WHAT DIRECTORS THINK

STILL TAKING CARE OF BUSINESS

We are in an era of seismic change, but if you ask public company board members across the country, you'll find them holding steady at the wheel, with a stronger-than-ever focus on growth, strategy and performance. For the 20th anniversary of the What Directors Think survey, we take a look into what's top of mind for America's corporate directors as we enter 2023—and how directors' focus and the role of boards have changed in the past 20 years.

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"You really have to look at your culture, what else you're bringing, how you will get productivity in this new hybrid model, because I think that that is mostly what people are asking for—positions that allow flexibility. So, leadership is going to need to change with that. I don't think we'll ever go back to what it was prior to Covid."

—Tiffany Olson, Board Member, Castle Biosciences

"If you're going to manage this business for the next three years, what would you do this year that will give you a payout three years from now?"

—Jim Sharman, Board Chair, The Shyft Group

"I have three children who graduated college between 2008 and 2012 and are all in jobs that did not exist when they left for school. Companies and committees are going to have to keep up."

—Joel Kanter Board Chair, Applied UV

"My board meetings now go on multiple days each quarter, and we have far more special board meetings. We can't ask directors to put in twice as much time and oh by the way, you're still going to work the same pay."

—Robert Herlin, Executive Board Chair, Evolution Petroleum; Outside Board Member, Enservco

"We need to have a different frame of mind, how we relate to our workforce; we need to think about labor differently, we need to compensate differently, we need to be closer to our workforce. Those aren't bad things. I think they're necessary things. And I think it's probably good for boards to think of those terms and make sure management is taking a long view about how it develops the kind of workplace that will attract the kind of labor you need to succeed."

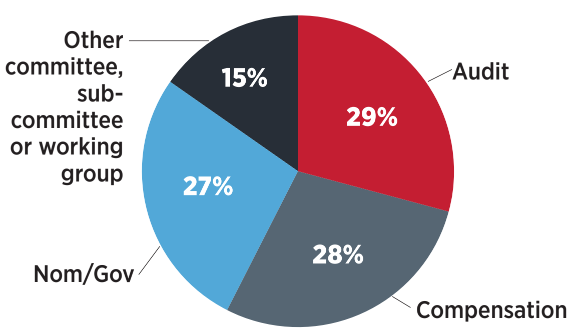
—Steve Halverson, Board Member, CSX.

ABOUT THIS REPORT

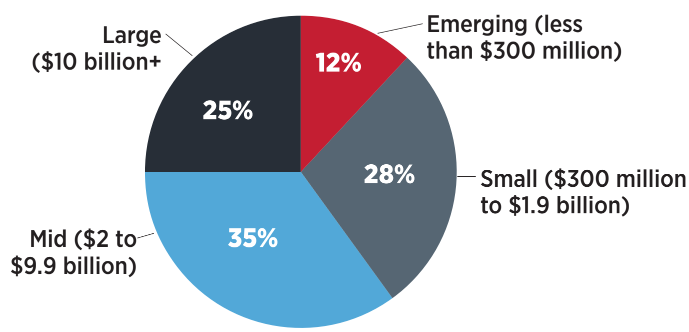
Every year since 2002, *Corporate Board Member* has been surveying public company board members in the United States to take their pulse on the issues that were top of mind, the challenges they faced in the year to come and the processes they sought to improve. For our 20th anniversary edition, in a year of continued tumult on many fronts, *Corporate Board Member* partnered with the Diligent Institute to see what has changed since SOX was the hot issue and what is on the horizon for the years ahead. Overall, 300 qualifying directors participated in the research.

Survey Participants

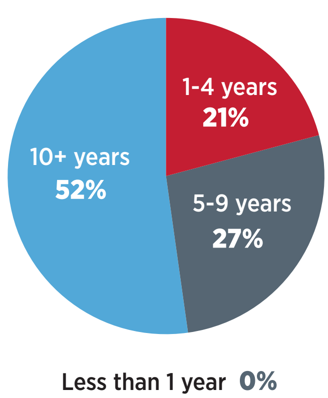
Committee Representation



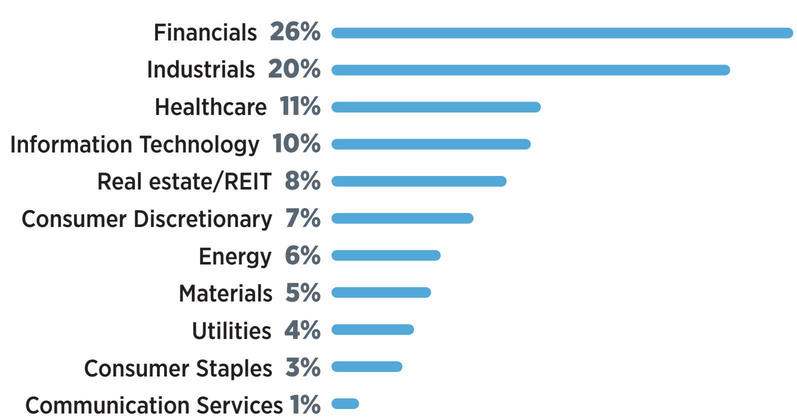
Market Capitalization



Public Company Board Tenure



Sector



SURVEY HIGHLIGHTS

Board Priorities for 2023

Growing revenues >> **60%**

Increasing profitability >> **50%**

49%

of directors say customer satisfaction is the best indicator of a company's performance in today's environment—ahead of long-term total shareholder return or achieving/exceeding earnings guidance (both at 46%)

What Boards Are Monitoring

Fed policy / interest rates >> **51%**

Labor costs / availability >> **50%**

Regulatory environment >> **45%**

50%

of directors say ESG is getting too much attention in the boardroom

Most Challenging to Oversee Today

Cyber / data security >> **38%**

Digital transformation / Innovation / New technologies >> **35%**

Capital allocation >> **30%**

On Shareholders' Minds

Long-term strategic planning >> **35%**

Short-term growth and financial performance >> **33%**

Executive compensation >> **24%**

Boards' Inner Workings

With the roles and responsibilities of the board having greatly expanded over the past decades, directors find themselves divided over whether traditional board structures still align with today's increasing areas of risks and opportunities. Our latest survey found 45 percent believe those structures remain adequate, but a full third question their relevance—and nearly one quarter believe they need to be revisited.

The main sticking point, directors say, is the time they now must spend in meetings due to the proliferation of issues on the agenda. What's more, three-quarters say the role and responsibilities of the board are going to continue expanding in scope over the next 3-5 years.

The trend isn't entirely new. The hours spent in board meetings have been climbing for a long time, according to our earlier surveys. For instance, in 2002, we found nearly half of directors averaged less than two hours per meeting, and for almost as many, meetings lasted three to four hours. Fewer than 7 percent spent between five and six hours at each meeting, and that's about as long as all but a very few board meetings ever ran.

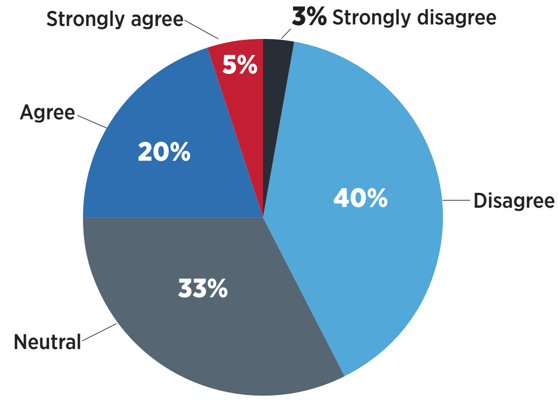
Just one year later, the percentage of directors who got away with meetings lasting less than two hours dropped by nearly 90 percent and has been a rarity ever since. Meanwhile, the percentage of those for whom the average meeting lasted a full day rose from less than 5 percent to 25 percent by 2006, and then to 39 percent by 2010.

But directors say though the job is more demanding, they remain highly confident in their ability to tackle the growing agenda. Not one of those participating in the survey said they doubted their or their fellow directors' ability to provide top-level oversight. In contrast, that proportion was 88 percent 10 years ago—still high but with room for error.

Perhaps the difference is that director evaluations were not as prevalent at the time. Twenty years ago, our 2002 What Directors Think survey found just over 33 percent of directors reporting having regular board evaluations. The increasing scrutiny into the oversight process of boards down to their makeup in terms of skill sets and experience may have helped increase confidence on that front.

Nevertheless, despite the creeping time investment, 82 percent of directors feel they are adequately paid for their role—a stark contrast to opinions shared in 2003, where only 20 percent of survey respondents felt that way.

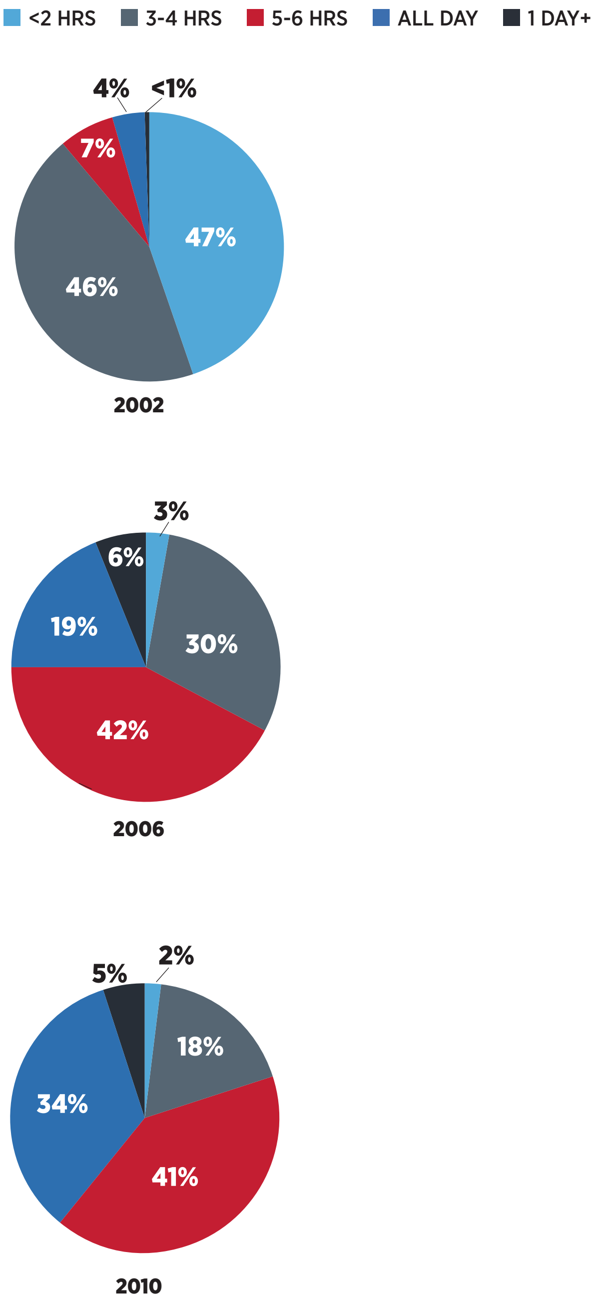
Traditional board structures no longer align with today's increasing areas of risks and opportunities.



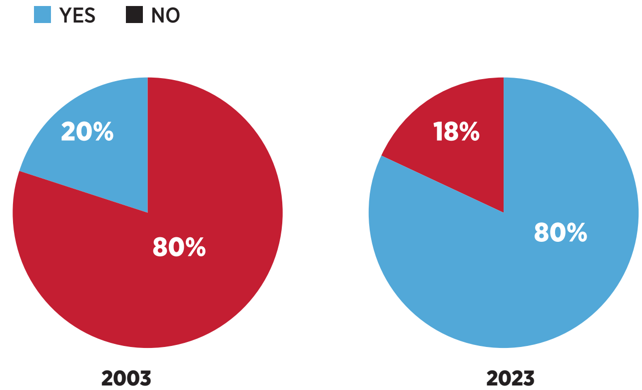
75%

of directors say board responsibilities will expand in the next 3-5 years

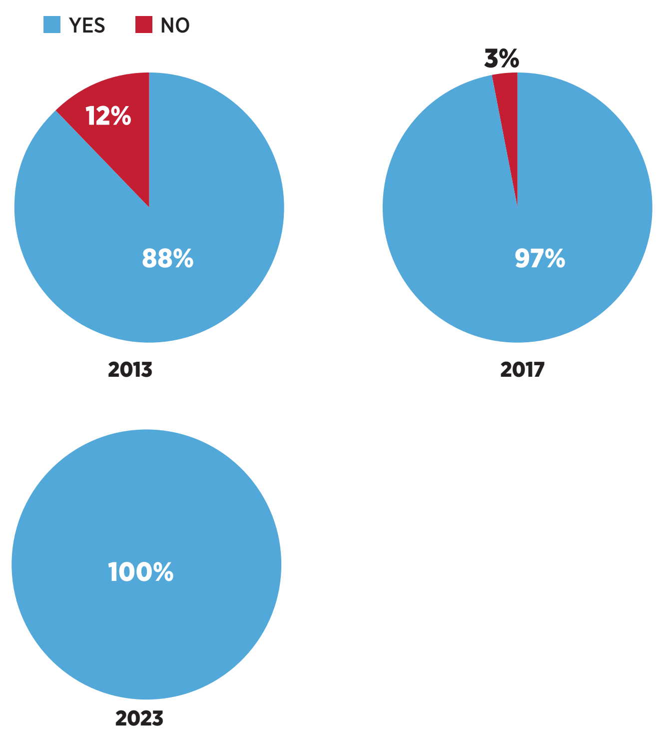
How long are your full board meetings?



Given the potential liability associated with corporate directorship, do you feel you are adequately compensated for your role?



Do you feel your current board has members with the right experience, skill sets, and talent needed to take the company to the next level?



The Diversity Issue

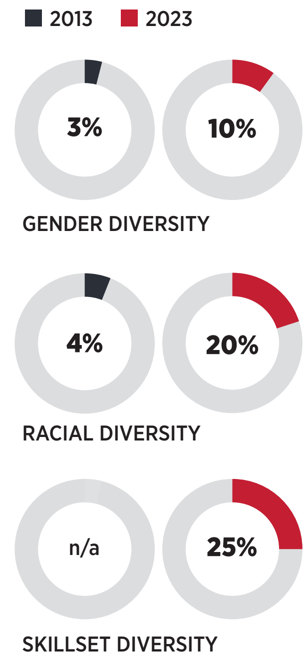
There's been real progress in companies' efforts to increase diversity at the top, compared to decades ago, and recent research by *Corporate Board Member* found most directors are now pleased with the level of diversity among their own ranks. So much so that just last year, in our 2022 What Directors Think survey, nearly half of surveyed directors said their board had achieved their diversity goals.

This may explain why, in this year's survey, only 10 percent of directors listed gender diversity as an attribute for the selection of the next board member, and only 20 percent said the same of racial diversity.

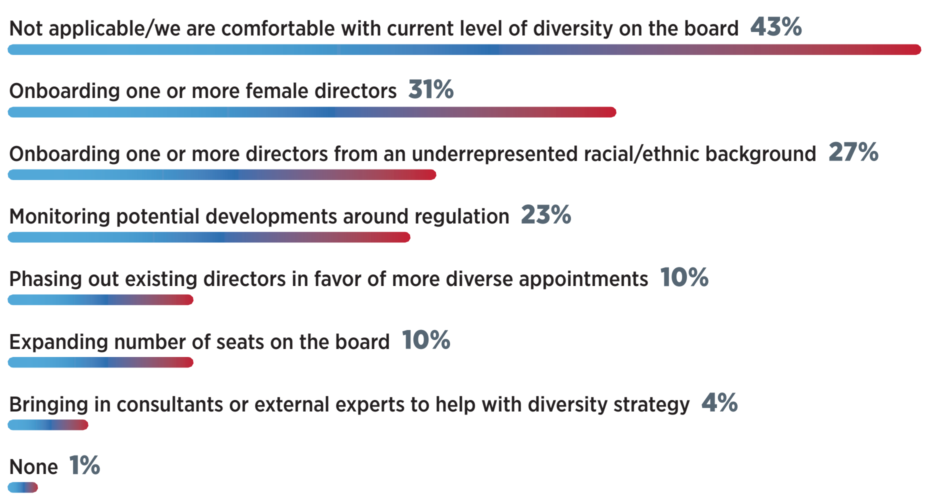
A more important attribute, according to the survey data, is diversity of skills and backgrounds. A quarter of directors said their next board member would need to fill a skills gap at the table.

Contrary to some of the headlines of the past few years, the pressure to further diversify boards isn't coming from shareholders, either. Only 19 percent of directors surveyed for this year's report said shareholders had requested to discuss that with the board or management over the past 12 months, despite the proposed diversity requirements at the SEC.

Directors seeking diversity attributes in next board member



Is your board taking any of the following actions around existing or proposed boardroom diversity requirements?



Diversification should come because companies think they can benefit from having people with different experiences. That should be the main reason. Not window-dressing. ... But listen, it's much better than it was 20 years ago. And 20 years from now, it's going to be much better still."

—Barbara B. Grogan, former chair and president of Western Industrial Contractors, and former director at Apogee Enterprises, Deluxe Corp. and Pentair [2002]

CEO Matters

CEO compensation has always been a controversial issue but perhaps even more so in recent years, with the rise of ESG and pay ratio disclosures. Headline after headline highlight the growing pay gap between the top chief and front-line employees, and boards have been pressured to justify the large bonuses they're handing out—particularly in times of underperformance and unachieved guidance.

Ten years ago, in 2013, 70 percent of the directors we surveyed told us the SEC's proposal for disclosure of CEO/median employee pay ratio would be misleading if approved—and 47 percent said it would be extremely difficult, if not impossible, to accurately compile and report. Only 17 percent felt it would provide meaningful information to investors.

Fast-forward to today and our latest survey finds 24 percent of directors who said shareholders had asked to discuss CEO compensation with the board over the past 12 months—placing the issue third on investors' list of concerns, right after the traditional matters of financial performance and plans for growth.

But the relationship between shareholders and boards on this issue remains fragile, at best. Very few directors have agreed, over the years, that shareholders should have a say in approving CEO compensation packages, though that proportion has risen over time. When we began our What Directors Think franchise 20 years ago, three-quarters of the board members we had then polled said they were against the idea of requiring that the CEO's total compensation be no more than a reasonable multiple of the least compensated employee.

At the time, there was also much less turnover, and boards weren't as concerned with a crisis in that area. Our earlier surveys found that most boards used to handle management succession only as the need arose. Of course, that proportion has been decreasing over time and today, 61 percent say their board not only has a CEO succession process, they also have a plan they believe can be deployed without a hitch should the CEO depart suddenly.

While that is progress, it doesn't mean it's easy. With 26 percent of the votes, CEO succession now ranks in fourth place among the issues directors find most challenging to oversee today—behind things like cyber and data security or digital transformation, and ahead of thornier matters like M&A and regulatory compliance.

Which of the following issues have shareholders requested to discuss with your board or management in the past year?

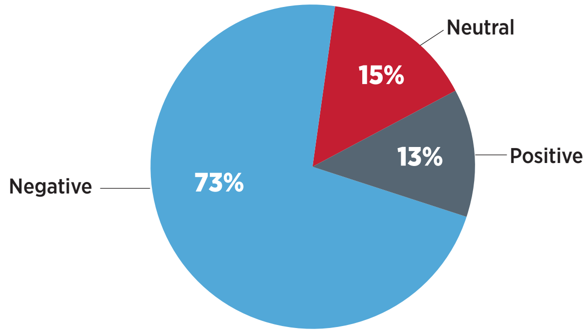
2002

46% of directors said their boards did not have a CEO succession process

2023

60% of directors have a CEO succession process

2003: Is requiring that the CEO's total compensation be no more than a reasonable multiple of the least compensated employee a positive, negative or neutral step for the advancement of corporate governance in the United States?



Which of the following issues do you find most challenging to oversee in your role as a director today?

Board Priorities

It would be easy to think the priorities of the board have changed in two decades, but the directors we polled for this year's survey say they are still very much focused on the core duties of any public company board: growing revenues and increasing profitability. Exploring M&A, also a long-time charge of boards, ranks third on the list.

Newer to the board agenda is digital transformation, which 42 percent of polled directors listed as a priority for 2023-24. Just a year prior, in our 2022 survey, only 19 percent of directors had listed digital transformation as an issue that would bear impact on future strategy—and only 16 percent had said it would feature as an important item on the board's agenda for the year.

Of course, there's no comparing that to 20 years ago. Digital transformation began appearing in some directors' responses in our 2016 survey, when it was referred to as disruptive innovation. Yet, it wasn't until our 2019 edition that we saw digital transformation as a staple of board agendas. That year, 71 percent said they believed their board had the "appropriate resources to move the company forward in a new era of digital transformation and disruption."

"The digital journey requires us to transform our business model," said one director in the survey that year. "Our consumer is changing, and we need to be ahead of the curve on this. This is the most critical decision our board and I suspect boards across industries will need to deal with."

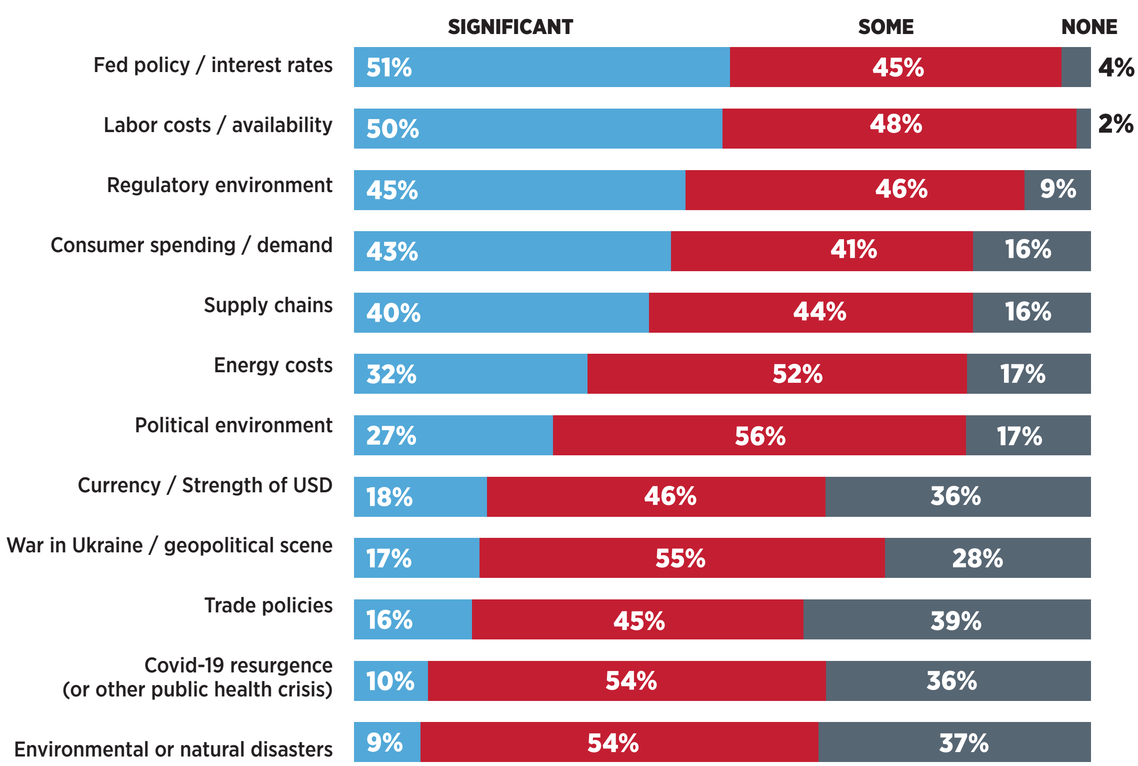
But in our current economic climate, there is also intense focus on cost containment, 64 percent of directors say. And for now, all eyes are on the Fed, which directors say will have the most significant impact on strategy in 2023-24.

These findings, while telling, are heavily reliant on sector. We've found, for instance, that only 28 percent of directors in the IT sector feel the Fed's decisions will have a significant impact on their company, compared to 80 percent of directors in Financials. Similarly, the impact of labor (more on that on page 12) appears to be more resounding among Consumer Staples companies, where 80 percent of directors rated it as "significant" vs. 36 percent of those in the Energy sector.

Which of the following would you consider to be top internal priorities for your board now and in 2023-24?

Based on your outlook for the coming year, on which of the following strategies is your company most likely to focus in 2023-24?

How much of an impact do you expect the following external factors to have on your company's strategy in 2023-24?



Labor

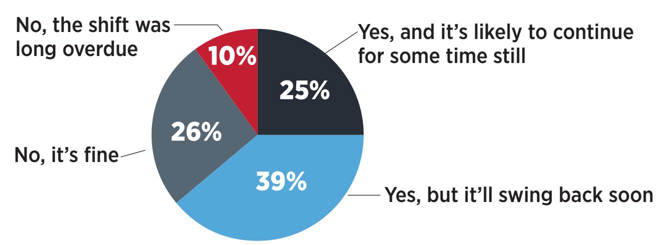
One area that has seen radical change in the past few years is the relationship—as seen through the lens of the board—between the company and its workforce. Some 64 percent of directors in this year's survey said talent has gained too much leverage in the current labor market, and of that number a full 25 percent think the dynamic will continue for some time, despite the recession.

The numbers certainly point in that direction. Even as the perceived threats from Covid continue to recede, attitudes about workplace policy and practice that were shaped by the pandemic are outlasting it. Among the directors we surveyed, 87 percent said their companies had adjusted their policies on remote work, and 73 percent said they'd created more flexible hours for their workforce. And of those who'd made changes, an equally large number said they planned on keeping them in place at least through the year to come.

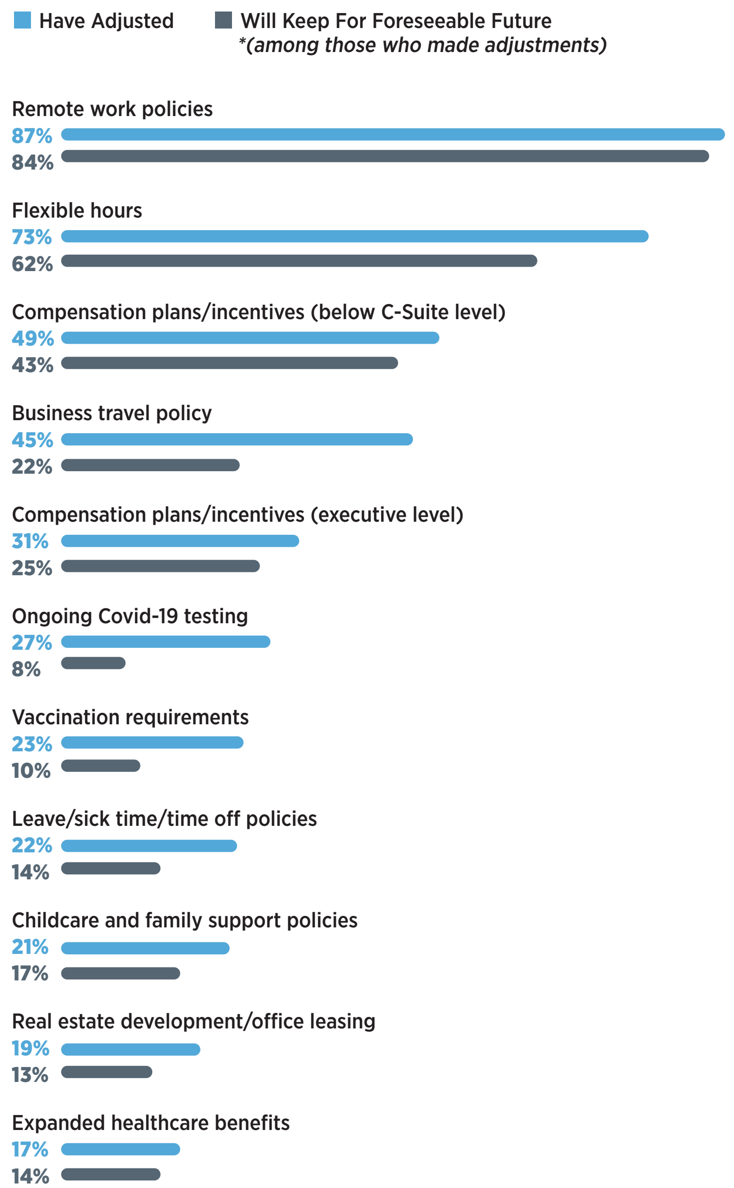
But some other changes—most with hard costs—have proven less malleable, even in the face of the so-called "war for talent." Just 22 percent of directors said their companies had changed their leave or sick time policies in the face of Covid-19, and the numbers were similar when it came to other benefits like childcare and family support policies (21 percent) or expanded healthcare benefits (17 percent).

But then there's the predicted rush to downsize the real estate footprint of many companies to cater to this new economy. And at least for those we surveyed, that has not yet materialized, with only 19 percent of directors saying it was a strategy they'd adopted in recent years.

Do you believe that talent has gained too much leverage in the labor market?



Which of the following workforce-related policies has your company adjusted due to the challenges of the past two years?

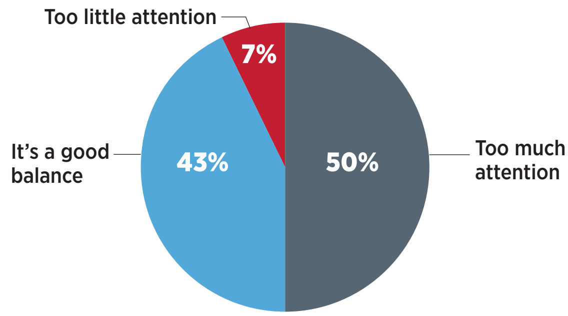


ESG

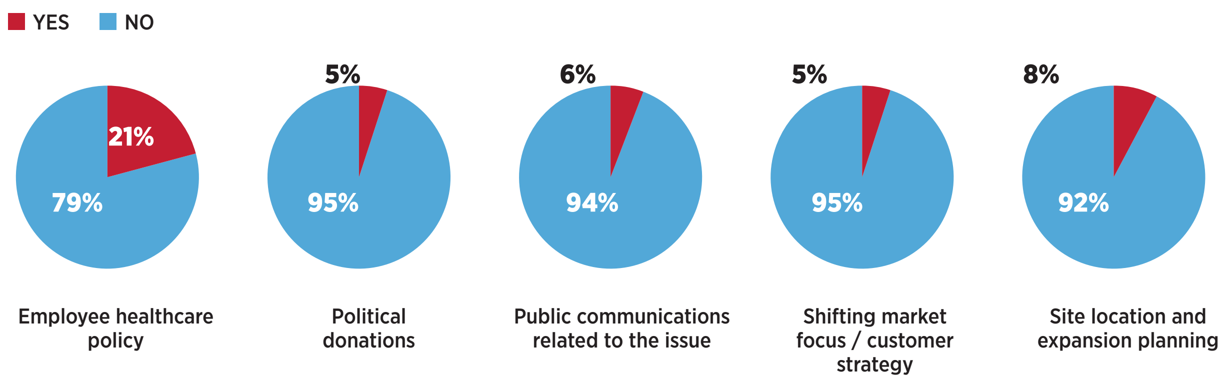
ESG-related issues have garnered significant public attention in recent years, but they are starting to be seen as less pressing—at least by the directors we surveyed. "Developing/executing our sustainability strategy" and "enhancing/executing our diversity and inclusion strategy" each garnered just 27 percent of the votes when we asked directors to select the elements most important for 2023-24.

ESG's gradually lower ranking isn't surprising. Overall, just 7 percent of all directors surveyed said ESG topics are getting "too little focus" in the boardroom right now, with 50 percent instead saying they are getting too much attention (the remainder say they're happy with the amount of attention these issues are receiving on their boards).

Is ESG getting the right amount of attention in the boardroom these days?



Has your company changed strategies in the following areas as a result of the Supreme Court overturning Roe v. Wade?

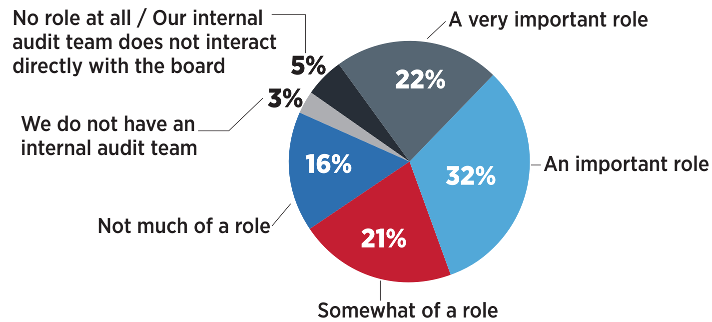


The Evolving Role of Audit

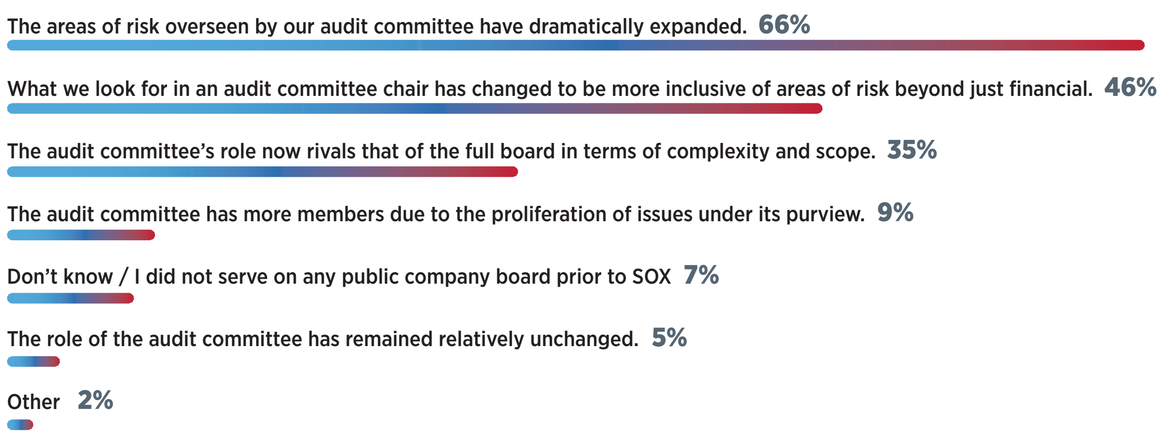
As the role of the board has expanded and evolved over the last two decades, so has the role of the Audit Committee. According to our director respondents, in the 20 years since the passage of SOX, two-thirds (66%) indicated that the areas of risk overseen by our audit committee have dramatically expanded. Additionally, more than a third (35%) respondent that the audit committee's role now rivals that of the full board in terms of complexity and scope.

This has resulted in a greater reliance on the internal audit function at the board level. According to our respondents, over half of them indicate that the internal audit team has an important or very important role in informing strategic board-level conversations.

How much of a role does your company's internal audit team have in informing strategic conversations at the board level?



20 years after Sarbanes-Oxley, how, in your experience, has the role of the audit committee changed over that period? (Select all that apply.)



SEC Compliance

The increasing focus on climate is also adding new responsibilities to the board. The majority of directors reported having had discussions about what the SEC's proposed climate disclosure requirements mean for their companies, though most say it's too early to act—even those in the energy sector, where the majority have so far only consulted with experts on the issue.

We observed a similar picture with respect to the proposed cybersecurity disclosure requirements. What's interesting in this space, however, is the fact that year after year directors continue to rank cybersecurity as one of the most challenging issues to oversee—that's been the case since we started noting the issue rising in the ranks of board priorities back in 2014, nearly a decade ago.

Directors are also taking a variety of actions to better prepare for SEC rule changes around climate change disclosures and addressing cybersecurity. Over half of our respondents are bringing in external experts and getting briefings from the legal team on climate disclosures. Meanwhile, 40 percent are engaging in director education programs. Only 8 percent are taking no action to better prepare.

For cybersecurity, nearly 60 percent of respondents are getting briefings from their legal team and nearly half are seeking director education programs. Only 5 percent are taking no action.

Which of the following actions is your board taking to address compliance around new proposed regulatory requirements surrounding cybersecurity disclosures?

Which of the following actions is your board taking to address compliance around new proposed regulatory requirements surrounding climate disclosures?

CORPORATE BOARD MEMBER®

Corporate Board Member, a division of Chief Executive Group, has been the market leader in board education for 20 years. The quarterly publication provides public company board members, CEOs, general counsel and corporate secretaries decision-making tools to address the wide range of corporate governance, risk oversight and shareholder engagement issues facing their boards. *Corporate Board Member* further extends its thought leadership through online resources, webinars, timely research, conferences and peer-driven roundtables. The company maintains the most comprehensive database of directors and officers of publicly traded companies listed with NYSE, NYSE Amex and Nasdaq. Learn more at BoardMember.com.

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