

A CORPORATE BOARD MEMBER/DILIGENT INSTITUTE RESEARCH REPORT

# WHAT DIRECTORS THINK

## Navigating A Pivotal Year



**NAVIGATING THE EVENTS OF 2020 MAY BE ONE OF THE GREATEST CHALLENGES U.S. BUSINESS LEADERS WILL FACE IN THEIR LIFETIMES.** Keeping a healthy bottom line through a global health crisis, a controversial presidential election and rampant social unrest, all the while ensuring employee safety, preserving community welfare and planning for a recovery is a tall order. Add to that directors' fiduciary duty toward stakeholders and the long-term health of their company, enhanced scrutiny on board composition and the need for refreshment, as well as growing criticism of capitalism and executive pay, and it is clear that directors today have a greater oversight responsibility for a growing amount of issue areas.

Aside from Covid-19, however, none of these challenges are new. The trends that have come to light because of the pandemic existed long before the coronavirus shut down most of the world's economy. The pressure for better ESG reporting and the push to onboard younger and more diverse directors were prominent issues prior to 2020. Regulatory compliance has always been a staple topic of conversation in the boardroom, particularly when there's a changing of the guard in Washington. Shareholder engagement and warding off activist movements were also top of mind in previous years.

What has changed, however, is the pace at which directors are having to tackle these issues—and how quickly the wrong decision can now escalate your company to the front page of the newspaper. With the upswell in social movements against racism and inequality, there is growing public attention paid to any corporate wrongdoing—or lack of doing.

Some new issues have permeated the boardroom in recent years: emerging technologies, cyber risk and data privacy laws are all modern concepts of governance. Directors are continuously adapting to new realities and it's against that background that we sought to find out what was occupying their thoughts and conversations when looking at the year ahead.

Every fall, as part of our long-running What Directors Think franchise, Corporate Board Member surveys hundreds of public company board members on the topics that are top of the agenda in the boardroom for the year to come. For this 18th edition of the research, we partnered with Diligent Institute and asked 400 directors about the challenges and opportunities they see on the horizon as we kick off 2021.

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## KEY FINDINGS



Covid-19 and its impact on the economy tops corporate directors' list of concerns as we head into 2021, followed closely by the political landscape



Half of directors say the events of 2020 have heightened their boards' awareness of the need for diversity and inclusion—both in and out of the boardroom



Although directors say it's now become an integral part of the overarching strategy, ESG discussions with shareholders were scarce in 2020

### Other Findings Worth Noting:



Cyber risk is back on boards' agenda priorities, as companies pivot to a remote-work environment



The majority of directors continues to find new technologies and culture as the most challenging aspect to oversee in their role



After pausing at the height of the crisis in the spring/summer of 2020, an increasing number of companies are once again turning their attention to growth and M&A opportunities

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## IT HAS BEEN NEARLY A YEAR SINCE THE COVID-19

virus was reported on U.S. soil, and much ink has already been spilled about how it has affected businesses across every sector and region of the nation. In recent weeks, however, with the U.S. beginning to deliver vaccines, the focus of many corporations has shifted out of damage control and back toward growth.

One growth discussion that has returned to the board agenda is M&A. When we surveyed directors in June/July 2020, in the midst of widespread lockdowns, global M&A activity was down considerably year-over-year, and less than a third of surveyed directors reported engaging in M&A activity during the first half of 2020. Prices were cheap, but directors feared the continuation of the downturn could push prices even lower or, worse, cause irreparable damage to a target acquisition, thus increasing the risk of a bad deal. Two quarters later, the conversation has resumed: nearly half (48 percent) of directors wish to discuss M&A at their next board meeting—the second highest-ranked topic behind the Covid recovery, according to our fall survey. When asked about the risks, many directors said they're now feeling more confident in their valuations and understanding of how the crisis has affected companies and believe this is a good time to seize opportunities created by the pandemic.

Yet, there's a great amount of uncertainty remaining: Will the vaccine successfully eradicate the threat of the coronavirus? When will businesses be able to return to full operations? How long will it take for consumers to return with confidence? What will be the total cost of this pandemic on the world? How will this crisis change, perhaps permanently, the way we conduct ourselves and business in general? All those, and many more, are questions that have yet to be answered. As a result, companies and their boards continue to find themselves in a fragile state, needing to plan for the recovery but still tackling the paramount challenges the crisis has created.

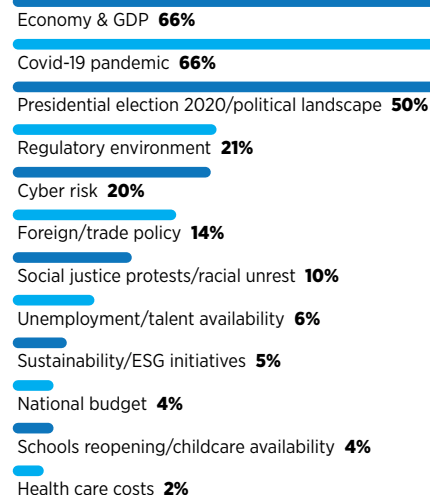
It is no surprise that fully two-thirds of the 400 directors we surveyed said the economy and the pandemic were their top concerns keeping them up

### If you were charged with setting the agenda for your next meeting, which topics would you include as most relevant?



\*Directors were asked to select up to 5

### Top Concerns Keeping Directors Up At Night When Thinking About the 2021 Growth Outlook



\*Directors were asked to select up to 5

at night. Board members say they are spending an increasing amount of time scenario-planning, trying to account for potential developments to an unprecedented situation.

At the time of polling, conserving cash in the event of another—or prolonged—downturn seemed to be the most important element to companies' short-term strategy: 26 percent of directors listed it as "Extremely Important" to their company's success going into 2021. But more telling of the impact the pandemic has had on business is the second most important item on that list: technology.

Technological disruption is a high priority for directors in 2021, as companies adapt to a remote workforce and what many predict will become a hybrid workplace in the near future. Directors rank technology upgrades or adoption as second-most important to their strategy this year, followed very closely by talent recruitment and development. The two naturally go hand-in-hand as emerging technologies require significant upskilling and rethinking of traditional processes.

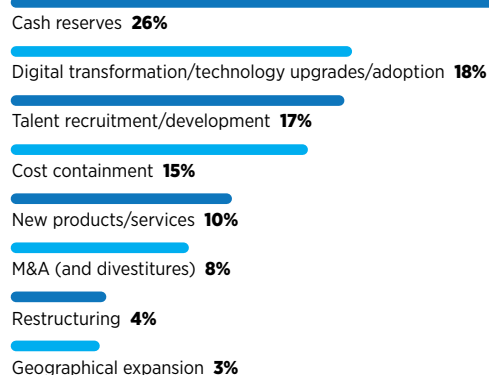
Meanwhile, among the issues directors find most challenging to oversee, new technologies/innovation rank at the top, with 42 percent of them selecting it as a challenge. Cybersecurity isn't far behind, coming in third place with 37 percent—which directors say is an issue that has been reignited by the remote environment.

## DISCUSSION ITEMS

### FOR YOUR NEXT BOARD MEETING:

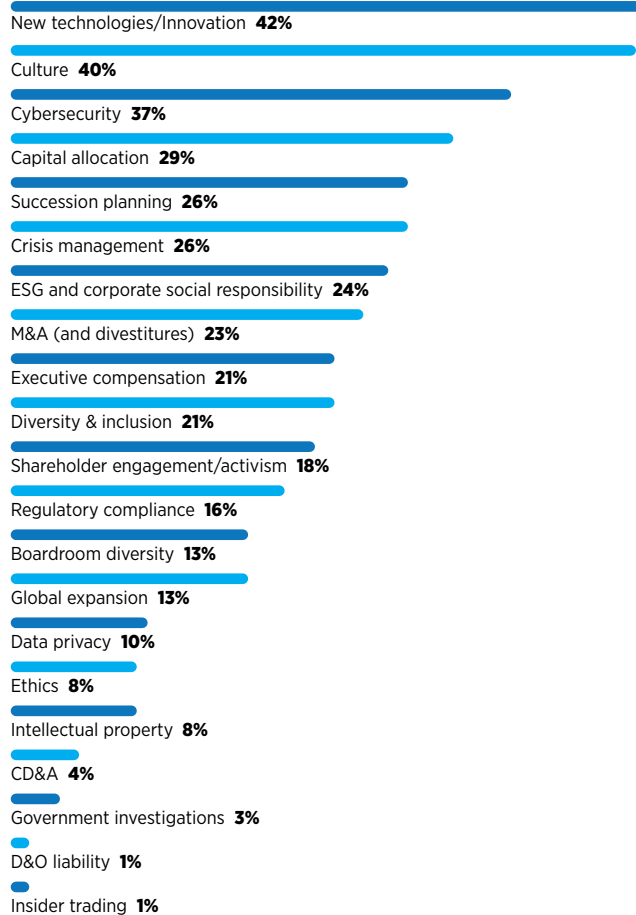
- Embrace the opportunity for transformational change as a result of the pandemic by exploring new avenues to long-term value creation.
- Bring in necessary experience (either through board refreshment or outside expertise) to ensure the board has a foundational understanding of technological disruption, cyber risk and cybersecurity.

## Most important internal elements for the success of the company's strategy in 2021



\*Percentages may not add up to 100% due to rounding

## Which of the following issues are most challenging to oversee in your role as a director?

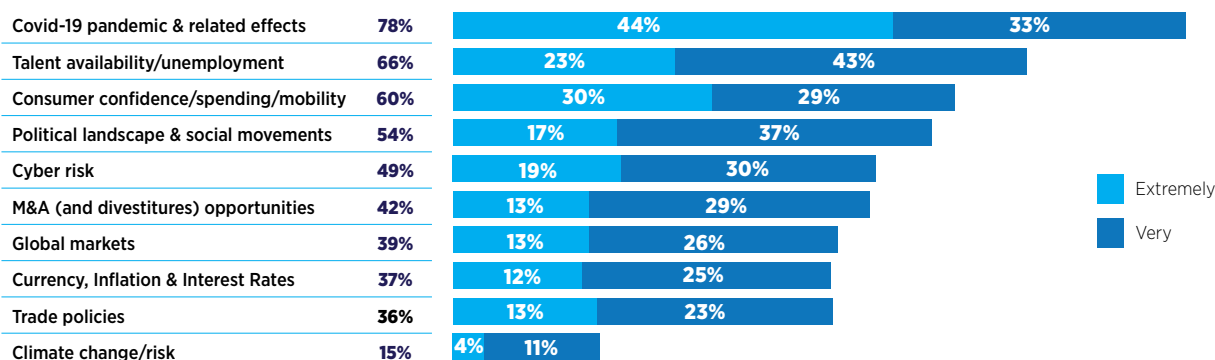


\*Directors were asked to select up to 5

## RISKS AND OPPORTUNITIES OF THE POLITICAL LANDSCAPE

With the series of events disrupting the normal course of business—and life in general—2020 will go down as a year of great societal challenges. The highly controversial and contested U.S. presidential election undoubtedly added to the uncertainty and volatility and, as we kick off 2021 with a new administration in place, directors reported concern with the likelihood of new regulations and fewer business-friendly policies. Fifty-four percent rated the political landscape as “extremely” or “very” important to their company’s strategy this year.

### External elements deemed “Extremely” or “Very” important to corporate strategy in 2021



Half of the directors we surveyed in September and October 2020, prior to the election results, said the political landscape was keeping them up at night when thinking about their company’s growth outlook for the year ahead—third on their list of concerns, after the economy and Covid-19. (see graph on p.4)

In December, however, when we polled them again on their outlook now that the presidential election had been certified and a Covid-19 vaccine was beginning to roll out across the country, directors reported growing optimism in future business conditions, with three-quarters of them forecasting increases in revenues and profits for the year ahead.\* In addition to vaccines, directors listed market liquidity, pent-up consumer demand, low interest rates, supply chain improvements, savings waiting to be

deployed back into the economy and the latest stimulus government bill among the reasons for their increasingly positive forecast.

Protests and issues of racial inequality have been prominent in 2020, prompting corporations to take a long look inward at their human capital practices and talent strategies. The introspection didn’t stop at the leadership team: 49 percent of directors participating in our What Directors Think survey say the recent push for enhanced diversity and inclusion (D&I) triggered new discussions at the board level about the company’s corporate citizenship—with another 41 percent saying there were no new discussions simply because D&I was already at the forefront of the board agenda. Only 10 percent said the social events of 2020 had no impact on their board discussions.

\*Source: Director Confidence Index, Corporate Board Member/Diligent Institute, December 2020. BoardMember.com/Director-Confidence-Index

## DISCUSSION ITEMS

### FOR YOUR NEXT BOARD MEETING:

- Remain vigilant regarding vaccine timelines and possible roadblocks, as the manner and timeliness with which a vaccination is distributed will likely impact the trajectory and pace of economic recovery.
- Clarify the board’s role in political risk oversight and bring in necessary expertise (either on the board or in the form of outside experts) to stay informed and act quickly regarding political risk in hyper-partisan and uncertain landscapes and business environments.
- Conduct scenario-planning exercises surrounding changing regulatory and tax environments if applicable to ensure preparedness for a Democratic administration that is less friendly toward corporations.

## BOARD COMPOSITION AND DIVERSITY

On a scale of 1 to 5, do you agree that U.S. boards are doing enough in their efforts to broaden diversity among their ranks?

Completely agree ..... Completely disagree



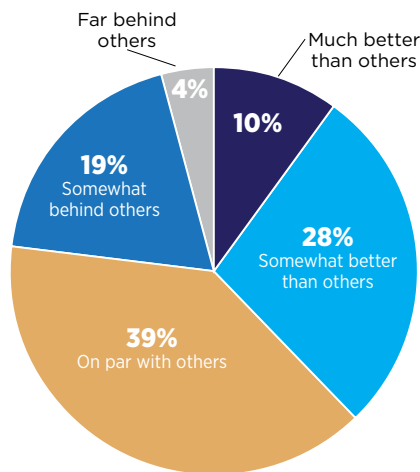
The breadth and depth of conversations pertaining to diversity are worth noting, from increased awareness of hiring practices to the creation of D&I councils and the implementation of compensation incentives linked to the achievement of diversity goals. More specifically, directors note enhanced focus on minority recruiting, diversity metrics and reporting; the identification of high-potential diverse employees and long-term succession planning for management and the board; bringing in third-party experts to consult with the board and speak with employees; and creating, elevating or expanding on the role of the chief diversity officer.

While some directors say these issues distract from the more urgent topics boards should be concentrating on, the great majority of respondents said they hold social issues in high regard and understand their stakeholders are now requesting more transparency and concrete reporting on the matter.

When it comes to their own composition, however, 42 percent of directors believe U.S. boards are doing enough in their efforts to broaden diversity among their ranks—and another 34 percent is on the fence. Only 24 percent say there is significant progress to be made.

When asked to compare their industry's diversity ratio against others, most directors say they're either on par with others or slightly ahead. Only 23 percent report being behind.

In your opinion, how does your industry fare in terms of D&I when compared to other industries?



Shareholders have been scrutinizing board composition for years now, and directors have been making great strides to diversify their boards. According to our survey, 82 percent of directors say their current board has a “good” or “ideal” balance of skills and people, rating it a 5 out of 5 (“Ideal”) or a 4 out of 5 (“Good”) on our 1-5 scale.

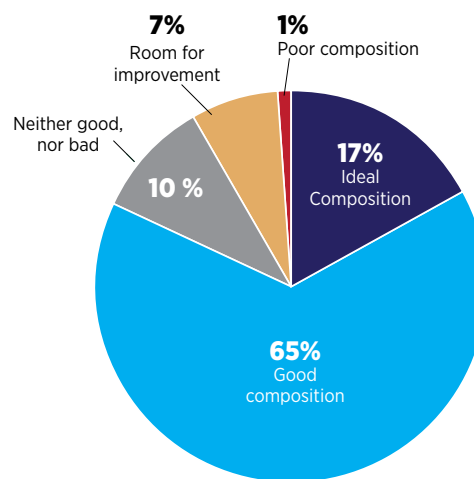
It is interesting to note that despite saying they are satisfied with their current composition, achieving skillset diversity remains a top priority for 68 percent of directors in the selection of their next board member. Racial diversity and industry expertise are next on the list, with 48 percent and 46 percent of the votes, respectively. CEO experience, which has long been considered a deterrent to diversity due to the narrow pool of diverse candidates within those ranks—especially when specific to an industry—has dropped in importance on the list of criteria this year and now resides below several prominent facets of diversity (racial, gender, background).

## DISCUSSION ITEMS

### FOR YOUR NEXT BOARD MEETING:

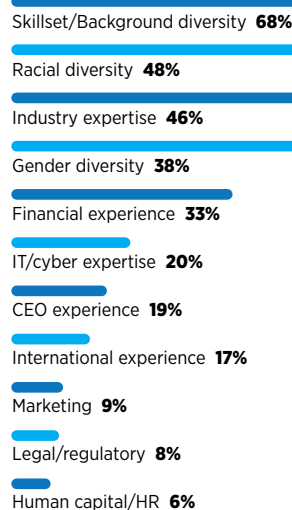
- Fully embrace the advantages of diversity as an advantage for long-term value creation through building out a robust plan for increasing DE&I at your company within a realistic timeframe.
- Employ techniques for increasing diversity through the board refreshment process and re-evaluate hiring processes to understand where you may be artificially limiting diverse perspectives.
- Ensure that diversity continues to be a topic of discussion in the boardroom and beyond by staying up to date with relevant research and other developments surrounding diversity (legislation, etc.) that could affect your company.

## How would you rank your current board’s composition today, as it pertains to having the right people with the right skills at the table?



## DIVERSITY NOW OUTRANKS CEO EXPERIENCE AMONG MOST IMPORTANT ATTRIBUTES TO BOARD MEMBER SELECTION.

### How important are the following attributes to the selection of your board’s next new member?



\*Respondents were asked to select all that apply



## ESG AND SUSTAINABILITY

Over the past few years, we've seen environmental, social and governance issues gain prominence in the boardroom, mainly due to the pressure placed by larger shareholders calling attention to a company's footprint on the community it serves. Directors say the great majority of those issues were already part of their purview, well before institutional investors turned them into headlines, but that it's the need for enhanced measuring and reporting that has been driving recent conversations.

Most directors agree about the importance for a company to be a good and fair employer and a good corporate citizen, although financial performance still bears greater importance in their eyes—a perspective very few, if any, shareholders would refute. Almost all (99 percent) directors surveyed said overseeing financial performance is of high importance for a board, compared to 88 percent who feel the same about the company's fair employment practices and 75 percent about its corporate citizenship.

Despite its importance, ESG remains a challenging area for directors, who say many of the issues don't apply to them and that these matters should not be clumped under a single umbrella. They say doing so is causing boards to look at ESG as a check-the-box exercise rather than striving to seize opportunities to improve long-term value creation. The amalgam of variables that the term ESG coins has a reductive effect on its efficiency, according to directors, and the three topics require separate guidance.

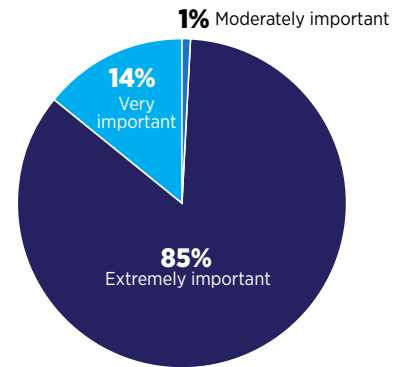
The survey indicates that there is concern and confusion in boardrooms about the metrics and standards used to evaluate companies' efforts. Numerous respondents voiced their discontent with the lack of guidance and standardization in reporting, which, they say, are necessary to properly and fairly assess and compare corporate performance among corporations and peer industries.

According to the survey data, directors are much more comfortable measuring Governance aspects of ESG, unsurprisingly. Eighty-two percent report having been successful in measuring G initiatives compared to 60 percent and 55 percent for S and E efforts, respectively.

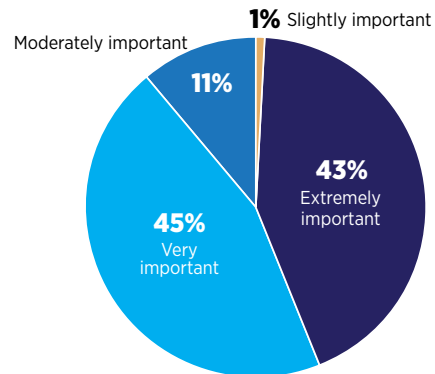
Similarly, reporting on G has been successful for a full third of survey respondents, vs. 56 percent and 50 percent for S and E initiatives, respectively. (see chart p. 10)

**How important are the following elements for the board to oversee?**

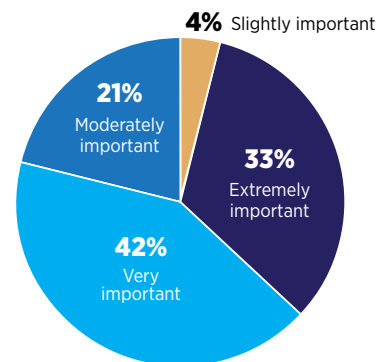
### FINANCIAL PERFORMANCE



### BEING GOOD AND FAIR EMPLOYEE



### BEING A GOOD CORPORATE CITIZENSHIP



Directors say they are growing concerned with the potentially political agenda behind some of the ESG components they are asked to monitor, as well as with the review, recommendation and rating processes of shareholder advisory firms. Boards are demanding more transparency and consistency in the measuring metrics, and the ability to provide input and to challenge ESG scores.

Some also say the “new” attention is overblown and that companies have always had to be cognizant of the needs of all stakeholders and responsive to them to be successful for stockholders. In other words, none of this is new. They say successful companies are always mindful of their impact on the community and that these discussions are part of the natural course of business among leadership and should not be forced.

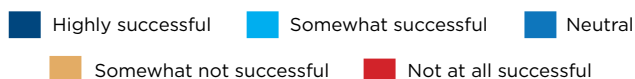
Interestingly, only 27 percent of directors say the issue has been raised as a topic of discussion by shareholders this year. While it is possible the Covid-19 pandemic pushed the issue down the agenda, that number is fairly in line with what we observed pre-2020—24 percent of directors gave the same response in 2019.

## DISCUSSION ITEMS

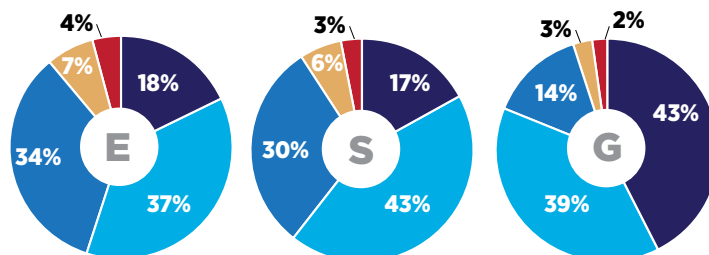
### FOR YOUR NEXT BOARD MEETING:

- Understand where your company fits into ESG frameworks and goals in terms of your industry, products, and goals. Different organizations can make different contributions to the ESG space, and there is no one-size-fits-all.
- Once you have ascertained ESG goals that make sense for your company, explore different platforms and methods of accurately measuring and reporting out on these goals.
- The ESG space is constantly expanding and shifting. Stay up to date on relevant research and happenings, so that you can be better prepared for boardroom conversations and changes to the way your company achieves its goals.

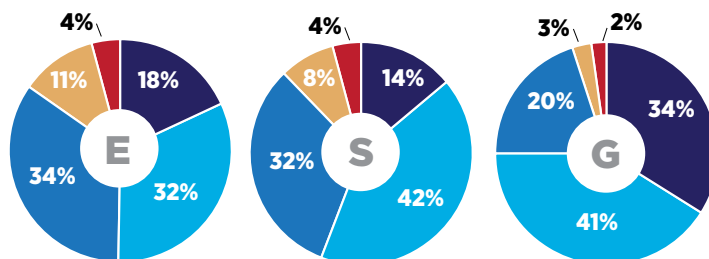
**On a scale of 1 to 5, please rate your company’s success with measuring and reporting the effectiveness of Environment, Social and Governance (ESG) initiatives:**



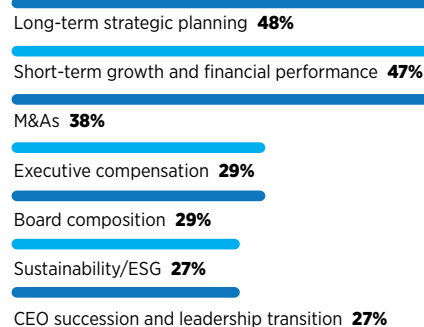
#### MEASURING



#### REPORTING



### Top issues raised by shareholders in 2020



\*Directors were asked to select all that apply

## DEMOGRAPHICS

### TITLE

Executive director	8%
Outside director	70%
Board chair	12%
Lead director	10%
Committee chair	44%
Committee member	37%

### MARKET CAPITALIZATION

Emerging (less than \$300 million)	13%
Small (\$300 million to \$1.9 billion)	27%
Mid (\$2 to \$9.9 billion)	39%
Large (\$10 billion+)	21%

### SECTOR (GICS)

Financials	24%
Industrials	19%
Real estate/REIT	7%
Information Technology	8%
Energy	7%
Consumer Discretionary	12%
Materials	5%
Healthcare	11%
Consumer Staples	4%
Telecommunications	1%
Utilities	1%

### COMMITTEE REPRESENTATION

Nom/Gov	59%
Audit	58%
Compensation	54%
Risk	16%
Ethics	3%
Innovation	3%
Other	23%

### CURRENT BOARD SERVICE

One	55%
Two	28%
Three	13%
Four	3%
More than four	1%

### PUBLIC COMPANY DIRECTOR TENURE

10+ years	58%
5-9 years	25%
1-4 years	16%
Less than 1 year	2%

# CORPORATE BOARD MEMBER

Corporate Board Member, a division of Chief Executive Group, has been the market leader in board education for 20 years. The quarterly publication provides public company board members, CEOs, general counsel and corporate secretaries decision-making tools to address the wide range of corporate governance, risk oversight and shareholder engagement issues facing their boards. Corporate Board Member further extends its thought leadership through online resources, webinars, timely research, conferences and peer-driven roundtables. The company maintains the most comprehensive database of directors and officers of publicly traded companies listed with NYSE, NYSE Amex and Nasdaq. Learn more at [BoardMember.com](http://BoardMember.com)

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Diligent Institute provides industry-leading research on global board governance. Today's increasingly dynamic world presents a dizzying array of economic opportunities and challenges. As companies navigate that environment, high-quality governance is more important than ever to ensure effective oversight, protect and create jobs, and positively impact the economy. The Institute equips board directors and corporate leadership teams at organizations around the globe with insight to inform forward-looking decisions that leave a meaningful mark on the world.

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