Navigate through the global and local boardroom agenda

Top of mind topics for board members

Regardless of their size, industry and other characteristics, companies frequently face a constant stream of challenges, old and new. Every challenges demand attention or action. Investors, regulators and other constituencies--and directors themselves--expect boards to rise to, and address these challenges. Board members are expected to address the complex challenges businesses are facing in the current environment while fulfilling their fiduciary duties. Moving forward for Thailand, this article demonstrates what could be on the board's agenda in 2019 onwards by identifying key common and different agenda from the US, UK, and Australia.

Recent publications on the board’s agenda from Deloitte’s Center for Board Effectiveness (US), The Deloitte Academy (UK), and the Australian Institute of Company Directors (AICD) share both similarities and differences in their view on what could be in the board’s agenda. The two publications from Deloitte US and UK share considerable amounts in common in terms of a broader picture of what trends and challenges board may face such as social purpose issues, board diversity, regulatory development, risk and viabilities, and compensation. While AICD focuses solely on the future of boardroom composition, it strongly portrait the trend towards the future face of the boards and it's alignment with organization strategy and Environmental, Social and Governance (ESG) performance for the next decade.

By considering all aspects shared by the three countries, we believe that in moving forward for Thailand's board agenda, there are five major agendas/issues to be reckoned for the coming years;

1. ***Responsible business: Boards must be careful to go beyond intent and describe the true experience of stakeholders***

The interest in corporate social purpose has been around for quite some time in both UK and US from climate change to sustainability. Not only that investors are more focus on their belief over corporate' role in society beyond monetary returns to investor but also from the employee's perspective, corporates have been experiencing employee activism causing work stoppages and protest. Additionally, companies increasingly recognize to embrace social purpose issues in order to provide a stronger value proposition in terms of differentiation, access to capital, and sustainability.

That might be the reason why several groups in the US are developing standards to evaluate sustainability performance by corporations while the UK Governance Code 2018 reflects the increased expectations of companies to clarify their intended relationship with the wider world and make a positive impact through their core business.

This year, we explore the developing pressures on companies from the PRA, FCA[1] and investors to move toward incorporating the voluntary

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[1] **The Prudential Regulation Authority (PRA)** is a United Kingdom financial services regulatory body, responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers

recommendation of the Task Force on Climate-related Financial Disclosure (TCFD) in the annual report. Some example of the recommendations include organization's governance around climate-related risks and opportunities; actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning; how the organization identifies, assesses, and manages climate-related risks; and the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

By being responsible business in today's world, board can no longer deliberate only their impact to society, but being equally important, board must also incorporate other consequences from wider stakeholder considerations including their corporate culture in order to avoid culture risk borne by negative culture on the bottom line or in another words, employees. On the upper hand, positive culture can create positive impact on your company by being the company that others want to do business with. This task could be difficult because at board level, you are normally unaware of the corporate culture as you are not always present in company offices. However, tools such as employee engagement surveys could help boards to assess and oversee corporate culture to make sure that the potential risk and threat are minimized.

2. Board compositions: Boards will need to try harder to gain action required to deliver significant movement on board diversity

Board composition has always been on the boardroom agenda for decades. The importance of it has been increasing over the past few years as witnesses from numerous government initiatives around board diversity.

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and major investment firms. It sets standards and supervises financial institutions at the level of the individual firm.

Financial Conduct Authority (FCA) is a financial regulatory body in the United Kingdom, but operates independently of the UK Government, and is financed by charging fees to members of the financial services industry. The FCA regulates financial firms providing services to consumers and maintains the integrity of the financial markets in the United Kingdom.

As time passes, the board composition has become even broader and more complex with not just combination of skills set but also include other aspect of diversity such as gender, age, ethnicity, race, educational background, and professional backgrounds.

The prediction of AICD suggested more in that the future of the board composition will be younger as baby boomers generation will start to leave the workforce, paving its way toward younger generation to renew the board. This also align with Thailand context as we are now moving toward "Aging Society"; there will be more investors on boards as investors seek greater say in companies they own; and interestingly, as "Disruptive Technology" has been in the global trend for more than decade, the concept of robo directors might not be so far-fetched after all. When talking about 'robo' director, we do not expect to see robot directors to replace human directors. It is more likely that the software algorithms will be used as an input to help boards to understand their organizations they governed better so that they can make the right decision that best fit their organization, such as modelling executive pay outcomes. However, if the execution of these algorithms are in place, it might encourage firms to reduce their board sizes as the technology can do the routine tasks of many directors.

Even though there has been strong pressure on the board development on diversity, companies have failed to deliver significant movement as the challenge for companies aiming to increase diversity is self-reporting - the need to ask employees to inform the company about their protected characteristics in order to analyze diversity, improve policies and publish information. However, there are several good practice actions that can be implemented by companies and help towards reducing self-reporting barriers. These include internal communications campaigns to highlight to staff how data collected will be used to support equality, collecting data at regular intervals and on a rolling basis, publishing equality reports that show workforce breakdowns of employees by protected characteristics; monitoring recruitment bias; and establishing working groups or action plans to address ethnicity and disability pay gaps.

3. Compensation: Board must justify their approach in companies rewarding system as theirs pay ratio is being spotted

Compensation has been another one of the top and perhaps longest-standing issues on boardroom agendas and it shows increasing attention from investors. The area of focus in the coming year for UK is widening the remit of the remuneration committee. The new UK Corporate Governance Code will expand the remit of the remuneration committee, with a view to ensuring that executive pay decisions are made through a broader lens, and outcomes are clearly explained to wider stakeholders.

In the US, ongoing challenges still in debate includes CEO pay ratio disclosure and director compensation. Since the start of US companies' requirement to disclose CEO pay ratio in 2018, board can definitely anticipate questions rising from investors in terms of a ratio breakdown. Director pay has recently become a hot issue due to large payouts resulting from rising stock prices. As a result, many boards have been examining their pay packages and considering caps on pay to minimize concerns. In addition, as social issues and corporate culture are in the spotlight, investors are paying more and more attention to gender and ethnicity pay gaps and severance pay for executives who have left the company due to violation of company policy whether the severance pay was granted and why?

Exercising discretion when determining incentive payouts can be fraught with difficulty, and using a methodical approach or framework to assess whether the formulaic outcome is fair is vital in order to reach a position which is robust from the perspective of both executives and shareholders. Now more than ever, executive pay must stand up to external scrutiny and, in particular, not be excessive where performance does not justify it.

4. ***Risks and viabilities: Board must have clear approach to risks especially now that risk landscape evolves to disrupt strategies, business models, markets, and customer behavior***

It has always been an obligation for the board to oversee risks that could have impact on their organizations in all aspects of their business, such as brand and reputational risk, strategic risk, and a number of risks associated with technology. Boards need an integrated perspective that can help them to understand the full risk landscape and its potential impact on the organization. They will need to broaden their perspective in their view on risk especially for the coming year as innovation, technology, and regulation evolve, so the risk landscape also evolves to disrupt strategies, business models, markets, and customer behavior. To protect and enhance long-term value, companies need to have a dynamic and active approach to risk. Risk that comes from innovation and disruption might have a more significant impact on companies that choose not to innovate, because they may fall behind disruptive competitors, as well as those that seek to transform their businesses, because they may incur significant losses or worse if unsuccessful.

Cyber risk is an area where boards should be very cautious as it could have an impact on every aspect of a company's business, including critical relationships with customers, suppliers, regulators, and others, as well as ongoing reputational risks. Hence, it is important for the board to find way to manage cyber risks and communication approach to investors and stakeholders effectively. There are programs that can help boards to oversee risks in order to make profound decisions regarding cyber or other risks such as Enterprise Risk Management (ERM) program.

Today's economic climate and the preponderance of the fraud schemes has forced organizations to take a stronger anti-fraud stance. The effectiveness on fraud risk oversight of the audit committee is a key element in significantly reducing the fraud risk at an organization and increasing the likelihood that, if fraud does occur, the organization have a mechanism to detect fraud at an early stage. To achieve this, the audit committee should be more proactive to combat fraud and explore solutions of fraud risk management that best suits to your organization.

Other emerging risks such as economic crises, market movement, regulatory changes and social media backlash can present major risks in an interconnected world such as Brexit, US-China Trade War, and especially recent election incident in Thailand. Board should make sure that their company forecast incorporates clear scenarios around the potential impacts of these emerging risks on their business and prepare to take necessary steps to mitigate these risks.

5. Regulatory development: Board will need to be mindful of emerging regulatory development and work with related stakeholder in framing company's business practices

Another area in which board should not overlook is regulatory development. Each year there may be some revision on regulations related to businesses boards sit in. For example, regulation related to audit quality of the auditor reports, trade regulations and antitrust enforcement, reporting on tax, or non-financial information statement and other new accounting standards, etc.

In the beginning of 2019, the Securities and Exchange Commission or SEC in the US announced that auditor reports for large, accelerated filers will have to include a new section addressing "critical audit matters" (CAMs). FRC in the UK issued an update to its Strategic Report Guidance that the disclosures required by the Non-Financial Reporting Regulations

(NFRR) must be a separate statement within the strategic report. In Thailand, the transfer pricing law, which was approved by the National Legislative Assembly in September 2018, was enacted and published in the Royal Gazette on 20 November 2018. The new law was effective for accounting periods commencing on or after 1 January 2019.

Hence, board must consider these regulatory developments and continue to work with related stakeholders on those particular areas such as audit committee and their auditors to assess the nature and extent of reports. The nature of this type of development will stands tight in the board's agenda in moving forward.

Conclusion

The five agendas mentioned in this article are just some of the main agenda extracted from board's related papers that we believed to be on the boardroom agenda for the next coming years. This year, we focus on the opportunity to enhance reputation and trust in business and highlight the ever-increasing reporting requirements about the wide range of activities undertaken by companies as they go about their daily affairs. The purpose of companies is being redefined in a more responsible manner, with the goal of creating higher living standards for all. Business conduct is also becoming more transparent. There will definitely be other agenda items appearing on Thai's board agenda as well and, given the rapidly changing governance and political environment, it is likely that new matters will come to the fore. Serving on a board of directors will continue to be a challenging role.

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