

# Global Corporate Governance Trends for 2023





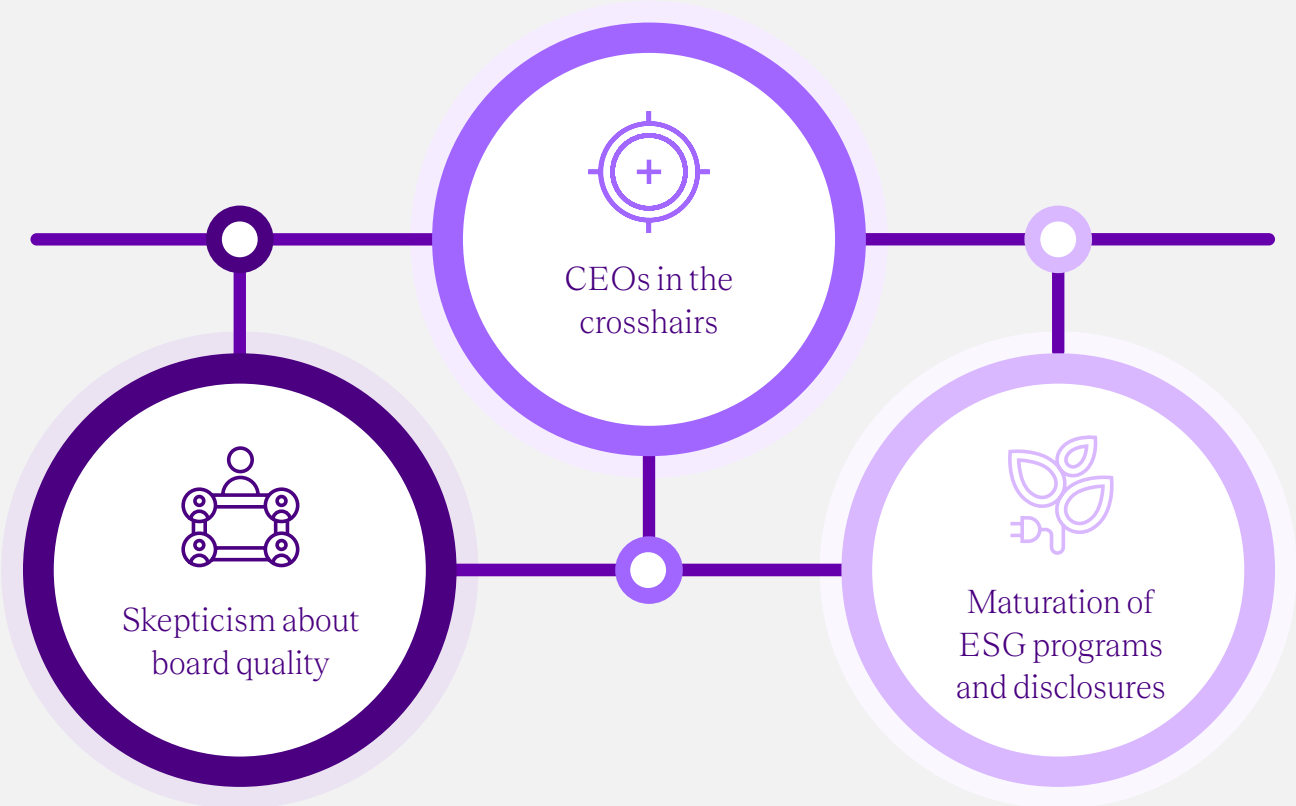


Keeping up with the ever-changing trends in global corporate governance is no easy task, as countries introduce new governance rules that trigger knock-on effects around the world. To help you stay ahead of the trends, we produce an annual outlook of the corporate governance landscape. For this eighth edition, we interviewed dozens of global institutional investors, shareholder activists, pension fund managers, regulators, proxy advisors, and other corporate governance professionals to identify the most pressing corporate governance issues that boards and directors are likely to confront in 2023 and beyond.





# Three global corporate governance trends to expect in 2023



## 1 Skepticism about board quality

With more savvy and empowered stakeholders paying close attention to many aspects of board performance, this year will see further scrutiny of board quality, effectiveness, and composition.

The US is entering a new universal proxy era that will invite a more assertive approach by shareholders on director qualifications and disclosure. In Brazil, the push for greater levels of gender diversity and independence may herald more formalized nomination processes. While India could experience a great refreshment of

non-executive director appointments, European companies continue to face demand for upgrades to board skills and structure - such as the requirement for listed German companies to have two financial experts on their boards, as well as the explicit code recommendation for the skills profile to include sustainability expertise relevant to the enterprise.

These heightened demands for proof of board effectiveness will add momentum to existing efforts to make board evaluation processes more rigorous.

## 2 CEOs in the crosshairs

Regardless of region, the current global economic distress and turbulent markets are affecting the governance landscape. Everything from the war in Ukraine, post-covid supply chains, and rising inflation have put strain and stress on companies and their leadership, and experts expect an even greater emphasis on board oversight of CEO performance and succession planning across geographies.

As investors grow weary of outsized payouts and excessive bonuses, it's not surprising that there will be a harsher spotlight on executive compensation. On this topic, expect significant differences from market to market. In some, such as the US and Singapore, new rules are now in force or expected. In others, private pressure might lead to additional change, such as with evolving expectations for compensation linked to Environmental, Social, and Governance (ESG) issues in the UK.

## 3 Maturation of ESG programs and disclosures

Despite some increasingly pushing back against the ESG agenda, global investors are doubling down on demands for enhanced sustainability reporting and environmental responsibility activities. Most notably, the Corporate Sustainability Reporting Directive will disrupt the ESG landscape across the European Union by harmonizing standards and shaping the reporting environment for years to come.

The aperture on ESG issues continues to broaden as a growing number of stakeholders demand sustainability and corporate social responsibility assurances. The Say on Climate movement is shaping up to be the next big thing in the UK, and there is a higher demand for ESG skills in Indian boardrooms. The climate agenda continues to demand attention in Latin America. In the US, expect an increased focus on human capital issues and labor rights.

Organized by market, this paper delves into some of the corporate governance stories likely to dominate the coming year.

For more context and advice, please reach out to the authors or your contact at Russell Reynolds Associates.





# Corporate governance trends in the US

## Board quality will be under the microscope

New directors have lower support levels than ever before. While most directors still receive majority support, many face meaningful opposition. This past year, only 69.7% of directors received more than 95% support (down from 73.7% in the prior proxy season). And between 2021 and 2022, the percentage of directors receiving [less than 80% support](#) grew from 5.8% to 6.5%. We expect support levels to decline further as investors are giving more reasons to withhold support from directors, from disfavored governance practices, board diversity, and attentiveness to shareholder voting

As we have [previously written](#), the beginning of the universal proxy era will only add more fuel to the fire. Boards, investors, and advisors will and should be anticipating how a critical eye would evaluate board composition and expect motivated investors to exploit perceived weaknesses. Investors will be looking for boards to be agile, deliberative, thoughtful, and fit for purpose. They'll assess individual directors across a range of factors, including industry and functional expertise, tenure, and diversity. Additionally, there will be growing attention on [board interlocks](#) and potential conflicts of interest.

## Expect headlines about CEO performance and board oversight of succession planning

The challenging economic environment and tumultuous capital markets will, according to many experts we spoke with, lead to even greater attention on CEO performance in 2023, and likely to a higher number of CEO transitions.

This could come as a shock after a period of relative quiet. According to Conference Board and [ESGauge data](#), 2022 saw more than double the number of forced CEO successions than 2021. Some believe this is part of a broader trend that will rise sharply next year, as stakeholders become less patient with middling or underperformance.

All this will test recent board attention on CEO succession planning. While many boards have dramatically enhanced their thoughtfulness and proactivity on this critical topic, it remains a development area for many boards. Media attention on "failed" successions at prominent companies offers frequent, tangible reminders that developing the next generation of leaders, selecting the right person, and setting up that person for success is far from a given.

Investors and other stakeholders will likely be even more inquisitive about succession planning activities in 2023, with the activists among them feeling emboldened to demand change more swiftly than usual. We anticipate boards will invest even more time in succession planning activities in this environment.

## Pressure from all sides on executive compensation

Given the focus on CEO performance, it is unsurprising that many experts predicted even greater attention on, and skepticism of, executive compensation in 2023. The perception that boards have been too generous with CEOs—and too willing to explain away missed incentive compensation targets—was high.

Looking ahead, companies should not expect the same “benefit of the doubt” that some investors were willing to give through the worst days of the pandemic. Investors will expect executives to share the pain they feel as investment returns diminish. Outsize payouts will likely generate meaningful scrutiny, more engagement requests, lower say on pay support, and votes against director nominees.

Recent SEC rule updates will also bring more attention to CEO pay. In August 2022, the SEC finalized rules requiring public companies to disclose information reflecting the relationship between executive compensation and the company’s financial performance – the so-called “pay-versus-performance” rule. And in October, it adopted the final clawback rule, which requires public companies to establish policies for recovering excess incentive payments from executive officers if material misstatements elevated the amounts.

In response to these rule changes, some experts expect pressure from executives to sidestep some potential impact of the rules by moving from more rigorous financial performance-based targets to strategic targets or cash. Such moves would invite additional investor scrutiny, which boards should consider before changing a company’s incentive structures.

### **Stakeholders expect continued maturation of sustainability initiatives**

While specific expectations vary, institutional investors expect all boards to have thoughtful oversight processes for material ESG risks and opportunities, and boards should expect regular ESG engagement from their investors. Institutional investors are increasingly asking for the full board to be educated and conversant on ESG at a high level, with priority placed on ESG expertise for material issues. Investors will be most focused on structured board oversight, transparency of reporting, progress on material ESG issues, and specific sustainability-related topics, such as carbon reduction.

Most expect the SEC to finalize the long-anticipated (and, in some circles, dreaded) [Climate Disclosure Rule](#) in 2023. If this occurs, the rule will come into force in FY 2024, likely with Scope 1 and Scope 2 emission disclosure requirements. Experts told us that companies that wait for regulation will be lagging as the broader market is acting on what they anticipate. Many are expecting the Task Force on Climate-Related Financial Disclosures (TCFD) to be the framework of choice for climate-specific disclosures. New

for 2023, [BlackRock](#) has also noted that recommendations from the Taskforce for Nature-related Financial Disclosures (TNFD) may prove useful to some companies.

The debate over ESG’s value will continue in 2023, amid a growing (but still largely fringe) anti-ESG movement and the tumultuous economic environment. However, this puts an even greater premium on thoughtful approaches to truly material ESG issues and oversight. Experts believe the companies that best understand and explain their approaches will thrive, while those that ignore the issues or appear to dither will be most at risk.

### **The aperture on human capital management issues will grow wider**

In 2022, investors engaged with a broader range of human capital topics. In their communications with companies, some investors are preparing for campaigns related to workers’ right to organize, sometimes framed as “freedom of association.”

Indeed, a growing number of stakeholders, from single-issue activists to traditional pension systems, have begun to press companies to re-examine their workplace policies. And recent shareholder proposals calling for labor rights audits at Apple and Starbucks suggest investors increasingly view companies’ human capital management practices as inextricable from long-term value creation. Coupled with a significant rise in shareholder proposals related to diversity, equity, and inclusion (DE&I), the implication is clear: companies will continue to face new pressures that extend well beyond financial performance. As SEC Chair Gary Gensler [remarked in June](#), “Investors have said that they want to better understand one of the most critical assets of a company: its people.”

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# Corporate governance trends in Canada

## ESG and climate change at the top of the agenda

Nearly all Canadian companies and boards are facing mounting pressure from investors and external stakeholders to strike the right balance between corporate interests and environmental sustainability. Climate change mitigation has become integral to strategy as organizations continue to evolve their ESG oversight. Key considerations include how the board takes accountability for this agenda item (i.e., which committee “owns” it), goal-setting, and performance measurement. Many companies are also grappling with whether and how best to incorporate ESG-related metrics into total rewards frameworks.

Institutional investors, including the “Maple 8” pension funds, continue to embed environmental and climate risk assessments into their investment decisions. Notably, ISS recently expanded its Canadian policy [guidelines](#) to include specific voting guidance on climate accountability.

Additionally, boards will be paying attention to progress against standardization of climate disclosure. In October 2021, the Canadian Securities Administrators (CSA)

proposed a climate [disclosure framework](#) largely based on the TCFD’s recommendations, focusing on four areas: governance, strategy, risk management, and metrics and targets. A [revised framework](#) is expected in 2023, likely after the SEC and International Sustainability Standards Board finalize their respective instruments. Further, in March 2023, the Office of the Superintendent of Financial Institutions (OSFI) published [new guidelines](#) on climate risk management impacting federally-regulated financial institutions.

## Ongoing diversification of the boardroom and the ensuing “war for talent”

Canadian companies, shareholders, and policy makers remain focused on diversity, equity and inclusion as a prominent corporate governance issue entering 2023. Boards continue to be under pressure to ensure their members bring the diversity of background, perspectives, and experience reflective of the society within which they operate.

According to the CSA, as of July 31, 2022, 24% of board seats for TSX-listed companies were held by women and 7% of board chairs were women. Encouragingly, 45% of vacated board seats were filled by women in the prior [12 months](#), suggesting that progress is being made on the gender diversity front.

There is limited multi-year data available regarding progress on other facets of diversity, though recent reports highlight the [lack of ethnic and racial diversity](#) in the boardroom. According to most recently available data, the Government of Canada notes that only [23% of CBCA Pubcos](#) reported having at least one member of a visible minority on its board.

Many large cap companies are now focusing on and progressing against a “50/30 model” for board composition: 50% women and 30% other diversity - and we are seeing a particular focus on increasing Indigenous and other visible minority representation. In general, small and mid cap companies have been slower to adopt formal or informal targets and their progress on diversity has lagged. Many are now scrambling to catch up. Private equity-owned companies are also feeling the pressure to improve their historically deficient track record - LPs are pushing the GPs on this front.

While the CSA has not published any proposed amendments to securities regulations regarding diversity disclosure by TSX-listed companies, they have advised that they are actively considering expanding the diversity disclosure scope beyond gender. The Ontario Securities Commission (OSC) plans to [publish for comment](#) proposed changes to the disclosure requirements on diversity, board renewal, and the director nomination process in the second quarter of 2023. Of note, ISS recently updated its policy guidelines with the expectation that S&P/TSX Composite Index companies have at least one racially or ethnically diverse board member as of February 1, 2024.

The ensuing competition for diverse director talent is fierce. Driven by concerns about over-boarding and a more limited “traditional talent pool,” boards will need to look beyond their customary recruiting avenues and embrace more creative approaches to securing next generation directors.

## **Emphasis on data governance, privacy, and cybersecurity oversight**

As companies come to increasingly rely on digital infrastructure, boards are confronting existential issues concerning their data governance, privacy and cybersecurity practices. The increasing prevalence of cybersecurity incidents—including those targeting large public companies—continues to spotlight the need for boards to effectively oversee issues related to cybersecurity, as well as take steps to sufficiently educate directors on the topic.

Moving forward, Canadian boards will focus on ensuring they are adequately prepared to engage on and govern these issues. Key steps will include:

- regularly reviewing board skills matrices to identify gaps, developing a plan to address them, and maintaining ongoing director education;
- overseeing robust enterprise risk management processes to proactively manage and measure the changing risks associated with technology and data; and
- ensuring that the protection of digital assets is incorporated into corporate strategy.

In 2022, the SEC proposed rule amendments that would require disclosure of material cybersecurity incidents and companies’ oversight and policies regarding cybersecurity risk. Although currently there are no equivalent Canadian securities law requirements in place or proposed, it is expected that SEC rules and US market practice will influence market practice in Canada.

## **Expect new or revised majority voting policies**

Effective August 2022, amendments to CBCA director elections came into force. Shareholders are now required to vote “for” or “against” each nominee director, rather than “for” or “withhold.” In order to be reelected, each director nominee must receive a majority of “for” votes.

Boards and governance committees will continue to focus on reviewing majority voting policies to ensure compliance with new CBCA requirements.



# Corporate governance trends in Mexico



## More emphasis on improving ESG metrics and increasing disclosures

Attention to ESG standards will continue to grow in the year ahead. Driven by investors, customers, employees, and even suppliers, companies in Mexico are more likely to establish environmental, social, and governance policies due to their financial and reputational benefits.

Experts increasingly expect ESG disclosures as performance is becoming more important in the evaluation of a company as a potential investment, vendor, or employer. So, stakeholders expect boards to turn their attention to the need for solid ESG metrics and the ability to demonstrate a proactive ESG strategy.

Though the companies tackling these issues are mainly addressing environmental aspects, we expect more companies to enact changes aimed at protecting and restoring the environment and contributing social value as well. In this regard, the “S” of ESG is gaining steam but is still in the backseat compared to the “E.”

## Deeper commitment to gender diversity at all levels

Companies can expect a clear and ongoing push toward gender diversity. Instead of solely reviewing the percentage

of women who serve on boards, stakeholders are looking for a deeper commitment. Experts anticipate gender diversity in leadership roles to be a priority for companies as governance watchdogs look for representation at all levels.

Despite requirements to disclose board composition (including gender) annually, Mexico continues to report limited gender diversity. Cultural trends, such as a preference to recruit directors who already serve on other boards, continue to result in a small pool of board candidates. Looking at less obvious candidate pools may yield the greatest return for companies.

## Institutionalization to improve board effectiveness

Companies listed in both Mexico and US enjoy greater institutionalization than those that only list locally. Most companies in Mexico are family-controlled, private, or closely-held public companies with low levels of float. Without institutional checks in place, strong governance and institutional best practices are rare. Consequently, companies are prone to falling short in terms of disclosure, board performance, and oversight. There is work to do to increase the number of independent directors, implement adequate CEO succession processes, and improve board evaluation processes.



# Corporate governance trends in Brazil



## ESG efforts are at a crossroads

Experts are taking a wait-and-see approach to the long-term future of ESG in Brazil. There is an ongoing tension between global institutional investors promoting ESG's value and local investors who remain skeptical. As a pendulum effect takes hold, experts predict Brazil will ultimately track global perceptions of ESG. Boards can expect some investors to demand further education and demonstrated awareness of integrating ESG into strategy and risk frameworks.

## The climate agenda remains in the front seat

This year, large businesses will face calls to boost their climate agenda through enhanced sustainability disclosures, more dedicated resources, and greater board oversight. This is because CVM's (Brazilian Securities and Exchange Commission) [Resolution No. 59](#) took effect in January 2023, meaning that businesses must now ensure they have governance structures designed to oversee ESG.

Boards should also plan for more scrutiny of TCFD compliance and climate transition risks, such as net-zero targets. With the new Government now at the helm, Brazil

could push for carbon market regulation and companies to better address emissions risk.

And as investors dial up their engagement, boards will feel more pressure to show they have the right skills, training, and board agenda to act on the climate agenda.

## "S" and "G" making modest progress

Signs of incremental progress are emerging, but social and governance agendas continue to face roadblocks. Despite increased demands for diversity and social progress, enforcement is still lacking. Stock exchange B3 has [proposed a new rule](#) for listed companies on a comply-or-explain basis: there will need to be at least one woman or minority individual on the board. Currently, over one-third of listed companies don't have any women on their boards.

Additionally, under the amended Resolution No. 480, the CVM is now requiring companies to disclose diversity at the board level, on a comply-or-explain basis.

Considering this, boards can expect investors and proxy advisors to start recommending voting against leadership on boards that remain comprised only of males.



### More focus on upgrading board composition

Investors will continue to seek more deliberate board effectiveness activities, particularly related to board refreshment and succession planning. C-suite experience is highly desired, but investors will care more about understanding the link between board skills and long-term strategy. As a result, more companies will formalize their board search procedures via new nomination committees or enhancements to the people committee, ensuring diversity is part of the process.

There will be ongoing pressure for increased independence at the board level, especially where boards are not majority independent. While this scrutiny has not risen to the level of enforcement, investors are also paying closer attention to longer-tenured board memberships and how that might impact independence.

### The blossoming stewardship culture continues

Brazil is in the midst of cultural evolution regarding investor stewardship - boards are realizing engagement is important to reducing shareholder action. Local investors are still in the initial stages of establishing a stewardship process, but boards are encouraging them to engage earlier in the proxy season.

The renamed [Brazilian Stewardship Code](#) will begin reporting on the stewardship practices of its signatories

and has plans to launch a communication strategy between investors and companies. Major pension funds are pushing for stronger stewardship relationships. And the IBGC's (Brazilian Institute of Corporate Governance) revised 2023 code plans to incorporate stewardship for the first time. Since most Brazilian boards do not have a lead independent director, boards may need to consider independent roles that can pilot this dialogue or consider training for non-independent chairs.

### Growing spotlight on CEO succession and compensation

Given the prevalence of state-owned enterprises (SOEs) in Brazil, we expect ongoing tensions between the controlling shareholder (the government) and other investors. The CEO succession planning process has minority investors concerned as the board has limited influence. With Brazil's new president, there is tamed optimism that SOE governance might offer more transparency in the nomination process. Most investors believe that privatization will slow down dramatically or stop altogether given recent comments by the government.

Alongside this tension, Brazilian media is driving attention to executive compensation transparency, amping pressure for more disclosure on the CEO pay ratio.

Reading these early signals, experts predict that executive succession planning and remuneration policy will be priority items on board agendas.



# Corporate governance trends in the United Kingdom



## Emphasis on realistic, measurable, and bespoke ESG agendas and outcomes

ESG will remain a high priority in UK boardrooms in 2023. Both the Financial Reporting Council (FRC) and investors are asking companies to be more realistic, transparent, and authentic in their disclosures, and bolder voices are calling for companies to drop separate ESG initiatives in favor of a fully integrated business strategy.

There are growing expectations that companies should move away from box-ticking to reporting on progress against metrics that are specific to their company and integral to their business strategy. This means embedding ESG-related actions in all the company does, including decisions on capital allocation, risk factors, and the overall business model. One size won't fit all—companies will need to set their agenda to make ESG outcomes more meaningful and actionable.

## Urgent call for action in the race for Net Zero

Energy continues to dominate the agenda. In 2023, the UK, which is already a standard-setter in climate reporting, has ambitions to lead the way globally. There will be a requirement for all UK-listed companies and regulated investment companies with over 25 billion GBP (\$304.8 billion) in assets to start publishing their transition plans to Net Zero from June 2023 onwards, with smaller asset managers joining them by June 2024.

In parallel, investors are setting guidelines and targets for compensation metrics tied to ESG goals and requiring companies to publish short, mid, and long term plans for achieving Net Zero. 'Say on Climate' is the next big thing after 'say on pay' and investors may vote against the board if there is no credible path to Net Zero.

Presently, climate concerns dominate discussions around the 'E' in ESG. We expect these concerns to broaden to include the related topics of biodiversity loss, deforestation, and difficult water access in the year ahead.





### **Tighter diversity requirements and disclosure of policies**

Compared to environmental goals, there has been less defined regulation of societal metrics, except for DE&I. However, by 2023, society at large, civil society organizations, media, and NGOs will call for further action to address issues such as the cost-of-living crisis, gender and equality pay gaps, human rights, health and safety, and rights to unionize. We expect regulation to lag societal pressure.

### **The Financial Conduct Authority announced new listing requirements in April 2022, including:**

1. At least 40% of the board of directors must be women
2. A woman must hold at least one of the company's senior board positions (chair, chief executive officer, senior independent director, or chief financial officer)
3. At least one member of the board needs to be from a minority ethnic background

### **The new requirements also say organizations need to make diversity disclosures in corporate governance statements, including:**

1. How the diversity policy applies to its remuneration, audit, and nomination committees
2. How the diversity policy addresses the breadth of diversity characteristics, such as ethnicity, sexual orientation, disability, and socio-economic backgrounds

### **Governance, finance, and quality of audit will regain importance**

To some extent, social and governance topics are interrelated as remuneration remains top of the agenda, especially with the cost-of-living crisis. The Financial Reporting Council has announced there will be a consultation on changes to the ARGA Code in the first quarter of 2023 and the new code will apply from January 2024. The draft under consultation includes the provision of a stronger basis for reporting and evidencing internal control effectiveness around the year-end reporting process.

These changes will result in wider responsibilities for the board and audit committee, specifically around expanded ESG reporting and, where commissioned by the company, assurance of said reporting. Audit committees and boards must consider how the audit tendering process responds to the need to further expand competition in this space. There is also a proposal for strengthened reporting on malus (remuneration arrangement that reduces the amount of a deferred bonus) and remuneration claw back arrangements.

### **Activism remains high but is more constructive**

Activism is set to increase in the UK as financial, social, and geopolitical uncertainty continue to rise. Interestingly, the narrative of some activist investors is increasingly convergent with the broader ESG movement, and they are holding boards and executives accountable by publishing metrics and progress.



# Corporate governance trends in the European Union

## **The Corporate Sustainability Reporting Directive will disrupt the ESG landscape**

Many organizations are still in the initial stages of preparing for an unprecedented scope in sustainability reporting. November's Corporate Sustainability Reporting Directive (CSRD) will impose harmonized standards, with the new reporting obligations coming in between the fiscal years 2024 and 2026, depending on the size of the company. Starting in 2028, the directive will also apply to non-EU companies with a net turnover above €150 million in the EU and at least one subsidiary or branch in the EU exceeding certain thresholds.

As the focus pivots to the consultation on the European Sustainability Reporting Standards (ESRS), leaders will need to understand that now is the time to influence standard setting on an EU level and actively participate in this process. The current decision process will fundamentally shape the reporting environment for the next decade.

## **Sustainability data will influence the supply chain approach**

The importance of sustainability data governance along the entire supply chain influences the way leaders, particularly CIOs, need to think about processes and architectures. In fact, the aggregation and management of sustainability data is not only a regulatory burden arising from CSRD requirements; it will become a competitive differentiator in organizational compliance and risk management.

This particularly holds true considering the current EU-level discussions on a novel Corporate Sustainability Due Diligence Directive, which would impose substantial obligations regarding adverse impacts on human rights

and the environment, including penalties and civil liability for violation, in corporate supply chains. The EU Council adopted its negotiating position in December 2022, which will lead to a 2023 focus on negotiations with the EU Parliament.

## **Reporting frameworks transposed into national law**

The UK became the first country to align climate reporting obligations with TCFD recommendations, starting with the country's largest businesses in April 2022. We expect more countries, including Switzerland, to follow in 2023.

EU regulators have also realized how powerful yet fragmented the existing sustainability standards are. As such, the European Financial Reporting Advisory Group has considered the TCFD recommendations and ISSB Standards as a blueprint to design the ESRS.

## **Biodiversity may be the next big wave**

The EU Biodiversity Strategy for 2030, published in May 2020, constitutes the cornerstone of biodiversity protection within the European Union. Some countries, such as France, are spearheading this movement and have already introduced compulsory reporting of corporate biodiversity footprints in individual sectors.

In June 2022, the EU Commission adopted pioneering proposals for a Nature Restoration Law, aiming to restore 20% of the EU's land and sea area by 2030, and all ecosystems by 2050. Leaders of corporations should be aware of these profound changes and proactively consider them in their business decisions over the coming year.





# Corporate governance trends in Germany

## Supervisory board succession planning will become far-sighted

The chairs of Germany's largest listed companies are increasingly realizing that the combination of regulatory changes, rising investor expectations, and societal pressure necessitates a more holistic, multi-year approach to board succession planning.

The recent introduction of the Financial Market Integrity Strengthening Act (FISG) as a direct consequence of the [Wirecard scandal](#) in combination with the updated German Corporate Governance Code requires supervisory boards (and audit committees) of listed companies to have at least two financial experts with special knowledge in auditing and accounting. The latter areas of expertise must be split among two board members. At the same time, the updated code stipulates that the competency profile should include dedicated sustainability expertise relevant to the enterprise. Moreover, the 2023 AGM season will - for the first time - see ubiquitous disclosures of board director qualifications on an individual level by way of a qualification matrix.

Considering these heightened demands for board competency profiles, we expect investors to increase scrutiny in their assessment of director proposals and associated AGM voting decisions. Supervisory boards, and particularly nomination committees, will need to show they have taken a forward-looking approach to board succession planning, harmonizing the requirements of a diverse set of stakeholder groups in the mid-term.

## Lead independent directors making their way into the DAX40 landscape

DAX40 companies are starting to introduce novel governance mechanisms, as exemplified by the recent addition of two Lead Independent Directors to the index

in 2022 (Fresenius Medical Care and SAP). While this new phenomenon could mostly occur in situations where the chair isn't necessarily independent (which is the case in 38% of the DAX40 and almost 50% of the MDAX), supervisory boards increasingly recognize the Lead Independent Director can also create a valuable interface to investors or serve as a mediator in difficult situations.

## New regulation on supply chain due diligence and sustainability reporting

Both German management and supervisory boards are facing a wave of regulation arising from two pieces of legislation:

1. The Act on Corporate Due Diligence Obligations in Supply Chains (starting from 2023 for companies exceeding 3,000 employees).
2. The national equivalent of the Corporate Sustainability Reporting Directive (starting from the fiscal year 2024 for the largest companies).

While the associated reporting obligations have already led companies to establish new internal structures, the focus is increasingly pivoting to the strategic perspective. To illustrate the point, boards need to rethink their approach to risk management along the entire supply chain.

Sustainability data governance and supervision will be key pillars for boards in 2023. From a governance perspective, DAX40 companies have already responded to these developments with a substantial increase in dedicated ESG supervisory board committees, which have tripled in 2022. However, our recent [DAX40 Supervisory Board Study](#) revealed that only 15 DAX40 companies have at least one dedicated sustainability expert in their ranks. We expect this number to increase in 2023.

# Corporate governance trends in France



## Increase in gender diversity in leadership roles

We have seen a strong increase in the number of women on executive committees and boards in France, and this number will only continue to rise. Currently, 111 of the SBF120 companies have boards comprising more than 40% women. The remaining nine companies have more women than men on their boards. This trend is extending into board leadership roles, with women now chairing 50% of CAC40 board committees.

France remains the European champion for women on boards, and we expect this trend to continue through 2023. The Rixain law of December 24, 2021, will support and intensify the obligations of large corporations in terms of gender equality. Starting March 1, 2023, the French Ministry of Labor's website will publish gender gaps. By March 1, 2026, these gaps in representation must be less than 30%. By March 1, 2029, the Ministry will announce a two-year period to reach 40%.

Experts predict that more companies will follow the example of Engie, BNP Paribas, and Vivendi in making long-term commitments to increasing gender diversity at the board and leadership levels.

## ESG will become a strategic lever, with transversal integration

Corporate social responsibility and ESG will continue to be a key concern for public company boards, with most CAC40 boards having a named ESG committee. Boards should expect to see more transversality of ESG and full integration into corporate strategy, executive remuneration, and the profile of future leaders.

In many French listed companies, ESG has become a true strategic lever and one that is increasingly percolating through various processes, such as risk, audit, and diversity. This will be more important in 2023 as both the High Committee (Haut Comité de Gouvernement d'Entreprise)

and investors are asking companies to set clear, authentic, and relevant ESG metrics in their disclosures that consider companies' specific ESG challenges. A simple reference to the implementation of ESG policies, an internal ESG program, or generic, undefined challenges will not be sufficient.

## Scrutiny on director selection and board evaluation processes

Companies will need to communicate the selection process of future board members in the charter (Règlement Intérieur) and report on its practical application in the corporate governance report.

As boards think more about board composition and its structure, they should expect the splitting of the chair and CEO roles. In 2022, 72% of the CAC40 companies have separated board chair and CEO roles, versus 45% in 2017. We expect this trend will continue, as more stakeholders are looking for independence in the chair role.

Formal board evaluations have become increasingly frequent, with 70% of SBF120 and 78% of CAC40 companies opting for a third-party facilitator. In each case, the companies delivered nearly all the results in annual reports. We expect these trends to continue and for more rigorous board effectiveness efforts to become even more prevalent in the future.

“ France remains the European champion for women on boards. ”





# Corporate governance trends in the Nordics

## **Sustainability is a major driver of good governance**

Sustainability has been the most important topic in Nordic boards in recent years and we expect it to remain important in the future as public opinion and investor priorities continue to focus on environmental goals. In the future, boards need to be involved in defining what sustainability and ESG mean in their business context and how to further develop profitability through concrete sustainability actions.

## **Increased progress toward gender balance, but boards remain very Nordic**

Nordic boards have increased their gender balance every year for the last five years, and this trend will continue in 2023. Last year, women made up 39% of OMX25/30 boards. Despite the rising percentage of women acting as Nordic board members, this progress is less visible in the chair and deputy chair roles. On average, women occupy less than 10% of OMX25/30 board chair roles and 20% of deputy chair roles. Yet there is optimism that more representation at the deputy chair level could lead to an increase in women's representation in the board chair position as well.

Nationality-wise, boards are still very Nordic in their composition, as internationalization depends on business needs. For example, local-market businesses, such as financial services and consumer goods, tend to rely more on local talent. In comparison, more global companies, such as those in technology and energy, are seeking talent from outside the Nordics. Nevertheless, Nordic boards continue to struggle to attract non-Nordic talent, in part due to low compensation (and even more so in state-owned companies). In the Nordics, fee-per-meeting structures can be almost two to three times lower, while the number of board meetings is two to three times higher, in comparison to German DAX or Swiss SMI boards.

## **External factors will continue to affect board work**

The Covid-19 pandemic, the war in Ukraine, and their global consequences have complicated Nordic companies' businesses. Depending on the industry, this will have an impact on emerging sustainability actions, especially concerning supply chain models. Therefore, the increasingly complex business environment requires more agility from boards to effectively support their businesses and stakeholders.



# Corporate governance trends in India

## **As term cliffs approach, boards look to balance and diversify**

The 2013 Indian Companies Act allows for two maximum terms of five years each for independent director. Accordingly, 2023 marks the end of the maximum 10-year term for many directors. This "cliff" is likely to drive fresh NED appointments, and companies have already started using this as an opportunity to pause the default mode of a like-for-like replacement. Instead, they're adopting a more strategic, forward-looking approach to board composition that helps create a more balanced and diverse board that best serves future business needs.

We are also seeing increased thoughtfulness on this topic from family-owned businesses, which are starting to appreciate the value NEDs add to their boards, and from private equity and venture capital-backed start-ups that are seeking to build professional boards in the run-up to their IPOs.

## **Increased focus on strengthening governance ecosystems**

A combination of multiple factors, including regulatory intervention, increasing global investor participation in Indian markets, and tighter media scrutiny, have led to higher standards of stewardship from the director community. This voice of the governance ecosystem will become louder in the coming years as proxy advisory firms continue to become more relevant and integral, institutional investors become more active voters, and foreign investors focus more on the independence and fiduciary responsibilities of independent directors. Given the considerable proportion of family businesses in the Indian economy, we expect tighter scrutiny on stewardship aspects, such as related party transactions.

## **Boards' focus on the human capital aspect will continue evolving**

The role of nomination and remuneration committees will continue to increase and evolve as human capital aspects are becoming increasingly critical in India's fast-growing and dynamic market - both for boards (composition, effectiveness, capacity building, executive director compensation) and their companies (succession, talent, and compensation strategy, culture).

The remit of the nomination and remuneration committee is largely defined by its charter and leadership, and it operates with limited external support. Looking ahead, the committee will need to ramp up significantly to meet the myriad issues that will help shape the future of its company.

## **Boards are actively looking for increased ESG and technology skills**

ESG skills continue to be in high demand in boardrooms. The Securities and Exchange Board of India has mandated new ESG reporting requirements for the 1,000 largest listed companies. The Business Responsibility and Sustainability Report is applicable from the fiscal year 2022-23 onwards and will likely further increase the demand for these skills. Digital and technology skills are also in high demand as the Indian economy is digitizing rapidly. We expect this demand-supply gap to widen in the coming years.

## **Companies are recognizing boards as competitive differentiators**

Increasingly, companies are realizing the value of boards as a strategic asset and are beginning to go beyond the regulatory minimum to consider every option for making their boards more effective. This conversation—made more visible via the board evaluation process—goes beyond board composition. It dives into aspects of board culture, alignment of risk and strategy, and board operations and systems.





# Corporate governance trends in Australia and New Zealand

## Heightened board vigilance in response to the external environment

Systemic cyber-attacks have become an unfortunate reality for many large-scale organizations across the region, triggering a rapid reframing of digital from opportunity to threat. As a result, digital capabilities have received renewed prioritization in new board appointments and risk committee agendas.

Additionally, regional geopolitics have led to significant recalculations of organizational strategies, and board reporting is becoming more hands-on with management.

Finally, ESG agendas are extending board time horizons further into future consequences and away from the short-termism that the COVID-era demanded. With Asia Pacific's regulators raising the stakes and penalties via new controls, this will be a major board focus in 2023 and beyond.

## New social and economic factors will challenge boards

Having enjoyed more than three decades without a recession, the region's boards are now exercising more caution and restraint over the local impact of realized and perceived global economic headwinds. Board chairs report several factors that they are reacting to or bracing for, including the war in Ukraine, supply chain disruption, rising interest rates and inflation, challenging workforce and employee relations, local and regional political instability, and the region's first major mass-impacting cyber-attacks.

## Outside sources continue to have an outside influence, potentially hindering bold business moves

This year saw another rise in proxy advisors and media influencing board decisions as they brought loud, reputation-shaping opinions to the nation's shareholder meetings and AGMs. The impacts ranged from successfully influencing, or even vetoing, board appointments and tenure renewals to collectively pressuring board chairs to move faster on CEO succession or performance. This is triggering what many chairs describe as a new layer of paranoia, vigilance, and restraint from the bold business moves that are necessary for growth and change.

### Expanding boards' gender and cultural diversity

Recruiting with equity and diversity in mind has evolved from a compliance requirement to a recognized competitive edge. As younger, commercially proven, socially affirming, first-time directors continue to join the most powerful boards, new chairs will seek innovative and refreshing new appointments, rather than continuing to mine the same old short-lists.

Over the past year, the region achieved its gender diversity targets for boards. Now, there is a clear push from new chairs to demonstrate cultural diversity as well, as nine out of ten ASX300 board members still have Western/European ancestry.

“ Over the past year, the region achieved its gender diversity targets for boards. ”

### ESG will receive genuine prioritization at the board level

With a collective commitment to 2030 carbon and sustainability goals now demanded, as well as regulatory change in reporting requirements, the year ahead will see boards raise ESG expectations more than ever before. This is a priority board agenda item, both when selecting directors and within its governance.

In addition to the elevated focus on “E,” we are also seeing an increasing demand for action on “S” and “G” as well. First nation reconciliation, as well as increased internal board development and performance processes, are examples of refreshing innovations implemented by many new chairs for the year ahead. The “G” of ESG, a historically neglected category, is now gaining increased board time and capital investment, particularly around each director's development. We expect this movement to catch on in the public and private sectors as well.



### Increased expectations of board governance

Since the Banking Royal Commission of 2019 and the pandemic, there has been a notable change in board expectations, with increasing pressure to review the law overseeing director and board duties. For Australia, this means a first-time review of a Corporations Act that has not changed since 2001. For New Zealand, the law has been in place, unchanged, since 1993. The growing expectations from more informed and empowered stakeholders will mean a new era for boards ahead.



# Corporate governance trends in Singapore and Malaysia



## Preventing long-serving independent directors from becoming entrenched

In the 2018 revision to its Code of Corporate Governance, Singapore tightened the requirements for director independence by incorporating a tenure limit of nine years into the Exchange's Listing Rules. Although it does allow a shareholder-approved exception and a three-year transitory period.

However, several [recent studies](#) revealed that since its implementation, not only has there been little progress, many boards were taking advantage of the provision to reappoint long-tenured independent directors. Some even went through the two-tier vote, despite not being due for re-election. This trend has resulted in the Singapore Exchange removing the shareholder vote altogether in January 2023 and imposing a hard stop at nine years for independent directors, akin to Malaysia's 12 years, which itself will come into effect in June 2023.

This shows the importance of understanding the purpose behind rule changes. Merely meeting the formal requirements may not be enough to earn credit and trust from stakeholders.

## Inconsistent adoption of mandated remuneration disclosures

Disclosures of CEO and director remuneration in Singapore have always been on a comply-or-explain basis. Besides disclosing the policy and criteria for setting remuneration, companies should also provide the amounts and breakdown of remuneration of each director and the CEO on a named basis.

A September 2022 [KPMG study](#) commissioned by the exchange found companies' disclosures in this area have been lacking. Companies often used boilerplate explanations to excuse non-compliance, citing competitive, sensitivity, and confidentiality concerns. Furthermore, [a poll](#) of 70 listed companies that did not make these disclosures revealed that 94% had no intention of doing so within the next two years. Along with the scrapping of the two-tier mechanism, Singapore will be making such disclosures mandatory for its listed boards whose annual reports prepare for fiscal years ending on or after December 31, 2024.

## Sustainability will continue to be a focus for Malaysian firms

There has been a slew of new sustainability-related governance practices following the review of the Malaysian Code of Corporate Governance in 2021. This includes incorporating sustainability-related metrics into the performance evaluations of both the board and senior management.

The Securities Commission of Malaysia [reported](#) that 62% of its listed companies have indicated adoption of such practices, though further scrutiny of their disclosures shows this is mainly in board assessments and not senior management. We expect this to improve over time, as companies are beginning to set up committees and designate personnel within management to drive their sustainability agenda.

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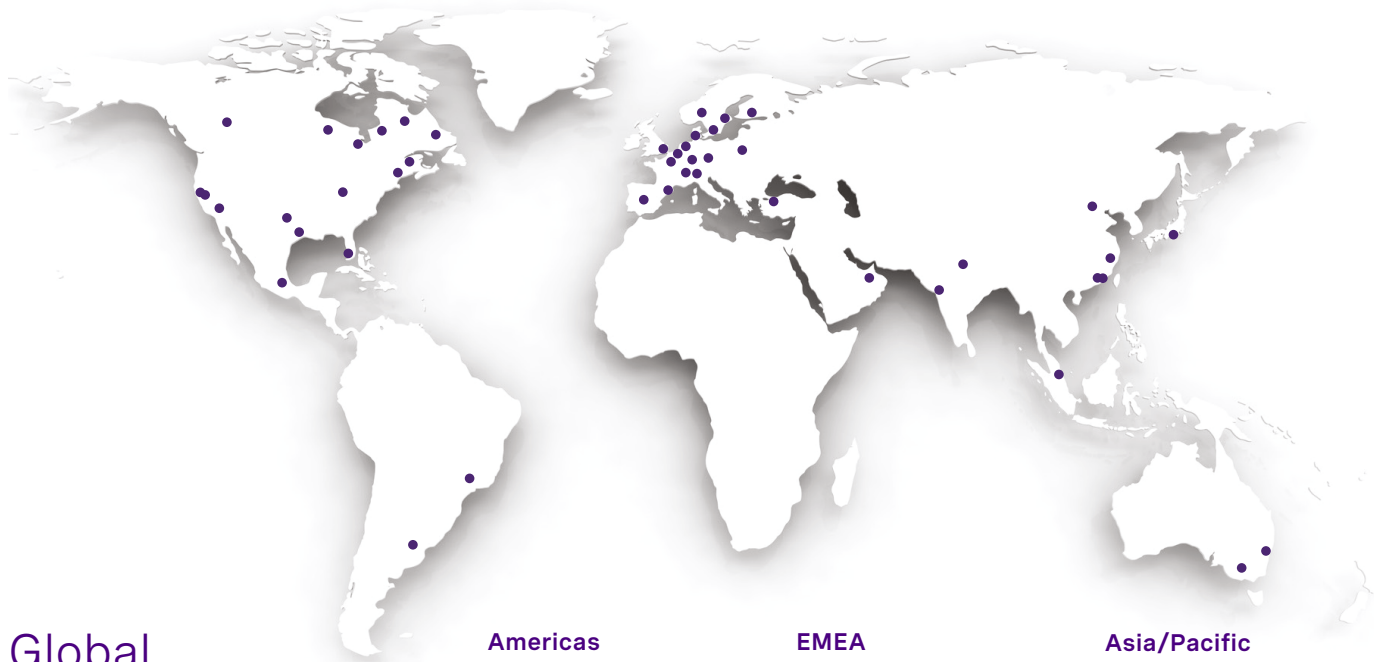
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# About Russell Reynolds Associates

Russell Reynolds Associates is a global leadership advisory firm. Our 600+ consultants in 47 offices work with public, private, and nonprofit organizations across all industries and regions. We help our clients build teams of transformational leaders who can meet today's challenges and anticipate the digital, economic, sustainability, and political trends that are reshaping the global business environment. From helping boards with their structure, culture, and effectiveness to identifying, assessing and defining the best leadership for organizations, our teams bring their decades of expertise to help clients address their most complex leadership issues. We exist to improve the way the world is led

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