



Outlook 2022

Five Priorities for Boards, Management & Governance Professionals



Many organizations are undergoing fundamental transformations. As the pandemic lingers, companies are navigating various market forces and evolutions, including new business models, changing workforce equations and increased demands for equitable workplace practices, supply chain improvements and greater diversity. Organizations are undergoing these changes not only as a means of survival and business resilience, but also in response to elevated stakeholder expectations that go beyond shareholder returns.

This shift from shareholder-centric to stakeholder-centric capitalism is accelerating, and the 2021 proxy season revealed the heightened focus on environmental, social and governance (ESG) issues – climate change; board diversity, equity and inclusion (DE&I); and executive compensation – that were the key focus areas this season. Over [467 shareholder resolutions](#) on ESG issues were passed, setting a new record.

As companies and leaders define their strategies for 2022, it is critical for their operational and governance practices to be strategic, fluid and sustainable. The governance technology, processes and skills that organizations need must evolve as quickly as the business landscape itself. Companies must be all at once more agile, more informed, more secure and more purpose-driven.

In this governance outlook, we outline five priorities that all board, executives and governance professionals should have on their radar.

Key Stats From the 2021 Proxy Season

- 30 environmental and social proposals had passed – the highest number on record and a 50% increase over the 2020 proxy season
- More than one-third of environmental shareholder proposals passed
- Record-breaking support for shareholder proposals focused on board diversity and political contributions

5 Priorities Driving Governance in 2022

1 ESG Will Remain Center Stage

Organizations will need to be cognizant of changing expectations and their evolving role in society. They will need to take stakeholder considerations into decision-making, not only because it's the right thing to do, but also because investors will demand it. In an episode of [Inside America's Boardrooms](#), Paula Loop, Leader of PwC's Governance Insights Center, frames boardroom priorities:

"It's no longer acceptable to step back and do nothing related to ESG. So, I would say to boards, first and foremost, figure out what is out there already on your company. Understand the position you're in – and think about putting your toe in the water and driving your own messaging."

With ESG disclosure regulations likely to pass in 2022 (both in the U.S. and in Europe), there will be increased scrutiny on ESG reporting, requiring companies to identify the data and tools they will need to tell a more comprehensive story in 2022. Boards need to ensure that management teams are setting the right ESG goals, and management should take steps to operationalize those goals across each business unit – in ways that can be measured. This will entail making environmental sustainability an engagement priority, reassessing operations and supply chain management from an ethical lens, bringing more transparency to business practices and taking steps to address socioeconomic inequality by mitigating income gaps and wage disparities.

"The pandemic has shown us that we need to rethink the role of the company in society and therefore also the role of governance. Board members all over the world are starting to see we have a role that is bigger than ourselves. I think we will see smart and courageous board members taking a stand."

– **Helle Bank Jorgensen**, Founder and CEO, Competent Boards



Recommended Actions

- **Boards:** Focus on materiality. Standardization of ESG metrics and reporting will continue to be a key focus for 2022, but boards shouldn't wait around or get caught up in framework selection. Boards must identify the aspects of ESG that are most material or relevant to their organizations and then set goals for improvements.
- **Management:** Focus on operationalizing ESG throughout the business. Large concepts such as equality or environmental sustainability can be examined through quantitative metrics on wage inequality or water usage. Invest in the data and technology you will need to report more thoroughly in 2022.
- **Governance Professionals:** Start benchmarking. Investors are already looking at ESG metrics for your company. Ensure you have access to data on your own organization and your peer companies. The Diligent ESG Solutions may be a good place to start.

2 | DE&I is Non-Negotiable

Concern over systemic racial, gender and ethnic discrimination will need to be addressed. COVID-19 and the Black Lives Matter movement have renewed the spotlight on the need for diversity across organizations and leadership ranks. Directors must demonstrate intent to keep diversity and inclusion at the top of their agenda, request metrics on progress and ensure management implements actionable policies.

State governments, institutional investors like **BlackRock** and regulatory authorities like **Nasdaq** are calling for greater board diversity. Companies are also increasingly acknowledging the positive impacts of greater board diversity: enhanced value creation, improved customer experience, increased innovation and **increased profitability**. In turn, boards should plan to self-report on diversity statistics – a practice that should extend throughout all levels of the organization – and be upfront

“My boards began to [...] focus more directly on the impact that these conversations had on both our investors and our employees. And as a board, we felt a bit of urgency to think about what we needed to do in [response]. Most boards have been so focused on their business that they frequently forget that there are issues that impact their ability to do their business in an effective way - and this is one of them.”

– **Rose McKinney-James**, Board Member with MGM Resorts International and Toyota Financial Savings Bank

about the areas of improvement across their disclosures and engagements.

According to Julie Daum, Leader of Spencer Stuart’s North American Board Practice, 90% of the board searches they’re doing now have a diversity component.

“It’s in response to the institutional investors, but it’s really more in response to their own employees and their customers,” said Daum in a recent episode of **Inside America’s Boardrooms**. “[Boards] want to make a statement that [diversity] is indeed important to this board and to this company.”

According to the **Director Confidence Index**, 46% of public company board members surveyed are in favor of diversity mandates, indicating that we may have reached the tipping point in the board diversity conversation – one that welcomes regulatory intervention if boards aren’t going to drive the necessary changes themselves.

Diversity & Inclusion Resources

 **LISTEN** [Recruiting for More Diverse Boards](#)

 **LISTEN** [Meeting the Moment for Board Diversity](#)

 **WATCH** [Battling Racism: How Boards Can Have a Positive Impact](#)

 **WATCH** [Recruiting New Corporate Directors in a Virtual Environment](#)



Recommended Actions

- **Boards:** Self-report diversity data. If your board is not yet under mandate, it likely will be soon. Use disclosure as an opportunity to showcase the thought and attention that’s gone into your board composition. Be open and honest about gaps and prioritize them.
- **Management:** Cultivate a diverse pipeline. Diversity in leadership requires focus on the front lines – on talent acquisition and on development. How can management use metrics to track the organization’s progress?
- **Governance Professionals:** Consider how technology can advance the organization’s diversity agenda. Consider equipping the board with a database of diverse candidates. And consider how you can connect qualified candidates in your own organization with other boards. Learn more about Diligent’s Modern Leadership initiative.

3 Executive Compensation Is Under Additional Scrutiny

structures must meet the current landscape characterized by evolving workforce strategies, digital transformation, the need for business resilience and increased demands from stakeholders. The economic disparities resulting from the pandemic have further turned up the heat around the subject.

In 2021, shareholder support for U.S. executive bonuses is the lowest since 2011. This year, the average support for payment packages has **dropped to 87.6% from its high of 91.8% in 2015**. According to Lisa Edwards, President and Chief Operating Officer of Diligent: “Last year there was a pandemic and perhaps increased awareness of layoffs and pay against general suffering.” Edwards predicts that bonus pay is likely to stay high, but that the increase in failed votes could be the beginning of a trend. Dating back to the start of the pandemic, 246 Russell 3000 companies issued **adjustments** to their incentive plans to reflect the unusual performance year. As boards consider compensation strategies for 2022, they will need to apply discretion to determine executive emoluments and to assess whether compensation is tied to performance over which the executive has control.

Many companies are also tying ESG and DE&I metrics to executive compensation. As of April 28, 2021, 58% of S&P 500 companies had included ESG metrics in their annual incentive plans, according to a **study** by Meridian Compensation Partners. Of the plans containing ESG metrics, social metrics (including DE&I, workforce health and safety, product quality and safety, human capital, and culture) were the most prevalent, appearing in 95% of plans. Environmental metrics (including carbon, climate and other holistic CSR metrics) appeared in 39% of pay plans containing ESG metrics.

While there is an appetite for ESG-related metrics from the shareholder community, it is important to note that investors are not aligned on how these should be integrated. In turn, companies should use internal drivers – not external forces – as the foundation for compensation program design.

At the least, the compensation committee should be having conversations about ESG metrics to assess the relevance for their organization.

“Compensation committees have had to figure out how to ensure that executive teams have been incentivized to navigate through what have probably been the roughest waters that many companies have seen - whether companies have done really well and seen a boost to their earnings or companies have been really challenged. Being able to navigate through those waters [and] ensuring that teams are appropriately engaged and compensated and incentivized are all things that comp committees have been having conversations about.”

– **Susan Chapman-Hughes**, Board Member, The J.M. Smucker Company



Recommended Actions

- **Boards:** While setting the pay of the CEO and other executive officers, structure pay packages that incentivize the appropriate performance and receive the support of shareholders. Consider integrating ESG metrics into those compensation packages to ensure they align with company purpose. Ensure your boards and leadership teams have access to accurate data on the current compensation landscape and what your peers are doing.
- **Governance Professionals:** Support the compensation committee by providing the data, tools and legal counsel they need to anticipate shareholder reactions and make decisions about executive compensation. Learn more about Diligent’s Executive Compensation Solutions for peer benchmarking, pay-for-performance modeling, stakeholder monitoring and CD&A disclosure search.

4 | Board Effectiveness Will Be Increasingly Critical to Success

Employees weren't the only ones who made the virtual transition during the pandemic; board members did as well. And, like the thousands of companies that were surprised by their own capability to change, boards have also settled into new and more efficient ways of meeting, communicating and making decisions.

According to Dawn Zier, Board Director, The Hain Celestial Group, one silver lining from the pandemic has been the strides in board effectiveness:

"There were more frequent conversations between management and board directors," explained Zier, in the Diligent Institute's [Ask a Director Series](#). "There was less formality, fewer presentations, and more candor and transparency as we all tried to address issues for which there was no playbook."

As a result, Zier said, boards spent more time on discussions that really mattered: "I'd like to see this focus

continue post-pandemic [...] Quarterly meetings should be reframed to allow more time for really discussing and measuring progress rather than business presentations."

Over the last several months, virtual board meetings have also begun to shed their stigma. According to Diligent's recent [Director Confidence Index](#), only 32% of board members expect to go back to 100% in-person meetings, with the other two-thirds opting for either fully virtual or hybrid models.

As companies start implementing their return-to-work strategies, boards and executive teams will require the right digital tools and resources to conduct business, spot opportunities and make decisions quickly. Security will continue to play an increasingly critical role in protecting an organization's data and safeguarding its key targets – board members and senior management – from cyberthreats.

"Board members are beginning to realize that a healthy mix of in-person and virtual attendees will not affect the effectiveness of the board. I also think that this in-person and virtual mix will make for more international and diverse boards."

– **Doris Honold**, Chair of Board Risk Committee, Credit Suisse International; Senior Fellow, Advanced Leadership Initiative, Harvard University

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Infographic here?

Board activities will retain virtual elements
32% of board members expect to go back to 100% in-person meetings
62% of board members expect a significant portion of board activities to remain online
6% of board members expect over 75% of board activities to remain online

International Technology



Recommended Actions

- **Boards:** Re-examine onboarding. As you bring new talent onto the board, it's never been more important to get them up to speed and contributing quickly. Consider the challenges of virtual onboarding and how you'll overcome them.
- **Management:** Leverage the board as strategic advisors. For many executives, the board was an invaluable resource during the COVID-19 pandemic. What worked well? How can you formalize those aspects in your board meeting processes?
- **Governance Professionals:** Lead the transformation. We're entering a new era of governance. How can you empower your boards with better connectivity and information? Boards will increasingly turn to governance professionals for advice and process expertise in uncertain times.

5

Digital Resilience Will Continue to Be a Differentiator

As companies transition to new forms of workspaces, including home offices, digital resilience continues to be critical in defining long-term business strategies. According to Maria Morris, board member with Wells Fargo and S&P Global, an organization's ability to succeed will depend on how quickly and how adeptly it harnesses technology to enable growth, respond to change and protect its workforce in this new normal.

"Digital resilience is business resilience," said Morris in a recent webinar hosted by Diligent and Unqork. "The more digitally resilient we are, the more operationally resilient we are." The webinar panel touched on a few critical areas of board focus, including the cybersecurity implications of the virtual world and company investments in more agile technologies/operations.

Consequently, businesses will need to reprioritize vital technology initiatives around digital operations that enable and enhance productivity, responsiveness and collaboration among distributed teams. Terms like operational governance have been key in 2021 as

organizations began viewing processes such as data management, security and collaboration more holistically. This will continue to grow in 2022.

Another key area where technology can support efficiency in organizations is to reduce the burden on staff around regulatory and compliance issues by streamlining processes and implementing controls for continuous monitoring of risks. "You can bring the data to light with different key risk indicators or performance indicators, whether leading or lagging indicators," says Robert Luu, Acting Managing Director and Director of Client Partnership, Asia-Pacific and Japan, Galvanize. "Then you can use that data, pulling in from multiple areas of continuous monitoring to share it with the rest of the group. That allows us to stay on top of regulatory changes and ensure that policy is being followed and attested to." A best-in-class governance, risk and compliance (GRC) solution can help connect the different teams associated with your risk management process and provide them with deep insights to help manage risk and guide priorities.

"There's still an inclination when there's a digital problem to turn to technology and say, 'Fix it.' But it really needs to be resolved cross-departmentally - as a business challenge."

– **Gary Reiner**, Board Member, Citi, HPE;
Operating Partner, General Atlantic;
Former CIO, GE

"Cybersecurity is not an IT problem. It is an enterprise-wide risk management issue. We need oversight from the board of directors to set the environment for a good cybersecurity culture [...] so the entire organization can embrace cybersecurity and follow best practices."

– **Larry Clinton**, President, Internet
Security Alliance



Recommended Actions

- **Boards:** Ask questions about technology investments that the organization is making. The board must move beyond the metrics of on time and on budget, and focus on value. Consider implementing a cyber risk dashboard this year to ensure boards are asking the right questions.
- **Management:** With the pandemic's crisis response phase behind us, turn your attention to growth. In what ways will customer experience or data integration be a differentiator for your business? What innovations need to be prioritized now to reach the organization's three-, five- and 10-year goals?
- **Governance Professionals:** Consider how disparate processes become part of a broader operational governance strategy. In a virtual landscape, secure workflows and reporting must continue to streamline and integrate. What innovations in governance, data and collaboration need to be achieved this year?