WHAT'S ON THE MINDS OF CORPORATE DIRECTORS HEADING INTO 2023

BDO

BDO was a corporate sponsor of and active participant in several leading governance summits held in the fall of 2022 including the Association of Audit Committee Members Inc., Corporate Board Member and the National Association of Corporate Directors. The following reflects key priorities and considerations as we head into 2023 identified based on our discussions with corporate director attendees, subject matter experts and other related relevant research and thought leadership.

2022 TRENDS AND FORECASTS

In a divided and turbulent landscape, leaders agree that a director's responsibility is not going to get easier. **Bloomberg** forecasts a 100% likelihood of a recession within the year, while **Diligent Institute's Corporate Sentiment Tracker**, notes inflation and recession remain top trending terms being discussed by corporate leaders of global public companies. Geopolitical unrest leads news stories. Hope and optimism seem to be wavering among corporate leaders as the same **tracker** reports positive sentiment trending downward over the past year.

Despite these trends, companies and their employees have shown incredible resilience. In order for the boards to encourage and support this mindset, the basic building blocks that guide decision making need to be in place and embraced by everyone in the organization - including corporate values, culture, strategy and core purpose. These form the foundation to allow better alignment of risk and resource identification, prioritization and management; and serve to guide communications with key stakeholders.

PURPOSE, VALUES & CULTURE

Directors agree that uncertainty is the only certainty looking ahead to 2023 and beyond, and leadership continues to not only manage the difficult, but recognizes that they should go looking for it. Leaders need to ask the hard questions, envision the difficult scenarios and prepare to be challenged. Daniel Lubitzsky, founder of KIND and the Starts With Us movement, shares the **philosophy** of foster[ing] **curiosity**, **compassion**, and **courage** as daily habits. Directors are reminded to be more **curious** — seek first to understand, and imagine what may be (both good and bad); to be more **compassionate** — to those on our team and those on the "other" team; and to be **courageous** and ask the difficult questions, stand alone in your values and create something new. Leaders who channel these traits and embed them in their daily actions work towards establishing a **resilient culture** within their organizations.

Recent research has found "while companies have traditionally focused on recruiting directors with 'hard skills,' boards need to keep an eye on 'soft skills' when vetting new directors. Recent events have made it clear that even though traditional skills and expertise are pivotal, other competencies should be taken into account as well when recruiting new directors, including crisis management, the ability to listen, eagerness to learn, and openness to change."

When prioritizing a resilient mindset, directors and leaders should note that these soft skills and associated culture may be developed within and considered in recruiting. Joyce Cacho, an experienced director and executive recently featured on a BDO in the Boardroom podcast, **discussed** the experiential needs of today's boardroom including the director's role as a catalyst of change and the importance of reviewing a director's skills beyond experience to attributes such as curiosity, digital savviness and enterprise risk management. These values and skillsets are instrumental not only in boardroom success but throughout the organization and help foster and execute a resilient culture.

Corporate purpose, values and culture should be **intentional, foundational** and treated as a **corporate asset**. Not only should these key items be identified and communicated organization-wide, but there needs to be continual "fit for purpose" evaluation. A culture that values resilience allows for mistakes and questions. Leadership that values communication should be accessible. Take the time in your boardroom to have intentional conversations about purpose, culture and values and how these are being adhered to by the business. This includes further determining how to evaluate if those values are being lived and establishing a cadence and method for tracking and continual improvement.

WHERE HAS STRATEGY GONE?

The board is responsible for the oversight of strategy established by management. Strategy, which should be built upon corporate purpose, should dictate all decision-making. Management has the directive and insight to develop a strategy with the board alongside to critique and challenge it. Raj Sisodia, Co-Founder of Conscious Capitalism and recently featured in a two-part BDO in the Boardroom podcast, **discussed** the importance of board conversations around culture, purpose and values that align stakeholders in helping management better define evolving strategy.

Recent research from The Conference Board revealed that "even though business strategy continues to be the most commonly cited experience for directors, the reported percentage of board members with such experience has been declining." This is extremely significant. The data cited:

- S&P 500: directors with strategy experience — as reported in the proxy statement or other disclosure documents — declined from 69.7% in 2018 to 67.5% in 2021.
- The Russell 3000: saw a larger decrease - from 67.7% in 2018 to 62.9% in 2021.
- The decline in directors with business strategy experience should raise a yellow, if not red, flag for boards, management, and investors. Boards should not sacrifice business strategy experience to achieve functional expertise.

Successful businesses and boardrooms recognize that strategy needs to be front and center in conversations, and that each business decision should be made through the lens of the agreed upon corporate strategy. This strategy will continue to evolve and management, along with the board, should be prepared to respond to changes impacting the business and adjust strategy accordingly. Similar to the expectation that not every director needs to be a financial expert, but every director should have a baseline knowledge of the company's financial statements; the same holds true with respect to strategy. The board needs to be mindful of this waning skillset in both their **director refreshment** and executive succession activities.

RISK MANAGEMENT

Enterprise risk management (ERM) is a staple responsibility of board oversight. Similar to strategy, the risk priorities in ERM will be unique to each company and should be viewed through a strategic lens. However, there may be broad trends faced by the majority of organizations that deserve consideration. For example, directors are reminded that most every company is now a technology and a data company and technological advancement, data privacy and cybersecurity need to be prioritized within their risk oversight considerations. Furthermore, many domestic companies are becoming more highly subject to global geopolitical risks and need to weigh heavily circumstances caused by supply chain disruption, war and political instability, rising interest rates, inflationary pressures, etc,. and how specifically these impact the business.

COMMUNICATIONS & REPORTING

The growing sustainability movement has shifted conversations in boardrooms from exclusively profit-centric to look more foundationally at corporate purpose — i.e., what solutions are we providing and to whom are we responsible? These questions highlight an emphasis beyond shareholders and the need to **engage and communicate** more broadly. While actual engagement is normally left to management, proactive board oversight of these activities prioritizes a culture that serves a broad range of stakeholders. Directors should ensure management is actively engaging stakeholders through appropriate accessibility and outreach, and understand the nature of those communications to inform enhancements to the business.

While listening to stakeholders is an important part of engagement, it is equally important to embrace available reporting mechanisms to tell the company's story and explain how leadership makes the decisions it believes is in the best interests of those stakeholders.

Tim Mohin, former Chief Sustainability Officer, Persefoni and former CEO of the Global Reporting Initiative (GRI), **notes** that as corporate responsibility shifts from reputational risk to a business imperative, there is significant scrutiny by investors and the regulatory community forcing communication within the company regarding needed changes in controls, policies and procedures to accommodate both evolving sustainability and traditional financial disclosures fully into integrated reporting. Amanda Shpiner, Managing Director at Gashalter & Co. LP, **discusses** considerations for boards to include as part of an overall communications governance strategy in the face of numerous disruptions impacting the business including: management accountability, activism and perceived vulnerabilities. She advises that even if strategy and execution around nonfinancial risks may be in the development stage, companies will want to be transparent in their current positions and their goals and objectives.

NEXT STEPS

The expectations and responsibilities of boards continue to grow. Recognizing that as boards think more granularly about oversight and allocate certain activities to individual committees, it becomes more important for directors to clearly define where responsibilities for identified risks lie and how actions being taken by management are to be communicated both at the committee level and by the full board. This further ensures that appropriate skills sets, knowledge and experience of directors are leveraged appropriately and the board is operating effectively and efficiently. For more on board's standing committee considerations refer to BDO's **2022 series** of related publications as well as future publications to be released in Q1 2023.

CONTACT

AMY ROJIK
National Managing Partner - Corporate Governance, Communications and Emerging Issues
617-239-7005 / arojik@bdo.com

LEE SENTNOR
Professional Practice Director
617-239-4142 / lsentnor@bdo.com