What lies ahead for Corporate Governance and ESG in 2024?

Chris Hodge

Special Advisor, Corporate Governance

It is that time of year when everyone who writes regular columns are asked to gaze into their crystal balls and make their predictions for the next twelve months. Having peered into mine the overall picture on corporate governance and ESG looks foggy and uncertain, but there are some things that stand out.

The first is that climate change in particular, and sustainability more generally, will continue to be a dominant issue for companies and investors. Some progress was made during 2023 but there is much still to be done and some fundamentals are still unresolved.

The political commitments made at **COP28** in December were hard won, although there has been some criticism that they did not go far enough to meet the Paris targets. Earlier last year the International Sustainability Standards Board (ISSB) published its first two **standards**, which come into effect this month. They are an important building block in developing an operational framework that companies can use to set targets and enable them and their stakeholders to monitor progress, but many parts of that framework are still missing.

Large companies operating in the EU are also likely to have to implement climate transition plans as one of a raft of measures requiring them to mitigate potential adverse impacts on the environment and human rights contained in the Corporate Sustainability Due Diligence **Directive**, the provisional text of which was finalised in December. Other jurisdictions are also developing similar proposals.

However, as more progress is made we have also seen more push back. The two seem to go hand in hand. Some of the push back might be described as raising practical concerns – for example, is climate change a material issue for all companies and, if not, should they all be subject to the same regulations and standards? And is the pace of change that is being demanded of companies realistic?

However, a lot of the push back is politically inspired. This is something we have seen not just in relation to climate change but ESG and corporate governance more widely. In my column in the **November issue** I mentioned some of the regulatory proposals in different markets designed to reduce shareholder oversight of management, and we have seen examples of some States in the US legislating to prevent investors taking account of ESG factors when making investment decisions.

There are those politicians and commentators who dismiss the E in ESG as scare-mongering, the S as wokeness and the G as unwarranted interference. We can expect those voices to become even louder this year, particularly in major markets like the US and UK in the run up to national elections.

Investors might find themselves in the firing line, but so might companies. Boards need to recognise this. All boards should have political risks on their risk register, and the boards of high-profile companies also need to be aware of the reputational risk of suddenly finding themselves the object of politically inspired criticism, either for doing too much or too little. Those companies that feel they may be particularly exposed in this regard may even want to add 'political awareness' to the list of skills and expertise that they want to have reflected in their board profile, or on which they might benefit from training, briefings or other forms of support.

These lists get longer every year as expectations on boards continue to increase alongside the developments that potentially impact on the company's business model and risk exposure. ESG, AI and cyber are all examples of issues that were not on most boards' agendas even five years ago but which no board today can afford to ignore.

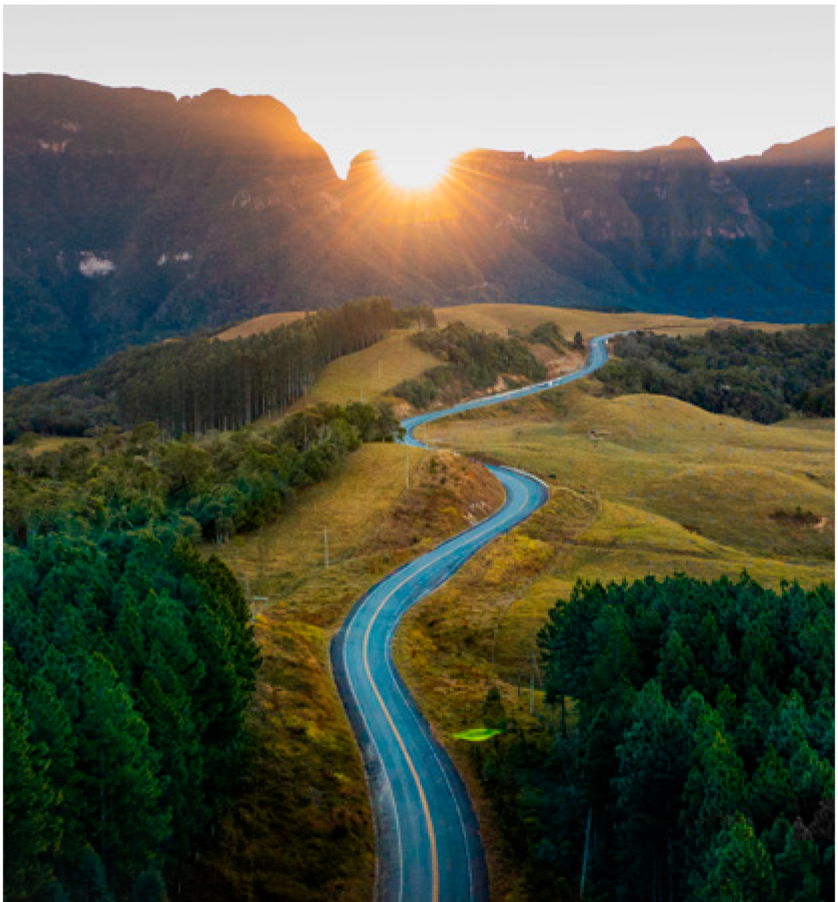
Recent **research** from The Conference Board in the US shows boards have been adapting to be better placed to address these issues. For example, in the S&P 500, directors with reported experience in ESG increased from 0% in 2018 to 13% in 2023, and those with reported experience in cybersecurity increased from 8% to 20% over the same period.

While this is in many ways an encouraging trend, the apparent decline in the number of directors with business strategy experience reported by The Conference Board may be a cause for concern.

Strategic leadership is a core competence for boards, particularly in challenging times such as these. Predictions for 2024 are that many economies will continue to be stressed by a combination of factors such as inflation, currency value, debt, and slowdowns. Add that to the politicisation of governance that I referred to earlier and it creates a potentially volatile business environment.

All boards need to ensure they do not lose sight of their core functions and competencies while at the same time adapting to meet new challenges. For some, this may mean they need to review their capacity and capabilities, for the board collectively and for individual directors – over-boarding continues to be a major concern for investors – and perhaps also their governance processes.

The key characteristics required of boards in 2024 will be alertness and agility, to give them the ability to adapt to rapid external changes while continuing to pursue their long-term strategic direction.



M O R R O W
S O D A L I

Morrow Sodali is a leading provider of strategic advice and shareholder services to corporate clients around the world. The firm provides corporate boards and executives with strategic advice and services relating to corporate governance, board effectiveness, shareholder and bondholder communication and engagement, capital markets intelligence, proxy solicitation, shareholder activism and mergers and acquisitions.

From headquarters in New York and London, and offices and partners in major capital markets, Morrow Sodali serves more than 1,000 corporate clients in 80+ countries, including many of the world's largest multinational corporations. In addition to listed and private companies, its clients include financial institutions, mutual funds, ETFs, stock exchanges and membership associations.

boardgovernance@morrowsodali.com
+44 (0)20 7100 6451

Nations House, 103 Wigmore Street,
London W1U 1QS, United Kingdom

morrowsodali.com

NEW YORK
LONDON
SYDNEY
BEIJING
BUENOS AIRES
DUBLIN
FRANKFURT
HONG KONG
MADRID
MELBOURNE
MEXICO CITY
PARIS
PERTH
ROME
SAO PAULO
SEOUL
STAMFORD
TOKYO
TORONTO