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Columbia Law School
IRA M. MILLSTEIN CENTER
for Global Markets and Corporate Ownership

The future of board time and priorities

Spring 2022

Business volatility is becoming more common. How is it affecting board time and priorities?

"Houston, we've had a problem."

Popularized by the 1995 film Apollo 13, this one line signals a dramatic turning point in the story of the 1970 mission to land three people on the surface of the moon.

It recounts the pivotal moment when carefully laid plans for a 33-hour stay on the moon are about to go awry. The very purpose of the mission—two space walks, a series of geological surveys, and the placement of scientific instruments that would send data back to Earth for long after—is in jeopardy.

It is the moment when the playbook suddenly takes a back seat to more urgent priorities.

Crisis erupts.

And everything changes.

Depending on the nature of their companies and their specific experiences, many board members likely relate to that sensation—getting a phone call, a text, or an email with news that changes everything.

A multitude of crises in recent years —a global pandemic, wildfires, severe weather events, social unrest, supply chain upheaval, talent shifts, inflation and other economic issues, and the war in Ukraine—has created turmoil in business, governments, and society. It's hard to imagine any company or organization that was untouched by at least a few of the dramatic events that have unfolded. It's almost as if turmoil is the new norm.

It's clear that emergencies or other unexpected events can spark a shift in priorities. The relevance of what was important 10 days ago, or even 10 minutes ago, often changes quickly when a crisis strikes.

How is the critical inflection point we are now facing helping boards identify opportunities to improve the way they operate and define their priorities? How are boards spending their time fulfilling their oversight roles? What is more important for boards today than it was five or 10 years ago?

To help answer these questions, Deloitte's Center for Board Effectiveness and the Ira M. Millstein Center for Global Markets and Corporate Ownership at Columbia Law School have collaborated on an initiative to determine how boards and individual board members may be shifting their priorities as well as how this shift may be affecting the way they allocate their time. After an extensive literature review to identify where boards may benefit from fresh insights, we spent some time taking the pulse of experienced corporate directors and chairs and those who work closely with directors, such as corporate secretaries and general counsel.

In a series of roundtable discussions with these groups, we explored how board members may be reconsidering certain aspects of how they operate. Participants signaled a recalibration with respect to how they apportion their time on matters such as monitoring activities, providing resources to the organization, and providing stewardship. They also may be rebalancing how they prioritize their focus on critical issues such as financial performance, risk, strategy, talent, and governance.

Boards were already beginning to shift in response to a broad call for corporations to reconsider their historic focus on shareholder primacy. Many boards have expanded their focus to consider the interests of customers, employees, suppliers, and other stakeholders while also focusing on generating long-term value for shareholders.

Oversight is, of course, a primary responsibility of the board. However, as turmoil and uncertainty persist over time, some board members may be finding ways to add greater value by employing their deep operational experience in various areas to drive management's thinking on strategy. Board members can provide valued perspectives to management and serve as resources to bring alternative points of view and help promote engagement among a wide variety of stakeholders in strategy discussions.

Our initial analysis of an ongoing survey of board members is providing us with corroborating signals. We see indications that many board members are ready to lend their considerable topical knowledge as an asset to be leveraged when companies are navigating uncharted waters.

On a clear day

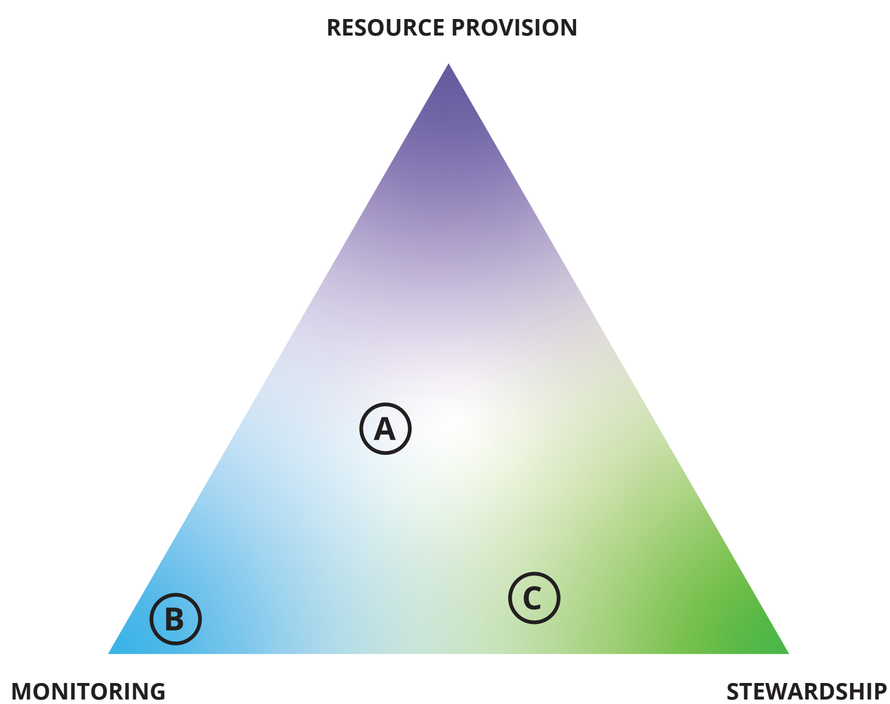
We began our discussions by asking board members, corporate secretaries, and general counsel to reflect on the role of a director "on a clear day," or at a time when the company is humming along under what it considers to be normal operating conditions. We asked them to consider how a director's role might be balanced under these conditions among three critical board roles:

- Monitoring—providing management oversight
- Resource provision—providing insight or contacts to management
- Stewardship—acting as a representative voice for the company's diverse stakeholders, such as shareholders, employees, customers, vendors, and communities

If each of these three domains—monitoring, resource provision, and stewardship—represented a corner of an equilateral triangle, where might the director's role land in relation to each of these three corners?

Most board members placed themselves somewhere near the center of the triangle, perhaps leaning partially or fully toward a mix of monitoring and resource provision with less emphasis on stewardship (see point A). A few board members landed decidedly in the monitoring corner, regarding oversight to be their primary role almost to the exclusion of providing resources or stewardship (see point B). Only a few leaned toward the stewardship corner, and those that did tended to lean toward spaces between stewardship and monitoring (see point C).

Some board members indicated they regarded these roles as somewhat interrelated, so they found it difficult to envision them separately. Monitoring is a primary role, for example, and board members often bring their considerable experience in prior leadership roles to provide support, advice, and counsel to management as the board provides this oversight.



In crisis

We followed the "clear day" scenario by then asking roundtable participants to consider what primary role boards play when the company is suddenly facing a crisis. When that "Houston, we've had a problem" call comes, will it change the way board members see their role?

The majority of participants considering this question indeed shifted their responses—some significantly, some only moderately—away from monitoring or providing oversight to management. They saw the board's role as shifting more toward providing counsel or resources to management and acting as stewards on behalf of shareholders.

Several participants said boards lean on management during a crisis primarily to provide updates on critical activities, to keep the board informed regarding risk events that may be unfolding and the company's response. These updates enable board members to respond with their experience, contacts, and counsel to offer suggestions to management about how they may be able to manage a potentially rapidly unfolding situation.

Many participants ventured that a time of crisis is a time for board members to roll up their sleeves and pitch in—to offer their diverse experiences and insights and reflect the company's broad stakeholder groups and their varied interests. Leaning in and offering counsel may be particularly important if the crisis at hand involves a loss of key leadership in the organization. It's not as if oversight and monitoring become less important, but they may become less important in the moment.

Our initial survey findings seem consistent with this. Board members seemed to signal that providing resources to management was a more worthy endeavor in a time of crisis than when the company is operating under normal conditions.

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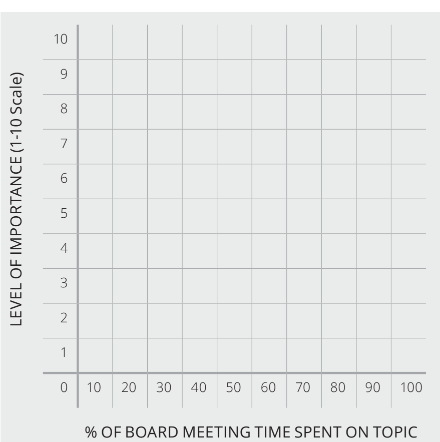
How are board priorities shifting?

To better understand how boards are setting their priorities and allocating their time as their agendas comprise a growing number and variety of critical topics, we asked roundtable participants to share their insights on how they divide their time and attention with respect to five key issues: financial performance, risk, strategy, talent, and governance.

We asked these participants where they would place each of these issues on a chart, with the vertical axis representing the level of importance ascribed to the issue and the horizontal axis representing the amount of time allocated to the issue. The inherent challenge for many participants was arriving at placements that didn't identify every issue as the most important issue or assign time estimates that added up to more than 100% of board time.



In the discussion accompanying this exercise, we heard some common themes:

Strategy. Whether it does so explicitly or more indirectly, strategy underpins virtually every boardroom discussion. It is an evergreen focus for board members, although some boards appear to be more intentional than others in their consideration of and focus on strategy.

Talent strategy is one area that has gained prominence on board agendas in the past few years, especially succession planning. However, financial performance, because it is so closely tied to strategy, generally occupies a dominant share of board time and priorities. Risk and governance, of course, are receiving their fair share of attention as well, especially during times of crisis.

Structure. Boards appear to be at a crossroads in considering their governance model and structure. A growing number of issues are being assigned to various board committees for deeper analysis as boards face an increasingly complex array of issues that are evolving rapidly into strategic risks.

Some boards appear to be evaluating their governance structures with a focus on how the board can be more deliberate about how and where they should address a growing variety of critical topics—such as technology, climate risk, or cybersecurity. As boards consider their own governance models, it may be important for them to remain laser focused on understanding what issues are owned by which people or groups throughout the organization, then confirming processes are in place for those individuals or groups to provide relevant, timely reporting of critical information up to the board.

As turmoil may become the new norm, the roundtable participants we encountered are giving deep thought to how they can best contribute their time and talent to meet organizational objectives in these five critical areas:

Financial performance

Participants generally agreed that financial performance is a high priority for boards, although some appear to spend more time on this topic than others. A majority of participants indicated their boards spend approximately one-third of their time either in board meetings or committee meetings discussing financial performance or outside of meetings reviewing financial reports. A smaller number of participants indicated financial performance occupies more than half of board time.

The amount of time an individual board member would spend on financial performance typically depends on committee assignments. Audit committee members, for example, spend far more time involved with financial performance than other board members. Some boards may spend more time on financial performance if a company is facing financial difficulties. Some participants indicated board discussions inherently include consideration of financial performance.

Some participants appear to regard time focused on other topics, such as strategy or risk, through a lens of financial performance, so that may sway the extent to which they perceive their board's time to be spent on financial matters. When reviewing operating results or considering operating strategy, for example, board members seem to do so with a focus on financial performance. Issues such as supply chain matters or broader risks are likely linked to factors involving financial performance.

Strategy

Strategy is a broad topic for many boards, touching on virtually all areas of corporate purpose, activity, and performance. Strategy interrelates with operating and financial performance, talent and compensation, risk, sustainability, governance, regulation, technology, and other areas that are on board agendas.

Roundtable participants generally agreed that strategy is a high-priority focus for their boards, yet many also tend to agree that their boards don't spend as much time on strategy as they might like. Some discuss strategy at every meeting, and some have entire meetings devoted solely to strategy, so approaches vary widely.

A focus on strategy can generally be regarded as proactive, and it may be difficult to be proactive at a time when the company is reacting to unexpected events or obstacles. Historically, the amount of time a given board would devote to strategy might correlate with the company's lifecycle and maturity.

As companies face increasingly disruptive events and forces, however, strategy becomes increasingly relevant for all companies. At the same time, board members may also face difficulty focusing on strategy when facing short-term shocks and disruptions. One might hold a view that these are times when boards and senior leadership teams can lean even further into longer-term strategy for insights on how to navigate near-term obstacles.

Risk

Roundtable participants generally agreed that risk is a high-priority topic that boards spend approximately one-fifth to one-third of their time discussing. Boards appear to have different approaches for addressing risk at the board level. To some extent, varied approaches may reflect differences in risk landscape, which may vary by company type, size, sector, geography, and other factors. These appear to be important considerations for how boards prioritize and manage risk oversight.

Risk management oversight is frequently assigned to a committee, usually the audit committee, so that would suggest audit committee members spend more time discussing or focusing on risk than the full board.

Some roundtable participants suggest companies should form a risk committee specifically to oversee enterprise risk management, elevating the most critical topics to the full board. Others suggest risk rightly belongs with the audit committee because of its connection to financial reporting.

And some roundtable participants bring the discussion of risk back to the full board out of concern for a proliferation of committees leading to discussions that may become redundant or potentially create gaps in risk coverage. This full-circle discussion on risk suggests no one size fits all, and no two boards are alike in their approach to overseeing risk.

Talent

Talent has become an increasingly important topic for board agendas over recent years. The pandemic's effects on the labor market, digital and technology shifts driving different skills, and a growing focus on diversity, equity, and inclusion have led to deeper discussions of talent in many corporate boardrooms. These discussions often focus on employment practices, safety considerations, compensation, skills development, succession planning, well-being, and hybrid work arrangements, among other talent-related issues.

For some participants in our discussions, talent is another topic that is highly interrelated with strategy, risk, performance, and governance. Some boards appear to rely on their compensation committee to take a leading position on many talent matters.

In practice, we even see some boards changing the name of the committee to reflect a broader focus on talent or human capital issues. These committees may be taking deeper dives in employment evaluations and compensation reports with a focus on promoting diversity and pay equity throughout their organizations. Where committees are drilling into talent issues such as these, talent discussions at the board level may be occurring at a higher, more strategic level.

Some boards appear to be very focused on the importance of executive benchmarking and succession planning to promote continuity of leadership at the top of the organization. Talent also appears to be a more common topic of discussion in executive sessions for many boards.

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Governance

Participants in our roundtable discussions generally indicated their boards place a lower priority on governance matters compared with financial performance, strategy, talent, and risk, and they spend less of their time on governance as well. There appear to be several reasons for this reaction.

Some indicated governance is not typically a focal point during a crisis, especially when an emergency or an unexpected event arises from external forces. Boards may also lean on their nominating and governance committee to address the majority of governance matters, which likely reduces the time required on the board's part for addressing governance.

Some participants also indicated governance is not a topic that typically evokes divergent views at the board level, which leads to less need for discussion. As a result, once a board becomes comfortable with the company's governance approach and processes, there's typically less time spent in the boardroom on governance issues.

When the discussion expands to broader environment, social, and governance (ESG) matters, participants shared a variety of perspectives on how their boards are addressing these rapidly evolving issues. It appears many boards are leaning on various committees to address aspects of ESG, although these issues still represent a growing share of the board's agenda. Shareholder engagement appears to be a common theme for board discussion, even when addressed in committees.

Situational dynamics

To gauge how boards may view their priorities within a comprehensive governance framework, we also asked roundtable participants to consider how they or their boards might respond to certain scenarios. One situation involved the prospective sale of a business unit where the long-term value to the company may be a matter of debate. Another involved a product linked to consumer illnesses and deaths.

In the first scenario, several participants indicated a debatable business transaction opportunity represents a time when boards should be asking for more information to help the board and senior leaders arrive at consensus. What does our strategy say about the importance of this unit to our growth objectives? What data supports the sale of the unit, and what data supports retaining it for its longer-term potential performance? What external advisers could lend useful perspectives that would enrich boardroom dialogue? If the sale of the unit is driven by an activist hedge fund, getting answers to these questions and building board consensus may become even more urgently necessary.

In the second scenario—consumer illnesses and deaths associated with a company's product—participants generally characterized this as a crisis that calls for quick action and clear thinking. Participants indicated their boards might take steps such as suspending sale and distribution of the product, engaging legal counsel, launching an investigation, and implementing other measures as indicated in the company's crisis plan. The plan likely includes leaning on management for more continual communication and updates as the situation unfolds. Some participants indicated their companies engage in scenario planning exercises to help improve their readiness for facing just such a crisis.

Scenario One

You are on the 9-member board of a public electronics company. Two activists hedge funds have recently joined the board and launched a campaign to spin off one of the company's core units. They argue that the unit's sales have been underwhelming.

Having served on the board for several years, you know that the unit in question has hopes for a new application of its chip technology. It will be several more years, however, before the viability of this product can be established. You are worried that the CEO might succumb to pressure from the hedge funds, but you and several board members feel strongly that the unit has tremendous long-run value.

Question for discussion:
What two suggestions would you provide to this board on how to ensure a constructive deliberation (both inside and outside the board room)?

Scenario Two

You are on the board of a large and stable consumer products holding company. For years, your board meetings have followed a standard and routine agenda. Recently, news has broken that one of the company's key subsidiaries has been making a product suspected of containing a dangerous carcinogen. Customers have become ill and a few have died in the past few months.

Question for discussion:
How should the board approach overseeing the company's and the subsidiary's response to the news?

Concluding thoughts

In our interaction with board members, corporate secretaries, and general counsel, it became readily apparent that their boards take their fiduciary responsibilities very seriously in times of crisis. It is clear that boards are addressing a steadily rising number of important topics in an increasingly complex global landscape.

It seems natural that boards would regard this as an inflection point—where it might be helpful to take a step back and evaluate board governance with a focus on how they set their priorities, manage their time, delegate responsibilities, and engage with management. There are no ready playbooks for how boards can activate to help their companies navigate complexity, but boards likely could benefit from spending some time reflecting on how they've contributed to crisis management to date and how they can bring the greatest value to their companies when unforeseen events unfold.

This discussion might include consideration of how much information board members expect from management in a crisis situation, and how rapidly and in what format they need this information to be delivered. Boards might consider identifying the team they'd like to have on their bench when a crisis takes shape to enable a nimble response. Board members can also evaluate how they can act as resources to senior leaders without impeding corporate actions.

Board discussion about committee structures is likely to continue or perhaps even escalate in the coming months and years as boards consider how to address an expanding scope of interrelated issues. Do boards need to refresh or reconsider

Deloitte Governance Framework

The Deloitte Governance Framework provides a view of corporate governance that may be helpful to boards as they strive for both effectiveness and efficiency, even in times of crisis. The framework contemplates circumstances where boards may have a role not only in oversight, but in actively participating in the company's operating activities.

Developed at a time when boards began experiencing heightened expectations and scrutiny, the framework is intended to help boards arrive at a starting point for developing a common, holistic approach to governance. The framework and its underlying assumptions are designed to be tailored to an approach that fits each organization's circumstances.

As turmoil and crisis reshape many aspects of how companies operate, the responsibilities of board members can still align with a common, accepted governance framework while also adapting to meet changing priorities to meet the challenges of a new era.

their governance structures and related responsibilities? Should boards form task forces or subcommittees to perform initial deep dives on emerging issues to help identify appropriate governance approaches? Or should boards expand the agendas of existing committees to take on emerging topics?

With each of these approaches, boards may need to be thoughtful about where to cast wide nets and when to drill deeply. How best can boards manage the many topics they are encountering with appropriate levels of depth? How can they stay abreast of important developments and provide value to their organizations amid constant, rapid change?

Our research continues. Our teams at Deloitte and Columbia continue to collaborate on developing data-driven research that may help illuminate how boards are navigating this increasingly complex environment. We look forward to sharing further insights in the future.

About this initiative

Deloitte's Center for Board Effectiveness and the Ira M. Millstein Center for Global Markets and Corporate Ownership at Columbia Law School are studying the current experiences of leading boards to create meaningful dialogue around the future focus and working of the board. This includes identifying challenges and topics through deep research and the sharing of collective experiences in roundtable discussions that can aid in the evolution of board dynamics and effectiveness.

Following an extensive literature review, we focused this research and discussion on five key domains capturing a broad scope of board structure and activities where interrelationships among these domains have not been explored in great depth. These five domains are:

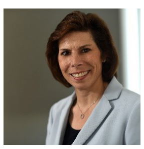
- Goals, objectives and functions of the board—What weight should boards give to each of their varied goals with respect to maximizing welfare for broad stakeholder groups, including shareholders, customers, employees, suppliers, creditors, and communities?
- Board composition and individual member attributes—How many board members should sit on a given company's board? What mix of individual attributes or traits are most important for any given board?
- Organizational and committee structure—Which issues should be delegated to committees, and how much deliberative work should be performed at the committee level versus the board level? Which board members should be assigned to which committees, given their individual attributes and talents?
- Mechanics of board deliberation and meetings—What is an appropriate cadence for board and committee meetings? What is a reasonable amount of lead time for board members to review meeting materials? How often should the board meet without the presence of senior management, and when should boards consult with external advisers?
- Norms of professionalism, collegiality, and engagement—What can boards do to promote mutual expectations of contribution, constructive debate, and a collegial culture among board members?

With this research, we seek to identify how board goals and functions may be changing. Our research is ongoing, but our early findings suggest some movement may be afoot for boards to consider as turmoil in our world persists.

Authors

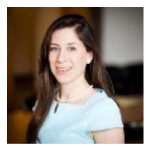
Janet Foutty
Executive Chair of the Board
Deloitte US

Carey Oven
National Managing Partner
Center for Board Effectiveness
Chief Talent Officer, Risk & Financial Advisory
Deloitte & Touche LLP



Maureen Bujno
Managing Director and
Audit & Assurance Governance Leader
Center for Board Effectiveness
Deloitte & Touche LLP

Eric Talley
Isidor and Seville Sulzbacher Professor of Law, Columbia Law School
Co-Director, Ira M. Millstein Center for Global Markets and Corporate Ownership



Erica Mitnick Klein
Executive Director
Ira M. Millstein Center for Global Markets and Corporate Ownership

Katherine Waldock, Ph.D.
Research Fellow
Ira M. Millstein Center for Global Markets and Corporate Ownership

Additional contributors:

Molly Calkins
Associate Director
Ira M. Millstein Center for Global Markets and Corporate Ownership

Lyssa Bantleon Little
Manager
Office of the US Executive Chair of the Board
Deloitte LLP

Caroline Schoenecker
Experience Director
Center for Board Effectiveness
Deloitte LLP

Deloitte.

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Deloitte's Center for Board Effectiveness helps directors deliver value to the organizations they serve through a portfolio of high quality, innovative experiences throughout their tenure as board members. Whether an individual is aspiring to board participation or has extensive board experience, the Center's programs enable them to contribute effectively and provide focus in the areas of governance and audit, strategy, risk, innovation, compensation, and succession.

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The mission of the Millstein Center is to positively shape and influence how corporations are governed. Through engagement with business leaders, corporate boards, investors, the legal community and academics, the Center facilitates meaningful dialogue about the challenges companies face, and conducts innovative research into the policy solutions required to tackle the challenges corporations face today.

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