

## Risk

*"You cannot direct the wind but you can adjust your Sails"*

- Allison Heren Lee

### Board Oversight of ESG and Diversity Risks

Companies across the United States and the rest of the world are grappling with the myriad of social, environmental and economic challenges of the past few years—from the Covid-19 pandemic to heightened political and social justice concerns to extreme economic conditions. PwC's 2021 Annual Corporate Directors Survey reveals the significant impact of these risks and sheds light on the changes boards are making in response to the dynamic environment.

Directors agreed that the following risk issues demand particular focus which were divided into the categories of "ESG & Strategy" and "Board Practices."

#### ESG & Strategy Issues:

- Board ESG oversight
- Connecting ESG corporate strategy
- Talent management and the future of work

#### Board Practices Issues:

- Board diversity
- Board assessments
- Board priorities

### Board ESG Oversight

ESG refers to environmental, social and governance issues, which leading companies increasingly see as a "business imperative." To bolster ESG oversight the boards should be looking at the following :

**Strategy:** Are ESG risks and opportunities integrated into the company's long-term strategy? How is the company measuring and monitoring its progress against milestones and goals set as part of the strategy?

**Messaging:** Do ESG messaging and activities align with the company's purpose and stakeholder interests?

**Risk assessment:** Have material ESG risks been identified and incorporated into the ERM? Has the board allocated the oversight of these risks to the full board or individual committees?

**Reporting:** What is the best communication platform to use for the company's ESG disclosures?

### Connecting ESG to Corporate Strategy

More boards are linking ESG to company strategy—64 percent compared to 49 percent in 2020. It's notable that 62 percent of directors also say ESG is directly linked to their company's enterprise risk management (ERM) discussions, up from 55 percent a year ago.

Because the board of directors is charged with taking a long view on company strategy, PwC asserts board oversight of how companies are embedding ESG issues into corporate strategy should be of utmost importance.

### Talent Management and the Future of Work

For companies to effectively compete in the growing "war on talent," boards must provide oversight to ensure their companies are "employers of choice" by:

- Attracting the best talent
- Understanding how the company is differentiating itself (as an employer)
- Being involved in decisions about the company's workforce strategy
- Ensuring the company's workforce strategy aligns with diversity and inclusion (D&I) goals

### Board Diversity

Nearly 70 percent of directors say, in the past two years, their board has replaced a retiring director with a director who increases the board diversity.

Board refreshment remains a concern—47 percent say that at least one fellow board member should be replaced. As boards think about replacement, racial and ethnic diversity tops the search criteria for new directors (25 percent). Gender diversity ranked much lower at 12 percent—likely a reflection of positive movement in recent years.

But board diversity won't happen on its own. The survey indicates a significant shift has occurred among directors, who are much more supportive of being more intentional to achieve diversity:

- 88 percent support board policies of always interviewing a diverse slate of candidates (e.g. the "Rooney Rule")
- 85 percent support a search firm policy of always offering diverse slates of candidates

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- 69 percent support institutional investor engagement with companies lacking board diversity
- 64 percent even support SEC or listing agency rules requiring the disclosure of board diversity.

•Survey recommends the full board should think about what its composition should look like in the future, and create a plan to get there.

### Board Assessments

Assessments—of the full board, committees and individual directors—are an important element of effective board oversight.

It was recommended that boards conduct annual director assessments, with the board chair or director holding individual meetings with each director to discuss the feedback.

### Board Priorities

Time is the biggest constraint for directors—too much to do in too little time. While talent management topped the risk issues priority list in the Annual Corporate Directors Survey, likely due to the impact of Covid-19, time must also be allocated to the other noted issues (ESG, D&I, board practices).

**Source:** RIMAN, Wikipedia, Christine Ferrell, NCSU

## RIMAN Upcoming Programme

ICAAP & Stress Testing 29<sup>th</sup> – 30<sup>th</sup> August 2022

Applying Business Continuity Management into practise in various organisation 22<sup>nd</sup> – 23<sup>rd</sup> September 2022