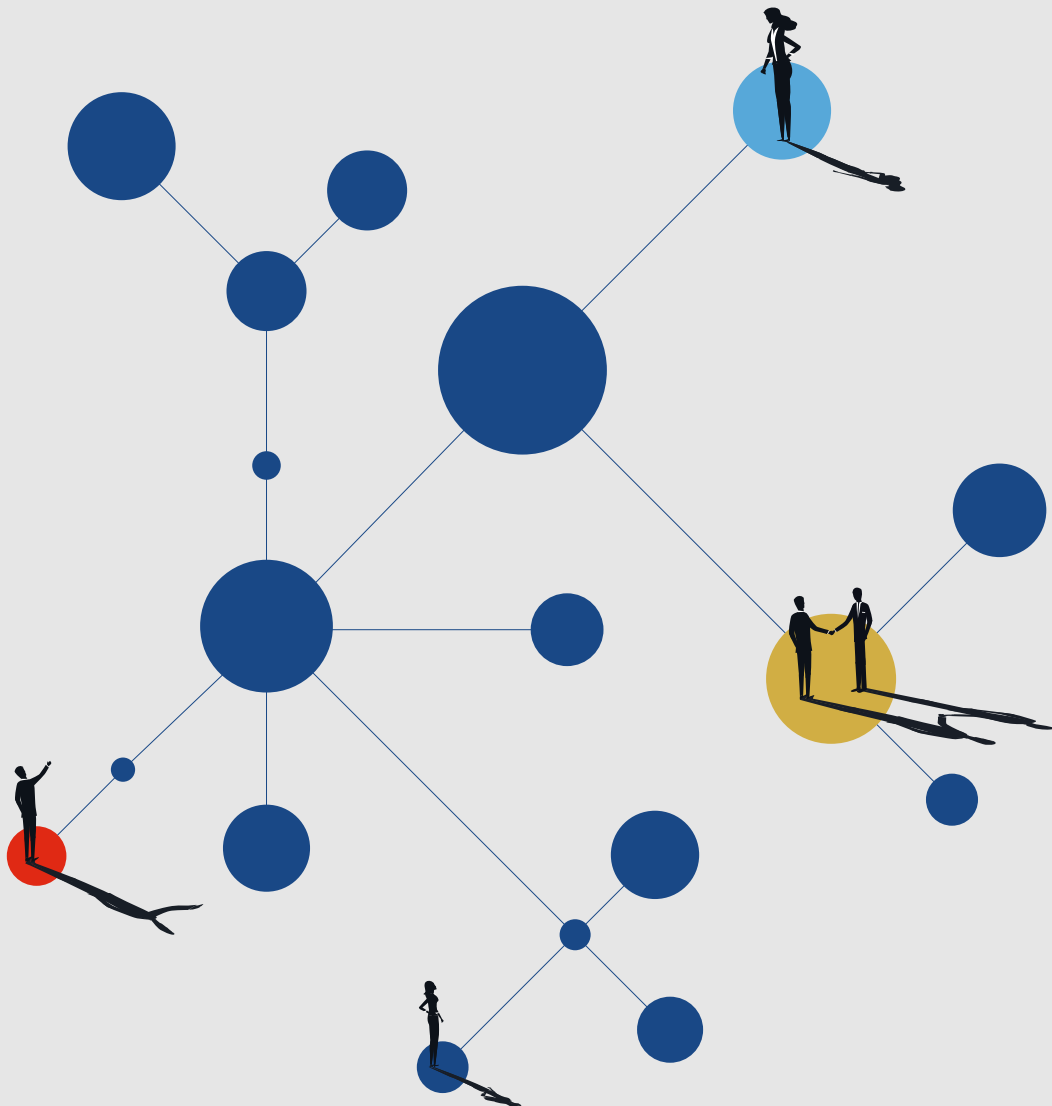


19TH ANNUAL EDITION

WHAT DIRECTORS THINK







FACING NEW AND EVOLVING RISKS



Boards have been tackling an unprecedented range of issues in recent years. From the ongoing Covid-19 pandemic to a changing regulatory landscape to growing stakeholder pressure for corporate accountability to coping with the “Great Resignation” and drastic shifts in customer behavior and tech-fueled innovation, there’s no shortage of items on the agenda.

Every year, *Corporate Board Member* surveys U.S. public company board members to take their pulse on the issues that are most prominent in the boardroom for the year to come and the strategies companies are implementing to overcome the biggest challenges ahead. Conducted in partnership with Diligent Institute, the 2022 edition of the “What Directors Think” survey, fielded September-October 2021, collected responses from 400 directors. The second part of the program included one-on-one phone interviews with select participating directors to provide additional insights. This report presents the key findings from the research.

KEY FINDINGS:

-  **Cybersecurity** tops the list of most challenging issues to oversee for directors—up from third place just a year prior.
-  **Talent**-related challenges kept boards and their leadership teams busy in 2021, and the issue isn’t going anywhere in 2022, according to the survey: 42 percent cited talent as a strategy influencer in the year ahead, preceded only by the economy.
-  **Culture** is increasingly difficult for boards to oversee, rising every year in our rankings of board oversight challenges to land in third place this year.
-  **Board composition** concerns seem to have stabilized in this year’s survey, but board diversity—particularly in terms of skillsets—remains a high priority.
-  Boards are expanding their oversight of **ESG** issues. This year, more directors reported tying environmental goals (39 percent) and social targets (40 percent) to executive compensation.
-  The **expanding role** of directors is indicated by the scope of issues outlined above. Directors reported that their role is constantly growing more comprehensive and complex.

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](https://www.boardmember.com).

Diligent Institute

Founded in 2018, Diligent Institute serves as the global corporate governance research arm and think tank of Diligent Corporation, the largest SaaS software company in the Governance, Risk and Compliance (GRC) space. Diligent serves more than 25,000 organizations and over 750,000 corporate leaders in more than 90 countries. Diligent Institute is able to tap into that broad network and highlight the diverse perspectives of corporate leaders from around the world.

Diligent Institute produces original research both on our own and in collaboration with partners, including institutions of higher education and thought leaders in the corporate governance space. We produce over a dozen reports each year, ranging from our monthly “Director Confidence Index,” which measures how corporate directors are feeling about the economy, to in-depth reviews of issues such as ESG (environment, social, governance) practices, to our AI-powered “Corporate Sentiment Tracker” that analyzes data from thousands of public sources to discern what’s on the minds of corporate leaders. [diligentinstitute.com](https://www.diligentinstitute.com)

CYBERSECURITY

Concerns over cybersecurity have been intensifying over the past decade. Data from our “What Directors Think” survey conducted in 2012 showed only 23 percent of directors were highly concerned over a potential breach—the same proportion considered it a “low” concern. Similarly, only 37 percent of board members surveyed that year placed cyber risk among the most pressing agenda topics for their next board meeting.

Five years later, 61 percent of directors reported, in our 2017 “What Directors Think” survey, that their CISO/CIO were regularly discussing cybersecurity “at length” with the board, and 53 percent said they regularly brought in consultants to guide them further on the issue—a clear indication that the issue was gaining prominence in the boardroom, perhaps a consequence of the explosion of phishing attacks at large companies, including Equifax, Uber and Yahoo!

Today, directors rank cybersecurity first on the list of difficult issues to oversee—up from third place just a year ago. In fact, three-quarters of directors now say they are more concerned that their company will confront a cybersecurity/data breach crisis than any other crisis.

The pandemic didn’t help things along either. With a more distributed workforce, the risks of breaches and ransomware attacks have grown exponentially. [FireEye’s 2021 M-Trends report](#), for instance, shows there were twice as many ransomware attacks in 2020 as in 2019, and 2019 was already the highest year on record.

The burden to safeguard the company’s most sensitive data rests squarely on leadership teams. Boards must remain vigilant and continuously address the issue with management, particularly as market dynamics continue to shift.

According to directors surveyed, the focus must shift from prevention to resiliency, as companies come to understand that a cyber incident is no longer a question of “if” but “when”. Therefore, directors agree that the best cybersecurity plan must elaborate on how quickly a company can identify a breach, limit its damages and recover from it.

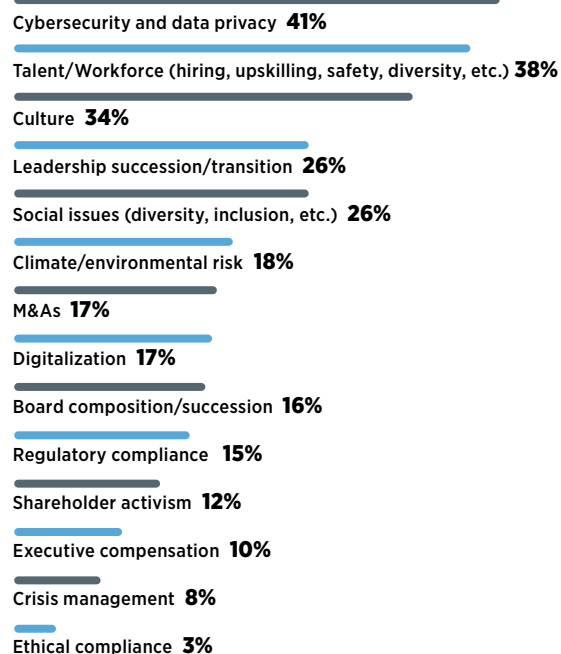
“Boards just need to continue to say, ‘Okay, what’s new in this arena? What are we likely to see next? And how can we best look around the corner and try to position ourselves to defend effectively against it?’”

—John Hayden, Board Member, E. W. Scripps Co. and Tiberius Acquisition Corporation

QUESTIONS FOR YOUR NEXT BOARD MEETING:

- Does the board receive regular updates from internal risk, compliance, data security and data privacy teams—those well-versed in cybersecurity and data protection? Are these teams communicating effectively with the board?
- Are the teams within your organization that oversee cyber risk properly empowered to carry out their duties?
- Does the board set the right tone at the top about the importance of cybersecurity and digital transformation? How is the board holding senior management accountable on these issues?
- Is the board up-to-date and conversant on cybersecurity and digital transformation trends? If not, what sources or materials could help them stay current?

Most Challenging Issues to Oversee



*Respondents were asked to select top 3.

Most Concerned About Confronting a Crisis



*Respondents were asked to select top 3.

TALENT

From the “Great Resignation” and shifting workplace dynamics to Covid-related mandates and rising compensation costs, there’s a long list of talent issues affecting companies today. As pandemic-fueled demand surges, organizations are being challenged in their ability to tap into rebounding markets and execute on their growth strategies because of staffing shortages.

Forty-two percent of directors surveyed say their company’s ability to attract and retain talent will play a key role in influencing strategy in 2022—only surpassed by, unsurprisingly, the economy. But things are evolving quickly already: Just 2 months later, in our December 2021 [Director Confidence Index](#)—a monthly flash poll of board members on their assessment of business conditions and forecasts for the year ahead—talent outranked the economy at the top of the list of strategy influencers in 2022, 35 percent vs. 25 percent.

What’s more, workforce matters rank second this year on the list of most challenging to oversee for directors and on the list of topics that will be most prominent on boards’ agendas in 2022—up from tenth place last year [see pages 3 and 9]. This comes at a time when an increasing number of boards are now recognizing the importance of including talent in both their risk and strategy discussions.

According to a 2021 *Corporate Board Member* report published in partnership with the Society for Human Resource Management (SHRM), 27 percent of board members believe the board should be deeply involved in overseeing the talent strategy as a regular, stand-alone agenda item—and an additional 39 percent say it should at the very least be included in the overarching risk discussion. More than two-thirds (68 percent) of directors reported an increase in the time they devote to discussing talent strategy from the prior year.

“I don’t think [the talent issue] is going away. I think it’s an ongoing issue.”

—Kathleen Camilli, Board Member, AGF Management and UniFirst Corporation

QUESTIONS FOR YOUR NEXT BOARD MEETING:

- Has your organization been negatively impacted by the “Great Resignation?” How will the talent crisis impact your organization in 2022?
- What strategies has the board explored with management around talent retention and development? What’s working, and what’s not?
- Does the board receive regular updates from a CHRO officer or similar human resources leader within the organization? How is the board holding senior management accountable on talent issues?
- As talent continues to be a new and evolving issue area for directors, do board members have sufficient HR expertise? What improvements are needed in terms of board composition and training around talent issues?

Top Strategy Influencers of 2022



*Respondents were asked to select top 3.

CULTURE

Culture is another matter that repeatedly appears on directors' list of challenging issues to oversee. Worth noting, it has moved up in the rankings every year since we began asking the question in our survey, landing in third place for 2022, directly behind talent.

Its consistent ranking can perhaps be attributed to the nature of the oversight process itself; Boards must trust that the management team is instilling the right tone, that it trickles down undistorted throughout the organization, and that issues are reported and resolved swiftly before they escalate. After all, the consequences of a poor culture are higher today than they've ever been given the steep competition for talent and the accelerated speed at which information—accurate or otherwise—can travel.

For that reason, boards have a responsibility to keep abreast of the culture risk, and to do so, half (49 percent) of the directors in our study say they primarily rely on employee surveys—well ahead of any other method. While one-on-ones and site visits can oftentimes provide a more accurate view of an organization's culture, a distributed/remote workforce complicate this process.

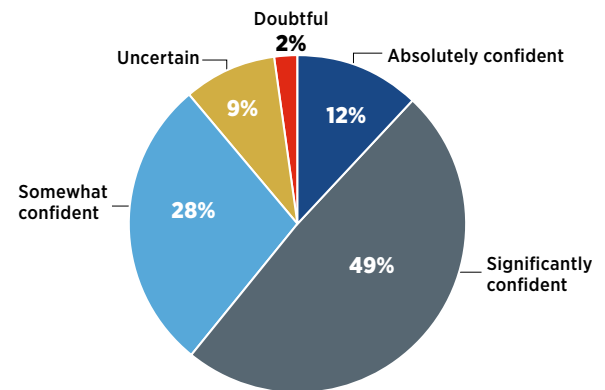
“We try to have some of our annual slate of board meetings at various facilities around the country, and part of the schedule is dedicated to meeting and interacting with our employees, sometimes just by walking around. It gives us the opportunity to meet with some truly impressive leaders, and with employees who in many cases have been with the company for decades.”

—Bob Ducommun, Board Member, Ducommun

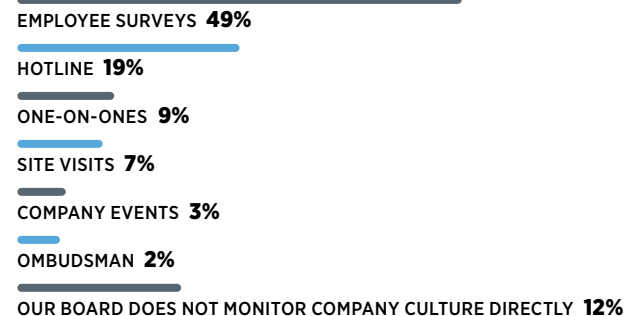
QUESTIONS FOR YOUR NEXT BOARD MEETING:

- Was your organization's culture permanently impacted by a shift to remote work? Has your board explored ways management can maintain a strong company culture with a hybrid or remote workforce?
- How is the board informed about company culture? What opportunities does the board have to directly interact with employees beyond the C-Suite?
- Has the quality and/or frequency of the data the board receives about the company's culture changed as a result of the pandemic and the “Great Resignation?” Is the current reporting quality and frequency sufficient?
- How is the board holding senior management accountable on culture issues? How is the board incentivizing the senior management team to cultivate a healthy corporate culture?

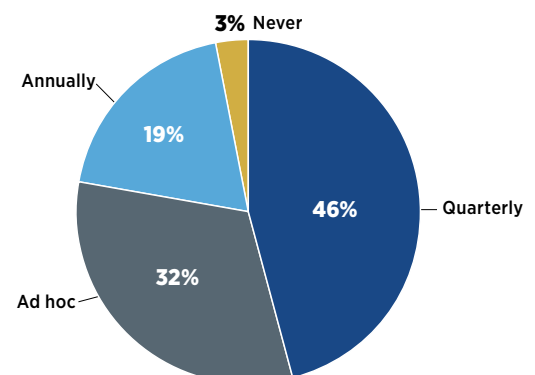
Director Confidence in Culture Oversight Tools/Resources



Most Reliable Method to Oversee Culture



How often is your board debriefed by management on culture?



BOARD COMPOSITION

Pressure has increased for companies to engage with broader groups of stakeholders, demonstrate their commitment to the communities they serve, and for boards and their leadership teams to diversify their ranks to be more representative of the company’s constituents.

This year, more directors say they’ve got it under control than in previous surveys. Nearly half (47 percent) report having already met their diversity goals, with another 32 percent saying they’re on track to meet them within their allotted timeline. Directors rate their current mix of skills, background and expertise in the boardroom a 4.3 out of 5 (where 5 is “Ideal”), and their mix of gender, age and ethnicity at 3.9 out of 5.

Interestingly, industry expertise and leadership experience are now back at the top of the list of attributes boards are now seeking in their next director appointment—after having given priority to background, racial and gender diversity last year as the top three criteria they were seeking. Anecdotally, directors say they have the diversity they need at this time and are therefore focusing on onboarding certain missing skillsets.

“I believe the role of the director in assessing the culture of the organization, how it acknowledges its staff and their efforts, and how it recognizes the importance of and espouses diversity in all its aspects in the organization has become critical. It has become very important not just to look at financial and operational outcomes but also HOW those outcomes were achieved.”

—Cathy Minehan, Board Member, Bright Horizons

QUESTIONS FOR YOUR NEXT BOARD MEETING:

- How well aligned is your board’s composition and diversity plan with your company’s overall strategy and with trends in your industry? If your board has not set diversity targets, why not?
- How well does the board composition and diversity plan position the company for the future?
- How often will your board commit to reviewing board composition and update the diversity strategy?
- What information will you disclose regularly to stakeholders to build trust and transparency?

Rating of Boards’ Mix of SKILLS, BACKGROUND AND EXPERTISE:



Rating of Boards’ Mix of GENDER, AGE AND ETHNICITY:

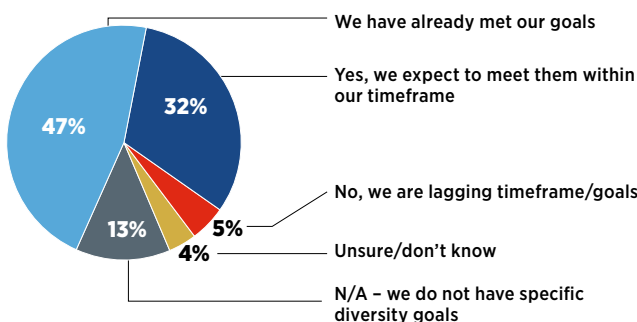


scale: 1 lowest — 5 highest

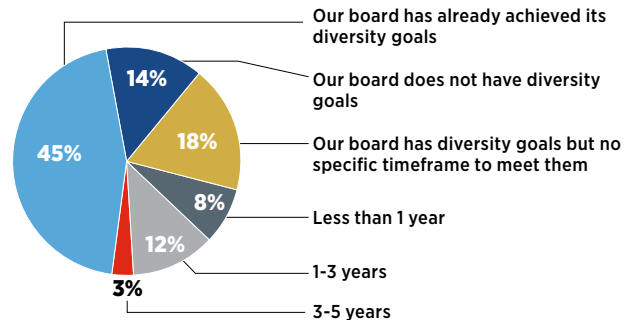
Top Attributes for Next Director Appointment



Is your board on track to meet its board diversity goals?



Has your board set a timeframe to meet its board diversity goals?



ENVIRONMENTAL & SOCIAL CONSIDERATIONS

With unrelenting pressure from stakeholders over corporations' need to report on key environmental and social metrics, our survey finds an increasing number of boards integrating ESG considerations into the corporate strategy.

For instance, 39 percent of directors say their board has decided to move forward with tying exec comp to environmental metrics—up from 26 percent just a year ago, when we asked directors whether environmental issues were informing their executive pay programs. Similarly, 40 percent are doing the same with respect to social considerations.

Part of the challenge that remains, directors say, is lack of guidance or standardization that makes measuring success—or even progress—more subjective than not. In the U.S., there is little consensus on the right frameworks to use for measuring and assuring progress. Even institutional investors—who have increased the drumbeat on requiring climate change and social investment disclosures from their client—have not all agreed on which frameworks they want companies to use. Where most companies in the U.K. and EU have embraced the TCFD framework, similar consensus doesn't exist yet in the U.S..

Complicating matters further, there is ongoing debate about the “best practices” for structuring oversight of ESG initiatives. While 46 percent of directors say the senior management team “owns” ESG for their companies, the majority of respondents were split on where the ownership falls—including 18 percent who said “nobody owns ESG” for their companies.

That said, ESG continues to rise in importance, attested to by the 75 percent of respondents who told us their company is now reporting and disclosing ESG goals and progress at least annually.

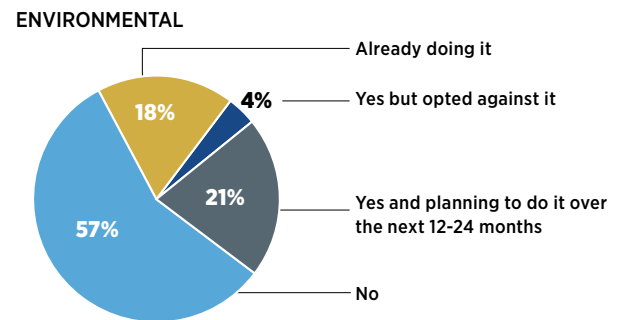
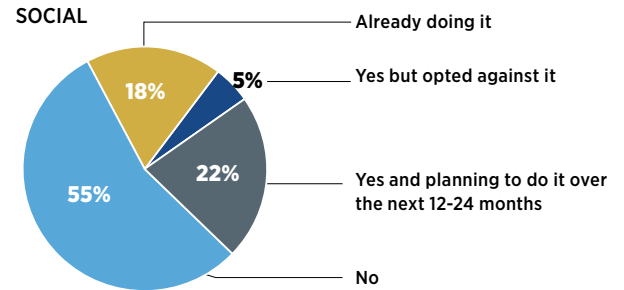
“No one is a climate change skeptic, but how does it get measured? No company can fill out 13 different forms and 13 different frameworks. We can put it in the executive comp system, but right now, what would we put in there? We'd put in a framework that might become obsolete.”

—Scott Gibson, Board Member, Northwest Natural Gas Company and Pixelworks

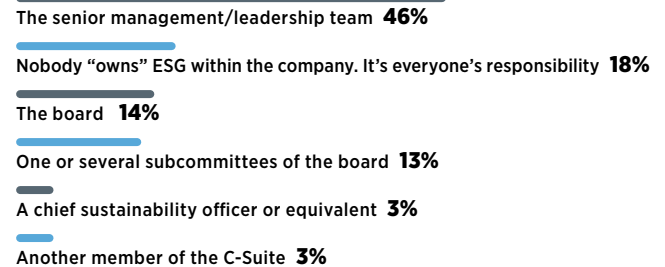
QUESTIONS FOR YOUR NEXT BOARD MEETING:

- Where does oversight of ESG commitments reside in your company, and is your board confident in its ability to effectively oversee ESG risk? If not, what are the board's plans to ensure directors are up-to-speed?
- How well is ESG integrated into your company's overall strategy, including capital allocation and investment? Are you doing enough to mitigate ESG risk and capitalize on opportunities?
- How well is the company articulating ESG plans and progress to key stakeholders? What impact are your disclosures having on your company's ability to attract and retain talent, and to engage the investment community?

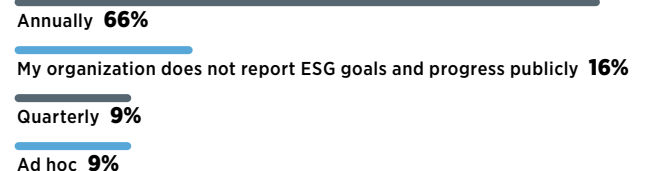
Is your company considering tying environmental or social metrics to executive compensation?



Who “owns” ESG at your company?



How frequently does your organization publicly disclose information on its ESG goals and progress?



WHAT DIRECTORS THINK...

CYBER:

"I don't think people appreciate how it only takes one weak link if the bad guys figure it out, and remote work because of poor router protection is rife with opportunity for the right bad guys."

—Scott Gibson, Board Member, Northwest Natural Gas Company and Pixelworks

CULTURE:

"The more ways you can assess culture, the better, as one reading of culture can be calibrated by or informed by another technique."

—Jan Estep, Board Member, ACI Worldwide

"I think for any board it's important to make sure that you are seeing people other than the C-Suite."

—Herman Bulls, Board Member, Host Hotels & Resorts and Comfort Systems USA

ESG:

"Hard metrics are very difficult in this arena because I think that's where it can become counterproductive. In our case, the evaluation is subjective, not an objective approach, so it's a modifier in the equation as opposed to an arithmetic element of the equation."

—John Hayden, Board Member, E. W. Scripps Co. and Tiberius Acquisition Corporation

"The most important thing around that is understanding the business imperative and helping everybody on the team understand the why, why is this important?"

—Herman Bulls, Board Member, Host Hotels & Resorts and Comfort Systems USA

TALENT:

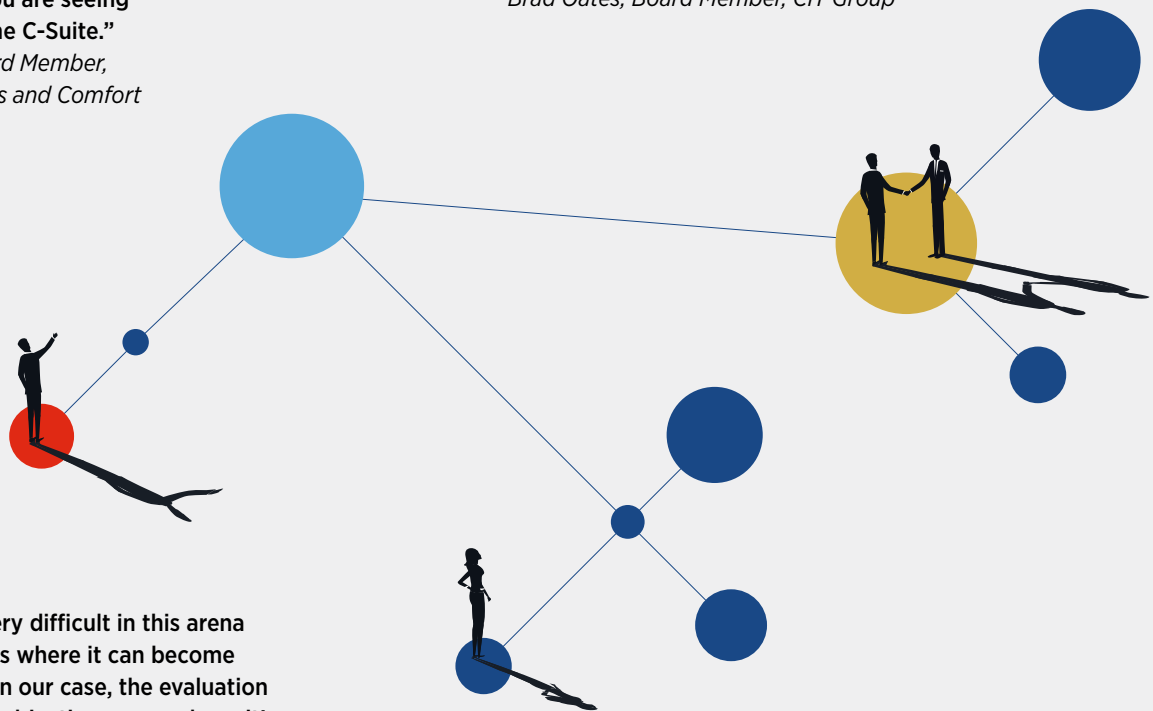
"Everyone's losing talent, no matter how good your culture, policies or pay packages."

—Scott Gibson, Board Member, Northwest Natural Gas Company and Pixelworks

BOARD COMPOSITION:

"Stakeholder Capitalism is merging with the ESG movement, but there is no governance clarity around exactly what SC is, how to adopt it and how to govern it best. Boards will need to define exactly what SC means at their company; determine how and what pieces of SC to adopt with the agreement of senior management, and how the board will govern their form of SC going forward."

—Brad Oates, Board Member, CIT Group



SUPPLY CHAIN:

"The truth is the companies that do best at this are the companies that had been thinking about these kinds of issues before this rose. ... Like the way we deal with cyber. You have a plan."

—Robert Shapiro, Board Member, Overstock.com

M&A

M&A had its own top-of-the-list spot this year, as the most prominent topic on board agendas for 2022—although it was trailed very closely by talent, at 45 and 44 percent respectively. While some directors note that accretive acquisition opportunities are difficult to find at reasonable prices in the current environment, they remain a critical part of companies' strategy for growth in 2022.

Perhaps it's not surprising that this topic is top-of-mind for directors as we enter 2022, with 2021 being a record year for M&A activity—topping \$5 trillion in global volume according to [Refinitiv data as reported by Morgan Stanley](#). Despite the uncertainties surrounding Covid and inflation, M&A activity proved a reliable growth strategy for many companies this past year, and it seems directors are anticipating a similarly brisk pace of deals occurring in 2022.

At the same time, increasing concerns about corporate culture, cyber risk and ESG adds complexity to M&A deals. Board discussions around M&A for 2022 are likely to involve due diligence of deals along these multiple axes alongside the more traditional reviews of finance, HR and legal.

“The market is supported by the enormous credit bubble. That doesn't mean it'll burst, but it means you need to go way underneath the financials in order to understand what it is you're buying or whatever is the price that this inflated market has produced.”

—Robert Shapiro, Board Member, Overstock.com

QUESTIONS FOR YOUR NEXT BOARD MEETING:

- As cybercrime continues to skyrocket and many workplaces remain in work-from-home or hybrid environments, how is the board considering the cybersecurity and digital transformation strategies of potential mergers or acquisitions as part of M&A discussions?
- How might the board approach due diligence in growing areas of concern, such as corporate culture, purpose, climate commitments, diversity, equity and inclusion, stakeholder engagement and governance structures?
- Similarly, as attracting and maintaining talent remains top-of-mind for 2022, what are the key talent metrics (turnover, etc.) the board should consider when thinking about M&A?

Most Prominent Topics on Board Agendas in 2022



*Respondents were asked to select top 3.

SHAREHOLDER ENGAGEMENT

Despite slight ebb and flow, directors have reported a steady stream of activist activity over the past 5 years—when we began asking the question in our annual survey. On average, 15 to 20 percent of directors report having been approached by activists any given year. 2021 didn't buck the trend: 16 percent of directors say that their board was approached by an activist during the year.

The top issue shareholders wish to discuss with directors: long-term strategic planning. Other discussion points include short-term growth and financial performance (34 percent), M&A (34 percent), board composition & refreshment (27 percent) and, finally, climate change/environmental sustainability (25 percent).

Comparing once again with trends 5 years ago, the top five topics then were similar, with 54 percent of directors saying that financial performance was discussed, followed by compensation (27 percent), change of leadership (21 percent), board nominee (18 percent) and proxy access (13 percent).

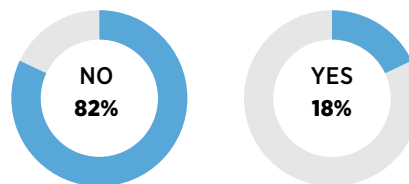
“The range of issues on the minds of shareholders and stakeholders is constantly expanding. As directors, the spotlight is on us to paint a clear picture of how our companies’ strategies are measuring against these key trends. It’s never been more important to be informed and knowledgeable on issues like climate change risk, diversity, equity and inclusion, talent retention and acquisition and more.”

—Lisa Edwards, Board Member, Colgate-Palmolive

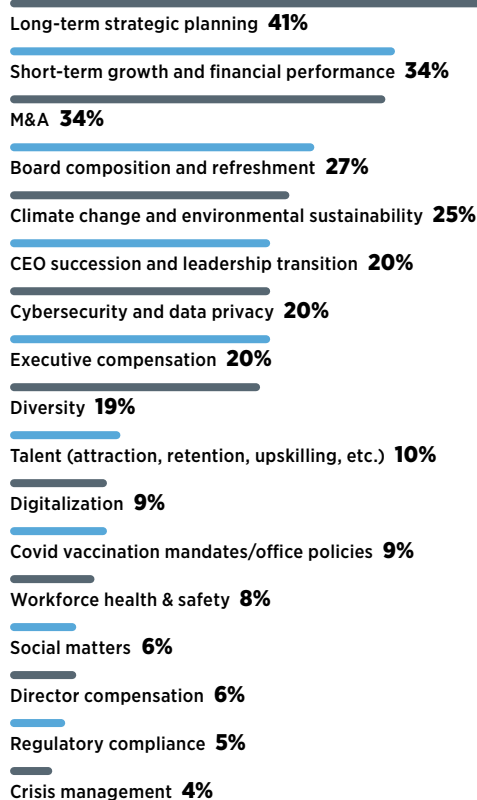
QUESTIONS FOR YOUR NEXT BOARD MEETING:

- Given the increased focus on ESG, particularly climate change and sustainability by activist investors, how conversant is your board in relevant climate change reporting metrics and disclosure frameworks?
- Particularly in light of the pandemic and resulting economic downturns, executive compensation has also come under scrutiny from many investors. How is your board evaluating executive compensation plans or adjusting them in light of the events of 2020 and 2021?

Has your board been approached by an activist over the past 12 months?



Which of the following issues have shareholders requested to discuss with your board or management in 2021?



*Directors were asked to select all that apply.

SUPPLY CHAIN

Current supply chain disruptions ranked as the second area where directors are most concerned about confronting a crisis in the near term—right behind cybersecurity (see page 3). Their primary concerns are the breadth of possibilities where disruptions can occur and the breadth of areas inside the company that such disruptions would affect.

When asked if there's any way companies could have contingency-planned for, or circumvented, current disruptions, most directors interviewed as part of this research said they didn't believe so because of the tsunami of events that came together in 2020 and 2021 to cause the current situation.

For example, as recently as January 2022, we witnessed thousands of flights in the U.S.—including those carrying cargo—being cancelled due to Covid-related staffing shortages and extreme weather events. Across the country, the low unemployment rate and “Great Resignation” have decreased many companies' ability to meet increased consumer demand, fueling inflation. Meanwhile, intermittent Covid lockdowns in major manufacturing centers in China have contributed to ongoing supply shortages globally. These and dozens of other similar disruptions have created bottlenecks, shortages and uncertainty throughout the global supply chain that could take years to correct.

THE EXPANDING DIRECTOR ROLE

This year, we saw growing concern among respondents that the role of the director was becoming too complex and that the range of issues boards must oversee is leaving them overwhelmed and underprepared. As evidenced by the scope of issues covered in this report, the role of the corporate director has, indeed, expanded significantly in recent years. Issues like cybersecurity, supply chain management and attracting talent may not have been on the board agenda at all five years ago, and now they are topping our lists for areas directors are the most concerned about overseeing, particularly if the company is hit by a related crisis.

In particular, DEI issues seem to pose particular challenges for boards. As noted, nearly half (47 percent) of respondents indicated that they had already met their board diversity goals. Meanwhile, 32 percent indicated that they are on track to meet their diversity goals, but only 23 percent indicated they have a timeline to accomplish their diversity goals in the first place. Additionally, none of the directors participating in the survey reported having a timeline

“It still doesn't change the bigger picture issue of where do you want your supply chain to be. And I think that's the bigger issue that companies are really addressing now; Do you want to bring it closer to home?”

—Kathleen Camilli, Board Member, AGF Management and UniFirst Corporation

QUESTIONS FOR YOUR NEXT BOARD MEETING:

- Thinking about supply chain disruptions within your organization in 2020 and 2021, what have been some of the lessons learned? How can those learnings be leveraged when thinking about supply chain activity in 2022?
- How is your board engaged in creating strategy for ongoing supply chain disruptions in 2022 and beyond?
- How have companies in your organization's industry, location, and peer group fared in comparison? What were some of the strategies they used to mitigate negative impacts?

longer than 5 years, which may indicate board members are thinking more about short-term gains—perhaps to appease some of the external pressure—than longer-term strategy around DEI goals.

Similarly, directors expressed concerns around the complexity of ESG metrics, reporting and disclosure. Some directors also indicated concern with their ability to understand and oversee ESG issues effectively, and others expressed plain frustration with yet another item being tacked onto the board's agenda.

Clearly, the issues that directors are the most concerned about heading into 2022 will remain top-of-mind and will likely transform the way we conduct business well into the future. We anticipate boards to seek out support and guidance to help them effectively oversee rapidly evolving topics like cyber, digital transformation, talent and workforce, DEI and other ESG issues, as well as to integrate them into long-term strategic plans.

SURVEY METHODOLOGY & DEMOGRAPHICS

“What Directors Think” is an annual survey of public company board members in the United States. The survey is designed by *Corporate Board Member*, in partnership with leading governance experts, to assess trends, challenges and opportunities across boardrooms and provide corporate directors with up-to-date peer benchmarking insights that can support their agenda discussions and oversight process.

The survey is conducted entirely online, via Qualtrics, and fields for a period of 6 to 8 weeks, from late August to mid-October of each year. Select participating directors are then contacted to help shed more light on key findings as part of a one-on-one

interview process led solely by *Corporate Board Member*. The results of the survey and interviews are used for editorial coverage in the Q1 edition of *Corporate Board Member* magazine, published in January each year, and this whitepaper, distributed at large to the governance community.

This year’s survey, produced in partnership with Diligent Institute for the second consecutive year, was the 19th edition. It garnered 400 qualified responses—all of which are kept confidential and only used in aggregate to produce this report.

RESPONDENT TITLES

Outside director	50%
Committee chair	32%
Board chair	8%
Lead director	7%
Executive director	4%

MARKET CAPITALIZATION

Emerging (less than \$300 million)	10%
Small (\$300 million to \$1.9 billion)	26%
Mid (\$2 to \$9.9 billion)	39%
Large (\$10 billion+)	25%

SECTOR

Financials	20%
Industrials	19%
Healthcare	13%
Consumer Discretionary	12%
Information Technology	10%
Real estate/REIT	7%
Energy	7%
Utilities	5%
Materials	4%
Consumer Staples	3%
Communication Services	1%

DIRECTORSHIP TENURE

Less than 1 year	2%
1-4 years	15%
5-9 years	26%
10+ years	57%

COMMITTEE REPRESENTATION

Audit	31%
Compensation	28%
Nom/Gov	26%
Risk	7%
Technology	4%
Ethics	2%
Innovation	2%