

# EMEIA Center for Board Matters

EMEIA board priorities 2023:  
how to shape tomorrow's  
board agenda today

# 2023 board priorities: EMEIA Center for Board Matters

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# Introduction

## Where should your board focus in 2023?

Boards across Europe, the Middle East, India and Africa (EMEIA) are navigating a volatile and complex business landscape. Geopolitical tensions have heightened considerably over the past 12 months due primarily to the war in Ukraine. Furthermore, the global economic outlook is highly uncertain, with inflation a major concern. Many markets are wrestling with a cost-of-living crisis that is driven by high energy prices, rising labor costs and increased demand for goods and services as economies reopen after the pandemic. As a result, supply chains are stretched, skill shortages continue and cyber attacks are on the rise.

In addition, sustainability is an ever more prominent issue. Companies' stakeholders – including their customers, employees, investors, policymakers and regulators – expect them to play their part in tackling today's major environmental and social challenges. Boards should view sustainability not only as an issue but also as an opportunity to protect and create shareholder value. They may well need to rethink how they allocate capital to both new and existing business. This will likely also involve identifying how good governance will support their company to accelerate its transition to a net-zero business model; as well as addressing issues like biodiversity loss or social inequality where they materially arise from the company's operations.

In this evolving business context, boards are rethinking their role, as well as their composition and structure. To effectively serve as strategic advisor while providing appropriate levels of oversight, it is more important than ever that boards are composed of a diverse range of people with a wide range of experiences, skills and backgrounds. Given the specific challenges they face, they will want to seek out members with expertise in areas such as cybersecurity, politics and talent; or find other more creative ways to obtain specialist input to their decision-making. Committees are a good way for boards to give greater attention to specific focus areas such as environmental, social and governance (ESG) matters.

To provide robust governance, boards need access to education and information. Training is key, as is high quality reporting from the company's internal functions. It may also be necessary for the board to seek external advice and expertise, especially on focus areas that are new or emerging, or where the company is exposed to heightened levels of risk.

To understand today's challenges and their impact on the board's priorities, EY teams explored the most pressing issues facing boards. The EMEIA board priorities 2023 were informed by conversations with board members, as well as conversations with networks of nonexecutive directors. It also draws on insights provided by EY professionals, including the EY Center for Board Matters.

In each chapter, this document first describes the most pressing business challenges facing boards and then suggests recommended actions. Key questions for boards on all priorities are included at the end.





1

Navigating uniquely  
challenging geopolitical  
and economic conditions

EMEIA board priorities 2023:  
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# Navigating uniquely challenging geopolitical and economic conditions

To be able to effectively serve as strategic advisor, boards should look for members with specialized knowledge in fields like cybersecurity, politics, and talent.

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## Key developments

Today's enormously challenging geopolitical environment is having a major impact on economic conditions globally. Some major geopolitical developments are testing companies' resilience and affecting their global footprints and future strategies, especially in areas such as cost management, investment, supply chain and talent.

The EY Geostrategic Business Group has identified the 10 most likely and most impactful geopolitical developments for 2023.<sup>1</sup> Some of the most important developments for boards to consider as part of their strategic planning include the war in Ukraine, the decoupling of China's economy from the Western economy, and a move toward economic self-sufficiency by certain governments as they seek to reduce their reliance on other countries, particularly strategic rivals.

Other important developments include the hardening of technology "blocs" as countries look to gain a competitive edge over technological rivals, certain jurisdictions moving more rapidly than others on ESG issues, and the persistence of high inflation, which risks bringing political instability, social unrest and economic crises to certain markets.

The chilling impact of geopolitics on the global economy is already clear and the situation is unlikely to improve in the short term. The World Bank has warned that growth has slowed to such an extent that the global economy is "perilously close to falling into recession" during 2023. Whether that forecast becomes a reality will depend on how geopolitical developments play out over the next few months, but the overall business environment is likely to remain highly volatile for the foreseeable future.

Boards will play a vital role in helping companies navigate this complex and uncertain operating environment in their capacity as strategic advisors to management teams. By working with management, they can ensure that the company has a flexible and resilient business model that enables it to withstand today's geopolitical and economic challenges and thrive into the long term.

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<sup>1</sup> "How to shift strategy for a new geostrategic era in 2023," EY website, [www.ey.com/en\\_gl/geostrategy/how-to-shift-strategy-for-a-new-geostrategic-era-in-2023](https://www.ey.com/en_gl/geostrategy/how-to-shift-strategy-for-a-new-geostrategic-era-in-2023), 13 December 2022, accessed 16 January 2023.

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## Recommended actions

To provide effective support to their companies as they navigate challenging economic conditions, boards should:

- ▶ Ask themselves whether they are paying enough **attention to geopolitical risks**, as well as the related economic and financial consequences. Are they asking the right questions of management and are they keeping an up-to-date risk register that lists all the major risks facing the organization, including those related to economic, geopolitical, supply chain, cyber and sanctions compliance?
- ▶ Question management around what the business is doing to manage these costs. Geopolitical developments are likely to push up costs for companies. Companies should therefore aim to **limit their cost increases** through strategies such as restructuring their supply chains, enhancing their cross-border operating model effectiveness, and improving energy efficiency.
- ▶ **Educate themselves on geopolitics.** To provide effective oversight around economic and geopolitical risks and opportunities, board members need education and training that allows them to effectively analyze events. It is open to them to seek advice from external specialists in economics, geopolitics or supply chains. Boards also need the company to provide them with accurate and up-to-date information on developments in different markets across the world.
- ▶ **Reconsider the board composition and structure** to ensure that economic and geopolitical developments are effectively monitored. This responsibility could be delegated to the risk committee, for example, or to a director with specialist expertise.
- ▶ **Conduct geopolitical scenario analysis.** Scenario analysis can help boards to plan for multiple plausible futures so that their companies are strategically positioned to flourish during turbulent times. As part of their analysis, they should plan for scenarios where they have to take drastic and immediate action – similar to when companies needed to cease operations in Russia at very short notice during 2022. They should also plan for ongoing supply chain disruption and for scenarios where inflation continues to beat expectations, notwithstanding positive trends on the horizon.
- ▶ Establish what the business is doing to **evaluate its supplier ecosystems**. In light of geopolitical developments, many companies are already reconfiguring their supply chains for agility and flexibility, with the aim of working with suppliers in more markets with shared values. The board can ask the business to conduct a multidimensional risk assessment that identifies opportunities to onshore, nearshore or offshore to suppliers in markets with shared values while simultaneously supporting its ESG goals.
- ▶ Ensure that management perceives the current geopolitical volatility as a source of opportunity as well as risk. The shift toward national self-sufficiency will challenge traditional global business markets. Nevertheless, it also creates new opportunities. The board should work with management to **explore potential growth and investment opportunities** in the company's home country markets, as well in allied markets.
- ▶ **Engage with stakeholders** to understand their priorities. Geopolitical developments are likely to shift stakeholder priorities and their expectations of companies. If companies develop growth strategies that satisfy the demands of customers, employees, investors and policymakers, they will be better placed to proactively manage geopolitical risks.

2

Rethinking capital allocation strategy to support the company's net-zero ambitions



EMEIA board priorities 2023:  
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# Rethinking capital allocation strategy to support the company's net-zero ambitions

## Key developments

There is widespread understanding that companies must play an active role in the battle against climate change – or else face being held to account by their stakeholders. Globally, over 11,000 businesses and other organizations have now committed to net-zero targets, with the aim of achieving net-zero carbon emissions by 2050 at the latest.<sup>2</sup>

Certainly, companies are setting some ambitious targets in relation to carbon emissions. Nevertheless, as the 2022 EY Global Climate Risk Barometer shows, they are struggling to turn their ambitions into actions. Only 61% of companies that featured in the research had disclosed either a transition plan or a specific net-zero or decarbonization strategy.

For many companies, the challenge is understanding how they can transform their business models to be more sustainable while avoiding value destruction (for example, reputational damage caused by fines or greenwashing). To ensure their long-term prosperity, they need to create additional value through the launch of new and sustainable products and services, while conserving money and resources – what is referred to as "value-led sustainability."

Naturally, the development of new revenue streams requires investment – which is why companies must rethink their capital allocation strategies in support of their net-zero ambitions.

Businesses do increasingly regard sustainability as an opportunity – as highlighted by the *EY Europe Attractiveness Survey 2022*.<sup>3</sup> Respondents to the survey ranked the policy approach to climate change and sustainability as the second-most important factor for determining whether they will invest in a particular location – after levels of technology adoption in that market. Businesses wish to be situated in countries where funding for sustainability initiatives is available and where the regulatory landscape supports sustainability practices.

Companies are not alone in considering how they can most effectively allocate their capital in support of a transition to a net-zero economy. Investors also see the opportunity presented by the transition and are keen to play their part in funding it. Overall, the transition to a net-zero economy is estimated to require US\$125 trillion in investment globally by 2050.<sup>4</sup> According to research by Bloomberg Intelligence, ESG assets already represent more than a third of the total assets under management (AUM) and may hit US\$53 trillion by 2025.<sup>5</sup>

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<sup>2</sup> 'Race to Zero Campaign' United Nations Climate Change website, <https://unfccc.int/climate-action/race-to-zero-campaign>, accessed 10 February 2023.

<sup>3</sup> 'How will Europe compete for investment amid ongoing turbulence?' EY website, [www.ey.com/en\\_uk/attractiveness/ey-europe-attractiveness-survey](http://www.ey.com/en_uk/attractiveness/ey-europe-attractiveness-survey), accessed 10 February 2023.

<sup>4</sup> "What's the cost of net zero?" Climate Champions website, <https://climatechampions.unfccc.int/whats-the-cost-of-net-zero-2>, accessed 13 January 2023.

<sup>5</sup> "ESG assets may hit \$53 trillion by 2025, a third of global AUM," Bloomberg Intelligence website, [www.bloomberg.com/professional/blog/esg-assets-may-hit-53-trillion-by-2025-a-third-of-global-aum](http://www.bloomberg.com/professional/blog/esg-assets-may-hit-53-trillion-by-2025-a-third-of-global-aum), accessed 13 January 2023.



While the transition to a lower-carbon economy presents opportunities, investors are equally conscious that it also threatens their returns from traditional assets. For that reason, they are very keen to receive robust information that will inform their capital allocation and price risk. Initiatives such as the implementation of the EU's new Corporate Sustainability Reporting Directive (CSRD) will help with this (see chapter 3). It requires companies to report according to European Sustainability Reporting Standards (ESRS). Furthermore, they are using annual general meetings to challenge management about the robustness and trustworthiness of ESG information currently being provided by companies.

Companies and investors need to work together to ensure that capital is channeled toward those investments that are likely to have the greatest impact on achieving net-zero ambitions. The emergence of comparable, reliable, and transparent sustainability reporting is likely to significantly help with this effort since it will help both boards and their investors to get a more accurate picture of which investments are making the greatest impact to the company's transition to net zero. At present, however, there appears to be a disconnect between investors and companies around the trade-off between short-term earnings and long-term value creation that could be acting as a barrier to investment. To bridge this value gap between the short and long term, initiatives such as carbon pricing and incentive schemes like the EU Green Deal or the new US Inflation Reduction Act will be crucial. Accordingly, boards will want to leverage these new incentives or funding schemes as well as reallocate existing capital to the right projects.

The EY Global Corporate Reporting and Institutional Investor Survey found that 78% of investors thought companies should make investments that address ESG issues relevant to their business, even if it reduces profits in the short term. Yet just 55% of finance leaders took the same view, probably because they don't believe investors, or they don't agree with them. Furthermore, over half of large companies surveyed for the research (those with revenues of more than US\$10 billion a year) said they face short-term earnings pressure from investors, which impedes their longer-term investments in sustainability.<sup>6</sup>

Boards should be aware that ESG ratings can also act as a barrier to external investment. Investors use ESG ratings from rating agencies to inform their decision-making regarding capital allocation. So, unless they have strong ESG scores, companies are likely to be excluded from ESG funds and indices. Yet there is a lack of transparency around the methodologies used by different rating providers, and ESG ratings are often criticized for being based on poor-quality data and subject to biases. Also, because aggregated ESG scores encompass a broad range of environmental, social and governance factors, they do not necessarily reflect the specific strengths and weaknesses of the business. Again, initiatives like the CSRD should help partially to address this.

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<sup>6</sup> "How can corporate reporting bridge the ESG trust gap?," EY website, [www.ey.com/en\\_gl/assurance/how-can-corporate-reporting-bridge-the-esg-trust-gap](https://www.ey.com/en_gl/assurance/how-can-corporate-reporting-bridge-the-esg-trust-gap), 11 November 2022, accessed 12 January 2023.



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## Recommended actions

To effectively monitor capital allocation strategy in support of the company's net-zero ambitions, boards should:

- ▶ **Understand how capital allocation decisions are made** within the business and have a mechanism for monitoring whether those decisions are consistent with the company delivering on its net-zero targets.
- ▶ **Challenge management on specific capital allocation decisions** – for example, returning capital to shareholders when the company is behind on progress toward its net-zero commitments.
- ▶ **Establish what actions the company is taking to create and effectively communicate an "ESG story"** to stakeholders – a story that includes the company's core sustainability strategies, its specific objectives, and its metrics for tracking progress.
- ▶ **Engage with target investors and long-term shareholders** around the company's sustainability strategy and ESG story, as well as its sustainability reporting. Through the insights they get from this engagement, boards will better understand investor expectations and can also ensure that the company produces the fair, balanced, meaningful and understandable reporting that will inform investor decision-making.
- ▶ Ensure that the company has the capacity to effectively **oversee ESG application and scoring processes** by rating agencies on an ongoing basis (e.g., evaluating and choosing rating agencies, monitoring changes to rating processes, tracking the evolution of data standards and handling submissions).
- ▶ Remember that governance is itself an important component of ESG scores. To help the company secure the highest possible ESG rating, the board should **follow leading governance practices** in terms of its structure and composition, values and culture, approach to reporting and overall risk monitoring, including monitoring of cyber threats.

3

## Enacting sustainability transformation and corporate reporting

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# Enacting sustainability transformation and corporate reporting

## Key developments

Sustainability transformation is arguably the greatest challenge facing EMEIA companies today. It is therefore the greatest challenge facing their boards. Companies are under pressure from policymakers, investors, employees, customers and other stakeholders to pivot to more socially and environmentally friendly business models that generate long-term, sustainable value. Governance is key to ensuring that companies invest in developing sustainable products and services, avoid value destruction (through noncompliance fines, reputational damage and stranded assets), and take society and the environment into account when making decisions.

While sustainability transformation is a business imperative, it is also a huge, far-reaching, and complex endeavor. As well as requiring significant investment, it demands that sustainability principles – and targets – are fully integrated into every aspect of a company's operations, governance and decision-making, from board level down. Yet today, most companies are a long way off.

The interconnectedness of the global economy also means that few organizations of any size can hope to achieve their sustainability transformation single-handedly. Due to their dependencies on suppliers and partners, companies need to support other members of their value chains to transition to more sustainable business models. This might involve collaborating on Scope 3 emissions (i.e., indirect greenhouse

gas emissions from an organization's value chain), human rights issues, or other sustainability-related topics. To innovate on new sustainable products and services, they also need to collaborate with other participants to their industry ecosystems.

To support companies in achieving their sustainability objectives, it is essential that boards design remuneration policies for management teams that ensure long-term, sustainable value creation and preservation, in line with the company's overall strategy. The principles of these remuneration policies should also be reflected in the policies for employees at other levels of the organization. Policies should reflect both financial and nonfinancial criteria. For many boards, there are challenges around aligning short-term compensation in remuneration packages with long-term sustainability goals – which is why it may be prudent to seek specialist advice on this area.

A major concern for both boards and companies in their consideration of sustainability is how they should balance near- and long-term value in their strategic decision-making, especially in a climate of considerable uncertainty and volatility. The EY 2022 Long-Term Value and Corporate Governance Survey Europe highlighted that there can be significant differences of opinion within leadership teams on how to balance short-term considerations with long-term investments and sustainable growth. Yet these differences of opinion can be beneficial: companies that are more likely to be driving financial value and progress in relation to sustainability are more likely to report strongly divided views.<sup>7</sup>

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<sup>7</sup>“Linking Executive Pay to Sustainability Goals,” Harvard Business Review website, <https://hbr.org/2023/02/linking-executive-pay-to-sustainability-goals>, 7 February 2023, accessed 14 February 2023.

The implementation of the EU's new Corporate Sustainability Reporting Directive (CSRD) effectively leaves companies with nowhere to hide when it comes to sustainability transformation. Approximately 50,000 companies will fall within the scope of the CSRD, which comes into force from January 2024 onward. Under the directive, these companies must disclose information on their activities and progress against targets on a wide range of sustainability-related topics, from environmental issues to corporate culture, human rights and working conditions. They must also disclose their due diligence process regarding sustainability matters, both within their own operations and in their value chain. The CSRD is an important move toward a global baseline of standards for sustainability reporting since it complements the proposed sustainability-related disclosure standards and rules being developed by the International Sustainability Standards Board and the US Securities and Exchange Commission.

As a result of the CSRD, boards and audit committees must assume some important new responsibilities. Boards will need to work with management teams to ensure their companies are prepared for the CSRD. This includes identifying sources

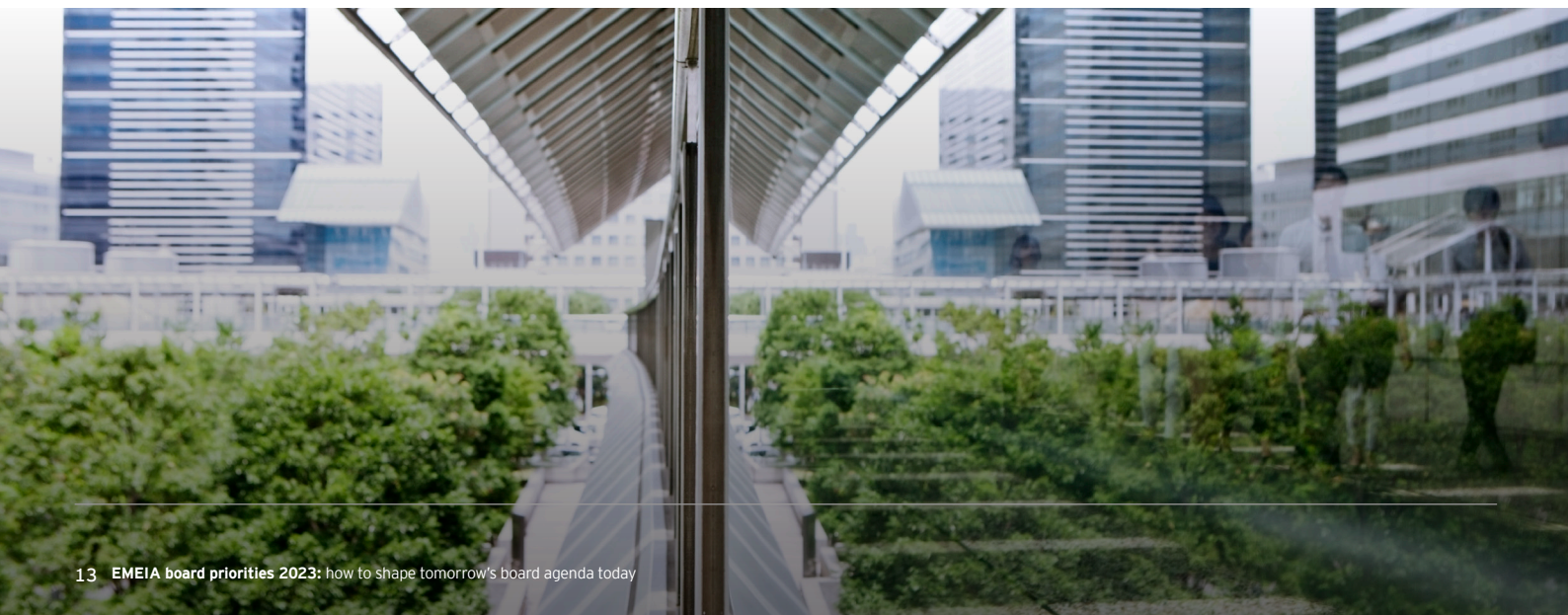
of relevant sustainability data, establishing data controls, understanding how the company will meet the auditing requirements, and assessing which material risks and opportunities the company should be reporting on. They should also clarify the remit of the CFO and the finance function in sustainability data governance and reporting.

Audit committees will need to ensure that the necessary controls and processes are in place to support the provision of high-quality sustainability information. They will also need to ensure the integrity of new metrics and protect the company against any issues that could affect trust and credibility, such as accusations of greenwashing. Audit committees should also facilitate connectivity between financial reporting and sustainability disclosures so that there is a connection between financial reporting and areas like nature- or climate-related risks. Additionally, audit committees will need to monitor any external assurance<sup>8</sup> of the company's annual and consolidated sustainability reporting and inform the board of the outcome.<sup>9</sup>

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<sup>8</sup> For example, in the EU, limited assurance will be mandated from 1 January 2024 for large listed companies that are already subject to the Non-Financial Reporting Directive.

<sup>9</sup> "How the EU's new sustainability reporting directive is becoming a game-changer," EY website, [www.ey.com/en\\_gl/assurance/how-the-eu-s-new-sustainability-directive-is-becoming-a-game-changer](https://www.ey.com/en_gl/assurance/how-the-eu-s-new-sustainability-directive-is-becoming-a-game-changer), 1 August 2022, accessed 13 January 2023.



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## Recommended actions

To provide effective oversight around sustainability transformation and corporate reporting, boards should:

- ▶ **Establish a board operating model** that makes sustainability oversight systematic and intrinsic while building the competence needed to make informed and bold decisions. It may be necessary to create a dedicated sustainability strategy committee to ensure that sufficient focus is given to sustainability and that sustainability is not detached from strategy. The board should be very clear about the committee's terms of reference, as well as how it adds value.
- ▶ Work with management to **ensure that corporate strategy in general aligns with the goals of the Paris Agreement** to limit global warming to well below two degrees Celsius compared with pre-industrial levels and the global transition to a low-carbon economy. What targets and objectives are being set to promote value creation, as well as avoid value destruction?
- ▶ **Ensure that biodiversity, natural capital, and significant social issues** – such as diversity, equity and inclusion – **are incorporated into the mainstream risk register**, but also be very clear as to which of these issues is material to the corporate strategy. Boards should also understand how both the regulatory environment and investor decision-making around sustainability are likely to evolve over the coming years.
- ▶ **Establish effective remuneration structures** that influence behavior and drive accountability for the achievement of sustainability objectives. Metrics should be aligned with the company's overall strategy and be relevant to both the short and long term. Alongside executive remuneration, examine other opportunities to roll out ESG-focused reward programs across the wider company to build a sustainability culture.
- ▶ **Ensure an authentic approach to sustainability reporting** to deliver material, trusted and credible insight to shareholders and stakeholders. This will involve putting in place robust governance processes and controls to monitor and manage the vast range of sustainability matters covered by the CSRD – most of which will not be accounted for in existing internal control frameworks. Data will be another priority since effective sustainability reporting relies on the availability of a wide range of trusted data. The board should understand who is responsible for developing and overseeing the preparation of the data and metrics that will be used to measure sustainability performance against the company's key performance indicators and targets. Also, how will sustainability performance be linked with financial performance? In order to source, collect and analyze the right information and ensure that this data is subject to the same internal quality standards as financial data is for mandatory public reporting purposes, it is very likely that the company will need to draw on the discipline and expertise of the finance function.
- ▶ Discuss with management whether it might be necessary to **appoint a chief sustainability officer (CSO)**, assuming that one is not already in situ. CSOs can play a crucial role in helping organizations to gain a competitive advantage by putting sustainability at the heart of value creation. Nevertheless, they will need resources and authority if they are to succeed in embedding value-led sustainability into business strategy.
- ▶ **Review board expertise on sustainability-related matters** and look to address any competency gaps. There may be creative ways to bring additional diverse skills and experience into the board's decision-making, e.g. shadow boards, advisory boards, expert advisors, drawing more on management, and refreshing board composition.
- ▶ **Engage with their auditor or independent assurance providers**, if different, to understand how they will approach the assurance of sustainability information and the likely form of their report. Also, how will the different reporting, assurance and audit opinions (financial and sustainability) interlink?



4

Enabling innovation  
and technology  
transformation

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# Enabling innovation and technology transformation

## Key developments

The COVID-19 pandemic further accelerated the digitalization of the global economy, which was already well underway before the pandemic struck. Lockdowns and other social restrictions resulted in the rapid take-up of digital channels and tools. Meanwhile, companies that had previously relied heavily on face-to-face interactions pivoted at speed to develop new online business models.

Today, technology transformation continues at pace as companies respond to the uncertain business environment, new technological advances and evolving customer expectations. Companies are taking advantage of digital tools to disrupt their business models, reduce their operating costs, elevate the customer experience, and find new ways to source, analyze and make use of both internal and external data.

Investment in innovation and technology transformation is crucial if companies are to achieve their net-zero and other sustainability-related objectives. Technology-enabled products and services will enable them to transform their business models, while digital tools will also help them to plan for different climate scenarios, manage their sustainability-related data more effectively, and track their progress against targets.

Over the past three years, companies have invested heavily in digitalization initiatives. In fact, the EY-Parthenon 2022 Digital Investment Index found that companies had increased

their investment in digital transformation by 65% since 2020. Furthermore, executives planned to allocate 5.8% of their revenues to digital, compared with 3.5% only two years before, as they reacted to mounting pressure to quickly bring technology-enabled products and services to market and achieve efficiencies.<sup>10</sup>

Although digital transformation presents companies with opportunities to compete more effectively in the market and increase productivity, boards should also be aware that it brings a constant stream of new risks for them to monitor. To begin with, it can prove difficult and costly for companies to keep up with changes in technology, as well as best practices for protecting both their business and the valuable data that it holds. A technology roadmap is a useful way for a company to align its ongoing expenditure on technology and innovation with its long-term, strategic business objectives.

A further challenge relates to skills and talent since the successful deployment of new technology often requires companies to bring in external expertise, either in the form of new hires or external advisors. Yet the EU is wrestling with an acknowledged digital skills shortage, with around 42% of Europeans lacking basic digital skills, including 37% of those in the workforce.<sup>11</sup> Companies also need to equip their existing workforce with the skills and knowledge they need to make good use of the tools they have been provided with. If people can't – or won't – use their new tools, it is impossible for a technology transformation to succeed.

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<sup>10</sup> "How can your digital investment strategy reach higher returns?," EY website, [www.ey.com/en\\_cz/strategy/digital-investment-report](https://www.ey.com/en_cz/strategy/digital-investment-report), 5 April 2022, accessed 18 January 2023.

<sup>11</sup> "Digital Skills", European Commission website, <https://digital-strategy.ec.europa.eu/en/policies/digital-skills>, accessed 11 February 2023.



The regulatory environment presents some significant risks in relation to technology. Already the General Data Protection Regulation (GDPR) imposes some strong requirements on companies in relation to data protection and privacy within the EU and the European Economic Area. Companies that fail to comply with the GDPR face fines of up to €20 million or 4% of the global turnover. Data protection breaches also present significant reputational risks. Furthermore, regulators are becoming increasingly concerned that companies may be using emerging technologies – such as AI – in unethical ways that are not necessarily beneficial to society as a whole. To ensure that AI is human-centric and trustworthy, the EU has proposed the AI Act, a common regulatory and legal framework for using AI technology.

Finally, cyber risk is a constant and pervasive threat to companies – a threat that has further escalated since the outbreak of the war in Ukraine in February 2022. A report by the European Union Agency for Cybersecurity (ENISA) described the war as having “reshaped the threat landscape” and highlighted some “significant increases in hacktivist activity.” It also noted that there had been a significant rise in distributed denial-of-service attacks and that the use of malware is once again on the rise, following a decline during the pandemic.<sup>12</sup>

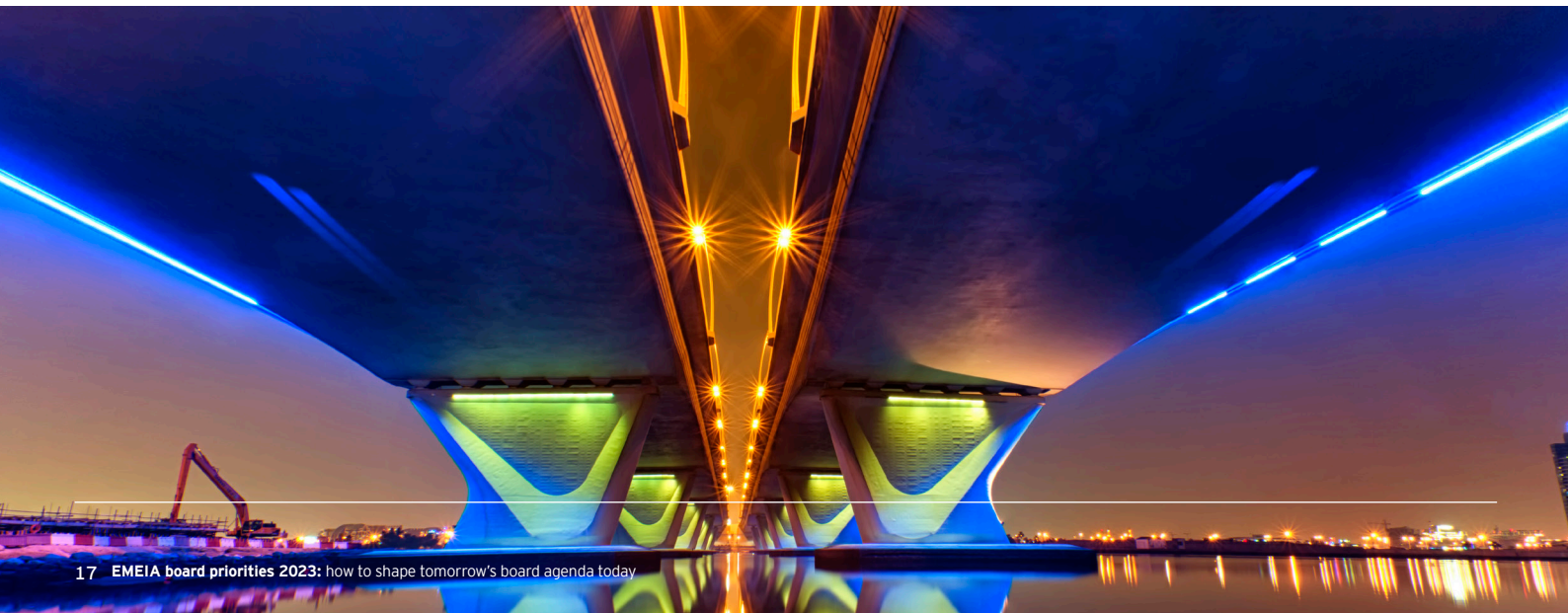
Unfortunately, as the World Economic Forum’s Cybersecurity Outlook 2023 highlights, adding emerging technology to legacy IT systems “increases the complexity of organizations’ digital environments and therefore their cybersecurity risk.”<sup>13</sup> Furthermore, the ongoing shortage of cyber talent puts companies at a disadvantage when it comes to boosting their cyber resilience.

While they continue to invest heavily in digital transformation projects, companies often struggle to measure the impact of their investment. The EY-Parthenon 2022 Digital Investment Index found that three out of five companies didn’t know how much they spent in digital operating or capital expenditures in the previous year, or what value it yielded in incremental revenues, reduced cost or working capital. This index found that EMEIA boards are highly aware of the importance of digital transformation and cyber, with 69% saying they would like to increase time and effort on it.

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<sup>12</sup> *ENISA Threat Landscape 2022*, ENISA, October 2022.

<sup>13</sup> *Global Cybersecurity Outlook 2023*, World Economic Forum, January 2023.



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## Recommended actions

To provide effective monitoring around innovation and technology transformation, boards should:

- ▶ **Understand management's strategy for innovation and technology transformation**, as well as the planned investment allocation and how the proposed technology investments will support the company's ability to deliver value creation over the long term. How is digital innovation and experimentation being encouraged as part of the company's strategy to achieve sustainable growth?
- ▶ **Request a line of sight into the company's workforce strategy** to establish how the company is planning to source specialist digital and cyber talent, upskill its existing workforce, and address any specific knowledge and skills gaps. The board should look to establish whether sufficient investment is planned for recruitment and training.
- ▶ **Ask management to provide metrics and reporting** in relation to both digital transformation and cyber threats. It is key that boards have a comprehensive understanding not only of the opportunities presented by their company's digital transformation strategy, but also the risks.
- ▶ **Meet regularly with the company's chief technology officer (CTO)** and chief information security officer (CISO). Through regular discussions with the CTO and CISO, the board will gain a better understanding of how the company is using technology and what challenges it needs to overcome to achieve the best possible return on its technology investment.
- ▶ **Ensure that the board structure supports the effective monitoring of innovation and technology transformation**, as well as of cyber threats and other IT-related risks. It may be necessary to recruit a board member with specialist expertise.
- ▶ **Evaluate the effectiveness of the cybersecurity function** on a regular basis and ask to see the company's cyber incident response plan (a set of guidelines intended to help staff detect, respond to, and recover from an incident). To gain a full awareness of all the cyber threats their company is facing, boards might also ask management to commission a cyber risk assessment.

5

Championing  
a future-oriented  
talent agenda



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# Championing a future-oriented talent agenda

## Key developments

Talent will be a major priority for boards in 2023 as companies continue to compete fiercely for skills amid an ongoing talent shortage. Employees, rather than employers, have the upper hand in today's employment market, with smart, highly qualified people having the luxury of being able to pick and choose their roles. At the same time, megatrends – such as the technological revolution, climate change and greater awareness around social justice and equity – are also helping to transform the talent and recruitment landscape.

With every sector experiencing talent shortages in all skills and at all levels, companies must get creative about improving their employee value proposition. It is not enough to focus solely on financial compensation and benefits – while they continue to be very important, especially in light of the cost-of-living crisis. Employees are also motivated by nonfinancial benefits such as hybrid working and four-day work weeks. Additionally, they increasingly want to work for employers that share their sense of purpose, as well as their stance on ESG issues.

The challenges associated with attracting, retaining and motivating staff were highlighted in the EY 2022 Work Reimagined Survey, a survey of more than 17,000 employees globally. The survey found that nearly half (43%) of respondents believed they were likely to leave their jobs over the next year, often in pursuit of higher pay or new opportunities.<sup>14</sup>

Alongside staff attraction and retention, another major talent challenge for companies is sourcing the skills that will enable them to adapt and thrive in a rapidly changing world. These skills include vital expertise in cyber, data and technology, as well as sustainability.

Companies risk their future competitiveness if they fail to respond to the changing expectations of their people, do not "walk the talk" on sustainability issues, and do not invest in futureproofing their workforce. Similarly, they cannot afford to neglect the crucial issue of culture since culture has a strong influence on an organization's decision-making, resilience, risk appetite, and ability to attract and retain talent. Overall, the talent agenda is an important strategic topic for companies – and for that reason it is set to occupy considerable amounts of board time for a while to come.

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<sup>14</sup> "How workforce rebalancing is building pressure in the talent pipeline," EY website, [www.ey.com/en\\_gl/workforce/work-reimagined-survey](https://www.ey.com/en_gl/workforce/work-reimagined-survey), 18 April 2022, accessed 18 January 2023.

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## Recommended actions

To fulfil their oversight responsibility for talent, boards should:

- ▶ **Be clear on the organization's sense of purpose** and understand how that impacts its ability to attract and retain talent. By working with the CEO, boards can assess the extent to which the company should take a stand on certain social and environmental topics in order to compete effectively in the recruitment market. Authenticity is key, however. Employees will quickly see through insincere depictions of the company's stated purpose.
- ▶ **Champion the development of future-oriented talent strategies** that will enable their companies to overcome short-term skills gaps and prosper over the longer term. These talent strategies should consider how the company will acquire key competencies - for example, in technology and sustainability. Will these competencies be developed in-house or be brought in from outside, either through hiring or the acquisition of other businesses?
- ▶ Ask management how the company's existing workforce model can evolve to **incorporate talent from nontraditional sources**. Opportunities could include developing older employees or bringing them back as freelance workers, making greater use of gig workers, tapping diverse talent pools that the business has not previously tried to tap (for example, neurodivergent talent) and making use of nearshoring or managed services. When speaking to management, boards should question whether existing talent policies need revising to accommodate new approaches, such as the use of a more flexible labor force.
- ▶ **Establish what kind of training and development is needed** to support the company's long-term talent objectives. How is management ensuring that employees are upskilled in both digital and sustainability skills, as well as sustainable digital skills? Also, what is being done to nurture soft skills, such as agility, communication and teamwork?
- ▶ Work with management to **ensure robust talent- and culture-related metrics are in place** and are regularly reported to provide real-time insights into how the company is performing against its people-related targets. To maintain the trust of employees and other stakeholders, it is vital that the organization is transparent about its performance against stated ESG objectives, such as diversity within the workforce and carbon emissions reduction.
- ▶ **Build strategic relationships with chief human resources officers (CHROs)**, ensure they have an elevated status and well-resourced team, and support them to create a human-centered culture that prioritizes authentic engagement with employees.<sup>15</sup>
- ▶ **Gain an understanding of the expectations of Gen Z**<sup>16</sup> - the youngest generation in the workforce - and how their expectations are likely to reshape the workplace over the coming years. External experts may be able to offer valuable insights into both Gen Z and other employment trends.
- ▶ **Discuss culture regularly in board meetings**. As part of their discussions, boards can consider how their organization's culture might need to change to support the achievement of its long-term strategy, particularly its social and environmental goals.

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<sup>15</sup>"The Board Imperative: Further unlock the strategic value of CHROs," EY website, [www.ey.com/en\\_gl/board-matters/the-board-imperative-unlock-the-strategic-value-of-chros](https://www.ey.com/en_gl/board-matters/the-board-imperative-unlock-the-strategic-value-of-chros), 15 December 2022, accessed 18 January 2023.

<sup>16</sup>"Why Gen Z matters and what boards should know," EY website, [www.ey.com/en\\_us/board-matters/why-gen-z-matters-and-what-boards-should-know](https://www.ey.com/en_us/board-matters/why-gen-z-matters-and-what-boards-should-know), 6 December 2022, accessed 14 January 2023.

# Key questions for boards across all priorities

## Chapter 1

### Navigating uniquely challenging geopolitical and economic conditions

1. How do we monitor and manage political risk? Do we have appropriate governance in place?
2. What is our dependency – in terms of raw materials, inputs, transport, logistics, etc. – on countries whose geopolitical relationship with our home country could deteriorate?
3. How are we using scenario analysis, including using advanced technologies such as artificial intelligence (AI), to better understand the risks and opportunities presented by alternative future global operating environments?
4. Is our sector considered to be strategic from a government perspective? If so, what are the likely implications for us and how should we respond?
5. What impact could migration have on our business? How could the movement of refugees as a result of war and climate change impact on our revenue model, workforce, and supply chains?

## Chapter 2

### Rethinking capital allocation strategy to support the company's net-zero ambitions

1. How are we governing capital allocation decisions to support the achievement of our transition? How do we know that capital is being allocated consistently and effectively?
2. What are we doing to ensure that our shareholders, future investors and other stakeholders are on board with our long-term vision for transition? Are we where we want to be and, if not, what can we do to get there?
3. How are we working with management to improve and enhance the company's ESG ratings?
4. How can we support management to tell the company's ESG story?
5. What are the major trends in ESG investment and how are they likely to impact the company's ability to secure funding over the coming years?

# Key questions for boards across all priorities

## Chapter 3

### Sustainability transformation and corporate reporting

1. How confident are we that we are compliant with all ESG or sustainability-related regulation – both existing and upcoming? If not, what do we need to do?
2. How have we identified opportunities to create value through our transition to a more sustainable business model? How should our strategy change as a result?
3. How dependent are we on our value chain for success? What are we doing to help our suppliers meet our sustainability goals and our customers to meet theirs, so that we benefit, too?
4. How are we rethinking recruitment and reward for our management team and the levels below to help us achieve our goals? What is the right balance between pure financial metrics and sustainability-related metrics?
5. Who is responsible for the sustainability data we need for corporate reporting to track performance and make decisions? What gives us confidence that efficient procedures, effective internal controls and appropriate governance is in place to ensure that this data is reliable and robust?

## Chapter 4

### Enabling innovation and technology transformation

1. How are we using technology in a responsible way that leads to the outcomes we desire?
2. What risks and opportunities do innovation and technology present to our talent agenda? How are we addressing both these risks and opportunities? How are we meeting our obligations as a responsible employer at the same time?
3. How can technology support us with our other strategic objectives, e.g., net-zero targets?
4. How are we monitoring the company's return on investment in digital transformation? Do we believe the company is investing in the right technologies, at the right time? Where are the opportunities to improve returns?
5. Are we sufficiently informed about the level of cyber threats facing the company and do we feel confident that the company would be resilient in the event of a major cyber attack? How can we improve the security culture across the business?

## Chapter 5

### Championing a future-oriented talent agenda

1. How effectively is the board providing oversight around talent management and culture? How can we enhance the level of oversight that we provide?
2. Are we clear on which competencies the business needs now, next and beyond? How will we acquire those competencies?
3. How innovative and creative are we being with our employee value proposition? Do we understand what our talent wants and needs from us? What are we offering them?
4. How can we work more closely with the talent supply chain – i.e., schools and universities – on course curricula, but also on joint ventures to re-skill and upskill current employees?
5. Has the board got the right composition and structure to oversee all the talent-related risks and opportunities facing the company today?

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