BOARDS IN THE AGE OF UNCERTAINTY

In today's fast-paced complex economy, boards need to do more—a lot more—than monitor management. Directors from America's leading companies gathered at *Corporate Board Member*'s annual Boardroom Summit to share tips, insights and strategies on the most pressing issues of the day. Some takeaways.

BY JENNIFER PELLET AND DAN BIGMAN

Corporate Board Member ***thanks AlixPartners, BDO, The Conference Board, DDI, Deloitte, Diligent, EY Center for Board Matters, Freshfields, FW Cook, Galt & Company, King & Spalding, Meridian Compensation Partners, Nasdaq, PwC Governance Insights Center, RHR International, Shearman & Sterling and True Office Learning for making this event possible.***

COVID AND WHAT COMES NEXT

ESG. Digital transformation. Diversity. Activist investors. Cybersecurity. There's no shortage of issues keeping today's directors busy—as always—if not overwhelmed. But at our annual Boardroom Summit, held virtually this year, Covid topped them all, filtering into nearly every session and conversation. Even as a vaccine begins reaching thousands around the world, boards will be impacted by the pandemic deep into 2021—and maybe even beyond.

"The good news is there are things that we can do to stop the spread," Michelle Williams, dean of the Harvard T.H. Chan School of Public Health, told directors in a keynote conversation. "The bad news is we are fatigued around doing those things, those things that we can do to stop the spread."

Williams and Sandy Climan, a longtime media CEO and director with a background in public health, who advises Williams and other CEOs, offered advice for directors who will have to guide companies through the coming months, keeping stakeholders safe and healthy:

Increase Trust. "Get people in the habit of communicating," said Climan. "And that has to be two-way communication. It is not one-way, because if it's one-way, people will turn off. It has to be answering questions. It has to be a sense of engagement on the employees."

Improve Health and Wellness. Covid forced many CEOs and leaders to realize that they have to be more attentive to employees' mental health and wellness, as well as to the family context that people are living, said Williams. Thanks to Covid, "there is a deep awareness about the importance of managing and supporting the most important asset in our business. And that's our employees."

Get People Ready to Be Vaccinated. "If we don't reach the level where we have enough coverage and protection, we will continue to see the cycle of surge of the spread of this virus," said Williams. "And we will all pay. We will pay economically, and we will pay in our lives and well-being. So, it's an imperative that we all work together to counter and address the vaccine hesitancy issue."

Should businesses mandate their workers be vaccinated? Williams said the research isn't clear—especially at a time when everything from masks to social distancing is politicized and polarizing. "Currently, there is not a uniform consensus on whether a company should mandate employees doing vaccines," she said. But it is worth noting, she said, that hospitals mandate shots for workers.

WHAT'S NEXT FOR THE S.E.C.?

Covid isn't the only massive change we're facing. There's also the earthquake in Washington. In a wide-ranging conversation, S.E.C. commissioner Elad Roisman dug into the legacy of outgoing Chairman Jay Clayton—and what's worth watching in the year ahead:

ESG Disclosure. "This is a difficult subject because I think people try to put this as a moral issue. If you're against ESG disclosure, you're either a climate denialist or morally reprehensible or, if you are [in favor], you're viewed as either a champion or potentially just trying to be political. I think framing it in that way is incredibly unhelpful and makes the conversation very, very difficult."

ESG Funds. "I'm particularly concerned that when you market yourself as something that is either an ESG strategy or an ESG product, that investors actually understand what that means and how that translates to performance or earnings."

SPACs. "What we're looking for is to ensure that... the information they're providing is clear and understood, and investors have a good idea of the risks associated with them."

Human Capital Disclosure. "This is another example where if we had required line-item disclosure, I fear what would happen in the future. Some things that are really pertinent today because of Covid may be less pertinent in a year or two."

Proxy Plumbing. "I think there's a lot of work to be done...companies are really trying to figure out who their shareholders are but because of parts of the proxy plumbing...it makes it really hard."

The SEC Under President Biden. "I have no idea what the next chairman's going to do. But I can certainly say, given what I've heard from my colleagues, certainly ESG and environmental disclosure will be a focus...That's why it's incredibly important for people to weigh in about why you think things need to change or why you think what we have is appropriate."

Sandy Climan, President, Entertainment Media Ventures; Former Advisory Committee, Director of the Centers for Disease Control & Prevention

Elad Roisman, Commissioner, U.S. Securities and Exchange Commission

Michelle A. Williams, Dean of Faculty, Harvard T.H. Chan School of Public Health

Roselyn Feinsod, Principal, People Advisory Services, EY

Steve Klemash, Americas Leader, EY Center for Board Matters, EY

THE TALENT AND CULTURE AGENDA

Four action items on workforce management.

UNDERSTAND NEW WORKFORCE REALITIES. Much is changing in workforce norms, from the ramping up of remote working and greater emphasis on diversity and inclusion to the need to recruit for next-gen digital skills. Staying up to speed on the most pressing talent and culture concerns requires constant vigilance, says EY's Steve Klemash, who urges directors to push for regular briefings from chief human resource officers. "Are you spending enough time with the CHRO, understanding culture, understanding talent, understanding the portfolio?" he asks. "And really providing the necessary oversight to a critical asset that's going to drive your company moving forward very strategically?"

EVALUATE CULTURE AND TALENT-RELATED METRICS. Identify the critical components of the talent and culture data set that you want to get from your CHRO, advises Roselyn Feinsod. For example, how frequently are people changing jobs or leaving the organization, and why? How are we doing from a D&I perspective, both in hiring new talent as well as continuing to grow talent in the organization? What third-party sources (e.g., Glassdoor, Fishbowl) should we be monitoring? On culture, what are the key behaviors we want to see from leaders and managers?

RETHINK TALENT DEVELOPMENT PRACTICES. Be intentional about investments in your workforce. What types of new skills are being developed and how? What further investments in reskilling workers would help address current and future skill gaps?

CHECK YOUR REAL ESTATE FOOTPRINT. While companies have begun to reopen offices, many are sparsely populated. "Those 10 percent to 30 percent occupancy rates are raising some important questions around where should offices be, how much space is needed and how that space should be used," says Feinsod. "The jury is still out on how many employees will return, remain fully virtual or work in a hybrid model, but it looks like there will be lots of opportunities in terms of [real estate] dollars that could be reallocated."

LOOK FOR CULTURAL ALIGNMENT. Nothing good comes of talent practices that fail to mesh with organizational culture, points out Klemash. "Stakeholders have long memories," he says. "So, decision-making related to human capital strategy really needs to align to the overall organization's purpose, culture and values."

CYBERSECURITY IN A CRISIS

The pandemic brought a host of new hurdles to data protection.

Moderated by Mary Galligan, Managing Director, Deloitte & Touche LLP

"Visibility is the number one thing that most CIOs lost."

ON SECURITY AND REMOTE WORKERS...
Myrna Soto, Chief Strategy and Trust Officer, Forcepoint: "With the shift in work environments, visibility is the number one thing that most CIOs lost. There isn't the same ability for them to control activities and transactions, and that should give directors some pause [and desire to] understand what the company is doing to regain some of that ability. Are employees connecting to the corporate network to do their jobs on devices that are not owned and managed by the company? How many may be using a shared computer in their home? If technology has been traditionally on-premise, meaning in a physical data center, then you may have had to quickly adopt a cloud-enabled service. So, the question comes into play, 'How are we securing that?' The issues all depend on the company, the data, the employees."

ON PREVENTION STRATEGIES...
Jim Hale, Director, ACI Worldwide, Mitek Systems: "As board members, we've asked our companies to make sure that our remote workforce is connecting to our precious data using our VPN, not coming in from some other vector. If they're using the VPN, then our folks can push out security patches and upgrades. If they're not opening their VPN because it's too cumbersome, we can't push out those fixes. So that's one very tactical thing that we've asked our teams to make sure our workforces are compliant with."

CONSCIOUS CAPITALISM: INVESTORS' EXPECTATIONS IN 2021

Insights on the movement toward stakeholder governance.

Moderated by Paul DeNicola, Principal, PwC Governance Insights Center

Ray Cameron, Managing Director & Head of Investment Stewardship Team, Americas, BlackRock

Paul DeNicola, Principal, PwC Governance Insights Center

Aeisha Mastagni, Portfolio Manager, Sustainable Investment & Stewardship Strategies, CalSTRS

ON DOUBTS ABOUT THE BOTTOM-LINE IMPACT OF ESG...

Ray Cameron: When people think about ESG, they sometimes think about impact investing, green investing. But "E" is basically climate risk. And for a company not to understand or think about the move to a low-carbon economy and the transition risk that's around that is kind of unconscionable. So, we're really not asking companies to do things or to consider things that should not be on their agenda. In our conversations, we really do try to anchor them in financial materiality. That's one of the reasons that we have endorsed the Task Force on Climate-Related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB) frameworks, because they focus on material information.

Aeisha Mastagni: "A lot of this comes down to your timeframe. We always like to say, "We're permanent capital, we're the ultimate long-term shareholder." So, things like the environment, how you care for your employees, how you're managing all of these risks, are very important because you have to be considering all of these long-term risks in order to truly be a relevant company in the future."

ON CEOS TAKING A PUBLIC STANCE ON SOCIAL ISSUES...

Mastagni: "That's what the board is there for—to be that sounding board for the CEO. In certain situations, it probably is appropriate, but I think it really has to be an individual decision for each CEO and company."

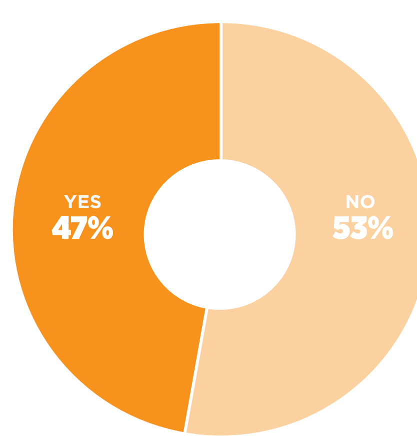
Cameron: "I do think that there is an increasing expectation that companies will have a voice and a role in terms of [major societal] issues, and that will come down to the CEO in terms of how that's articulated. If we think about the conversations around race in the U.S., in particular, the companies that didn't come out with public comments in terms of affirming their commitment to diversity and race equity in some manner were perceived as being complacent. And no company wants that to be part of their legacy or their reputation."

ON COVID-19'S IMPACT...

Mastagni: "The global pandemic really shoved the need for effective human capital management into the spotlight. We all hope the effects of the virus will recede at some point, but we want organizations and companies to continue to appropriately manage the human capital, which every company tells us is its most valuable asset. So, that's really something that directors have to focus on—the health and well-being of your employees. What are the things that you've put in place, given this pandemic, that would still be an important option going forward?"

Cameron: "This pandemic has demonstrated what it's like to face the crystallization of a lot of this systemic risk that we've been talking about for a number of years, not only in terms of the human side of it but also the financial side, debt financing and leverage levels. What are the long-term implications of these things? We look at things through a long-term lens, as we've been engaging with companies around these topics over a number of years through this lens of risk mitigation and risk management. All of that has really been brought to the forefront."

Is it appropriate for a CEO to publicly take a stance on controversial social issues?



Source: 2020 Boardroom Summit Attendee Survey

POLITICAL PERSPECTIVES

"We're expecting to see the real strength in 2021 sometime over the summer period."

WATCH FOR EXTREMISM

"When seats change hands in the House, it's usually in purple districts rather than red and blue," says Erik Lundh, senior economist for The Conference Board. "What that means for the Democratic Caucus is that the members who lost are moderates. So the center of gravity is going to move further left. You want to keep that in mind as you look forward."

BRACE FOR ANOTHER ROUGH ELECTION SEASON

"Keep in mind that the president's party tends to lose seats in the midterm election," says Lundh. "The House is already close. So, Republicans are going to see an opportunity to take the House and will have an instinctive reaction to play hardball to do that."

RECOVERY IS COMING... SOMETIME

"We don't see the massive availability of vaccines being out there until toward the end of the second quarter," says Joseph Minarik, senior vice president and director of research at the Center for Economic Development for the The Conference Board. "So, we're expecting to see the real strength in 2021 sometime over the summer period. As consumers are feeling better, as hopefully the labor market has healed a bit more, we're expecting a lot of pent-up demand and for consumers to go out and start to spend on services. Those sectors are in desperate need of that kind of demand and that kind of spending given the challenges that they've had this year."

George Casey, Global Co-Managing Partner, Shearman & Sterling

Alan Goudiss, Litigation Partner, Shearman & Sterling

Dawn Zier, Director, Hain Celestial and Spirit Airlines

WOULD YOUR M&A TRANSACTION WITHSTAND A SHAREHOLDER CHALLENGE?

Three things directors need to know heading into a deal.

WHEN THE COMPANY IS BEING SOLD:

Time is not your friend. "One of the things my banker told me is a deal has a million lives and a million deaths," says Dawn Zier, who led Nutrisystem through a sale in 2018. "So, on any given day a deal can be off. In our case, we announced the deal on December 9, 2018, and the next day the credit markets dried up. That added another interesting component to what was happening in terms of our deal. But we got it done."

Be ready for the inevitable lawsuit. Between 95 percent to 97 percent of public company transactions prompt a shareholder lawsuit, particularly on the sell side, says Alan Goudiss. Among the more thorny claims to resolve are focused challenges, such as charges of a conflict of interest. "It's important that the board takes steps to make sure that independent directors can evaluate the situation and oversee it and manage it in a way that conflicts or potential conflicts are known," says Goudiss.

Shareholders may revolt. George Casey advises a proactive stance to guard against a deal getting scuttled. "Be prepared to justify and explain to the shareholders of both seller and buyer why this transaction makes sense for the seller and the buyer," he says.

WHEN BUYING A COMPANY:

Check your alignment. The oversight role calls for directors to ensure transactions make sense strategically and to weigh any risks entailed. "It's important to bring in experts that understand the business that you're acquiring, rather than rely on the bankers to do that due diligence, and to ask the tough questions," says Zier. "You can't delegate because you have to stand up and defend your actions when you acquire something."

Question the cultural fit. "Consider whether they look at things similarly and have the same values as you do," urges Casey. "Buyers tend not to focus on culture as much upfront, when doing their due diligence," he says. "Yet, that's what may ultimately determine whether the two companies will be able to work together."

Start integration early. Conversations about goals, an action plan to get there and assigning accountability can, and should, start before the deal is done. "What we've seen work best is when that integration team is actually working in parallel with the deal team to prepare for bringing the companies together," says Casey, "because the deal is, ultimately, the prelude—the real hard work starts when it's done."

COMPENSATION CONSIDERATIONS

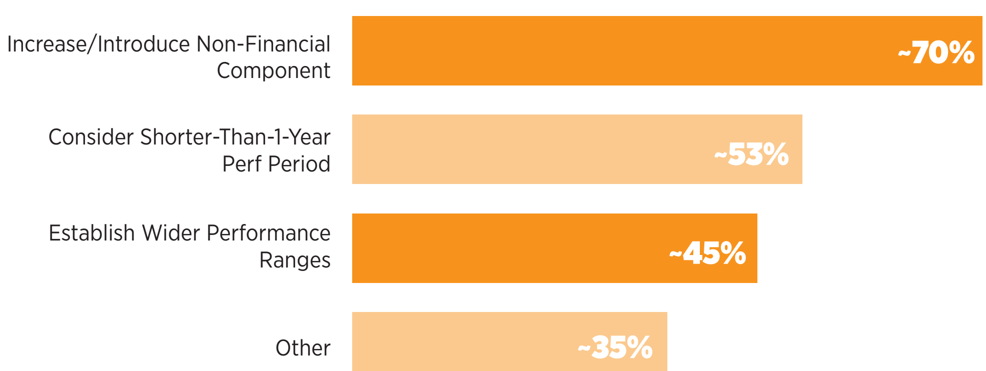
What to weigh when thinking about pay plan changes in 2021.

For many companies, the pandemic sent revenues and share prices plummeting, in the process derailing carefully designed incentive programs. What to do when unforeseen circumstances render targets useless as measurements of performance?

As the financial and economic consequences of Covid-19 continue to unfold, many companies are responding by planning adjustments to executive pay plans in 2021, according to a recent survey by Meridian Compensation Partners. Fifty percent of directors reported plans to review program designs in light of the economic environment, changes in strategy and continued uncertainty. More results from Meridian's survey, as well as checklists for short- and long-term incentive pay plan considerations follow.

2021 INCENTIVE PLAN CONSIDERATIONS

"What changes to your annual incentive plan are you considering for 2021?"

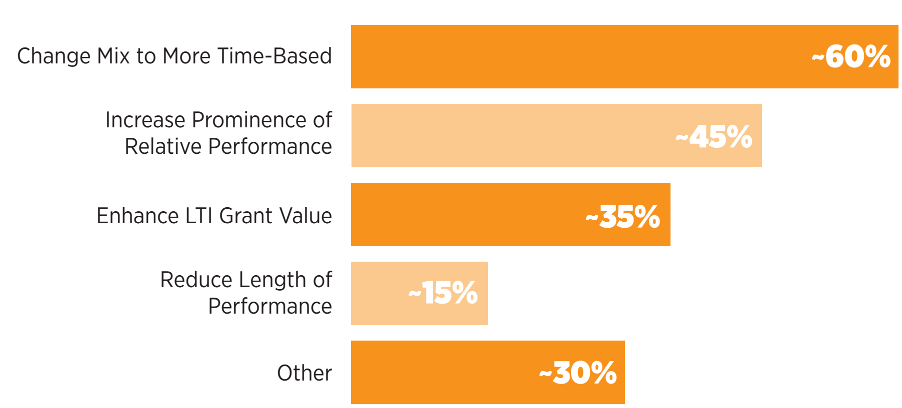


Other includes: ease performance threshold level, change weighting of financial metrics and re-evaluate the merits of a financial goal that measures YoY performance improvement

ON ANNUAL INCENTIVE PLANS...

- Review gates/triggers. (Are they set too high?)
- Review metrics to reflect new strategic priorities.
- Review performance and payout ranges. (Should they be widened?)
- Incorporate discretion/qualitative metrics (e.g., strategic, individual, ESG, D&I).
- Shorter performance periods (e.g., three-month or six-month?).

"What changes to your long-term incentive plan are you considering for 2021?"



Other includes: change weighting of financial metrics, change plan metrics and modify financial goals to measure YoY performance improvement

ON LONG-TERM INCENTIVE PLANS...

- Review mix of LTI vehicles; possibility of more time-based or inclusion of cash.
- Review metrics.
- Review performance and payout ranges—should they be widened?
- Consider relative performance.
- Shorter performance periods (e.g. to two years).

Source for all charts: Meridian Compensation Partners

Richard Harshman, Board Member, Ameren and PNC Financial Services Group; Former CEO, Allegheny Technologies

William Lambert, Former Chairman of the Board, MSA Safety Incorporated; Board Member, Kennametal

Matt Paese, Senior Vice President, DDI

SUCCEEDING AT CEO SUCCESSION

Choosing a new leader is often the single most important decision a board will make, yet between a quarter and a third of companies don't have a succession plan in place, says Matt Paese, senior vice president of leadership development company DDI. And even those who do often get it wrong. Panelists shared four hallmarks of effective succession planning.

DECLARE CEO SUCCESSION A TOP BUSINESS STRATEGY.
Planning for the next leader must be an ongoing priority, and one that extends beyond the board and senior management team. "No matter how new your CEO is or how long you expect him or her to stay, it should be a continuous discussion at the board level," says Ameren's Richard Harshman.

"You can't relegate this kind of responsibility to the CHRO," adds MSA Safety's William Lambert. "It really has to start with the CEO and the executive leadership team, and it has to be in part of the culture of the organization at every level."

INCLUDE CONTEXT IN SCENARIO PLANNING.
The company's strategic and cultural priorities should factor heavily when evaluating candidates. "A good board is uniquely positioned to have a view into questions like, why the enterprise is successful today, where are its weaknesses, how is the market changing?" says Harshman. "Boards need to be attuned to that in determining what type of leader you will need to succeed in the future."

DEMAND OBJECTIVE AND PREDICTIVE DATA.
Testing for leadership competencies and capabilities mitigates the risk of favoritism and bias when evaluating candidates. "It's been my experience that boards benefit greatly from those outside assessments of the candidates," says Lambert. So, demanding that objective and predictive data is critical to making the best possible decision."

ASSESS THE WHOLE LEADER. Leadership skills that led to a star performance in operations or sales don't always translate to a CEO role. "There can be things that emerge in the leader who shows up in your culture and with your team and the board that you won't always see on paper," says Paese.

To gauge the best fit, boards need ample opportunities to engage directly with potential successors, with each engagement informing the succession process. "Directors should be challenging them with questions to see the depth and the breadth of their knowledge, how they handle that situation," says Harshman. "When you make a presentation to the CEO and the executive leadership team, you're being observed, you're being interviewed throughout that process."

Jeff Hales, Chair, SASB Standards Board

SASB'S SHIFT ON HUMAN CAPITAL MANAGEMENT

Emerging issues in human capital are leading SASB to consider building on its HCM industry standards, looking beyond the materiality of traditional issues of labor practices, employee health and safety, and employee engagement, diversity and inclusion measures. Jeff Hales, chair of SASB's Standards Board, outlines four themes under consideration in 2021.

WORKFORCE CULTURE: "I think of that as taking some of the diversity and inclusion issues we see now and expanding them to the values and processes that companies have in place to work on having a more productive and engaged workforce."

WORKFORCE INVESTMENT: "What are companies doing to enhance career and wealth-building opportunities of our employees, making sure they can be retained and that they have upskilling opportunities."

MENTAL HEALTH: "These days, especially, we're understanding the importance of mental-health-related benefits, like paid sick leave."

CONTINGENT OR CONTRACT LABOR: "More and more companies are using alternative workforce arrangements, which create a different relationship between the company and the people providing the underlying work that it relies on."

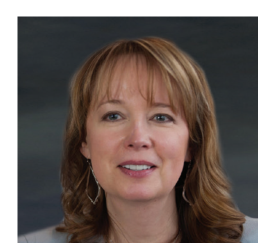
UP YOUR DIGITAL GAME

Lessons for traditional companies from their born-digital peers.

Fred Crawford, Managing Director, Senior Vice Chairman, AlixPartners

Cory Eaves, Operating Partner, General Atlantic

Reggie Van Lee, Chief Transformation Officer, The Carlyle Group



Angela Zutavern, Managing Director, Co-Lead of America's Digital Practice, AlixPartners; Co-Author, *The Mathematical Corporation, Where Machine Intelligence and Human Ingenuity Achieve the Impossible*

Harnessing technology comes naturally to born-digital companies founded on their capabilities, while established companies often struggle to get in on the digital revolution. But traditional businesses can up their game by learning from their tech-centric peers, says Fred Crawford, senior vice chair of AlixPartners, citing research his company did analyzing this dichotomy.

Crawford and fellow panelists Cory Eaves, operating partner for General Atlantic; Reggie Van Lee, chief transformation officer for the Carlyle Group, and Angela Zutavern, managing director of AI for AlixPartners, outline lessons for leveraging technology to turbocharge growth.

1. DON'T BE AFRAID TO EXPERIMENT.

Cory Eaves: "Digital native companies often have a culture around test and learn. They experiment, gather data, get customer preferences and iterate quickly. That's something I would encourage more traditional companies to try. If you're launching a new technology product or a new service over the Internet, you can experiment. Customers are used to that and sort of expect it."

Reggie Van Lee: "In traditional companies, you do not fail. It means you lose your job. So, the notion of fast failing, trying stuff that doesn't work is not the culture. Whereas born-digital cultures are very experimental, and that's fine. That mentality that you must succeed, you cannot fail, is something that really impedes traditional companies."

2. GET THE RIGHT PEOPLE.

Van Lee: "First, digital transformation is a full-time job. You can't take a smart person and add this onto his or her responsibilities. Even in a small company, but certainly in a large company, you need a full-time athlete focused on it. Second, it is not IT, especially for large companies. You need someone who has customer-facing insight to really drive it because that's what makes it successful. Third, this talent is seldom home-grown. So, oftentimes you have to go outside to get that resource, and sometimes even out of industry."

3. BE PROBLEM-CENTRIC.

Angela Zutavern: "The best thing that boards can do is look for where the biggest opportunities are, either on the revenue or customer side or with cost savings and efficiency. Start with the business problem and then figure out what technologies would best apply to that. For example, with AI, we're seeing a lot of traction in applications where companies need to forecast customer demand or the supply chain. Old methods rely on using several years of historical data, which is no longer relevant for many companies, whereas AI methods actually allow you to make more accurate predictions based on a small amount of data that's more recent and updated more often."

Van Lee: "You need to be as laser-focused as you can about how a technology such as AI will add value in what you're doing as opposed to a 'boil the ocean' sort of approach."

4. SEEK OUT THE SHORTCUTS.

Eaves: "People might be surprised at how quickly some of these AI use cases and technologies are becoming commoditized. Companies don't necessarily need to invent AI and machine learning applications [from scratch]. Once they're clear on the business problem that they're trying to solve, there are increasingly off-the-shelf solutions that companies can deploy."

5. MAKE IT A COMPANY-WIDE PRIORITY.

Van Lee: "You need a change management approach. Find advocates, pick strong use cases, build on success, communicate it widely, begin to get more people on board because of the people that succeeded. I find that when people don't do that combination or all of those things, in many cases, there is a problem."

6. VET YOUR BOARD COMPOSITION.

Eaves: "This is not a comfort zone for some board members, so they gravitate toward focusing on risk management. I think the more valuable board members for our companies are the ones who can think about digital on the top line. They can help think about digital to reach new customers, to enter new markets, to help grow the revenue line of the business. As investors, we look for board members who, of course, can pay attention to the risk side but can also help use technology to grow the businesses." **CBM**