# Expanding Roles, Risks and Opportunities for Boards in Another Disruptive Year

SPRING 2023 BDO BOARD PULSE SURVEY

Another year of disruption and economic headwinds means formidable challenges for public company boards — but it has also opened new realms of opportunity for directors willing to adapt. In recognition of this, BDO prepares periodic pulse surveys to elicit timely feedback from directors, who are in the thick of things, to share evolving governance concerns and insight helping shape boardroom operations for dynamic times.

Facing a recessionary economy, ongoing supply chain woes, runaway inflation and renewed fears about liquidity of financial institutions, directors need to use every tool at their disposal and access game-changing insights to help sustain value and drive growth across their organizations.

Many of the top concerns and risks that directors identified in our Fall Board 2022 Pulse Survey persist, but the gap is widening between the directors who recognize ESG investments as a source of value creation and those who have yet to see the ROI.

How directors assess risk and identify areas where the board can be more impactful in its oversight of management provides compelling guidance and insights for companies navigating uncertainty.

**The *Spring 2023 BDO Board Pulse Survey* identifies the most pressing board challenges and outlines the strategies being deployed to address them, based on the responses of over 200 public company directors serving all size companies across a variety of industries.**

> *Macroeconomic volatility and increasing risk uncertainty is creating interesting trendlines in how directors view risk prioritization and investment in corporate strategy. It will prove an interesting proxy season as boards emphasize operational priorities in driving growth while addressing increasing shareholder concerns related to social and governance metrics.*

**AMY ROJIK**
BDO Center for Corporate Governance

# Top Takeaways

Boards' top strategic goal remains driving growth.

ESG still occupies attention, but there is a disconnect between ESG risk and opportunity and how best to integrate and drive value within the business.

Recessionary declines in product/service demand continue to be the greatest business risk that public company boards face.

Boards expect pay for performance, board diversity and composition, human capital metrics and workforce strategy to be the top shareholder issues during this proxy session.

Boards indicate strongest support for maintaining/increasing investments in product/services innovation, cybersecurity and digital technologies.

Boards are split on their assessment of ESG-linked executive compensation structures.

# Board's Impact on Management Strategy

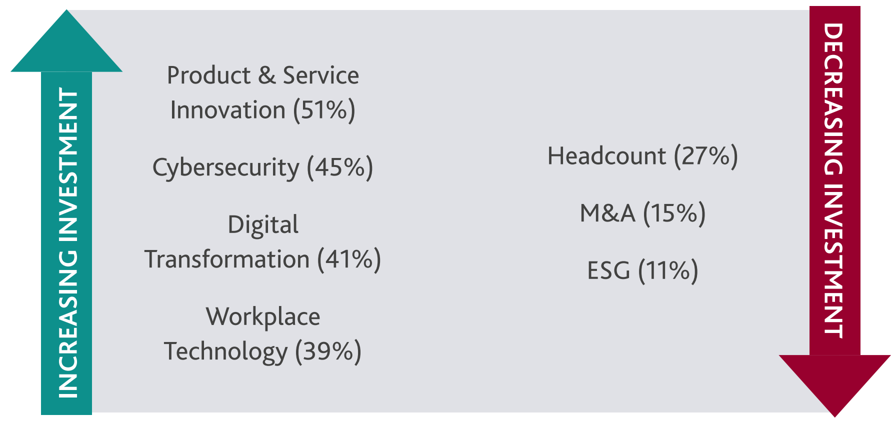
While economic uncertainty may tempt some to sit on the sideline, boards are wisely advising management teams to stay in motion.

Over two-thirds (**69%**) of directors indicate their primary strategic goal is to drive organic/nonorganic growth, and they feel they can be more impactful in overseeing management in the areas of strategic innovation and proactive anticipation of disruption (**68%**).

Boards' focus on nurturing innovation and leveraging technology to address disruption and avoid the risk of falling behind competitors will support the businesses' resilience against further volatility and capture opportunities that others may overlook.

**WHERE COULD THE BOARD BE MORE IMPACTFUL IN ITS OVERSIGHT OF MANAGEMENT?**


Director oversight of these areas will likely expand, as boards say their organizations will increase investments in product/service innovation, digital innovation and technology in transforming business. Coupled with this are continued investing in cybersecurity and enterprise risk management strategies, two additional areas directors feel they could have more impact over.




Additionally, as we see a trend in compensation committees taking on more specified oversight roles in human capital management, it is not surprising that more than half of directors (**58%**) seek to have a greater impact on workforce strategy. Investing in workplace technology, for example, may occupy greater attention as many companies seek to right-size workforces, increase efficiency and reduce costs. Directors further indicated that CEO succession and transition strategies remain a critical area of oversight and engagement.

Even though **80%** of directors say regulatory uncertainty poses some or significant risk to their business this year, only **18%** believe they could be more impactful in oversight of management as it relates to integration of sustainability into corporate reporting and disclosure compliance and transparency.

Regulations poised for release by the SEC, along with a steady stream of international regulations that will impact issuers with global operations, will require complex sustainability reporting disclosures within the next several years. Boards and management will likely need additional resources to identify/assess material risk, gather critical data and report out under these new regulations. For more, read our insight: ***Understanding the Board's ESG Mandate***.

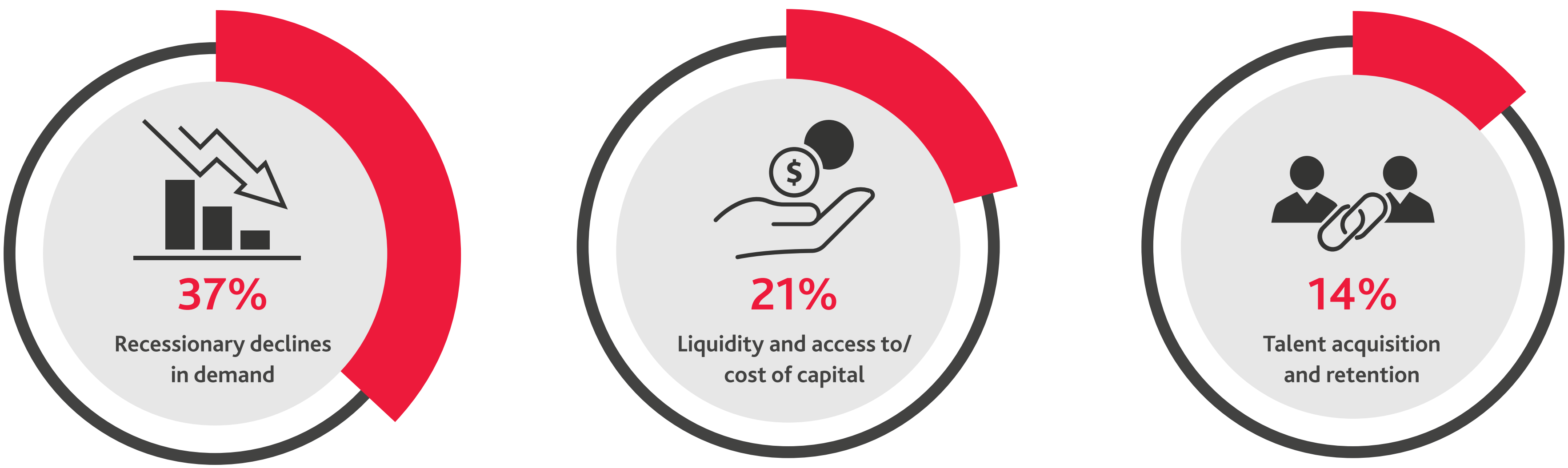
# Material Risks, Sustainability and ROI in a Year of Change

As pandemic-related crises further recede, directors are shifting their focus to the growing financial and operational risks that accompany current economic and geopolitical volatility.

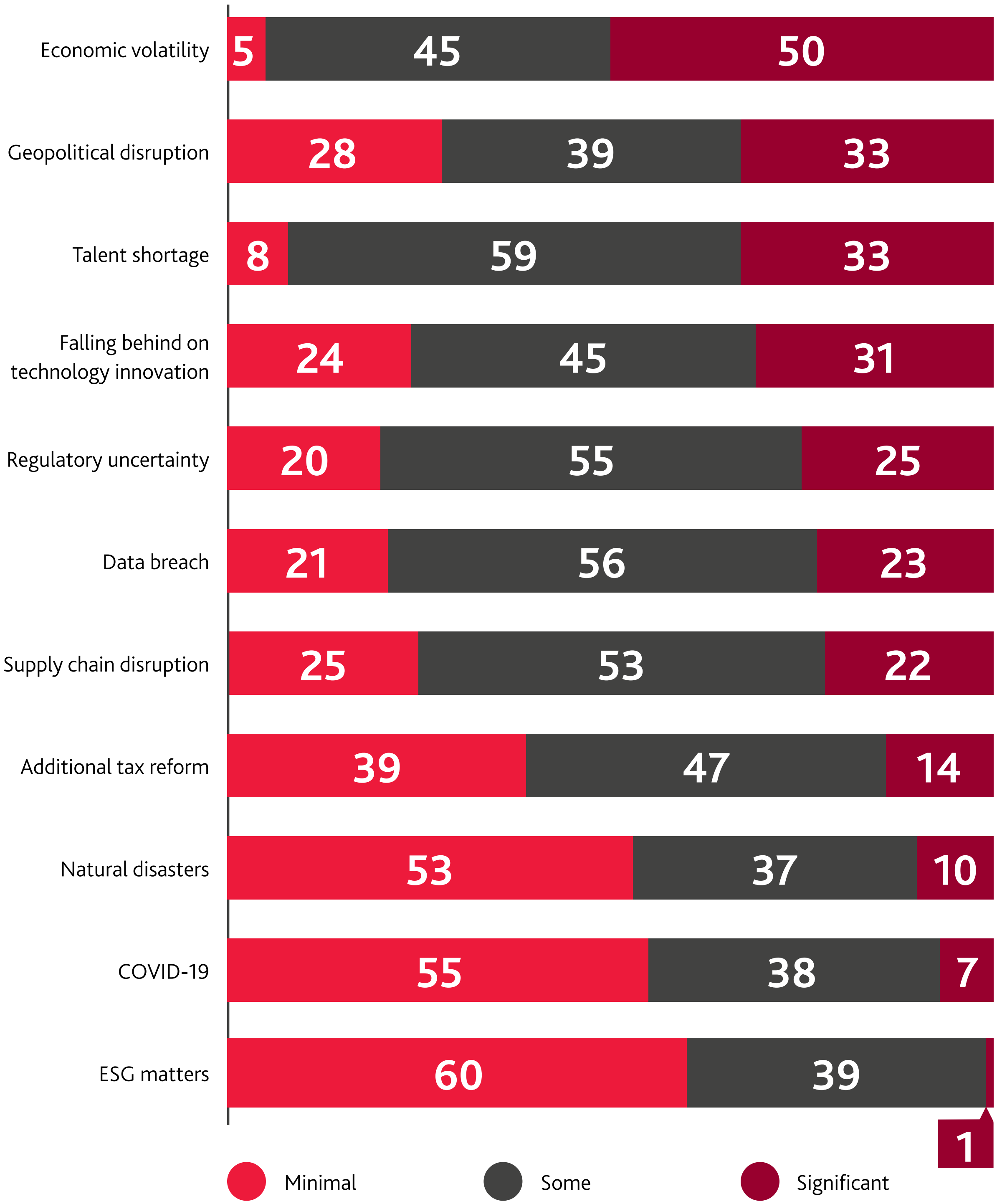
Nearly all say economic volatility poses some or significant risk. Thirty-seven percent of directors indicate recessionary declines in product/service demand is the greatest business risk for the next 12 months, and roughly one in five boards (**21%**) identify the greatest risk as liquidity and access to capital.

Readers should note that directors were polled in February, shortly before the collapse of regionally based Silicon Valley Bank and Signature Bank and the bailout of Credit Suisse. Fears over a weak and unstable financial services industry continue into the second quarter, and boards across every industry are closely monitoring organizational financial health, cash flows and access to capital. For more on how companies can successfully navigate economic volatility, view our ***Strategic Resilience Framework***.

**GREATEST BUSINESS RISK IN THE NEXT YEAR**

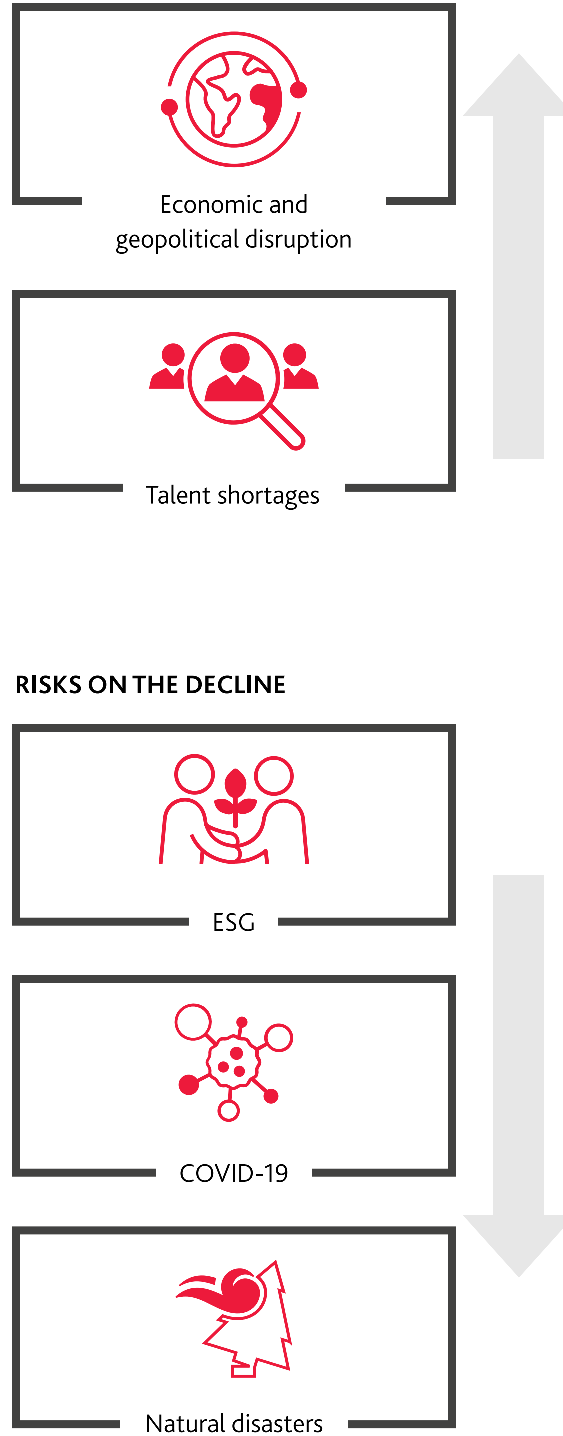


## BOARDS' RISK ASSESSMENT IN 2023




## RISKS ON THE RISE

## RISKS ON THE DECLINE



Macro and microeconomic forces have many boards asking for more information about sensitivity to interest rate pressure on liquidity and cash flows, while seeking to further understand consumer reaction to inflationary pricing increases and availability of products. Directors need to be working closely with management and advisors where such uncertainty may significantly impact underlying assumptions and the ability to forecast revenues and expenses in the near and longer terms.

Global companies exposed by jurisdictions hit hard by war, or where security and sovereignty is threatened by ambitious leaders, are rethinking strategies around supply chain concentration, product sourcing, distribution and potential re-shoring of operations – all of which can represent significant disruptions to operations.

Additionally, while tax reform in the U.S. appears to be somewhat stalled, globally there is significant movement toward minimum taxation under **BEPS 2.0** that many companies may be just starting to recognize as various jurisdictions phase in their taxation plans. View our insight **OECD Releases Additional Pillar Two Guidance** to learn more.

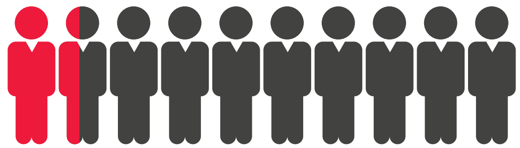
Directors appear unsure as to how to prioritize other material risks and reflect them in their longer-term corporate strategy. For example, this year, nearly two-thirds of boards say "ESG matters" pose minimal risk to their business and some directors expect to pull back investment in ESG this year. However, when asked about specific topics that fall under ESG — i.e., talent shortages, data breaches and public health crises — directors indicate that each poses some or significant risk to their business (**92%**, **59%** and **45%**, respectively). The recoil and lower perceived general ESG risk may be a result of the political noise in the system; however, key risks that an ESG strategy focuses on are deemed significant.

## RISK: HUMAN CAPITAL MANAGEMENT (HCM)

Boards and shareholders are aligned on this focus area, but strategies to address it are mixed.

### Board's View

**92%** say talent shortages pose some or significant risk.



**14%** identify talent acquisition/retention as the greatest business risk for the next year.

**67%** believe shareholders will focus on board diversity in this year's proxy season.

### BDO's Take

Despite clearly identifying multiple talent-related risks and challenges, boards' other priorities may overshadow HCM risk mitigation strategies: Only **3%** of boards see corporate culture, DEI and human capital management as their primary strategic priority for the next year.

However, given the largely boilerplate disclosure following its 2020 HCM rule, the SEC has intensified scrutiny of talent issues like employee wellbeing, hiring practices, development and retention data by adding it to the SEC 2023 **rulemaking agenda**. Boards that don't view HCM as a strategic priority may find themselves at odds with regulators amid a dynamic and proactive era for the SEC.

Additionally, the SEC's universal proxy card **ruling** may have major implications for individual director elections and shareholder activism, and boards should expect this to be top of mind for shareholders who sense that a company is not being well-governed based on current board composition and/or sub-par governance practices.

In light of these focal points, boards, specifically the Nomination & Governance Committee, should examine management's corporate HCM policies along with their own board refreshment activities and how they can address noted gaps within the board skill matrices, as well as shore up governance policies and procedures. For more, view our resource: ***Nomination & Governance Priorities for 2023***.

## RISK: CYBERSECURITY

Directors agree that cybersecurity remains a business imperative; while regulators and investors seek more information about corporate oversight and risk management of cybersecurity and cyber incident reporting.

### Board's View

**79%** say that a data breach poses at least some to significant risk to their business.

**99%** expect to maintain or increase investment in cybersecurity this year.

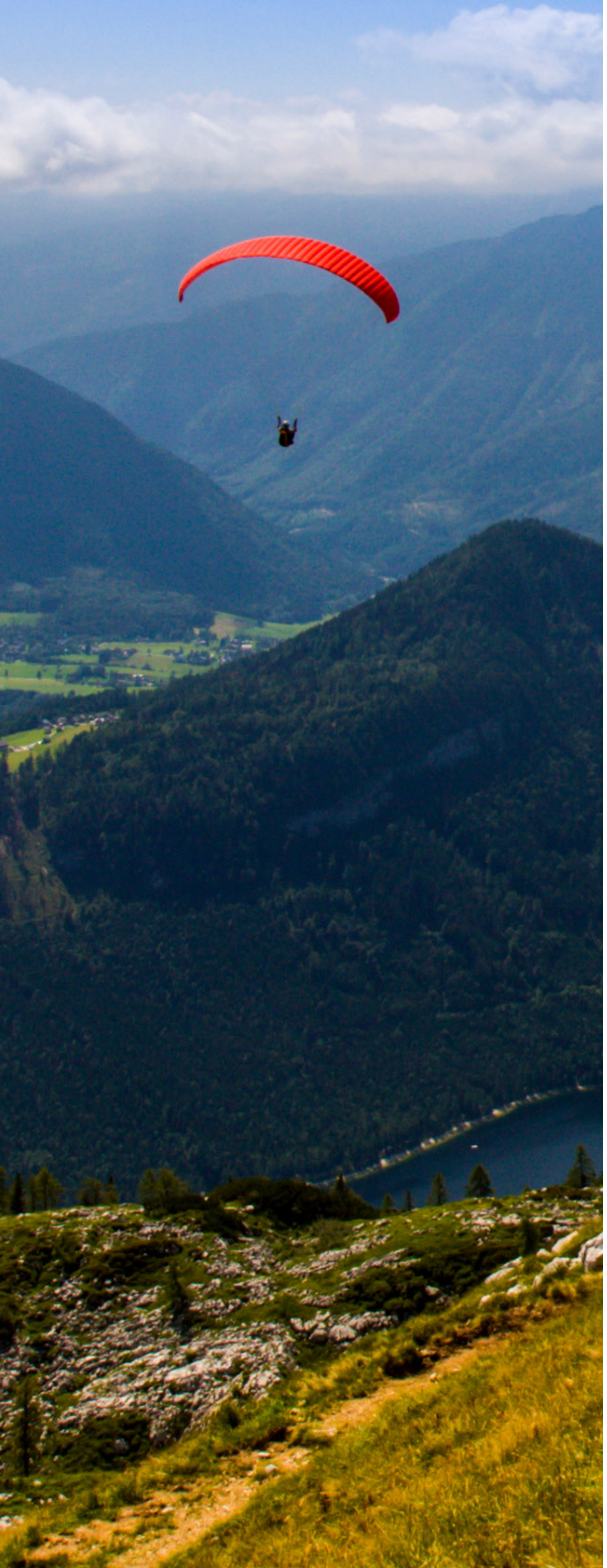
### BDO's Take

While cybersecurity may not be the most top of mind risk given immediate economic challenges, the majority of directors are aligned that it cannot be overlooked.

In 2022, the SEC **proposed amendments** to expand its cybersecurity disclosure rules. The anticipated final ruling may contain significant disclosures that cover risk management, strategy, governance roles, responsibilities and expertise, along with timely incident disclosure.

Given the digitization of global business, increasing sophistication of cybercrime, and steady rise in cyber breaches, cyber investment and focus need to be continually assessed.

Ensuring that the board stays informed of cyber risks and holds management accountable for risk mitigation and remediation is critical. In addition, with data privacy and security top of mind in the national conversation amid TikTok hearings in Washington D.C., boards should ensure they are closely monitoring potential shifts in policy or stakeholder views on data use and accessibility. For more, listen to our podcast: ***The Board's Role in Data Protection***.



## RISK: CLIMATE CHANGE

Regulators globally continue to prioritize climate change-related physical and transition risks, focusing rulemaking efforts around increased disclosures. Companies wrestle with determining how to both identify and measure such material risks.

### Board's View

**27%** of directors believe environmental issues will be top of shareholders' minds this proxy season.

When asked which ESG focus areas will provide long-term sustainable value to the organization:

**31%** of directors cite bolstering environmentally friendly policies, procedures and products and

**27%** cite reducing carbon footprint and satisfying Net Zero Emission commitments.

However, **53%** say natural disasters pose only minimal risk to the business.

### BDO's Take

After a year marked by extreme weather globally, the growing number of public emissions-reduction commitments as well as impending climate change-related disclosure regarding physical and transition risk are poised to transform climate risk management and reporting.

In particular, boards will be closely monitoring the implications of the SEC's potential Scope 1, 2 and 3 emissions disclosures and attestation requirements.

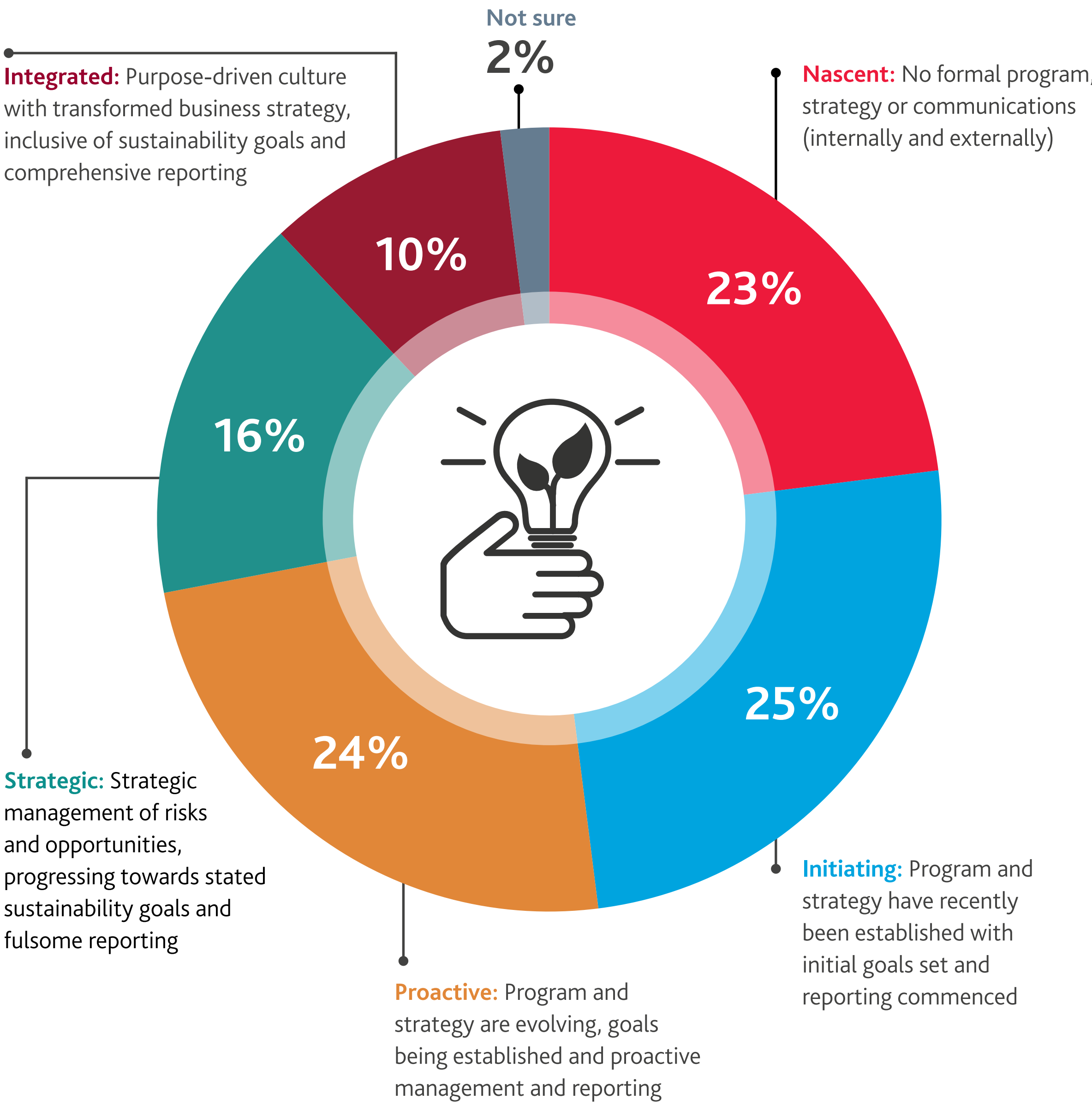
Even boards that don't recognize climate risk as salient to their business yet will likely need to procure and disclose data from their own carbon footprint as well as from supply chain sources or in response to other companies' requests if part of their supply chain.

Although the scope of SEC reporting along with deadlines is still to be determined — and reporting required by international jurisdictions may yet be a year or two away — preparation for regulatory compliance will take significant time and effort. Stakeholders, including regulators, are demanding more transparency from companies and want to be kept appraised of their climate risk mitigation strategies. Those who have identified significant climate related risks and have made public commitments should be proactively communicating their progress toward their stated objectives and goals.

For more, listen to our podcast: **What We Know (and Don't Know) About the SEC's Proposed Rules on Climate-Related Disclosures** and reference **Action Required: Sustainability and ESG-Related Regulations Are on the Rise Globally**.

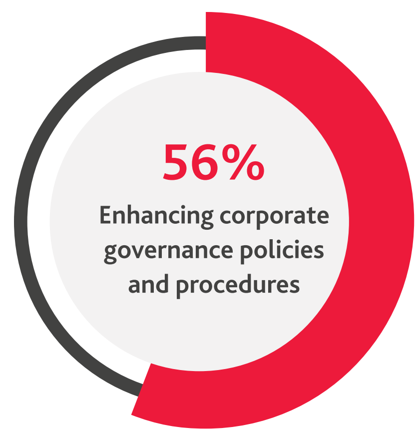
Directors' key areas of concern and focus align for the most part with shareholder priorities, as identified in our ***2023 Shareholder Meeting Agenda***. However, the board's perspective on risk and self-reporting makes clear that most organizations may just be developing their broader risk sustainability strategy. In fact, **50%** of directors say their sustainability journey is in very early stages (or unknown) at the moment, and just **26%** have a strategic or integrated program that aligns with their current financial reporting priorities.

**PROGRESS ON SUSTAINABILITY JOURNEY**



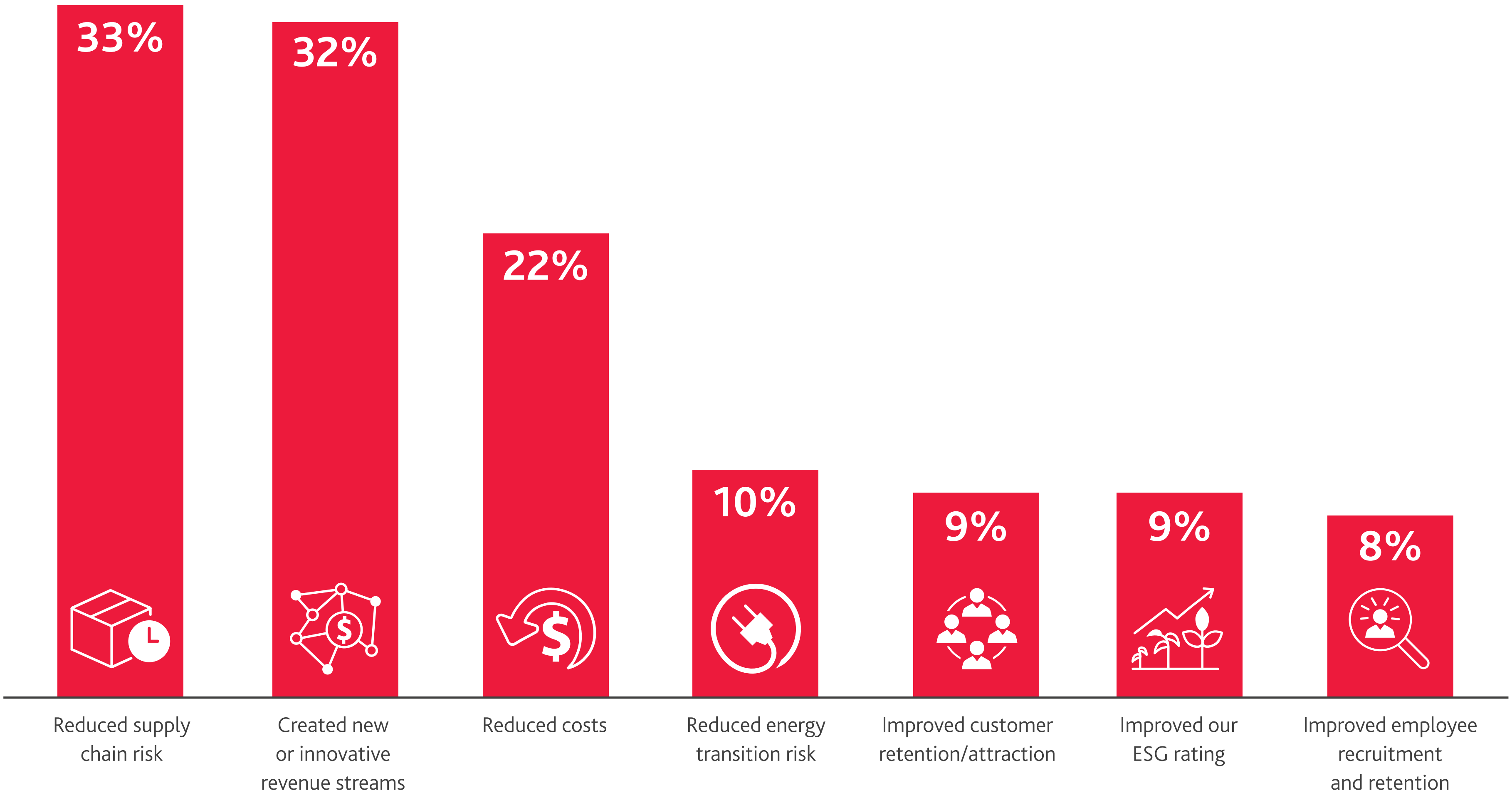

Looking ahead, directors indicate that the areas of sustainability focus that will provide the most long-term value to the organization emphasize the "S" and the "G" of ESG factors, including:





Return on investments (ROI) in ESG initiatives and related risk management is also in its early stages. When asked how ESG initiatives have benefitted their business so far, directors most commonly point to employee and customer attraction and retention and improved ESG ratings. Still, nearly one-third say they've yet to realize any benefits, and **13%** have not started any ESG initiatives in the past year.

**HOW HAVE ESG INITIATIVES BENEFITTED YOUR BUSINESS SO FAR?**



# Executive Compensation in Focus

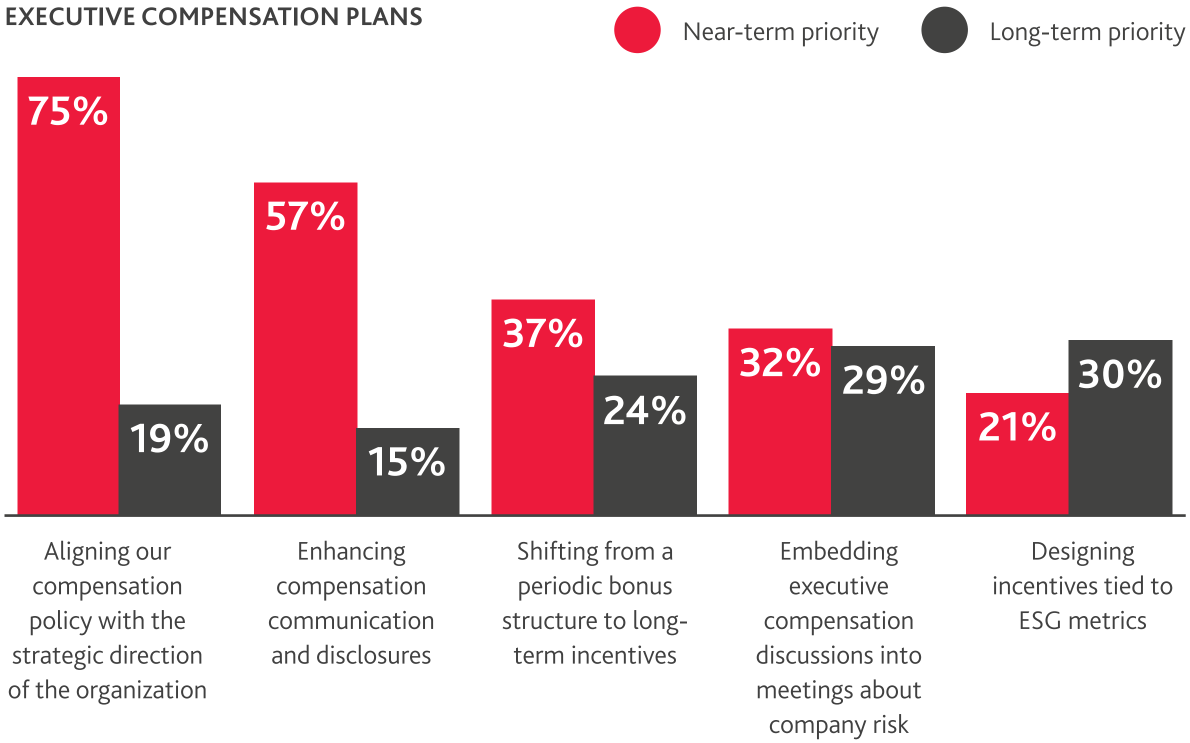
In late 2022, the SEC adopted two landmark regulations related to executive compensation. The complex pay versus performance disclosure rule and compensation recovery ("clawback") listing standards and disclosure rules are significantly impacting executive compensation policies and practices.

To adapt amid global pecuniary challenges, most directors expect to realign executive compensation policies to better reflect the direction of the business — three-quarters (**75%**) say they plan to do so in the near term.

Only one in five directors (**19%**) expect shareholders to focus on clawback policies in this year's proxy season. However, the stock exchange listing requirements directed by the SEC's new rule take effect this year and boards need to be working with management to ensure compliance with the new requirements and understand clawback triggers and potential impacts.

While pay for performance has been a focus area for some time, boards remain split on their assessment of how ESG-linked incentives may fit into overall executive compensation structuring. A plurality (**30%**) of directors cite designing incentives tied to ESG metrics and (**29%**) cite embedding executive compensation into meetings about company risk as their top long-term priorities, but another **49%** and **39%** respectively, said they had no plans to do so at any point in the next three years.

**EXECUTIVE COMPENSATION PLANS**




The divide is likely a result of varying approaches to corporate strategy and risk management. For companies that already integrate ESG into their strategy, management performance is already, or in the process of, being tied to corporate ESG objectives related to mitigating risk and seizing opportunities to gain a competitive edge. Others are just not there yet.

Looking ahead, we expect this gap to shift as more organizations recognize the growing sustainability focused expectations of key stakeholders such as investors, employees and customers and the materiality of growing risks — not as "ESG" and "regular" risks but in broader terms of sustainability risk impacting the business — and their impact on strategic direction of the organization.

Compensation committees recognize their expanding responsibilities as human capital strategies evolve post-COVID-19, and they should further prepare to consider ESG risk metrics and performance as part of compensatory policies going forward. For more on the key challenges for compensation committees amid their growing remit, view our insight: ***Compensation Committee Priorities for 2023***.

# The Path to Optimal Governance

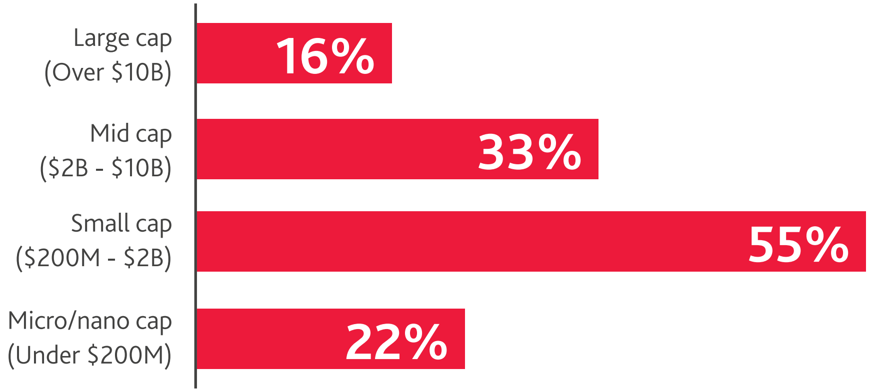
As boards continue to shepherd their organizations through significant disruption, their role and value is also evolving.

Prioritization of existing and emerging risk may cause boards to feel the weight of the world on their shoulders. Faced with market changes, regulatory upheaval and the increasing importance of stakeholder engagement, boards need the right allocation of and access to resources to stay informed, oversee management appropriately, and instill confidence in their governance practices.

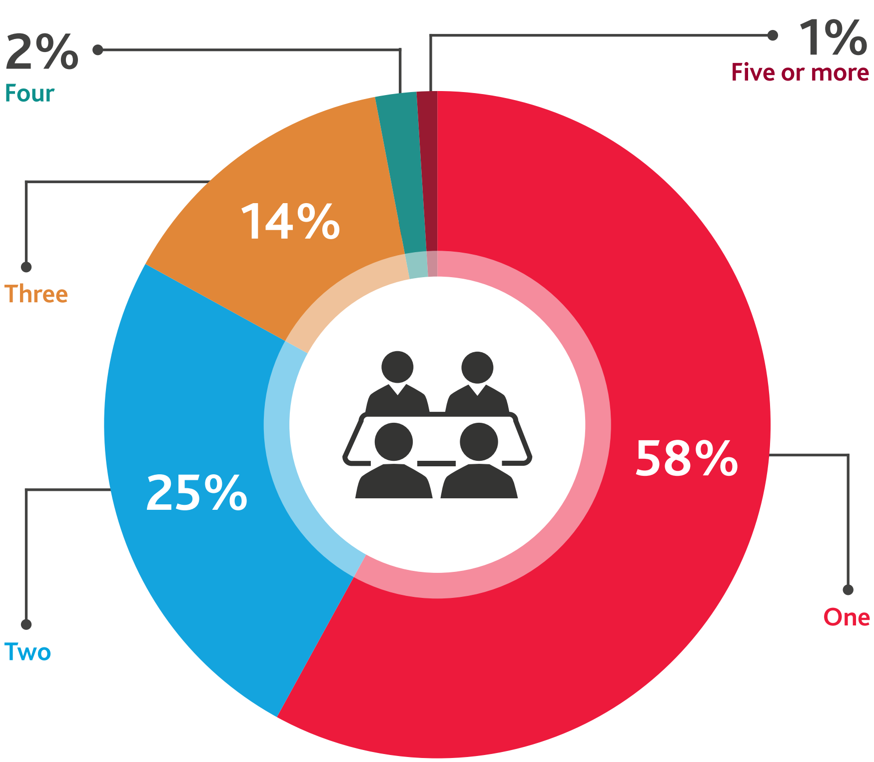
The BDO Center for Corporate Governance will continue to provide timely education that can help enhance boardroom discussions to reflect the changing risk and opportunity landscape and increasing shareholder and regulatory demands. To receive up-to-date resources and educational opportunities for directors, please visit the BDO Center for Corporate Governance.

# Respondents

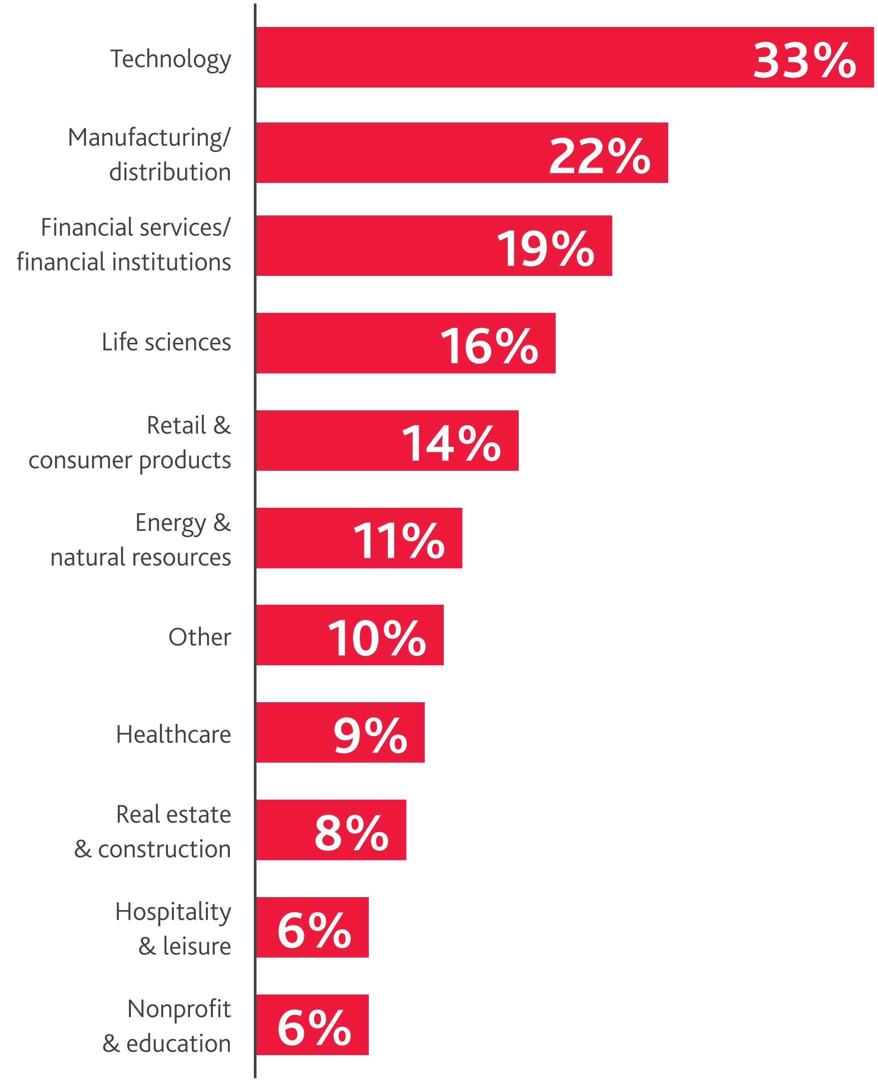
## MARKET CAPITALIZATION OF BOARDS SERVED



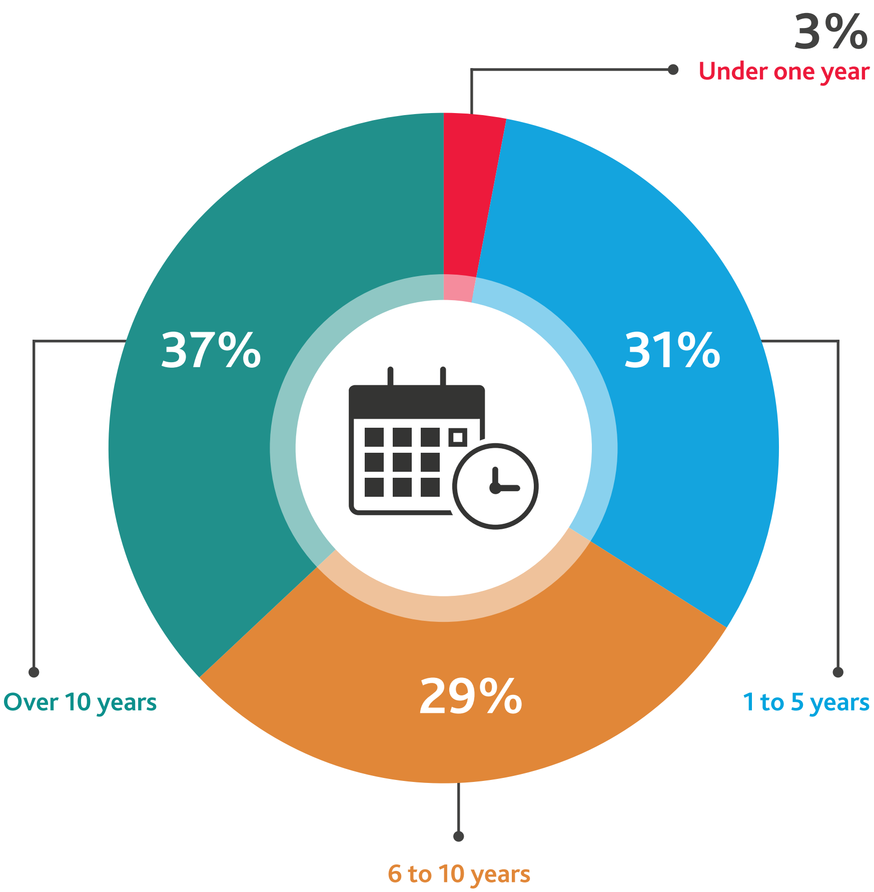

## NUMBER OF BOARDS CURRENTLY SERVING



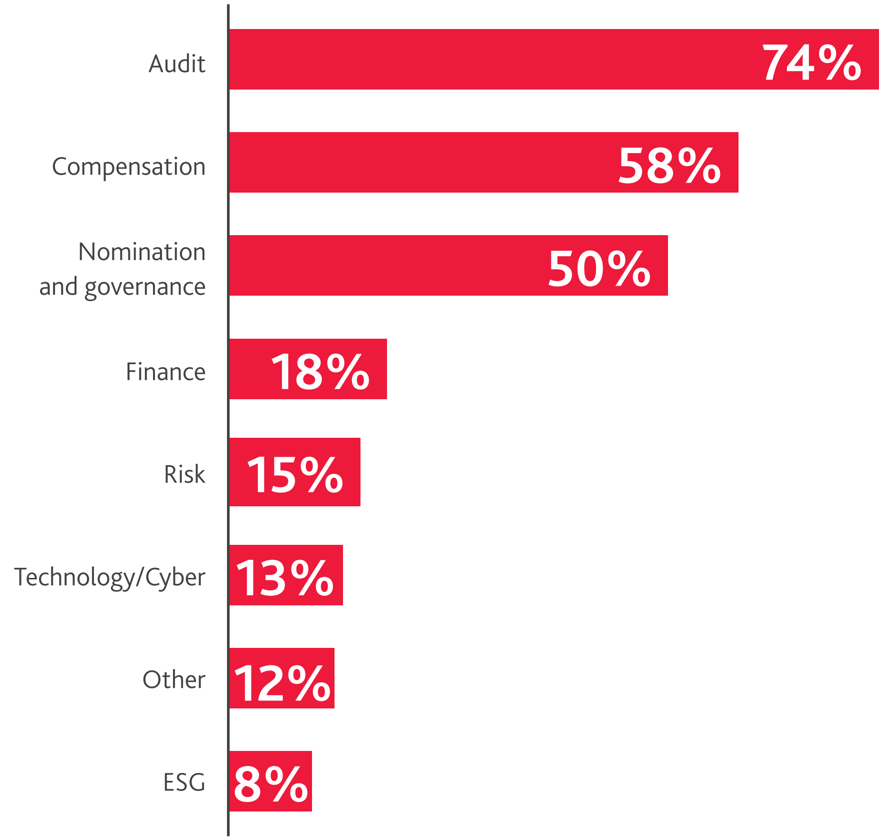

## INDUSTRIES



**LONGEST TENURE ON CURRENT BOARD**




**COMMITTEE SERVICE**




## ABOUT THE SPRING 2023 BDO BOARD PULSE SURVEY

Conducted by Market Measurement, Inc., an independent market research consulting firm, on behalf of the Corporate Governance Practice of BDO USA, the *Spring 2023 BDO Board Pulse Survey* examined the opinions of 207 corporate directors of public company boards in February 2023. Respondents sit on boards across industries including but not limited to technology, retail, nonprofit, manufacturing, financial services, energy, healthcare, life sciences, real estate, education and hospitality. Participants' board experience was also noted based on the number of concurrent boards served, director tenure, and size of company served.

**HAVE QUESTIONS OR WANT TO LEARN MORE? CONTACT US!**

At BDO, our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes — for our people, our clients and our communities. Across the U.S., and in over 160 countries through our global organization, BDO professionals provide assurance, tax and advisory services for a diverse range of clients.

BDO is the brand name for the BDO network and for each of the BDO Member Firms. BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. www.bdo.com

Material discussed in this publication is meant to provide general information and should not be acted on without professional advice tailored to your needs.

© 2023 BDO USA, LLP. All rights reserved.