THE BIG RESET:

Moving from Resilience to Addressing External Risks Head-On

CORPORATE BOARD MEMBER®

Report Based on a May 2021 Survey of U.S. Public Company Directors

The range of issues under boards' consideration had been increasing well before the emergence of Covid-19, but the accommodations needed to maintain business operations during the pandemic—including remote-work arrangements and the rapid expansion of employee care programs—caused human capital issues to rise quickly to the top of the agenda.

To assess the level of importance of these issues in the boardroom today, Segal and *Corporate Board Member* partnered to survey more than 225 public company board members across 15 industries and at firms ranging from less than $50M to greater than $10B in market capitalization.

In analyzing boards' practices in those areas, we looked for anomalies based on the organizations' relative market capitalization by comparing all respondents across three groups: less than $2 billion, between $2 billion and $10 billion, and greater than $10 billion.

We also compared the largest industry group represented in the survey—financial services (includes wealth & asset management, banking & capital markets, and insurance)—to the rest of the industries.

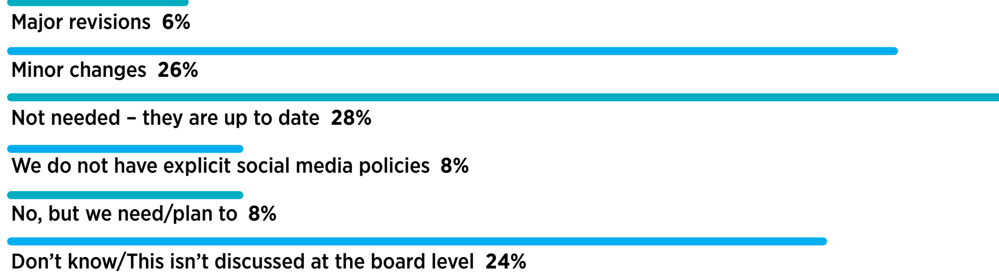
This report presents our findings.

OVERSEEING EMPLOYEE AND PUBLIC PERCEPTIONS

Reputational risk is of growing concern to boards of directors across the country. A February 2021 survey conducted by Corporate Board Member showed that 57 percent of directors are more concerned about reputational risk today than they had been in prior years. When asked how closely they monitor the company's reputation, directors on average ranked it an 8 out of 10, or "very closely" according to the survey scale.

Perhaps it is no surprise then that social media risk is back on the board agenda. Our data shows that 40 percent of organizations either have revised or are planning to revise their social media policies, according to the directors we surveyed in June 2021—with another 28 percent asserting that their policies are up to date.

Has your board company updated its social media policies governing employees in the past 12-18 months?



Companies with a market capitalization below $2 billion appeared to be further behind in instituting and updating social media policies. Almost twice as many reported a lack of explicit social media policies (13 percent versus 7.5 percent in the full group), and three times as many said they need or plan to makes updates (22 percent versus 8 percent).

The results from three of the four subset cohorts were consistent with the full respondent group. However, the percentage of directors at companies with less than $2 billion in market cap who don't know about social media policies or don't discuss social media in board meetings is lower (13 percent versus 24 percent), while the percentage who report that they don't have social media policies is almost twice the occurrence of the full group (13 percent versus 7.5 percent). What is encouraging is that the number of those reporting plans to set social media policies is almost three times the incidence of the full group (22 percent versus 8 percent).

Further, 24 percent of directors say they either don't know or don't discuss social media at the board level. This percentage may decrease over time, but it remains high considering the events of the past two years and the potential harm of a lack of policy in that regard for organizations.

Yet, overall, our findings can be viewed as a confirmation that social media is increasingly perceived as a significant source of reputational risk for public companies. Negative social media can follow a company—and by extension board members—for years, so taking a more proactive role makes sense.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) ISSUES

Illustrating the power of social media is the rise of ESG as a topic of conversation across platforms. According to the survey, 90 percent of companies have programs to ensure that employees understand and accurately communicate the ESG positions of the organization publicly. Among those, three-quarters (74 percent) of directors say their companies have revised these programs within the past 18 months.

If your board company has programs (e.g., communications, training, recruiting and onboarding) to ensure that employees understand the environmental, social and corporate governance (ESG) positions of the organization, when was the last time they were revised?

Within the past 18 months **67%**

More than 18 months ago **5%**

They have never been revised and are up to date **5%**

They have never been revised, but we are discussing making revisions in the near term **3%**

Don't know **11%**

Our company has no such programs **10%**

The data shows that the smallest organizations by market cap (less than $2 billion) have the least amount of ESG-related communications, while those with more than $10 billion in revenue had the highest. Small-cap companies also had the highest reported percentage of potentially out-of-date employee-focused ESG programs (18 percent versus 5 percent for the remaining organizations).

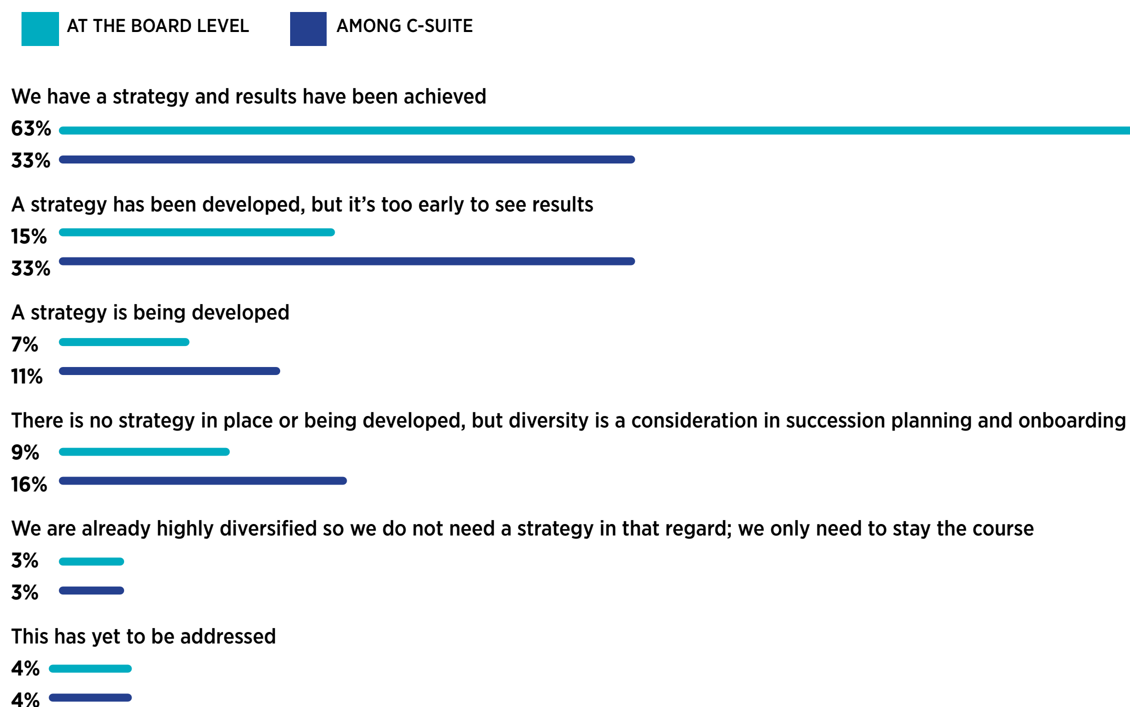
With 67 percent of directors reporting that their organizations have up-to-date programs to communicate ESG positions to employees, we can assume that organizations recognize that their efforts are worth noting and leveraging among employees. At the same time, standards are being set as the database of companies' ESG practices are collected and compared. Being proactive helps companies diffuse past inequality questions or past silence.

Looking at the results by company size, companies with $2 to $10 billion in market cap closely mirror the full group, with a slightly higher proportion of them having revised ESG communications within the past 18 months (72 percent versus 67 percent). However, those with less than $2 billion in market cap were significantly less (32 percent versus 67 percent) when compared to the full group.

DIVERSITY, EQUITY AND INCLUSION (DEI)

Diversity has been topping headlines for years now, with shareholders and large institutional investors increasingly putting pressure on boards and leadership teams to broaden their ranks across a variety of metrics. Our findings indicate that, in the short term, addressing diversity at U.S. public companies is more likely to occur at the board level than among the C-Suite, perhaps due to that very scrutiny from shareholders and emerging requirements by states and exchanges.

Overall, 63 percent of companies represented in the survey say they have a diversity strategy at the board level whereby results have been achieved—compared with 33 percent for similar strategies at the C-Suite level.



Results may not add up to 100 percent due to rounding.

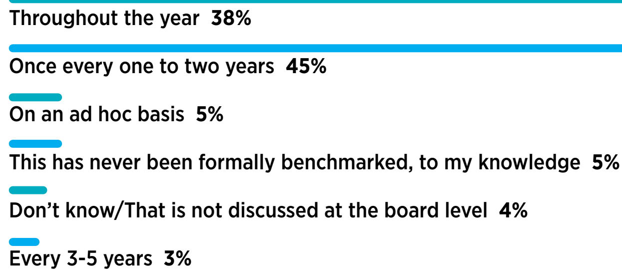
Companies within the smallest market cap group were reported to be less effective at achieving diversity compared to the rest of the organizations surveyed (35 percent versus 63 percent for board diversity and 24 percent versus 33 percent for C-Suite diversity). This is a great area of opportunity in this era of talent scarcity since studies have shown that ESG and DEI are important issues to younger generations—a less diverse organization could affect recruiting efforts.

It is worth noting that although this study did not ask about diversity among managers and employees nor among suppliers and partners, companies looking to improve their public relations often implement strategies to increase both ESG and DEI efforts.

MAXIMIZING THE COMPANY BENEFITS OF EMPLOYEE PROGRAMS AND REWARDS

Labor represents a major cost to companies, and 83 percent of directors surveyed say their companies benchmark labor costs (salary, bonus, benefits plus recruiting and training costs) with peer organizations either throughout the year or at least every one to two years.

How frequently does your board company benchmark its labor costs (salary, bonus, benefits plus recruiting and training costs) with peer organizations?

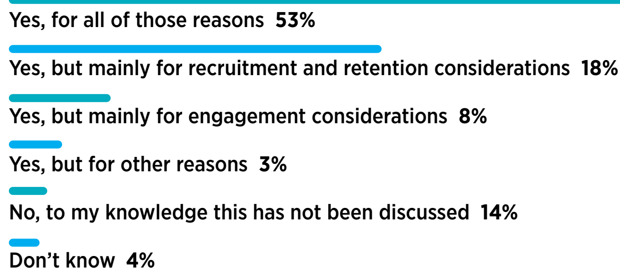


Companies with more than $10 billion in market cap demonstrated one difference worth noting from the full group: their board members said almost twice as often that they benchmark labor costs throughout the year when compared to the full group (67 percent versus 38 percent).

A large part of labor costs includes the employee total rewards programs—benefits, compensation, fringe benefits, incentives, and learning and development programs. In the past, boards rarely discussed employee total rewards programs unless there were problems, but Covid amplified the war for talent, and when asked whether their companies had revised or considered revising these programs over the past 12 months—and why—82 percent of directors said they had done so.

As to why, 53 percent say the goal was to improve recruitment, engagement and retention, 8 percent said they did it solely for engagement reasons, and 18 percent did so to improve both recruitment and retention but not necessarily engagement.

Over the past 12 months, has your organization revised or considered revising employee total rewards (e.g., benefits, compensation, learning opportunities, career growth) to improve recruitment, engagement and retention?



When looking at the responses by company size, three differences were noted:

1. Companies with less than $2 billion in market cap were more likely to adjust total rewards for recruitment and retention reasons (27 percent versus 18 percent for the full group).

2. Board members of companies with more than $10 billion in market cap were less likely to know about revisions to employee total rewards programs (25 percent versus 14 percent for the full group).

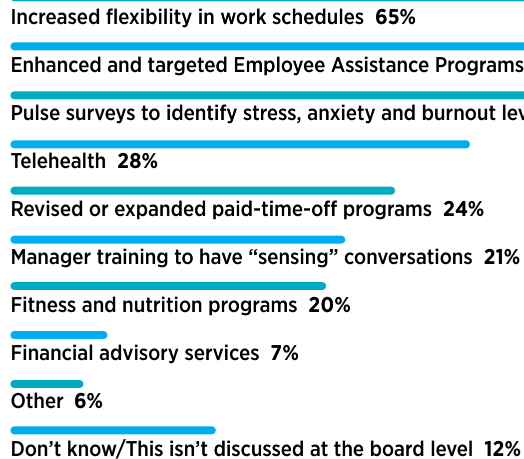
3. Board members of financial service companies were less likely to know about total rewards revisions (33 percent versus 14 percent for the full group).

MANAGING TALENT AND THE WORKPLACE

Over the past 18 months, companies have had to address supporting employee wellbeing more aggressively than at any time in the past. Today, more options are available to employers, and much has been written about best practices that can make a difference. One change shown in the data is that board members are more involved in the conversation over strategies that can better support employee wellbeing and more likely to know the details of enhancements companies recently have made.

When asked about the programs their companies have developed to help address employee wellbeing, the most cited program (65 percent of respondents) was increasing flexibility in work schedules, followed by EAP programs (49 percent). There also has been a noticeable introduction of pulse surveys (44 percent of companies) to identify wellbeing gaps, such as stress, anxiety and burnout.

Over the past 12 months, what has your company introduced to holistically address employee wellbeing (physical, mental, emotional and financial health)? (Select all that apply)



This question saw some of the largest differences among the three market cap groups and when comparing the financial services respondents to the full group. Those with $2 to $10 billion in market cap led with their enhanced EAP programs—62 percent versus 49 percent for the full group. Those with less than $2 billion were 8 percent lower than the full group.

The $2 to $10 billion group also led in the use of pulse surveys—57 percent versus 44 percent for the full group of respondents—while the less than $2 billion group was well below the full group's use.

Increasing flexible work schedules saw two of the three cohorts reporting higher use than the full group's 65 percent—76 percent for the $2 to $10 billion group, 73 percent for the greater than $10 billion group—while the lowest market cap cohort (less than $2 billion) reported this at 55 percent.

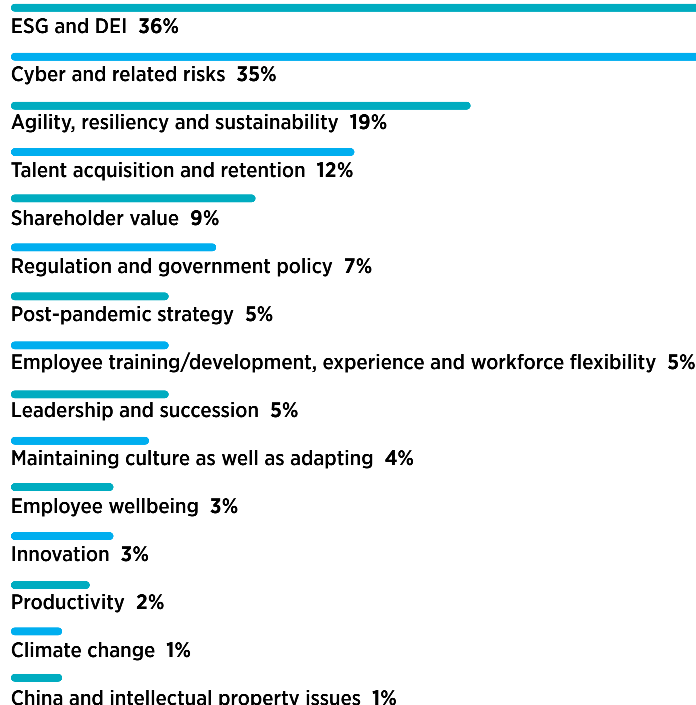
Seventy-four percent of the financial services firms reported increasing flex work. It should be noted that the option in the question did not define flexible work schedules in terms of remote and hybrid, but that could have been included in the respondents' answers, which would be supported by data from other questions.

RISKS AND OPPORTUNITIES

There is no shortage of issues to tackle in the boardroom these days, but 26 percent of the directors surveyed say ESG and DEI issues should be prominent on every U.S. public company board's agenda in the year ahead.

It is interesting and perhaps somewhat inconsistent that while cybersecurity ranks high on the list of priorities for boards (rated second most prominent issue), only 3 percent of directors view it as a challenge to ongoing remote/hybrid work arrangements (see page 11). One interpretation of this seeming inconsistency could be that board members recognize the threats of increased cyber intrusions but do not view remote and hybrid work arrangements as increasing the severity of those threats. If that is the case, the findings highlight a significant gap in perspective with America's CIOs: 93 percent of them said in a September 2021 poll conducted by Chief Executive Group that they believe remote or hybrid work arrangements increase the risk of cyber breaches, particularly if the organization isn't adequately training employees to boost awareness about potential attacks.

In your opinion, which issue(s) should be prominent on every U.S. public company board's agenda in the year to come?



Respondents were asked to contribute answers.

The next most cited issue is post-pandemic strategy, at 19 percent. This ranking indicates a recognition by board members that companies need to adapt, and so it is perhaps surprising that it was not cited by more respondents. Public companies have shown great adaptability throughout the pandemic, so there may be a sense of confidence in their agility.

Two other topics directors believe should top boards' agenda in 2022 are talent acquisition and retention at 12 percent and employee training/development, experience and workforce flexibility at 5 percent. Both are clearly related and show that board members recognize that finding and retaining talent is crucial to a company's success.

Other issues considered to be more important by board members were addressing the skills gap/ talent shortages, employee well-being, insider security threats, Covid-19 mutations and other community-based health matter, and the company's ability to meet growing demand for flexible work arrangements.

While most of these issues aligned in order of priority irrespective of market cap, one variant was the importance of Covid-19 mutations and other community-based health matters, which grew in importance with company size. Overall, 5 percent of the full group selected this issue as their top risk, but less than half that percentage said the same among companies with <$10 billion market cap—and 12 percent agree among those above $10 billion. One possible interpretation is that smaller, more middle-market companies believe they can adapt better to the impact of changes in Covid and its variants.

Two categories cited much less frequently are worth noting:

- Employee wellbeing at 3 percent seems low considering the responses to the separate question on that topic. As this question was near the end of the survey, it is possible that the respondents assumed their answers to the prior question adequately expressed their opinion on employee wellbeing.
- Shareholder value at 9 percent. Many would assume that maintaining or increasing shareholder value is a key function of board members. And perhaps this might have been cited more often if the survey was conducted a few years ago. We see this coupled with all of the survey data to confirm that board members today recognize that their roles require a broader range of topics within their purview.

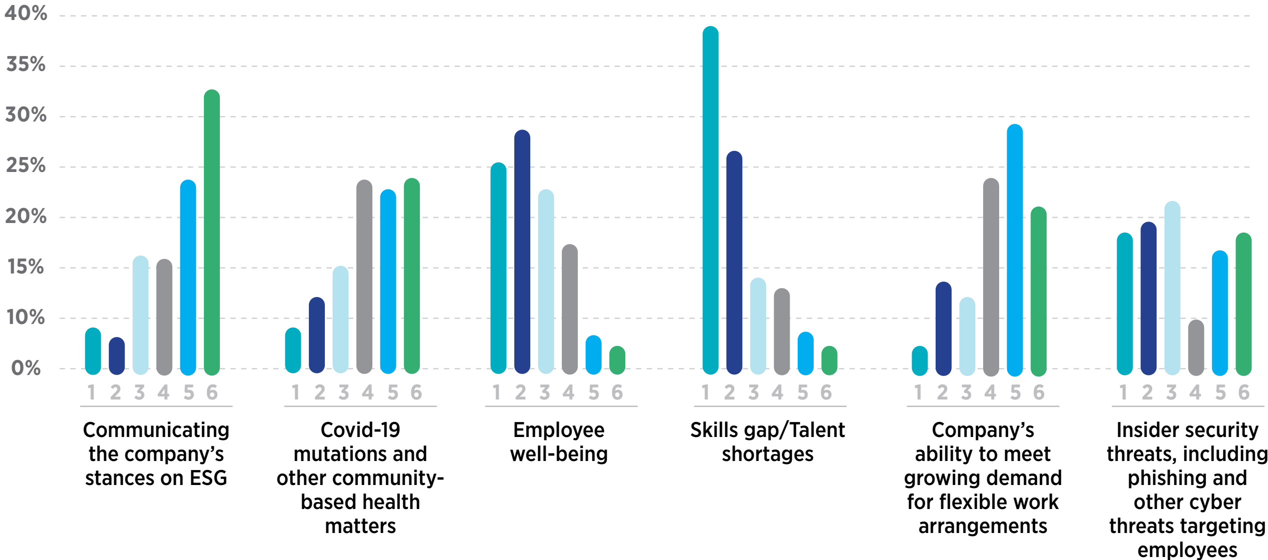
Directors were also given an opportunity to rank certain workforce risks and opportunities relative to others. The findings are interesting because while communicating ESG appeared to be important to respondents based on another question in the survey, only 8 percent rank it ahead of the other issues on the list. In fact, its selection grew steadily through each of the six descending levels of importance. Only one other risk held relatively steady support through the rankings: insider security threats.

Overall, directors report skills gap and talent shortages as the greatest risk (37 percent chose this first in importance), followed by employee wellbeing, with 25 percent.

Although there were some variations among the three size subgroups and when comparing the financial services subgroup to the full set of responses, the relative positions stayed fairly consistent with no notable outliers.

This question was purposely designed to be difficult for the board members—each of the risks offered were current and often cited in interviews and publications. Our goal was to look for fine differences, especially considering that the question did not offer a "not important" option.

Please rank the following workforce risks and opportunities for your organization by order of importance (with 1 being the most important for leadership to manage in the short term):



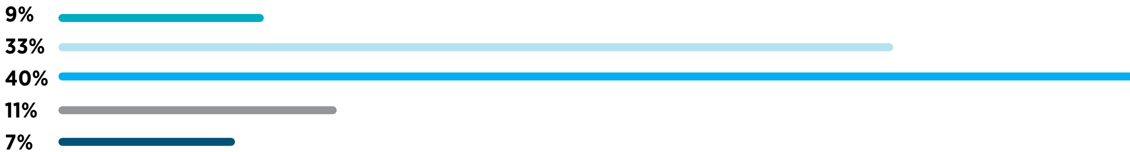
RECRUITMENT AND RETENTION

When asked about the effectiveness of various recruitment and retention measures, 57 percent of respondents cited remote/hybrid work arrangements and flexible schedules as "extremely effective" or "effective". The same percentage selected updating the EVP. Expanding talent search parameters was also chosen as either an extremely effective or effective measure for supporting talent (51 percent). Finally, 41 percent noted that employee referrals of new talent should continue to be explored and rewarded.

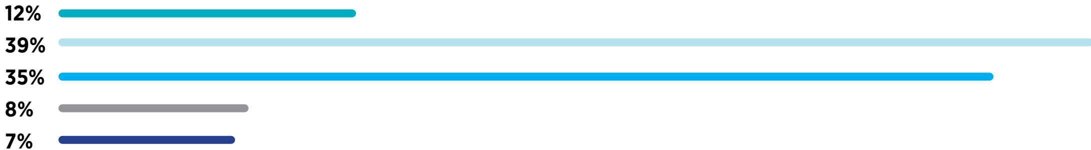
In your opinion, how effective are the following measures in supporting a successful talent strategy in this new era?

Extremely effective | Effective | Moderately effective | Could be better | Not effective

Incentivizing employee referrals for critical roles and positions

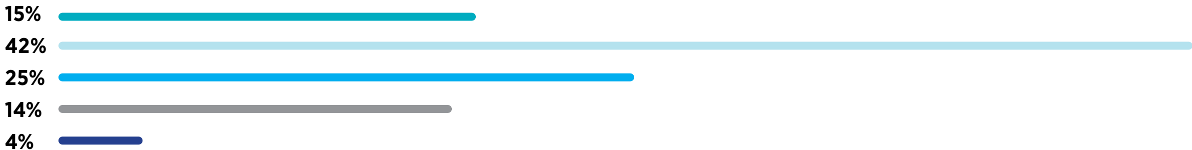


Broadening recruitment practices (e.g., expand search globally, open positions to contractors/freelancers)

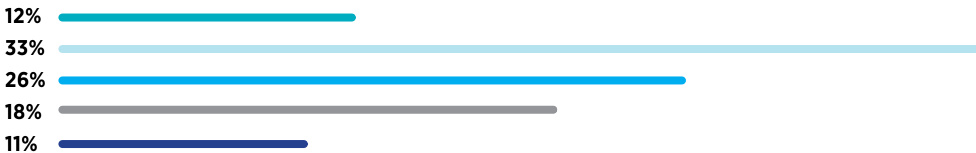


Offering permanently remote/hybrid arrangements or flexible schedules where possible

Updating the employee value proposition to better align the brand with new generational demands



Testing the end-to-end security of the remote, hybrid and on-site workplace



Results may not add up to 100 percent due to rounding.

Looking at the subgroups, fewer board members at companies with less than $2 billion in market cap reported that their efforts in offering remote/hybrid arrangements were extremely effective (5 percent versus 16 percent for the full group), but their assessment of the measure being effective was higher. Their assessment of effectiveness of EVP changes made were markedly lower (none said extremely effective, and 33 percent said effective versus 15 percent and 42 percent, respectively, for the full group). This may indicate that smaller companies were not making the "right" EVP changes to prove effective.

The financial services subgroup judged their efforts at end-to-end security more effective in terms of their talent strategy when compared to the full group. Fifty-three percent saw those efforts as extremely effective or effective versus 45 percent for the full group. By its nature, the financial services industry may have a different perspective with different results on security when compared to other industries.

THE FUTURE OF WORK

The pandemic dramatically increased the use of remote and hybrid work arrangements, and for a variety of reasons, including employee preferences, they are likely here to stay. Almost three quarters of directors say their organizations have implemented new or revised remote and hybrid work policies for either all of their workforce (21 percent) or portions of their workforce (52 percent). The topic is still on the table for another 17 percent.

These percentages did not vary much across size groups or industries.

What has your board company decided regarding remote/hybrid/on-site work policies?

We've implemented new (or revised existing) remote and hybrid work policies for portions of the workforce, but some roles are/will be required to be on site 52%

We've implemented new (or revised existing) remote and hybrid work policies for the entire workforce 21%

No formal decisions have yet been made regarding our go-forward work policies, to my knowledge 17%

Remote and hybrid arrangements have ended or will be ending soon 7%

N/A/Remote or hybrid work was never an option 2%

Results may not add up to 100 percent due to rounding.

Directors were also asked to comment on what they believe would be the most challenging aspects of these remote or hybrid work arrangements. The qualitative answers were tabulated into categories of similarities.

Team collaboration and culture challenges were cited 60 percent of the time. We included onboarding in this category because the responses submitted spoke more of the challenges for new employees in becoming a part of their teams and embracing the culture than of learning the company software or policies, which are too often the focus of onboarding programs.

The category of productivity/engagement and creativity/innovation was cited in 22 percent of responses. Training, career and succession was the third most cited category (9 percent). Equity (both job and pay related as well as related to working families) was next at 8 percent, and recruiting and retention received only 3 percent of responses.

In your opinion, what will be the most challenging aspects of an ongoing remote or hybrid work environment?

Team collaboration; culture; onboarding 60%

Productivity and engagement; creativity and innovation 22%

Training; career; succession 9%

Equity (including for working families) 8%

Evolving pandemic and safety issues 6%

Manager and leadership issues 4%

Cybersecurity 3%

Recruiting and retention 3%

No issues 3%

Government regulations, tax and compliance 2%

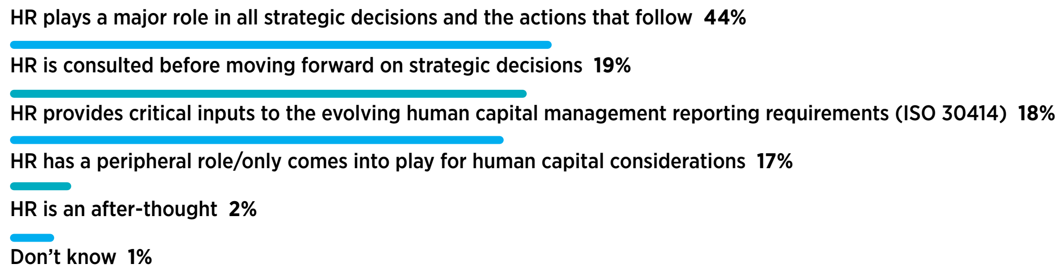
Costs 1%

Respondents were asked to contribute answers.

SUPPORTING AND IMPROVING LEADERSHIP

Directors participating in the study recognize the importance of HR in dealing with workforce-related decisions, challenges and risks: 81 percent of board members say they see HR as having more than a peripheral role in strategy planning and decision-making.

From your perspective as director, how does your leadership team leverage HR in its strategic planning and decision-making?



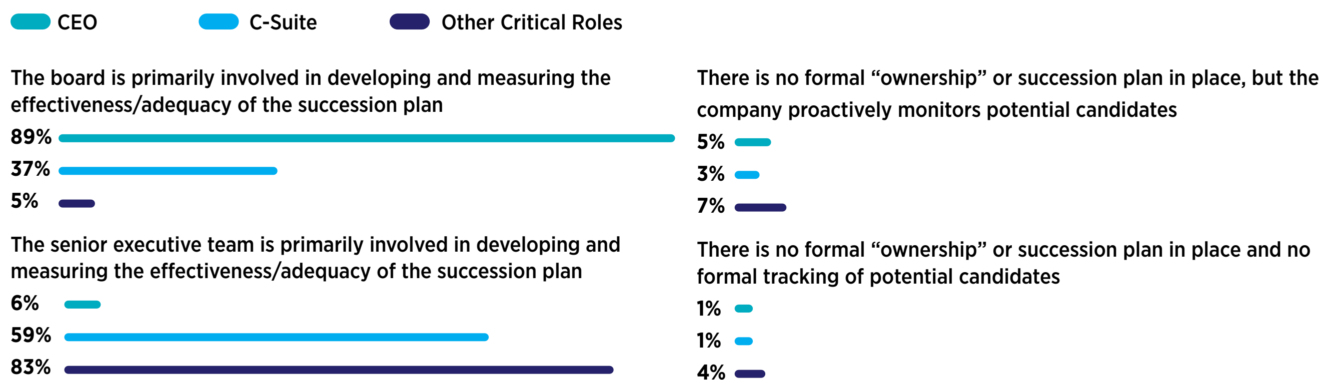
Results may not add up to 100 percent due to rounding.

This finding was consistent across the two largest market cap groups and the financial services industry, but among the >$2 billion group, fewer directors agreed that HR has a major role in all strategic decisions (32 percent versus 44 percent for the full group). A greater proportion of them also said that HR has only a peripheral or limited role in strategic planning and decision making (27 percent versus 17 percent for the full group). This could be that smaller companies have less sophisticated HR functions by choice, or they have failed to make the investments necessary to get the most benefit possible.

SUCCESSION PLANNING

Boards have always been primarily involved in developing and measuring the effectiveness and adequacy of the succession plan for the CEO—a fact that 89 percent of directors in our study confirmed—but only 37 percent of directors said the board is also involved in leadership transitions beyond the top chief. Overall, 59 percent confirmed that the senior executive team is the one responsible for C-Suite succession planning.

At what level of the company are succession plans for the CEO and other critical roles developed and monitored for their effectiveness? (Select one for each role.)



Loss of key leaders can be the single most important factor that companies can control in avoiding disruptions in their businesses. Succession plans coupled with appropriate documentation and training allow those who are succession candidates to step into newly opened roles with minimal loss of company momentum. As these functions take more and more prominence, it will be interesting to see if the board plays a more active role in years to come.

It is important to note that the question did not probe succession of board seats. However, a highly functioning board likely has a list of potential candidates to fill open board seats as they arise.

DRAWING CONCLUSIONS AND MOVING FORWARD

The events of the past 18 months have accelerated the pace for public company boards to take on broader responsibilities beyond the traditional fiduciary and business operational risk. Today's directorship requires intervening in many other aspects of the business, including leadership succession, supply chain, technology, cybersecurity and workforce performance. Labor shortages and employee wellbeing have also been elevated to the board level, and rightfully so as they drive meaningful changes to the employee value proposition, holistic wellbeing approaches and talent sourcing.

Taken together, the survey results show that board members are informed about current challenges, issues and trends facing their companies. In many cases, they're active in addressing these issues—particularly those that relate to talent strategies.

For board members who are interested in making further progress or helping their companies better compete in a changing world, the data points to the following recommendations:

- Ensure talent sourcing strategies include access to rich data sets around talent mobility, competitive pay, skills available in adjacent industries, voice of employee (why people stay or leave), and scenario-based workforce planning.
- Evaluate the approach to employee wellbeing beyond the short-term return to work challenges. Make sure it includes the physical, emotional, mental, psychological and financial aspects and that these are supported by an enhanced and two-way communications program.
- Assess how the EVP resonates in the labor market, how well it is understood and marketed within your organization, and how closely it mirrors your external and internal communications around your ESG and DEI strategies.
- Assess cybersecurity risks, especially from within the organization, and ensure that business insurance policies, employee security training and business continuity plans include protection, damage control and disruption management created by these threats.
- Be prepared to support some form of remote, hybrid and flexible work arrangements moving forward. This includes keeping abreast of the latest tools and technologies to support virtual teams and collaboration, manager and supervisor training, and regulatory and employee tax implications.
- Leverage HR as a partner to help address all of the above and start developing human capital metrics (leading and lagging indicators) to identify trends to improve workforce planning and forecasting—then begin preparing for the new SEC annual reporting requirements on the horizon.

Board members have an increasingly important role as their portfolios of responsibilities expand to meet emerging and growing risks and opportunities. CEOs and other senior leaders should anticipate more interactions with the board as board members ask broader questions and address evolving issues head on.

CORPORATE BOARD MEMBER

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