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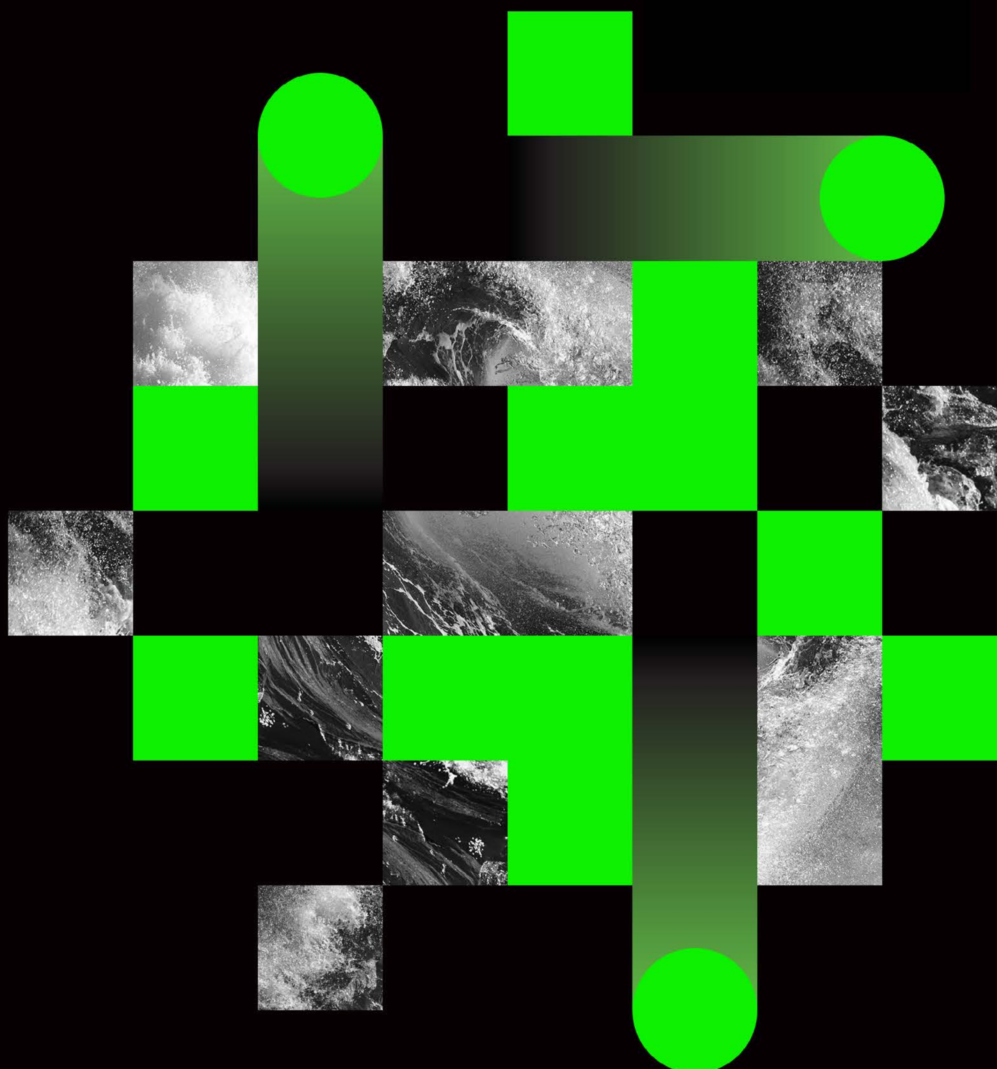

2021 Directors' alert

A new era of board stewardship begins

JANUARY 2021

About Deloitte's Global Boardroom Program

The Deloitte Global Boardroom Program brings together the knowledge and experience of Deloitte member firms around the world in the critical area of corporate governance. Its mission is to promote dialogue among Deloitte practitioners, corporations and their boards of directors, investors, the accounting profession, academia, and government. Since 2009, the program has launched over 65 boardroom programs in Asia, Europe, the Middle East, Africa, and the Americas. Find us online.

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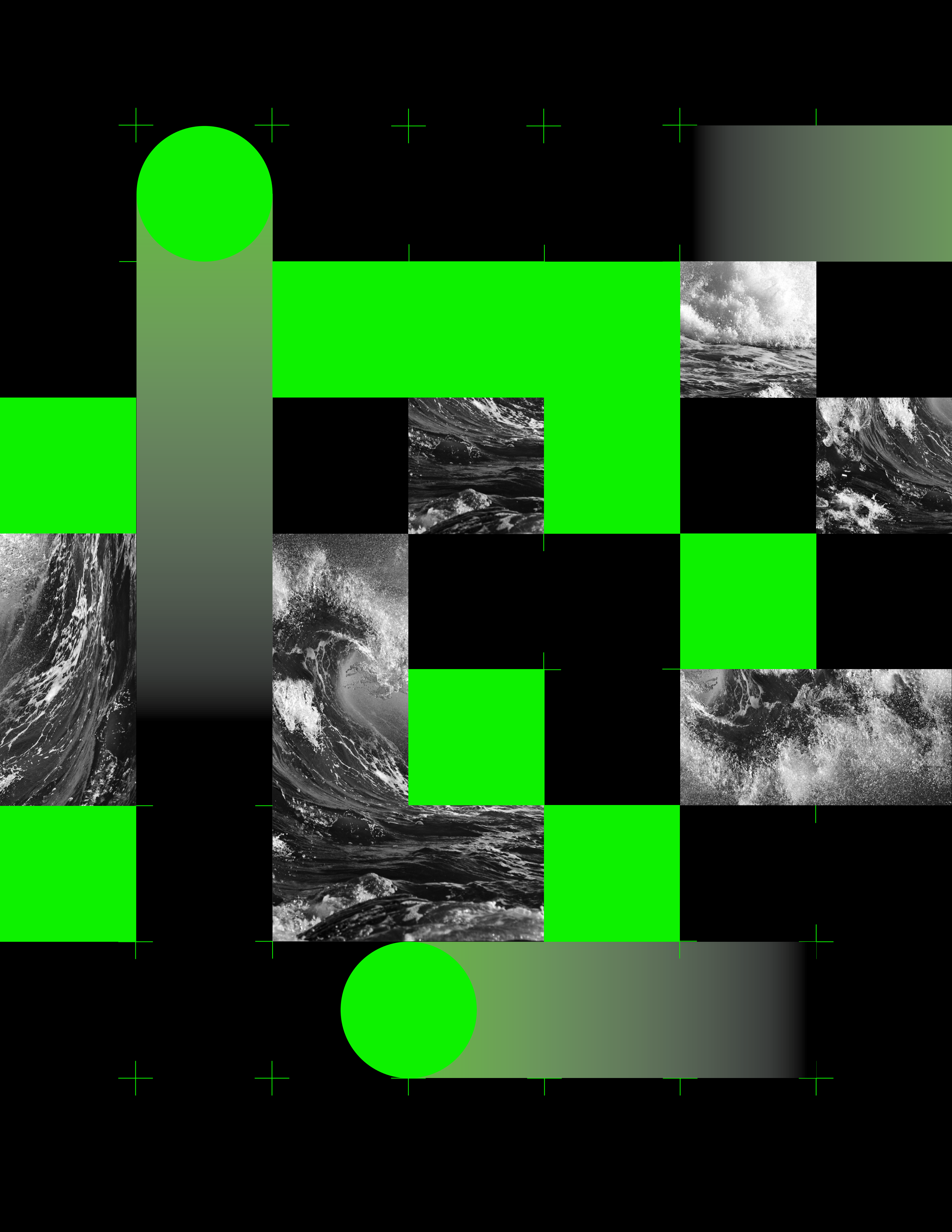


Global outlook, January 2021

By Ira Kalish, chief global economist,
Deloitte Touche Tohmatsu Ltd.

IN OUR JANUARY ***Directors' alert, independent directors in Singapore and Europe weigh in, along with Deloitte Global CEO Punit Renjen, on the leadership challenges and new priorities boards face at this pivotal and historic moment. Board directors will need to help management overcome pressing, immediate challenges while helping guide organizations on the best path to thrive in the future. To navigate effectively, directors will need to model and encourage smart, effective, skilled leadership, coupled with open communication and a commitment to transformation. How quickly regional economies can emerge from the grip of COVID-19 will impact boardroom agendas around the world. With that in mind, we're kicking off this alert with Deloitte's global economic outlook.***

As 2021 begins, the world faces promise and peril. Vaccine distribution is underway, offering the promise that COVID-19 could ultimately be quelled sometime this year. Meanwhile, however, the pandemic continues to threaten economic stability, especially in parts of the world where the outbreak has not been controlled. This is true in the United States and the United Kingdom and threatens to be a problem elsewhere if the new strains of the virus spread further. The challenge for policymakers will be to stifle the current outbreak, protect those who are disrupted, and speed up distribution of vaccines.

United States

The US economy clearly weakened toward the end of 2020. Personal income and consumer spending both declined[1] in November and some measures of housing activity[2] weakened after many months of stellar performance. Although the number of new infections began to abate toward the end of December,[3] public health officials worry that the increase in holiday travel in late December will result in yet another surge in infections in January and into February.

Meanwhile, the US Congress passed and the president signed a spending package of about US$900 billion.[4] It includes extended unemployment insurance, cash for households and businesses, and money for education and medical care. It will modestly buttress the economy for a few months, but more will likely be needed. Now that Joe Biden has become president, Congress is expected to take up his request for additional funding to boost testing capabilities and distribution of vaccines.

Eventually, the virus will be defeated. When recovery comes, middle-income to upper-income households will likely stop saving such a large share of their income and spend more on consumer-facing services, such as restaurants and travel. This shift in behavior will go a long way toward boosting the rate of economic growth. On the other hand, even a robust recovery later this year will not likely erase the troubles faced by many former employees of consumer-facing industries; they will remain unemployed. Disruption of the job market will be a longer-term problem, one whose solution will be debated in Congress. There will be plenty of talk about the K-shaped recovery in which upper-income households prosper while lower-income households suffer prolonged economic disruption and risk.

European Union

After a second surge of the virus began in Western Europe in October, many governments imposed new restrictions, setting the stage for a decline in economic activity in the fourth quarter. But as the quarter unfolded, the surge reversed: In several countries, people stayed home and avoided social interaction, and the number of new infections fell sharply. That decline, in turn, led many analysts to expect a rebound in economic activity in the first quarter of 2021. But by early January, the new strain of the virus ravaged the United Kingdom, where they experienced the highest number of hospitalizations since the crisis began. And it has started to wreak havoc elsewhere, especially in Italy and Spain. Across Europe, the surge is causing stress on the health care system.

Consequently, many European countries now plan to extend economic restrictions. In Germany, for example, the government is extending the lockdown until the end of January.[5] The UK government is imposing stricter limits on economic activity. In France, the government is extending lockdowns geographically and has postponed removing existing restrictions. These and other measures are likely to cause economic growth to decelerate in the first quarter. Moreover, the situation may remain precarious until most of the general public has been vaccinated. As one health official in France said, "We have another four months of collective effort ahead of us." That assumes rapid vaccination. Yet so far, the number of vaccinations administered is far below initial plans. Thus, the European outlook is starting to deteriorate.

China

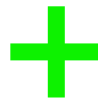
China's economic growth continues at a healthy pace. Consumer spending has been boosted by confidence that the virus is under control. Fixed asset investment has been helped by substantial funding for state-owned enterprises as well as regional governments. And exports have performed well. This is partly due to the fact that China is a leading producer of products in high demand during the pandemic, such as personal protective equipment and technologies used for remote interaction.

Yet the strength of China's economy has come with a cost: rising debt. Moreover, the government is evidently keen to avoid the kinds of financial pitfalls that often emerge when credit creation is excessive. The government is allowing bad corporate debtors to default on loans and bonds[6] rather than encouraging lenders to roll over loans. This

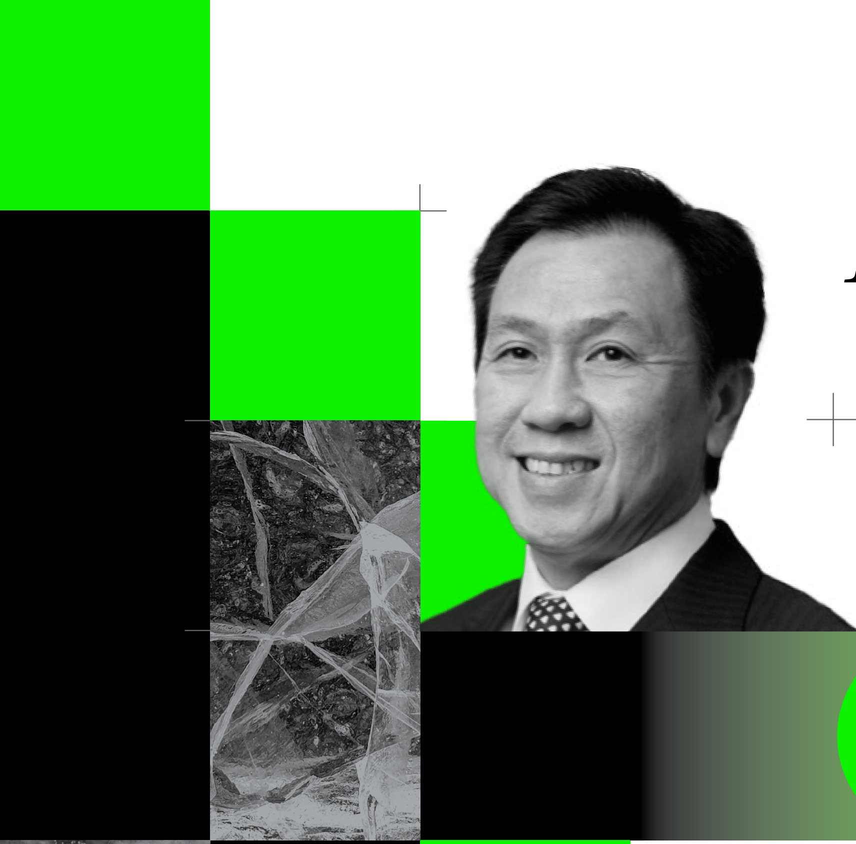
suggests that the government wants to create a sounder financial base for the coming decade. Although a system of credit that punishes failure will eventually generate more productive investment and faster growth, in the short term, it will create disruption.

Emerging markets

Emerging markets have experienced a range of economic outcomes during the pandemic, but the common denominator has been a sudden, temporary collapse in economic activity followed by a rise in debt.[7] Although many emerging market countries are now growing rapidly, achieving a full recovery will depend on many factors, including how rapidly vaccines are distributed in poorer countries. Even in the best circumstances, many countries will remain laden with debts that could stymie growth and create financial vulnerabilities. The ability to service and pay down debts will depend on the path of global commodity prices, the volume of remittances from expats living in affluent countries, the value of the US dollar (in which many external debts are denominated), the speed and breadth of the massive tourism industry recovery, and the health of global trade in manufactures. All these factors, to some degree, depend on how soon, and how completely, the virus can be eradicated.

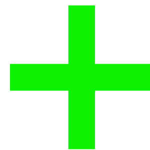


Ira Kalish is the chief global economist of Deloitte Touche Tohmatsu Ltd. He is a specialist in global economic issues as well as the effects of economic, demographic, and social trends on the global business environment. He advises Deloitte clients as well as Deloitte's leadership on economic issues and their impact on business strategy. In addition, he has given numerous presentations to corporations and trade organizations on topics related to the global economy. He is widely traveled and has given presentations in 47 countries on six continents. He has been quoted by The *Wall Street Journal*, The *Economist*, and the *Financial Times*. Dr. Kalish holds a bachelor's degree in economics from Vassar College and a PhD in international economics from Johns Hopkins University. ●



Interview WITH **Chaly Mah**

Independent director, Singapore



Chaly Mah is currently the Chairman of Netlink NBN Trust, Singapore Tourism Board, Surbana Jurong Group and the Singapore Accountancy Commission. He serves on the boards of Capitaland Limited, Flipkart Pte Ltd, Economic Development Board of Singapore, Monetary Authority of Singapore and National University of Singapore Board of Trustees. He is currently Singapore's Non-Resident High Commissioner to Papua New Guinea. Mr. Mah was previously CEO of Deloitte Southeast Asia and Chairman of Deloitte Singapore. He was the CEO of Deloitte Asia Pacific and member of the Deloitte Global Executive from 2007 to 2015 and the Vice Chairman of Deloitte Global Board from 2015 to 2016.

IT IS SOMETIMES SAID that a crisis is like water; it finds the cracks in an organization. What did the pandemic reveal for you at your companies? How has the experience made you wiser as a director?

Chaly Mah: One thing the pandemic revealed was that all the scenario planning and business continuity planning (BCP) just didn't work. None of it worked. That was quite scary. You can laugh now, but at the time, it was scary.

For example, most companies would never have expected they would not have enough workers, or that they wouldn't have workers at all. Most also didn't anticipate having no supplies. But during the lockdown, we had no supplies because the entire supply chain was disrupted.

Going forward, I think one lesson learned is that we have to have BCP include the possibility of other pandemics. This will likely not be the only pandemic in our lifetime. Think about SARS; that wasn't all that long ago.

One of the companies I am involved in relies on subcontractors to help lay fiber networks. When the pandemic hit, there was a surge in demand for additional fiber networks since so many people were now working from home. But the lockdowns closed the dorms where our subcontractors' workers stayed, halting progress. For a couple of months, this posed a real challenge. This is just one example of a scenario that nobody anticipated. Now, we are trying to spread our contract suppliers around, and are requiring them to have some of their workers not stay in dorms. Another lesson we learned is that risk management is not just about managing your own risk: You need to go down to the next level, making sure all your suppliers also have proper risk management processes in place. No one really anticipated this, either.

Another company I am involved in has shopping malls in China. When the Chinese government shut down some of our malls there due to the pandemic—no foot traffic, no income for tenants—this impacted not just our financial performance but also our asset valuation. At that point, nobody knows how long or when the pandemic will come to an end. Asset valuation, and how it impacts the financials will be another big challenge for boards. The bigger question for most companies is, *How do you prepare for a recovery?* At some point, business is going to return to normal, but it may not be in its current form, so boards will need to review their current business models to determine if they are still relevant in the *new normal* postpandemic.

At one of my companies, we immediately brought together teams of young people, gave them a blank piece of paper, and asked them what they thought the future would look like—and how they thought we should get there.

When the pandemic dragged on, we started to look at the sustainability of our business. How will businesses change? What is the future of shopping malls, the future of offices, the future of work and how we work? Will working from home become a permanent fixture? We all had to consider our business models. At one of my companies, we immediately brought together teams of young people, gave them a blank piece of paper, and asked them what they thought the future would look like—and how they thought we should get there. When asked to come up with ideas that could position the company forward, these young people became excited and felt empowered to make a difference for the future of the company.

Finally, the impact the pandemic has had on tourism has been very painful. I serve on the Singapore Tourism Board (STB). Our mandate is to bring tourists into Singapore and generate economic activity for the country. When your border is closed, you can’t do that. Suddenly there is a crisis to manage every day—tour agents closing shops, areas frequented by tourists closed down, etc. While some activities have returned to near normalcy, tourism is still a big challenge: The travel industry in Singapore likely won’t get back to pre-COVID levels in the immediate future.

What are some of the most important factors for companies to consider over the next three-year period?

CM: I think trust—the social contract between society and business—is very important. On the road to recovery, we’ll really need to build trust in the system. In Singapore, most people trust the government and its systems. The STB recently launched the SG Clean quality mark, a certification standard for restaurants and hotels to help people feel more confident and safer about traveling to Singapore and doing business here. I think it will help with the recovery.

Will companies become more risk-averse in financial management? Should they?

CM: Yes, because companies have never seen something like this before. They will be much more aware of black swan events, which will need to be added to the board’s agenda. Prudent financial management is something that companies somehow just never seem to learn. During SARS, companies overborrowed. During the global financial crisis, companies also overborrowed; they didn’t seem to have learned from the previous crisis.

I think prudent financial management is very important for a board. Boards should ensure management stays within the risk tolerance level the board has set for them. At one of my companies, our board uses risk indicators, targets, and trending risks. Whenever a key risk is trending toward the risk tolerance limits, we ask management why and what steps are they taking to address the risk.

Will being too risk-averse slow down the recovery?

CM: I think it will. Stronger companies, particularly the ones that have gone on to raise cash, may use this crisis as an opportunity to make acquisitions. Right now, their boards are saying, *Let’s not waste this crisis. Let’s look at those things we always wanted to do. Can we make an acquisition or look into M&A to expand the business or invest in other areas to get us there?* Of course, on the flip side, companies that are struggling may not be able to sustain their businesses and would become acquisition targets. So, you would see the stronger get stronger, and the weaker get eaten up. Unfortunately, this is the cruel reality of business. But well-managed companies could make use of this opportunity to expand and make acquisitions.

Another key area of focus is cyber risk. Since COVID-19 began, cyber risk has become part of the standing board agenda. With work-from-home arrangements becoming more prevalent, every time an employee accesses company systems from home, it presents a cyber risk. Some cyber incidents could cripple companies. This is why cyber has become an urgent matter for the board.

How do your companies balance between the needs of a business and those of society?

CM: The pandemic has made the divide between the haves and have nots much more pronounced. In Singapore, we're very fortunate to have a government that takes care of its people and is very progressive. But in other countries, poorer people don't have access to good health care, which is why so many people have died.

How, then, does this translate to companies?

CM: Boards are now asking questions around societal impact: How do we take care of our people and the future generation? How do new work-from-home arrangements impact mental health? The whole talent agenda has changed. The mental health component is a big challenge because it's very difficult to track stress when employees are working from home. Some companies are doing little things, like sending care packages to employees working remotely, to let them know they are still thinking of them.

Boards are becoming more inclusive about ESG (environmental, social, governance) goals. Organizations that received government support and were not as badly impacted should consider giving some of the money back to society.

At one of my companies, for example, we waived internet installation charges to help people work and go to school virtually. We prioritized homes that were not connected and connected them free of charge. These are just a few things companies can do to bridge the gap between the haves and the have nots.

The Singapore government is doing a great job helping senior citizens go digital. It has deployed ambassadors to teach older generations how to use contract tracing apps, and other things we need to do to have a more inclusive society.

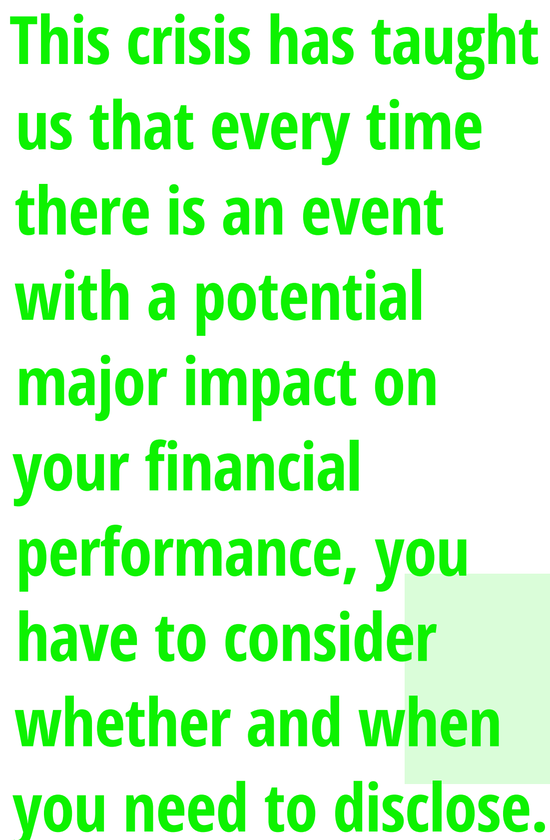
Boards are now asking questions around societal impact: How do we take care of our people and the future generation? How do new work-from-home arrangements impact mental health? The whole talent agenda has changed.

Trust between management and the board is now very critical. And a level down, the trust level between management and employees is also very important because management is making very difficult decisions such as pay freezes and pay reductions, and employees want to know why. Management needs to continue to build trust with the entire organization. For many younger

employees, this is probably their first experience of a crisis and economic downturn.

And what about investors?

CM: Transparent and open communication has become even more important now. We have numerous discussions at the board level, particularly around disclosure and, if asset valuation has been impacted, there are questions about profit warnings. These will be the sorts of discussions to have with your stakeholders and investors. Timing becomes critical when you issue a profit warning; it has become a board agenda item. With management busy with the day-to-day issues, boards have been asking about the impact, when you disclose, to what extent do you disclose, and how big is the impact. These are not easy questions to answer.



This crisis has taught us that every time there is an event with a potential major impact on your financial performance, you have to consider whether and when you need to disclose.

For boards to be transparent and have open communication with investors, they need to have policies in place for continuous disclosure. In the past, the continuous disclosure regime seemed to be around transactions and acquisitions—when are you aware of an acquisition and when you disclose it. But this crisis has taught us that every time there is an event with a potential major impact on your financial performance, you have to consider whether and when you need to disclose.

And what about ESG issues in the boardroom?

CM: Boards are asking questions around social impact as well as the environmental and governance concerns. Climate change and its impact on rising sea levels are real challenges. The government here committed to spending one billion dollars a year for the next 100 years to manage flood risk and rising sea levels. The projections show if nothing is done, in 50 to 60 years, parts of Singapore may be under water. Consider fiber networks, connected to homes, which are all underground and protected in pipes. Any time there’s a cut, to get down there you need to dig. Every time you dig, there’s water, which requires pumping out in order to access the pipes. So questions to ask management would be: *What happens if parts of Singapore are underwater? Even if the fiber is water resistant, how will you access it?*

Boards would be irresponsible if they didn’t have ESG goals in their discussions around the impact of climate change. And while carbon footprint is a very complicated subject, boards are now starting to think about it, because the call to action is now.

On all the boards I’m involved in, there’s an ESG plan, management commits to certain targets, and the board holds them accountable for it. Management is measured based on reports on how they executed against the plan.

Should companies have a board committee dedicated to this area?

CM: It really depends on the type of business. It's not one-size-fits-all. The boards I'm involved in have a committee but not at the board level, though there is a board sponsor for the committee. Other organizations have this as a board-level committee.

More broadly, ESG is getting a lot of traction. Boards really need to make it part of the agenda because getting ahead on ESG can drive down business costs in the long run. Increasingly, as a condition for investment, investors are demanding companies set and meet specific ESG goals. Banks, meanwhile, are promoting sustainability in their product mix: Green bonds and green loans are priced more favorably than typical bonds and loans, but can only be used for green projects. There are also sustainability bonds, which are priced lower, but require companies to achieve carbon footprint targets by a certain period.

Now, some companies are exploring whether they should include a carbon penalty into the cost of capital. It's a new concept that's still evolving, but boards really need to take this seriously. Sustainability bonds and green bonds can all help drive down cost, but, on the other hand, if you start to include the cost of carbon into your weighted average cost of capital, it will drive up your cost of capital.

What do you think are the top three secrets to an effective board?

CM: Trust among board members, and between management and the board. Without that, the board—and the company—can't function. The second is transparency, open communication, and candid discussions. Third, the board must have independence; you can have diverse perspectives, and yet be able to respect each other's views.

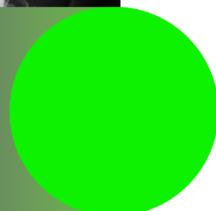
And for a new CEO?

CM: Similarly, the CEO needs to build trust with his own people, command respect, and take leadership and accountability for his or her team. Between the CEO and the board, having trust and open communication is really important; that communication channel needs to stay open.

Which external trend do you think boards should be talking more about and why?

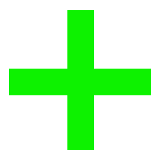
CM: The "unknown unknown" is what I'm most concerned about. This involves a company's resilience and sustainability. Manufacturing companies in Asia, for example, have seen customers start to diversify their supply chains. Instead of using production facilities only in China, many companies are shifting some of their production base to countries like Vietnam and Cambodia.

Companies will need to assess the external environment and geopolitical situations and adjust their business models as needed. The current geopolitical tensions between [the United States] and China is complicated. It's not ideal, but, unfortunately, it's here to stay. ●



Interview WITH Karin Dohm

Independent director, Germany



Karin Dohm is a member of the management board of Hornbach Baumarkt AG and Hornbach Holding AG, and takes on the CFO portfolio in both companies on April 1, 2021. She also serves on the supervisory board of Ceconomy AG and is the independent deputy chair of Deutsche Europshop AG. Previously, Dohm held several leadership roles at Deutsche Bank AG; most recently she was the global head of government and regulatory affairs. She started her career as a partner at Deloitte.

IT IS SOMETIMES SAID that a crisis is like water, it finds the cracks in an organization. What did the pandemic reveal for you? What are the biggest issues facing your companies in the recovery?

Karin Dohm: Indeed, the biggest challenges have been how unpredictable and quick developments have occurred and now, a year later, how we're all still grappling with the pandemic. From an organizational perspective, the crisis has taught us to reflect upon our general approach to governance and ask hard questions, such as: What will we be facing in the next 18 months, having left behind all sense of normalcy? How does it affect our systems and the process of decision-making? How well are we prepared to react, in terms of scenarios and plans? And how do we avoid falling back into old habits, with a deceptive sense of certainty?

Has the pandemic encouraged your boards to think differently about risks, in particular those long-tail, low-probability, high-impact events? Are we going to see organizations be more risk averse and more prudent from a financial management perspective?

KD: Similar to the global financial crisis in 2008, liquidity turned out to be key during the pandemic. Here in the European Union, governments and central banks did an excellent job this time supporting the available liquidity in the market. Once again, interdependencies and intellectual property (IP) are garnering further attention. I expect that we will see changes in production and distribution chains, especially in the pharmaceutical and manufacturing industries over the next few years; boards and political leaders will want to safeguard IP, such as research and development.

My background is as an auditor, so I tend to focus on risk management processes more than most board members typically do. I think COVID underscored the need to regard the potential consequences of distress as a risk to supply chains, to revenues, which were affected due to customers' behavioral changes, and more. This can be applied to any form of disruption, no matter where it derives from.

It is said that the pandemic has accelerated underlying trends and led many companies to "sharpen strategic focus and accelerate transformation programs. How has it affected your companies?

KD: In general, companies need to focus not only on the short-term acceleration of any envisaged changes but also on mid-term and long-term strategic developments and innovation, independent of and beyond the circles of crisis management. For any board, maintaining the vision and looking beyond the immediate future has been challenging in 2020. On the other hand, the pandemic crisis has shown that boards can operate more flexibly. Board members tend to be pulled together more than before and the amount and frequency of exchange has intensified. It has also revealed the growing demand for boards to support complex decisions.

The pandemic has led to calls in some quarters to rethink capitalism to some degree, and to reconsider the social contract that exists between business and society. How are boards balancing the need to adapt to the changing needs of society and their obligations to shareholders?

KD: The pandemic indeed has raised boards' awareness of these issues. However, I am not sure how profoundly this awareness is leading to long-term change if you look across our economies. To transform based on the lessons learned during the pandemic, we need to adopt a broader set of actions than we did so far. Just to give a tiny but important example: Within the health care industry, for example, companies should consider creating new payment schemes for nursing staff, so their compensation is more aligned with the medical and societal value they bring.

I am convinced that 2021 is the year where we need to develop further and embed an ESG approach to corporate actions. Not only because investors and shareholders demand that (rightly so!). But also, out of our own conviction, as one of the lessons of 2020 was that we cannot just carry on like we did.

How has the pandemic has impacted trust in general? Among board members? How about with balancing trust and challenge with management?

KD: As in any crisis, COVID-19 rightly increased the frequency and exchange of communication between companies and their stakeholders. I believe intensified communication is a meaningful tool for crisis management in general.

Many companies have been much more engaged with investors in this period—updating them on results on liquidity and perhaps also raising finance. Do you think this has changed the engagement level of investors with their portfolio companies forever, and for the better? What has worked well and what should be bottled and used as the standard going forward?

KD: In Germany, one of the areas that needs further development is the format of annual shareholder meetings. Ideally, we should offer both virtual as well as onsite participation going forward. This discussion has just started.

Has the COVID-19 pandemic changed the way companies, investors, and other stakeholders are thinking about topics like ESG, including climate?

I am convinced that 2021 is the year where we need to develop further and embed an ESG approach to corporate actions. Not only because investors and shareholders demand that (rightly so!). But also, out of our own conviction, as one of the lessons of 2020 was that we cannot just carry on like we did.

There is a growing call for companies across industries to more intentionally integrate ESG into a range of key performance measures. This should place ESG, including climate, as more central topics on the board's agenda. Do you think companies get this? Are they doing enough to report their ESG progress, as investors are beginning to demand?

KD: ESG and the reflection of ESG criteria in a company's activities and reporting is—and needs to be—of ever-rising importance, independent of the current situation. Nevertheless, COVID increased the focus and the attention on ESG, even if we are still discussing the ways to achieve such change and how quickly we can make change happen. We have a strong dynamic in this process of discussion.

In your view, what is the role of the board of directors with respect to climate? What should they be doing and how do they work with management to do it? Should companies have a board committee dedicated to this area?

KD: Any company's impact on its environment and the climate needs to be a critical measure that management and boards apply when designing strategies and defining actions. That should not be the job of a committee; it needs to be ingrained in the everyday work of a board as a whole. I think that nonexecutive directors have an obligation to take on the role of challenger in this situation. Because directors are not bound in daily business issues, they can push to embed the climate discussion into the company's strategy and related KPIs.

KD: Yes, with different paces and breadth, though. I think that speed is critical, and it would help if companies' efforts to reduce their CO_2 footprint is accompanied by governmental standards and incentives. Do we need an ESG committee in the board? No! This is not a ring-fenced topic. It is pervasively important for our overall strategy and planning. We expect serious further regulation within the European Union in the next few years, which is why the entire board needs to prioritize and focus on this now.

What are the top three secrets to an effective board?

KD: Trust, transparency, and genuine interest in the company and its environment.

What advice would you give a new CEO about how to get the most value from his or her board?

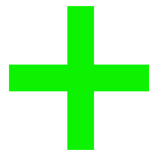
KD: Reach out and use the board as a sparring partner and in its advisory capacity.

What single external trend do you think boards should be talking more about and why?

KD: In-depth assessments of cyber risks. Across industries, the challenges and risks associated with cyberthreats will increase in range and depth over time. ●

Interview WITH Punit Renjen

Deloitte global CEO



Punit Renjen is Deloitte's global CEO and a member of the Deloitte Global Board of Directors. Prior to his current role, Renjen served as the chairman of Deloitte LLP (US member firm) from 2011 to 2015. He served as CEO of Deloitte Consulting from 2009 to 2011. Outside of Deloitte, he is a member of The Business Roundtable, The International Business Council of the World Economic Forum, and several not-for-profit boards, including the US-India Strategic Partnership Forum (vice chairman). Previously, he served as the chair of the United Way Worldwide.

WHAT IS THE key to an effective board?

Punit Renjen: To be effective, a board must keep a laser-like focus on the organization's purpose and values—and hold management accountable to do the same. The best boards are focused not just on oversight of current management activities, but on the long-term strategy and success of the organization. They are forward-looking and bring a diverse mix of skills, backgrounds, and perspectives that enable them to ask the right questions. They help management anticipate trends and shape strategies to capitalize on opportunities.

The COVID-19 pandemic has led to calls in some quarters to rethink capitalism and reconsider the social contract between business and society. How are boards balancing adapting to the changing needs of society with obligations to shareholders?

PR: The COVID-19 pandemic accelerated the shift in society's expectations of business to measure success through a multistakeholder lens, rather than primarily to maximize shareholder value. In 2019, Business Roundtable released a new statement with nearly 200 signatories (Deloitte included) saying that companies should take a broader view of their stakeholders—one that includes investing in employees, dealing fairly with suppliers, and supporting communities. As the pandemic has worsened socioeconomic inequalities around the world, this commitment has only become more important.

What shifts have you seen over the past year in the way companies, investors, and other stakeholders are thinking about ESG?

PR: 2020 has been a year unlike any other. COVID-19 was a shock to the system and brought about fundamental shifts in business and society. As CEOs and boards have navigated the uncertainties and disruption, it's clear that trust is more critical than ever. Resilient leaders build and nurture solid relationships and a bank of trust prior to a crisis. To maintain that trust—particularly during a crisis—leaders need to be transparent, challenging each other with tough questions and supporting each other through difficult decisions.[8]

As CEOs and boards have navigated the uncertainties and disruption, it's clear that trust is more critical than ever.

In addition to the challenges brought about by the pandemic, the world has reached a tipping point on societal issues. From racial justice to climate change, people around the world are demanding action.

In September, Deloitte joined with the other Big Four and Bank of America to announce a common set of metrics and disclosures related to the SDGs and other ESG objectives. If business collectively agrees on how we measure progress in these areas, stakeholders can better understand company performance and investors can ensure they are investing in sustainable enterprises. From a

societal perspective, enhanced reporting will set us on a path to a more sustainable, equitable future.

Let's take a deeper dive on the topic of climate change. What is the role of the board of directors with respect to climate? How can the board work effectively with management to set and reach key goals?

PR: The future of the planet depends on the business community acting on climate change. This is what stakeholders and employees expect, particularly millennials and Gen Z, for whom climate is the primary concern. And it's what we should expect of ourselves as responsible global citizens.

That's why in September, Deloitte stepped up our response to the climate crisis with the launch of World*Climate*—our commitment to achieve net zero emissions within Deloitte by 2030 and green our own operations. Through World*Climate*, we are encouraging our people to make responsible climate choices at work and home. And we are engaging our broader ecosystem to create solutions that facilitate the transition to a low-carbon economy.

Board-level and CEO-level support, collaboration, and accountability are critical to any environmental sustainability initiative, which won't go far without buy-in from the top. The board and senior management must work together to embed environmental sustainability into the organization's strategy, elevate it to the importance of a "must-have," and set tangible, measurable goals.

There is a growing emphasis on more intentionally integrating ESG (including climate) into enterprise risk management practices, which helps position these topics more centrally on the board's agenda. What is at risk if companies fail to take these topics seriously?

PR: As ESG-related matters have grown in importance to investors, customers, and employees, so has awareness of potential ESG-related risks and the need for organizations to identify, disclose, and manage these potential risks. ESG-related risks ranging from climate change to workplace culture to board gender composition have the potential to impact a company's reputation and performance.

Boards should play a central role in assessing ESG-related risks, identifying those with the most potential to impact the organization, and overseeing steps taken to mitigate these risks. Making sure that ESG matters are integrated into the organization's enterprise risk management processes is an essential part of the board's responsibility to oversee the long-term success and sustainability of the organization. ●

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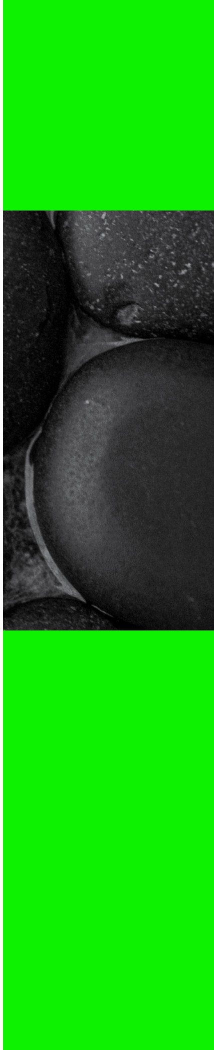

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Sharon Thorne is the chair of the Deloitte Global Board of Directors. She is an advocate for collective action on environmental sustainability, and has long championed Deloitte's ambition to achieve higher representation of women in leadership globally. Thorne has more than 30 years of experience auditing and advising clients across a broad range of sectors, including extensive experience serving as lead audit partner for FTSE-listed clients and coordinating services around the globe. In addition to a number of executive roles, Thorne has spent more than three decades on boards including as chair. She is a current member of the A4S Advisory Council, the Social Progress Imperative board of directors, the World Economic Forum Platform for Shaping the Future of the New Economy and Society Stewardship board, and the Shanghai International Financial Advisory Council.

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