MORROW SODALI

The Long View

Six key challenges for boards in 2024

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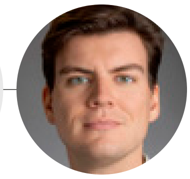

After spending 2023 dealing with high inflation, rising interest rates, and the continued economic fallout of the war in Ukraine, companies could be forgiven for hoping for a quiet 2024. However, as geopolitical tensions ratchet up from the Red Sea to Taiwan, a record number of voters go to the polls, and the impact of AI grows, 2024 looks set to be another volatile year for boards to navigate.

To help directors chart a clear path, the ***Morrow Sodali Board and Governance team* has highlighted six key trends that will challenge boards in 2024**, and discuss how good governance can enable them to safeguard their company's long-term success.

1. Geopolitical risks

Geopolitical risks will affect businesses to an extent unseen since the end of the Cold War. Ongoing conflicts in Gaza, the Red Sea, and Ukraine continue to create uncertainties from supply chain disruptions to renewed energy price volatility. U.S.–China relations remain fraught against ongoing fears of a Chinese invasion of Taiwan and may flare further ahead of the U.S. presidential election in November. Such fears are already fuelling company efforts to redistribute supply chains and reshore manufacturing.

KEY TAKEAWAYS

Boards need to understand how their business models account for geopolitical shocks, ensuring all material risks are considered by management and suitable contingency plans are in place.

2. Domestic polarisation and reputational risk

Seven of the world's 10 most populous countries are expected to hold nationwide votes this year. Elections in Washington, London, New Delhi and beyond will have a major impact on economic policies and regulations for which companies need to adequately prepare.

Meanwhile, business itself is becoming increasingly politicised. As societies become more fractured, companies need to tread carefully and be cognisant of when and how to use their voice. With politically-conscious consumers often expecting firms to take clear stands – and the simultaneous risk of pushback from those opposing – boards may well be forgiven for feeling attacked on two fronts.

The priority for boards should be developing a functioning mechanism of escalation for reputational risks that might have a significant – and often asymmetric – impact on the franchise, alongside a toolkit for monitoring these risks.

3. Regulatory change

While changes in government will affect economic policies, regulatory expectations may be approaching an inflection point. For years there have been increasing demands placed on firms by regulators, most notably in expanding non-financial reporting requirements. This led to significant company discomfort, especially among smaller companies. It is likely that UK regulators will now be cutting back on such requirements, leaving the EU as their last global defender – U.S. regulators never really having been at the forefront of such efforts.

Boards must pay close attention to regulatory divergence and shifting in reporting requirements across jurisdictions, ensuring reporting and governance processes remain fully compliant as changes take place.

4. Corporate Finance

No longer in the zero-interest rate world of the 2010s, many expect that rates – though they may fall slightly in some countries like the UK – will remain high in 2024 and will stay high for longer. The continuing higher cost of borrowing will impact many firms' profitability and even become existential for some borrowers.

Directors should zero in on their firms' funding and cash flow situation. Where needed, this might take the form of a standing review by a small group of directors, robustly challenging management's financial planning proposals and assumptions.

5. Sustainability

Sustainability may also be approaching a turning point. Launches of new ESG funds have slowed on the back of fears of regulatory clampdown on greenwashing, and poor performance. In the U.S., ESG is increasingly politicised, with conservatives pushing back against large institutional investors and other ESG-conscious investors. These regulatory and political pressures look set to further dampen already-slowing ESG investment.

Boards need to watch this space closely and systematically, following changing expectations of their investors and changing attitudes of their peers.

6. Artificial intelligence

Finally, AI will continue to disrupt. 2023 was the year AI went mainstream in the public consciousness with the widespread uptake of ChatGPT and the headline-grabbing coverage of Sam Altman's ousting saga at AI pioneer OpenAI.

This brand-new world might require spending significant time and resources both in upgrading director knowledge and in streamlining AI-related policymaking by the board. In turn, this will require significant restructuring of the functioning of already-overworked boards.

As AI use in business spreads, boards need to understand how their companies use these tools in their client relationships, business planning, and internal workflows. More importantly, they need to develop policies on the transparency and limits of AI inputs in every one of these areas.

The board in 2024: a seasoned decision-making team or technical "virtuosi"?

In recent years, as hot-button issues from climate to cybersecurity have come onto boards' agendas, they have been met by calls to add subject-matter "experts" to the board; oracles to whom others can turn to light the path in these difficult areas. In our view, such thinking goes against the fundamental principle of what the Board should be – a collective body of seasoned decision-makers; not a mix of highly specialised *virtuosi* but rather a team in which each director contributes to deliberation and decision-making on all (or most) topics.

While having persons with specific expertise can be useful, what matters most is that the board has the resources and the time to inform itself and deliberate.

Many best-in-class boards are developing new platforms to address these new challenges regarding their skillset. Continuing skills development, informal workshops with management and outsiders, board NED "champions" who work closer with management, and board-level external advisors on various topics are increasingly reshaping the classic board-committee organisational blueprint of the corporate summit. They are the fuel in the race among boards to meet the challenges of an uncertain world.

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