

EY Center for Board Matters

Asia-Pacific board priorities 2023

How to create clarity amid ambiguity



Building a better
working world

2023 board priorities: Asia-Pacific boards

04

Navigating uniquely challenging
economic conditions

07

Identifying strategic investments
for growth

09

Reshaping the employee experience

12

Enduring issues continue to evolve

Introduction

As global economic disruption continues, Asia-Pacific boardrooms should explore fresh tactics to entice businesses and investors.

In this report we outline the top-of-mind priorities for boards in Asia-Pacific for 2023 and the related opportunities that, if addressed, will provide board directors with a strategic edge. Unsurprisingly, the top issues for boards this year remain interdependent. Factors such as economic conditions and rising costs, shifting expectations and demands from employees, and the prevalence of technological innovation and automation across business strategy and capital allocation, have all served to create deeper complexity for organizations and their boards.

You can visit the web version of the Asia-Pacific board priorities 2023 report [here](#).



In brief

- ▶ Asia-Pacific's economies generally remain resilient, with investors expressing renewed confidence in long-term opportunities.
- ▶ Strategic investment, economic conditions and talent will be high on the board's agenda for long-term success.
- ▶ Boards should remain alert to the evolving expectations of employees and the talent pipeline to find a middle ground between rising costs and labor shortages.

An aerial photograph of a busy city intersection. In the center, a large, modern building is under construction, with its steel framework visible. The surrounding area is filled with cars, trucks, and buses moving through the intersection. The road markings are clear, and there are some trees and greenery around the perimeter. The overall scene depicts a complex urban environment.

1

Navigating uniquely
challenging economic
conditions

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Navigating uniquely challenging economic conditions

Cautious optimism should be reinforced by a strategy of deep listening at board level.

Board directors in 2023 are facing a confluence of challenges and opportunities that are testing the limitations of the governance function in terms of scope and scale. Uncertain economic conditions are currently the number one issue on directors' minds with the rising cost of capital contributing to elevated input prices and inflation. However, boards are also navigating an increasingly fragmented global economy which is likely to lead to restrictive regulatory conditions in some markets.

The rising cost of energy and ongoing climate crisis have accelerated the [transition to a regenerative economy](#), which will require board members to champion an integrated and sustained focus on strategy to ensure operational alignment. That said, while 55% of business leaders believe a looming recession will be worse than the global financial crisis of 2008 in terms of length and severity, our recent [CEO outlook](#) suggests that business leaders are confident that fiscal and monetary policy will mitigate the worst aspects of the downturn. As such, many CEOs and boards will see potential reward on the other side of these risks and can identify opportunities to emerge from the downturn with a competitive edge.

Growth predictions vary overall throughout the Asia-Pacific region. Most countries are projected to grow at a faster rate in 2023 than the global average, at around 4-5%, in part owing to the re-opening of China's economy. Some outliers exist – such as in Japan and Australia where growth will be modest. Thailand, for example, has seen a 14-year high in inflation rates – as well as macroeconomic policy decisions that are expected to raise interest rates to combat soaring prices. Korea and Australia are in a similar position. Contrary to the situation in many other countries, China's inflation rate is expected to remain moderate. With a fluctuating and uncertain economic outlook, boards should focus on their sphere of influence and control: working with management to protect and retain a loyal customer base, create a trusted brand, and engage committed employees with relevant skillsets to carry these organizations boldly into the next decade.

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Boards in Asia-Pacific have a real and present opportunity to think creatively about the upsides of the economic downturn.

Patrick Winter, EY Asia-Pacific Area Regional Partner

In Japan, Australia, and Korea, where public policy has combined with private investment to fuel innovation and R&D, some positive economic developments offer a silver lining. Equally, a large pipeline of private-public infrastructure projects across Malaysia and Thailand are set to kick-off and reignite these economies, after long delays due to the COVID-19 pandemic. "Boards in Asia-Pacific have a real and present opportunity to think creatively about the upsides of the economic downturn," says Patrick Winter, EY Asia-Pacific Area Regional Partner, "whether that be governing around organizational agility and nimble pricing strategies; encouraging the transition to renewables given the rising cost of energy; or having an ear to the ground when it comes to the next generation's preferences around working, living and consuming."

The changing habits and demands of consumers and employees continue to be a talking point in the boardroom. Today, Gen Z makes up one-third of Asia-Pacific's workforce. As the largest generational cohort in history, their ambitions and expectations as both consumers and employees are already shaping the future economy. In a country where inflation has been less of an issue, China's consumers have moved from "affordability first" to "planet first." Contrast that with Japan, where inflationary pressures remain and COVID-19 lockdowns in China have affected export demand: [Japanese consumers have stayed focused on "affordability first"](#). Understanding the preferences and habits of the next generation of consumers and workforce will be key to maintaining a competitive advantage in 2023 and beyond.

Questions for the board to consider

- ▶ With economic headwinds persisting globally, how are we working with management to protect and retain a loyal customer base?
- ▶ How and where will value be generated tomorrow? How fast and where should we self-disrupt?
- ▶ How will changes in customer habits, demand and values affect the short-, medium- and long-term revenue of our product and services mix?
- ▶ How do we know we are striking the right balance between controlling labor costs and securing the talent needed for future growth? What metrics do we have in place to measure success?

2

Identifying strategic
investments for
growth

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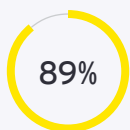
Identifying strategic investments for growth

While ESG and tech-driven dealmaking rises, boards can tether their organizations by staying attuned to the human element of transformations.

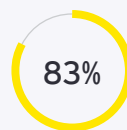
According to 83% of board members and CEOs in the [EY 2021 Global Board Risk Survey](#), market disruptions have become more frequent and impactful. To keep pace, companies have begun to view transformation as a continuum. As such, M&A activity across Asia-Pacific reached an all-time high in 2021, a trend that was expected to continue in the second half of 2022, as Asia-Pacific CEOs and boards reframed their investment strategy for growth. Transformative dealmaking is expected to continue to play a key role – particularly as more consumers in the region come online (internet penetration now stands at 75%), and savvy consumers create pressure around environment, social and governance (ESG). Dealmaking in both these areas is on an upward trajectory. There continue to be record-breaking [investments in digital transformation](#),

as board members say major investors are putting even more scrutiny on their performance against ESG goals, a key element to accessing capital markets. Boards should continue to use their influence to support the creation of a compelling, fact-based narrative to bridge the gap between reality and perception: Although Asia-Pacific CEOs view sustainability as a critical part of their long-term value creation, 89% say they have encountered resistance from investors and shareholders about their sustainability transition strategy.

EY 2022 CEO Outlook Survey



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of Asia-based CEOs in the EY 2022 CEO Outlook Survey say they intend to pursue cross-border M&A in the next 12 months, versus 37% of CEOs in North America and 71% in Europe.

Furthermore, the Asia-Pacific region is home to more family-run conglomerates than other regions, with many pursuing partial or full divestment to increase shareholder value and capital reallocation in a bid to set the company up for future growth. Where such divestment may once have been seen as a flaw, many executives and boards now recognize that sometimes selling their companies can be the best way to grow from a regional company to a global player. In fact, more than four out of five (83%) of Asia-based CEOs in the EY 2022 CEO Outlook Survey say they intend to pursue cross-border M&A in the next 12 months, versus 37% of CEOs in North America and 71% in Europe. The Asia-Pacific region continues to show strength and resilience in attracting foreign direct investment.

Strategic M&A has the potential to be truly transformative, but only if [humans are at the center](#). Transformations are 2.6x more likely to succeed if both the rational and emotional elements of any large change are addressed. While the underlying success of a transformation is in the hands of the executive management, boards can play a critical role in supporting the emotional agility of their executive management teams – evidence shows this to be one of the key pillars underpinning a successful transformation. Not surprisingly during periods of change, leaders and employees who feel supported, empowered, and validated by self-aware executives are more likely to champion and buy in to complex transformations.

Questions for the board to consider

- ▶ Have we ensured that management has aligned its transaction strategy with the overall strategic goals of the company? Have they considered both short- and long-term perspectives and how a transaction could accelerate a transformation? If yes, what measurements or monitoring mechanisms are in place to ensure they remain aligned and linked to business performance?
- ▶ How can we act as storytellers to craft a well-defined narrative of the strategic intent of the transaction and why it makes sense for the company, employees and shareholders?
- ▶ Have we and management adopted a human at center approach to any major change or transformation to ensure the deal is truly transformative and sustainable in the long term?

3

Reshaping the employee experience



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Reshaping the employee experience

Evolving employee expectations and demands present a strategic opportunity for boards to rethink committee structures to adapt to change.

The future of the workforce around the world is at a critical inflection point as the way we work has fundamentally changed. We are witnessing the evolution from the “great resignation” and “quiet and loud quitting” to the “great talent reshuffle” and the “reskilling revolution.” It is estimated that 1.1 billion jobs will be radically transformed by technology in the next decade. The ubiquity of digital transformation will create new opportunities for talent. The working population of many Asian economies is aging and expected to shrink – particularly in China – which will have worldwide implications. At board level, seizing the opportunity to rethink digital strategy and differentially invest in the technology required to reskill employees may help organizations better prepare for a shifting labor market supported by growth in innovation and automation.

In tandem, the intrinsic link between sustainability and business continues to rise. As such, Asia-Pacific organizations need a new way of approaching and addressing workforce issues, one that is more closely aligned with the needs of employees and society more broadly; one that is more human. Traditional strategies to attract and retain workers no longer meet the needs of workers in a post-pandemic world. Expectations for hybrid and flexible work for office-based workers, as well as desires around

total pay, workplace culture, belonging, well-being, and career advancement are now considered a workplace norm, especially so in Asia-Pacific. For instance, according to our [2022 Work reimagined survey](#), more than 90% of employees across Indonesia, Malaysia, Philippines and Singapore want to work remotely 2+ days a week, over and above the global average of 80%.

In parallel, there is an opportunity for the boardroom to play an important role in reshaping the employee experience – especially as we undergo global talent shortages and face divergent retention landscapes market by market. A recent study showed that more than 50% of employees in Indonesia and Singapore are likely to leave their employer in the next 12 months, in contrast to Japan where only 26% of employees are likely to leave, posing a challenging talent retention dynamic for organizations with a pan Asian or global footprint. As such, delivering a workplace culture that enhances retention and [belonging has become a strategic imperative](#) and potential differentiator for organizations worldwide.

In the next 12 months, more than 50% of employees in Indonesia and Singapore are likely to leave their job, where compared to Japan it is only 26%.

EY 2022 Work Reimagined Survey



of employees across Indonesia, Malaysia, Philippines, and Singapore want to work remotely 2+ days a week.

That's especially true in Asia, where, according to a forthcoming survey, boards discuss talent and culture more frequently than their European and North American peers, particularly as it relates to board composition and the skills required to lead. The survey also reveals that while boards acknowledge people and culture form part of their remit, more than half say their expertise is significantly underutilized. As a result, many are planning to expand the scope of their compensation committee. For example, just one third of compensation committees currently oversee culture and employee engagement. Looking into the future, almost double this figure intend to devote time to this topic in the next two years. "Putting humans at the center has to be a strategic priority for the board and the CHRO, to better understand what employees across all demographics want," notes Lay Keng Tan, EY Asia-Pacific People Advisory Services leader. "By doing so, the organization can be proactive and flexible in meeting those ever-changing needs."

In addition, there is both [an imperative and opportunity for the board to elevate the importance of the CHRO](#) to create a competitive advantage. Boards should already be working with their CHRO to balance the needs of the people strategy and the business strategy, as well as to help define and uphold the organization's culture. This also means considering not only what employees need from the organization, but equally what the organization needs from them.

Boards should also bear in mind that that [36% of global CEOs plan to increase their investment in talent](#), including workforce wellbeing and skills development. In Asia-Pacific this number is slightly higher, at 39%. While these numbers are encouraging, it is critical that these investments are aligned and in sync with the overarching strategy and growth plans for the organization. Rethinking governance and committee structures and assigning responsibility for certain risks and opportunities around talent – including culture and retention to sub-committees – may go one step of the way to addressing this and ensuring talent and strategy are intrinsically linked.

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Putting humans at the center has to be a strategic priority for the board and the CHRO, to better understand what employees across all demographics want.

Lay Keng Tan, EY Asia-Pacific People Advisory Services leader

Questions for the board to consider

- ▶ How are we making sure that the board, the management team and the wider employee organization are upholding the values of the organization and its culture? Do we create a sense of belonging? What mechanisms do we have in place to measure this?
- ▶ How will redefined employee expectations affect rewards and career advancement models? How can we best respond to a fluid labor market?
- ▶ Should the remit of our nomination and governance or compensation committee be expanded to include a wider range of people and culture topics?



4

Enduring issues continue to evolve

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Enduring issues continue to evolve

The climate crisis, continuing cybersecurity threats and geostrategic upheaval should be standing agenda items for boards.

There are several issues that were top of mind in 2022 for Asia-Pacific boards, and remain highly relevant in 2023. However, they are now viewed as standard components of an organization's ongoing strategic business agenda:

1. The climate crisis

Boards and their organizations have already begun to harness the potential for growth from the clean energy transition. Valued at US\$1 trillion, the potential business opportunities arising from the ASEAN green economy alone are immense. With China becoming the leading manufacturer of electric vehicles, this is only set to grow. Capital allocation is now increasingly dependent on climate and ESG performance, with assurance of these disclosures on the rise, and regulators expected to soon mandate reporting. As a baseline, boards should proactively build their climate competency (in Singapore there is mandate for board directors to upskill) and understand the material impacts of climate change on their respective businesses.

The climate and nature crisis is the defining issue of our time. While specific sectors – particularly automotive, energy and manufacturing, are more advanced in embedding climate action into the heart of their business strategy, all boards should already be addressing climate risk as a standing item on their agendas. Boards can champion sustainability metrics for integration into management performance, and govern how to further embed climate action into strategy to drive shareholder and stakeholder value. Investing in climate pays off: almost seven in 10 companies report capturing somewhat or significantly higher-than-expected financial value from their climate initiatives. "I've specifically recommended that management teams embed KPIs around climate change into their performance metrics," says Ma. Aurora 'Boots' Geotina-Garcia, EY Alumni and board member of several listed companies "This practice is becoming much more common in companies whose boards I sit on."

2. Cybersecurity

The past year has seen the ongoing evolution and sophistication of artificial intelligence, coupled with advanced cybersecurity tools, driven by the adoption of IoT. In parallel, a rise in cyber threats has led to data privacy concerns (including serious breaches of customer data in large public Australian companies) and heightened new regulation. But despite these developments, seldom do non-executive-level directors feel very confident in the board's ability to understand the greatest cyber threats facing the organization or its level of investment in cybersecurity.

As such, it is imperative that directors continue to emphasize the importance of managing cybersecurity as an enterprise risk. Setting that tone should include the board raising cyber risks in its interactions with members of management beyond the chief information officer (CIO), or chief information security officer (CISO). Boards need to continually work with management to review the cybersecurity team's talent profile and size to ensure cyber resiliency. Finally, boards should be challenging their management teams on the process by which cybersecurity is embedded from the start via a "trust by design" philosophy when designing new technology, products, and business and supplier arrangements.

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3. Geostrategy

Recent commentary suggests there is likely to be a steady erosion of economic connectivity between China and other key economies, which could ultimately result in supply chain reorientation and diverging growth and investment opportunities. The ongoing war in Ukraine continues to create a tidal wave of economic and regional impacts. And the relationship between Chinese, US and European economies changes every day. Boards need a very clear idea about how issues may develop in relation to these dynamics. To gain

a strategic advantage, boards should employ advanced scenario analysis as a way to ensure they fully comprehend the implications and opportunities associated with any geopolitical shifts, and are prepared to position their organizations to hold steady during the predicted turbulent times ahead.

Boards should also continue to guide management to proactively consider how geopolitical developments may affect their growth, supply chain, strategic partnering options, and stakeholder expectations especially as it relates to an increasingly “deglobalizing” agenda.

Questions for the board to consider

The climate crisis

- ▶ Are we working with the CSO to make ESG core to the business strategy? If so, what are the timelines and the organization’s transition plan for thriving in a net-zero future? And are we building those goals into executive remuneration and incentive plans?
- ▶ What governance is in place to reflect the importance of the ESG agenda and the role of the CSO? For example, have we assigned ESG oversight to a specific committee, or shared it across committees?
- ▶ How could we reimagine our business strategy to transition to a regenerative economy while deriving both human and economic value?

Cybersecurity

- ▶ What governance structures does the board have in place to oversee cybersecurity, and are these subject to regular effectiveness reviews?
- ▶ How regularly does the executive review the cybersecurity team’s talent profile and size to ensure cyber resiliency?
- ▶ How can our organization invest more strategically in designing cybersecurity into its data processes and systems from the outset?

Geostrategy

- ▶ Do we hold management accountable for regular advanced scenario planning analysis to prepare for uncertain geopolitical outcomes? What is the mechanism to incorporate significant shifts in the overall businesses strategic planning process? How is our board kept apprised of material risks and opportunities?
- ▶ Given various scenarios, to what extent would talent shortages exist? How would access to capital be affected?
- ▶ How can we reposition our growth and investment strategy to explore partnering with domestic markets and those with which our home country is allied?

Summary

This article focuses on priorities for Asia-Pacific boards, and the EY Center for Board Matters has also published 2023 board priorities for the [Americas](#) and [EMEIA](#) providing insight into operating environments on a global scale.

While this overview provides the top priorities and key questions for boards, we are also interested in considering "what's after what's next"? How will these interconnected and complex issues play out in the world of board governance? How might our structures and the way we work need to fundamentally change to survive in a world we wish to live in 10, 50, 100 years into the future? We encourage you to join the conversation through social media using [#boardmatters](#) or send us an email gcbm@ey.com.

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