Board Imperative Series

Critical answers and actions to reframe your future

How can boards prioritize resilience to build trust and create value?

Global Board Risk Survey 2023

The better the question.
The better the answer.
The better the world works.

EY
Building a better working world

Contents

Foreword

Getting the formula right for resilience

To create long-term value, organizations need the trust of customers, employees, investors, community members, regulators and more.

Resilience – the ability to anticipate, prepare for, respond and adapt to a changing environment – is a prerequisite for building that trust. As the overseers of risk, boards play a crucial role in helping to build the resilience within their organizations that engenders trust. It's their role to support management in identifying changes in the business environment, and to oversee how the organization recognizes and responds to the most material risks and opportunities.

These include Black Swan events (unknown unknowns) and Gray Rhino risks (known unknowns). Black Swan events can be catastrophic, but they are unique, rare, impossible to predict, and outside our control. Gray Rhinos are more plentiful and expected, charging right at us in plain sight, and with a significantly wider impact, such as the US banking crisis or the conflict in Sudan. The charging Gray Rhinos define the risks that boards should prioritize as it helps them to think more proactively about enterprise risk management.

As the findings of the EY Global Board Risk Survey show, boards face sharper challenges in navigating a risk environment that has become more expansive, complex and interconnected. Boards' level of concern that a risk will severely impact their business has significantly increased for six risks out of a possible 13 since our 2021 survey, but decreased only for one. What's more, further analysis of the findings reveals that only 23% of boards are classified as 'highly resilient' (see: what distinguishes highly resilient organizations and their boards?).

The ultimate goal: be resilient, not reactive

In an increasingly complex risk environment that is likely to both persist and evolve, boards need to support their organizations in anticipating and adapting to Gray Rhinos and other emerging risks, rather than reacting to them. Boards also have an opportunity to add value by supporting management in horizon scanning and scenario planning to identify and capitalize on changes in the business environment before they become risks.

Sharon Sutherland
EY Global Center for Board Matters Leader

Tonny Dekker
EY Global Consulting Enterprise Risk Leader

Kris Pederson
EY Americas Center for Board Matters Leader

About the survey

The EY Global Board Risk Survey (GBRS), a three-year benchmark survey, reveals the views of 500 global board directors from organizations with revenues of over US$1b across a number of industries. We uncover how leading boards are overseeing enterprise risk management and focus on the actions they should take to improve risk oversight and drive transformational goals.

For the third and final year of the survey, we were able to benchmark and compare our findings over time. An independent external consultancy captured these insights through quantitative research and a series of qualitative interviews that they conducted in late 2022 and early 2023. EY teams have used the insights to develop this report, which aims to help boards navigate an ever-changing and expanding risk landscape.

5 key takeaways

By taking action in five key areas, boards will be able to support their organizations in prioritizing resilience, building trust and creating long-term value.

1

Integrate risk management with strategy and performance management

60% of boards agree that emerging risks are insufficiently addressed in risk management frameworks.

This suggests that the risks with the biggest increase in concern are also some of the most difficult to identify, track, and manage. Embedding risk into core strategic processes will be key to addressing the challenge.

2

Strengthen the board's oversight of talent- and culture-related issues

65% of boards agree on their remit to constructively challenge management on talent and culture issues.

Talent oversight is a core area for boards, but some of the newer people risks are outside of their traditional remit. More collaboration with, and a robust mandate for, the chief human resources officer (CHRO) will help.

3

Extend oversight over responses to sociopolitical issues

66% of boards agree that addressing sociopolitical issues builds trust with employees and customers.

Boards are rightfully cautious about creating a potential backlash through political speech. A formal process for how to address sociopolitical issues could help prevent missed opportunities.

4

Oversee a shift to value-led sustainability

66% of boards believe that enterprises can only be resilient if they are environmentally sustainable.

To drive impactful action and achieve value-led sustainability, boards need to engage various stakeholders to align on the organization's sustainability strategy and ambitions.

5

Understand the risk implications of digital and emerging technologies

31% of boards say their oversight of the risks arising from digital transformations is very effective, while 19% say it's slightly or less effective.

Education and upskilling will be crucial for boards to balance tech adoption and risk exposure in this ever-changing area — and to help their organizations to capitalize on the opportunities.

What distinguishes highly resilient organizations and their boards?

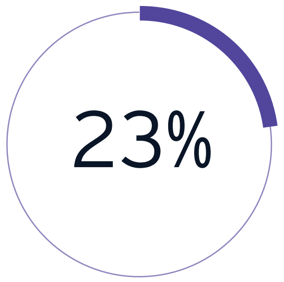
Based on the findings of EY survey, we have carried out deeper analysis into what makes leading boards different from their less resilient peers.

To create this segmentation, we looked at how respondents assessed their organizations across six areas of resilience: strategic, information and technology, financial, people, physical asset and value chain. We then calculated an enterprise resilience maturity score, which we used to classify respondents as highly resilient, moderately resilient or less resilient.

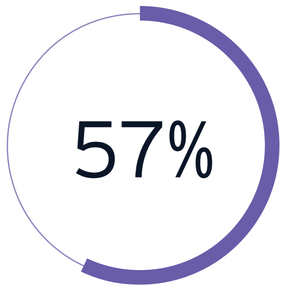
Highly resilient boards are more likely than their peers to be confident and satisfied with the various actions taken to address challenges in the organization. For example, 56% of highly resilient boards are confident they can respond to unexpected high-impact incidents, compared with 34% of less resilient boards. Highly resilient boards are also more likely to be highly effective in aligning risk and business strategy.

These boards are far from complacent. They're cautious or critical about gaps in their preparedness, suggesting they're aware of the evolving nature of the risks they face. They also recognize that they need to take significant steps to address the gaps, especially at board level.

Our analysis reveals that:



of boards are classified as highly resilient (average score of 70 or more out of 100).



of boards are classified as moderately resilient (average score of 41 to 69 out of 100).

of boards are classified as less resilient (average score of 40 or less out of 100).

Highly resilient boards behave differently in five key areas:

1. **Emerging risks**
2. **Talent and culture**
3. **Sociopolitical issues**
4. **Sustainability**
5. **Technology**

Highly resilient vs. less resilient – Differentiation across key data points

Theme	Point of differentiation	Less resilient vs.	Highly resilient	
Emerging risks	Emerging risks (geopolitical, ESG, privacy, etc.) are insufficiently addressed in risk management frameworks and often detected too late.	45%	75%	% somewhat/strongly agree
Talent and culture	Part of the board's remit is to constructively challenge management on talent and culture issues.	43%	81%	% somewhat/strongly agree
Sociopolitical issues	Addressing sociopolitical issues builds trust with employees and customers when aligned to purpose and mission.	48%	89%	% somewhat/strongly agree
Sustainability	Enterprises can only be resilient if they are environmentally sustainable.	45%	85%	% somewhat/strongly agree
Technology	Boards are very effective in their oversight of technology-related risks arising from digital transformations.	26%	45%	% very effective

1 Integrate risk management with strategy and performance management

Boards need to take a strategic and data-driven approach to improve their oversight of the organization's most material risks.

The risks that board respondents say have grown most in importance reflect the new and heightened challenges they have faced since our last survey. They include a combination of internal issues, such as remote working and a misaligned culture, and external issues that were partly or entirely outside of the organizations' control, such as supply chain disruption, geopolitical events and climate change.

The survey findings also suggest that these risks are among the most difficult to identify, track and manage. Six in 10 board respondents agree that emerging risks are insufficiently addressed in risk management frameworks. Further, 61% say they aren't aligned with other board members on the material risks that will have a significant impact on the organization in the next 12 months.

> **60%**
> of boards agree emerging risks are insufficiently addressed in risk management frameworks.
>
> EY Global Board Risk Survey

As Marie Elaine Teo, Singapore-based Board Director of Olam International, Mapletree Investments and GK Goh Holdings, points out, this could lead them to focus on the wrong things. "The board needs consensus on which risks are most material," she says. "This can be challenging because depending on the risk environment, the most material risks can change quickly."

Sources of risk likely to have severe impact on organizations during the next 12 months (% selected a 4 or a 5 on a scale where 1 is "No impact" and 5 is "Severe impact")

Top three risks for 2023

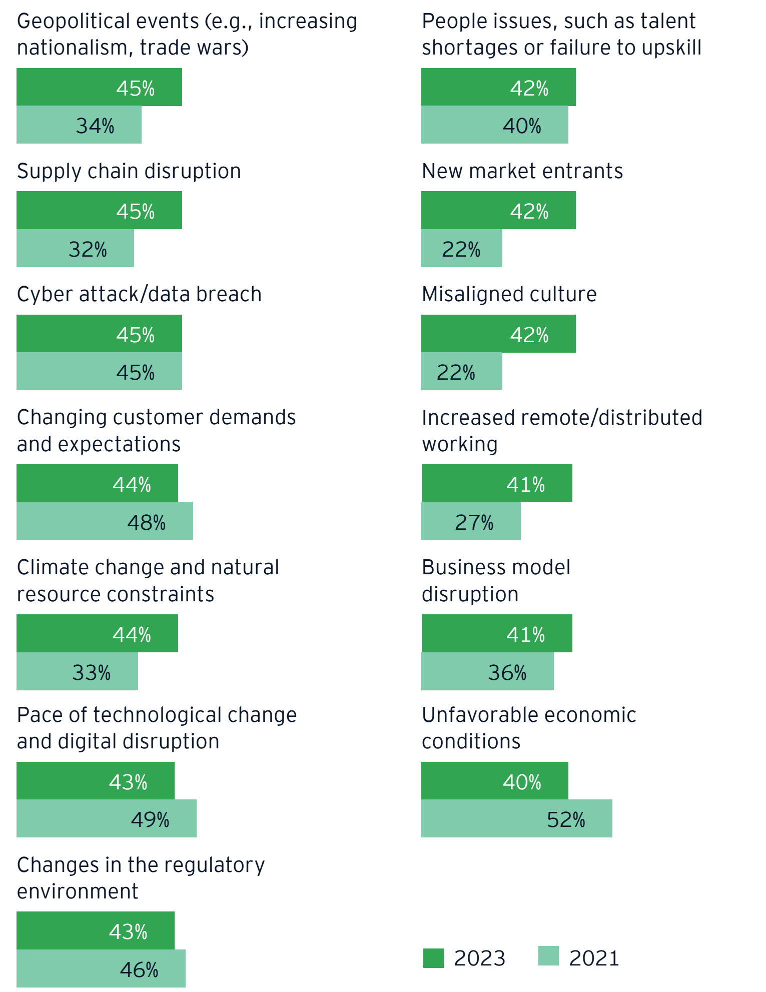
1. Geopolitical events
2. Supply chain disruption
3. Cyber attack/data breach

Top three risks
grown in importance (2023 vs. 2021)

1. New market entrants
2. Misaligned culture
3. Increased remote/distributed working

Top three risks
decreased in importance (2023 vs. 2021)

1. Unfavorable economic conditions
2. Pace of technological change and digital disruption
3. Changing customer demands and expectations

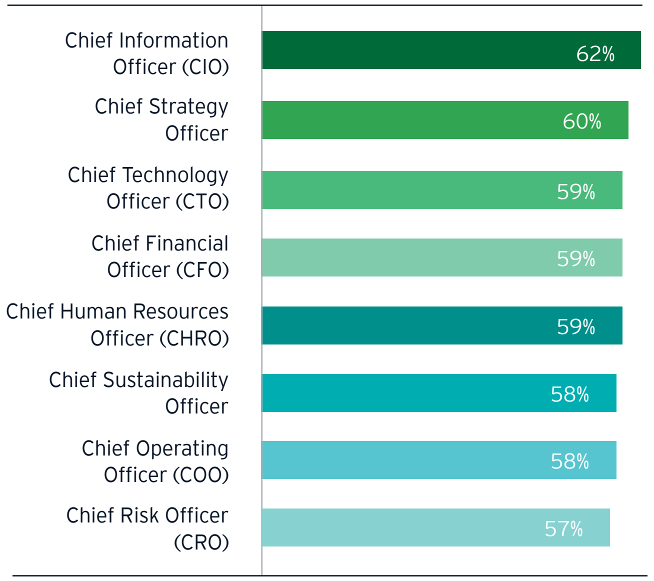


Resilience must be a priority to mitigate these risks to garner trust and create sustainable long-term value. And it seems that it is, with 61% of respondents agreeing that enterprise resilience is more about adaptation than recovering back to normal. However, they could strengthen their oversight to better support management in responding to risks and capitalizing on their opportunities.

For example, around 40% of board respondents say they don’t engage with C-suite executives (CxOs) more than twice a year. This percentage includes those responsible for some of the most material risks, which suggests they could be missing an opportunity to develop another foundational characteristic of a resilient organization – cohesion, through a sense of purpose and belonging, fostered by collaboration, communication and trust across the board.

Another risk that tops the list for boards is geopolitics. Yet, a relatively low number (43%) say geopolitical risk is part of their governance oversight. This gap has consequences. “The war in Ukraine required organizations to respond quickly and with agility,” says Don Mulligan, a Board Director at Tennant Company, Energizer Holdings and Herbalife. “But most were not great at either of those things.”

How frequently do the following executives report to or engage directly with the board?



% of respondents who meet with their C-suite executives either on monthly or on quarterly basis.

“The board needs consensus on which risks are most material. This can be challenging because depending on the risk environment, the most material risks can change quickly.

Marie Elaine Teo
Singapore-based Board Director of Olam International, Mapletree Investments and GK Goh Holdings

How highly resilient boards behave differently

Compared with their less resilient peers, highly resilient boards are better at anticipating, preparing for and adapting to risks because they:

- **Look beyond the obvious and near-term.** Highly resilient boards are 1.7 times more likely to be effective in going beyond traditional risks, compliance, and planning for the near-term **(56% vs. 32%).**
- **Use data to drive decision-making.** Highly resilient boards are 1.8 times more likely to leverage data and technology effectively to be predictive, detect opportunities and risk early and improve decision-making **(59% vs. 32%).**
- **Embed risk management into business strategy and compliance activities.** Highly resilient boards are 2.2 times more likely to align risk strategy and business strategy effectively **(64% vs. 29%)** and embed risk and compliance activities effectively within the business **(66% vs. 29%)**. They are also 1.9 times more likely to review risk exposures as part of strategy and performance reviews **(86% vs. 46%).**

Highly resilient boards put resilience first by integrating risk management with strategy and performance management

What boards can do to increase resilience

1. Review current board governance and committee structures

Boards could consider assigning responsibility and accountability for key risks to existing committees, such as compensation or risk. Or they could create new committees, such as sustainability and technology. Appointing people with appropriate skills and experience to lead these committees could also help address any gaps in capabilities, as will a tailored board education program that includes seeking the advice of independent experts. Additionally, having regular contact with the most relevant CxOs will strengthen relationships and improve cohesion.

2. Challenge management to evaluate the organization's current risk, control and compliance capabilities

Whether it's conducted internally or by a third party, a review can identify any inefficient, siloed processes, such as functions using different methods or systems. Management can then use the findings to align risk management processes so they are as efficient and effective as possible. It's also best practice to integrate all risk reports from across the organization into a single report for the board.

3. Advise management on trends in the business environment and support them with specific risk scenario planning

Boards should devote time to discussing the changes and trends observed in the market. Together with management, they should then consider using artificial intelligence (AI) and advanced analytics to scan the horizon for Black Swans (unknown unknowns) and Gray Rhinos (known unknowns).

Applying quantitative analyses to specific scenarios will also help management understand and report on the organization's full exposure to these risks. Boards should then determine if the strategy and business model are viable in each of these emerging scenarios. And whether the organization needs to adapt its strategy to balance resilience with environmental sustainability. Or how it might capitalize on the opportunities within those scenarios to create long-term value by innovating or doing things differently.

4. Engage in the organization's process for setting, reviewing and reporting on strategy and performance

To deliver on their strategy, organizations need to manage risk as part of the strategy setting and execution process, along with performance and change management. Consequently, risk reporting and evaluation needs to be a part of their day-to-day decision-making. Boards can suggest that key risk indicators (KRIs) be embedded in the strategy to act as early warning systems that connect risks directly with performance.

They can also guide management to set high expectations of their risk teams, such as asking if sensitivity analysis is being applied to the budgeting and forecasting process. Finally, they should integrate risk reporting into existing strategic planning and performance management reporting, and insist they discuss planning and reporting holistically, rather than treating them as separate agenda items.

5. Bring geopolitical risk into the board's oversight remit

As the latest EY Geostrategic Outlook observes, political volatility will elevate the importance of geopolitics in corporate strategies to its highest level in a generation. Boards should help executives manage geopolitical opportunities and risks by staying informed and making sure these are covered in the risk management process.

2

Strengthen the board's oversight of talent- and culture-related issues

Boards need to support management to identify and meet the organization's business-critical talent needs – today and in the long term.

Even before the COVID-19 pandemic, talent shortages, ongoing transformation and the competing needs of a multi-generation workforce were driving talent risks up the board agenda.

The impact of the pandemic has exacerbated these trends, while turning issues that were previously peripheral, such as the need for flexible working, into central concerns. In the EY 2022 Work Reimagined Survey, nine in 10 respondents say they would consider leaving their job if flexibility in terms of where they work wasn't an option.

Board respondents clearly acknowledge this changing landscape; two of the risks that have grown most in importance since our last survey are remote working and a misaligned culture. Yet some of these newer people risks are outside of their traditional remit. As a result, boards could do more to strengthen their oversight in this important area.

For example, two-thirds of board respondents agree that constructively challenging management on talent and culture issues is within their remit. However, roughly the same proportion agree that it's difficult to get reliable insights on how culture is evolving. Further, 31% say they rarely or never discuss the skills needed to support the organization's strategy and purpose, or how to fix any gaps.

Similarly, two-thirds of board respondents agree that their business needs bold change rather than incremental progress on diversity, equity and inclusion (DE&I). This suggests that they recognize the benefits of a diverse and inclusive workforce, particularly at a time of talent shortages. It also aligns with the view that diversity of talent and styles is a foundational characteristic of a resilient organization, as well as fundamental to innovation. However, only a third of board respondents say they are very satisfied with their ability to oversee management's efforts to drive DE&I.

65%

of boards agree on their remit to constructively challenge management on talent and culture issues.

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Creating resilient, socially sustainable organizations

Boards play an important part in creating socially sustainable organizations that can adapt to changing needs and expectations around culture, skills and DE&I. With improved knowledge, flexibility and oversight, they can support management to develop the human-centered culture needed to achieve this. They can also challenge management to build a pipeline of leaders who live and breathe that culture.

> "Purposeful engagement with team members is an important key to talent attraction and retention.

Natalie Rothman
Chief People Officer, Inspire Brands and Board Director of Udemy

How highly resilient boards behave differently

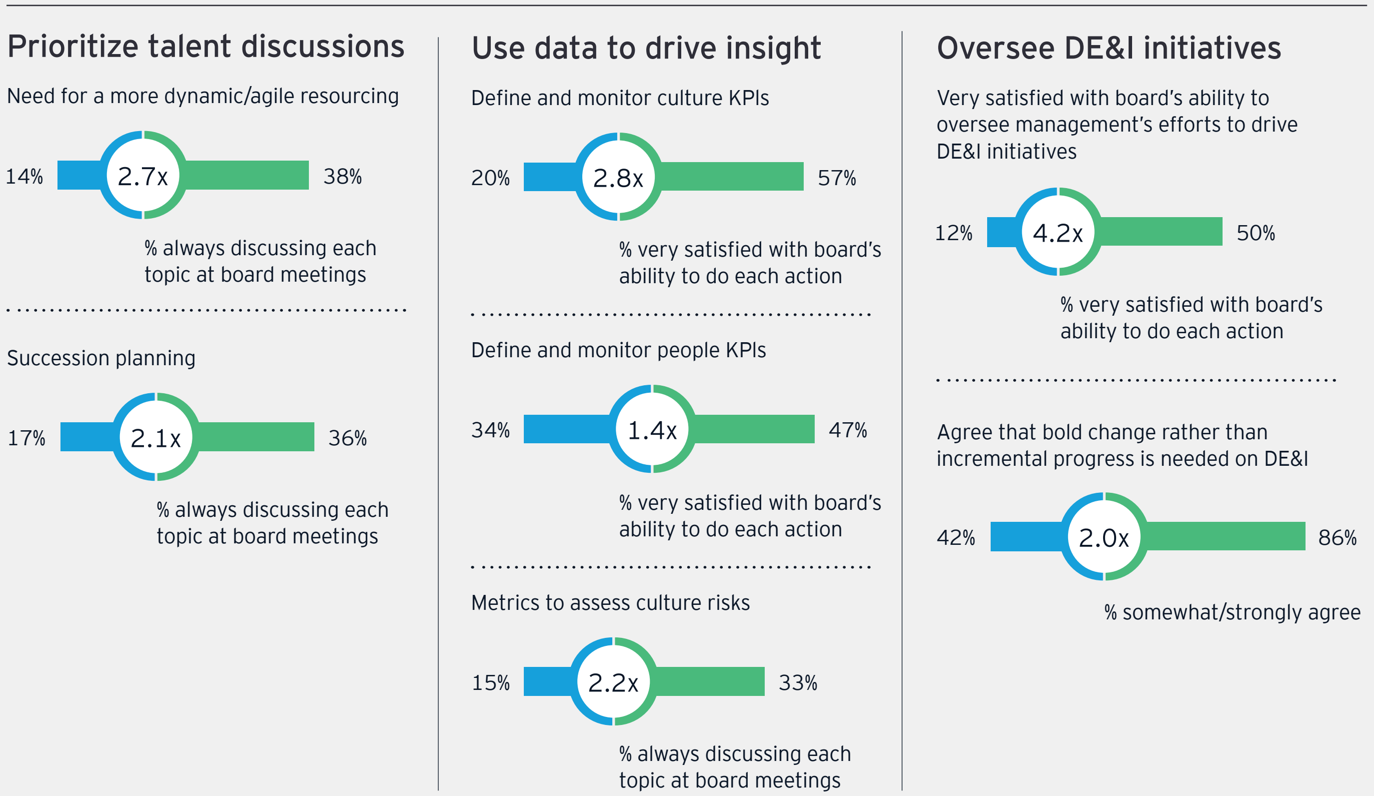
Our analysis finds some large gaps in the views and approaches of highly resilient boards versus their less resilient peers. The starkest differences are in how boards view their role on talent and culture issues and how they drive and oversee DE&I efforts in their organizations.

For example, highly resilient boards are 1.9 times more likely to agree that part of their remit is to constructively challenge management on talent and culture issues **(81% vs. 43%)**. They're also twice as confident in ensuring workforce continuity **(45% vs. 23%)** – a boon in economically volatile times.

Our analysis revealed other key differences. Highly resilient boards:

- **Prioritize talent discussions.** Highly resilient boards are up to 2.7 times more likely to discuss dynamic resourcing **(38% always discuss it vs. 14%)**, succession planning **(36% always discuss it vs. 17%)**.
- **Use data to drive insight.** Highly resilient boards are 2.8 times more likely to be very satisfied with defining and monitoring culture KPIs **(57% vs. 20%)**, and 1.4 times more satisfied in defining people KPIs **(47% vs. 34%)**. They are also 2.2 times more likely to discuss cultural risk metrics **(33% vs. 15%)**.
- **Engage frequently with CHROs.** More than two-thirds **(68%)** of highly resilient boards meet quarterly or more often **(vs. 54% of less resilient boards)**.
- **Oversee DE&I initiatives.** Highly resilient boards are 4.2 times more likely to be very satisfied with the board's ability to oversee management's efforts to drive DE&I initiatives **(50% vs. 12%)** and two times more likely to agree that bold changes rather than incremental progress on DE&I are needed at their business **(86% vs. 42%)**.

Highly resilient boards strengthen the board's oversight of talent and culture-related issues



What boards can do to increase resilience

1. **Consider broadening the remit of the compensation committee to include a wider range of talent topics**

   The fast-changing nature of people risks doesn't diminish the fact that board members have unparalleled knowledge and experience in strategic talent topics. Boards could make better use of this experience by broadening the remit of the compensation committee. Its expanded scope could include talent reskilling, as well as adapting the employee experience to meet expectations for things like hybrid working models.

   As part of its broader remit, the compensation committee could monitor a broad range of measurable talent KPIs. These could include core KPIs such as retention and turnover, along with broader ones to measure sentiment, such as net promoter and employee satisfaction scores. It could also establish mechanisms for hearing the employee voice.

2. **Engage with and empower the CHRO by making sure they have an effective, robust mandate**

   This should include responsibility for developing an agile, human-centered culture and personalized employee experience. "Purposeful engagement with team members is an important key to talent attraction and retention." explains Natalie Rothman, Chief People Officer, Inspire Brands and Board Director of Udemy.

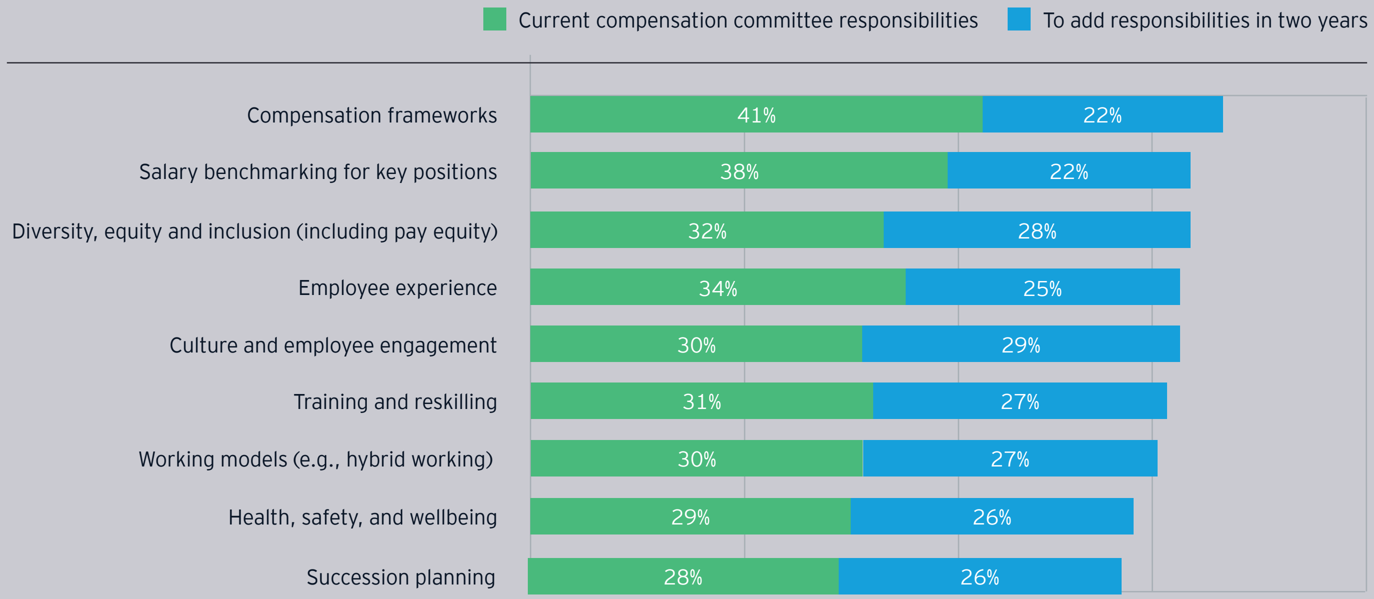
3. **Take concrete, meaningful action on DE&I**

   As one of our respondents observes, the board can help management to understand which problems need to be solved. "Is it about attracting and retaining diverse talent? Or about the development of diverse talent?" Boards can advise the management team and provide suggestions on how they can address the challenge only once it's been identified.

4. **Plan ahead for the impact of technological change on talent**

   For example, boards can challenge management on whether it's allocating enough capital for digital transformation to meet the needs of an increasingly young workforce. Scanning the horizon for the next Gray Rhino will also be crucial. This will allow the organization to capitalize on the competitive advantage these advances could bring, while getting ahead of the employee skills transition that could result.

Compensation committee responsibilities set to expand



3 Extend oversight over responses to sociopolitical issues

To build trust, boards need to approach potentially divisive issues systematically.

In recent years, sociopolitical issues such as LBTQ+ inclusion, racial inequality and women's reproductive rights have become part of public discourse – and growing numbers of stakeholders expect businesses to take a stand. In the 2023 Edelman Trust Barometer, respondents overwhelmingly said they wanted businesses to do more to address societal issues.

The EY Global Board Risk Survey shows that most boards recognize the role of addressing these issues in building trust. Yet, understandably given the nature of the sociopolitical conversation, 63% are wary about taking a strong position. "A lot of divisive issues have arisen on which stakeholders expect organizations to take a stand," says Don Mulligan, Board Director at Tennant Company, Energizer Holdings and Herbalife Nutrition. "The problem is that you can please 50% of the population while alienating the other 50%."

The risks of misjudging this sensitive and complex risk area are substantial, particularly when social media channels are an important expression of an organization's brand. The temptation can be to quickly take a reactive position to a hot topic. But trust is created through both perception and action. So, acting in a way that isn't aligned with the organization's purpose or values risks eroding that trust.

Addressing sociopolitical issues is clearly challenging. But with business now the only institution that's viewed as ethical, staying silent could be a missed opportunity. By taking a comprehensive approach to overseeing these risks, boards can help their organizations build trust among stakeholders and raise their profiles around the issues that matter to them most.

66%
of boards agree that addressing sociopolitical issues builds trust with employees and customers.

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> A lot of divisive issues have arisen on which stakeholders expect organizations to take a stand. The problem is that you can please 50% of the population while alienating the other 50%.

Don Mulligan
Board Director at Tennant Company, Energizer Holdings and Herbalife Nutrition

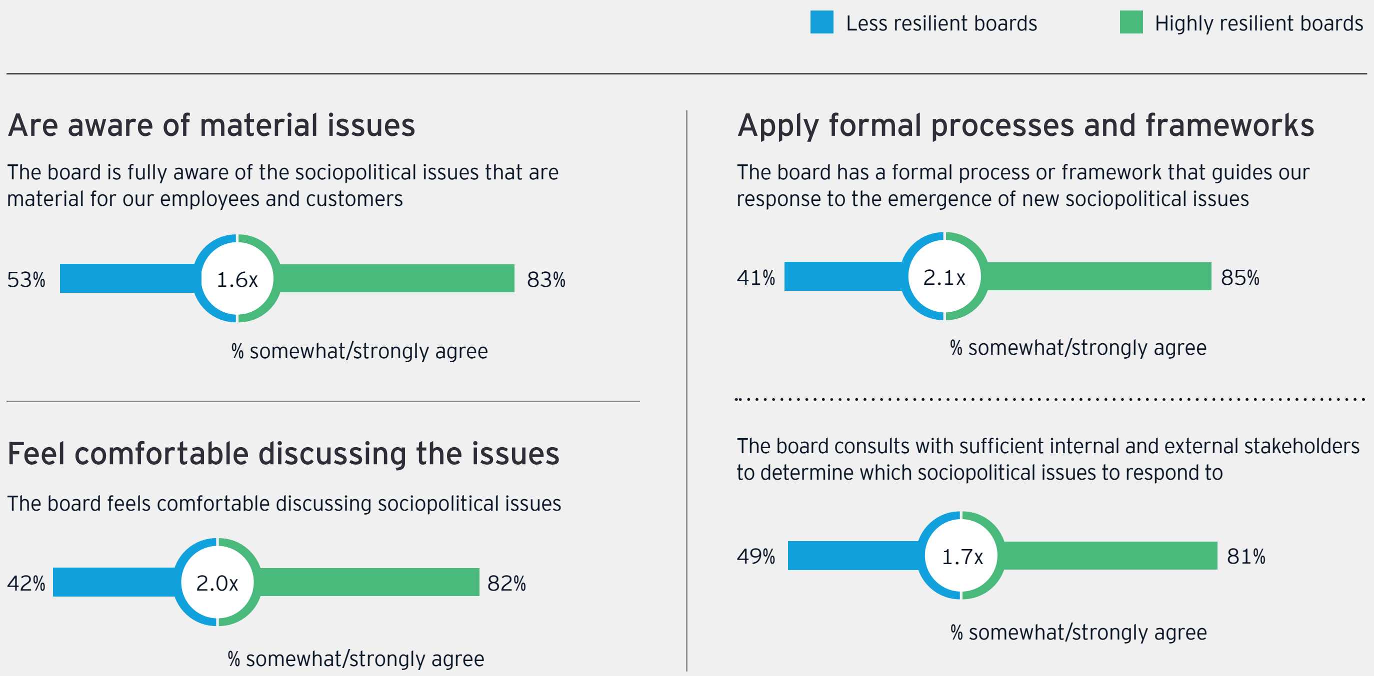
How highly resilient boards behave differently

Our survey shows that highly resilient boards are both more aware of material sociopolitical issues and more comfortable discussing them. They're also more than twice as likely to have a formal process in place to guide their response.

Highly resilient boards:

- **Are aware of material issues.** Eighty-three percent of highly resilient boards are fully aware of the sociopolitical issues that are material for their employees and customers **(vs. 53% of less resilient boards)**.
- **Feel comfortable discussing the issues.** Eighty-two percent of highly resilient boards agree that their members feel comfortable discussing sociopolitical issues **(vs. 42% of less resilient boards)**.
- **Apply formal processes and frameworks.** Highly resilient boards are more than 2.1 times as likely to have a formal process or framework that guides their response to the emergence of new sociopolitical issues **(85% vs. 41%)**. This includes consulting with sufficient internal and external stakeholders to determine which issues to respond to **(81% vs. 49%)**.

Highly resilient boards extend oversight over responses to sociopolitical issues



What boards can do to increase resilience

1. **Make sure the organization has a robust and ongoing materiality assessment process in place, and sign off on the results**

   This will help to determine the sociopolitical topics that matter most to the organization's stakeholders, and where they expect it to take a stand. Boards can then support management in assessing which issues align most closely with the company's purpose and values, and making sure that meaningful, measurable action follows.

2. **As part of this process, oversee the organization's ongoing consultation with a wide range of internal and external stakeholders**

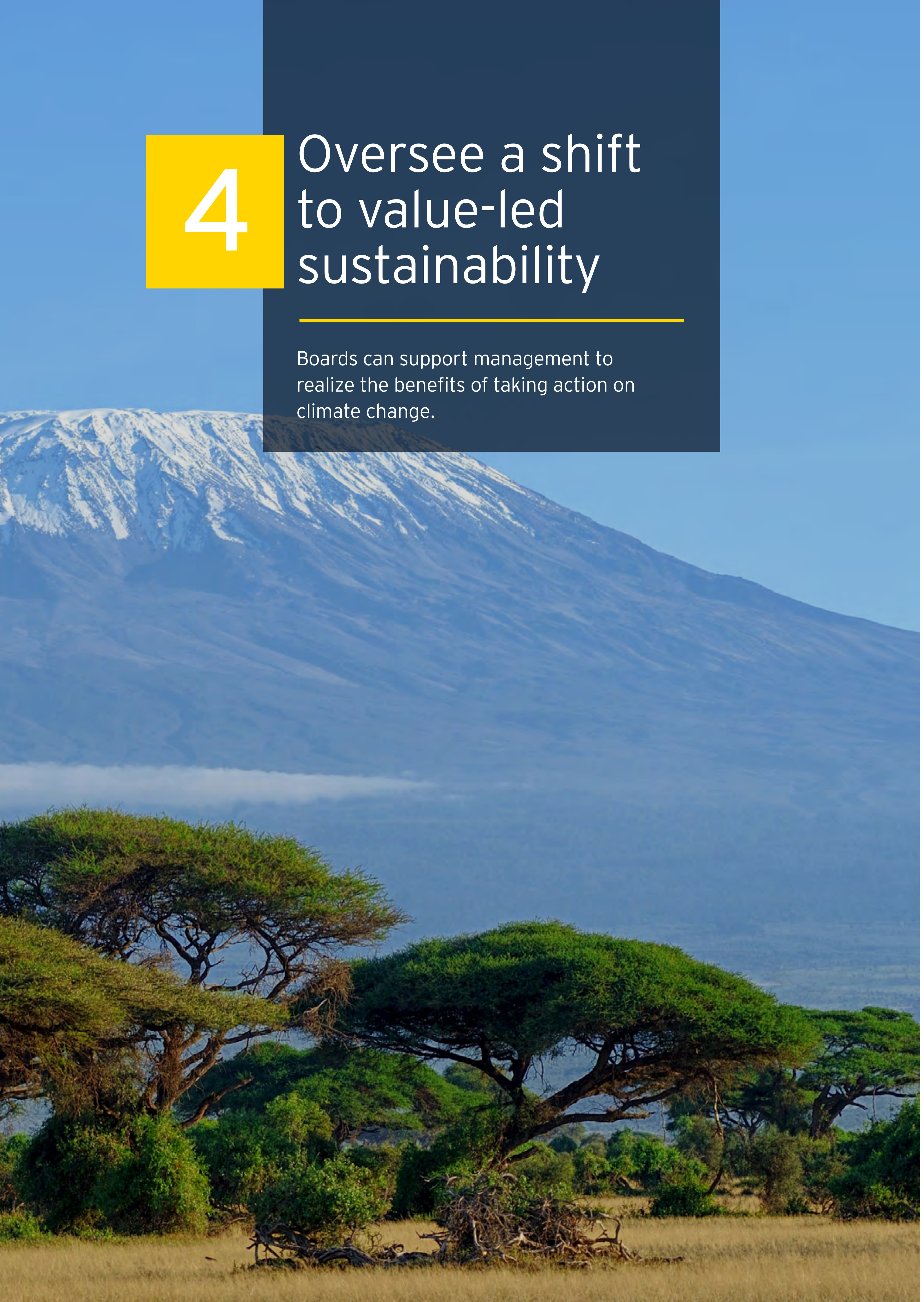
   Boards should oversee how the organization identifies and engages with key stakeholders to understand their evolving views. Management should then report to the board on the results.

3. **Oversee a formal process and framework for deciding when and how to address any critical sociopolitical issue that could arise**

   This should include a thorough assessment of the potential consequences of taking a stand. Depending on the jurisdictions involved, a strategic review of any lobbying, advocacy work or political donations may also result. Either way, the organization's communication channels should reflect the outcome of the formal framework.

4. **Challenge the management team to identify and take action where the organization is not walking the talk**

   For example, efforts to speak out about racial inequality could be undermined if the organization has low representation of minority ethnic employees in its leadership ranks.



4 Oversee a shift to value-led sustainability

Boards can support management to realize the benefits of taking action on climate change.

The EY Global Board Risk Survey findings clearly reflect the growing importance of environmental sustainability in building resilience and enabling future organizational success. Two-thirds of boards believe that being environmentally sustainable is integral to the resilience of the business.

It's also apparent that boards are navigating sometimes competing demands from multiple stakeholders. Two-thirds report more scrutiny from investors around overall environmental, social and governance (ESG) performance, and recognize that it will increasingly be a factor in accessing capital markets. Yet two-thirds of board respondents report that short-term earnings pressure from investors is impeding their longer-term investments in sustainability, similar to findings from other EY studies.

At the same time, organizations are preparing for a raft of new sustainability reporting regulations. The International Sustainability Standards Board (ISSB) has recently released two initial standards for global reporting (IFRS1 and IFRS2). The EU has the Corporate Sustainability Due Diligence Directive (CSDDD) and Corporate Reporting Standards Directive (CSRD). And the US Securities and Exchange Commission's (SEC) proposed climate-related disclosures rule is due later this year. Organizations can use the adoption of these standards as an opportunity to demonstrate their progress in their sustainability performance, rather than as a pure reporting compliance exercise.

66%

of boards believe that enterprises can only be resilient if they are environmentally sustainable.

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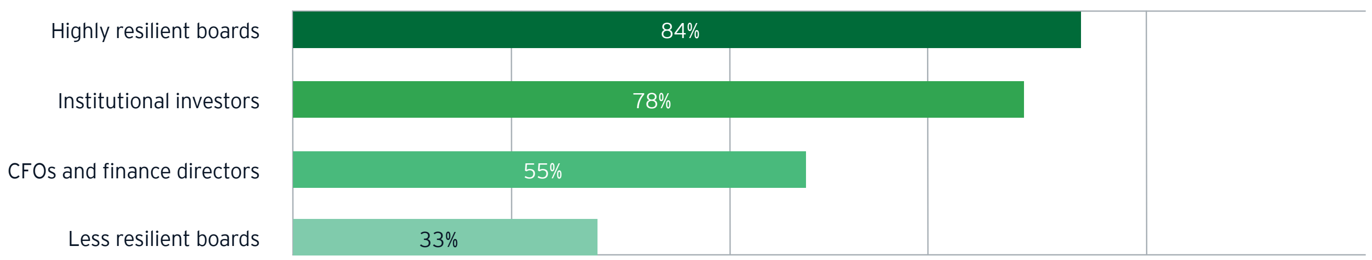
In this context, it's interesting that boards are not always in tune with management or investors. Respondents in our survey say that board members and management disagree on which criteria are most important when evaluating a climate change initiative. A recent EY survey found that even leading companies lack confidence in the board's ability to engage with shareholders about climate plans and actions.

These findings suggest that boards have work to do in aligning the various stakeholder groups involved behind the organization's climate ambitions.

Highly resilient boards sacrifice short-term financial performance for ESG issues

(Percentages indicate those who agree that their company should address ESG issues, even if doing so reduces short-term financial performance)



Note:

- Results for "Institutional investors" and "CFOs and finance directors" are taken from the 2022 EY Global Corporate Reporting and Institutional Investor Survey Data

How highly resilient boards behave differently

Our analysis reveals a 40-point gap or more in many of the questions related to ESG governance between highly resilient and less resilient boards. This suggests that highly resilient boards are much more focused on the topic than their less resilient peers. They are more aware of its potential to create long-term value and are also more aware of the sustainability risks their organization may face.

Highly resilient boards:

- **Recognize climate change risks.** Highly resilient boards are 1.4 times more likely to say climate change and natural resource constraints will have a severe impact on their organization **(52% vs. 37%)**.
- **Take action on oversight and expertise.** Eighty-five percent of highly resilient boards have completed or are in progress on five or more governance and oversight actions **(vs. 41% of less resilient boards)**. The rates with which they are taking action align with those of leading organizations identified in the EY Sustainable Value Study. They are also 2.9 times more likely to have improved board knowledge and skills in climate issues through exposure to external expertise and training **(50% vs. 17%),** 2.7 times more likely to have assigned climate change oversight responsibility to a board committee **(41% vs. 15%)**, and 1.9 times more likely to have made climate change experience a factor in board selection or management hiring (**41% vs. 21%**).
- **Understand ESG is a long-term focus with the potential to deliver value over time.** Highly resilient boards are 1.9x more likely to believe that enterprises can only be resilient if they're environmentally sustainable **(85% vs. 45%)**. Moreover, 84% say their company should address relevant ESG issues, even if doing so reduces short-term financial performance and profitability **(vs. 33% of less resilient boards)**. This aligns with the view of institutional investors. As well, 78% view ESG as more of an opportunity than a risk for their organizations in the longer term **(vs. 50% of less resilient boards)**.

Highly resilient boards oversee a shift to value-led sustainability

What boards can do to increase resilience

1. **Strive for value-led sustainability**

   In the EY Sustainable Value Study, 69% of companies said that acting on climate change delivered above-expected financial returns. Boards can help the organization to view risks as opportunities to innovate, and make sure it articulates the strategic long-term value of sustainability. For example, Cisco has responded to customer expectations by developing energy-efficient products, while Unilever has announced an intention to label its products' carbon emissions to educate consumers.

2. **Assign an appropriate board committee to oversee and create accountability over ESG risks**

   Whether a committee takes the lead in overseeing ESG risks, or the whole board, it's important to formally assign oversight of these matters. Boards can also enable investor trust by overseeing robust processes for collecting, managing and disclosing trusted data to comply with regulation. Most importantly, though, boards can drive impactful action through their governance and oversight, such as by assigning accountability for and overseeing scenario planning.

3. **Improve board knowledge and skills in this emerging area**

   Boards should consider including climate experience when selecting members, while continually improving their own knowledge of the issues. This will allow them to challenge and guide management, form strategic responses and establish priority actions for the board in relation to sustainability trends.

> Boards should consider including climate experience when selecting members.
>
> EY Global Board Risk Survey 2023

5 Understand the risk implications of digital and emerging technologies

Even highly resilient boards could benefit from building their competence and confidence in overseeing this fast-moving area.

Technological evolution is moving at an ever-accelerating rate. Since we last conducted this survey, breakthroughs in generative AI technology, the advent of the metaverse, new developments in regulation and growing cyber risks have shifted the goalposts again.

A recent EY CEO Outlook Pulse survey suggests that organizations are responding, as digital and technology emerged as the top area receiving more investment. Boards can help to direct this investment by identifying potential technology opportunities, as well as identifying and overseeing risks.

Their job isn't to be experts, but to make sure the organization is balancing speed of tech adoption with exposure to risk. Nonetheless, the speed of change is clearly creating challenges for board directors whose expertise typically lies elsewhere. For example, in our survey, only 31% believe that their oversight of the risks arising from digital transformations is very effective; 19% believe it's slightly or less effective.

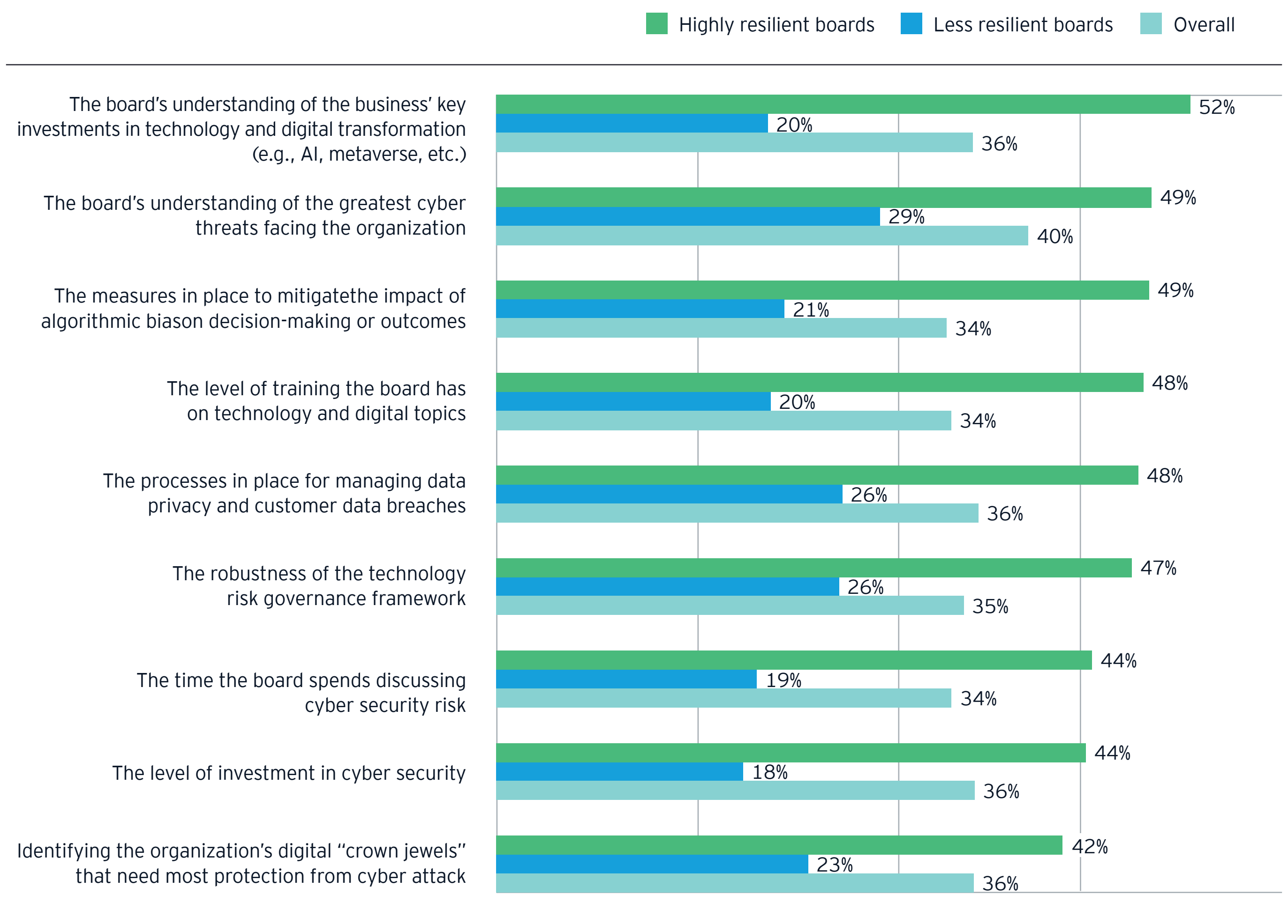
31%

of boards say their oversight of the risks arising from digital transformations is very effective, while 19% say it's slightly or less effective.

EY Global Board Risk Survey

With new regulation emerging, the costs of not closing any gaps in oversight will be high. For example, in the EU a framework for regulating AI could see organizations pay fines of up to €30m (US$32m) for using AI that violates people's safety and human rights.

Board confidence in the oversight of technology risk (% very confident)



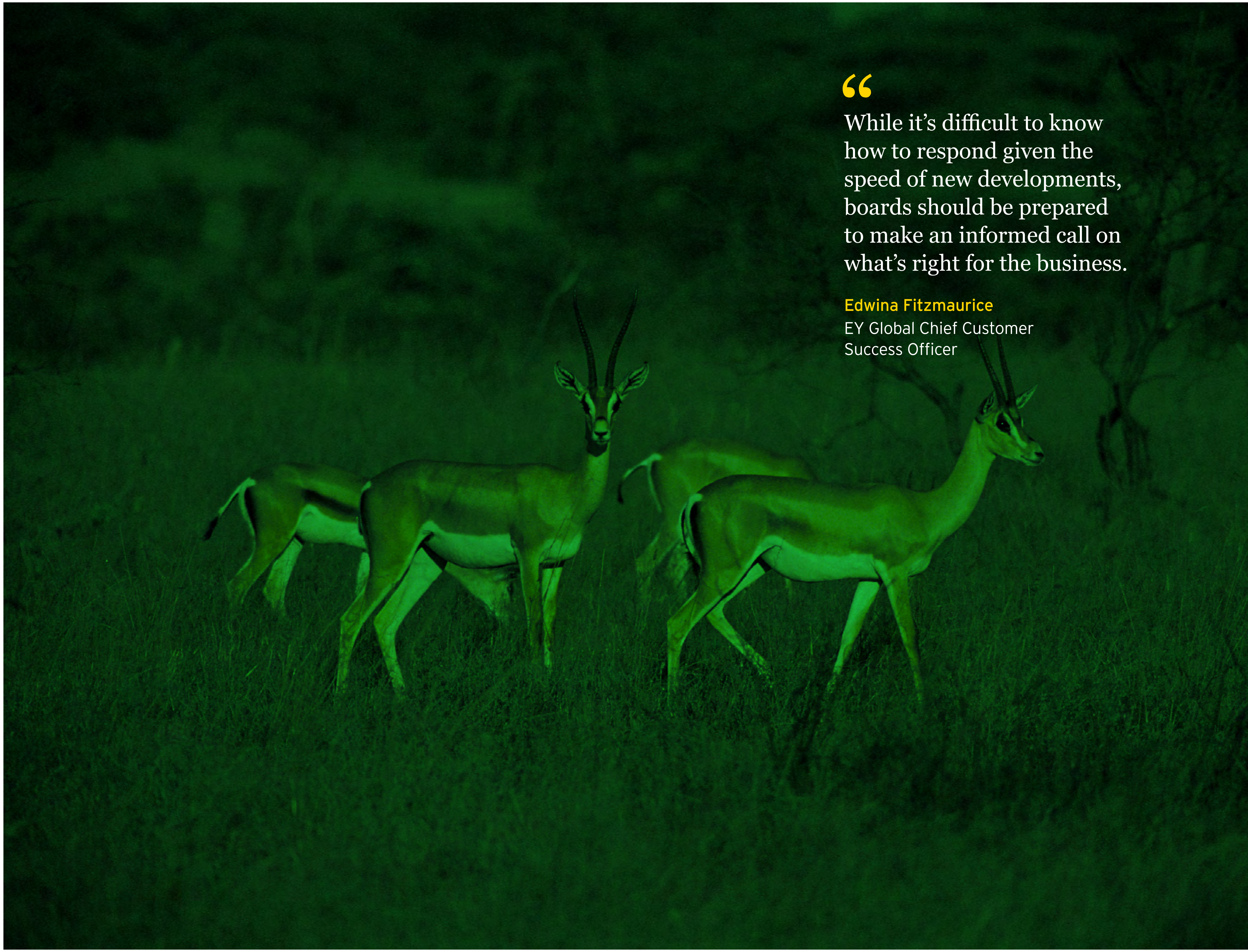
Curbing the cyber threat

A particular area of concern is cybersecurity, which has jumped from a top five risk in our last survey to a top three risk in our current survey. The explosion in digital adoption and remote working since the pandemic partly explains this increase. Innovating in response to disruption may also have contributed by exposing organizations to new cyber risks.

Regulation is continuing to emerge, too. For example, in the US, new rules proposed by the US Securities and Exchange Commission (SEC) in 2022 will require public companies to disclose substantial information about how their boards oversee cyber risk. The US Congress also recently passed far-reaching cybersecurity legislation.

Despite these interconnecting pressures, just 40% of boards in our survey are very confident they understand the biggest cyber risks facing the organization. And only one-third are very confident about the time they spend discussing cyber risk. This is putting them at risk of substantial damage to stakeholder trust and financial performance.

By modernizing their approach to governing cyber and other technology-related risks, boards can create a safety net for their organizations that allows them to explore the opportunities these disruptive technologies present. "Boards frequently hear of revolutionary new technologies that promise to reshape whole industries, some of which are overhyped, and some of which carry real potential," says Edwina Fitzmaurice, EY Global Chief Customer Success Officer. "While it's difficult to know how to respond given the speed of new developments, boards should be prepared to make an informed call on what's right for the business."



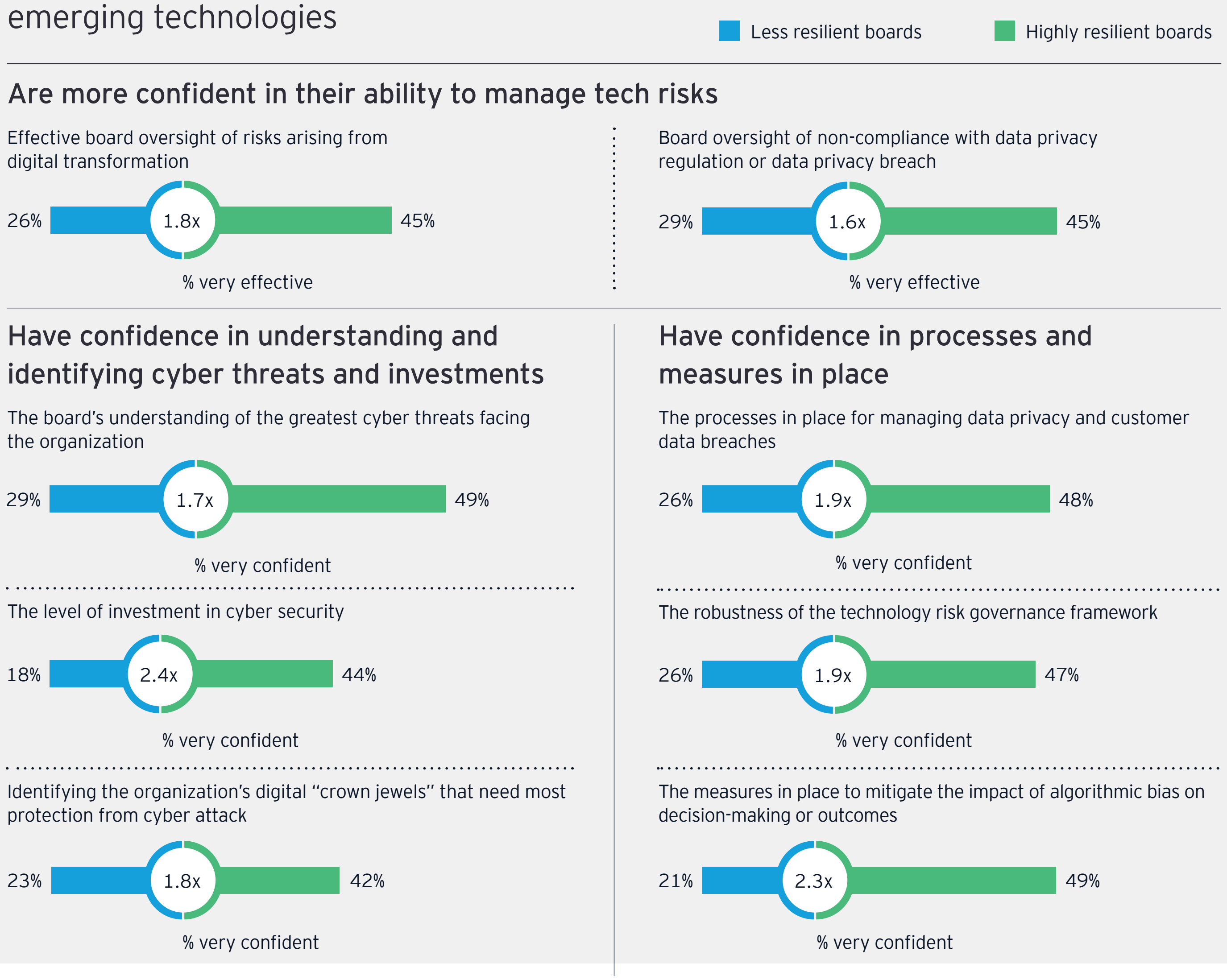
How highly resilient boards behave differently

Here, as in throughout the survey, highly resilient boards lead the field in their oversight of the relevant risks.

But there is still room for improvement. Our analysis shows that highly resilient boards:

- **Are more confident in their ability to manage tech risks.** 45% of highly resilient boards have very effective oversight of risks from digital transformations **(vs. 26% of less resilient boards)** and non-compliance with data privacy regulations or breaches **(vs. 29% of less resilient boards)**.
- **Understand and identify cyber threats and investments.** Highly resilient boards are up to 2.4 times more likely to be very confident in understanding the greatest cyber threats facing the organization **(49% vs. 29%)**, understanding the level of investment in cybersecurity **(44% vs. 18%)** and identifying the organization's digital "crown jewels" that need most protection from cyber attack **(42% vs. 23%)**.
- **Have processes and measures in place.** Highly resilient boards are 1.9 times more likely to be very confident in the processes in place for managing data privacy and customer data breaches **(48% vs. 26%)**, and in the robustness of the technology risk governance framework **(47% vs. 26%)**. They are also 2.3 times more likely to be very confident in the measures in place to mitigate the impact of algorithmic bias on decision-making or outcomes **(49% vs. 21%)**.

Highly resilient boards understand the risk implications of digital and emerging technologies



What boards can do to increase resilience

1. **Prioritize education and upskilling around this relatively new area for boards**

   Organizing regular technology insight or training sessions will help address any knowledge gaps, as will inviting experts to present and showcase the latest technologies. Boards could also consider strengthening their capability by adding new members with specialist technical expertise, as appropriate.

2. **Collaborate more closely with the chief technology officer (CTO) and wider management team to improve the mitigation measures in place**

   Four in 10 boards meet with their CTO on a less than quarterly basis. Boards can address this by inviting the CTO to report regularly on the organization's key investments in technology, digital transformation and cybersecurity. The board should then challenge the return on those investments.

3. **Consider assigning oversight of technology to a new or existing committee to stay on top of risks**

   The board's remit should include creating a robust governance framework to enable board directors to focus on the most material technology risks.

4. **Elevate the importance of cyber risk by establishing it as a company-wide concern**

   This could include considering the topic in all board meetings and inviting a third party to assess the organization's cyber risk management program. It could also include challenging the management team to embed cybersecurity awareness throughout the organization – for example, through mandatory all-employee training. Finally, providing enhanced disclosures will reassure investors that the board is overseeing cyber risk closely. It will also establish the role of management in assessing and managing this important area.

5. **Support the organization's ability to recognize the upside opportunities of technological disruptions, as well as prepare for the risks**

   Boards should promote a robust risk management process that is designed to identify and seize new market opportunities and technology product innovations. The end goal should be to improve customer satisfaction and profitability.

Summary: The 2023 EY Global Board Risk Survey

The EY Global Board Risk Survey shows that boards are reassessing what they view as the biggest risks to their organizations in an increasingly complex world. It also suggests that boards need to strengthen their governance structures, processes and knowledge to improve oversight of both risks and opportunities. By supporting their organizations to become resilient instead of reactive, boards can contribute to building trust and creating long-term value.

Questions for boards to consider

1 Enterprise resilience

- Are you advising management on trends in the business environment and supporting them with specific risk scenarios? Are you reviewing risk as part of existing strategic planning and performance management reporting?
- As board members, are you focusing on how your organization is generating and measuring long-term value for multiple stakeholders?
- What mechanisms to withstand disruptions do you have in place to foster a culture of resilience and set your organization up for future success? What steps have you taken to ensure integration into the organization's strategy and business modelling?
- Are you treating data as a strategic asset and are data governance risks encompassed in the board risk assessments?

2 Talent and culture

- As a board member, how are you challenging management on talent and culture issues?
- How can you improve the level of oversight that you provide around talent management and culture?
- How is your organization defining and monitoring culture KPIs?

3 Sociopolitical issues

- How is the organization measuring and making progress on building trust with stakeholders?
- Are you challenging the management team to identify the most material topics for your employees and customers?
- What are the mechanisms and processes in place for deciding when and how to address critical sociopolitical issues that could arise?

4 Sustainability

- How confident are you as a board member that your organization is compliant with all ESG- or sustainability-related regulation – both existing and upcoming?
- How are you creating responsibility and accountability for sustainability?
- Are you adopting a value-led sustainability approach and mindset to transition to a more sustainable business model?
- How will accelerating climate disruptions impact your key markets and stakeholders? Which parts of the business are most exposed to climate risk?
- How can you transform the business model to create products or services that take advantage of the transition to a decarbonized economy?

5 Technology

- How are you supporting management to realize the opportunities of technological disruptions, as well as prepare for the risks?
- Do you believe the organization is investing in the right technologies at the right time? How are you keeping yourself up-to-date on technology and digital topics to make sure you're asking management the right questions?
- Are you confident the current governance structure is sufficient to effectively oversee your organization's use of technology, whether developed in house or acquired? Should you consider a special committee to provide enhanced governance and focus?
- Have you proactively discussed and collaborated with executive management on the technology agenda, including how artificial intelligence can or is being used to review and validate data and information to unearth insights into enterprise risks and opportunities?

EY Center for Board Matters

We support board members in their oversight role by helping them address complex boardroom issues.

Contacts

Sharon Sutherland
EY Global Center for Board Matters Leader
sharon.sutherland@hk.ey.com

Tonny Dekker
EY Global Consulting Enterprise Risk Leader
tonny.dekker@nl.ey.com

Kris Pederson
EY Americas Center for Board Matters Leader
kris.pederson@ey.com

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