the opportunities and risks posed by the technology—a challenge given the pace of the technology's evolution.

While generative AI is still in its infancy, it is gaining rapid momentum and entering the mainstream. As we heard from panel members and directors, most boards are focused on understanding generative AI and its potential benefits and risks for the company. Three related themes stood out:

- The need to reassess the governance structure for board and committee oversight of generative AI
- Getting the board up to speed, so that all directors have a basic understanding of generative AI—its potential benefits and risks, and how the company might use the technology
- The importance of establishing a governance structure and policies early on regarding the use of the technology by employees and updating those policies to address risks the technology poses.

(For more on AI, read "*Assessing the Risks and Opportunities of Generative AI.*")

People as an asset

Disclosing more information about employees and human capital management continues to be front and center for regulators, investors, and companies themselves. One speaker suggested that viewing employees as a cost makes it "easier for investors to figure out what's happening"—e.g., voluntary turnover rates and associated expenses; training and talent development; leadership development; and diversity.

Regulatory movement toward greater disclosure of a company's human capital management is expected later this year with the SEC's proposed rule on human capital management (HCM) disclosures. The HCM proposal could include detailed quantitative and qualitative disclosures on workforce-related topics like diversity, turnover, compensation and benefits, and training. It is unclear whether the proposal will also require more expansive disclosures regarding a company's governance, strategy, and risk management for its HCM.

Collecting data and metrics for disclosure and compliance purposes will pose challenges, but panelists noted that "truly understanding the health and well-being of the employee base is the information that boards need to keep management focused on." As one speaker noted, "You want to know what employees think and if they're content. Employee sentiment surveys can be helpful. Do employees feel they are receiving the training and education essential to their development? How do they view the company? Do they feel valued? Over time, you see patterns. If a company does not give you the data, as a board, this can be telling."

As for whether boards need HCM expertise, one panelist shared this view: "As a board, you need to ask questions about employee data. You need to understand the incentives driving behaviors. Get outside of the boardroom and hear what employees are saying and how they view the company. HR background can be helpful but it's not required. Ultimately, what investors want is a successful corporation."

Trust, corporate culture, and resilience

Speakers highlighted the growing importance of building trust among the company's stakeholders—including investors, customers, employees, and communities—as well as understanding the company's culture "on the ground." As highlighted by the 2023 Edelman Trust Barometer[2], business continues to rank highest among the institutions that people trust most—ahead of government, media, and non-governmental organizations. Along with that trust, however, comes expectations for business to help address society's most challenge problems—from climate change and political polarization to the ethical and existential concerns related to generative AI. Indeed, employees, particularly Gen Zs, want to work for companies that align with their values. Trust, noted one speaker, is increasingly being applied to the board's reputation. When something goes wrong, the question "Where was the board?" is coming up much more frequently.

In related discussions, it was noted that building a culture of integrity and resilience requires not only clearly communicating the company's values and ensuring accountability, but understanding the actual culture and subcultures throughout the company. As one director noted, subcultures are not necessarily a bad thing, but understanding whether there are multiple cultures—and the incentives driving their priorities and behaviors—is an essential part of the board's job. The disruptions and transformations that companies are facing today, such as remote workforces and the use of generative AI, have raised the stakes in this critical area of board oversight.

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[1] Monika Brown, "Boom of Intangible Assets Felt Across Industries and Economy," UCLA Anderson Review, April 19, 2023.

[2] 2023 Edelman Trust Barometer Global Report, January 15, 2023.

Conference speakers and moderators

Claudia Allen – Senior Advisor, KPMG Board Leadership Center

Susan Angele – Senior Advisor, KPMG Board Leadership Center

Matthew Ball – Pioneering Tech Authority, Venture Capitalist & Bestselling Author of The Metaverse

Annalisa Barrett – Senior Advisor, KPMG Board Leadership Center

Stephen Brown – Senior Advisor, KPMG Board Leadership Center

Ron Brownstein – CNN Senior Political Analyst, Senior Editor for The Atlantic, and Contributing Editor for National Journal

Adam Bryant – Senior Managing Director and Partner, ExCo Group; Author, The CEO Test; and Former Columnist, *New York Times*

Katie Couric – Founder, Katie Couric Media

Lisa Daniels – Vice Chair, Growth and Strategy, KPMG LLP

Jackie Daylor – Partner, Audit, KPMG LLP

Peggy Foran – Chief Governance Officer, Prudential Financial, and Director, Orion Group Holdings Inc.

Miriam Hernandez-Kakol – Director, Hovnanian Enterprises, Hispanic IT Executive Council (HITEC)

Robert J. Jackson Jr. – Professor of Law, NYU School of Law, and Former SEC Commissioner

Cliff Justice – US Leader, Enterprise Innovation, KPMG LLP

Jannice Koors – Senior Managing Director, Pearl Meyer

Alex Kazan – Chief Commercial Officer, Eurasia Group

Lisa Madden – Vice Chair, Risk Management, KPMG LLP

Leon Panetta – Former US Secretary of Defense, Director of the Central Intelligence Agency, and White House Chief of Staff

Miguel Paredes – Vice President of AI & Data Science, Albertsons Companies and AI Fund Fellow

John Rodi – Leader, KPMG Board Leadership Center

Myrna Soto – Director, CMS Energy, Spirit Airlines, Popular Inc., TriNet, Delinea, Headspace Health, Vectra.ai

Lex Suvanto – Chief Executive Officer, Edelman Smithfield

Diane Swonk – Chief Economist, KPMG LLP

Sandy Torchia – Vice Chair, Talent and Culture, KPMG LLP

Jake Walko – Managing Director, ESG Investing & Global Investment Stewardship, Thornburg Investment Management

Judy Woodruff – Senior Correspondent, PBS NewsHour

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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