EY Center for Board Matters

2022 board priorities

How Asia-Pacific boards can plan for success

EY Building a better working world

2022 board priorities: Asia-Pacific boards

In brief

- From cyber risks to border closures, the lingering impacts of the pandemic are challenging organizations and their boards in Asia-Pacific.
- Global and regional factors such as rising inflation, ESG-focused investors and a younger demographic are creating new risks and opportunities.
- Boards can help their organizations succeed by embedding ESG and digital in their strategy, focusing on talent and culture, and using scenario planning.

Introduction

Production and supply chain issues due to employees falling ill or isolating; closed borders preventing the free movement of top talent; increased cyber risks stemming from remote working. COVID-19 continues to test organizations and their boards across Asia-Pacific. But they're also grappling with a raft of other global and regional factors, from war in Ukraine, and rising inflation to continued progress toward becoming a digital society.

On the upside, Asia-Pacific remains the fastest-growing region in the world, with an International Monetary Fund growth forecast of 5.6%[1] in 2022 and record levels of M&A activity and value. A powerful engine for innovation, it produces exciting, consumer-driven technology to meet the needs of the world's largest millennial population (and, by 2025, the largest Gen Z population). And around half of global consumption in the next 10 years will happen in the region. As Patrick Winter, EY Asia-Pacific Area Managing Partner, said: "Asia-Pacific's resilience will continue to prevail in the years ahead. To capitalize further, boards must revisit their strategies through a new lens, as organizations digitalize faster, race toward net zero, and address critical talent shortages and retention."

But to help their organizations realize these opportunities, boards in Asia-Pacific will also need to help them manage the risks. In this article, we've set out the global and regional factors that continue to challenge boards in Asia-Pacific since we last highlighted priority areas 18 months ago. We've then suggested some actions boards can take, along with questions they should ask themselves and their management teams.

If you are doing business in other geographies, EY Center for Board Matters teams have also published 2022 board priorities for the US and EMEIA.

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Asia-Pacific boards must revisit their strategies through a new lens, as organizations digitalize faster, race toward net zero, and address critical talent shortages and retention

Patrick Winter

EY Asia-Pacific Area Managing Partner

[1] *International Monetary Fund, World Economic Outlook Update*, Rising Caseloads, a Distributed Recovery, and Higher Inflation, 2022

Chapter 1

The big issues on the table in Asia-Pacific boardrooms

Rising inflation, changing geopolitics and regional triggers are creating a unique set of challenges.

Since the EY 2020 article on priorities for Asia-Pacific boards, COVID-19 has continued to transform the business environment. But two other globally relevant factors are currently front of mind for directors across the region.

The first is rising inflation and the corresponding increase in the cost of debt. According to the EY 2022 CEO Outlook Survey, for more than 30% of Asia-Pacific CEOs, the primary driver for reconfiguring their supply chain is to reduce costs and minimize risks. The survey also found that 84% of Asia-Pacific CEOs have seen a significant increase in input prices, from commodities to energy.

Of course, when inflation rises, interest rates tend to follow – causing concern for any organization with significant debt in its capital structure. With "The Great Resignation" also exacerbating talent shortages, organizations are having to balance the ensuing cost pressures with the need to attract and keep good talent.

The second global topic is geopolitics. In the recent EY CEO Outlook survey[2], 69% of Asia-Pacific CEOs stated that geopolitical challenges are forcing them to adjust strategic investment. Asia-Pacific is at the center of some powerful alliances, while also balancing a number of trade and other geopolitical tensions. The US-EU-China relationship, for example, is expected to remain tense across a range of issues, including trade, technology and industrial policy. The volatility stemming from the war in Ukraine is also adding pressure on boards to address and anticipate market shifts driven by geopolitical developments. Boards need to stay on top of these issues given their substantial impacts on business operations, especially cross-border supply chains and data flows.

Add regional factors, such as growing regulation, and the result is a unique set of challenges for Asia-Pacific boards. Over the remaining chapters, we've looked at how boards can help tackle them by prioritizing three areas:

1. Environmental, social and governance (ESG)
2. Digital transformation and cyber security
3. Talent

While the challenges we discuss here aren't new, changes in the business operating environment have made them more pressing than ever. As such, boards and their management teams need to retune how they respond.

How EY can help

Geostrategic Business Group

Political risks are creating both challenges and opportunities for global organizations, creating an ...

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[2] EY, The CEO Imperative: Will a new competitive landscape spur M&A in Asia?, 2022

The CEO Outlook Survey 2022

69% The percentage of Asia-Pacific CEOs that stated geopolitical challenges are forcing them to adjust strategic investment.

Chapter 2

Three factors increasing the focus on ESG

Growing regulation, investor pressure and the impact of COP26 are pushing ESG even further to the fore.

ESG was high on the agenda for Asia-Pacific CEOs before the pandemic: in our 2019 CEO Imperative Survey, more respondents (40%) in Asia-Pacific cited climate change as a top global challenge than in the Americas or Europe.

This focus has only increased. A 2021 risk management survey from EY and the Institute of International Finance found that 90% of chief risk officers in Asia-Pacific banks see climate change as the top emerging risk in the next five years. Similarly, in EY 2022 CEO Outlook Survey, nearly three-quarters (74%) of respondents cited ESG as a more important driver of value over the next few years. And one-third (33%) said they have sustainability key performance indicators (KPIs) for creating long-term value.

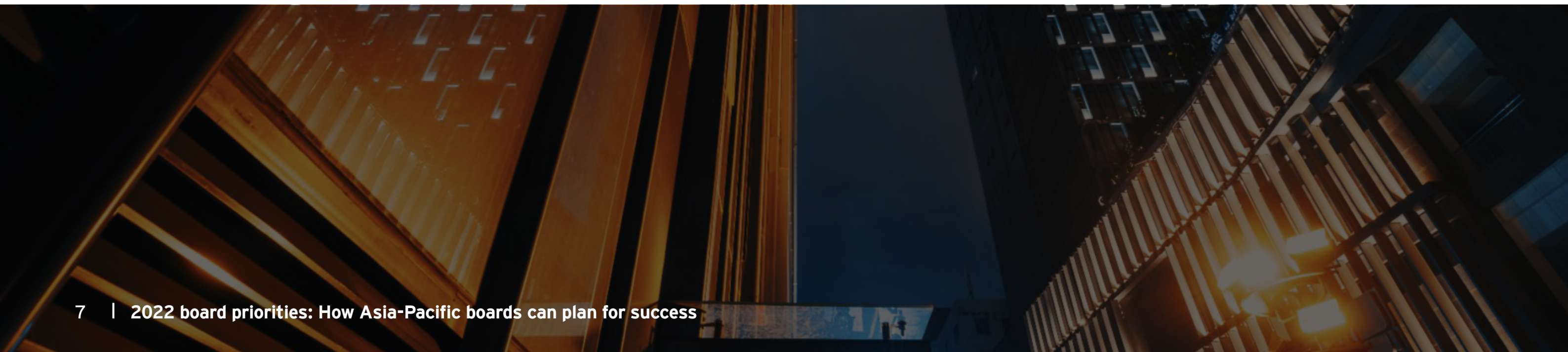
Three factors help to explain the shift:

1. At COP26, more than 40 countries signed up to transition away from coal. As Asia-Pacific is home to some of the world's largest carbon emitters, global pressure (public and political) to move to greener energy sources is growing faster than ever.
2. Investors are also upping the ante. In 2021 EY Global Institutional Investor Survey, 90% of Asia-Pacific investors versus 86% globally said having a strong ESG program and performance would have a direct effect on analyst recommendations.
3. Disclosures of ESG data have increased substantially across the region, making it easier for investors to measure progress against quantitative targets. In Hong Kong, the average disclosure score went up from 17 in 2010 to over 40 in 2020.[3] But because there's currently no regionally consistent reporting standard, or regional regulating body, the approach to regulation remains fragmented.

Of course, some organizations and markets are getting ahead of these trends. But just 26% of the Fortune Global 200 in Asia-Pacific have appointed a sustainability lead at director, VP or executive level. By comparison, the proportion is 81% in Europe, the Middle East and Africa, and 92% in North America.[4] So, there's clearly work to do in the region.

[3] Bloomberg, ESG disclosures gain traction in APAC, 2021

[4] Forrester, Forrester Asia Pacific Predictions 2022: 40% Of APAC Firms Will Make Anywhere-Work Permanent Versus The 70% Global Average, 2021



To meet the growing expectations of investors and customers, as well as comply with regulation, organizations in Asia-Pacific will need to pivot to more sustainable strategies for the long term. To achieve that, they'll need to hire talent with ESG expertise, including the ability to develop valuation models that capture the tangible and non-tangible elements of ESG value. They'll also need access to a pipeline of suitable talent.

Social factors matter too

There's more to ESG than the environment. The 2021 EY Global Institutional Investor Survey found that the two most important things for Asia-Pacific investors when evaluating a company on social issues are DE&I and consumer satisfaction.

For example, it's especially important that organizations in Asia-Pacific and their suppliers are transparent about their operations and workplace practices, among other factors. At EY, we've seen a significant change in the attitudes of consumers, which will affect their future behavior, buying decisions and preferences. The EY Future Consumer Index recently showed that 43% of global consumers want to buy from businesses that benefit society, even if it costs more to do so.

Asia-Pacific organizations that fail to respond to these shifts may come under heightened scrutiny from customers and investors. They may also find it harder to attract and keep more purpose-driven Gen Z talent. But geopolitical alliances can sometimes be at odds with the changes they need to make.

Encouragingly, ESG is the number one priority for many boards in Asia-Pacific. Having recognized its importance, their task now is to help management meet the expectations of stakeholders at the necessary pace and scale. That includes finding and keeping the right talent and deciding where to operate (and with whom).

How EY can help

ESG and sustainability

Integrate ESG and sustainability into business strategy, and improve and communicate performance ...

Read more

Sustainability leadership

26% The percentage of the Fortune Global 200 in Asia-Pacific that have appointed a sustainability lead at director, VP or executive level, compared to 81% in other parts of the world.

Article Reference: Forrester Asia Pacific Predictions 2022: 40% Of APAC Firms Will Make Anywhere-Work Permanent Versus The 70% Global Average, 2021

Chapter 3

The dangers of transforming digitally without investing in security

Wholesale digital transformation has been necessary, but it's also increased the risk of cyber breaches.

In Asia-Pacific as everywhere, the pandemic has forced organizations to shift to remote or hybrid working. They've also had to meet the increasing demand for online sales and seamless, cross-channel experiences. But their boards have had some more regional-specific factors to deal with, too.

As a global hub for innovation, Asia-Pacific is home to some of the world's largest tech unicorns (companies valued at more than $1b). As a result, organizations in the region understand better than most that collecting and using data effectively is central to their future. And boards are often at the forefront of pushing their organizations to stay committed to digital transformation.

The pandemic has also sent Asia-Pacific further up the path to becoming a digital society with five key components: digital citizenship, lifestyle, commerce, identity and connectivity.[5] (Indonesia is one of the world's fastest-digitizing countries, for example.) But remote working and reliance on third-party systems have increased the risk of being targeted by ransomware. And while most countries have now brought in regulations around cyber security and data privacy, the pace of change, and rapidly evolving landscape, mean that many organizations are repeatedly exposed.

As organizations shift to hybrid working structures, the cyber risks from working remotely will remain. Boards will need to help management prioritize investment in response and recovery, as well as vet third-party systems and suppliers and carry out simulations across the organization. They'll also need to look for ways to bring more technical knowledge on to the board or its committees, to help steer the organization through a wholesale digital transformation of its business.

How EY can help

Cybersecurity Transformation

Design, deliver and maintain your cybersecurity programs at the enterprise-level by embedding ...

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[5] GSM Association, Digital societies in Asia Pacific: Accelerating progress through collaboration (pdf), accessed 2021

Chapter 4

In Asia-Pacific more than anywhere, it pays to put people at the center

To capitalize on growth, organizations in the region need to create a place where people want to work.

Talent gaps don't only exist at board level. Closed borders have exacerbated the local talent shortage by making global mobility more challenging.

The resulting shortfall is pushing up the salaries: the cost of hiring and retaining cyber security professionals has increased by 20%–30% since 2019, for example.

"Notwithstanding the events in Europe, the global economy should still experience solid growth in the next two years, and organizations will need more talent than they currently have to take advantage of it," says Mark Barnaba, board member and chair of audit committees, including for the Reserve Bank of Australia. "But the environment for attracting and retaining people in key areas like ESG, digital and cyber security is even more difficult than before the pandemic. Boards and their management teams need to ensure they create the conditions which attract and excite the very best talent, and this is easier said than done."

The key to creating those conditions will be to put employees at the center of everything the organization does. That will mean focusing on employee wellbeing and embedding sustainability in the company purpose, to attract younger generations.

Allowing flexible working – for example, having the right hybrid working structure – and offering targeted employee benefits such as good parental leave will also be crucial to attracting people who value non-financial rewards. It's the board's role to make sure that management considers this longer-term proposition to employees and embeds it in their talent management strategies.

Change is the only constant – and planning is a big part of the answer

It's clear that boards in Asia-Pacific face a series of complex and interwoven challenges. To properly assess the information and make the right decisions, they need to continually educate themselves on global and regional challenges, as well as on the opportunities for their businesses. They need to use regular scenario planning to stay competitive. And they need to change not only who they work with on their management teams (in terms of which new roles) but also their ways of working. In other words, they may need to adopt new operating models as their organizations transform, as explored in this board governance article (pdf).

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> **Mark Barnaba,** Board member and chair of audit committees, including for the Reserve Bank of Australia

Solving these inter-connected challenges won't be a one-person job, nor will it happen overnight. As ever, the right tone will need to come from the top, starting with the chair and CEO. But creating and maintaining that tone will be much more than just a compliance exercise. It'll involve being forward-looking and courageous, challenging yet collaborative. And to succeed in this demanding environment, as well as manage risks effectively, the chair and the CEO will need to encourage the inclusivity and diversity of thought we know brings results.

Five questions boards can ask themselves and their management teams

1. How are you helping the management team to balance the rising cost of doing business with creating value for stakeholders in the short and long term?

2. Are you taking steps to stay on top of geopolitical risks – for example, undertaking political risk training with the C-suite and insisting on quarterly briefings from company functions?

3. Are your cyber investments focused on mitigating the risk scenarios you are most exposed to? And do you have a whole-of-organization response plan for a cyber incident (including ransomware)?

4. Are you carrying out regular scenario planning sessions to cover the impact of rising inflation and the cost of borrowing on your business, as well as the impact on ESG and geopolitics of expanding into new markets?

5. Are you encouraging your management team to understand what drives and interests the region's young consumers?

Summary

Boards in Asia-Pacific are dealing with the impacts of the pandemic, alongside other global and regional pressures. It's their role to steer management through the implications of these pressures, which include prioritizing sustainable practices, adopting secure technology and considering the longer-term value proposition to employees. In doing so, they can help their organizations gain a competitive edge.

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