



Governance Trends in 2021

Four Priorities for Boards, Management &
Governance Professionals



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Pivoting to New Governance Models

The corporate world dealt with an onslaught of complex challenges last year, including the COVID-19 crisis, new workplace paradigms, extreme climate change, political and economic volatility, and urgent calls for racial justice.

These events have had significant impacts on the business landscape. The shift to virtual operations has now solidified “digital resilience” as a core focus amongst leadership – all part of a larger digital transformation movement now in overdrive. The other far-reaching impact has been the accelerated shift from shareholder-centric to stakeholder-centric capitalism; organisations will find they must continually re-evaluate their relationship with society and learn to translate these principles to company operations and disclosure.

Despite anticipated continued challenges in 2021, company focus must extend beyond risk avoidance and compliance. Those are still critical, of course. However, for an organisation to thrive during dynamic times, its operational and governance practices must be strategic, fluid and sustainable. The governance technology, processes and skills that organisations 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.

Above all, organisations, their boards and their leadership teams must pivot to new governance models that are conducive to long-term survival – and they must identify new opportunities for sustainable value creation.

“Three factors came together in 2020 to challenge boardrooms more than I can ever remember them challenged: the fallout from George Floyd’s death, the pandemic and the stakeholder-centric movement. When you put those together and say, ‘How do I as a board member deal with all these at once coming together – in addition to normal digital transformation challenges, human capital issues and activist shareholders?’ I think it was the perfect storm.”

– **TK Kerstetter**, Host of *Inside America’s Boardrooms*, *Inside Europe’s Boardrooms* and *Inside Australia’s Boardrooms*, on [The Corporate Director Podcast](#)



Defining Moments of 2020

- **COVID-19 batters the global economy and plunges many countries into recession**, affecting the lives and livelihoods of millions; the pandemic’s onset also introduces lasting changes to workforce operations, as companies abruptly transition to virtual or hybrid working models.
- **Demands for action against racial injustice gain momentum**, with the corporate world launching new measures around board composition; two of the more prominent ones are [Nasdaq’s proposal](#) and [California’s Senate Bill 826](#) calling for increased board diversity.
- **ESG goes mainstream**. The World Economic Forum launches environmental, social and governance (ESG) metrics aimed at providing a unified global standard. Industry giants including [BlackRock](#) and [BNP Paribas](#) enforce stringent ESG measures addressing issues such as climate change and social inequality.

Four Governance Trends in 2021

1 | The Road to Recovery Will Be Digital

At the pandemic's onset, organisations transitioned to virtual operations in a matter of weeks. Many companies were surprised by their own agility and provided with an example of how technology can solve a critical business challenge.

Many organisations expect to continue remote work in 2021 or, at the very least, transition to a hybrid model. Forrester predicts [remote work will rise to 300% of pre-COVID-19 levels](#). Changes to the consumer and vendor landscape are just as vast, as more purchasing and operations will happen online. While these trends have materialised quickly, they also hold great opportunity.

According to Maria Morris, board member with Wells Fargo and S&P Global, an organisation'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 resiliency is business resiliency," said Morris in a recent webinar hosted by Diligent and Unqork. "The more resilient we are digitally, the better served we are from an operational risk perspective." The webinar panel touched on critical areas of board focus in 2021, including company investments in more agile technologies/operations and the cybersecurity implications of an overnight virtual world.

Consequently, businesses will need to prioritise technology investments that enhance digital operations and enable productivity among distributed teams. Terms like *operational governance* will pick up steam in 2021 as organisations begin to view processes like data management, cybersecurity and collaboration more holistically.

"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 and 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 organisation can embrace cybersecurity and follow best practices."

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



Recommended Actions

- **Boards:** Ask questions about technology investments that the organisation is making. The board must move beyond 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 prioritised now to reach the organisation's three-, five- and 10-year goals?
- **Governance Professionals:** Consider how disparate processes can 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?

2 | ESG Remains Centre Stage

Growing demand from investors, activists and the media, coupled with fallout from COVID-19, means that ESG initiatives need to be a top boardroom priority.

Organisations will need to be cognisant of changing expectations and their evolving role in society. They will need to take stakeholder considerations into account in their decision-making, not only because it's the right thing to do, but also because investors will demand it. In a recent 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 in 2021."

There will be increased scrutiny on ESG reporting, requiring companies to benchmark themselves against the right metrics and reflect the components of ESG that are most material to their organisation.

Boards need to ensure organisations are setting the right ESG goals, and management should take steps to mobilise those goals across each business unit – in ways that can be measured. That will entail making environmental sustainability an engagement priority; reassessing operations and supply chain management from an ethical lens to protect vulnerable links; bringing more transparency to business practices; and taking steps to address socioeconomic inequality by incorporating policies that mitigate 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 that 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. Standardisation of ESG metrics and reporting will continue throughout 2021, 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 organisations and set goals for improvement.
- **Management:** Focus on operationalising ESG throughout the business. Large concepts like equality or environmental sustainability can be examined through quantitative metrics on wage inequality or water usage. Design programs that will move the numbers, and involve all business units in the process.
- **Governance Professionals:** Start benchmarking. Investors are already looking at ESG metrics for your company. Ensure you have access to data on your own organisation and its peers. The World Economic Forum's core metrics are a good place to start.

3 Diversity & Inclusion Moves Toward a Mandate

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

Institutional investors will increase pressure on boards to act in favor of diversity and inclusion, or face the consequences. Large investors like BlackRock and State Street will continue their call for greater board diversity; they will expand their expectations in 2021 to include race and sexual orientation and [vote against companies that fail to comply](#). In turn, boards should plan to self-report on diversity statistics – a practice that should extend throughout all levels of the organisation – and be upfront and honest about the areas of improvement.

“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

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 to them.

“It’s in response to the institutional investors, but it’s really more in response to their own employees and 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 this company.”

Many will use board composition this year as an indicator of an organisation’s commitment to diversity. According to the Director Confidence Index, [46% of public company board members surveyed are in favour of diversity mandates](#), indicating that we might have finally reached a tipping point with board diversity.

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 prioritise addressing them.
- **Management:** Cultivate a diverse pipeline. Diversity in leadership requires focus on the front lines: in talent acquisition and development. How can management use metrics to track the organisation’s progress?
- **Governance Professionals:** Consider how technology can advance the organisation’s diversity agenda. Consider equipping the board with a database of diverse candidates. And consider how you can connect qualified candidates in your own organisation with other boards.

4 | Board Effectiveness Will Be Enhanced by the Pandemic

Employees weren't the only ones who made the virtual transition in 2020; board members did as well. And like the thousands of companies that were surprised by their own capabilities for change, boards have also settled into new and more efficient ways of meeting, communicating and making decisions.

According to Phyllis Campbell, board member with JPMorgan Chase & Co. (Pacific Northwest), SanMar, US-Japan Council and Allen Institute, one silver lining from the pandemic has been the strides in board effectiveness:

“There was less formality, fewer presentations, and more candor and transparency as we all tried to address issues for which there was no playbook,” explained Campbell in the Diligent Institute’s [Ask a Director Series](#).

As a result, Campbell 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.”

“Board members are beginning to realise 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**, Board Member, Credit Suisse International, and Senior Fellow, Advanced Leadership Initiative, Harvard University, in the [Ask a Director Series](#)

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.

Boards and executive teams will increasingly require the right digital tools and resources to conduct business, spot opportunities and make decisions quickly – all without being in the same room. Security will continue to play an increasingly critical role in protecting an organisation’s data and safeguarding its key targets (i.e., board members and senior management) from cyber threats.

“More than ever, we have to stay up to date on relevant, evolving issues. As board members, we have to do more reading and research outside of the normal company or industry updates. You want your organisation to be proactive instead of reactive and help the CEO and executive leaders be ready for the unexpected.”

– **Brad Neilley**, Board Member, Princeton 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 formalise 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.

Board Members' Optimistic Outlook

With the rollout of a COVID-19 vaccine, boards are growing increasingly confident of the future, sparking growing optimism in their outlook for 2021.

Additionally, factors such as market liquidity, pent-up customer demand, low interest rates and supply chain innovations are further driving a positive forecast. According to the Director Confidence Index conducted by [Diligent Institute and Corporate Board Member](#), half of public company board members predict a return to pre-crisis profitability in the next 12 months.



65%

of board members give their 2021 outlook a score of 7/10 or above



77%

of board members expect a revenue increase in 2021



75%

of board members expect a profit increase in 2021

In order to truly thrive – and to bring this optimism about 2021 to fruition – boards, management and governance professionals will need to prioritise digitisation, ESG, diversity & inclusion, and board effectiveness.



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