

**Geopolitical and
economic risks:
Board oversight
in an evolving
world**



Introduction

Governance professionals share insights about how their boards oversee geopolitical and economic risks and the issues of interest to both directors and investors



Introduction

Risk oversight is one of the core responsibilities of a corporate board of directors. Geopolitical and economic risks involve a growing array of issues in an increasingly entangled world where developments at home and overseas can impact companies' current fortunes and future prospects.

Among these risks are developments such as war and economic instability. Increasingly, they can also include political and social matters.

Effective oversight of geopolitical and economic risk entails committee assignments, main board-level discussions, identifying the key issues to address and keeping investors and others informed, where necessary.

In this special report we present the results of a survey conducted among governance professionals such as general counsel, corporate secretaries and their teams. Their responses offer a useful window into what goes on inside boards in terms of geopolitical and economic risk oversight and where

there can be touchpoints with the outside world. We look at areas such as which elements of the board are charged with oversight, which topics boards are discussing, what issues investors are asking about

and whether directors are involved in engagement around those, among other things.

Key findings

Just over half (54 percent) of respondents say their main board has primary oversight of relevant geopolitical risk issues. The other panels mentioned with significant frequency are the risk committee (named by 17 percent of respondents) and the audit committee (15 percent of respondents).

More than four in 10 respondents (42 percent) say the body with primary oversight of geopolitical risk issues reports on those to the main board at every board meeting.

Overall, almost three quarters of respondents report a slight (53 percent) or large (20 percent) increase over the past two years in the frequency of board discussions on geopolitical issues.

The most frequently mentioned economic/geopolitical topic boards have discussed over the past year is economic growth/recession, cited by 95 percent of respondents. That is followed by inflation (93 percent of respondents), the war in Ukraine (84 percent), racial equality (46 percent) and gender pay gaps (43 percent).

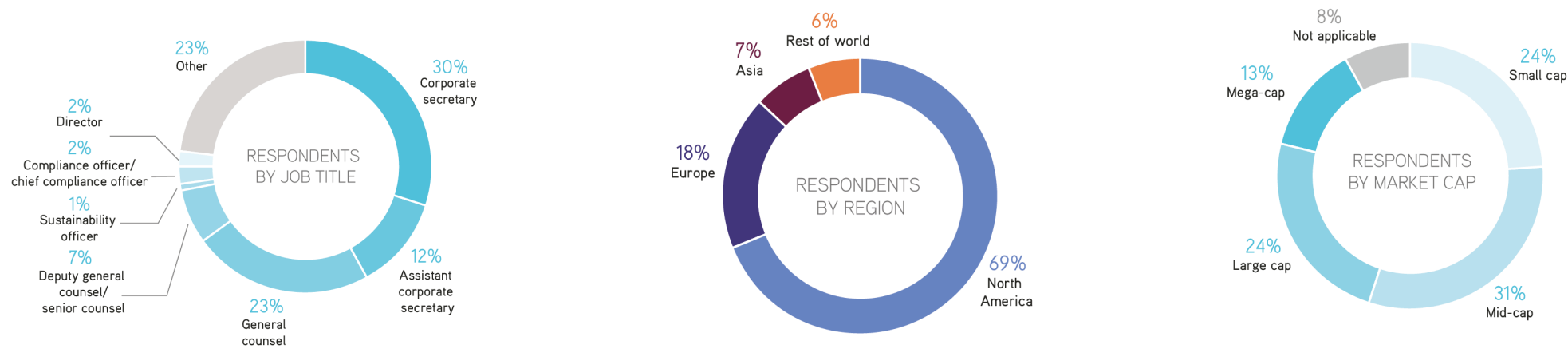
Half of respondents at mega-cap companies say board members are either frequently or always engaged with investors when relevant economic issues are discussed.

Just over a quarter (26 percent) of all respondents wish for improvements in the way their board oversees economic or domestic/global political risks.

Survey demographics

This report is based on the findings from an online survey conducted between August and September 2022.

Total respondents: 229



In the boardroom

Overseeing and discussing the issues



In the boardroom

Overseeing and discussing the issues

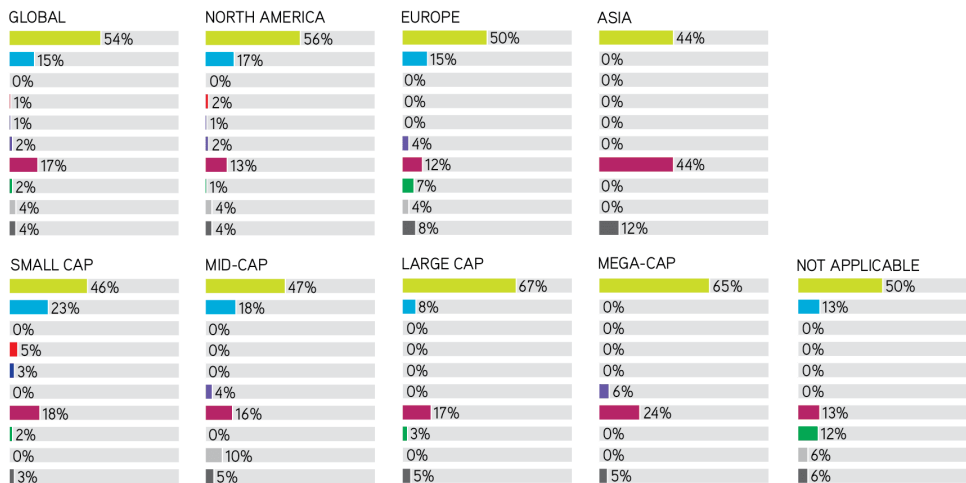
Overall, just over half (54 percent) of respondents say their main board has primary oversight of relevant geopolitical risk issues. The other panels mentioned with any significant frequency are the risk committee (named by 17 percent of respondents) and the audit committee (15 percent).

The main board is given the task more frequently at bigger companies: 67 percent of large-cap respondents and 65 percent of mega-cap

respondents say their main board has primary oversight in this area, compared with 47 percent of mid-caps and 46 percent of small caps.

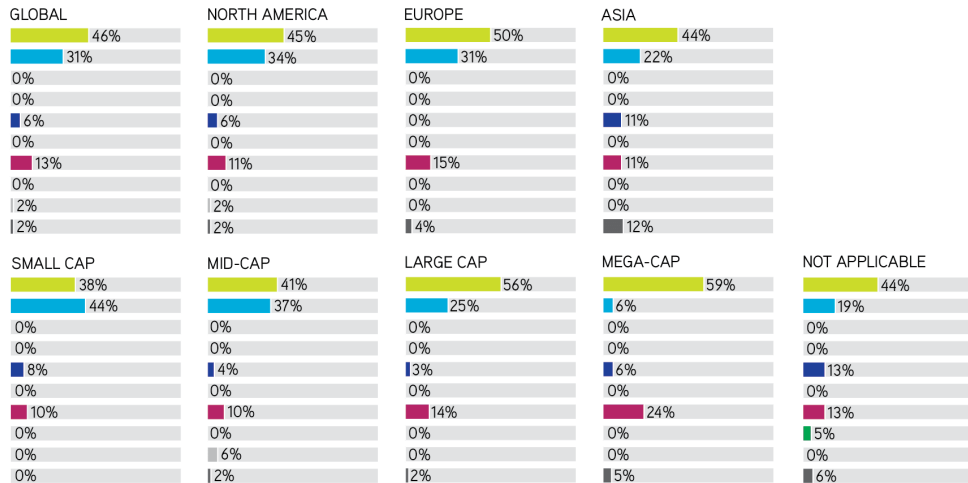
On your company’s board, which of the following has primary oversight of:

Relevant geopolitical risk issues?



■ Main board ■ Audit committee ■ Compensation committee ■ Nominating and governance committee ■ Finance committee ■ Compliance committee ■ Risk committee ■ Other ■ None of the above ■ Don't know

Relevant economic risk issues?



■ Main board ■ Audit committee ■ Compensation committee ■ Nominating and governance committee ■ Finance committee ■ Compliance committee ■ Risk committee ■ Other ■ None of the above ■ Don't know

These differences are largely attributable to preferences of assigning the audit committee primary oversight. Almost a quarter (23 percent) of respondents at small-cap companies and 18 percent of those at mid-cap companies say their audit committee is given that role. In comparison, just 8 percent of those at large-cap companies and none of those at mega-caps say the same.

The patterns are broadly similar when it comes to the economy. More than four in 10 respondents (46 percent) say primary oversight of relevant economic risk issues lies with the main board. Almost a third (31 percent) point to the audit committee and 13 percent mention the risk committee.

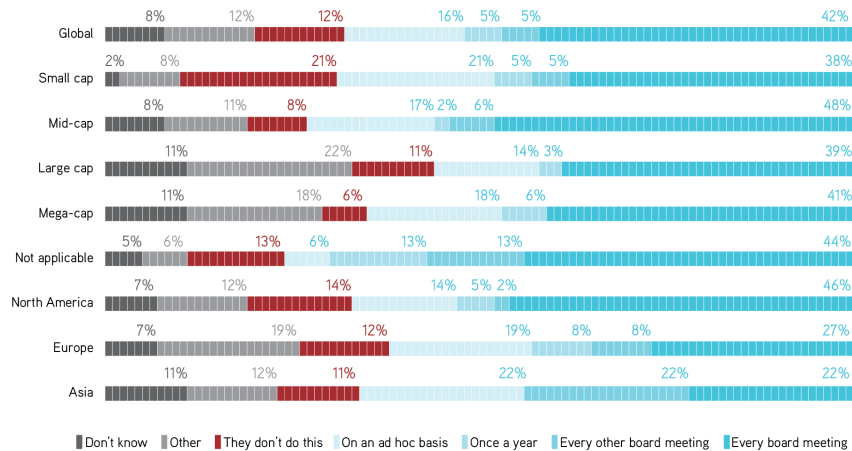
Again, the preference for the main board having primary oversight is more pronounced among respondents at larger companies. Thirty-eight percent of those at small caps say their

main board takes on that role, compared with 41 percent, 56 percent and 59 percent of those at mid-caps, large caps and mega-caps, respectively.

Just 6 percent of those at mega-cap companies say their audit committee has primary oversight of relevant economic risk issues, compared with 25 percent, 37 percent and 44 percent of those at large caps, mid-caps and small caps, respectively.

How often do these committees report to the main board on their respective issues?

Committees with geopolitical risk oversight

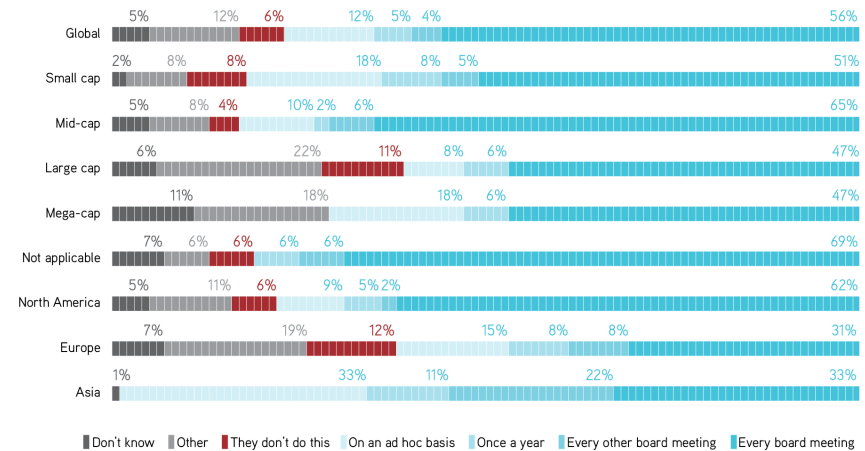


More than four in 10 respondents (46 percent) say the body with primary oversight of geopolitical risk issues reports on those to the main board at every board meeting. The next-most frequently mentioned option is ad hoc reporting, mentioned by 16 percent of respondents, while 12 percent say there is no such reporting.

The patterns are largely similar across different sizes of company. But a combined 42 percent of respondents at small-cap firms say there is either ad hoc or no such reporting, compared with 25 percent of respondents at mid-caps giving either of those responses.

In general, reporting on economic risks takes place more frequently than

Committees with economic risk oversight



reporting on geopolitical risks. More than half (56 percent) of all respondents say reporting on economic risks to the board takes place at every board meeting and just 6 percent say such reporting doesn't take place at all.

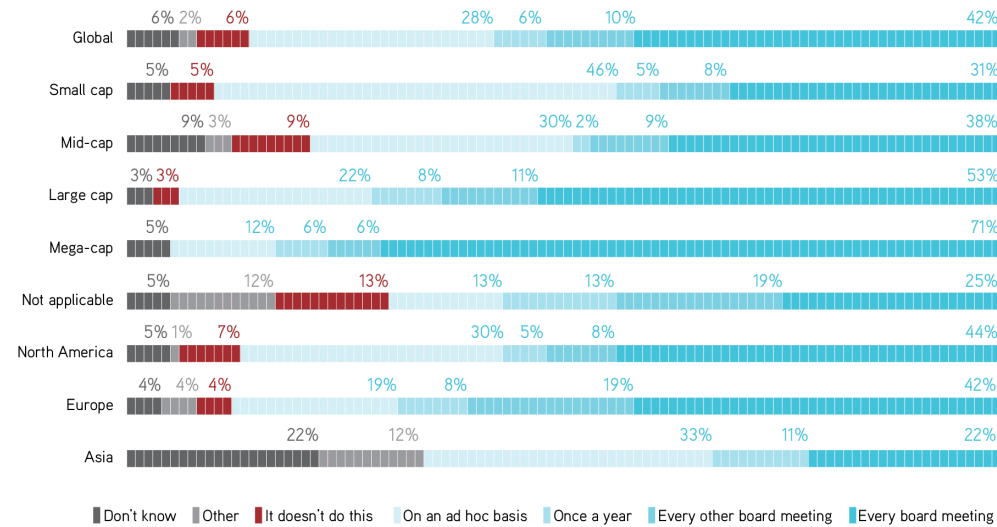
Almost two thirds (65 percent) of those at mid-cap companies say reporting to the board on economic

risks happens at each board meeting, compared with 51 percent of those at small-cap companies and 47 percent of those at large and mega-cap firms.

Sixty-two percent of respondents in North America say reporting takes place at every board meeting, while only half as many (31 percent) of those in Europe say likewise.

In the past 12 months, how frequently has the main board discussed the following issues?

Geopolitical risk issues

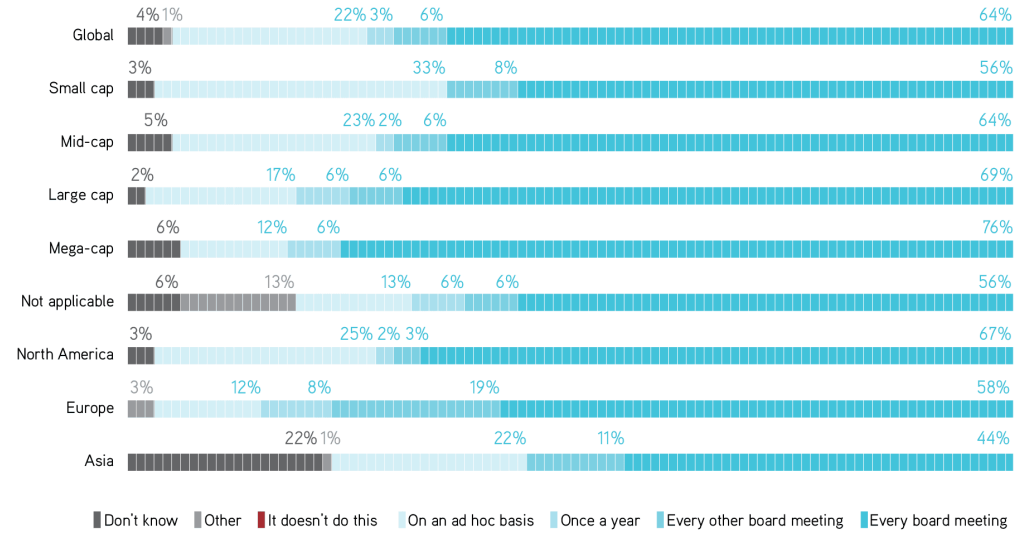


More than four in 10 respondents (42 percent) say that in the past 12 months their main board has discussed geopolitical risk issues at every board meeting. Almost three in 10 (28 percent) say such discussions have taken place on an ad hoc basis, while just 6 percent say their board hasn't discussed these issues.

Discussions of geopolitical risks take place more regularly at bigger firms. Less than a third of respondents at small-cap companies say their board talked about these topics at every meeting over the past year

This compares with 38 percent, 53 percent and 71 percent of those at mid-

Economic risk issues



cap, large-cap and mega-cap companies, respectively.

More than four in 10 respondents at small-cap companies (46 percent) report their board having those discussions on an ad hoc basis, compared with 30 percent of those at mid-caps, 22 percent of respondents at

large caps and 12 percent of those at mega-cap companies.

Discussions of economic risk issues have taken place more frequently than discussions of geopolitical risks over the past 12 months. Overall, almost two thirds of respondents (64 percent) say their board talked about economic

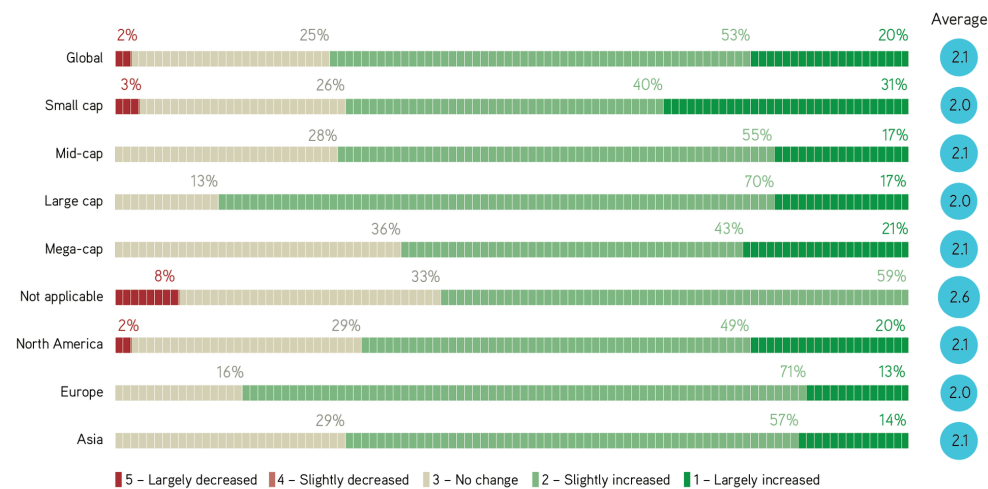
risks at every meeting, with 22 percent saying those discussions happened on an ad hoc basis.

Again, economic risks have been discussed more regularly at bigger companies. Just over half (56 percent) of respondents at small-cap companies report such discussions having taken place at every board meeting over the past year. This compares with 64 percent, 69 percent and 76 percent of respondents at mid-cap, large-cap and mega-cap companies, respectively.

Conversely, discussions have been had on an ad hoc basis according to a third of those at small caps, compared with 23 percent, 17 percent and 12 percent of those at mid-caps, large caps and mega-caps, respectively.

How has the frequency with which the main board discusses geopolitical issues changed compared with...

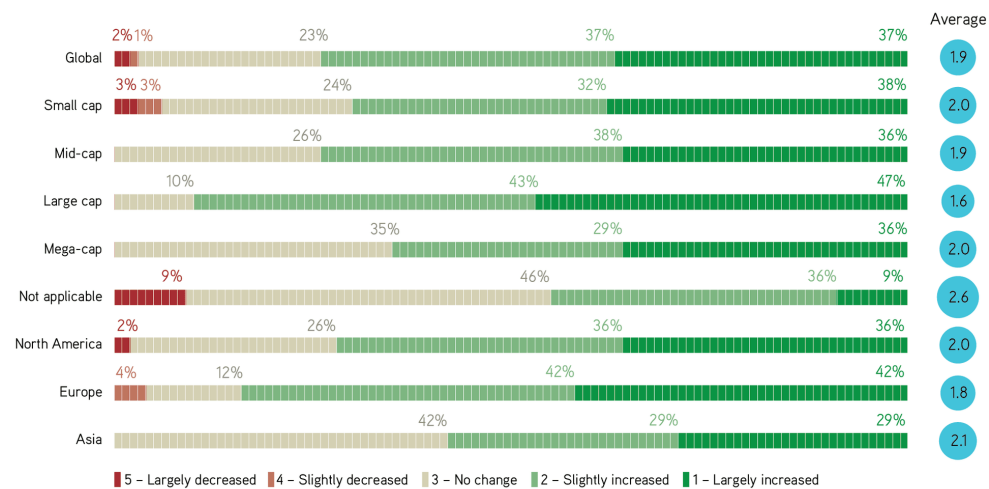
Two years ago?



Respondents were asked to rate how the frequency with which the main board discusses geopolitical issues has changed compared with two years ago and three years ago using a five-point scale where one represents the frequency having ‘largely increased’ and five represents the frequency having ‘largely decreased’.

Overall, almost three quarters of respondents report a slight (53 percent) or large (20 percent) increase over the past two years in the frequency of board discussions of geopolitical issues and just 2 percent report any kind of decrease, giving an average score of 2.1. There is a slightly greater increase in the average

Three years ago?



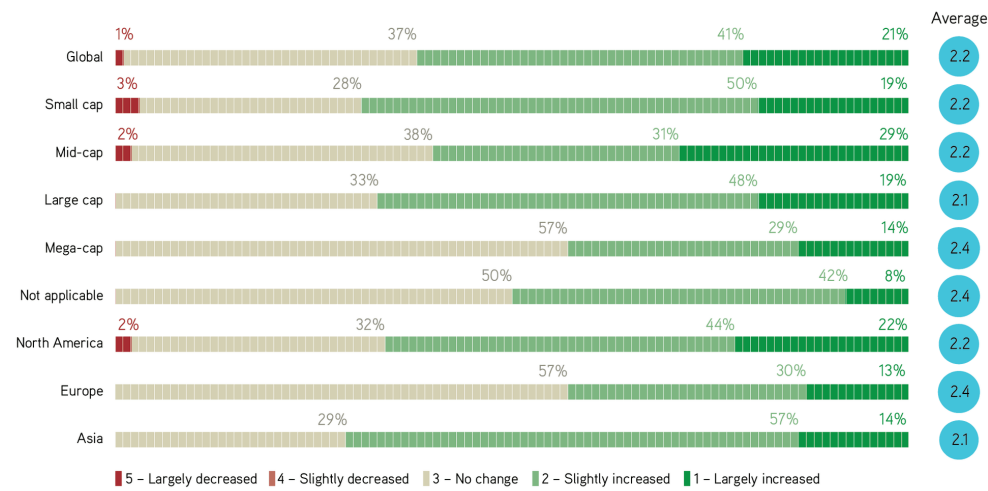
frequency of board discussions over the past three years, with an average score of 1.9.

The average scores over the past two years are broadly similar across respondents at different company sizes and between those in Europe and North Asia. Almost a third (31

percent) of respondents at small-cap companies say there has been a large increase in the frequency of such discussions in the past two years.

How has the frequency with which the main board discusses economic issues changed compared with...

Two years ago?



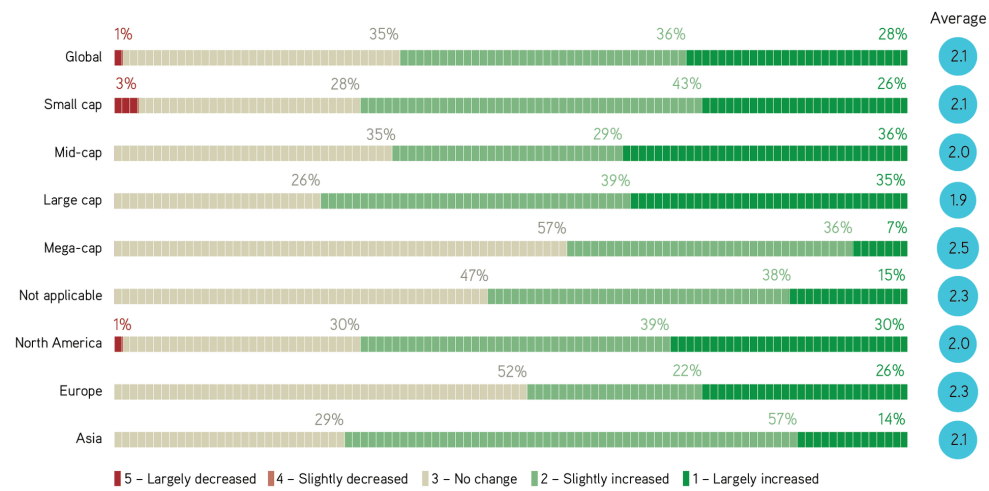
Overall, there has also been an increase over the past two and three years in the frequency with which boards discuss economic issues.

The increase is slightly less marked than for discussions of geopolitical issues, but still only 1 percent of respondents report any decrease in

frequency. In total, 62 percent of respondents say the frequency of discussions on economic issues has seen a slight or large increase in the past two years.

On average, respondents at mega-cap companies indicate less of an increase (2.4) than do those at small-

Three years ago?

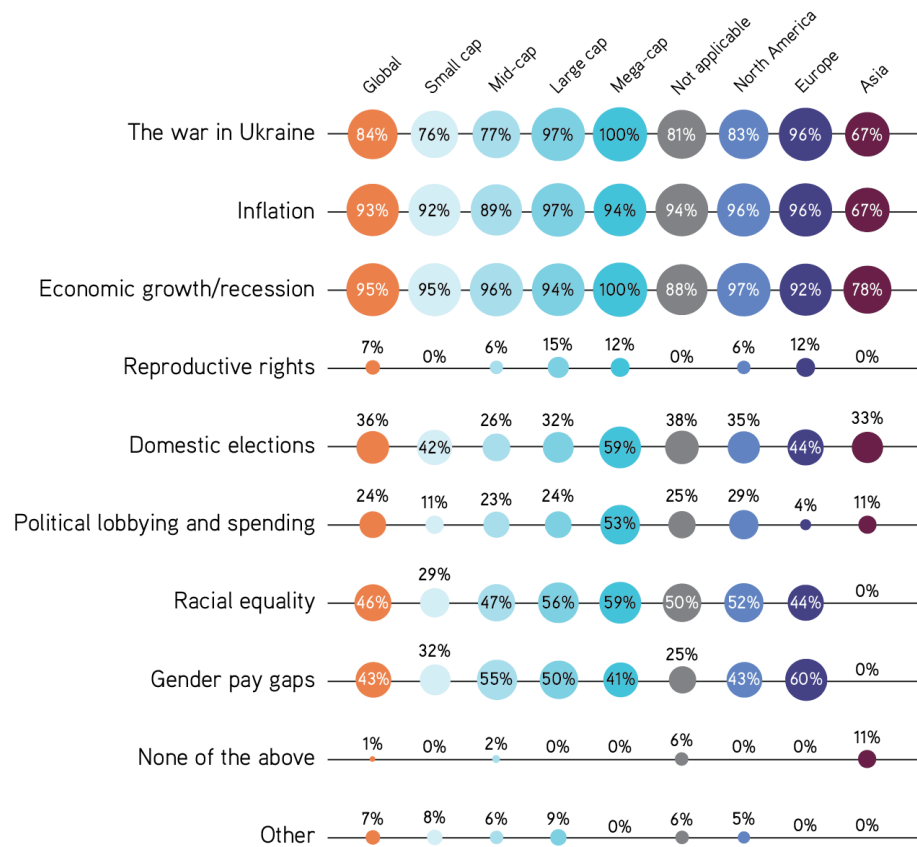


cap companies (2.2), mid-caps (2.2) and large-cap firms (2.1).

Almost three in 10 (29 percent) of those at mid-cap companies say there has been a large increase in the frequency of board discussions around economic issues.

On average, respondents in North America report more of an increase (2.2) than do those in Europe (2.4).

Which of the following issues has your board discussed over the past year?



There have been many important issues in the spotlight with potential implications for companies this past

year, including a number of issues that many boards may not have discussed in the past.

Overall, the most frequently mentioned economic/geopolitical topic boards have discussed over the past year is economic growth/recession, cited by 95 percent of respondents. That is followed by inflation (93 percent of respondents), the war in Ukraine (84 percent), racial equality (46 percent), gender pay gaps (43 percent), domestic elections (36 percent) and political lobbying and spending (24 percent).

Just 7 percent of respondents report that their board has discussed reproductive rights over the past year. This is perhaps surprisingly few, given the likely widespread impact on employees of US companies of the Supreme Court overturning *Roe vs Wade*. Governance professionals expect at least some US firms to face shareholder proposals in 2023 on the topic of reproductive rights.

More respondents at larger firms say their board has discussed several issues. For example, 15 percent of those at large caps and 12 percent of those at mega-caps say their board has talked about reproductive rights. This compares with 6 percent of those at mid-caps and none of those at small caps.

All mega-cap respondents and 97 percent of those at large-cap companies say their board has discussed the war in Ukraine, compared with 77 percent and 76 percent of those at mid-cap and small-cap companies, respectively.

Respondents in Europe more frequently report their board having discussed the war, domestic elections and gender pay gaps than do those in North America.

Beyond the boardroom

Expanding the discussions

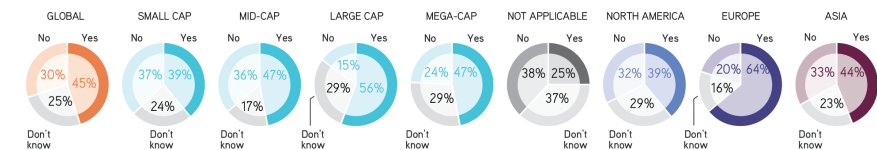


Beyond the boardroom

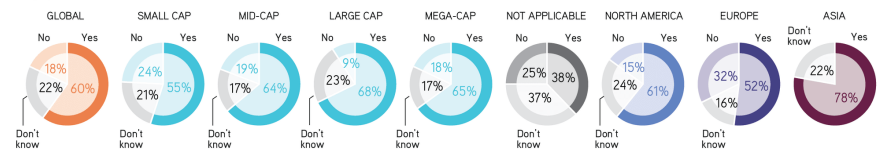
Expanding the discussions

In the past 12 months, have investors asked questions about the following?

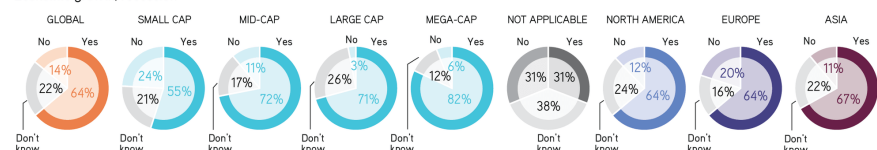
The war in Ukraine



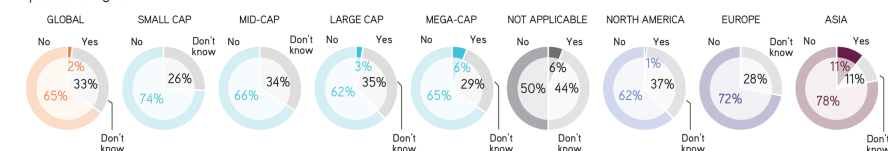
Inflation



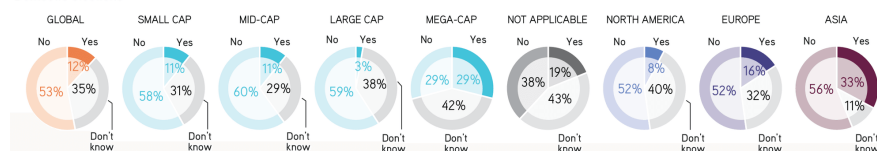
Economic growth/recession



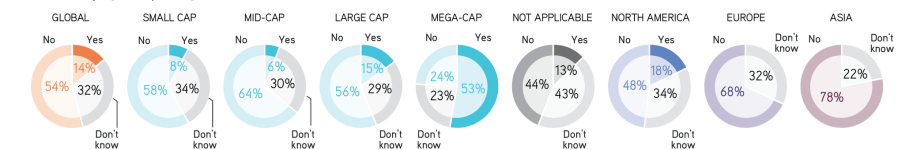
Reproductive rights



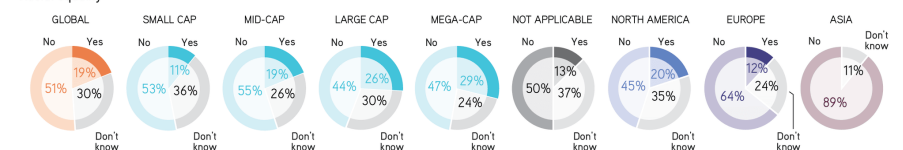
Domestic elections



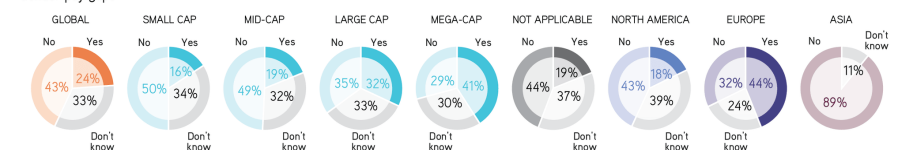
Political lobbying and spending



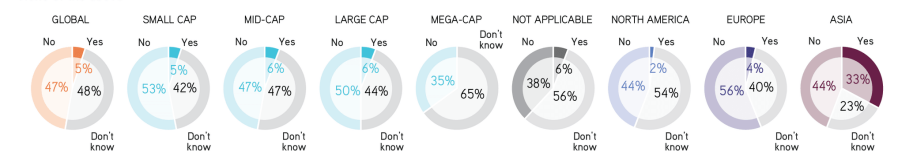
Racial equality



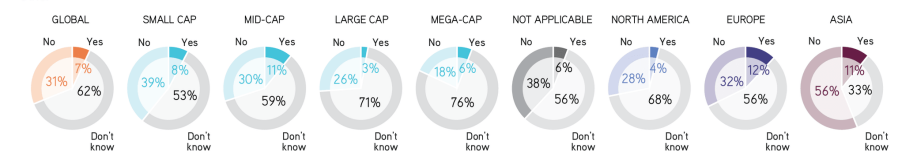
Gender pay gaps



None of the above



Other



Investors and boards are, broadly speaking, paying attention to the same topics. The issue investors have most frequently asked about in the past 12 months is economic growth/recession, mentioned by 64 percent of respondents.

This is followed by inflation (60 percent of respondents), the war in Ukraine (45 percent), gender pay gaps (24 percent), racial equality (19 percent) and political lobbying and spending (14 percent).

Bigger companies have generally faced more questions about economic growth/recession: 82 percent of respondents at mega-caps say investors have asked about this in the last year, compared with 71 percent, 72 percent and 55 percent at large caps, mid-caps and small caps, respectively.

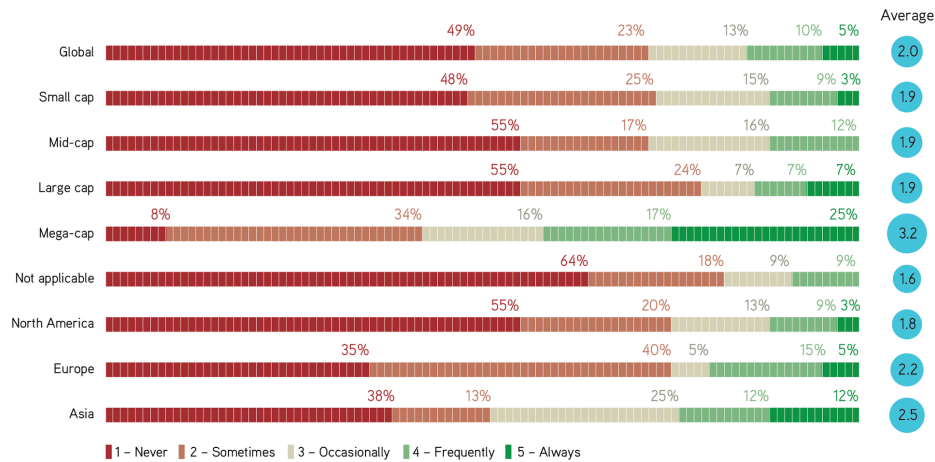
Similarly, almost three in 10 respondents at mega-cap companies (29 percent) say investors have asked

about domestic elections, compared with 11 percent of those at small and mid-cap companies and 3 percent of those at large caps. Larger companies have also more frequently faced questions about racial equality and gender pay gaps.

Almost two thirds (64 percent) of respondents in Europe say investors have asked about the war in Ukraine, while 39 percent of those in North America say the same.

How frequently do members of your board take part in engagement with investors when...

Relevant domestic or global political issues are discussed?



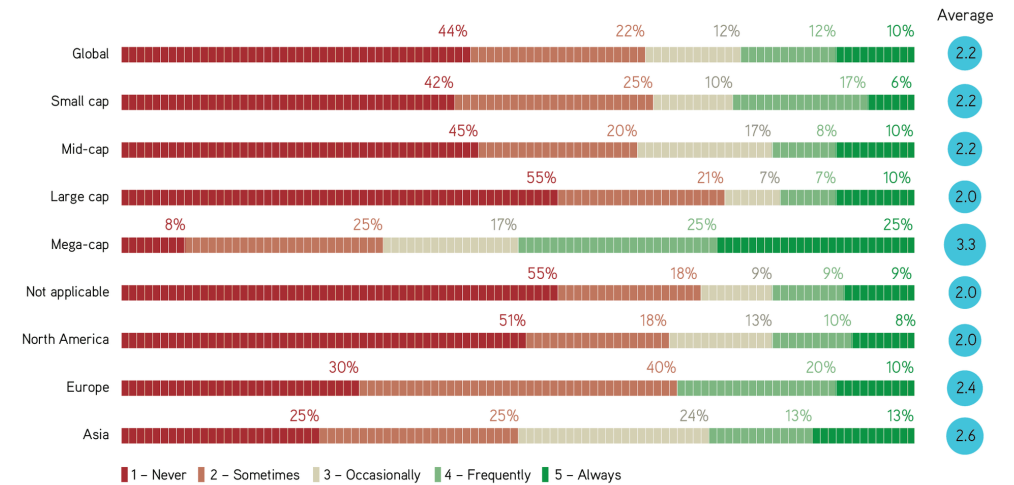
Respondents were asked to rate how frequently board members take part in engagement with investors when relevant domestic/global political issues or relevant economic issues are discussed. They used a five-point scale where one is 'never' and five is 'always'.

Overall, almost half (49 percent) of respondents say their board members

are never involved in engagement with investors on relevant domestic or global political issues. But sufficient numbers say their directors are involved at least part of the time that the average score is 2.0.

The average score is 1.9 among respondents at small-cap, mid-cap and large-cap companies. But it is 3.2 among

Relevant economic issues are discussed?



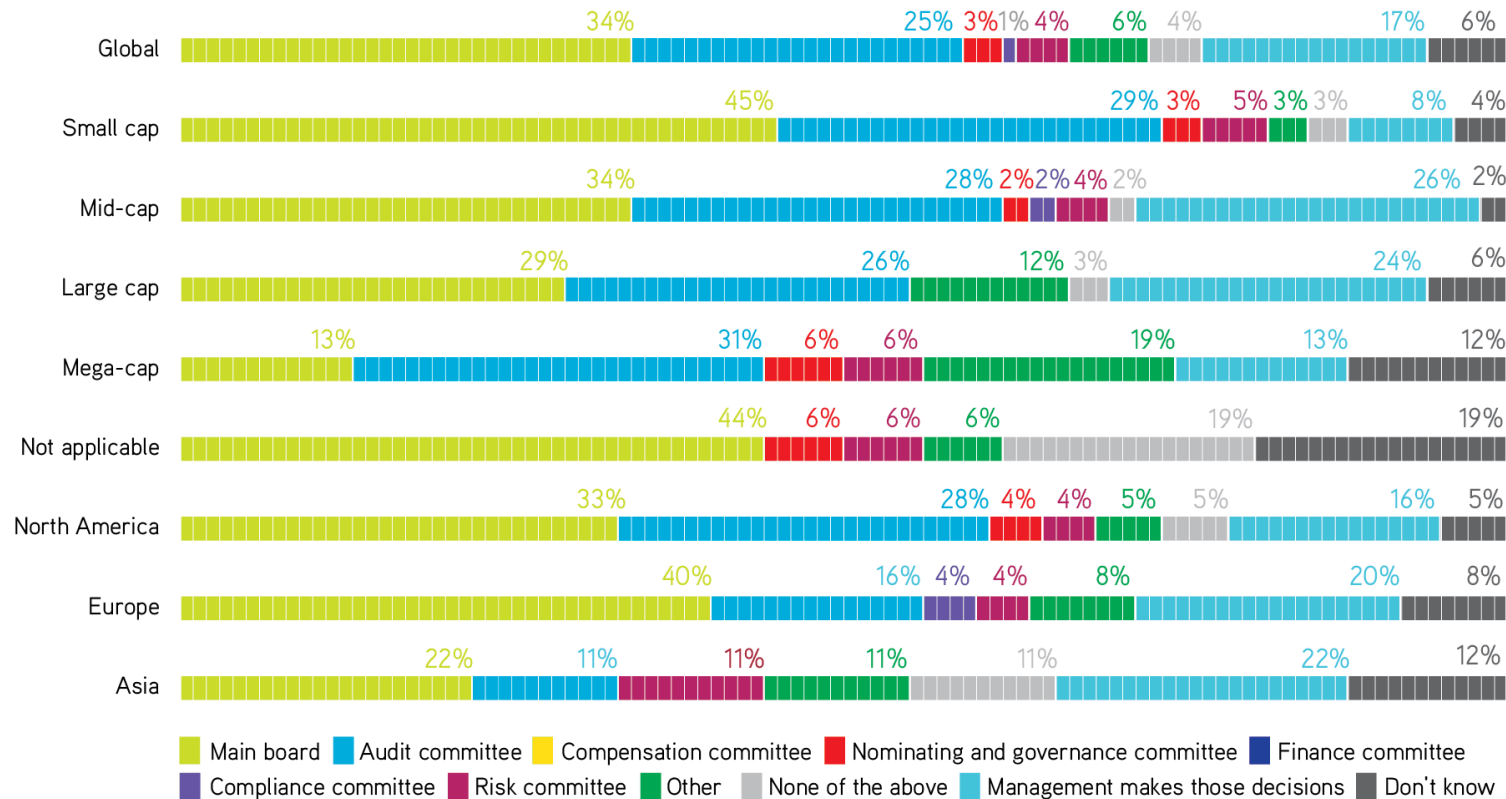
respondents at mega-cap companies, 42 percent of whom say board members are either frequently or always engaged with investors on relevant domestic or global political issues.

Overall, there is a higher frequency (average score 2.2) of directors taking part in investor engagement when relevant economic issues are discussed.

Again, the frequency with which members of boards at mega-caps are involved is higher (3.3) than among those on boards of small caps (2.2), mid-caps (2.2) or large caps (2.0).

Half of respondents at mega-cap companies say board members are either frequently or always engaged in these discussions.

On your company's board, which of the following has primary oversight of company disclosures regarding domestic and/or global political issues?



Primary oversight of company disclosures regarding domestic and/or global political issues most frequently lies with the main board (34 percent), according to respondents. A quarter say the audit committee takes on that role, while 17 percent say management takes those decisions.

More than four in 10 respondents at small-cap companies (45 percent) say their main board has primary oversight, compared with 34 percent, 29 percent and just 13 percent of those at mid-cap, large-cap and mega-cap companies, respectively. More respondents in North America (28 percent) say their audit committee has primary oversight than do those in Europe (16 percent).

Performance review

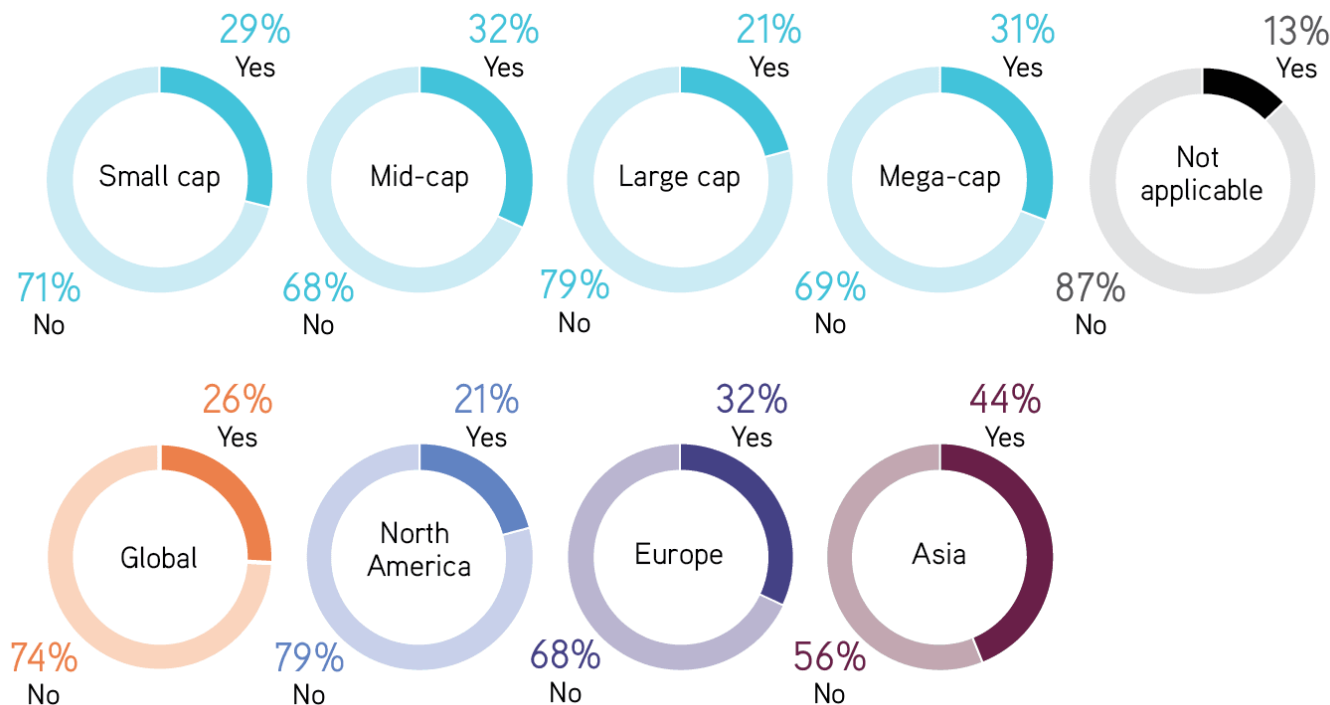
How is the board doing?



Performance review

How is the board doing?

Would you like to see improvements in the way your company's board oversees economic or domestic/global political risks?



An arguably significant minority (26 percent) of all respondents wish for improvements in the way their board oversees economic or domestic/global political risks.

That figure is highest among those at mid-cap companies (32 percent) and lowest among those at large caps (21 percent). More than a fifth (21 percent) of respondents in North America would like to see improvements in this process, compared with 32 percent of those in Europe.

Respondents who see room for improvement in the way their board oversees economic or geopolitical risks made comments such as:

- ‘Discuss in a more regular and structured way’
- ‘More in-depth discussions on global political risks’
- ‘Bring in an economics expert to present’
- ‘Formalize as an information item within reports, with discussion as necessary’
- ‘Internal and external presentations’
- ‘More in-depth discussion of the implications on the company’s business operations’
- ‘We should have a more direct focus on this issue and consider for each regular meeting whether there are

updates or issues relating to these two matters that should be discussed or raised with the board’

- ‘More purposeful review of these issues at every board meeting’
- ‘Have it as an agenda item on quarterly board meetings’
- ‘Updates to the board at every meeting as it relates to our risk scorecard and appetite, delivered via the risk committee update’
- ‘Would like to receive ideas on how to implement improvements – tools, platforms or ways to structure governance that may contribute’
- ‘We need to be more aware of the impact of any changes in domestic political headwinds’
- ‘Would like to hear from external economic experts. Would like to have

board and management discuss scenario planning – such as: what if China invades Taiwan?’

- ‘Make a global geopolitical discussion part of overall strategy discussions once a year. Have presentations/do scenario planning on future issues during enterprise risk discussions’
- ‘Better resources’
- ‘I think the executive team needs to do a better job providing relevant information’
- ‘Education/training materials’
- ‘Perhaps we should set up a [risk management] committee to discuss’

Thank you for reading

Corporate Secretary Research Report: Geopolitical and economic risks

