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Key issues facing boards of directors in 2024

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There are many pressing issues in front of our public company and board director clients in 2024.

From increasing global uncertainty, ever-evolving regulations, late-breaking technologies, and increasing competition, not to mention deafening calls for more transparency and accountability. It's no wonder there is a dearth of initial public offerings and a decrease in the number of public companies, who either combine or go-private in increasing numbers.

As we look forward to what issues will shape the agenda of corporate directors this year, PWC[1] is out with a report on the five topics facing the modern board of directors in 2024. Below is a look at their findings.

Board effectiveness

The effectiveness of a board can directly impact an organization long-term. For a board to be effective, it must be carefully curated and crafted, eventually comprising a panoply of members with the necessary backgrounds and skill sets.

However, PWC points to their 2023 Annual Corporate Directors Survey[2] which notes that while directors are critical of their peers, they often do not use the board assessment process to initiate changes. In fact, while 45% of corporate directors surveyed felt someone on their board should be replaced, 39% indicated their board did not make changes following their last assessment.

They highlight utilizing the board assessment process as a key to driving change and effectiveness moving forward. This means having an honest assessment of the performance of individuals as well as the collective group, considering factors such as attendance, engagement, contributions, adherence to governance principles, and fulfillment of duties.

Any areas of strength and weakness must not only be identified, but must also be addressed, with actionable recommendations and plans to address areas for improvement.

When boards create a culture of continuous improvement, and integrate the assessment process into regular practices, they can better track their progress, adapt to changing circumstances, and maintain a greater level of effectiveness.

Planning for surprises

No one likes surprises, but an unexpected crisis can strike at any time, and preparedness is critical for directors responsible for making tough decisions and guiding their organization through a mine field. While the PWC survey shows that 96% of respondents were confident the board could lead their organization through a crisis, it also found 48% reported their board did not have a formal crisis management escalation policy.

Identifying potential risks and proactively planning for various crisis scenarios is critical for every board.

There are any number of crises that corporations can face, and we have seen countless examples of those that were handled well, as well as those that had devastating effects on the subject company. While no plan can account for every circumstance that might occur, the importance of a strategic and comprehensive crisis response plan cannot be understated.

Identifying potential risks and proactively planning for various crisis scenarios is critical for every board as timely decision making is essential in these high-stakes situations. There should be clear protocols and outlined roles and responsibilities to facilitate swift and decisive actions. The faster boards can act, the better they are able to protect stakeholder interests, preserve brand reputation, maintain business continuity, and minimize the overall impact.

C-Suite engagement

Building a strong relationship between the board of directors and C-suite leadership is necessary for effective governance, strategic decision-making, risk management, and organizational performance. But PWC found that the perception of the board from organizational leadership is not always positive. Their survey found that only 29% of executives rated board performance as excellent or good, and only 21% believe board members spent enough time fulfilling their duties.

These numbers indicate a disconnect between boards and company executives, and PWC points to a need for more face-to-face interactions to address these inconsistencies. Developing a productive and mutually respectful relationship requires intentional effort and collaboration, as well as open channels of communication and regular meetings to exchange information, ideas, and perspectives.

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Collaborative decision making is also an important factor, with board members seeking the input of executives and working together to develop and implement strategic initiatives.

Embracing rapidly evolving technology

It is no secret that technological advancements are changing every aspect of the way we do business, and nothing is having a greater impact than AI. 68% of the CEO's PWC surveyed said generative AI will "significantly change the way their companies create, deliver, and capture value over the next three years."

Boards should develop a clear strategy that outlines how AI, and other technologies, can be used to drive innovation and improve efficiency.

The board's role when it comes to the implementation of this kind of technology is to help the company capitalize on the tremendous value it brings, while protecting it from any potential associated risks.

To make informed decisions about adoption and integration of these new technologies, directors must first fully understand their capabilities and implications. Today's boards should include members with relevant technology expertise or appoint technology committees that can provide guidance.

Boards should also develop a clear strategy that outlines how AI, and other technologies, can be used to drive innovation and improve efficiency, while also conducting thorough risk assessment and ensuring ethical and responsible use.

ESG reporting

One of the most significant changes in board governance over the past decade has been the introduction of policies to promote the environment, society and governance, or "ESG."

Sometimes referred to as "sustainability" policies, they ask companies to disclose to investors or the public at large how their company's business model, products and services contribute to sustainable development.

More recently, we have witnessed a backlash. Led by states and industries closely linked with energy production to punish asset managers who promote these policies among their portfolio companies, we recommend that companies and directors carefully assess potential collateral damage from implementation of ESG policies and search for mitigation strategies.

But why ESG to begin with? ESG reporting can provide boards with a powerful tool to influence company strategy, drive sustainable growth, and create long-term value for shareholders.

But not all boards are incorporating ESG issues into corporate strategy, with only 54% of PWC respondents indicating ESG issues were linked to their company strategy — something PWC feels could be an indication many boards are missing a "massive strategic opportunity."

They point out that the increasing number of global regulations will lead companies to publish more ESG data than ever before, and those companies who are able to effectively utilize this information to inform their strategies could have an advantage.

ESG reporting data can provides boards with valuable insights and can be used to monitor progress against established ESG goals, track key performance indicators, and identify areas for improvement or further investment. It can also help identify potential risks and opportunities related to environmental stewardship, social impact, and corporate governance.

Analysis of ESG data and trends can assist in anticipating emerging risks, such as regulatory changes, supply chain disruptions, or reputational issues, and proactively address them in the company's strategic planning process.

Why not ESG? There is a growing revolt against the costs of monitoring and producing reams of data about ESG compliance, and the ensuing policy decisions that result.

In August 2022, 18 States Attorneys General sent a letter to Blackrock CEO Larry Fink, taking him to task on the company's responsibilities as a fiduciary, especially when it comes to the investment dollars of state pension funds. The letter accuses BlackRock of forcing ESG policies on American companies and their employees whose retirement savings are also under their control.

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Texas has been one of the most active states at the forefront of anti-ESG initiatives.

Recent actions from Texas include banning UK bank Barclays from the municipal bond market over its ESG policies, creating a list of asset managers for potential divestment for allegedly boycotting energy companies, as well as conducting a hearing grilling executives from BlackRock and State Street over their ESG and climate-related stewardship, engagement voting and investment practices.

In addition, Texas is leading a cohort of states that are actively divesting from asset managers who promote ESG policies. On March 20, 2024, the Texas State Board of Education announced the termination of an investment with BlackRock, pulling $8.5 billion in funds from the investment giant, citing BlackRock's "dominant and persistent leadership in the ESG movement," which purportedly hurts the energy industry and American jobs.

As the Russian war against Ukraine darkens into a third year, tension with a militarily assertive China simmers, rockets fall upon oil and cargo ships in the Red Sea, interest rates remain at near-40 year highs and a highly contested election looms in the United

States, it does not look like the job of corporate directors is going to get any easier as the year goes on.

The modern board of directors will continue to face novel issues, embrace change and evolve themselves to keep pace with the issues of today.

Notes:

[1] https://pwc.to/3UPzImL

[2] https://pwc.to/4bqdtJB

About the author

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