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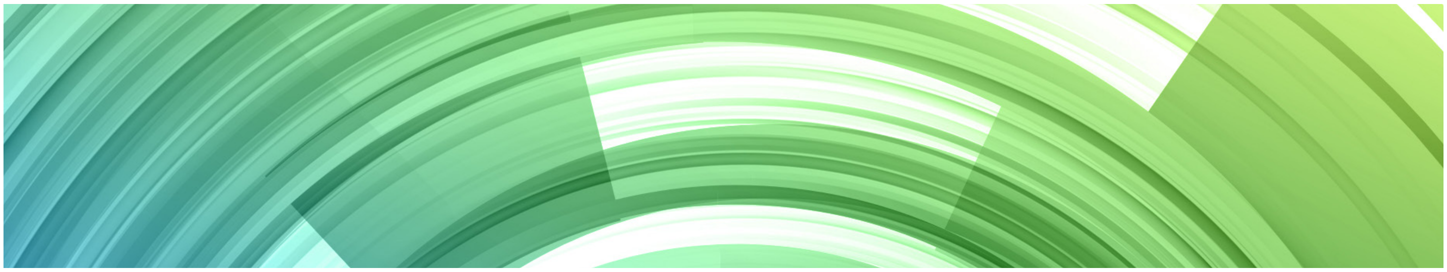
On the board's agenda | US
The 2022 boardroom agenda

The role of the corporation and the board in an ever-changing world

The saying "the more things change, the more they stay the same" has been around for a long time, but events of the past few years suggest that it may no longer be true. Those events have stress tested the status quo to a remarkable degree: We have experienced and continue to experience wave after wave of a global pandemic, domestic and global political and geopolitical uncertainty, the increasingly menacing existential threat of climate change, and demands for racial and political justice—to name just a few.

From the perspective of business, these developments have been accompanied by another challenge to the status quo—the increasingly widespread belief that corporations cannot and should not ignore the world around them, but rather should be engaged members of society and act to address the challenges we face. For example, the 2021 Edelman Trust Barometer reported that "sixty-one percent of respondents expect CEOs to fill the void left by government in fixing societal problems, while 65 percent feel CEOs should be as accountable to the public as they are to their shareholders."[1]

1. Dave Samson, "A new mandate to lead in an age of anxiety," Edelman, January 12, 2021.



These heightened expectations for CEOs and the companies they lead, and the responsibilities those expectations imply, are also significant for the boards that oversee CEOs and their management teams. Boards may no longer be able to advise a CEO to stick to business and focus on traditional performance metrics to the exclusion of the society in which the company operates and the ills of that society. These expectations and the challenges—and opportunities—they create are also reshaping the 2022 boardroom agenda. Thus, while boards remain responsible for overseeing business fundamentals, such as strategy and risk, they must also focus on a host of additional, new issues that will occupy more and more time in the boardroom.

Some of these issues are discussed below; however, the list is far from complete and is not given in order of priority, because, in many ways, the issues (as well as others not addressed here) are all important.

Addressing climate change

It is difficult to overstate the extent to which companies, their management, and their boards are being asked to consider how they impact the environment and what they can do to minimize or eliminate negative impacts to the environment. Notably, climate change concerns are not limited to companies in particular industries, such as extractive industries that have traditionally had large "carbon footprints"; rather, companies across a wide swath of industries are focusing on how they can help.

The focus on climate change is manifesting itself in a number of areas. First, companies are seeking or being asked to effect *substantive change*, such as increasing fuel efficiency or switching to alternative energy sources, minimizing packaging and/or using biodegradable packaging materials, and recycling waste for use in new products. Although many of these and similar activities are largely within management's purview, boards need to oversee them, working with management to develop the requisite strategic plans and objectives, overseeing their implementation, and evaluating their execution.

Boards are also *overseeing broader strategic issues relating to environmental matters* and related interactions with investors, regulators, and others. For example, should the company make a pledge or similar commitment to achieve net-zero emissions or other environmental goals, and, if so, what should the nature of the pledge be, and what time horizons should be adopted? How should the company respond to shareholder proposals and other demands from activist investors and large institutional holders seeking to effect changes in the company's environmental policies and practices? Moreover, the Securities and Exchange Commission has indicated that in 2022 it will propose new rules calling for expanded disclosures around climate change, such as the impacts of climate change on operations, the plans companies are making to address those impacts, and whether those plans entail significant capital or operating expenditures. Based upon statements by commissioners and members of the SEC staff, the disclosure requirements are anticipated to be extensive and prescriptive (as distinguished from a principles-based disclosure model). Assuming, as seems likely, that the final rules will be adopted at some point in 2022, boards of public companies may need to spend considerable amounts of time determining how to respond to and comply with the proposals and final rules.

Boards—in particular, compensation committees—are also focusing on *incentivizing management* to facilitate the achievement of environmental goals by developing and applying environmental metrics, in addition to traditional metrics such as total shareholder return, in their executive compensation plans and programs. This exercise raises novel questions. Should a company use quantitative metrics (such as a specified reduction in emissions), qualitative objectives, or both? Is it advisable to have third-party assurance that these metrics have, in fact, been achieved?

Even though the issues and questions referred to above have been on the agendas of many boards in the past, they have taken on a new urgency as the impacts of climate change are becoming more immediate and visible, and as investors and other stakeholders increasingly demand that companies take action. This strongly suggests that these and related issues in question will be high-priority items on the board's agenda in 2022.

A focus on the workforce—wellness and DEI

For many years, companies have made broad if general statements about the importance of their workforce; for example, glossy annual reports have made statements along the lines of "our most important asset is our people." However, companies' actions were not always consistent with these words. Events of the past few years, notably the COVID-19 pandemic and the movement for racial justice that followed the murders of George Floyd and others, have placed great pressure on companies of all sizes and in all industries to focus on their workforce strategies. More recently, companies of all sizes and in many different industries have experienced great difficulty in attracting and retaining members of the workforce, resulting in understaffing that can permanently damage a company's business. For these and other reasons, "in the new normal, workforce strategy drives business strategy as much as, if not more than, the other way around."[2]

The pandemic has demonstrated—and continues to demonstrate—the importance of employee health and wellness and that board oversight of that topic is not only appropriate but also critical. Pre-pandemic, boards were not likely to discuss issues such as office configurations and whether and under what conditions employees could work remotely; these and similar matters were almost entirely in management's wheelhouse, albeit with appropriate reports being made to the board. However, following the onset of the pandemic and the switch to remote work, these topics were, and are likely to remain, front and center on the boardroom agenda. Boards are being called upon to help management determine whether portions of the workforce can work remotely for long periods of time—possibly indefinitely—or whether some or all employees "need" to be in an office or other work environment. Issues such as onboarding of new employees and training of all employees become far more challenging when significant groups of employees—or possibly all employees—are working remotely. An additional major concern is whether and how companies can maintain their cultures when large portions of the workforce are interacting online rather than in the office.

Whether or not companies opt to be outspoken on racial justice issues,[3] boards are being asked to "walk the walk" on those issues. Companies are expected to go beyond the basics—"mere" diversity—by paying and otherwise treating all employees equitably and by demonstrating that all employees are valued and important (i.e., inclusivity). And when it comes to DEI—diversity, equity, and inclusion—boards have a dual responsibility, in that they need to consider whether DEI exists at both the board and workforce levels.

Achieving DEI objectives at the workforce level can be daunting, but doing so at the board level may be equally if not more challenging. First, there are different types of diversity—"demographic" diversity, involving race, gender, age, and other demographics, and diversity of skill sets and experience, including skills in emerging areas such as artificial intelligence and cryptocurrency. In addition, board members need to be able to work collegially. As a result, finding the right candidates as well as the right mix of candidates can pose significant challenges akin to playing multidimensional chess.

Technology—risks and opportunities

Like the fabled "city that never sleeps," technology is dynamic, seven days each week, 52 weeks each year, presenting new opportunities and risks even as existing ones continue to require attention from both management and the board. One example is artificial intelligence, which can provide great benefits to a wide swath of companies, but which also poses ethical and other risks.[4] At the same time, cyber risk, which has been on the boardroom agenda for quite a while, remains a serious and growing threat rather than lessening over time.[5]

Technology also impacts board composition, as nominating and governance committees seek to determine whether the board needs one or more members with deep knowledge of the tech world, whether having a "tech-savvy" board is sufficient,[6] whether the necessary skills can be "rented" (i.e., by engaging outside advisors or consultants), or whether some other approach is optimal. Moreover, Congress has weighed in, with pending legislation that would require companies to disclose whether any board member has "expertise or experience in cybersecurity" or, if not, how the board has taken "cybersecurity steps" to address the company's needs in that area.[7]

Back to basics

In the wake of the pandemic and the other challenges noted above, boards are also grappling with a host of basic issues that would normally be viewed as part of day-to-day operations (i.e., not something the board would normally spend much, if any, time on but have become challenges that the board must address). Examples include disruption of the supply chain and inflation (including overseeing management's decision whether to pass cost increases along to customers). In addition, some long-standing items on the boardroom agenda, such as crisis management, have taken on a new urgency in the wake of the pandemic and concerns about climate incidents, among other things.

2. Steve Hatfield and Jeff Schwartz, "The workforce takes center stage: The board's evolving role," Deloitte, September 2020.
3. Natalie Cooper, Bob Lamm, and Randi Val Morrison, "The outspoken corporation," Deloitte, August 2021.
4. Catherine Bannister, "Technology without ethics Is a wild beast," Deloitte, July/August 2021.
5. Mary Gallagher and Deborah Golden, "Cyber: New challenges in a COVID-19–disrupted world," Deloitte, November 2020.
6. Bob Lamm, "The tech-savvy board—A director's perspective," Deloitte, September 2019.
7. Cybersecurity Disclosure Act of 2021, S. 808, 117th Cong. (2021).

Board effectiveness—an agenda item of its own?

While the above and other matters requiring board consideration seem to keep growing in number and importance, there is no commensurate increase in the time boards and committees have to address these matters and properly execute their responsibilities. Accordingly, another item likely to be added to agendas is the very effectiveness of the board and its committees.

The focus on effectiveness covers all aspects of the board, starting with composition, as discussed above, and moving on to other areas, including:

- **Director onboarding:** Does the onboarding program provide new directors with sufficient knowledge of the company, its industry and operations, key personnel, and the drivers of its success, as well as the larger business and market environment in which it operates?
- **Board materials:** Do board and committee pre-reads and other materials provide the right mix of information? Does the information provided meet the "Goldilocks" test (i.e., not too much, not too little, but just right)? Do the materials follow the same format so that directors can determine why they are being provided (i.e., for information, discussion, or action)? Are they being provided sufficiently in advance of meetings so that directors can read and digest them?
- **Meeting processes:** Should meetings be held in person, virtually, or both? Is too much time taken up dealing with ministerial items, such as approval of prior minutes? Are presenters going through each page of a presentation, rather than focusing on the matters that should be discussed? Do all directors have an opportunity to speak?
- **Director education:** Are directors up to speed on the rapid and extensive changes affecting the company and its business? What subject matter(s) should be addressed? What is the best way to implement director education programs—in person (i.e., around board meetings), virtual, or in-person programs that provide opportunities to network with directors of other companies?

One of the key ingredients to continuous improvement at the board level is the annual board self-assessment. A robust assessment can yield specific, constructive suggestions to help the board be as effective as possible.

Change—and board adaptability—are the only constants

Like technology, as discussed above, the board's role and responsibilities are also dynamic, constantly changing and growing. In 2022, the only certainties are that new challenges and opportunities will continue to arise, and that the best boards will continue to be adaptable, meeting those new challenges and opportunities with the skills and determination to be the best they can be.

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