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Center for Board Effectiveness

On the board's agenda | US
The 2023 board agenda

The more things change…

On the board's agenda first focused on the upcoming year's "hot topics" in January 2018.[1] Looking at that publication five years later is instructive; it reminds us that while many new topics are likely to be on board agendas in 2023, some topics continue to be at the forefront of board consideration even if the details have changed in some respects.

Of course, many matters have been added to board agendas since 2018 and will likely remain priority items in 2023. Perhaps the most significant new matters relate to the corporation's role in society at large. This topic came into focus in 2019, when the Business Roundtable published its "Statement on the Purpose of the Corporation,"[2] leading to discussions, some of them intense and continuing to date, as to whether corporations owe duties to groups other than shareholders, such as employees, customers, suppliers, and the communities in which they operate. Other societal concerns that have impacted boardrooms include a myriad of events that may have contributed to the broader DE&I focus, which led companies and their boards to consider whether they provide equitable and inclusive work environments, and the COVID-19 pandemic, which continues to impact companies with respect to issues such as employee health and wellness and the fundamental nature of work and the workplace.

We discuss below some of the critical topics that have remained relatively constant in the past five years, as well as new and emerging topics that will likely be on the board's agenda in 2023.

1. Debbie McCormack and Bob Lamm, "The 2018 boardroom agenda—Dealing with challenges old and new," Deloitte, January 2018.
2. Business Roundtable, "Business Roundtable redefines the purpose of a corporation to promote 'an economy that serves all Americans,'" press release, August 19, 2019.

Board composition and skills

In 2023 as in 2018, board composition is a principal area of focus for boards. Moreover, some of the matters that boards will likely address in 2023 have significant implications for board composition, as well.

Cybersecurity is one such matter. It remains a major concern for companies and their boards, and many boards have considered the desirability of adding directors with a range of skills from cyber risk expertise to general tech-savviness. This topic was addressed in 2022 in Securities and Exchange Commission (SEC) proposals that would impose extensive new disclosure requirements surrounding cybersecurity, including "whether any member of the… board has expertise in cybersecurity, and if so, the nature of such expertise."[3] A number of the comments submitted to the SEC on this proposal question the need for and advisability of this requirement, noting that it is not practicable to add an "expert" on every topic that boards have to address and that other directors may place undue reliance on an "expert" on a given topic.

However, whether this requirement is adopted as it was proposed, removed from the final rule, or something in between, boards will almost certainly remain focused on having one or more members with some degree of technology experience or knowledge.

Other developing areas of board focus also have implications for board composition. Data suggests that companies are no longer seeking to limit searches for new board members to individuals who serve or have previously served as a chief executive officer.[4] Increasingly, boards are seeking directors with experience in areas where their companies have the greatest needs; consumer-facing companies may seek to add directors with marketing experience; companies with human capital strategy opportunities may consider adding directors who have served as CHROs or in similar capacities; and companies with international operations may think about adding directors with backgrounds in geopolitics.

Technology and cyber risk

Five years ago, the discussion of technology risk focused almost entirely on the risks associated with new technologies, such as disruptive risk and ethical issues associated with the use of artificial intelligence (AI); "hacking" was referred to, but it does not appear to have been a key area of concern.

While risks, challenges, and opportunities associated with disruption and the use of AI remain on board agendas, the discussion has clearly shifted to cybersecurity, possibly reflecting increases in the number and severity of cyberattacks as well as the greater degree of reliance now placed on the digital infrastructure. As discussed above, cybersecurity has become sufficiently important to generate SEC proposals that would greatly expand disclosures on the topic, including the extent to which the board relies upon employees and/or outside advisors to assist in carrying out oversight duties with respect to cybersecurity, how often the board discusses cybersecurity, and whether the board includes any individuals with cybersecurity expertise. The board may need to be part of discussions on infrastructure and broader technology architecture given the implications on risks, innovation, potential ethical implications, and controls. Even in the absence of SEC requirements, investors will likely continue to expect boards to address cybersecurity risks as well as to disclose how boards do so.

Strategy and risk

Although some items on 2018 board agendas have faded and new items have arisen, strategy and risk are perennial items at the top of the board agenda, figuratively if not literally. In fact, experience suggests that boards have become even more focused on overseeing their companies' strategies. Gone are the days when boards and senior members of management held an annual strategic retreat but rarely if ever focused on strategy until the next retreat. Today, boards routinely discuss some aspect of strategy at most if not all meetings, asking questions such as these: "What steps have we taken and are to be taken to implement our strategy?" "How far along are we in the implementation process?" "Is our strategy proving to be viable?" "Does it need to be tweaked, to undergo significant adjustments, or to be abandoned?" "Do we need to pivot given risks associated with certain strategic objectives?" And so on.

Risk oversight also remains a priority item on board agendas, particularly as the number and severity of risks seems to increase daily. For example, in 2018, few if any businesses anticipated the risks of a global pandemic, the dislocations it would cause in global supply chains, the ongoing economic challenges, and human capital focus areas such as workplace health, wellness, and overall cultural risks.

Perhaps due to the proliferation of new risks, boards—and audit committees—may want to re-examine their companies' enterprise risk programs to determine whether those programs address new risks and do not become a mere "check-the-box" process. To effectively oversee such risks, audit committees should be provided a regular dashboard of the most significant risks to make sure new risks are being added, and to facilitate an understanding of how specific risk vulnerabilities and impact levels change from quarter to quarter.

3. Securities and Exchange Commission (SEC), "Cybersecurity risk management, strategy, governance, and incident disclosure," March 9, 2022.
4. Spencer Stuart, *2022 U.S. Spencer Stuart 2022 Board Index*.

Workplace and workforce matters

As early as September 2020, it was recognized that workforce strategies were becoming as important as business strategies to boards of directors:

> "Events related to the pandemic … have … thrust workforce management to the forefront of board agendas. In many cases an afterthought, a lagging consideration to the business and technology strategy, workforce management is now a leading priority, on an equal footing with other key areas of board focus."[5]

Although the COVID-19 pandemic may have precipitated the board focus on workforce issues, other concerns reinforced the need for greater board attention to the subject:

> "…[B]oards are beginning to recognize that agency has shifted from employers to workers; the workforce is looking for more meaningful work, a greater focus on well-being with considerations such as more time and place flexibility, and more personalized and agile employment models and career paths. According to the U.S. Bureau of Labor Statistics, 47.8 million people in the United States quit their jobs in 2021, the largest number recorded… since at least 2001. In what was dubbed "the Great Resignation," resignations represented 69.3% of total separations in 2021."[6]

Regulatory requirements have also caused boards to focus on workplace matters. In late 2020, the SEC adopted new disclosure requirements relating to human capital resources.[7] And the SEC has indicated that more disclosure requirements on this subject are likely to be forthcoming in the near term.

Whatever the causes may be, boards have focused intensely on their companies' workplaces and workforces far more than in the past, when employee matters were formerly viewed as belonging primarily if not exclusively in management's wheelhouse.

Climate change

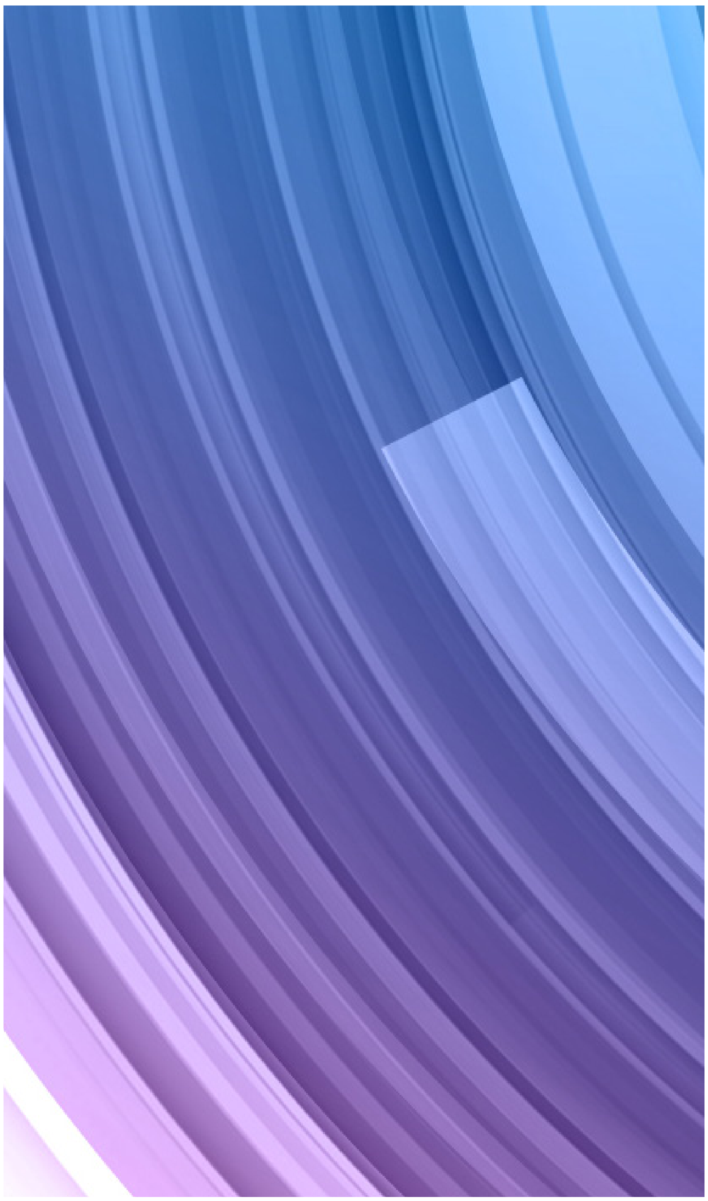
As the impacts of climate change have become more apparent in recent years, investors—primarily many large, institutional investors—have increasingly pressed companies to pay attention to climate change, often by seeking commitments to reduce emissions or take other tangible actions. Associated with this pressure is the expectation that boards will expand their oversight to consider their companies' role in climate change and whether and how that role should change. In some cases, investors have pressed for greater efforts to achieve "sustainability"—that is, to ensure that the company's business can remain viable and grow; in others, the focus is broader: to address climate change on a broader basis.

Of course, there are extensive regulations surrounding climate change at all levels of government—local, state, and federal. However, until relatively recently, it did not appear to be high on the SEC's agenda. That began to change in late 2020, as individual commissioners made speeches or other public statements on the importance of climate change disclosure, and the SEC staff increased its scrutiny of disclosures—or, in some cases, the absence of disclosure—concerning climate change and its impact on the present and future of the business. Most recently, in 2022, the SEC proposed extensive disclosure requirements in this area, including disclosures concerning emissions, board oversight, and other matters. The proposals have received over 14,000 comments, which may be a record, and the adoption of final rules on the subject may result in litigation challenging the rule. In the interim, however, many boards are addressing the area and will almost certainly pay greater attention to it in 2023.

5. Erica Volini, Steve Hatfield, and Jeff Schwartz, "The workforce takes center stage: The board's evolving role," Deloitte, September 2020.
6. Michael Stephan et al., "Prioritizing human capital—modern challenges and the board's role," Deloitte, November 2022.
7. SEC, "Modernization of regulation S-K Items 101, 103, and 105," August 26, 2020.

The corporation's role in society

Perhaps no business subject has generated as much controversy in recent years as the corporation's role in society. The 2019 Business Roundtable statement discussed above may have sparked conversations among stakeholders leading to increased expectations of today's corporations. For example, among the top 10 findings of the *2022 Edelman Trust Barometer* were that "business needs to step up on societal issues," "societal leadership is now a core function of business," and "business must lead in breaking the cycle of distrust."[8] Some companies have responded to these expectations by being outspoken on social issues, while some that did not were subjected to criticism from customers and the workforce. It is important for boards to work with management to make sure they are discussing and, in some cases, have a policy about how, if at all, the company will be publicly vocal on these sensitive topics. In other words, regardless of a corporation's position on social responsibility, its board needs to be attentive to the topic and to guide management accordingly.



It is also critical to note that the corporation's role in society is arguably a unique challenge for boards because, unlike the other issues discussed above, it has not been considered an essential part of the board's role until very recently. Companies have long dealt with employee and workforce issues, even if their boards have largely left those issues to management. Similarly, companies have thought long and hard about aspects of sustainability; for example, natural resources companies have had to consider the depletion of resources, and companies with operations in areas prone to violent weather or seismic conditions have weighed those issues for many years. In contrast, social responsibility—which is intertwined with social activism—is a relatively recent phenomenon that may present unique challenges to boards.

Finally, the board Itself

The topics discussed above represent just a sampling of what will likely appear on board agendas in 2023. There are many, many more topics that could be discussed, including many perennial topics as well as many new ones. What is clear is that boards are being asked—and expected—to address all these topics, as well as new ones that may arise over the course of the year.

In other words, boards have a great deal to do. And while statistics indicate that the amount of time directors spend on board matters is increasing, there is a limit to the amount of time they can spend. As a result, it appears that another item on 2023 board agendas may be board effectiveness itself. Many boards are seeking to develop and enhance ways of getting things done more efficiently, from greater use of so-called "consent agendas" to optimizing the roles of committees, or possibly forming additional committees, to address the myriad responsibilities of the board.

Expectations for the future

It seems certain that the responsibilities of boards of directors will continue to increase, possibly at a rapid pace, and that few if any of the topics boards face will go away or become easier to handle. However, there is reason for optimism. Over the course of decades, and most certainly in the last five years, boards have demonstrated that they are remarkably resilient and are able to rise to challenges that no one anticipated in advance. In fact, we may look back five years from now and wonder why we were concerned at all.

8. Edelman, "The Trust 10" from the *2022 Edelman Trust Barometer.*

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