January 10, 2024

Trends shaping corporate governance in 2024

Five areas to watch

Maria Castañón Moats
PwC's Governance Insights Center Leader

Looking back on 2023

In 2023, national and global economies continued to recover from lingering COVID-19 disruption, with persistent job growth and rising productivity convincing economists to revise their recession predictions; global supply chains continued to adjust for Russia's ongoing war on Ukraine. Divided US government stymied major policy shifts, a relief to some business leaders seeking stability, but the events in Israel and Gaza brought immediate geopolitical and reputational risks for business leaders and companies.

Over the past year, boards found themselves dealing with new investor pressures, ESG disclosure guidelines and SEC rules. Extreme weather events have forced rethinking of siting and supply chains even as climate-related strategies have wavered in the face of on-again-off-again state and federal shifts over green incentives and regulations. Social media turmoil disrupted corporate communications. And the rapid ascendance of generative AI has profoundly impacted business model reinventions already in progress.

Boards can't count on 2024 being calmer, especially with the US presidential election already looming over corporate decisions and stances in a hyper-politicized environment. Directors will need to work to stay current with issues impacting oversight.

Here are the five trends I'm watching in 2024

1. A fraught geopolitical environment

We expect the unstable national and global economic and political environment to create intense uncertainty. Geopolitical tensions will persist, with the impacts of the war in Ukraine and the events in Israel and Gaza lingering and violence flaring around the globe. Populist political leaders' recent electoral success suggests ongoing or even worsening public concerns over immigration and safety, even as climate change and weather events force population migrations.

Against a volatile backdrop of global economic instability, companies will unavoidably have to adjust their strategies. But how can leaders strategize and plan in such an unstable environment? Management should look to scenario modeling to help flesh out risks and prepare as best possible — especially with the November US presidential election approaching. Leaders need to consider what risks and opportunities may arise in different economic situations, with potential trade wars and environmental issues affecting the availability and cost of raw materials, energy and labor.

Takeaways for the board:

- Boards should work to understand various potential impacts on business operations, supply chains, employee safety and more, making sure management is adopting strategies to mitigate risks and ensure resiliency. Scenario and crisis planning might broaden to apply to a wider range of corporate functions.

- Directors will want to be comfortable discussing current national and global trends and events — and, importantly, considering how those trends and events may affect strategy in both the short and long terms. Educational briefings on geopolitics can help.

Where to go for more information

- PwC: What's important to CEOs in 2024
- PwC: How can business leaders respond to today's geopolitical shifts?

2. The rising prominence of ESG economics

Over the past two years, compliance has driven much of companies' sustainability discussions. Europe's Corporate Sustainability Reporting Directive, the first two ESG standards from the International Sustainability Standards Board, California's climate reporting legislation and planning around the specter of the SEC's planned climate disclosure rule have generated a focus on the measurement of sustainability impacts and the new processes needed to report on them. But ESG's impact, of course, goes far deeper than regulatory compliance: Fully half of the executives responding to a recent *PwC Pulse Survey* see climate change posing a risk to their business. The term ESG may have become a target for conservative activists and officeholders, but business leaders can't minimize how climate, human capital and ethical dealing affects supply chains, customer bases, materials availability and more. Sustainability has an increasing impact on the bottom line.

We see boards shifting from a regulatory focus to asking management what steps the company is taking toward sustainability, and how those steps will affect the business. It's no longer enough for management to set ESG targets and advertise them in the annual report. For forward-looking companies, the board's responsibility is increasingly to ensure that management is considering the costs of executing against commitments, taking into account related risks throughout the value chain, and focusing on these initiatives' economic impact.

Takeaways for the board:

- Boards should ask pointed and specific financial questions: Where is the capital for ESG initiatives coming from? What is the ROI of individual programs, and might alternatives have more economic impact? What technology and other investments are needed to become sustainable?
- More regulations and disclosure rules are pending, and boards need to continue to both focus on the impact to business results and maintain the responsibility to monitor ESG reporting accuracy, controls and processes.

Where to go for more information

- PwC: Sustainability and ESG oversight: the corporate director's guide
- PwC: How boards can prepare for the SEC's climate-related disclosures

3. Increasing shareholder activism

The headlines may be smaller and less frequent, but shareholder activists are initiating actions at pre-COVID levels. Universal proxy has created general uncertainty for boards while giving activists opportunities and leverage: Experience shows they can win concessions and even board seats by approaching the company. Pushing back and facing a potential proxy fight appears more perilous based on the limited sample in the months since the universal proxy's institution, although activists have been rebuffed in some cases. The one commonality across every situation: The focus on individual directors has increased. The bottom line, then, is that boards should not entirely abandon the pre-universal proxy playbook — but they need to refresh it.

Of course, no one knows exactly what steps activists will take in the coming months, but we'll be watching the first quarter of 2024, when notice provisions require most dissidents to announce campaigns. And we'll be looking to see how investors respond to the pattern of increased settlements.

Takeaways for the board:

- Boards, through tabletop exercises, should continue the practice of being their own activist, working with management to understand strategy in the context of alternatives and engaging with shareholders to hear their concerns.
- Boards can use the self-evaluation process as an opportunity to build the case for each directors' contributions well before an activist arrives, especially when individual assessments are included.

Where to go for more information

- PwC: The director's guide to shareholder activism

4. Fortifying the integration of strategy and risk governance

All of the above-mentioned threats — and more — are changing the risk landscape, more rapidly and dramatically than ever. Additionally, companies face an interconnected catalog of breakthrough technologies and unexpected situations that blend risk and opportunity, from climate change-driven natural disasters to generative AI. Boards need to pay attention to strategy, the interconnectivity of the risks, and existing risk governance structures, practices and reporting. Risk governance should consistently account for a significant portion of the agenda to ensure that the board can provide timely oversight.

Talent management will continue to be a strategic focus, with companies still struggling with pandemic-era hybrid workplace policies. Labor relations has emerged as an area needing more risk attention: Even as labor markets have stabilized, relations with workers are increasingly in flux, with unions regaining popularity and several high-profile strikes generating real concessions in wages and job security — potentially emboldening organized labor in more industries in the coming months. Boards should ask questions aimed at assessing the company's relationship with its workforce.

Across issues, business leaders are shifting strategies to account for the ever-growing array of risks, and boards need to parallel that shift with a fortified focus on operational resilience, integrating strategy and risk governance. Directors need to understand the increasing velocity of how events today can impact — and compound — risks at the enterprise level, whether or not they are controllable.

Takeaways for the board:

- Boards should interrogate the company's organizational and leadership structures: Are management capabilities robust enough to adequately protect and create strategic value?
- Boards can look to add value by identifying a strategic opportunity in crises, shifting mindset from defensive to offensive.

Where to go for more information

- PwC: The director's guide to ERM fundamentals
- PwC: Risk oversight and the board: Navigating the evolving terrain

5. A greater focus on board culture

All of these developments and trends are sufficient to fill any agenda for the year ahead. But it doesn't matter what topics are discussed if directors can't function effectively. As risks and opportunities expand and multiply, we see culture and communication — elevating board performance — as increasingly key to good governance.

Effective oversight, and keeping pace with regulatory changes and technological breakthroughs, require that a board be able to make informed, considered decisions that draw on the full range of views and experience. And that means that boards should examine their own culture — whether they're succeeding in productively tapping into their own wealth of expertise to raise the right questions. Many directors assume that if everyone seems to be getting along and meetings are free of open hostility, the board culture is good enough. But an absence of disagreement doesn't necessarily indicate peak performance. Effective oversight, particularly at times of complexity and crisis, demands decision-making that involves all voices and doesn't settle for the most obvious solutions and answers.

Takeaways for the board:

- Committee and board chairs should consider ways to make discussion more robust and avoid members falling into tired roles and patterns that generate unimaginative conclusions.
- Boards without a robust assessment process should consider implementing one, to uncover gaps in performance or skills, suggest ways to improve and potentially move forward refreshment that's desirable or even necessary.

Where to go for more information

- PwC: Why good boards make bad decisions