EY Center for Board Matters

Six priorities for boards in 2021

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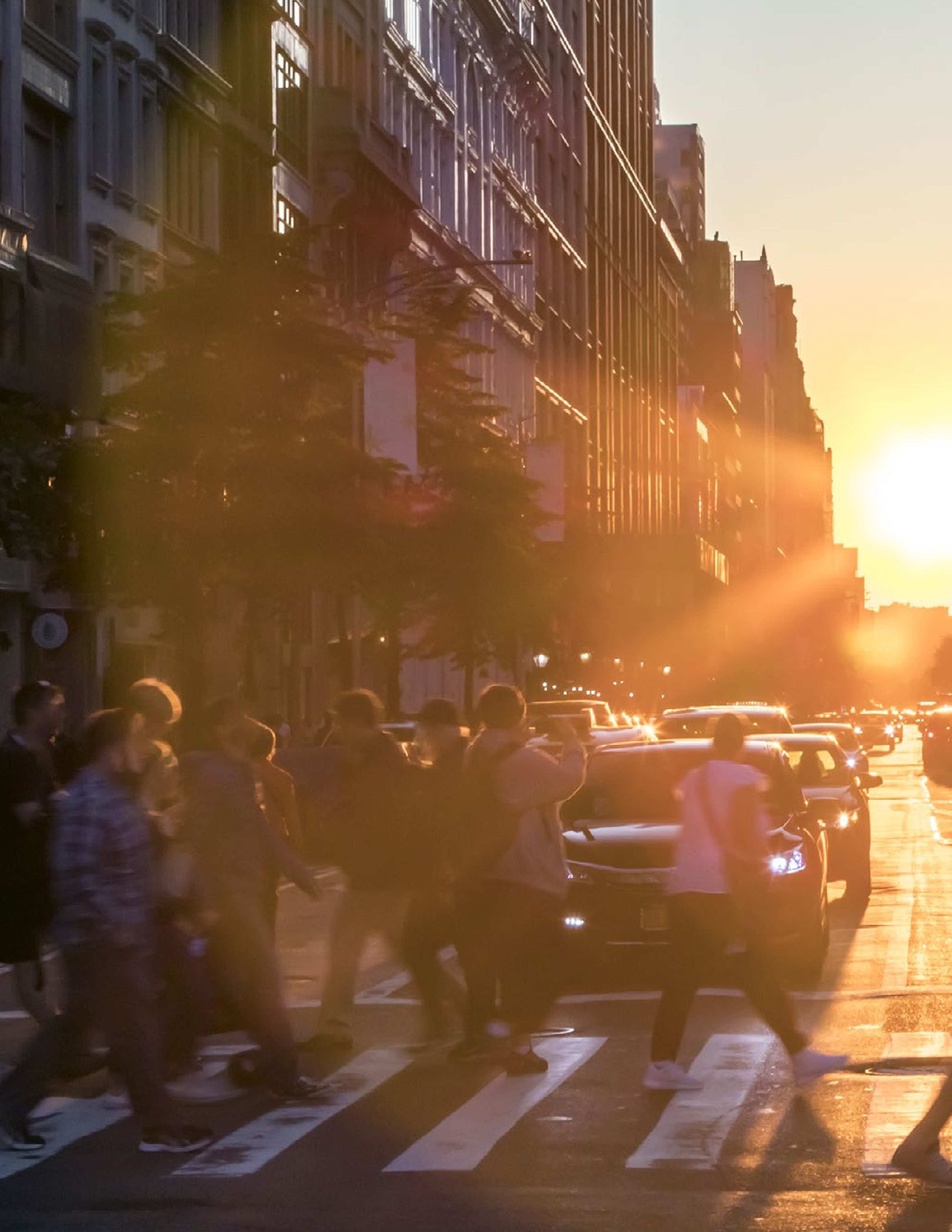
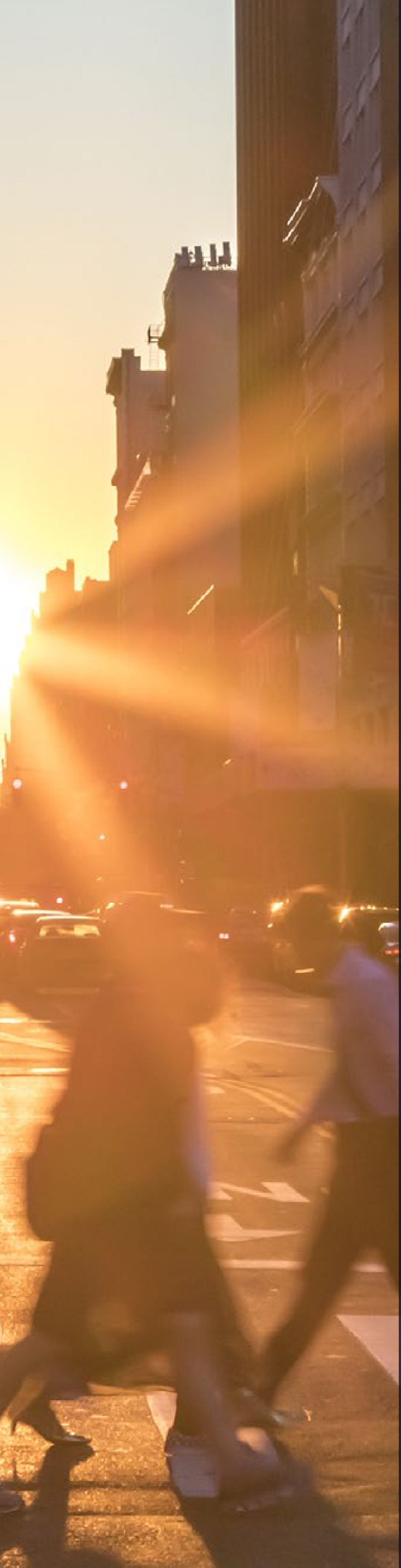
Building a better working world





Six priorities for boards in 2021

Following a year of global upheaval, organizations are re-evaluating every aspect of their business. In 2021, companies and boards will face an acceleration of existing challenges and be compelled to address how they are building resilience and creating sustainable value in a rapidly changing business environment. With increased investor scrutiny and stakeholder considerations, boards will be well served to focus on the following priorities in 2021:

- Overseeing strategy to create long-term value
- Promoting enterprise resiliency in the face of uncertainty
- Focusing on workforce transformation and new ways of working
- Leading on diversity, equity and inclusion
- Guiding an ESG strategy that drives stakeholder engagement and value
- Challenging board composition and effectiveness

Board priority for 2021

Overseeing strategy to create long-term value

Leading boards are working with management teams to oversee a strategy formulation process that drives long-term value – a difficult task made more complex by the need to solve for the now, explore the next and reimagine the world beyond 2020.

In today's stakeholder-focused business environment, it is imperative that companies define both financial and nonfinancial value drivers and include them in strategy-setting as they consider the needs of investors, employees, consumers, society and other key stakeholders. Longer-term assumptions within the strategy should be developed using internal and external sources of information on megatrends, investment flows by venture capital and private equity entities, along with monitoring merger and acquisition, alliance and joint venture activity. Traditional sector and adjacent construct analyses along with external risk intelligence can provide early indicators of emerging opportunities and risks.

An analysis of the full potential of the company's existing business model(s) and weaknesses can determine the need and timing of strategic pivots. Indeed, during 2020, winners were able to quickly adjust their business models to meet new stakeholder needs (e.g., work from anywhere, food/supply delivery and pickup, telemedicine and digital offerings). The strategy should be inclusive of investments in strategic competencies to meet material stakeholder needs and future expectations, including those related to environmental, social and governance (ESG) matters.

Once the strategy is refreshed, it is critical for the board and leadership team to consider operating model changes including culture and employee behavior requirements to confirm alignment with the organization's purpose, vision and strategy. Finding ways to foster innovation broadly through a company's culture can enhance strategy and thus growth for the long term.

Management should integrate strategy and culture with the company's enterprise risk management process and provide the board with timely updates related to strategic opportunities and risks. This was a focus of the Committee of Sponsoring Organizations' update of its risk management framework – the first two components of which are governance and culture; and strategy and objective-setting – indicating the importance of monitoring these topics for risk mitigation.

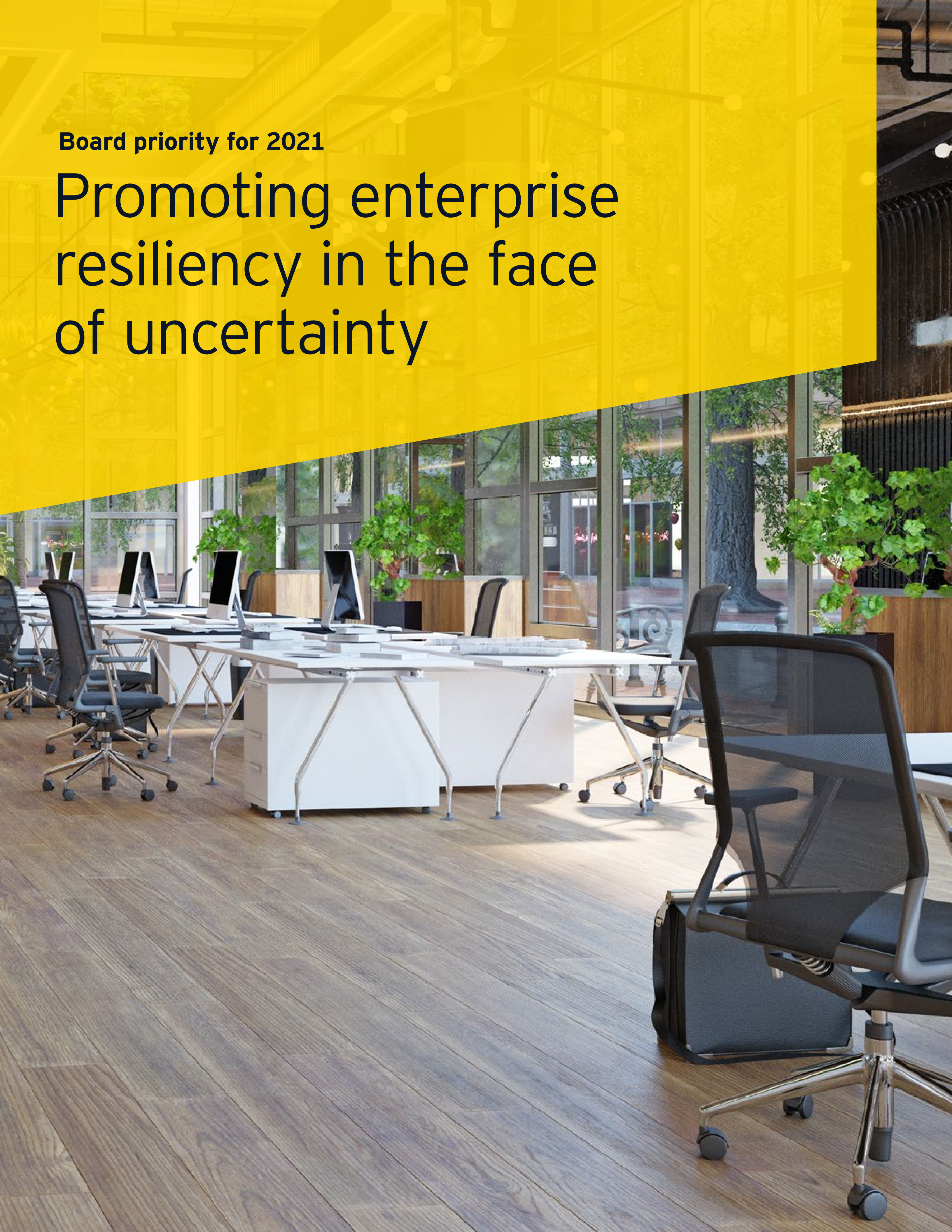
Finally, the board and management should collectively challenge whether they have the appropriate governance processes to enable the timely review and implementation of a robust strategy across the short-mid-, and long-term time horizons. A long-term value dashboard that includes metrics to gauge financial, human, consumer and societal value should be reviewed regularly by the board and monitored by management to ensure metric credibility. Board time should also be evaluated along with the potential use of a committee or an ad hoc committee given the need to continuously review strategic assumptions over a longer term.

Key actions for directors to take in 2021

- Balance the board's oversight of strategy and investments over the short, medium and longer terms to sustain long-term value.
- Obtain an appropriate mix of internal and external data and information to validate key assumptions and determine strategic pivots.
- Integrate ESG opportunities and risks into strategy frameworks and decisions.
- As strategy shifts, evaluate that the culture has been redefined to incorporate new behaviors required to drive the strategy over the long term.
- Create a long-term value dashboard with regular briefings to the board to ensure shareholder value improvement manifests from a balanced focus on financial, human, consumer and societal value drivers.

Board priority for 2021

Promoting enterprise resiliency in the face of uncertainty



Board members are playing a pivotal role in helping management adapt their organizations to the world beyond the pandemic and overseeing how resiliency is built into all aspects of the business.

The foundation of this work includes board oversight of updates to scenario plans, stress testing and contingency planning that critically emphasize key assumptions and variables across a range of extreme scenarios.

Based on the outcomes of these scenario plans and stress tests, organizations are assessing liquidity needs and shoring up financial stability, strengthening supply chains (through resilience assessments and networked ecosystems with end-to-end visibility) and enabling greater flexibility in operating models.

A physical return-to-work scenario will call for continued focus on employee health and well-being and building trust in safety protocols and monitoring. This may require new or enhanced health and safety capabilities such as testing, certification, contact tracing and vaccination. Additionally, capacity planning and changes to workspace configurations are prompting a re-evaluation of companies' geographical footprint and related real estate needs.

Successful companies will adopt agile approaches to navigating the rapidly shifting business environment at the management level and in the boardroom. Boards will need to proactively anticipate change and address the risks and opportunities associated with key trends shaping the current and future business context. Some, like digital transformation, future of work and exponential climate impacts, have been accelerating and are already disrupting business models and strategy in the near term. These factors are also contributing to a shifting risk landscape, risk profile and risk appetite (including "upside" risks that will drive growth and value). Adding to this are risks associated with increased cybersecurity and privacy issues related to digital transformation and remote work, rising geopolitical risks and the changing regulatory environment, with governments likely to be more active in the economy for the foreseeable future.

Adapting enterprise risk management (ERM) processes and controls to be more responsive to change will help enable strategic pivots and build enterprise resilience. This includes assessing how the "three lines model" is being effectuated and discussing with management ways to optimize the model so that it is efficient and fit for purpose.

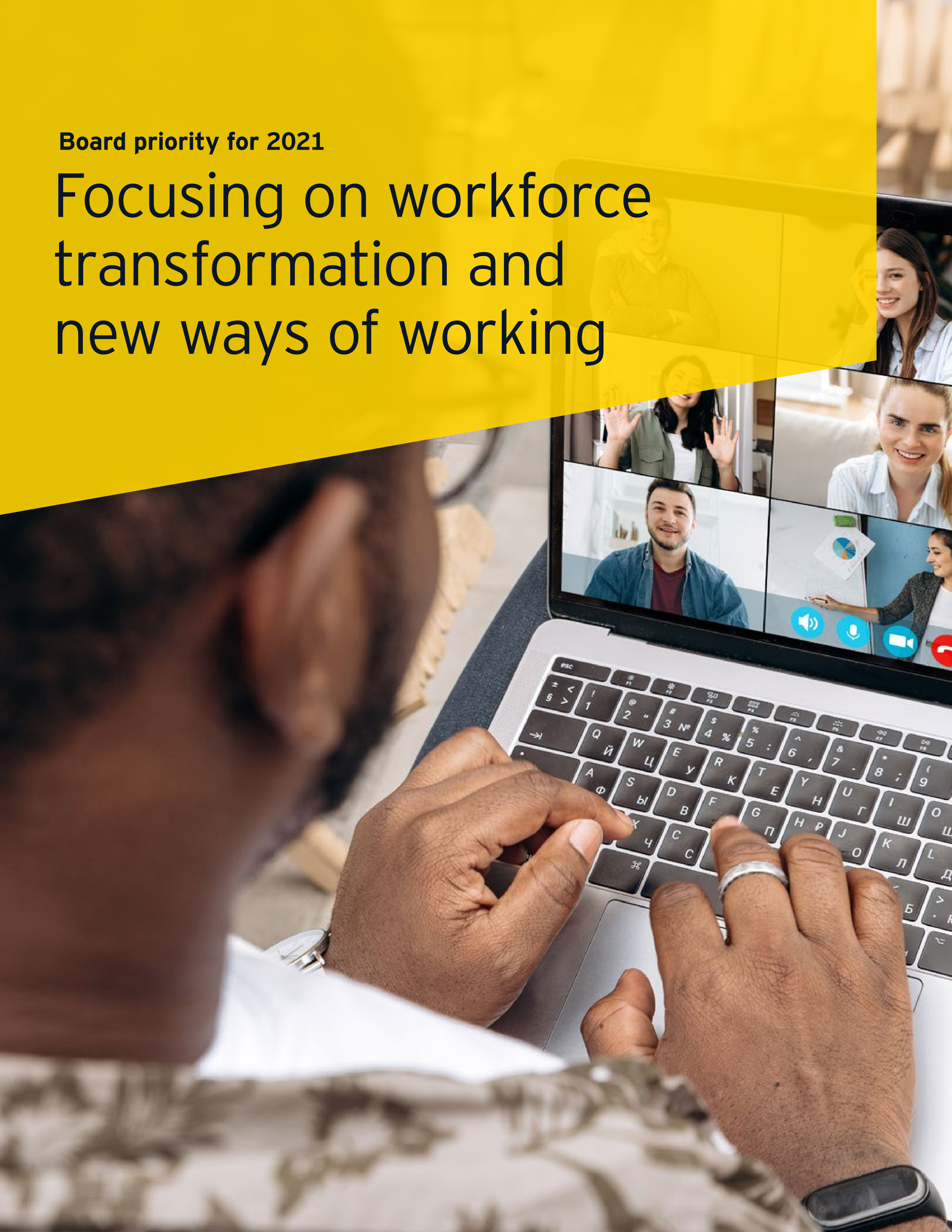
To help their organizations reimagine enterprise resilience and seize the upside of accelerating risks, boards should confirm management's use of data-driven intelligence from a wide range of sources, its management of risk aggregation and interdependencies across the value chain and the execution of regular postmortems to incorporate key learnings.

Key actions for directors to take in 2021

- Set aside more time on board agendas to challenge assumptions, review contingency plans and verify that management is incorporating low-risk/high-impact scenarios into its ERM frameworks and strategy.
- Analyze megatrends and identify key management and external advisors to regularly report to the board on material business environment developments and data points to continuously improve oversight of strategy and risk.
- Turn emerging risks into strategic value by taking a balanced approach to risk management across the three dimensions of risk: downside, upside and outside, with a greater focus on upside and outside risks.
- Review key performance indicators developed by management to measure key risks and opportunities and assess the value of material intangible assets — such as human capital and culture.
- Re-evaluate risk oversight practices and related structures to assess whether board or committee oversight changes would enhance oversight.
- Review management's conclusions and effectiveness following postmortems regarding corporate responses to the pandemic, social justice movements and other material economic and business impacts in 2020.

Board priority for 2021

Focusing on workforce transformation and new ways of working



Historically, many boards limited their talent oversight responsibilities to C-suite succession planning and development. Today's leading boards recognize human capital as a key driver of long-term value.

The remit of the board regarding human capital will continue to broaden throughout 2021. They also recognize that recent trends — including five generations moving through the workforce, digitalization, virtual work and automation — are redefining ways of working. The pandemic has accelerated this transformation and highlighted workforce management as a fundamental part of strategy that boards must oversee.

Companies are adapting to a new environment in which human health and wellness have taken a central role in operations. Virtual working is creating some challenges, but also opportunities related to pipeline development and succession planning; recruiting and onboarding; productivity; employee engagement; and culture development.

As technologies are leveraged with greater speed and innovation scales quickly, companies are upskilling and reskilling their people for the workforce of the future. This includes confirming the right balance in the workforce portfolio (e.g., traditional, virtual, contingent, digitally enabled) to optimize employee functionality and identify where to focus reskilling and development programs.

Boards have an opportunity to help guide workforce strategy to create competitive advantage and long-term value, and this requires the right information. This involves making the chief human resources officer (CHRO) a central board resource, regularly reviewing well-defined and robust metrics for human capital and culture intelligence, and finding opportunities to bring the employee perspective into the boardroom.

Further, boards must be aware that with the SEC's new human capital disclosures — driven in part by years of pressure from investor advocates — will come even greater scrutiny of human capital strategies, investment and oversight. This makes external reporting around strategic workforce issues a vital opportunity with impacts to the company's brand and reputation. Companies can leverage widely accepted external reporting frameworks to decide which metrics will resonate most with investors and other stakeholders.

Key actions for directors to take in 2021

- Review the board's approach to overseeing strategic workforce issues, including how related committee responsibilities are allocated (e.g., succession planning, human capital initiatives).
- Make the CHRO a central and strategic resource to the board by aligning their participation to strategy, business and disclosure discussions.
- Regularly review a comprehensive set of workforce and culture-related metrics, understanding how they are being collected, measured and controlled.
- Align decision-making related to the human capital strategy with the company's purpose, culture and values.
- Consider how the company's investments in reskilling workers or recruiting new employees are meeting current and future skills gaps and addressing innovation.
- Assess the quality and consistency of the company's human capital disclosures across various communication outlets and challenge how to optimize the impact on the company's brand and reputation, including with prospective employees and other key stakeholders.

Board priority for 2021

Leading on diversity, equity and inclusion

Making real progress on diversity, equity and inclusion (DEI) will be one of the hallmarks of 2021 as leaders implement significant changes to their recruitment and management processes and boards hold their management teams and themselves accountable.

The current focus on racial injustice has catalyzed bold statements from many companies in support of racial equality and highlighted the role business can play in promoting fairness and opportunity for diverse groups. Employees, consumers and investors are looking for companies to demonstrate commitment and action related to DEI, including disclosing current data, specific goals, plans to achieve those goals and outcomes from programs and initiatives.

Beyond maintaining social capital, leading companies recognize DEI as a key priority to driving business value. Diversity across multiple dimensions and experiences builds better businesses and attracts better talent, customers and investors. There is extensive evidence that companies with diverse talent and leadership have a strong competitive advantage with multiple perspectives as a key enabler of innovation, growth and profitability, and a driver of performance and value across a wide range of indicators. Similarly, research shows that diversity on boards improves board effectiveness and corporate performance.

A culture of inclusiveness is the key to maximizing the power of diversity and realizing the full potential of people, both across the workforce and in the boardroom.

Board members play an integral role in leading their companies through business and social change in ways that promote performance and value for the company and its stakeholders. Boards can better influence and lead their companies in strategically and systemically addressing the societal and performance drivers for DEI within their own ranks, throughout the workforce and among their business partners. Having transparent governance structures for overseeing DEI is critical to driving progress and creating accountability and will be an area of increasing investor scrutiny as the focus on human capital and other ESG topics grows.

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Key actions for directors to take in 2021

- Work with management to define and determine how DEI can help drive value for the company.
- Challenge how DEI considerations are embedded in the company’s human capital management programs throughout all steps in the employee life cycle.
- Understand how the company’s human capital management programs enable equitable opportunity, advancement and compensation.
- Consider how executive incentive pay could be more directly tied to the achievement of DEI goals.
- Assess how the board’s composition and director nomination process reflect the company’s commitments to DEI.
- Include DEI metrics as part of the company’s long-term value dashboard for credible reporting and updates to the board

Board priority for 2021

Guiding an ESG strategy that drives stakeholder engagement and value

A sustainable-investing surge is underway. Driven by many forces, such as investor demand and increasing recognition that ESG factors can be financially beneficial, record-setting inflows are going to companies deploying ESG investing strategies, and significant growth in ESG-branded funds points to continued momentum.

Investors are also raising the stakes when it comes to ESG stewardship. That includes high-profile ESG engagement priorities of asset managers and a record number of shareholder proposals on environmental and social topics securing majority support. At the same time, the ESG ecosystem continues to evolve, and recent market-driven and regulatory developments are accelerating standardized ESG reporting and impacting stakeholder expectations.

Boards have a responsibility and an opportunity to help companies capitalize on these trends and unlock ESG value to build long-term competitive advantage, enhance resiliency to accelerating sustainability risks and attract the increasingly socially conscious investors, talent and customers the company seeks.

To do this, a materiality assessment is a critical early step to identifying and prioritizing the ESG issues that are most relevant to the business. Once the ESG priorities are defined, the board is well positioned to help guide the design of an ESG strategy aligned with the corporate strategy that strengthens current business initiatives and addresses gaps related to those priorities. To help drive the strategy, it is important for boards to oversee ESG goal-setting and the identification of relevant metrics to measure, manage and communicate progress. Providing for transparent board processes and structures for governing ESG is also fundamental to success.

To further differentiate the company from its competitors and enhance performance, boards can oversee ESG's integration into broader business strategy and ERM. Doing so can strengthen the sustainability of the company's business model over the long term and help management navigate accelerating ESG-related risks and strategic opportunities. Finally, through overseeing ESG communications and reporting, boards can support providing stakeholders a broader view into how the company is delivering and protecting value.

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Key actions for directors to take in 2021

- Capitalize on ESG investing and stewardship trends.
- Understand the ESG ecosystem and developments impacting stakeholder expectations.
- Guide ESG strategy development based on a materiality assessment and oversee the identification of ESG metrics and goal setting.
- Support the integration of ESG with broader strategy and ERM.
- Consider how the company tells its ESG story through various channels and confirm that messaging is consistent and data quality is validated.

Board priority for 2021

Challenging board composition and effectiveness

Throughout 2021, boards should continue to enhance their own effectiveness. Board competencies, practices and committee structure and responsibilities can be continually improved to meet ongoing and emerging challenges, including the impacts of COVID-19.

Increased focus on long-term value creation, operational resiliency and ongoing governance trends related to ESG and strategic workforce issues may also influence board agendas and how the board provides oversight.

In view of continued remote working and meetings, which will continue well into 2021, board meeting and information communication and security practices will need to be agile and effective. Charters, committee structure, agendas and time commitments may all need to be reassessed to drive board effectiveness and increase accountability.

Access to the right information and people at the right time, always a critical board issue, is even more important in view of unprecedented uncertainty and rapid changes in business environments globally. Board members should assess the quality and timeliness of information from management and seek outside expertise and input from key stakeholders who can provide perspectives and highlight trends that could impact the business.

As boards navigate an ongoing global crisis, address the changing expectations of stakeholders and demonstrate leadership on issues of diversity, equity and inclusion, they may need to challenge how their composition reflects the stakeholder base and reassess the appropriate competencies needed to oversee strategic opportunities and risks now and in the future. Regular board refreshment, coupled with ongoing education for all board members, must be embraced as table stakes for meeting changing oversight needs.

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Key actions for directors to take in 2021

- Confirm the board is receiving the information it needs from a variety of sources to keep pace with external developments and challenge status quo thinking.
- Assess the board’s expertise and diversity against rapidly evolving strategic opportunities and risks and stakeholder expectations. Develop individual and collective learning opportunities to enable directors to stay on top of current trends and leading practices.
- Challenge whether board and committee meeting frequency, length, format and security remain fit for purpose in a continued virtual environment.
- Contemplate using a third party to provide objectivity and facilitate or improve the board evaluation process and actionable outcomes.
- Promote ongoing board evaluation beyond the formal annual process, such as making time for reflection on performance during board and committee meetings or quarterly executive sessions.
- Enhance communications to stakeholders to build confidence in a time of uncertainty.

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Effective corporate governance is an important element in building a better working world. The EY Center for Board Matters supports boards, committees and directors in their oversight role by providing content, insights and education to help them address complex boardroom issues. Using our professional competencies, relationships and proprietary corporate governance database, we are able to identify trends and emerging governance issues. This allows us to deliver timely and balanced insights, data-rich content, and practical tools and analysis for directors, institutional investors and other governance stakeholders.

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- Five ways boards can unlock ESG's strategic value
- How boards can lead on racial diversity, equity and inclusion
- Six ways boards are enhancing their evaluations and related disclosures
- Four ways to enhance risk oversight
- How boards can support a geostrategic response to new political risks
- How the governance of human capital and talent is shifting