Survey: Recession Concerns Make Non-M&A Growth a Top Board Priority

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Meanwhile, the best home for ESG oversight is still up for debate.

In its recently released fall board pulse survey, *Proactive Governance to Address Recessionary Pressures*, BDO USA sought to pinpoint the obstacles boards currently face and what strategies they use to overcome them. The survey found that boards prioritize the driving of growth and planning for recessionary declines in product or service demand.

A strong majority (62%) of responding public company board members say that their top strategic priority for the next year is driving both organic and non-organic growth. According to Amy Rojik, managing partner, corporate governance, at BDO, rising interest rates and other economic concerns have expanded growth strategies to options beyond mergers & acquisitions.

“Currently, companies seem to be focusing on product innovations; expanding online sales presence and expanding into new markets; building upon customer loyalty and client retention; and using marketing differentiation to be perceived she says.

Along with rising interest rates, board members

identified a series of other challenges to their companies’ economic and operational success. Supply chain complications were identified as the top obstacle (28% of respondents), while 18% of those surveyed said sourcing labor was the top issue. Twelve percent stated that “another wave of COVID cases” was

the top concern on their radar. The strategies companies are considering to overcome these issues include new product research, expansion of technology for better supply chain management and investment in human capital initiatives.

Labor shortages continue to be a challenge for boards, with 25% of respondents indicating that their companies' greatest business risk over the next year will be talent acquisition and retention. The tactics being used to counteract the talent shortage include adjustment of compensation packages, which is being implemented by 72% of respondents, and reimagining flexible and remote work strategies (56%).

Rojik says the talent shortage is driving boards to take a close look at the performance and purpose of their committees.

"Many boards are expanding the purview of their compensation committees — some even renaming them 'compensation and human capital management' committees," Rojik says. "This expansion to broadly view human capital management opportunities includes enabling a culture of flexibility, adjusting total compensation and benefits packages, enhancing education offerings and emphasizing DEI and career growth pathing as well as providing support for mental health."

When compared with a similar survey BDO ran in 2021, the 2022 version did not see much change in the way boards are working to align executive compensation with business objectives and stakeholder expectations. In 2022, 67% of board members stated that their boards are "aligning performance goals (thresholds/maximums) with probability of achievement." That percentage was 63% in 2021. Last year's survey saw 37% of boards "shifting incentive compensation from a periodic bonus structure to longer-term equity grants." For 2022, 36% of board members said that they were doing the same. Rojik was not surprised by the lack of change in those areas of executive compensation, noting that such activities fall into the area of long-term planning. She did draw attention to the mere 19% of respondents who increasingly tie long-term executive incentives to ESG metrics.

According to Rojik, "Many companies are struggling in terms of how best to effectively tie annual and long-term incentives to achieving ESG objectives, as this is a relatively new area of emphasis for the majority of companies."

ESG is an evolving area and unique approaches are expected for every company. Even the determination of where ESG should sit at the board level is different

from board to board. The majority of respondents (57%) believe that ESG should be the province of the nomination and governance committee, but 35% said sustainability matters belonged with the audit committee, and 22% think the compensation committee is the proper home. Only 13% felt that a specifically designated ESG committee was necessary. For the time being, says Rojik, the handling of initiatives may simply be a task that is managed in different ways by different companies.

“There is not currently a ‘right’ way to allocate board-level responsibilities, as the ESG factors that materially impact the business may vary significantly from company to company and across industries. The composition of boards may also not allow for ESG to fit neatly into one committee given the diversity in experience, skills and perspective that may exist in the various committees.”