

2021 Directors' alert

A new era of board stewardship begins

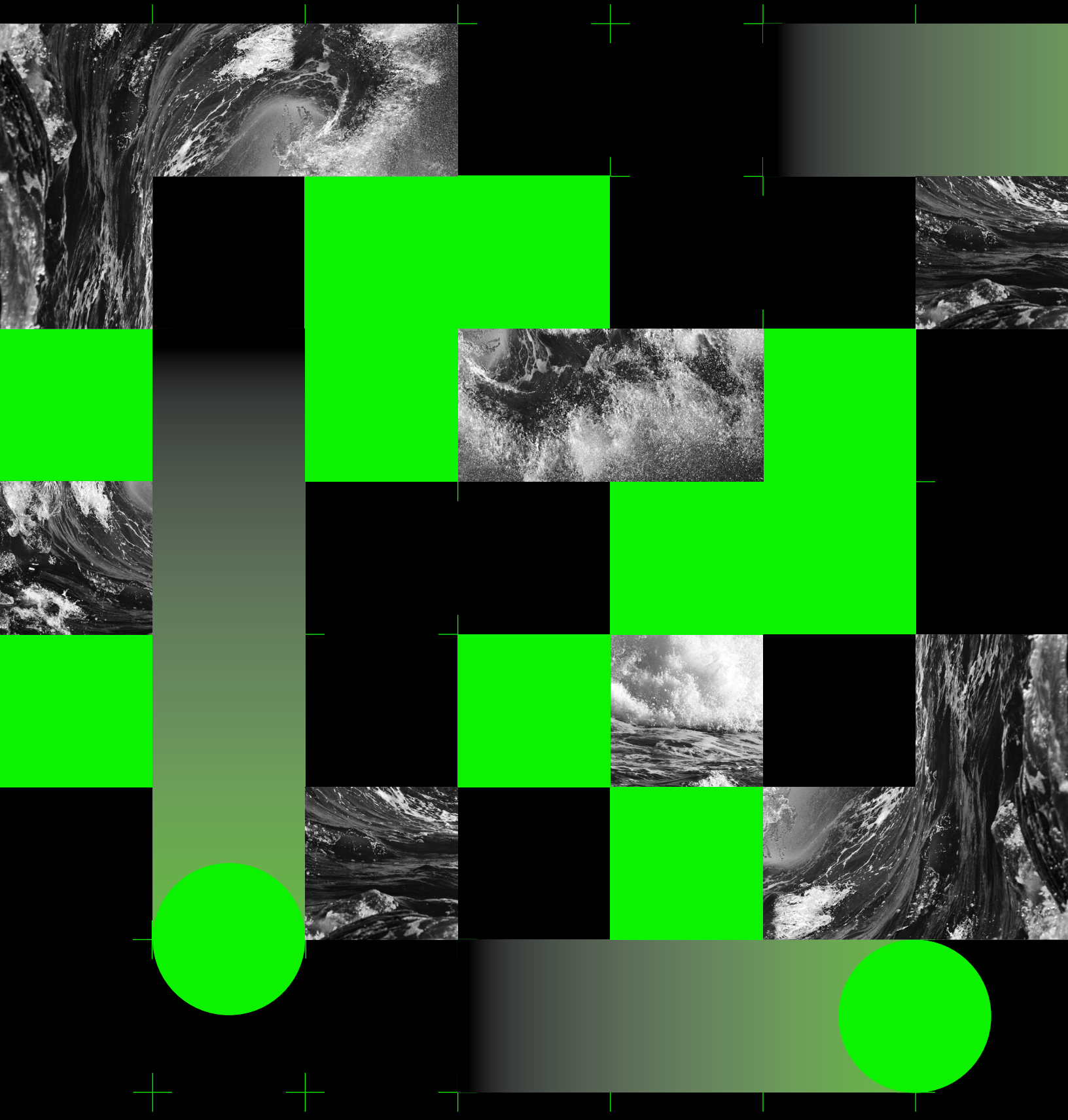
APRIL 2021


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 topics of universal interest to company boards and the C-suite. 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.](#)

Contents

Introduction	3
Interview with Monica Mächler	4
Interview with Ivan Menezes	8
Interview with Barbara Stymiest	14





WE ARE PLEASED to publish our third and final installment of Deloitte's *2021 Directors' alert: A new era of board stewardship begins*. When we published the first edition of our director interviews in December 2020, we saw a world in flux: the pandemic was raging around the world and many markets were just entering a winter spike in cases, occasioning more lockdowns and reduced economic activity. At the same time, other economies were recovering, and several of the directors we interviewed, particularly those in China and Southeast Asia, were beginning to draw conclusions about what the pandemic has meant for their businesses, and about the critical decisions their boards have taken that make the difference between success and failure. More than three months on, things remain unclear for many countries. While vaccines have arrived for some, the pandemic has not abated, and it has become clear that the vaccination process and the road to recovery will both be long.

For boards of directors, the rhythm of virtual board and committee meetings continues. New directors are being recruited, interviewed, and onboarded in a completely virtual environment, and the traditional board dinner the night before a meeting has fallen away to, at best, a few minutes of banter into a webcam at the beginning of a videoconference as directors assemble around the virtual boardroom table. And this is just the surface logistics of serving on a board in 2021. Looming much larger are the changes in business models, ways of doing business, and ways of thinking that are being challenged by the extended pandemic.

One theme that has come through in interview after interview has been uncertainty about which of the many changes we have experienced will prove permanent, and which will evaporate as the world transitions to some kind of new normal. These are not easy calls to make: Get it wrong and your business model will be disadvantaged; get it right and you may save your organization untold hours of time, energy, and resources. Tough decisions

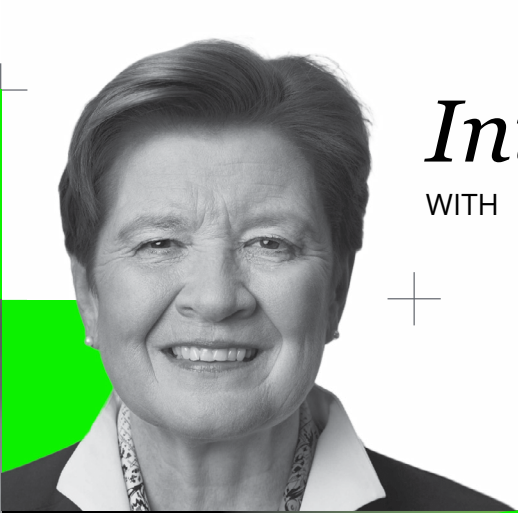
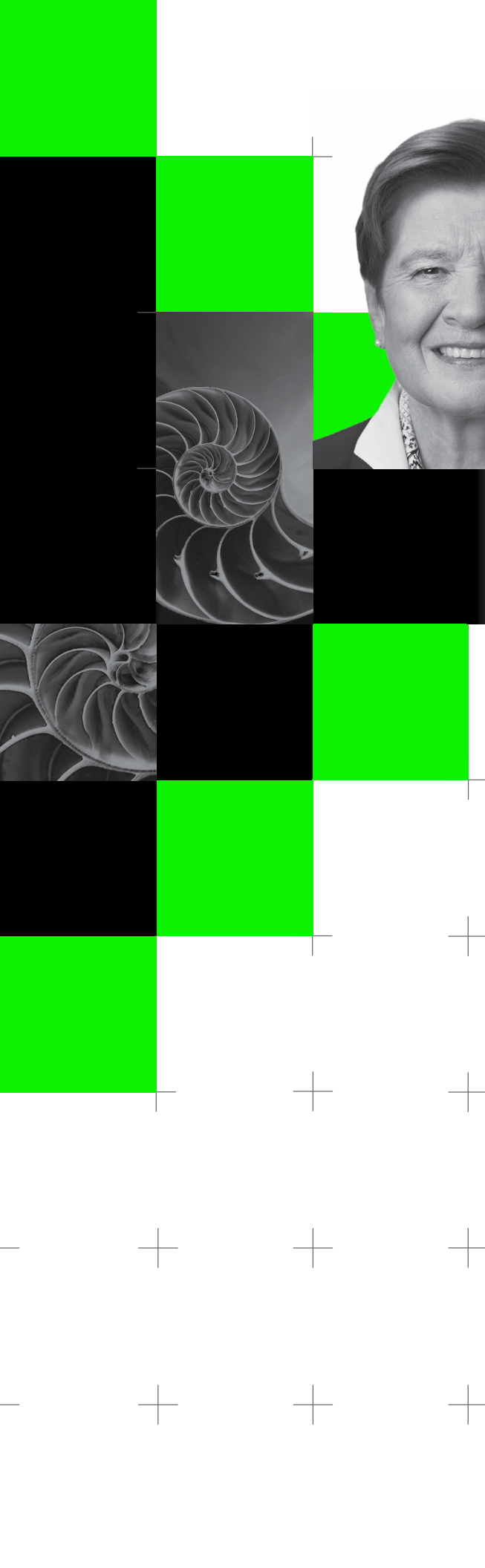
like these are why we have boards of directors in the first place. Strong and resilient boards will have the diversity of skills, backgrounds, and thought to make reasoned assumptions about the present and the future—and to constructively challenge management's thinking—steering the organization through turbulent times.

Another theme that has come through in many of our interviews has been the changing societal role of corporations. Many companies have stepped up to the plate over the last year, providing resources and support to local and national governments in contact tracing, material production, and vaccine distribution, to name just a few examples. Companies have had to confront increased demands from their employees and from the communities where they operate, and they've had to show goodwill, particularly where they may have received government support. And since last summer, many companies have taken public stands in the fight for racial justice, to an extent that would have been difficult to imagine a year or two ago. The degree to which an organization pivots along this axis to meet all of its stakeholders' needs is a real and recurring agenda item in many boardrooms today. And there is no single, one-size-fits-all approach to the discussion. How directors approach and frame these issues has been a clear window into the strengths of each board of directors. Boards that understand the importance of setting a clear and strong purpose for the organization that senior leaders and employees can stand behind and that brings value to society in the long term will be increasingly vital.

We hope you enjoy reading these interviews as much as we enjoyed conducting them. The insights described here are one of the bright spots in an otherwise difficult time.

Sharon Thorne | Deloitte Global Board Chair | Deloitte Global

Dan Konigsburg | Senior managing director, Global Boardroom Program | Deloitte Global



Interview
WITH **Monica
Mächler**

Independent director,
Switzerland



Monica Mächler has been a member of the boards of Zurich Insurance Group Ltd and of Zurich Insurance Company Ltd since April 2013 and a member of the board of directors of Cembra Money Bank AG since April 2015. She also chairs the advisory board of the International Center for Insurance Regulation at Goethe University Frankfurt am Main and serves, among others, on the board of the Europa Institut at the University of Zurich. Previously, she was the vice chair of the board of directors of the integrated Swiss Financial Market Supervisory Authority (FINMA) from 2009 to 2012, after having been the director of the Swiss Federal Office of Private Insurance from 2007 to 2008. From 2010 to 2012, Mächler chaired the Technical Committee of the International Association of Insurance Supervisors (IAIS). Before that, she served as the group general counsel of Zurich Insurance Group and was a member of the Group Management Board.

FROM YOUR PERSPECTIVE, what is the biggest challenge most companies face right now?

Monica Mächler (MM): There are many challenges, such as macroeconomic conditions, sustainability, as well as societal and political changes. Right now, there is still a considerable amount of uncertainty relating to how the pandemic will evolve, when the recovery will become sustainable, when it will be possible for employees to return to the office, and which business initiatives can successfully be launched. Each of these has financial impacts.

As a result of the pandemic, do you think organizations will become more risk averse and more prudent in their scenario planning?

MM: I think it depends on the industry. Some industries, such as life insurance, have been addressing pandemic scenarios for a long time. But others, more cash flow-dependent businesses, usually do not work with such scenarios. It has been eye-opening to see how little reserves some of these industries set aside to cope with emergency situations. But I do not think that all industries will be able to move to a completely long-term perspective in addressing the risks they face. They have to balance many factors. Across industries, there will likely be a gradual shift, but not a complete shift to more of a long-term perspective.

The pandemic has led to calls in some quarters to rethink 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?

MM: From my perspective, rethinking the social contract is not only related to COVID-19. This is an evolution that started quite some time ago. It began as a reaction to the shareholder value approach. Later, it transformed into a stakeholder value concept to get at the question, *How do you best embed the business into the economic, environmental, social, and societal context where it operates?* Personally, I am very glad we are having this discussion, because I think that corporations need to be interlinked with the environments they operate in. For companies to be sustainable and achieve success for decades to come, it is critical to foster this embeddedness.

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Do you believe the social contract changes for businesses that accepted government support during the pandemic?

MM: By accepting government support, you also have a heightened obligation of loyalty in terms of what you do with the government money. Companies that accept government support have to be very careful about how to allocate those funds. There can be nuances, however, that sometimes get

lost in the public discussion, and some of that discussion can be very short-sighted. For example, contractual terms cannot always be changed right away, and companies may need to reward people who stepped up and are working extremely hard in challenging situations.

How has the pandemic impacted trust among board members?

MM: In a really challenging situation, functioning boards stand together. Trust plays a big role. Board members have to bring to bear their best. In difficult times, leadership must also be strong so that the board speaks with “one voice.” Often, I think that such challenges help unify a board way more than in normal times when there is not as much of a pressing need to join forces.

In your view, what is the role of the board of directors with respect to climate?

MM: Boards of directors have an important role to play. They are positioned to ask for a clear assessment of the facts and thus identify the challenges the company faces. They can encourage and support management to develop strategies. Options need to be assessed and decided upon.

Once decisions are taken, it has to be ensured that the strategy chosen is being implemented throughout the company.

As to how to structure the board conversation, there are many possible approaches. Overall oversight is to remain with the full board. At the committee level, I serve on a board where the ESG topic is combined with governance and nomination. But it could also be combined, for example, with risk. Combining issues into one committee can prevent creating too many interfaces.

From what you've experienced as a board member, what are the top three secrets to an effective board?

MM: First, I think it is important that there is an atmosphere of mutual respect and appreciation among board members. Of course, this presupposes that the board is composed of highly qualified individuals. To have a robust discussion and develop good solutions, it is key to have a wide variety of well-substantiated perspectives. Second, the board should take a far-sighted view. Sometimes, the company is faced with near-term challenges that seem to prevail. The board, in the context of playing its role as a challenger or

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sparring partner for management, is most effective when it looks at the issues through more of a long-term lens. Third, management and the board ideally engage in a very active discussion to reach good solutions. But once that in-depth discussion is held, everyone needs to come together to agree on and implement a solution.

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

MM: A new CEO first needs to gain a very good knowledge of the company. This includes learning about the board and its members and dynamics. Full board discussions are crucial. There may be follow-up discussions with individual board members to pick their brains and gain further insights. These exchanges allow CEOs to build a platform, which they can use when getting ready to develop strategies for the future.

Is there a big external trend that boards should be talking more about right now?

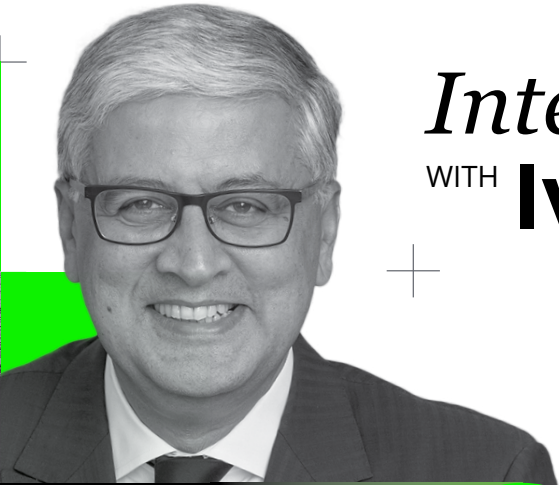
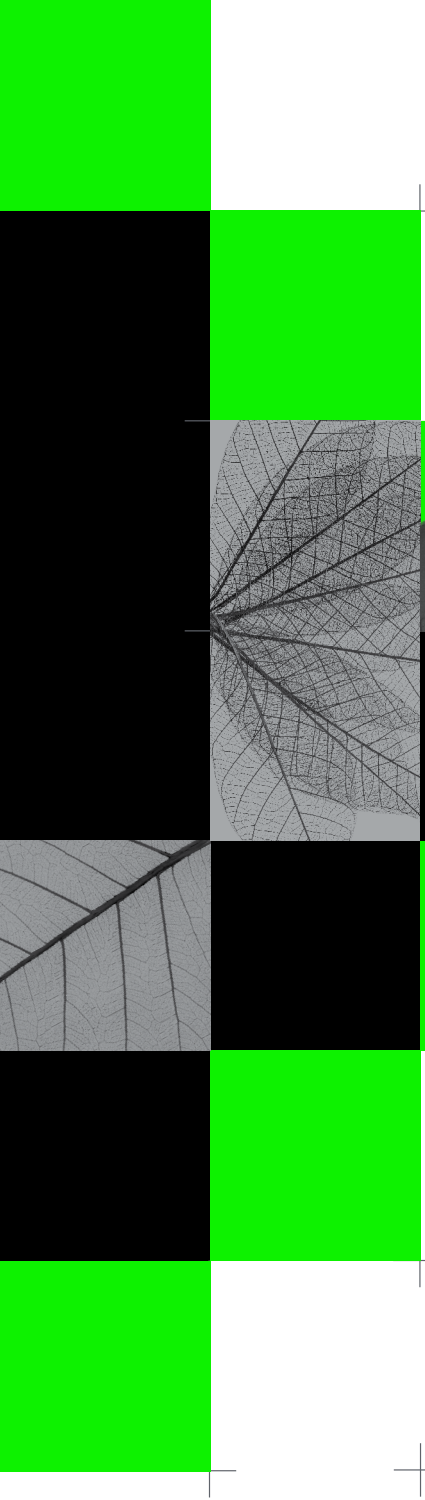
MM: Regarding topics related to the economy and the sustainability of the environment, we may need to rethink the extent to which the corporate world

is participating in the public dialogue. There was a period when corporations stayed out of these discussions. But this has created a void and misunderstandings. It became evident in the *Responsible Business Initiative* in Switzerland, which was rejected by a small majority of voters. In many instances, the corporate world has already started and would benefit from further intensifying the exchange with their stakeholders.

What could corporate leaders do to make that happen?

MM: Corporate leaders could provide deeper insight into how their companies cope with being part of society and the common challenges society faces. They could explain what the company does, how it does it, and with what attitude. At the same time, careful listening to societal challenges and reading the handwriting on the wall regarding upcoming risks and issues are warranted. This could uncover shared experiences, which would strengthen the mutual understanding between the corporate world and society-at-large.

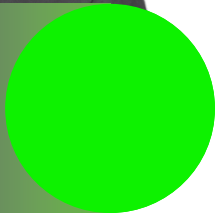




Interview

WITH **Ivan**
Menezes

CEO and executive director,
Diageo plc, United Kingdom



Ivan Menezes is the CEO and an executive director of Diageo plc, a premium drinks company. He was appointed CEO in 2013 and has been an executive director since 2012. Menezes serves as an outside director on the board of Tapestry, Inc. Previously, Menezes held several executive and senior appointments at Diageo plc. He was the chief operating officer, Diageo plc since 2012, the chairman, Diageo Latin America & Caribbean since 2011, the chairman, Diageo Asia-Pacific since 2008, and the president and chief executive officer of Diageo North America since 2004. Before that, he served as president and chief operating officer of Diageo North America and as president of Diageo Venture Markets. Before joining Diageo in 1997, Menezes held senior marketing positions with Whirlpool Europe, a manufacturer and marketer of major home appliances, and was a principal with Booz Allen Hamilton Inc., a strategy and technology consulting firm.

THE PANDEMIC HAS accelerated underlying trends and led many companies to accelerate strategic focus and transformation programs. How has it affected your companies?

Ivan Menezes (IM): COVID has clearly impacted the heart of our business because our business, Diageo, is about socializing. Even in the 200-plus year history of Johnnie Walker, for example, an event like this is pretty significant: socializing stopped. When the first signals came out in January 2020, we were able to pivot very quickly. This was because Diageo came into this with strong foundations in place: we're a purpose-led business; we have a highly engaged employee base; we had a clear strategy; and the data, analytics, and consumer-centricity of the business were already in place.

Our first action was to look after our people, making sure they were supported around the world. Then, we turned to our customers and communities. For example, we were one of the largest providers of hand sanitizer—providing alcohol for more than 10 million bottles to support frontline health care workers in 20 countries. We did right by supporting our community, our customers, and particularly the hospitality industry, which was badly affected. We took back stock and dealt with beer kegs that couldn't be used,

launched fund raisers for bar staff and provided free virtual training. We have also put in place a recovery fund of US\$100 million to support bars, pubs, and restaurants to help them pay for the equipment they need to create safe environments as they reopened.

We put an enormous focus on the consumer and the channel shifts that were taking place. I'm really proud of the 28,000 people across the organization who pivoted very quickly to understand changes in how consumers were spending their time, what they were looking for. We threw away our plans and focused on how we engaged more with consumers in their homes and moved into channels like e-commerce very quickly.

In February/March 2020, we knew we couldn't control the external environment, and we had no way of predicting how the virus was going to play out around the world. So we said, *let's focus on what we can control*. We wanted to ensure that the company emerged stronger and that meant two things to us: The first was that we gain quality market share, so we perform better than our competition in all the markets; the second was to do the right thing by our people, customers, and the communities in which we operate. About one year in now, I feel really proud of our accomplishments: We are gaining market share and we've really stood by our people, customers,

We knew we couldn't control the external environment, and we had no way of predicting how the virus was going to play out around the world. So we said, *let's focus on what we can control.*

and communities. We are coming through stronger. There's still a lot of volatility in the world, but that's been our guiding force.

Obviously, we took all the other necessary actions: raised liquidity, tightened up discretionary spending, etc. But we also invested in the business, on marketing spend, on innovation and capital expenditure. We have sustained this investment because once this is over, we believe our consumers will be back to socializing both inside and outside the home. And we want to make sure our company and brands come out of this stronger.

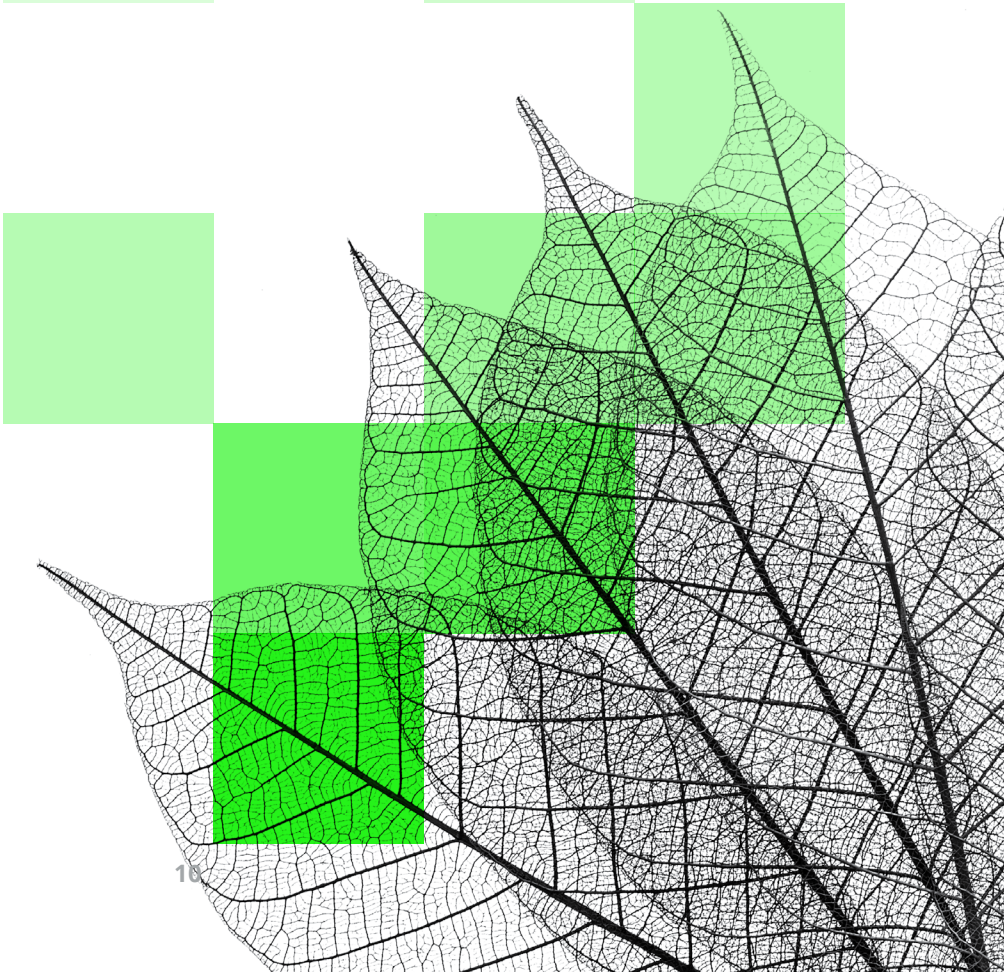
How has the pandemic encouraged you, as CEO, to think differently about risks?

IM: I look at risk and opportunity as two sides of the same coin. Since the pandemic began, we have developed a greater understanding of the forces out there that represent risk or opportunity. We have better data and analytics to track it, but we've also created a culture that embraces risk, embraces opportunity, and moves fast. In that spirit, we've made two acquisitions, using our balance sheet to acquire attractive brands. Whenever you have disruptive change, it brings opportunity and risk and I'd say we're coming out fitter. We're more able to read these forces and are better prepared to address them.

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 and

executive teams balancing the need to adapt to the changing needs of society and their obligations to shareholders?

IM: Yes, these questions come up at the board and have for a while, even before COVID. We are very much a purpose-led business with a holistic strategy that focuses on business performance and also doing the right things for all our stakeholders. We talk about being one of the best performing, most trusted, and respected consumer product companies in the world. In the articulation of our strategy, we outline a number of things that are really important to us: sustaining quality growth; embedding everyday efficiency; investing smartly; promoting positive drinking to reduce alcohol harm; championing inclusion and diversity; and pioneering grain-to-glass sustainability. These six focus areas have been in place for the company for a few years—all are interdependent and core to the performance of the company. During COVID, we



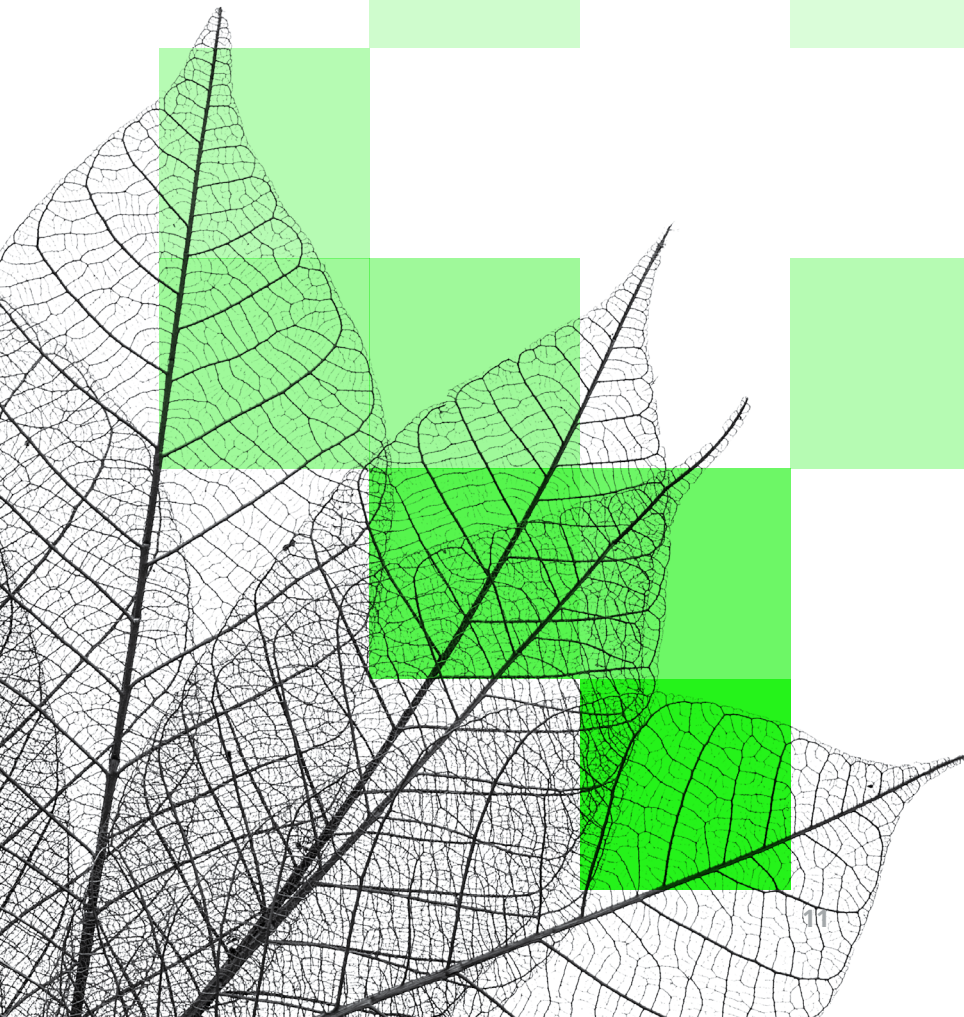
also developed and launched our new 10-year ESG action plan—we call it “2030: The Spirit of Progress,” and it’s based on 25 stretching societal goals with very bold ambitions on positive drinking, diversity and inclusion, and sustainability. We plan to build on the good progress we’ve already made over the last decade.

We have always taken a very holistic view of the impact we want to have on society-at-large. Through COVID we’ve accelerated that process with our new 2030 goals, which are very much aligned with the UN Sustainable Development Goals, and also the actions and the investments we’ve taken to support our customers and communities. Our 28,000 colleagues are highly engaged and very proud of the company and what it stands for, which has served us very well going through a challenging period like this.

Many companies have been much more engaged with investors in this period. Do you think the pandemic 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 forever?

IM: We have an ongoing high level of engagement with our investors, but the agenda is broader now. Over the last 12 months, a major area of focus has been on how we have been steering the company through the volatility. But equally, we are focused on our ESG agenda, which has become much more important to investors. I’ve just come off our investor roadshow for our half-year earnings, and beyond the company’s performance, there’s a meaningful discussion on ESG and the actions we’re taking on sustainability, diversity and inclusion, and reducing alcohol harm in society.

Creating an inclusive and diverse culture makes for a better business and a better world. It’s as simple as that.



What advice would you give to boards around the world looking to increase diversity and inclusion within their organizations and among themselves?

IM: Commit to being bold and act upon it! There is no question in my mind that creating an inclusive and diverse culture makes for a better business and a better world. It's as simple as that. At Diageo, we've seen the impact our inclusive culture has had on business performance, as well as our ability to tap into terrific talent around the world. It is a real competitive strength. So, my advice would be don't view this as just ticking the boxes. Diversity is a business imperative. It should be a source of competitive advantage. Be bold, set your goals, and mobilize the organization to deliver them. The business benefits are enormous and very tangible. Unquestionably, having a culture like ours enables us to attract, develop, and retain better talent. And for a business like ours, which is really about brands and people, talent is a huge determinant [of] our performance and reputation.

What are the top three secrets to an effective board?

IM: First, it's creating a culture and working with the board to establish a foundation of openness, transparency, and candor among board members and between the board and management. Second, boards need to focus on the highest value opportunities and the most critical risks the company faces and build the agenda around those issues. Third, to be a good board and a good board director today, you need integrity and courage, because companies are facing all kinds of

challenges. What is critical is how you handle risk, how you handle opportunities, how you deal with multiple stakeholders. Sometimes these decisions are not easy. And if you play it safe, you often end up making suboptimal decisions.

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

IM: View your board as an incredible resource; they can help you and your management team steer the company to a better place. Be very candid. With our board, a few times a year, when I give them an update on the business, I make two lists of equal size: the first are the things that are going well and the second are things that are not going well. I think it's really important to be transparent and candid with the board about how you, as CEO, are seeing the business: what's going well and what needs to improve, and then focus the board agenda on the areas that need to get better. That way, you don't spend so much time convincing the board about things that are going well. You want to get all the brains around the room helping to solve the areas where the company can do better.

Presumably, that's a great way to build trust with your board? If they know you're not just bringing them the things that look right.

IM: Correct. When you bring the board into the company and let the board understand how management is working, you do build trust. And you get to better outcomes because there is experience and diversity of thought and approach sitting in that boardroom. CEOs can harness that

power to get to better decisions and outcomes. Just as you want support from your board, you should also want your board to challenge you as well. To me, building that foundation of trust and then getting the best input, thinking, provocation, challenge, and building on ideas, is where the value comes in. My advice to CEOs would be to view the board as an asset that can really help you steer the company to a better place.

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

IM: I have two: sustainability and digitization. These two big trends top my list because they have long-term impact and can be very disruptive if not understood and handled in the right way. But both can be a strategic and competitive advantage if you get ahead of them.

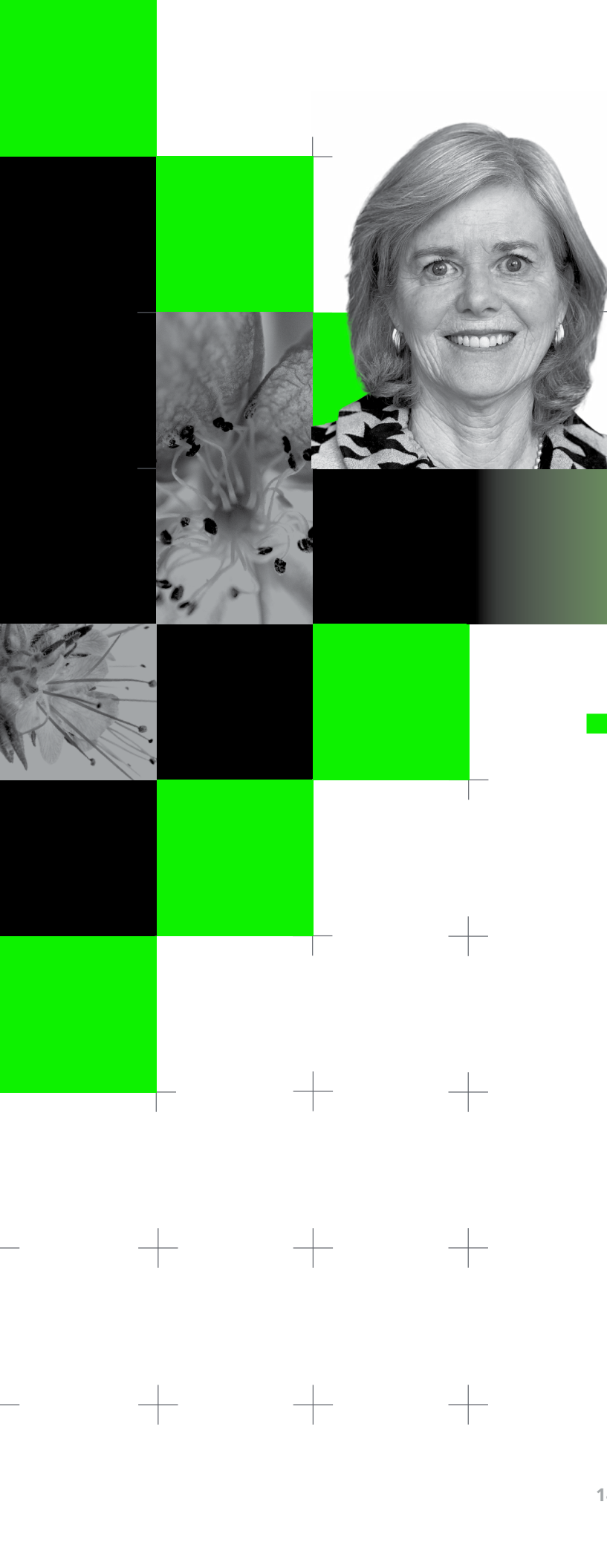
In some way or fashion, how has the pandemic changed you, as a leader?

IM: It's increased my capacity to learn. I mean, none of us was trained to handle a situation like this. In the early days of the pandemic, I reached out to a lot of our customers and a lot of our people to help inform our decision-making. We had to make some important decisions very quickly; for example, we had to quickly make big commitments on investments. It has been a period of steep learning. Coming out of it, that's what I want to retain.

Many senior leaders in businesses thought they had all the answers, based on their experience. For

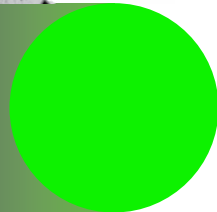
them, COVID-19 has been a real wake-up call. One thing I learned, and what I would encourage other leaders to take away from this, is don't think you have the answers. Listen. Be curious. Ask people around you what they are experiencing, seeing, and learning. Stay open with a willingness to learn, because it leads to better decisions over time.

One thing I learned, and what I would encourage other leaders to take away from this, is don't think you have the answers. Listen. Be curious. Ask people around you what they are experiencing, seeing, and learning.



Interview WITH **Barbara Stymiest**

Independent director,
Canada



Barbara Stymiest, a corporate director, is a former member of the Group Executive for the Royal Bank of Canada, a former CEO of TMX Group Inc., a former executive vice-president and CFO at BMO Capital Markets, and a former partner of Ernst & Young LLP. She currently serves on the boards of Blackberry Limited, George Weston Limited, President's Choice Bank, and Sun Life Financial Inc. Stymiest also contributes to nonprofit organizations as vice chair of the board of trustees of University Health Network and vice chair of AGE-WELL, an organization dedicated to providing technology to ageing Canadians. She also serves as a director of CIFAR, an organization which convenes world leading scientists to address the most important questions facing science and humanity, and as a member of the advisory board of the Ivey Institute for Leadership.

A S WE THINK about COVID response and recovery, what are the biggest issues facing the organizations you serve?

Barbara Stymiest (BS): What the future will look like. Companies will need to be more thoughtful about future scenarios, not just this year's business plan. It's going to take a long time to figure out the path forward—one that will shape the way business will be done in our postpandemic world. Many companies will need to make permanent shifts; they will have to revise their business models or change how they serve clients or customers. In health care, I think the shifts are going to be very permanent. As a board member of University Health Network, I see massive shifts in the role that hospitals will play going forward and how health care will be delivered in the future as an example.

Organizations that are global also need to focus on national issues. What additional challenges do these issues create for boards?

BS: Well, I think global organizations have an advantage. At one of my companies, we were able to learn a lot from how Asia dealt with the virus and the vaccinations earlier than North America. One of my boards is very diverse with a lot of experience, and we were trying to figure out how the private sector can help the public sector on so many of these issues. Some have expressed frustration that the private sector isn't brought in more to help. I think there's lots of opportunity for collaboration to boost efficiency. Pharmacies could potentially move the vaccine distribution at 1/10th the cost and at 10 times the speed that governments can, and do so much more effectively than what is currently happening.

In the early days of the pandemic, for example, one of my companies offered up resources for contact

tracing. We had smart, available people because of the pandemic. Unfortunately, there hasn't been much receptivity to taking advantage of the private sector resources in the public sector, but I think it's got to happen and, hopefully, there will be more of that going forward.

Over the past year, at almost every board meeting, we have been talking about employees' well-being and mental health, their resilience, and their ability to keep going.

What key actions can boards take to help their organizations think through these challenges?

BS: Board members can challenge the optimism around the economic backdrop in which we are operating. We really need to recognize that this is a long journey. In my experience, most board members are worried about the emotional and mental well-being of our employees, who continue to work in very difficult circumstances. Over the past year, at almost every board meeting, we have been talking about employees' well-being and mental health, their resilience, and their ability to keep going. Challenging management to be

creative in their solutions for employee well-being has been front and center on the board agenda more than ever before.

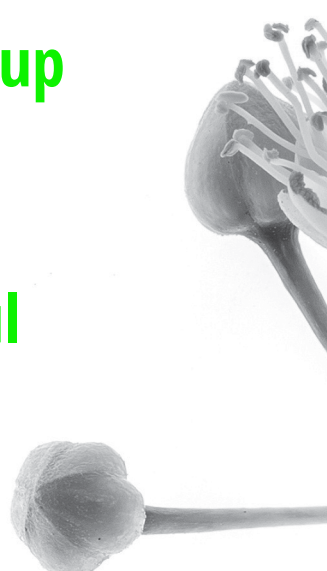
Second, the acceleration of digital has been a huge shift for so many organizations. Management has been focused on making it happen; the board's role is to challenge, support, and advise. What I'm really intrigued by is that it's not good enough to just be digital. Our organizations need to meet the expectations of customers around digital experiences. What does "good" look like? I'm quite fond of the expression, "frictionless digital,"—delivering a positive, easy to navigate experience for the end user.

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?

BS: Yes, boards are beginning to rethink their main role and their main accountability. Currently, boards are elected by shareholders and there are embedded processes and structures—from quarterly reporting of financial results to earnings per share—that are primarily oriented to delivering shareholder returns. So much of that has overshadowed the need to think about how to create value for its key stakeholders for the long term, *stakeholder-ism* vs. traditional capitalism. But I think organizations are seeing the light.

Corporations must now focus on value creation for all its key stakeholders, not just for shareholders. We have been doing this for some time in Canada. But now, because of the shift in societal expectations, corporations around the world are beginning to think much more about what they owe to the broader group of stakeholders; they are realizing that serving all of your key stakeholders will contribute to your ability to be successful over the long term.

Now, because of the shift in societal expectations, corporations around the world are beginning to think much more about what they owe to the broader group of stakeholders; they are realizing that serving all of your key stakeholders will contribute to your ability to be successful over the long term.



Boards and management need to clearly identify who those key stakeholders are. Then, they need to prioritize the wants and needs of those stakeholders based on how they align with organizational goals and their ability to create value going forward. It's really about having a clear path that aligns to your strategy and knowing what you're doing and why you're doing it.

Has the pandemic accelerated these trends in the boardroom?

BS: The #MeToo movement, Black Lives Matter—those social movements were happening before the pandemic, because their time has come. They were driven by the acceleration of the information age. What may have been acceptable behavior decades ago is no longer acceptable, and people are being called out.

So, what does that mean for boards? I think boards have not had much of a line of sight into the social

factors within their organizations. We've had traditional processes around whistleblowing and fraud. But do we actually have good, robust processes in place to understand what happens if an employee files a sexual harassment complaint about their manager? What happens if it's the head of HR who is accused? Have companies established conflict of interest protections?

One of my pet peeves is when people say that the board should only hear about material incidents. I respond, OK, what's a *material* sexual harassment allegation? What makes a sexual harassment claim *immaterial*? As board members, we've been in the dark about inappropriate culture, or the way people behave badly to one another, for a long time. But now that the bar has been raised and bad behaviors are no longer acceptable, boards will expect far better incident reporting so they can understand the culture and values within an organization, and how they are contributing to overall performance.



There's a growing emphasis on the importance of more intentionally integrating ESG into a range of key performance measures, and of course there's growing investor demand for these metrics. This helps place ESG, including climate, more centrally in the board's agenda. Do you think companies get this?

BS: Companies have been publishing sustainability reports for two or three decades. They're getting better but they're still struggling, because no standard framework has emerged. I read one sustainability report recently that attempted to speak to 28 different issues with no narrative about which ones were the most important. It was a very long report that lacked a key message they were trying to get through to stakeholders.

Companies need to find the issues that are important to stakeholders and that impact their ability to create value for the future. By bringing these two factors together, they can find the sweet spot on what's important; everything else can be in an appendix or downplayed. You can actually bring a narrative to an ESG report, as opposed to it becoming a dumping ground for literally dozens of factors that may be relevant but often aren't.

Since almost every corporation has a unique purpose delivered through its own business model to its own set of key stakeholders, it makes the strong case for bespoke reporting and not using one of the plethora of frameworks designed to make one-size-fit-all.

And what does that mean for boards?

BS: Boards need to ensure that management develops a process to figure out who the stakeholders are and what's important to them across the realm of all possible ESG factors. And

boards need to engage directly with the key stakeholders. This is really, really important. Then, armed with that knowledge, management must demonstrate to the board how they determine which ESG factors actually matter to the corporation in the long term. If they can marry up their plans to excel on those items and meet the needs of their stakeholders, they've got a great report. But I haven't seen very many great sustainability reports yet.

Are we at risk, at some point, of management teams trying to chase ratings from ESG ratings firms, as opposed to focusing on what makes sense for the business?

BS: That's a brilliant question. I think some organizations are trying to tick all the boxes to improve their ESG ratings. But beyond the legal and regulatory minimums all organizations must meet, managing your specific ESG profile is no different than managing your strategy—you need to make choices based on your understanding of what's important.

I like to use a simple 2x2 matrix to identify the most pressing issues for both stakeholders and the organization. On one axis is the degree of consequentiality to our business. On the other is how important is each issue to most of your stakeholders. When you find those issues that are of high consequence to most of your stakeholders and apply to the value creation of your own business, you're in the top right quadrant or the sweet spot as I said earlier. And that's where you spend your time. It's a simple filter.

Reflecting on what we've learned during this pandemic, how can management and boards better prepare for the next high-impact event or natural disaster?

BS: We've had pandemics before. Over the last 50 years, there's been an epidemic every decade. These will likely continue, since only about 2% of viruses have been identified and transmission from animals to humans is increasing, the concentration in global supply chains and how our agricultural structures have evolved to produce at scale to name just a few of the contributing factors. Will we be locked down for, what, three years out of every decade? Pandemics may no longer be a low frequency event anymore. We have to be ready for it next time.

This is not a "black swan" event.

BS: It speaks to the interconnectedness of risk. One crisis leads to another, one risk leads to another. This pandemic has taught us that we can't think discretely about individual risks ever again. This health crisis has clearly led to an economic crisis and has certainly exacerbated what many would argue is the growing social crisis.

What are the implications, then, for boards and management?

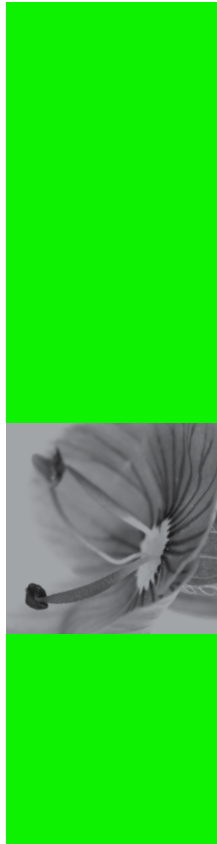
BS: The role of leadership has never been so important. There needs to be agility and collaboration between senior management and board leadership. We all need to be able to create much more robust strategies, to be able to pivot strategy, to be able to cocreate strategy with stakeholders, to be able to reorient from the way things used to be to a range of possible future scenarios. We need to shift away from reporting on last quarter and on what our one-year business plan can deliver for shareholders. In its place we will be focusing on longer-term planning horizons

and much more future-oriented scenario planning to deliver value to our key stakeholders. Leadership, on both the management and board levels, will become about constant learning, constant creativity. That's where I see boards going in the future.

This pandemic has taught us that we can't think discretely about individual risks ever again. This health crisis has clearly led to an economic crisis and has certainly exacerbated what many would argue is the growing social crisis.

What can the board do to provoke that?

BS: To me, it's about continually evaluating the corporate strategy and executing it really well. A board meeting shouldn't be held unless there's a strategic discussion that is driving it. There's nothing more important or more difficult than ensuring that a corporation has a well-developed and articulated strategy and executes it well to deliver value to its key stakeholder in this fast changing and uncertain world.



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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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