Directors & Boards®

Thought Leadership in Governance since 1976

directorsandboards.com | @DirectorsBoards

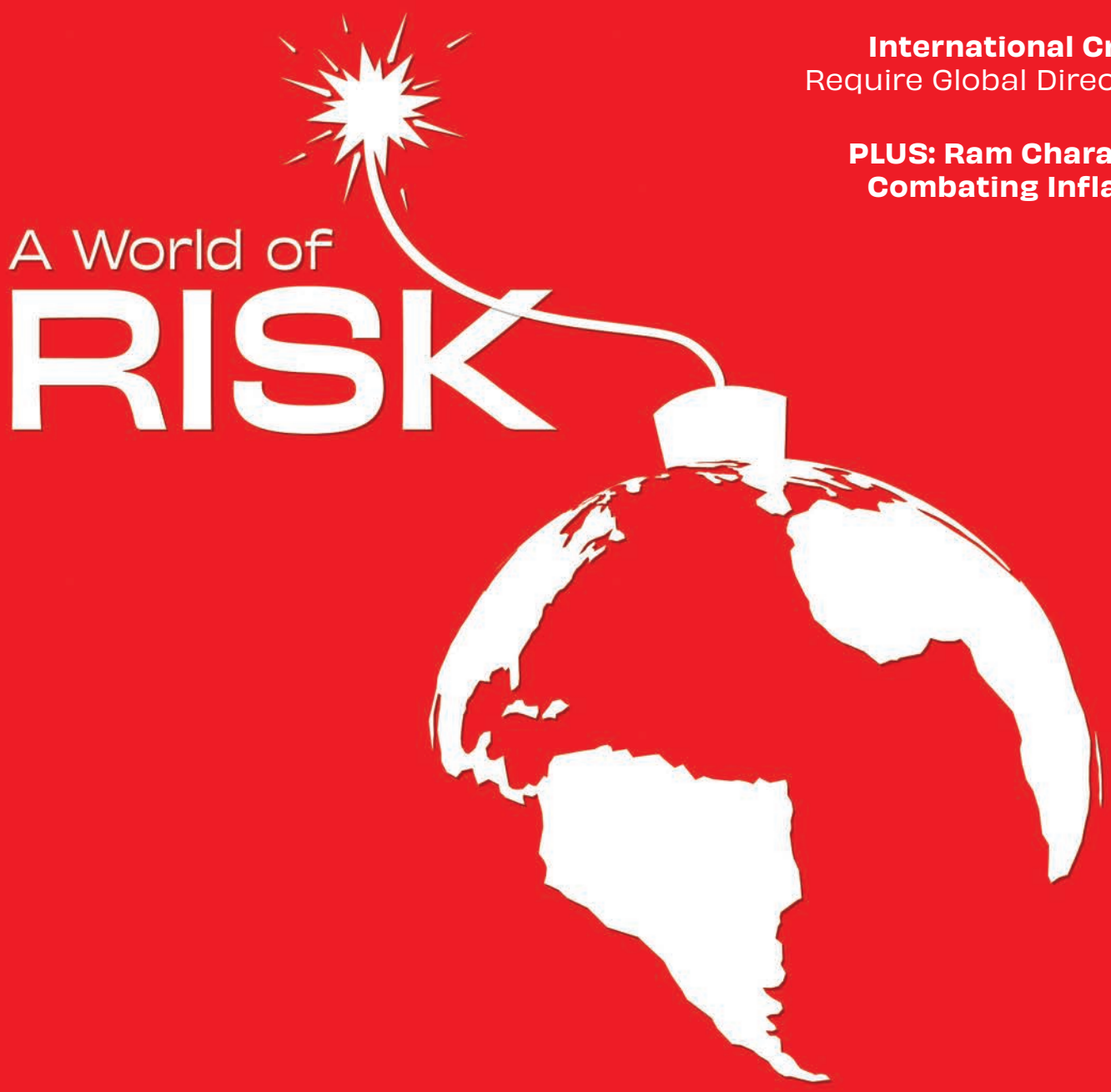
Annual Report 2022

Geopolitical Disruption
Invades the Boardroom

Rethinking
Risk Management

International Crises
Require Global Directors

PLUS: Ram Charan on
Combating Inflation



Ready for What's Around the Corner

With extensive experience and deep resources, Faegre Drinker provides directors and their boards with strategic, practical counsel so they're better able to manage existing issues and handle new challenges.

faegredrinker.com

faegre drinker

Directors & Boards®
www.directorsandboards.com
Vol. 46, No. 4 • Annual Report 2022

IN THIS ISSUE

COVER STORY • A WORLD OF RISK

FEATURE

24

Directors & Boards®
Vol. 46, No. 4 • Annual Report 2022

NASA/Aubrey Gemignani

DIRECTORS TO WATCH: GENDER DIVERSITY

DEPARTMENTS

COLUMNISTS

DIRECTORS ROSTER

Borders, Boundaries and Boards

Corporate chieftains — notably those who gather each year in Davos, Switzerland — may think they live in a world where countries with interdependent economies and companies with interconnected markets operate as if there were no borders. The notion that these connections would ensure both global prosperity and universal peace was shattered by Russia's invasion of Ukraine. In contrast to popular political theory, countries that between them have hundreds of McDonald's restaurants do, in fact, go to war. National borders delineate boundaries, and leaders who fail to recognize them do so at their own peril.


Bob Rock

Like national borders, boundaries for good corporate governance separate management prerogative from board oversight. Executives have certain responsibilities, such as hiring and firing, that are reserved to their discretion. However, with heightened scrutiny coming from activists inside and outside the company, some of these prerogatives are no longer seen as unilateral or exclusive to management. Boards are getting into areas once considered within management's sole discretion, such as talent management. This encompasses hiring practices, DEI and more. Some executive teams are embracing this board participation; others are less welcoming. The former view the board as helping effect best practices; the latter see it as infringing on good management.

Some boards act as if there are no defined boundaries. They ebb and flow into areas typically reserved for management decision-making. Whereas "noses in, fingers out" has been the modus operandi of most boards, now some are leaning in further — sometimes much further — with not only fingers, but feet roaming about. For these boards, the line between top management and board oversight has become blurred, creating concern, confusion and often consternation. Ostensibly "to find out what's going on," some board members have taken to talking to managers several levels below the executive suite.

Given the increasing range and degree of risks, such as cyberattacks; the growing challenges of business operations, such as global supply chains; and the rising requirement for disclosures, such as ESG, the board is taking on more monitoring and reporting duties. These enhanced responsibilities require greater understanding of business operations, policies and practices. Business strategy, CEO succession, talent development, corporate culture and more remain high priorities on a board's agenda, and ample time must be scheduled on a board's calendar to address them. Often with the help of outside consultants, boards are digging in deeper to better understand and monitor these critical issues. Consequently, the line between management prerogative and board oversight is no longer as bright or as fixed as it was a decade ago.

Directors are getting more involved in matters that were once the sole province of management, such as investor relations, where greater board engagement has come about in response to investor community requests. Large asset managers like BlackRock are requesting to meet with independent directors without management or legal counsel present.

Boards and individual directors are increasingly meeting independently with the CEO's direct reports, notably the CFO and CHRO, to discuss, for example, issues of risk mitigation and talent acquisition respectively. The CFO can answer how ESG is being incorporated into the capital allocation process, and the CHRO can address how the company is growing a diverse and stable workforce from the front lines to top management. When the board and individual directors are making such inquiries, it's always a good idea to inform the CEO of the nature and scope of these discussions.

Deeper dives into the organization may be warranted, but directors need to be both aware and respectful of the boundary between accessing information and making decisions. The chair or lead director must provide strong leadership to manage and regulate the depth and scope of these inquiries so they don't become too intrusive. These inquiries can consume management time and create confusion, so individual directors should not make random forays.

The degree and scope of board inquiries may vary depending on the condition of the business, the nature of the problem and the implications for top management, in particular the CEO. Executive sessions among the independent directors, led by the chair or lead director, can help address these issues and determine the board's course of action.

Top executives are accountable for the management of the business and are rewarded for its performance. Directors are responsible for corporate governance in terms of assessing performance and monitoring adherence to policies. Management operates the company. The board oversees management. Though the line has moved somewhat, there should be a boundary between management prerogative and board oversight that is recognized by all directors. Like borders, which exist to regulate interactions between countries, boundaries exist to regulate interactions between top management and their boards. Transgressing borders and overstepping boundaries can lead to contention and conflict. ■

An Ode to Good Governance

For many years, I've been asked the same question: "Does good corporate governance really matter?" And for years I've replied, "Yes." Now I have more to add. After nearly two decades of service, I recently retired from the Encompass Health board as our term limits required. Four other directors who joined the board at roughly the same time also departed. It has been an interesting and rewarding experience in many ways and makes the point that I have long advocated: good governance does matter.


Charles Elson

When I became involved with Encompass (then Healthsouth) in the early 2000s, the company found itself in dire condition. Its CEO had been arrested for bribery (and later convicted). Its financials had been muddled in one of the largest financial scandals of the decade. Federal investigations, executive indictments, shareholder lawsuits, delisting and a collapsed share price were crippling. The company, which once had been in the Fortune 500, had an equity valuation of less than $75 million. The business was carrying major debt. Bankruptcy loomed. No annual shareholder meeting could be called, as the company had no audited financials to present to its investors. In short, it was a terrific mess.

When I was first asked to join the board, I declined. I had no appetite to swim in such a treacherous stream. But I was impressed by the acumen and integrity of independent directors Jon Hanson and Bob May, who were determined to right the ship. I also believed in the long-term viability of the business. I signed on.

Among the first things Hanson and May pursued was recruitment of a new board composed of talented and experienced independent individuals and creation of a model governance structure that would aid in the company's resurrection. When we five new directors retired this May, the company was healthy, with a market valuation of over $6 billion and paying a regular and significant dividend. Primary responsibility for the company's reconstruction and recovery rests with a superb management team whose efforts ultimately bore fruit. But I also must give credit to our board. The directors' efforts in providing management with independent oversight and guidance ensured a happy conclusion to a painful corporate collapse and recovery, resulting in substantial shareholder value.

Among the reasons for this success, first was composition. In addition to our CEO, the new Healthsouth board consisted of a diverse group of individuals with experience in the various areas of our business that required focus in the turnaround. Directors with expertise in finance, accounting, health care, operational management, compliance and corporate governance were recruited. None had any connection with prior or current management. All accumulated significant equity holdings in the company to align our interests with those of our fellow shareholders.

Second was function. We were chaired by an independent director whose primary responsibility was to run the affairs of the board, setting board agendas and presiding over meetings. I cannot overemphasize the importance of this approach to board leadership.

We had five oversight committees: audit, compensation, nominating and governance, compliance and finance, each composed entirely of independent directors and chaired by experienced individuals. The committee chairs rotated every five years. For years, we began and ended each board meeting with an executive session where directors could candidly exchange concerns without fear of offending management or facing reprisal.

Third was investor relationships. Our chairman and our governance chair met periodically with our largest investors to listen to their concerns. We were the first U.S. public company to adopt a proxy reimbursement scheme that would, in certain circumstances, reimburse those shareholders mounting management challenges for reasonable expenses. We all were subject to a yearly shareholder vote for reelection and bound to term limits to encourage board refreshment. New directors were chosen for their varying skill sets and located and vetted by an independent search firm. Independent, equity-holding directors are the investors' best hope for a fair return. That was our guiding principle.

Fourth was the board's relationships with each other and management. We had widely differing viewpoints — but our interactions with one another and management were based on trust, transparency and candor.

Things turned out well. My two proudest moments were when we were relisted for trading on the NYSE after a long absence and the declaration of our first regular dividend. I was reluctant to cash the check — I thought about framing it.

Good governance was not the primary reason for the Encompass Health resurrection, but it played a vital part. Our shareholders profited, and so did our employees, our patients and the communities in which we operate. Some bad stories have happy conclusions — it was good corporate governance that helped make this one so positive. ■

Directors & Boards
www.directorsandboards.com

Editorial and Business Offices
1845 Walnut Street, Suite 900
Philadelphia, PA 19103
Ph: 215-567-3200, Fax: 215-405-6078

Directors & Boards (ISSN 0364-9156) is published five times a year, ©2022 by MLR Holdings LLC. All rights reserved. No portion of this publication may be reproduced in any form whatsoever without prior written permission from the publisher. Subscriptions are $325 per year in the U.S.; $350 (by air) elsewhere. Article reprints — Contact Jerri Smith at 215-405-6071.

BOARDBOOK

WHAT'S ON THE AGENDA?

Director Data

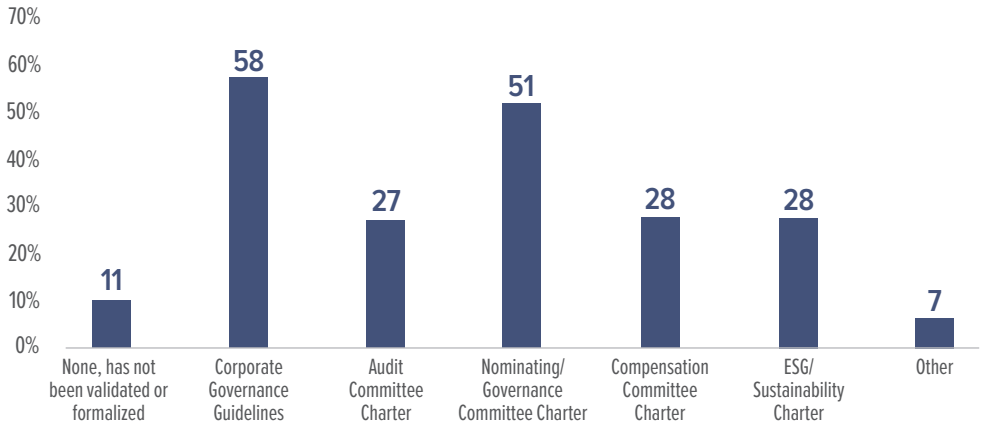
How Is ESG Being Handled in the Boardroom?

A recent report by Diligent and Spencer Stuart, titled *Sustainability in the Spotlight: Board ESG Oversight and Strategy*, featured nearly 600 corporate directors answering questions that focused on how boards are structuring ESG oversight, the COVID-19 pandemic's effect on ESG, sustainability's impact on strategy and executive compensation, and more.

Among the key findings emerging from the report are:

- 43% of respondents stated that primary oversight of ESG is a responsibility of the full board, while 30% said the initiative belongs to the nominating committee and 15% gave the responsibility to a designated ESG/sustainability committee.
- While 15% of boards discussed ESG at every meeting pre-pandemic, the number has risen to 34% in the wake of COVID-19. Meanwhile, only 4% of respondents say their boards "rarely or never" discuss sustainability in board meetings. Pre-COVID, that number sat at 20%.
- On the topic of board incorporation of ESG goals and metrics, 71% of respondents said those factors are being considered in the overall company strategy and 52% said they are being incorporated into integrated risk management. ESG goals and metrics were a factor in director appointment criteria for 48% of respondents, while 46% said it played a role in deciding executive compensation.
- To help increase directors' understanding and competency around ESG, 42% of respondents said their board is working with outside consultants, while 38% spoke of engaging in director education and upskilling.

Where ESG Oversight Is Formalized in Board Governance Documents



Note: Respondents were asked to select all that apply.

Source: *Sustainability in the Spotlight: Board ESG Oversight and Strategy*, Diligent Institute and Spencer Stuart

Executive Candidates Require Diverse Boards

A recent survey from theBoardlist, a marketplace of diverse talent for boards, sought to delineate what candidates for executive positions find most desirable in a company. The survey polled 200 executives and found that:

- 85% find psychological safety within a company's culture is either extremely important or very important when considering a position.
- When an executive is thinking about joining a company, it is a benefit to feature a diverse board. Having a diverse board was seen as an important factor for 78% of executives, with over 34% believing board diversity was very important.
- Of the executives polled, 36% reported declining an offer because of a lack of diversity at the leadership level. Those numbers rise even higher for Black/African-American (54%) and Hispanic/Latino executives (50%).

Source: theBoardlist

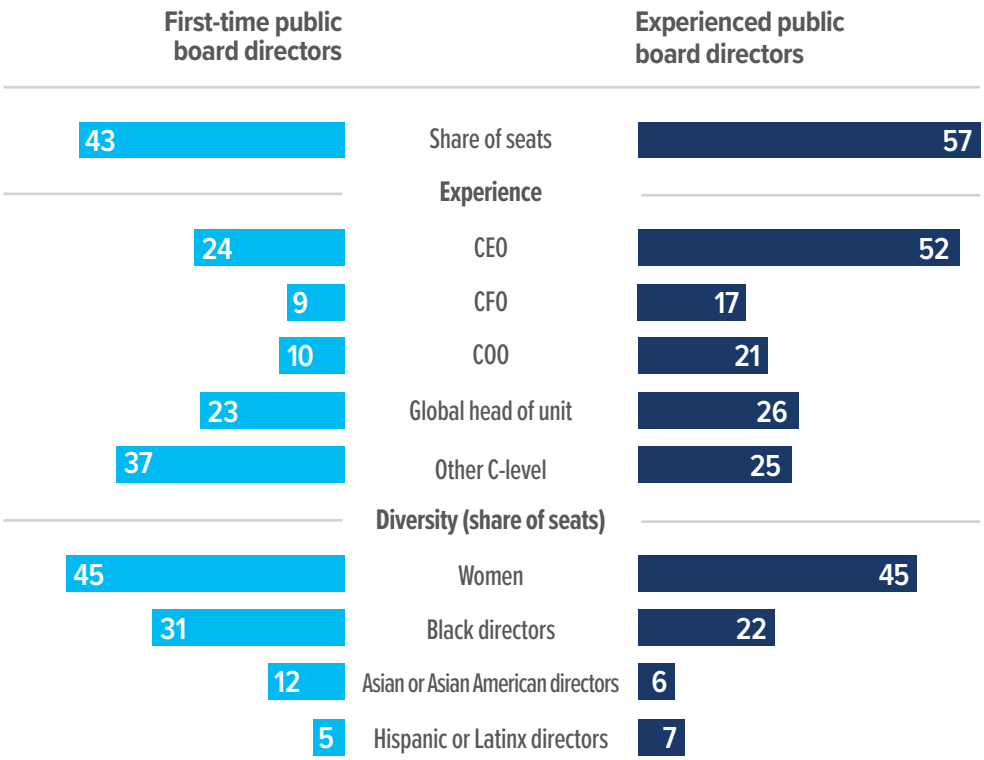
Boards Seeking Out Diverse Thought and Backgrounds

In *Board Monitor U.S. 2022*, Heidrick & Struggles' report on new directors brought into Fortune 500 boards in 2021, it was found that the boards are continuing a trend that was started in late-2020: reaching out to diverse groups of directors to bring fresh insights and perspectives into company stewardship.

- 43% of board seats were filled by first-time directors.
- 45% of seats were filled by women.
- An increase was recorded in the number of board members with sustainability and cybersecurity experience.
- In terms of racial and ethnic diversity, 26% of seats were held by Black directors, a steady number after the dramatic increase of 2020. But Asian/Asian American and Hispanic/Latinx directors still find themselves woefully underrepresented at 9% and 6%, respectively.

Source: *Board Monitor U.S. 2022*, Heidrick & Struggles

What's different between first-time directors and their more experienced peers (%)

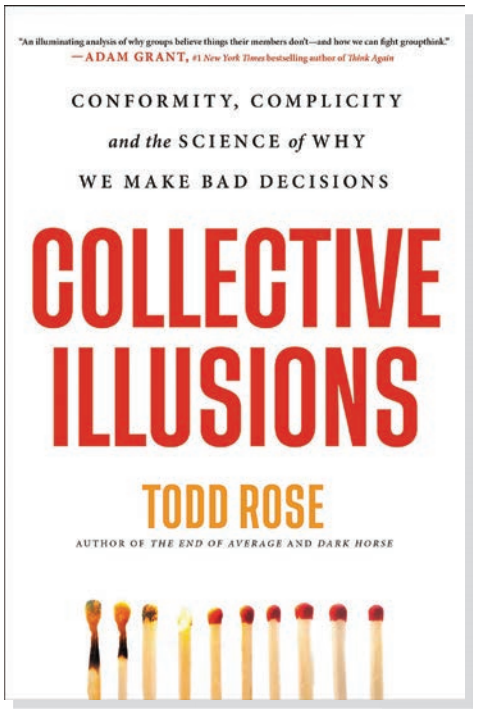


Directors & Boards
www.directorsandboards.com

Collective Illusions: Conformity, Complicity and the Science of Why We Make Bad Decisions

Reviewed by Howard Brod Brownstein

Books currently being recommended for corporate board members are typically about emerging governance issues like ESG and DEI, and the board member's bookshelf is usually filled with deeper dives into topics like risk management and M&A. Rarely does a book come along that, while intended for general readership, is also of particular interest for board members.



Such a book is *Collective Illusions: Conformity, Complicity and the Science of Why We Make Bad Decisions* by Todd Rose (Hachette, 2022). Rose, a trained neuroscientist and former faculty member at Harvard Graduate School of Education, provides a detailed and interesting analysis of the science behind how normal human beings are affected by various types of biases and blind spots, which lead to bad decisions. From an evolutionary viewpoint, this raises the question of why humans developed in this way. The answer seems to lie in a larger social need being met, one of fitting in with the group, following what other people think or do in order to avoid being the exception or suffer the embarrassment of being wrong.

Effective board governance benefits from board members being healthily skeptical and establishing a board culture that does not squelch or disfavor differing viewpoints or challenging questions. Rose points out that, in society, we learn not to be an exception from the herd, not to question "authority" and to implicitly trust that whatever everyone else is doing must be OK. Therefore, it is not hard to envision a board dynamic that encourages a "go along to get along" mentality, which can

lead to overlooking potentially important facts and avoiding further inquiry.

The terms that Rose uses for the forms of bias he describes (conformity bias, copycat trap, etc.) have appeared elsewhere. However, his book cites extensive and varied research that shows repeatedly how we disregard our personal feelings about a topic in favor of how we believe others feel. Examples include research that asked people how they felt about certain issues, followed by how they believed others felt. Invariably, the arithmetic did not line up: If as many people really believed "A" instead of "B" (as they said they did individually), it would be impossible for the number of other people that they assume believe "B" to exist. This may explain why so often in history populations have accepted or gone along with positions that they individually believed to be wrong simply because they did not believe enough support existed for a different viewpoint.

Why is this important to directors? Board members must avoid the risks of groupthink, which too often invades boards as well as management teams. Rose advocates developing an awareness that begins with oneself but can be expanded to the groups of which one is a part. This can address the preexisting inertia and momentum toward a given conclusion that should be questioned or proved. He refers to this as developing "personal congruence" and explains how it can be developed and strengthened within oneself and extended to the groups of which one is a part, such as a board of directors.

Rose is a scientist and cites many research studies to illustrate his points. But his book is written for the general reader and is quite understandable to nonscientists. While many have heard about cognitive bias and related subjects, this book really illustrates in a completely understandable way how easily we as human beings overlook and ignore facts that should be the impetus for further inquiry and, possibly, further action. I can easily see board members experiencing a shift in their thinking and adopting Rose's encouragement of self-awareness regarding societal forces that limit our thinking and action, and extending that learning to the boards on which they serve.

Howard Brod Brownstein *is president of The Brownstein Corporation, an M&A and turnaround management firm, and serves as an independent corporate board member for Merakey and P&F Industries Inc.*

#CorpGov: What's Trending

Top Articles on www.DirectorsAndBoards.com

Director technology knowledge is key to company performance and growth.

By Carey Oven and Rich Penkoski

When the COVID-19 pandemic upended our lives in March 2020, little did we know that it would usher in a new wave of digital transformation and technology adoption for companies across nearly every industry. Suddenly, many office employees completed their work from home and needed access to tools and resources that enabled remote collaboration. Online grocery sales increased exponentially as many shoppers looked for ways to avoid crowded public spaces. Movies were brought straight to streaming platforms and entertainment companies provided virtual experiences in lieu of in-person ones.

As COVID-19 spread throughout 2020 and into 2021, more companies began including digital transformation objectives in their overall business strategies. In a *Harvard Business Review* study, 86% of those surveyed said their organizations accelerated digital transformation during the pandemic; of those, 91% said their organizations were planning to continue with these efforts beyond the pandemic ("Digital acceleration redefines the future of work," *Harvard Business Review*, Sept. 2, 2021).

Corporate boards are seeing a renewed focus on technology expertise as well, especially as organizations face more technology-driven risks, such as cybersecurity and privacy. As an example, the National Association of Corporate Directors found in 2021 that 43% of S&P 500 company board directors mentioned their technology background in public disclosures (Aman Kidwai, "Corporate boards are putting tech expertise higher on their hiring wish list," *Fortune*, Dec. 21, 2021), compared with 34% in 2018. A 2021 report on U.S. boards compiled by Heidrick & Struggles predicts that this trend will pick up in 2022 as companies offer permanent hybrid or fully remote workplace options (Heidrick & Struggles, *Board Monitor US 2021*). *https://www.directorsandboards.com/articles/singletech-savviness-boardroom*

CEO Pay Records a Major Increase in 2021

Report finds bonus payouts bolstering CEO financial performance. By Bill Hayes

According to early proxy filers, 2021 was a bounce-back year for CEOs, with total pay recording an uptick of 19% and bonus payouts up nearly 75% from 2020.

Such were the findings of a recent Compensation Advisory Partners report, *Early Filers: Performance Bounced Back, CEO Pay Up*. The report, which reviews CEO pay levels among 50 companies with fiscal years ending between August and October 2021, also finds 90% of companies with a payout at or above targeted numbers and 50% of surveyed companies including ESG as a metric in CEO incentive plan design. Lauren Peek, principal at Compensation Advisory Partners and one of the authors of the report (along with fellow principal Joanna Czyzewski), says the significant increase in pay year over year came as a bit of a surprise.

"Our initial assumption prior to the research is that pay was going to be up from the prior year, since 2020 was so challenging because of the pandemic. But we were not anticipating such a big bounce back in performance, which led to higher actual bonus payouts."

For 2021, performance in areas such as revenue, earnings per share and pre-tax income all saw increases. Revenue growth was up 17.1% among early filers, pre-tax income rose by 62.5% and earnings per share climbed by a whopping 71%, numbers that trump the financial performance levels of 2018-2019, prior to the onset of the coronavirus pandemic. *https://www.directorsandboards.com/articles/singleceo-pay-records-major-increase-2021*

Cybersecurity Is Essential to ESG and Corporate Governance

Make cybersecurity part of your approach to ESG.

By Erica Vinish and Adriana Villasenor

While there may not be a C in ESG, the increasingly digital landscape of business is proving that you can't have a complete appreciation of environmental, social and corporate governance concerns without extensive knowledge and understanding of cybersecurity.

CYBERSECURITY'S ROLE IN CORPORATE GOVERNANCE

Environmental, social and corporate governance concerns are top of mind for organizations and their stakeholders. Those stakeholders are not just investors. Organizations have experienced an uptick in ESG-related inquiries from clients, employees, recruits, debt ratings agencies and the media. While environmental and social topics are front and center, there is a crucial element that is being overlooked, and it carries significant risk if not properly addressed: cybersecurity.

Traditional corporate governance is focused more on auditing financials, board composition, shareholder rights, compliance and business ethics. While these remain important areas for corporate consideration, failing to implement proper cybersecurity governance leaves organizations exposed, putting their viability at risk. Depending on the industry, a cybersecurity risk can cause significantly more damage than a social or environmental risk. Cybersecurity incidents can permanently cripple an organization. *https://www.directorsandboards.com/articles/singlecybersecurity-essential-esg-and-corporate-governance*

GEOPOLITICAL

Directors should plan for risks in talent, supply chain, public health and more.

BY ERIN ESSENMACHER

The notion that every company is a technology company became a popular idea over the past decade, as advancements in software, data analytics and artificial intelligence profoundly transformed the business landscape. Companies of all stripes are now coming to recognize that the same holds true when it comes to thinking globally. The past three years have provided a master class in how quickly events that were once considered black swans can become a cascade of real-time risks that require a significant shift in the approach to both company strategy and risk management.

EVERY COMPANY IS A GLOBAL COMPANY

Overlapping shockwaves of a worldwide pandemic, historic supply chain shortages and war in Europe have reinforced that companies of all sizes, across industries, are impacted by disruptions as far-flung as Wuhan or Kyiv. "The interconnectedness of the world's economies is significant. This is true despite protective measures countries have taken, starting with the Great Financial Crisis and continuing through the US-China trade wars, COVID-19 lockdowns and the Ukraine conflict," says Krishna Kumar, VP, international, at the RAND Corporation. "Supply chain risks that had started becoming evident during COVID-19 have been amplified by the conflict in Ukraine. It illustrates how events not exactly in our backyard can cause serious disruptions to companies and societies." He points out that while the disruption is most immediate for companies that fled Russia either because of sanctions or public pressure, "other companies that do not directly have business in Russia and Ukraine are also impacted due to shortages and increasing prices."

DISRUPTION

Invades the Boardroom

BETSY ATKINS

BOARD MEMBER: WYNN LAS VEGAS, VOLVO CAR GROUP

Which major risk areas are public company boards preparing for at this time?

Cybersecurity is a major risk area right now for public company boards. Perhaps it's time to look at increasing the budget for cyber and adding external services to augment internal company monitoring capabilities. Also think about rotating regular boutique cyber penetration testing to mitigate risk. Another major challenge is attracting, engaging and retaining talent in a hybrid work environment.

What do you consider to be the best practices for identifying company risks before it is too late to prepare and the board is in crisis mode?

One of the best ways to think about company risk preparation is to have a meeting dedicated to reviewing what management identifies as their top ten risks. For example, if you were a restaurant company, your risks might include tainted food supply/food poisoning, loss of consumer credit card information, a mass shooter onsite, etc. Go through the top ten risks and ask management what their plan is for each. One of the best exercises is to ask the CEO and company spokesperson to go through social media and video practice sessions, actually recording and practicing responses to risks. Identify your social media resources, along with traditional crises management consultants.

Are there potential risk areas you see coming down the line that boards should be keeping an eye on?

A less obvious but really impactful risk (especially longer-term) is the threat of new, more innovative startup interlopers. Nobody wants to wake up and find our they're Blockbuster or Borders. Purposefully request an outside-in look at new competitive entrants and what different business models or go-to-market channels are emerging. For example, although it may not be obvious now, how are you thinking about web 3.0 or the metaverse and how this could possibly affect your business directly or in some adjacent way? What if the CEO is unexpectedly ill or has a personal crisis, or there are negative events surrounding your CEO and the CEO needs to be rapidly replaced? Who is the successor? How ready is your successor?

The need for a geopolitical-centric lens on risk is in many ways the result of converging risk factors that have emerged over the past few decades, says James Lam, president of risk management firm James Lam & Associates and a director for Recology (where he serves as chair) and RiskLens. "In the 1980s, we thought first and foremost about financial risk. In the 1990s, companies started focusing more on operational risk. Then digital transformation meant companies were thinking more deeply about strategic risk. Geopolitical risk compounds and connects all these risks in a way that is very significant, and that I haven't seen before."

Russia's invasion of Ukraine is the latest crisis to reveal the compounding nature of global risk. "It underscores the increasing link between business and economics on the one hand, and geopolitics on the other," says Kumar. "It means companies might have to pursue strategies that are as geopolitically savvy as they are business-savvy."

FROM "JUST IN TIME" TO "JUST IN CASE"

Even the boards of larger multinational companies, which may already have geopolitical risk firmly on their radar, have found they must seriously reconsider old assumptions that no longer hold true. "I'm on a Swedish board," says Nora Denzel, who serves on the boards of Advanced Micro Devices, Ericsson, NortonLifeLock and SUSE. "Five years ago, we still believed that there was global trade. But then Xi Jinping came out with the China 2025 plan and it became really clear that the two big guys were drifting apart. The technical standards are bifurcating and now we have to think about what China wants. What does the U.S. want? And then try to make sure that we stay on the right side with both."

Geopolitical shockwaves have also upended long-held views about supply chain risk. Over the past three decades, the focus

on "just in time" manufacturing emphasized efficiency as companies took advantage of interconnected free trade to reduce surplus inventory. The assumption that a lean supply chain was a risk-mitigation best practice has been suddenly — and painfully — turned on its head.

Myrna Soto, who serves on the boards of Consumers Energy, Spirit Airlines, TriNet, Popular Inc. and Headspace Health, has felt the impact of supply disruption across her board portfolio but says the multipliers of that risk are felt most acutely in the energy space, a backbone of critical infrastructure.

"The production of energy requires a lot of heavy equipment that has components that are manufactured all across the globe, so that has become an area of risk that we are focusing on significantly. We look at timelines and timetables for delivery because we can't just say, 'Whoops, can't do it.' When you are providing critical power services, it has to be done."

Supply chain woes also mean companies that considered efficiency as synonymous with risk mitigation are taking a very different tack. "Now we're willing to take on more capital allocation for financial bets that might not have 100% clear return, but we do it just in case," says Denzel. "We really looked very closely through the supply chain, identifying second sources or third sources. We've even talked about whether to make sure it's all sourced from America, because that's about the only thing you can trust."

Kumar recognizes this as well and urges corporate leaders to rethink investments in infrastructure based on inputs from a single source. "There is a company-level parallel to the large investment sunk into the Nord Stream pipeline to transfer natural gas from Russia to Germany," he says, referring to the construction project that gave Germany a direct line to Russian energy. In tying itself so fully to one country as its primary energy supplier, Germany has been boxed in, making it more difficult for the country to respond as it would like to Russian aggression.

OVERLAPPING RISKS

The links between critical infrastructure and geopolitical instability underscore the complex, interconnected nature of the risks most companies face. This has also shown up acutely in the labor market. "We used to base projects end-to-end in one country because it streamlined the workflow," says Denzel. "Now we realize the strategy of end-to-end projects in one country could give us single points of failure if you have to vacate an entire country."

The interconnected nature of the global economy means that the knock-on effects of events around the world have big impacts to talent risk here in the U.S., too. "When you think about the pandemic and the Great Resignation, the impact on talent and talent management is very significant," says Lam. "Voluntary turnover rates are going up significantly, and the employer/employee power balance has really shifted to the employees."

For Soto, talent is the number one risk that keeps her up at night. "If you look at the industries that I serve in, every single one of them has seen impacts from labor shortages. The airline is a great example. Never in our wildest dreams would we have thought that we would be faced with such a significant labor challenge to the extent it has a direct impact on the number of flights we can

SAM BRIGHT
Member, board of trustees, TIAA; advisory council member, The Smithsonian Institution; chief product and experience officer, Upwork

NORA DENZEL
Board member, Advanced Micro Devices, Ericsson, NortonLifeLock, SUSE

KRISHNA KUMAR
Vice president, international, RAND Corporation

JAMES LAM
Board chair, Recology; audit committee chair, RiskLens; president, James Lam & Associates Inc.

MYRNA SOTO
Board member, Delinea, Headspace Health, Popular Inc., Spirit Airlines, TriNet; founder and CEO, Apogee Executive Advisors LLC

EFFECTIVE OVERSIGHT OF GLOBAL RISK:

Six Key Questions Boards Should Ask

Now is a good time to revisit risk assumptions with management. A robust dialogue can ensure alignment between the board and management and better position the company to handle the next global crises.

How do we think about risk as a company?
It may seem basic, but risk is a broad term that can be subjective. Make sure your board and the management team are clear, explicit and intentional about what it means for your company. James Lam suggests the following to facilitate the discussion: "Do we think about risk in specific risk types? Do we think about risk only in terms of potential losses or negative events and not about the upside opportunities or unexpected variances that could impact the organization? That's limiting. What would it look like if we thought about risk more broadly and deeply, given the business environment and the global environment that we live in?"

Have emerging risks changed how we think about risk appetite. If so, how and why?
"I don't know if any of us came through the pandemic with the same risk appetite that we had before," says Nora Denzel. "I would definitely probe how that has changed and ask if we feel good about that shift. Sometimes people just adjust but don't thoughtfully consider how many clicks to the right or the left that adjustment should be."

What are the future scenarios that could impact our business, and how are we planning for them now?
Lam suggests gaming out scenarios together and then applying premortems or backcasting on the negative and positive scenarios, working backwards from there. What are the underlying conditions and potential implications to the company? What metrics should we put in place to monitor for these emerging risks? What are the early-warning indicators and strategies that we need to

complete on a daily basis. Or take the energy board: It used to be that the number of workers in the sector was a result of the career opportunities provided to field workers who provided a wide array of services for the country's power infrastructure. That has changed, and we're in a very competitive marketplace for talent. Now we're talking about apprenticeship programs to get people into certain roles that support the energy company. That's not something that was on our radar in the same way six years ago."

THE BENEFITS OF SCENARIO PLANNING

The interconnectedness of talent and geopolitics underscores another shift in how boards must reevaluate risk oversight to meet the moment. It is no longer enough to consider what risk factors are at play. Now, boards must fundamentally change how they think about risk. "In the past, we just asked 'What's the impact?' and 'What's the probability?'" says Denzel. "Five or ten years ago, if you had questioned that approach by asking, 'What if we have to vacate an entire country?,' the board would not have taken that seriously because the risk was low probability. That's changed." In other words, old-school risk models are not sufficient to fully gauge potential threats in a new world order where shocks don't come neatly and sequentially but are multiple, cascading and even overlapping.

"Risks don't live in silos," says Lam. "So instead of thinking about risk in specific categories, like strategic, financial, operational, geopolitical and reputational, you have to think about risk scenarios. These scenarios would have a confluence of different types of risk. So now that we have Russia in Ukraine, what happens

put in place? Ask management what they would do to minimize downside risks: What would you do to control unexpected variances? What would you do to invest in upside opportunities? What if more than one of these scenarios happened simultaneously? "This is a critical part of the board's role," says Lam. "It is not always second nature to management, which is focused on day-to-day operations. I think asking about these scenarios and gaming them out together is really important."

When did we last look into our control systems?
This, says Denzel, is a critical part of the "verify" piece of the board's "trust but verify" mandate. Consider how often your company discusses risk and compliance at the full board level. Is it more than a check-the-box exercise? If it is currently happening annually, should you consider a more frequent cadence?

Are we using the right benchmarks?
Managing through dynamic and unprecedented risk calls for new strategies. That includes how the company measures itself against peers. For example, Denzel says that, rather than simply using industry peers, her technology boards have looked to industries that are more highly regulated to gauge their own progress. "We didn't have the risk sophistication of a financial services firm," says Denzel. "So, rather than go to the other technology companies, we look at financial services companies and others that are highly regulated on how they do the balance sheet. There's a ton of things they do that we didn't know. We may not adopt all of them, but we definitely went to the better wheel maker."

Does our company culture foster flexibility, resilience and agility?
Krishna Kumar suggests boards probe more on how the management team is preparing to become more resilient to shocks, while still staying flexible. Does the management team have a clear understanding of their supply chains — not just on their immediate inputs but also those a level or two below? Are they sourcing cost-effective inputs? Are they becoming too risk-averse and shunning global opportunities? Is the management team paying enough attention to potential geopolitical ramifications of their investments? Has the board considered the ramifications of various risks through the lens of different stakeholders, and is the company prepared to respond appropriately when crisis does impact one or all of them?

if China invades Taiwan? What kind of situation would that be from a geopolitical business and supply chain perspective? That's not risk-specific, it's really scenario-specific."

Denzel agrees. "We use more data visualization. It's more nuanced. We used to only look at first-order effects. Now we look at first-, second- or third-order effects. It used to be if a risk was low probability but high impact, we didn't do much with it. Now it's more about digging into the consequences."

All of this means moving from a reliance on basic tools, like risk assessments with probability and severity ratings, to more robust modeling that takes into consideration scenario-planning future states of the world, and the macroeconomic and business conditions for each. "Scenario planning is a good best practice." says Lam. "But it should be augmented with tools that are rooted in future states, including premortems and backcasting."

Premortems are based on negative states of the future that start with the end in mind. "Take a very dramatic negative scenario, like China invading Taiwan." Lam explains. "You ask, 'What are the conditions associated with that? What if we do nothing? Where would we be as an organization?' From that future state, then look backwards and ask, 'What are the conditions that would get us here?' Internal conditions, external conditions, controllable variables, uncontrollable variables — and then map out the things to measure. What things are we going to monitor and respond to help mitigate those impacts? How does that impact our considerations for risk appetite, our risk management capabilities and our capacity to absorb potential losses?"

JOYCE CACHO

BOARD MEMBER: SUNRISE BANKS NA, WORLD BENCHMARKING ALLIANCE

Which major risk areas are public company boards preparing for at this time?

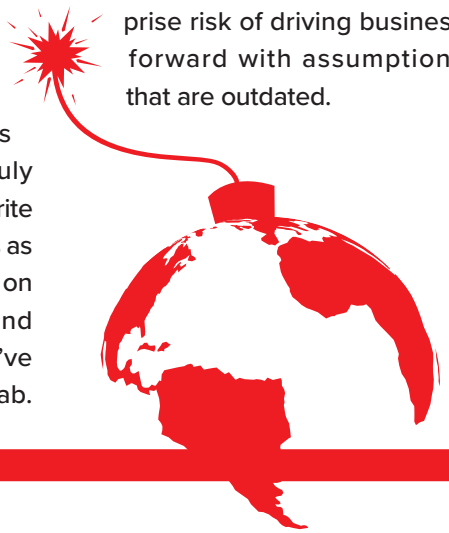
Climate change and the 500-page document that the SEC released with proposed rules, but that's not the half of it. It is at the nexus of climate change and people, and then how you address those integrated risks by putting in good governance. To me, that's the biggest risk. It's not climate change or employees or investors or communities or people in the streets. It's a combination of any two of those items, and then add to those risk (and opportunity) factors technology and the pace at which the landscape is changing. The risks are coming at companies faster. It's almost like a pitch that comes at a batter harder than expected. It comes with a need for board directors to look at business critical issues in an integrative way.

What do you consider to be the best practices for identifying company risks before it is too late to prepare and the board is in crisis mode?

Acknowledging the one million people in the U.S. who died from COVID, and their families. There's nothing like having real data to be able to analyze. To me, it's almost like companies, and especially public companies, have been in the lab for two-plus years. Not a lab where you're on the other side looking through a glass window, seeing how the experiment goes for another company, such as business peers or an adjacent industry in your supply chain. The company has been in that lab. Board directors who are asking for analysis of company data since March 2020, from a strategic, "reset the next normal" viewpoint, are dialed in on their fiduciary accountability of duty of oversight. What was your share price then? What is your share price now? What volatility did the share price see since March 2020? Use that as a starting point for preparing not only for future public health pandemics, but crisis response in a fast-paced, business ecosystem and for other industry-disruptive issues.

Are there potential risk areas you see coming down the line that boards should be keeping an eye on?

Employee welfare: It refers to that whole area of people on the inside – how you recruit them, how you retain them, how you get them to express themselves as their whole selves. And truly them being not assets, as you write in your annual report, but assets as those who keep you up to date on risks, on risk management, and possible outcomes. Again, we've had two years of a real-world lab. I've looked at what employees see as valuable to commit to being on a team. They're voting with their feet. They're resigning. It's on board directors to do less talking about "We can't find employees," and look at the business model and the assumption that it's a 20-year career that people are looking for. The expectation employees have of companies in 2022 is that they are going to pay more than lip service to creating cultures that welcome people who don't look like them. Today, creating a diverse, equitable, belonging corporate culture is a business imperative. If you only have people who look like the historic majority of people who are in business and in the boardroom, your product development is passive. Because you're assuming that somebody who doesn't look like you, with your same income, with your same education, is going to consider your product the way you consider the product, and that's the beginning of enterprise risk of driving business forward with assumptions that are outdated.



Boards should also be careful not to get so overwhelmed with the downsides of a fraught global landscape that they forget the interrelated nature of risk and opportunity. This, says Lam, is where the notion of backcasting comes in. Backcasting is a strategic planning model that assists in envisioning what you want to achieve in the future, including stepping stones toward getting to desired results, such as community engagement and forming a strong team. "Backcasting involves considering positive states for the future, and then working backward to identify what it will take in the present to get there. An example might be a highly successful digital transformation leading to dramatic increases in growth and value. So instead of focusing on the typical three- or five-year plan, management starts with a desirable future state and then asks, 'How do we get here? What strategy and talent do we need? What investments would we make? How do we fail faster? What risk appetite would we set?'"

Kumar also sees potential upside and believes the current state of play is ripe for innovation. "While these factors may seem to create a perfect storm for companies, they are also an invitation to rethink strategies, strengthen resilience and become more innovative in production processes by using alternate input from alternate sources and seeking new markets for their products."

CRISES REVEAL BOARD CHARACTER

Kumar's point about creating more flexible strategies alludes to a critical risk factor that existing models are less likely to capture. While in many ways U.S. businesses are still grappling with the aftereffects of the pandemic, a picture is beginning to emerge of the qualities that enabled organizational resilience. A common thread? Company cultures built on agility, innovation and people-centered values.

"Every company whose board I serve on that had people in Ukraine, we helped them," says Denzel. "We helped evacuate them, we stayed close to them. We gave them money if they needed it. Not just our people, but their families, pets and grandparents. We understand that if the family's not settled down, your worker isn't going to be."

Sam Bright, a member of the board of trustees at TIAA and chief product and experience officer at Upwork, credits Upwork's strong corporate culture with helping the company secure the safety and livelihood of thousands of the company's freelance talent and team members.

"As an organization, as a culture, we rallied around our shared values," says Bright. "Things like health and safety came first in considering how our decisions would be judged with the passage of time and taking into consideration the impact to all of our stakeholders." Those shared values, coupled with the agility at the core of Upwork's business model, enabled the company to move quickly to build support structures for their affected stakeholders, including accelerating access to payments, creating check-in features for freelancers to easily and quickly let clients know about their safety and work status, and establishing an option for both employees and customers to donate directly to those affected, with no strings attached.

"There is a deep level of empathy embedded in our company and it caused people to act in a really expeditious way. It reaffirmed that our team and our customer relationships are strengthened by our shared purpose and values," says Bright. "I think crises reveal you. It was inspiring to see all the various functions show up and leverage the resources at their disposal to make a difference for all of our stakeholders. We are an innovative culture, we're an empathic culture — and it really shows through in moments of stress." ■

***Erin Essenmacher** is a board director and strategic advisor. She spent nearly 10 years in executive leadership at the National Association of Corporate Directors, most recently as president and chief strategy officer.*

RETHINKING Risk Management

Anticipating emerging risks means reshaping the board.

BY GLENN DAVIS AND CHANDRASEKAR VENKATARAMAN

Risk management is often cited among the top two or three items on board agendas, yet many companies have found themselves unprepared for a variety of recent shocks, including the COVID-19 pandemic, the Great Resignation, cybersecurity events, labor shortages and supply chain disruptions.

The breadth of risk for public and large private companies has grown exponentially in recent years, but few organizations have gone far enough in evolving and expanding their risk management approach to keep up with the pace of change. This is one reason regulators have stepped up enforcement of board requirements around fiduciary duties.

In some cases, boards may need to update their views about the world's ability to deal with risks. These views may include the expectation that supply chains are infinite, labor is unlimited and the United States is always able to innovate its way out of problems.

That's not the world today's companies operate in. World Economic Forum, the Control Risks global risk survey, McKinsey and others have identified several of the most significant areas of current and emerging corporate risk. The top risk areas include:

- Proper understanding and articulation of company risk appetite, risk review objectives, and existential and emergent risks.
- People and talent.

- Mergers and acquisitions.
- Digital transformation.
- Cybersecurity.
- Climate risks and action.
- Future pandemics or similar situations.
- Supply chain vulnerabilities.
- Regulatory risks.
- Political risks.

These risks present challenges on many levels. Boards must identify, assess and manage risks intelligently, while simultaneously focusing on business opportunities that may arise from the very same issues. They must communicate risks not just to shareholders, but also to other stakeholders.

Today's boards need to consider whether they have the right people, expertise, committees and processes to address today's higher-risk business environment. Crises are likely to come faster and hit harder. However, boards that make changes to better address risk can succeed in making their companies more resilient.

The following are changes boards should consider to enhance their risk management approach and better help their companies navigate and mitigate emerging risks.

BRIDGE INFORMATION GAPS

Most boards weren't composed in today's risk environment, and they may lack sufficient depth of expertise in some of the most prominent areas of emerging risk. In addition, the company's operations, its business model or its industry — or all three — may have changed significantly since some directors joined the board. There may be an information gap between what management knows about the business and what the board knows.

There are many ways to bridge the information gap. Ask management intelligent questions about risks and controls. Embrace your natural curiosity and try to absorb what's going on in the company's industry, the competitive landscape and with competitive business models.

Also consider mandating the following for all board members:

- Involvement with the company and visits to company sites.
- One-on-one sessions with company executives.
- Training in the company's industries and risk areas.

REVAMP BOARD COMPOSITION

Rapid change means that the board of the future may need to look very different from the board of today. Start creating the board of the future through a concerted effort to nominate directors with specialized expertise in areas where the board has gaps. These new

directors may be outside current directors' or the CEO's contact circles.

Consider new directors who:

- Understand emerging risks.
- Have expertise in the company's complex technology platforms.
- Know the issues and best practices in the company's industry.
- Make the board more diverse.
- Have good understanding of digital transformations and the underlying value proposition.
- Can intelligently articulate the strengths, weaknesses, opportunities and threats in management's proposed strategic approaches and tactical implementation plans.

ENSURE BOARD INDEPENDENCE AND OBJECTIVITY

Nonexecutive directors know that, to represent the interests of shareholders and other stakeholders, they must perform their oversight function with independence and objectivity. But this isn't as easy in practice as it seems. Human nature fights against independence and objectivity.

The more time a director spends on the board and on nurturing any outside relationships with company executives, the more conscious effort they will need to put into thinking and voting independently and objectively. This is one reason Institutional Shareholder Services considers a tenure of more than nine years potentially compromising to director independence.

One of the best ways directors can become more independent and objective is to visit the company's locations. By asking questions of local employees, managers and clients, directors can become more attuned to what's going on in the business, learn about new risks and better understand the controls the company has in place. To facilitate this, the company should consider providing each director with a travel allowance specifically for visiting its locations.

Boards should also begin their meetings with executive sessions where only independent directors are in the room, without anyone from management. When executive sessions are scheduled at the end of the agenda, they tend to get cut short or cut entirely.

SEPARATE THE CHAIR AND CEO ROLES

When the CEO is also the chair of the board, it can be hard for directors to ask difficult questions and exercise the oversight they are required to maintain. A nonexecutive board leader should set board meeting agendas.

In addition, boards — not management — should drive the conversation around risk management. Rather than reacting to the information management provides, directors must identify risks the company faces, then ask management how they're addressing those risks. This proactive approach allows the board to exercise active governance and increase the company's resilience by anticipating risks that management may not have thought of.

PATTERN BOARD RISK COMMITTEES AFTER AUDIT COMMITTEES

Forming a risk committee, led by a director who has specific expertise in risk management, empowers a dedicated group to own responsibility for this important area of governance. Ideally, the company should have a chief risk officer who works with the committee.

Without a risk committee, risk falls to all directors or all committees — and when everybody is in charge of risk, nobody is. A risk committee and chief risk officer gives shareholders and regulators a clear indication of who is in charge.

The risk committee should:

- Be composed of directors with expertise in risk management.
- Have a charter that clearly outlines its responsibilities.
- Have the authority to engage consultants that the company pays for.
- Define the company's risk tolerance and

appetite, providing management with guidance.
- Document risk assessments and the board's questioning of management related to risk.

UNDERSTAND THE ADVANTAGES OF APPROPRIATE RISK MANAGEMENT

A board that skillfully identifies, assesses and manages risks brings tremendous value to a company. For example, better management of current and emerging risks can help a company to:

- Maximize value from mergers and acquisitions.
- Improve digital transformation efforts.
- Increase competitive advantage.
- Maximize value from talent.
- Mitigate cybersecurity threats.
- Take a proactive approach to climate risks.
- Prepare to manage and recover from crises.
- Strengthen the supply chain.
- Mitigate regulatory risks.

CONSIDER FURTHER CHANGES

The changes outlined may not be enough to deal with a rapidly evolving business environment. As boards continue to improve their risk identification, assessment and management, directors may want to consider these questions:

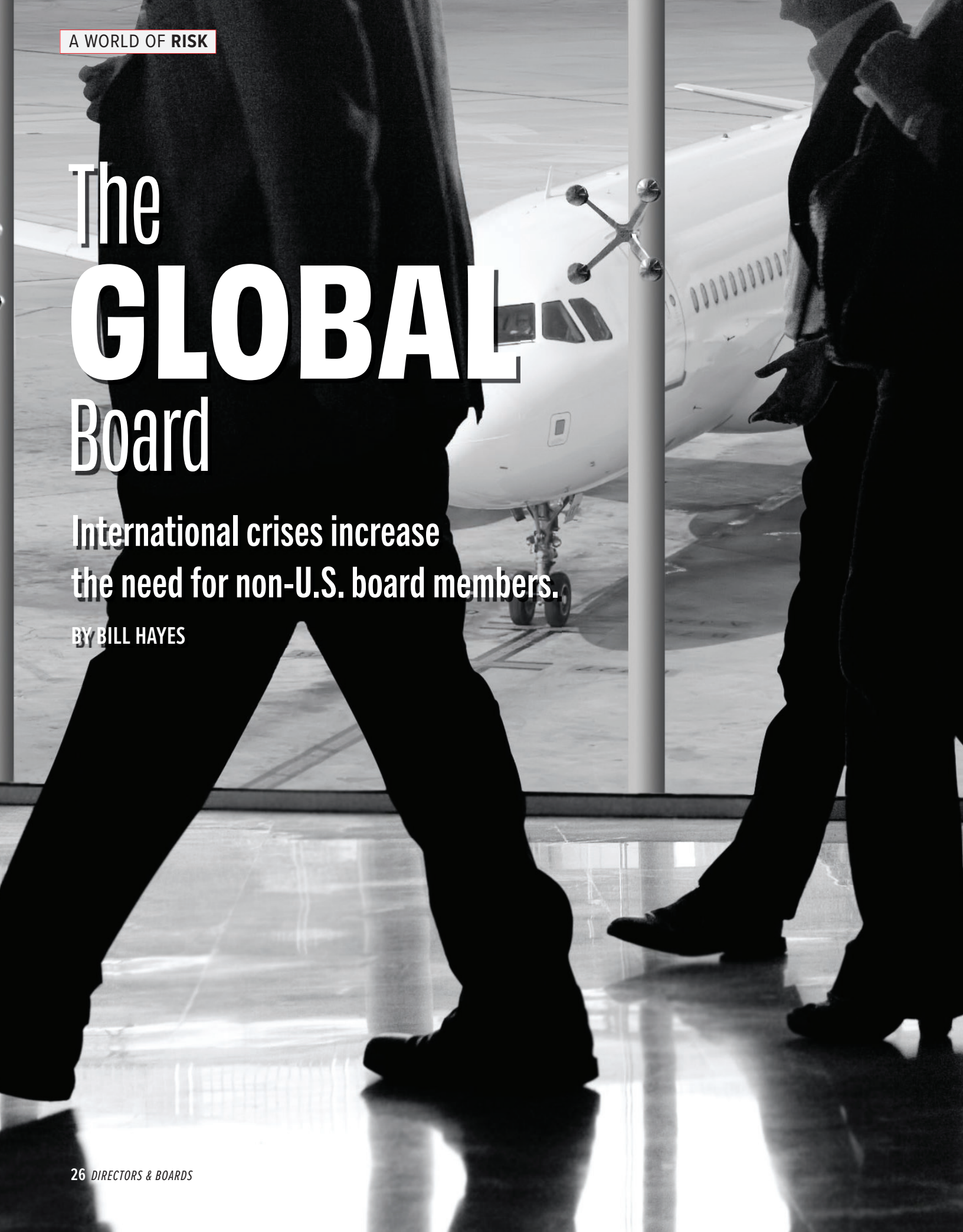
- To further improve their boards' abilities to identify risks, should companies introduce their own board diversity requirements?
- Should the no-downside environment of many of today's boardrooms, which can lead to complacency, be changed? That is, should directors, who are charged with company oversight, be held accountable for violations that fall under their oversight, including a possible clawback of director fees?
- Can a director who has sat on a board for 10, 20 or more years still be independent and objective? Should there be term limits for directors?
- Should directors be accountable for participating in board meetings, site visits and other activities? Should the number of board meetings attended and missed by a director be included in the proxy? Should the board self-evaluation process be strengthened?

Whatever changes directors consider, in today's risk environment, **it's vital that they are appropriately self-critical and vigorously embrace their role** in providing oversight of management.

These questions contemplate changes to the current structure and operations of many boards. But organizations that undertake them can gain a competitive advantage and increase their resiliency in the face of the next crisis.

Whatever changes directors consider, in today's risk environment, it's vital that they are appropriately self-critical and vigorously embrace their role in providing oversight of management. Boards should assess their strengths as well as their gaps, apply what they have learned from the "unimaginable" risks of the past few years, and go forward with a commitment to enhance their risk management approach so they can lead their companies to a successful future. ■

Glenn Davis *is principal emeritus and director of risk management services and* ***Chandrasekar Venkataraman*** *is a director of corporate governance and risk advisory services at Kaufman Rossin.*



The GLOBAL Board

International crises increase the need for non-U.S. board members.

BY BILL HAYES

The global challenges for boards have grown exponentially over the last two years. The constantly evolving relationship between the U.S. and China, Russia's invasion of Ukraine, COVID's continuing effect on global supply chains and the worldwide concern over the effects of climate change are just a few of the issues that suggest American corporate boards could use the perspective of international directors. But why is it worth the extra effort to engage international directors, and what sorts of companies would prosper most by including them on their boards?

DIVERSITY OF THOUGHT AND BACKGROUND

Just as boards can benefit from gender or ethnic diversity, there are many advantages to including directors who can add a global perspective. Selena LaCroix, chair of the compensation committee for Renesas Electronics, board member for NACD's Texas chapter and vice chair of the technology practice for Korn Ferry, explains the benefits. "International directors bring a diversity of skills, experience and approach to a board that will lead to a more well-rounded board of directors. They can also supply the corporation with valuable insights, business contacts and networks that are unique to the geographic areas that they have experience in."

This is echoed by Luis Aguilar, former commissioner at the SEC and board member of Donnelly Financial Solutions Inc. and Envestment Inc., who finds particular value in the insight that international directors bring to boardroom discussions.

"The diversity of thought and experience an international director can bring generates discussions and ideas that can be very useful in helping a board to determine the best solutions or courses of action to enhance stakeholder value."

At the same time, finding the international director who is right for your board is not a "one-size-fits-all kind of thing," according to Jan Babiak, who serves as director and audit committee chair for Walgreens Boots Alliance, while acting as an international director herself for both the Bank of Montreal and London's Euromoney Institutional Investor PLC. "Just looking for someone who is international doesn't necessarily bring value. Like you do with any other board metrics, you sit down and look at the skill sets you might be looking for. I think the top benefit is going to come from knowing your business need. That would be my starting point."

WHO BENEFITS?

When asked what sorts of companies would benefit most from the presence of an international director on their board, Adalio Sanchez, director for Avnet, ACI Worldwide and Snap One Holdings, keeps it simple, pinpointing "companies that have non-U.S. operations or have the intent to establish operations in particular regions of the world."

LaCroix attributes the most value to multinational corporations boasting a global employee, customer and supplier base. "I see this not only as a benefit but an imperative for multinational corporations to have international representation and a true understanding of the area they serve."

Aguilar identifies local culture, politics, regional economic considerations, workforce labor issues, and social and legal frameworks as areas international directors can help illuminate for U.S. boards. "This knowledge can be very important in identifying, evaluating and addressing risks faced by the company."

IDEAL TRAITS FOR INTERNATIONAL DIRECTORS

Kalpana Raina, board member of both Words Without Borders and Information Services Group, believes that, for the most part, the traits that make for an effective international director match those required of all directors. While she zeroes in on curiosity as one of these universal traits, she does caution nom/gov committees to strictly monitor fit when considering a director from another nation.

"You have to **be more careful to examine the director's ability to mix with your team**. Getting on with the other board members is magnified with international directors." — Kalpana Raina

"You have to be more careful to examine the director's ability to mix with your team. Getting on with the other board members is magnified with international directors."

As one would expect when someone takes on a board director role in a country outside their native land, communication skills are key, whether that is a nuanced skill like effective listening or something more obvious, such as being able to speak and understand the language spoken in the boardroom.

"For an international director, it would be good to listen more and make sure they understand the nuance of the culture of the board and the company. They have to focus on communication, especially if the board meetings are not conducted in a language they are fluent in," says LaCroix. At the same time, while she stresses the ability to take in information, she does not believe that means to be seen and not heard. "They should also be willing to speak up, especially as it pertains to their area of expertise, even if they are the sole dissenting voice in the room."

According to Aguilar, an international director's communication skills must be gauged during the interview process, as should their availability for board meetings and calls because of their location or time zone. "Unfortunately, not all countries have the same transportation, internet or communication infrastructures."

To drive home the importance of language skills to being successful as an international director, Babiak details an experience in her own board service, during which she interviewed for a board that included four Italian speakers and four French speakers. While the board and committee meetings were held in English, during the interview, the board members frequently dropped into their native languages. Right then, Babiak knew that the role was not for her.

"I just said to them, 'Look, I am very excited about the opportunity, but I note your tendency to revert to your native tongue to get better understanding on a matter often leaves me out of potentially critical discussions.' I gave them the name of a wonderful Belgian woman who is fluent in English, French and Italian. I just thought the risk profile was too great for me. They loved me because I had Italy and France reporting to me over the years, but I said, 'Yes, but they were reporting to me in English!'"

FACTORS UNDERLINING THE NEED FOR GLOBAL EXPERIENCE

A number of factors are teaming up to increase the importance of international directors to the boards of U.S. public companies. Raina identifies both the COVID-19 pandemic and Russia's invasion of Ukraine as factors requiring companies to pivot quickly on supply chain issues. These

disruptions have posed enormous challenges for businesses but have also accelerated the need to evolve processes and strategies.

Aguilar says, "The level and speed of change that corporations face today is unprecedented, and the competitive and regulatory environments require more prompt decisions by boards. But the decisions have to be well thought out. Having an international perspective at the board table can enrich the conversation and expedite the process of reaching an informed decision."

With technology making the world smaller, companies have been able to more quickly globalize their operations, resulting in a more international customer base and supply chain. As public companies gain worldwide reach, LaCroix believes it is imperative for their boards to mirror the international nature of their client bases.

"You need to represent the constituents of the business. ESG has also taken on an increased importance and scrutiny. International directors will certainly play positively on the diversity and governance aspects of ESG."

To Babiak, the importance of international directors hasn't increased but simply has gained more recognition as corporate governance has evolved. Looking back to the days "when boards were made up of interlocking CEOs who sat on each other's boards and all played golf together," she believes that boards now have a better idea of the representatives they need on their boards to ensure success for their companies.

"We need international experience and people who understand supply chain. We need people who understand finance. We need people who have some legal background in risk assessment. We need somebody who can chair an audit committee. If you are a company that had big international operations, you should have always had international directors. So, I don't know if it's more important, but it's now higher-profile."

FINDING INTERNATIONAL DIRECTORS ISN'T HARD

So where does the board find qualified international directors?

Raina believes that part of the reason for a lack of international directors lies with nom/gov committees.

"U.S. companies have very few nom/gov committees that get out in front of board recruitment. We tend to do it on an ad hoc basis. In actual practice, people fill in seats as they come up, and you are looking to find board members quickly."

LaCroix recommends that nom/gov committees prepare a clear outline of the type of international director the company needs. "They should engage the services of a board recruiting specialist with the relevant global networks in their regions of interest so they can do a thorough job of identifying a pool of candidates for the committee to prioritize and shortlist."

One thing is certain. Don't tell Jan Babiak you can't find any qualified candidates.

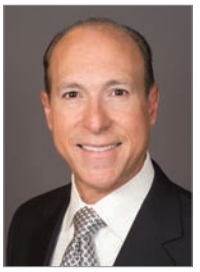
"There are thousands of them. There's a huge oversupply, particularly of diverse candidates as well as traditional candidates," says Babiak, citing both the NACD and Women Corporate Directors as possible resources. "It requires you to look outside of the men's locker room to find the candidates. All you need to do is define the category and go look. The reason someone can't find somebody with good international experience is the same reason they can't find anyone of color or any women or anyone with ESG experience. All you have to do is look." ■

LUIS AGUILAR
Board member, Donnelly Financial Solutions Inc., Envestment Inc.; former commissioner at the SEC

JAN BABIAK
Board member and audit committee chair, Walgreens Boots Alliance; senior independent director, Euromoney Institutional Investor PLC; board member and committee chair, Bank of Montreal

SELENA LACROIX
Vice chair of the technology practice, Korn Ferry; chair of the compensation committee, Renesas Electronics; board member, NACD Texas Chapter

KALPANA RAINA
Managing partner, 252 Solutions LLC; board member, Words Without Borders, Information Services Group



ADALIO SANCHEZ
President, S Group Advisory LLC; board member, Avnet, ACI Worldwide, and Snap One Holdings; supervisory board member, ASM International; board of trustees, MITRE

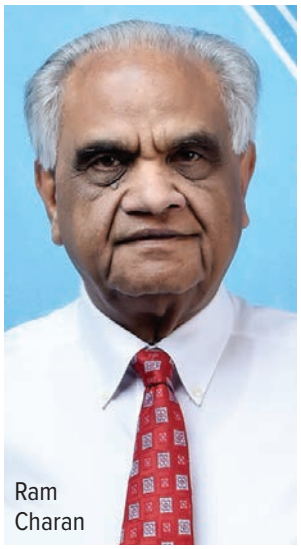
Eight Ways for Boards to Combat INFLATION

Ram Charan notes that most senior managers have never seen or dealt with hyperinflation. BY BILL HAYES

Ram Charan is worried about inflation's effect on business.

Therefore, boards should be worried about it, too.

According to Charan, a prominent business consultant for companies like Toyota, Bank of America and Fast Retailing, higher inflation can be expected to stick around for three or more years. And, worse, factors such as fear of future price increases, rising energy costs globally and the war in Ukraine may turn the situation toward hyperinflation, a state that Charan describes as "insidious."


Ram Charan

For Charan, author of 33 books, including his latest, *Rethinking Competitive Advantage: New Rules for the Digital Age*, the forthcoming *Leading Through Inflation* and four bestsellers, boards can protect their companies from inflation by carefully monitoring the information and recommendations they get from management.

Boards must broaden their perspective and see the longer-term picture when considering whether the company is sufficiently protected from inflation. A three-year outlook for inflation's impact is almost mandatory because cumulative cost increases over this period could be 20% or more in some industries.

The fact that most, if not all, in management have never experienced a phenomenon like hyperinflation makes the situation even more dire.

With that in mind, Charan provides eight actions that boards should be undertaking immediately to lessen risks caused by high inflation. They must keep in mind that actions they take now will also help prepare for a recession, as well as the enormous opportunities that will come in the future.

Actively learn about inflation. The board should continually seek to update its knowledge base on inflation. Work to gain a 360-degree view. Search independent sources so you can anticipate new surges and watch for emerging practices to deal with the problems that arise. Expanding your knowledge about inflation will allow you to ask incisive questions of management and make quick, decisive judgments on leadership actions and performance. Timing and magnitude of price increases, for example, is critical.

Search for understanding on additional factors. Realize how inflation converges with other external and impactful factors, such as ESG, building of infrastructure, war-caused shortages, rising wages and the continuing battle with COVID. The board

must continually study the actions of other industries for a diversity of thoughts, assumptions and biases. Some industries portend what is to come for others.

Establish metrics. Boards should monitor performance on an inflation-adjusted basis, altering goals, KPIs and strategies accordingly. Create dashboards, monitor competitive data and keep an eye on qualitative narrative psychological trends. These steps are useful for both boards and management, as it is essential for both groups to be on the same page during a period of inflation.

Adjust capital allocation. Allocation at this time should be based on a three- to four-year horizon. Make explicit assumptions based on the concept of cumulative inflation and compounding of risk.

Undergo cash flow planning. When conducting this step, make sure to keep in mind currency exchange issues globally.

Be prepared to change your business model. In a period of heightened inflation, you may have to adjust your business model. Be aware of consumer behavior, and do not hesitate to rethink your company's strategy and business model. One such example Charan presents is Volkswagen, which recently announced its intention to stop "chasing volume and market share."

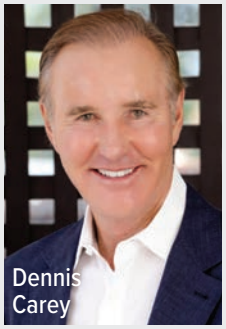
Says Charan, "Volkswagen decided to do that based on shortages and inflation numbers they were seeing. Existing growth-oriented KPIs were not taking the company in the right direction. A focus on their 'cash gross margin' should strengthen the company even though they will lose some market share. They said, 'We need to focus more on the higher-end electric vehicles that are coming along.' They're trying to create better market positioning."

Consider new topics for executive sessions. According to Charan, there are several topics that boards would be wise to discuss during executive sessions. For instance, who are the critical people for the business during a time of higher inflation? Are they willing to increase prices? If they do not have the courage to raise prices, do they need to be removed or replaced? Another topic that should be up for discussion during alone time: management goals and compensation challenges.

Weigh the worst-case scenario. Know what your approach will be if high inflation becomes hyperinflation. One step recommended by Charan would be to establish a special committee composed of the chairs of all other board committees for a focused discussion of all possible considerations, obstacles and impacts. ■

10 QUESTIONS

BOARDS SHOULD ASK AT EVERY MEETING


Dennis Carey

Here are the most pressing queries for boards to be posing to management, according to Ram Charan and Dennis Carey, vice chairman of Korn Ferry.

- What is keeping the CEO awake at night, and what can the board do to help?
- What are the top three to five priorities of management, and what is blocking them?
- Are the blockers surmountable? If not, why?
- Do we have the right team and a truly value-added board? If not, why are they still here?
- Do we know our competitors' teams? Who are they? Are they better than ours?
- What threats can destroy us? Digital delay? Inflation? Wrong strategy? Disruptors? ESG?
- Are we aware of investor mix and what it portends?
- Are we smarter than the analysts? If not, why not? How can we correct that?
- Do we have cyber protection designed by real experts? If not, what can be done?
- Are we complacent? If so, how do we correct before obsolescence sets in?

Cyber Threat INTELLIGENCE

A comprehensive cybersecurity program focuses on more than compliance.

BY PATRICK BOLGER AND KELLY MILLER

To truly protect their organizations, boards must use their oversight role to move the focus on cybersecurity past regulatory compliance and toward the goals of identifying threats before they happen and being able to respond quickly should an incident occur.

High-profile cyberattacks and increased consumer expectations regarding the protection of their information have resulted in corresponding cybersecurity-focused regulation across the globe. From rules proposed by the SEC to the upcoming European Cyber Resilience Act to China's Personal Information Protection Law, legislation created to tackle cybersecurity issues is growing. But organizations that prioritize compliance ahead of threat intelligence will continue to face significant cyber risk.

An increased focus on cybersecurity and the protections an organization has, or lacks, should lead to an improvement in resilience across the board. By forcing organizations to improve their cybersecurity programs and processes in order to be compliant, the collective bar will be raised. The importance of proper protections and incident response capabilities is apparent based on the global trend toward cybersecurity legislation, but how should organizations respond to the growing regulatory demands?

Simply put, compliance does not equal protection. Organizations that build their cybersecurity programs based on achieving compliance as a priority will remain at risk to cyberattacks and evolving threats. Further, threat actors are often sophisticated organizations that monitor regulatory compliance and actively prioritize vulnerabilities to their advantage. Instead, orga-

nizations should determine their cybersecurity program objectives from intelligence-driven cyber risk assessments, while adhering to compliance requirements.

A risk-based program will ensure relevant and appropriate protections are implemented, while also allowing for compliance to be met. Focusing solely on compliance can overlook the threat side of the equation. Boards of directors are familiar with managing risk, and mitigating or transferring risk is often a high priority. Cybersecurity risk is arguably the greatest risk facing boards today, both from an operational and reputational perspective, and the threat will not be properly managed through compliance alone.

A cybersecurity program should be rooted in a commitment to strategic communication, which accounts for key concerns around internal and external correspondence. An incident response communications plan, crafted around the unique threat profile of the organization, is essential to mitigating reputational risk and will also ensure compliance disclosures are properly addressed.

Organizations that build their cybersecurity programs based on achieving compliance as a priority **will remain at risk to cyberattacks and evolving threats.**

THREAT INTELLIGENCE REDUCES RISK AND UNCERTAINTY

The National Institute of Standards and Technology defines threat intelligence as "threat information that has been aggregated, transformed, analyzed, interpreted or enriched to provide the necessary context for decision-making processes." The value of intelligence to an organization's board of directors is that it can reduce uncertainty, prevent strategic surprise and enable decision advantages. Applied in the cyber domain, intelligence can be utilized to predict the adversarial capabilities and intentions most likely to target a specific industry, while also providing boards leverage to enhance decision-making on the most appropriate courses of action to protect an organization's assets.

The intelligence process is often initiated using an automated solution (e.g., machine learning) to collect data and enrich the information with indicators of compromise and behavioral tactics, techniques and procedures used by threat actors. By utilizing this process to inform cyber risk assessments, threat intelligence helps achieve a goal desired by all boards of directors: reduced risk.

Threat intelligence can be thought of as a compass. Boards of directors and organizations face an immense amount of data to react to when building a cybersecurity plan. Threat intelligence provides direction and helps prioritize decisions based on evidence, guiding organizations' cybersecurity programs along the right path.

INTELLIGENCE-DRIVEN CYBER RISK MANAGEMENT

Boards of directors are likely to be most concerned with mitigation and remediation costs, business disruption and the level of exposure that can result from a cyberattack. Achieving regulatory compliance can help lessen some of the damages in the aftermath of an incident but will not adequately address these considerations in the same manner that leveraging threat intelligence allows.

By prioritizing threat intelligence in the foundation of a cybersecurity program, threats that pose the greatest material risk are identified. Alternatively, focusing on the controls and disclosure requirements of a particular regulation can cause organizations to become too reliant on compliance and overlook the threats that pose the most likely organizational risk.

Operationalizing threat intelligence positions leadership to best determine the intentions and capabilities of threat actors targeting their networks and more appropriately assess material risk to their organizations. This allows for a

more tailored defense to be established through altering the allocation of resources and changing what requires the most protection, such as critical assets or proprietary information.

Threat intelligence also helps identify those behind the cyberattack and how they are gaining entry. This is important in keeping pace with threat actors, as it allows cybersecurity teams to ensure the most relevant gaps are prioritized in advance, potentially preventing an incident from occurring. This process can be taken a step further by building a threat profile of sorts, helping boards of directors better predict the appropriate risk an organization faces. Such a step allows organizations to preemptively implement defensive measures or immediately respond to an attack, lessening damages.

For example, if threat actors known to target a specific industry usually extort victims via phone calls, organizations can anticipate this threat and prepare communications ahead of time to preview this tactic. When an employee receives a suspicious phone call, they will know to be on guard and how to properly respond, as opposed to being confused or scared by the message, potentially allowing the attack to be successful.

OPTIMIZE THE COMMUNICATIONS PLAN

Just as threat intelligence can be leveraged to strengthen cyber risk management, it can also be used to improve, or create, a crisis communications plan. Having a plan in place ahead of an incident is essential for immediate response, especially since every moment that passes without action is a benefit to the threat actor. By knowing how attacks occur, a crisis communications plan can be tailored to these threats.

Testing a crisis communications plan to account for new risks identified through threat intelligence will better position the organization to respond effectively, both with stakeholders and regarding disclosure requirements. Relying on a crisis communications plan that focuses only on meeting compliance needs can result in costly regulatory, brand and reputational damage. Using the stress-test results, the crisis communications plan should be altered and continually updated based on new threat intelligence and the potential impacts to critical assets.

A compliance-focused approach leaves boards and organizations in a stagnant mindset, which is a losing strategy against cyber actors who regularly adapt and identify alternative ways to successfully infiltrate organizations with poor cyber risk management. This evolution has already changed how cyber actors extort victims, with threats of disclosing their attacks via public shaming websites, instant messaging tools or direct outreach to stakeholders (employees, family members or customers). This tactic can allow attackers to control the public discourse, further emphasizing the need for a proper crisis communications response plan to regain control of the narrative, something that complying with regulation alone is not going to do.

Organizations that fail to be transparent during a cybersecurity incident are often punished for not being forthcoming. The ability to communicate the organization's understanding of an event and willingness to share information with key stakeholders as necessary is key to taking control and instilling confidence in the ability to navigate and recover.

WHAT'S NEXT?

Regulation is an important element of working toward improved cybersecurity across the board and should not be dismissed or discounted. Some of the low-hanging fruit that appeals to threat actors will be removed through the course of regulation compliance. However, relying on compliance alone to minimize risk and increase cybersecurity protections is not enough, especially since tactics and the threat landscape quickly evolve. Boards must keep pace by helping leadership move beyond compliance and use threat intelligence as the basis for a cyber risk management program. ■

Patrick Bolger *and* ***Kelly Miller*** *are senior directors with FTI Consulting.*

Keeping an Eye on the SUPPLY CHAIN

Six questions boards need to ask leadership about risk oversight.

BY TANDRA JACKSON AND JOHN RODI

Because of supply chain disruptions, the transition of the global economy and pressures on global trade as a result of economic sanctions imposed on Russia in response to its war with Ukraine, many organizations are reassessing their supply chain strategy with a focus on building resilience, assessing potential risks and creating long-term value.

Concurrently, ESG issues and the evolving role of businesses in society are increasing pressure on corporations to move toward more sustainable business models. These demands are coming from all directions — investors, ratings and research firms, employees, customers, regulators, governments and the media. The SEC's recent climate disclosure proposal will accelerate timelines to operationalize ESG strategy.

THE IMPACT OF ESG AND CYBER ISSUES

ESG will be a driving factor in decision-making as companies plan for the future of their supply chains. From a boardroom perspective, a top priority should be managing the range of ESG risks in an organization's supply chain, including climate change and other environmental risks; human rights issues, such as forced labor and child labor; worker health and safety; and diversity, equity and inclusion.

In addition, the pandemic highlighted cyber risks as a major potential threat to supply chains — one that can halt the global economy. Cybersecurity operations are secure only when the entire end-to-end supply chain is protected from potential threats and vulnerabilities. Building cyber resilience into the supply chain is a board and business imperative.

To oversee supply chain risks and sustainability efforts, a board must address a challenging and complex set of issues, such as reputational damage and deficiencies in resilience, in the short term and long term. To overcome these challenges, we see boards engaging more robustly with management teams about building and maintaining sustainability in operations. Developing and executing a supply chain strat-

egy that addresses ESG issues and prioritizes cybersecurity can create value, mitigate risk, build stakeholder trust and deliver a competitive advantage.

To transform their supply chains to be more resilient and future-proof, companies should consider:

- Developing more local and regional supply chains.
- Reexamining the structure and footprint of their supply chains.
- Diversifying their supplier base.
- Updating risk and vulnerability assessments.
- Deploying technology to improve visibility and risk management.
- Developing plans to address future disruptions.
- Tightening cybersecurity to reduce the risk of data breaches and high-profile ransomware attacks.

In the near term, a key role for boards will be oversight of significant projects to rethink, rework and restore critical supply chains — a difficult task with complex layers of pain points.

QUESTIONS BOARDS NEED TO ASK

To stay informed on how their businesses are managing their supply chains and supply chain-related projects, boards should consider asking the following questions:

Does management have a clear view of the end-to-end supply chain, and how are they monitoring the supply chain? Mapping the supply chain from end to end and being able to track products at each point are integral to building resilience. Without high-level and low-level tracking to provide a clear view of

As supply chain issues continue to draw scrutiny, **it is increasingly important for boards to understand how their corporations are managing their supply chains** and integrating them into their operational, strategic and risk management processes.

the supply chain process, solving issues during a disruption becomes much more difficult. For each part of the supply chain to work efficiently, the right technologies must be deployed, and there must be a clear line of sight into roles and responsibilities. It is essential for boards to provide oversight to help management teams identify gaps in supply chain resilience, such as vulnerability to cyber threats and ESG risks. Being able to monitor the end-to-end supply chain is the first step toward ensuring overall operational resilience.

How robust is the process for identifying the broad range of ESG risks and vulnerabilities across the supply chain? For boards, effective oversight of an organization's supply chain includes monitoring progress on ESG initiatives to help manage risks and opportunities and drive long-term value creation. Close monitoring through continuous risk and exposure assessments can identify vulnerabilities so that contingency plans can be developed.

How effective is the company's supply chain risk management framework and process? The right level of coordination among an organization's compliance, risk, cybersecurity and supply chain teams creates important synergies, especially in times of disruption. Risk mitigation plans should include all those functions to help ensure they can collaborate efficiently and effectively to resolve any challenges. Furthermore, protecting partner ecosystems and supply chains is just as important as building a corporation's own cyber defens-

es. A vulnerable supplier can have a major impact on a company's operations.

What protocols are in place to assess suppliers' sustainability practices? A set of metrics to assess suppliers' sustainability practices can help define requirements more clearly for vendors across the supply chain. Especially in today's market conditions, when corporations may need to quickly find supplementary suppliers to meet shortages, a standard can ensure ESG remains a priority.

Boards should understand what measures management teams have in place to help strengthen their supplier ecosystem. For example, training suppliers, providing benchmarks, using third-party verification, performing audits and promoting collaboration with and among suppliers can all help strengthen the overall supply chain.

What steps are the organization taking to reduce the environmental impact of its supply chain? Long-term planning requires the right technology solutions and strategic considerations to help businesses build more sustainable supply chains. Board oversight should focus on building end-to-end visibility, investing in automation and other advanced technologies, and building agility into an organization's network of suppliers and partners. Other initiatives, such as carbon offsets, sustainability standards and certifications, and third-party collaboration, should also be a part of the conversation about ways to reduce a supply chain's environmental impact.

How robust are supply-chain-related disclosures in a company's overall ESG and sustainability reports? Many organizations elect to voluntarily disclose their ESG efforts to show how they are progressing toward their goals. After supplier ESG metrics and codes of conduct have been established, accounting for the supply chain in ESG disclosures can unveil new supply chain risk management opportunities. Boards should also consider peer, competitor and external sentiment analysis of supply-chain-related ESG disclosures to highlight existing blind spots and potential reputational risks.

BOARD UNDERSTANDING OF THE SUPPLY CHAIN

As supply chain issues continue to draw scrutiny, it is increasingly important for boards to understand how their corporations are managing their supply chains and integrating them into their operational, strategic and risk management processes. Especially in times of crisis, well-operating supply chains become essential business enablers.

Boards should challenge management to think differently when it comes to monitoring, managing and reporting on the supply chain. Beyond complying with regulatory mandates such as potential climate disclosure requirements, fostering a sustainable supply chain and building cyber resilience can unlock value, deepen stakeholder trust and position an organization to better navigate the challenging global environment ahead. ■

Tandra Jackson *is vice chair of growth and strategy and* ***John Rodi*** *is audit partner and leader of the Board Leadership Center for KPMG U.S.*

SHAREHOLDER ENGAGEMENT

Is an Important New Skill for Boards

Understand your shareholders' concerns and establish a productive dialogue.

BY LAWRENCE A. CUNNINGHAM

Shareholder engagement expertise is a new element directors and boards are adding to their skills matrix. Since 2010, when institutional investors began meeting with compensation committees about say-on-pay votes, shareholder/board engagement has become more frequent, and now board members are being called on to address an unlimited range of topics.

THE EVOLUTION OF SHAREHOLDER ENGAGEMENT

There was a time when investors engaged only with managers, but the say-on-pay vote made engagement with those being paid awkward. It was a natural evolution for shareholders to engage with boards. Those conversations gradually expanded to cover company practices better addressed by the board than by management, especially governance oversight.

In recent years, topics have come to include traditional matters of corporate strategy and business performance, along with various agenda items under the heading of ESG. This refers to issues concerning the environment (such as greenhouse gas emissions), society (such as workforce diversity) and governance (such as board expertise). Much outreach these days blends topics, probing how a company relates the ESG agenda to its business strategy.

Enthusiasm for engagement across diverse topics puts a premium on directors with related expertise. Expertise in this area is twofold. It starts with the process of engagement — preparing for meetings by studying a company's shareholder base and understanding what different shareholders prioritize. It encompasses the substance of the discussion — from comfortable topics of business strategy to thorny issues of public policy. Above all, the art of diplomacy is key.

STEPPING UP TO THE TASK

Based on my experience in shareholder engagement and recent consultations with a dozen others working in this area, few directors are eager to step up to this new, vast and undefined role. For one, directors historically have not been screened or chosen for skills associated with shareholder engagement. Many lack experience with capital markets or a sense of what shareholders want in terms of communication and responsiveness. In short, it's not what they signed up for. That's true of engagement on topics such as strategy and performance but especially on controversial issues like climate change and racial equity.

Moreover, in hard-fought proxy contests, activist shareholders have incentives to portray incumbents unflatteringly compared to activist nominees, discouraging incumbents from taking associated reputational risks. Another risk: few public company directors have the experience or fully understand the legal rules (such as Regulation Fair Disclosure) governing discussions with shareholders that prohibit selective disclosure of material nonpublic information. Another issue is whether a company's CEO is supportive of director engagement with shareholders.

A company's investor relations personnel and general counsel can help directors with some of the technical challenges. A cottage industry led by universities, consulting firms and law firms is emerging to offer formal director training in the art of engagement. But, based on my decades working in professional education, there is no substitute for hands-on experience, whether immediate or vicarious.

For immediate experience, directors new to shareholder engagement can shadow any of their fellow directors who do have such experience. The novice can participate along with the seasoned director as the latter prepares for an engagement meeting, conducts the meeting and distills a report to the full board seeking guidance and next steps. As such engagement appears likely to increase in coming years, here are some insights from my experience in this area.

A PERSONAL JOURNEY IN ENGAGING SHAREHOLDERS

As nonexecutive vice chairman of Constellation Software Inc. (CSI), a $35 billion market cap Toronto Stock Exchange company, I have been engaging with institutional shareholders since 2019. Before then, such engagement was handled by management: our founder, also serving as president/board chair, and our chief financial officer, doubling as our investor relations manager.

Based on my decades working in professional education, there is no substitute for hands-on engagement experience, whether immediate or vicarious.

One sticking point that came to a head in 2017 was board gender diversity, as the company's relatively small board, which included several longtime managers, was all male. A shareholder proposal urging the immediate addition of women appeared on that year's

proxy, on which the shareholders split 42% in favor and 58% opposed. In accordance with CSI's values, the board did not think it wise to conduct any search under preordained time frames or published qualification rules that the proponents prescribed.

Institutional investors increasingly signaled interest in speaking to an independent director about the issue, and I, along with our lead independent director, stepped up. The board undertook a director search in 2018, giving specific priority to adding women but without any timetables or quotas. We reported our progress through shareholder engagement and ultimately appointed our first female director in 2018.

Over the next three years, amid several board vacancies and newly created positions, we came to have five female directors, now representing one-third of the board. We think the approach we took — listening to the shareholders, explaining our efforts and adhering to our philosophy — worked. The new female directors are adding great value and strengthening our board.

In further engagements during the past few years, a common inquiry concerned whether to separate the functions of our president and chairman. Governance purists prefer to separate them under the theory that the board oversees the officers and no chair can oversee him or herself. We had always combined the roles and explained the rationale: we had a distinguished founder, famed for capital allocation prowess, delivering sustained outsized returns on invested capital from the company's inception. For a decade, at his suggestion, he was paid $1 annually (yes, one dollar).

Gradually, however, the internal dynamics of our board and the external goals expressed through shareholder engagement dovetailed. We separated the two functions. We did so on terms consistent with the board's judgment of the best interests of the corporation and its shareholders. We balanced the requests of the large institutions that prioritize such governance purity with those of most other shareholders, especially our employee-shareholders, who value personalities and internal dynamics.

ESTABLISHING A DIALOGUE

Both of these examples teach the paramount lesson of board/shareholder engagement: the purpose is a dialogue — a two-way exchange of views, not a one-way dissertation. All too often, shareholders announce demands, believing a board must fall in line. Equally unproductive is the director who declares opposition to any overtures. Progress may take years, but an exchange of views is essential. Directors, therefore, do well to study and understand their interlocutor's concerns and goals and evaluate whether those are in the best interests of the corporation and its shareholders. When that is not the case, the second job is to explain why, with reference to such factors as the company's strategy, business model, organizational structure, employee demographics and shareholder base.

For example, an institutional shareholder submitted an emissions proposal to the board for possible inclusion in our proxy, calling for a companywide, board-level policy on the

subject. In our engagement, the shareholder began by stressing our outstanding performance and uniquely valuable business model. But the emissions proposal also stressed its view of a relationship between ecology and economics.

We explained that our emissions, as a software company, are among the lowest of any industry, so the benefits of such efforts would be below average. CSI employs 35,000 individuals in 125 countries in a highly decentralized structure. The costs of such a proposal would far outweigh the benefits.

We also discussed the environment as a priority, specifically in the field of emissions disclosure, and offered to develop disclosure on this topic. It's too soon to dive into details, but a good-faith resolution was found with more to come.

This engagement illustrates some of the skills valued highly in board/shareholder engagement: listening, understanding another's viewpoint, explaining your company's position and realities, then diplomatically developing a way forward.

INVESTOR GOALS VS. COMPANY REALITIES

Yet, as noted, sometimes the gap between an investor's goal and a company's reality is too wide to bridge. In that case, letting the matter go to a shareholder vote is likely in the best interests of the corporation and the shareholders.

This recently occurred after an advocacy group working for a small institutional shareholder submitted a proposal on workforce diversity. The group explained its social significance, with which we agreed, and asked the board to oversee a top-down report on racial diversity across the company's workforce, detailing any disparities and prescribing associated companywide policies.

We explained our decentralized model and international reach, observing that across the diverse cultures where CSI operates, the forms and subjects of unlawful discrimination, as well as the solutions, vary widely. Racial diversity and discrimination are quite different in Brazil, Pakistan and South Africa, for instance. Our human resources leadership joined the engagement, explaining how impressive diversity initiatives flourish through shared best practices across our collection of mostly small businesses, most of which would otherwise not even be aware of the issue of racial disparities.

We believe that such an approach actually does more to prevent or dismantle racial disparities than would a top-down companywide prescription from the board. We also offered to provide formal disclosure of these views, but the proponent found this insufficient. As a result, the proposal recently appeared on the annual meeting agenda for a vote. The proposal won a majority of the shares voted at the meeting, though not a majority of shares outstanding, and exactly the same number of shareholders voted "for" as "against." Amid such division, the board will work with management to balance the contending concerns.

CULTIVATING THE ENGAGEMENT OF SHAREHOLDERS

As with other expertise on a board, shareholder engagement is a skill that should be cultivated going forward. As with the audit committee or compensation committee, an ideal goal would be for one-third of the board (or the size of the average committee) to hone its skills. The board will then have more flexibility in both sharing the work and increasing subject-matter expertise. But one thing is certain: as the skills matrix evolves, having some directors with experience and interest in shareholder engagement will prove to be a valuable priority for most boards. ■

Lawrence Cunningham *is vice chairman of the board and director of Constellation Software Inc., founder and managing partner of Quality Shareholders Group and professor of corporate governance at George Washington University.*

NASA astronauts Robert Hines (left), Kjell Lindgren (right), Jessica Watkins (back left), and European Space Agency astronaut Samantha Cristoforetti, wearing SpaceX spacesuits, are seen as they prepare to depart the Neil A. Armstrong Operations and Checkout Building for Launch Complex 39A to board the SpaceX Crew Dragon spacecraft for the Crew-4 mission launch, April 27, 2022, at NASA's Kennedy Space Center in Florida.

NASA/Aubrey Gemignani

TWO STEPS FORWARD, ONE STEP BACK

Opponents of legislated gender and diversity targets score a hollow victory. BY SCOTT CHASE

When it comes to gender and other diversity, the month of April had its ups and downs.

No, it wasn't a prank: On April 1, the Los Angeles County Superior Court ruled that the state's landmark legislation, which mandated the inclusion of underrepresented communities on boards, was unconstitutional. That legislation had created a timeline to establish thresholds and enforce compliance. Without citing all the legalese, California's board diversity statutes, State Bill 826 and Assembly Bill 979, which had been enacted or signed into law over the past two years, were struck down by L.A. Superior Court Judge Terry Green as violating "the equal protection clause of the California constitution on its face."

Well, if there's egg on anyone's face, it's on the faces of those who think this latest judicial action will stem the inexorable march of activism driving gender, ethnic/racial, age and sexual orientation diversity on corporate boards and across the enterprise. Nonetheless, legal battlers on both sides of the equation swing back and forth with arguments and counterarguments that — depending on your point of view — suggest that diversity is a good and enforceable thing while deconstructing as unconstitutional interference any legislative effort to force behaviors by corporations and boards.

Judge Green, seizing on the irony, noted that a "member of the public might wonder" why the court would find against what advocates and many detractors had termed a thoughtful, well-crafted and achievable approach to mandating diversity on boards. "If the legislature has identified a social problem," Green opined, "how can the court stand in the way of the obvious and direct approach to solving it?"

Green offered this as the compelling argument: "Fundamental values, whether personal or social, must be guarded. [But] only in very particular cases should discrimination be remedied by more discrimination. And that should happen only after obvious alternative measures have been tried. Sometimes, the direct approach should be the last resort, not the first."

Stay tuned as this battle moves without delay into the appeals process.

Meanwhile, the storied Pine Valley Golf Club in Pine Valley, N.J., was sued by the State of New Jersey in late April for gender discrimination and property ownership rules that deny women the opportunity to join the club, where last July there were three women members out of a roster of 700 well-heeled golfers. Only after New Jersey launched its investigation a year ago did the 108-year-old club permit its first women members.

Speaking of launches, NASA passed a milestone in April and could not help crowing about one aspect of its Crew-4 launch to the International Space Station. In the four seats of the SpaceX Falcon 9 launch vehicle was the space agency's first gender parity crew, with astronauts Jessica Watkins and Samantha Cristoforetti joining Robert Hines and Kjell Lindgren.

"This is one of the most diverse crews that we've had in a really, really long time," said NASA space operations mission chief Kathy Lueders. Watkins is the first Black American woman scheduled for a long-duration spacewalk later in the crew's half-year visit to the ISS. Cristoforetti is an Italian astronaut with the European Space Agency.

Diversity — on the links, in orbit or around the boardroom table — is an unstoppable tidal wave. Activists and watchdogs do not need laws to insist that representation in business should mirror real life. Old-school types should not expect any reduction in the effort to build more diverse, inclusive and effective boards.

Scott Chase *manages the Directors to Watch annual series in* Directors & Boards *and* Private Company Director *magazines and has been on staff for 18 years.*

SHEILA STAMPS

Director, IQVIA Holdings, Pitney Bowes Inc., MFA Financial Inc., Atlas Air Holdings Inc.

NACD · EXTRAORDINARY WOMEN ON BOARDS

Sheila Stamps, a former finance and investment executive, has diverse experience advising on financial and operational requirements of companies in the public, private and not-for-profit sectors.

A qualified financial expert, Stamps is a board member of IQVIA Holdings, Pitney Bowes Inc., MFA Financial Inc. and Atlas Air Holdings Inc., where she is audit committee chair. She also serves on the board of trustees of Bankinter Innovation Foundation.

Stamps' leadership roles in the banking industry include managing director and group head, financial institutions, at Bank of America and, prior to that, managing director, asset-backed securitization and executive management committee member at Bank One London.

Stamps earned an MBA in finance from the University of Chicago and a BS in management sciences from Duke University.

Trust as an asset class. "Trust, a crucial non-balance-sheet asset, often is not elevated to its deserved status amid stakeholder engagement. During these volatile times, and with expanding stakeholder expectations of board fiduciary responsibilities, leadership must recognize that the economic value of trust continues to appreciate. Trust is the lens through which all strategic decisions, stakeholder communications and workplace culture are filtered. Do our constituents trust us, and do our actions align with that trust and the sustainable growth of the company? A governance body should keep this question at the forefront of their decision-making process."

Key board skills: Finance, accounting and financial reporting experience; senior leadership experience; public company board experience

BEVERLY CARMICHAEL

Director, Blue Apron, Viad

WCD · NACD · EXTRAORDINARY WOMEN ON BOARDS

Beverly Carmichael is a former C-suite executive with more than 35 years of experience leading people and legal functions across a diversified industry portfolio. She has been the top HR executive at various companies, including Southwest Airlines, Cracker Barrel Old Country Store and Ticketmaster. Her leadership made a demonstrable impact on each organization and its performance.

Carmichael has been a thought partner and adviser to multiple CEOs regarding risk, strategy and "all things people." She currently serves as a director at public companies Blue Apron and Viad Corp, and previously at Leaf Group. She also serves as a director at Cotton Patch Café, a private-equity-owned company, and Oklahoma Policy Institute, a nonprofit organization.

Carmichael holds BBA and JD degrees from the University of Oklahoma.

People and culture must be top priorities for boards. "Companies do what they do through people. Yet, many organizations do not see people and organizational culture as a top priority, and it is rarely on the board agenda. Times are changing. More employees are assessing whether they work in an organization that values them, respects them and is worthy of their hard work and dedication. This includes whether the company has a full-throated approach to diversity, equity and inclusion. The tone must be set at the top, starting with the board and the CEO. If they do not make people and culture a priority, their employees will simply find somewhere else to work."

Key board skills: Human capital, culture and compensation experience; public company board experience; senior leadership experience

NICOLE ARNABOLDI

Director, Manulife, Commonfund

NACD · EXTRAORDINARY WOMEN ON BOARDS

Nicole Arnaboldi is an experienced global business leader and board member with a broad range of management and investment experience. She serves on the board of Manulife, a large public global insurance and asset management firm. She also serves on the board of Commonfund, where she chairs the audit and risk committee, and Merit Hill Capital. She is a partner at Oak Hill Capital.

Arnaboldi spent the bulk of her career at Donaldson Lufkin & Jenrette and Credit Suisse. She also serves as a vice president and investment committee chair at Prep for Prep, on the board of Local Initiatives Support Corporation and on the Dean's Advisory Board at Harvard Law School.

Viad Corp is proud
to congratulate
BEVERLY K. CARMICHAEL
on being named
one of the 2022
DIRECTORS TO WATCH
by *Directors & Boards*

Arnaboldi earned a BA from Harvard University and graduated with JD and MBA degrees from Harvard Law School and Harvard Business School.

Proper ESG oversight is essential. "One of the biggest challenges facing boards is ensuring proper oversight of ESG issues. ESG considerations are often viewed as costs to be borne irrespective of a return beyond some vague stakeholder satisfaction. In reality, much of what is called ESG activity is simply good long-term investing. This starts with strong external board oversight, strong management and shareholder alignment through mechanisms such as compensation plans that focus on long-term equity appreciation versus quarterly earnings. ESG issues are part of long-term value creation, and effective plans reduce risks and generate focused strategies to ensure sustainable success."

Key board skills: Public company board experience; finance, accounting and financial reporting experience; senior leadership experience

ANNE ALONZO

Director, PotlatchDeltic Corporation

NACD Latino Corporate Directors Association

Anne Alonzo has forged a diverse career in the corporate, public and nonprofit sectors focusing on global sustainability, regulatory, marketing, risk management and ESG. She serves on the board and audit committee of PotlatchDeltic Corporation, a leading timber and wood products company.

Alonzo was previously a senior executive at three Fortune 500 companies, with the most recent as chief sustainability officer. Alonzo also served as president and CEO of American Egg Board and a senior leader at several U.S. government agencies, including the Environmental Protection Agency, the Department of State, the Department of Commerce and the Department of Agriculture.

Alonzo received her MBA from the University of Chicago and her JD from Chicago-Kent College of Law. She is a recognized diversity champion and a member of the "Top 100 Most Influential Latinas," according to *Latino Leaders Magazine*.

Broadening the lens and expertise on today's boards. "It has become increasingly clear that broader and different skill sets and expertise are needed on today's boards. The set of challenges and issues facing companies is more varied and complex than in the past, especially with increasing public and investor expectations focused on sustainability and environment, the global journey to net zero and a heightened focus on ESG issues, as well as the importance of being representative of today's marketplace. The good news is that there exists a pipeline of diverse talent to fill the gap and bring unique contributions to the boardroom."

Key board skills: Senior leadership experience; public company board experience; marketing, public relations or brand management experience

SALLIE B. BAILEY

Director, L3Harris Technologies Inc., The Azek Company, NVR Inc.

WCD NACD

Sallie Bailey is an independent director, an experienced global financial executive and a senior fellow at the Harvard Advanced Leadership Initiative. Bailey currently serves on the boards of directors of L3Harris Technologies Inc., NVR Inc. and The Azek Company, where she serves as audit committee chair.

Bailey also serves as audit committee chair and on the board of TricorBraun, a privately held company. She previously served on the boards of directors of General Cable Corporation and Milacron.

Bailey served as executive vice president and chief financial officer of Louisiana-Pacific Corporation, as vice president and CFO of Ferro Corporation and as senior vice president, finance, and controller of The Timken Company.

Four qualities of a great board member. "Strong corporate governance is predicated on the engagement of members of the board of directors with the business and management team. Diversity of experience and backgrounds among board members also enables boards to respond more adeptly and quickly to the increasingly complex and challenging issues facing companies in today's environment. Understanding the business strategy and competitive environment sets the stage for helping the CEO and management team leverage the board strategically to deliver long-term value to shareholders. Good corporate governance relies upon board members who are independent, curious, collegial and attentive."

Key board skills: Senior leadership experience; public company board experience; technology, e-commerce or digital experience

We asked current and past *Directors & Boards* and *Private Company Director* Directors to Watch to define their most urgent challenges as their companies — and the world — move from one crisis to the next. Here's what they had to say.

My answer is not the norm or even one specific risk like inflation, lack of materials, no shipping containers or people quitting, although all are present and concerning. The biggest risk is the overall weariness I see with my colleagues. After two years of COVID, supply chain disruption for a year, labor challenges with people leaving to earn 35-70% more and little hope it will be better in the next few months, they are just exhausted, frustrated and on edge. As a CEO (and a board member), it is a daily struggle to keep operations going, much less moving ahead strategically. Uncertainty over the future following the invasion of Ukraine is making it worse, and I'm hoping it does not become a tipping point. Some days, we feel more like firefighters than businesspeople, dealing with the next crisis before it combusts. Not the usual answer, yet this is what I am seeing. — *Margaret Pederson, Director to Watch 2013*

Talent, talent and more talent. — *Lynn Clarke, Director to Watch 2020*

From my perspective, it is a combination of sourcing skilled labor to meet what we believe will be an uptick in A&D contractor/subcontractor order demand for precision parts related to the rebuilding of the U.S. military complex, given the current crisis in Ukraine and the related increased cost of labor. This could be more than a temporary upcycle and could call for the need for an expansion of the company workforce, coupled with the incurrence of higher wage labor rates to attract and retain talent, all of which will need to be factored into purchase order bid estimates. Sad to say that Russia's attack of Ukraine and its impact on Eastern/Western Europe's view of such aggression has changed the paradigm in military defense spending in both Ukraine and Western Europe going forward, causing a need to reequip NATO and the U.S. — *Anonymous*

Top of mind for boards is how to set metrics/strategic goals to encourage a cohesive company culture within today's environment of hybrid work environments, supply chain issues, and human talent retention/attraction, amidst rising costs. Second would be board oversight of cybersecurity and risk assessment given the pandemic, geopolitical instability and inflation threats. — *Sheila Rege, Director to Watch 2022*

The most pressing risk is meeting investor expectations around ESG. Without defined parameters and assurance level requirements, it is left to the company to define the plan and approach, which may or may not withstand investor scrutiny. — *Lori Beausoleil, Director to Watch 2021*

For my companies, it's not Russia. Or inflation. It's "key person risk" — holding on to our best people and recruiting to fill critical open roles. — *Susan Ehrlich, Director to Watch 2022*

The single biggest problem at present is that increases in raw materials over the last two years have escalated so materially that they cannot be passed on in full to customers with damaging financial results. — *Valerie Woerner, Director to Watch 2021*

ALEKSANDRA MIZIOLEK

Director, Tenneco Inc., Solid Power Inc.

Aleksandra "Aleks" Miziolek serves on the board of directors and the compensation and nom/gov committees of Tenneco Inc., a Fortune 500 industrial supplier, and Solid Power, a leader in all-solid-state battery technology.

During her six-year tenure at Cooper Standard, Miziolek served as chief transformation officer, general counsel, corporate secretary and chief compliance officer. Prior to joining Cooper Standard, Miziolek led the automotive industry group and served on the executive committee of the law firm Dykema Gossett PLLC, where she built a successful M&A and infrastructure practice spanning multiple industries.

Miziolek serves as advisor to OurOffice Inc., a DEI-as-a-service technology solution, and Assembly Ventures LLC, a global infrastructure and mobility venture fund.

Our increasingly complex and unpredictable business environment calls for greater board stamina. "Just like the employee Great Resignation, we hear of directors choosing not to stand for reelection because they do not think they are making a difference or do not like the board/management dynamics. As board members, we need to make every effort to work through any real or perceived impediments to the exercise of our oversight function. Challenging times are precisely when each board member's contribution is most valuable, and greater stamina is needed to stay in the game and truly represent the interests of our stakeholders."

Key board skills: Senior leadership experience; public company board experience; mergers and acquisitions

TRACY MCKIBBEN

Director, USAA, Ecolab, Huntington Ingalls Industries Inc., New York Power Authority

Tracy McKibben is an international energy and environmental technology expert with 20-plus years of experience in the energy sector, including more than 15 years focusing on alternative and renewable energy, green technology, water, infrastructure and sustainability management.

LEADERSHIP. EMPOWERMENT. DEDICATION.

Cummins congratulates Georgia Nelson for being recognized as a Director to Watch.
Throughout her career and her Board service, Georgia has demanded high standards of excellence, promoted diversity, equity and inclusion, and continues to be instrumental in the development of women leaders. There is no one more deserving of this recognition.

Cummins®

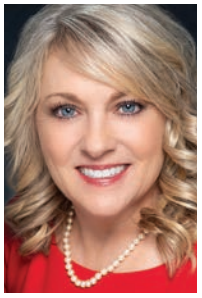
FOR A WORLD THAT'S ALWAYS ON™

McKibben is the founder and chief executive officer of MAC Energy Advisors LLC, an investment and consulting company that provides integrated energy solutions to help clients with investments and strategic opportunities across a global platform.

She has served on several public, private and nonprofit company boards and is currently on the boards of USAA, Ecolab, Huntington Ingalls Industries Inc., New York Power Authority and National Kidney Foundation Inc. She also serves on the board of governors of her alma mater, West Virginia State University.

The expectations may change, but the core mission does not. "Diverse perspectives bring different questions that support efforts to oversee more effectively a growing list of risks confronting CEOs and management. The landscape for corporations is far more challenging and complex; thus, boards must evolve in how they govern in such a tumultuous environment. The expectations of companies and their boards have changed, but the need to focus on the long-term mission has not. With a clear understanding of purpose, priority and resources, engaged boards can guide and support the management of the enterprise to execute on strategies that enable the company to be competitive and build sustainable capabilities."

Key board skills: Finance, accounting and financial reporting; mergers and acquisitions; public company board experience



MELISA A. DENIS

Director, Hydrofarm

After recently retiring from KPMG, Melisa A. Denis joined the board of Hydrofarm. She serves on the audit and mergers and acquisitions committees.

Denis serves on the Board of Regents for University of North Texas System. She is also the president of Miracle Pointe Development, a real estate development company that designs residential communities in Texas and Colorado.

Before leaving KPMG, Denis served as a global lead partner for the firm, where she led accounting, tax and advisory services to several multinational companies in the consumer and industrial industries, transforming their businesses with innovative financial accounting strategies and overall governance while managing risks.

A certified public accountant, Denis cofounded KPMG's diversity network for women and has been an advocate for diversity in the boardroom. She received her master's degree in accounting and tax from the University of North Texas.

When to step in. "Navigating the boardroom in today's environment will be trickier than ever. When does a board step in and voice its approval or disapproval of a comment or position by the company or its leadership? Will such intervention stretch the resolve of corporate governance? Companies are walking a very fine line expressing opinions and actions that will influence stakeholders like never before. Maybe it is time for companies to stay true to their mission and stay away from controversial issues, as we need more – not fewer – positive role models in this world. Now more than ever, it will take an agile board to know when to step in and when to reserve comment."

Key board skills: Mergers and acquisitions experience

GEORGIA NELSON

Director, Cummins Inc., Ball Corporation, Sims Limited, Custom Truck One Source

Georgia Nelson currently serves the Cummins Inc. board as chair, talent management and compensation committee; the Ball Corporation board as chair, human resources committee; the Sims Limited board as chair, risk committee; and the Custom Truck One Source board as chair, human resources committee.

She brings to her boards deep expertise in strategy, risk, global operations, manufacturing, environmental policy, human capital management and corporate governance. Nelson has served on six other corporate boards and is an NACD board fellow.

She is the former founding president of Midwest Generation, a Chicago-based independent power production company, and led worldwide power plant operations for Edison Mission Energy, including construction and operation of major power projects on four continents. Nelson holds an MBA from University of Southern California and a BS from Pepperdine University.

Courageous conversations. "Regardless of the nature of the challenge, setting the tone in the boardroom for candid, constructive and courageous conversations is key to board and corporate performance. Boards that successfully navigate difficult discussions, challenge long-standing norms and address the unspoken

Manulife

Congratulations

Manulife is proud to congratulate board member **Nicole Arnaboldi** on being named one of the **2022 DIRECTORS TO WATCH** by Directors & Boards.

are better able to confront the complex issues coming before them. Our business environment has changed significantly in the past five years, and it continues to change at an ever-increasing pace. Boards that develop the trust and skill to work through the toughest issues will add the most value for the shareholders they serve."

Key board skills: Public company board experience; operations management experience; human capital, culture or compensation experience

DIANA GARVIS PURCEL

Director, Ocean Power Technologies Inc., PetMed Express Inc.

Diana Garvis Purcel is an independent director of Ocean Power Technologies Inc., where she chairs the audit committee and is a member of the compensation committee and the nominating and corporate governance committee. Purcel recently joined the board of PetMed Express Inc. as a member of the audit, compensation, and corporate governance and nominating committees, and will serve as the next audit committee chair.

Purcel is an accomplished senior finance executive, having served 20 years as a public and private company CFO. Purcel received an MBA with honors from the University of St. Thomas, Minnesota, and a BS (management, with concentration in accounting) from Tulane University, and maintains a CPA license.

Silence isn't always golden. "Audit committees are responsible for establishing processes for the confidential and anonymous submission of complaints, and with receiving, investigating and acting on complaint submissions. Assessing company culture is a full board matter, and the number of submissions can be informative and useful toward this effort. The quantity of reports doesn't necessarily translate to the extent of concerns. Low figures could indicate effective handling of items by a company, or they could be an indication of cultural unease, mistrust of management and/or systems, or fear of retribution. The key is to utilize this information to gain insight and context."

Key board skills: Public company board experience; finance, accounting and financial reporting experience; senior leadership experience

RUBY SHARMA

Director, ShotSpotter Inc., Nautilus Inc., Aspira Women's Health

Ruby Sharma is a multicultural, global business adviser with comprehensive expertise and skills in strategy, operational risk transformation, mergers and acquisitions, governance, audit and accounting.

Sharma is a member of the board of directors of ShotSpotter Inc. and an advisory council member for reacHIRE. She previously served as the chair of the audit committee at Penn Medicine Princeton Health. She recently joined the boards of Nautilus Inc. and Aspira Women's Health.

Sharma retired as senior partner at EY, with a proven capacity to innovate, develop and manage new business ventures; generate and sustain revenue growth and profits; and cultivate new and existing client relationships.

Sharma has authored several audit committee handbooks and guides, as well as white papers on governance, value protection and ESG topics.

The only certainty is uncertainty. "Even the best-run companies someday will confront a critical unforeseen event – a cyber breach, global pandemic or something entirely different. Whether the situation becomes a crisis or not is often a function of the board's preparedness. Smart boards know that the best offense is a strong defense, and the process of responding to an unforeseen event is what impacts an organization's value and reputation. Boards with a clear grasp of what really matters are also more likely to succeed in addressing the challenges we all face today and tomorrow."

Key board skills: Public company board experience; finance, accounting, and financial reporting experience; mergers and acquisitions experience

ZALDWAYNAKA SCOTT

Director, Commonwealth Edison Company

PRIVATE DIRECTORS ASSOCIATION®
Creating Value Through Board Excellence

Zaldwaynaka "Z" Scott is a nationally respected business and higher education executive and advisor to boards and corporate leaders. Currently, she has P&L, operations,

governance and government relations responsibilities as president of Chicago State University.

Scott was an equity partner in a global law firm advising senior management of global manufacturing and retail companies in resolving complex regulatory issues and concerns related to international operations. A former federal and state regulator, Scott is a recognized expert in issues of governance, risk management and compliance.

Scott serves as an independent director of Commonwealth Edison Company, also known as ComEd, an Illinois utility company and a unit of Chicago-based Exelon Corporation. In 2019, she was recognized by *Crain's Chicago Business* as one of "Chicago's Most Powerful Women in Business."

Compliance is a matter of the law. "Compliance is not only a good business practice, but also a requirement of the law. Board directors have an important and recognized role in supporting strong compliance programs and policies within an organization. As directors assess risks and business strategies, government regulators have made it clear that there should be attention paid to an assessment of the strength of the compliance program. The U.S. Department of Justice, in guidance focused on corporate compliance, has suggested that compliance expertise should be among the skills considered when assessing the adequacy of the skills represented on the board. Oversight of compliance is an important part of a board's fiduciary duty. Its importance should not be underestimated in the work of the board. "

Key board skills: Strategic planning; corporate governance and regulatory issues; risk management

LINDA MCGOLDRICK

Director, Massachusetts Biomedical Initiatives, Avadim Health, Project HOPE, COMPASS, Alvotech

NACD

Linda McGoldrick is a global business strategy leader and policy expert in the health care, life sciences and financial services industries.

She brings to her board assignments strategic acumen in building and restructuring multicountry organizations; global business and product development; regulatory, marketing, digital health, technology and new venture promotion; financial and turnaround management; mergers and acquisitions;

and both private and public partnerships and alliances. She holds a qualification in cybersecurity from the U.S. Naval War College.

McGoldrick recently concluded her terms on the boards of Doc Box and Delta Dental, the largest U.S. health and benefits provider.

A beacon of leadership. "Global governance must shine brightly as a beacon of leadership, at the highest ethical standard, to meet these unprecedented times in which we live. The challenges of governance for independent directors have been elevated in both breadth and depth across all arenas of governance responsibility. Three pillars of governance underpin the daunting challenges we face: accountability, transparency and ethics. As nimble, strategic stewards and advisors to management, shareholders and stakeholders, impactful directors will continuously engage with and be accessible to management and external communities and be current and curious on corporate strategy while insightfully anticipating and mitigating risk with independence."

Key board skills: Public company board experience; finance, accounting and financial reporting experience; mergers and acquisitions experience

SANDY BROWN

Director, FPA Funds

Sandy Brown, a certified public accountant, serves FPA Funds as independent director, as audit committee chair and as a member of the governance and cyber risk committees. She offers collaborative Fortune 100 C-suite leadership in financial operations, mergers and acquisitions, and risk/crisis management. An SEC audit committee financial expert, Brown also holds Carnegie Mellon University's cybersecurity oversight certificate.

Brown considers technology to be the business world's premier force multiplier. While managing 3,300 Transamerica professionals, she devised and implemented TFA Synergy, the industry's first paperless transaction platform. Brown served Transamerica as CEO/president of four Fortune 100 subsidiaries. She also served in senior roles at Bank of America and Chase. Her leadership profile features over three decades of achievement, involving a host of domestic and international business entities.

Cybercrime is redefining corporate governance. "If cybercrime were a company, it would have topped the Fortune 100 in 2021 – trebling F100 leader Walmart's revenues. Cybercrime accounted for over 1% of 2021's global GDP and is growing 15% annually. The SEC is considering requiring public companies to make cybersecurity a core governance issue, and designate board-level cyber experts. The days when cybersecurity was simply a *technology* issue are long gone. It is a core *business* issue and should be treated as such. Rigorous risk assessment/response strategies must be supported by access denial, offsite backup and cloud-based storage protocols."

Key board skills: Mergers and acquisitions experience; finance/audit experience; public company board experience

MARTI TIRINNANZI

Director, Intercontinental Exchange Inc.

NACD PRIVATE DIRECTORS ASSOCIATION® Creating Value Through Board Excellence

Marti Tirinnanzi has broad experience driving transparency for derivatives pricing and financial reporting. She previously served in various senior financial executive positions at MFX Currency Risk Solutions, RBC Capital Markets and Chatham Financial, among others. She recently was appointed to the audit committee of Intercontinental Exchange Inc.

In 2009, she was appointed chair of the Clearinghouse Working Group of the Federal Housing Finance Agency to oversee the transfer of $3 trillion in interest swap contracts during the financial crisis. She is a longtime member of the NACD and organized the Washington, D.C., area's NACD Capital Chapter.

Tirinnanzi earned her undergraduate degree from Notre Dame of Maryland University and a master's degree from the Johns Hopkins Carey Business School. She serves as an adjunct professor of accounting and finance at The Catholic University of America in Washington, D.C.

Keep risk in perspective when advancing strategic objectives and innovation. "Company strategy is very closely tied to a variety of risk management matters, such as legal, regulation, communication, reputation and financial issues. The board's job is not to manage risk on a day-to-day basis, but to make sure that the right systems are in place that raise awareness of risks as they arise. Enterprise risk management programs establish valuable parameters for each area (e.g., the risk appetite) and are necessary to confidently advance strategic objectives and innovation."

Key board skills: Public company board experience; finance, accounting and financial reporting; operations management experience

LILA MANASSA MURPHY

Director, Gold Resource Corporation

Latino Corporate Directors Association

Lila Murphy, a chartered financial analyst, has been the executive vice president and CFO of Dundee Corporation since May 2021. She sits on the board of Gold Resource Corporation, chairing the nom/gov committee and the compensation committee, while also serving on the audit and ESG committees.

She founded Intrinsic Value Partners, a provider of consulting services to asset management firms and family offices, in 2018. Previously, she was vice president and portfolio manager at Federated Hermes Inc. and an analyst at David W. Tice & Associates Inc.

Murphy boasts more than 25 years of diverse investment management experience, earning the chartered financial analyst designation in 2004. She holds a bachelor of arts degree from New York University.

Asking great questions without getting lost in the weeds. "One of the most important skills for new directors to learn is the delicate balance of supporting management and asking the important strategic questions that provide food for thought without getting lost in the weeds and minutiae. It can be a bit of an art to support an environment that inspires healthy and constructive dialogue and well-delivered feedback. Listening skills are possibly the most important a director can have. The fundamental goal should be to stimulate conversation that is value-added for management decision-making that comes from diverse perspectives. It is important to take a wide view of board diversity rather than simply engage in box-checking.

ROBIN MEISTER

Director, Fintech Ecosystem Development Corp.

Robin Meister is a veteran C-suite executive and board member with global financial services regulatory expertise. She is currently a board member of Fintech Ecosystem Development Corp., a

NASDAQ-listed company focused on developing a global mobile money ecosystem utilizing innovative fintech solutions. She also serves on the board of a dedicated multistrategy family of funds for one of California's largest government plans.

Meister spent 20 years at the global financial institution BNP Paribas, steering businesses to navigate complex regulatory challenges. Meister drives innovative business solutions with expert risk oversight. Throughout her career, she demonstrated leadership experience in regulatory affairs, operational and investment risk, compliance and legal functions.

Meister is an adjunct professor at New York Law School's Center for Business and Financial Law and holds a JD degree and BS/BA degrees in finance and economics.

Shareholders are driving change. "ESG principles constitute the pillars of well-organized corporations and play a pivotal role in a company's operations. Increasingly, there are examples of activist shareholder groups urging companies to examine ESG principles and implement new practices into long-term strategic plans. Shareholders are holding public companies accountable to adopt policies that positively impact society. Diversity as part of governance should no longer be viewed solely as a business decision but also as a critical investment decision. Research shows that directors with diverse backgrounds can draw from the breadth of their own experiences to facilitate improved oversight governance. "

Key board skills: Senior leadership experience; mergers and acquisitions experience; public company board experience

KATHARIN DYER

Director, Liquidity Services

WCD NACD EXTRAORDINARY WOMEN ON BOARDS

Katharin "Kathy" Dyer is an independent director at Liquidity Services, serving on the nominating and governance and compensation committees. She has served on boards for more than 20 years, six times as member or chair of governance committees. She was a director at Providence, a $26 billion firm, until 2021, serving as governance chair. She is currently a director at Grameen Foundation.

Dyer's career of over 30 years includes time as a global C-level profit/loss executive in premier financial services and professional services firms. She is a two-time global CMO, general manager and global chief transformation officer known for scaling growth businesses and transforming mature businesses to restore growth.

Dyer has expertise in digital transformation, growth strategy, revenue generation, branding, AI and advanced analytics and organizational change.

Changing demands require greater accountability and alignment. "It is a new era in board governance. Stakeholders' focus on ESG, DEI and an expanding slate of risks is driving refinements to strategy, board composition and committee mandates. If factors such as industry or maturity curve result in new committees, it is imperative to retain full board accountability. With heightened scrutiny on mandatory and voluntary disclosures, boards must ensure authentic alignment of policies and actions with company strategy and values. This board role is paramount in times of crisis, as strategies may require pivots and valuable reputations may be strengthened or damaged quickly."

Key board skills: Public company board experience; technology, e-commerce and digital experience; marketing, public relations and brand management experience ■

The SEC Drives Expanded Disclosure Requirements and Boardroom Change

Proposed rules demand director action on cybersecurity and climate.

BY DOUG RAYMOND

The SEC recently proposed new disclosure rules for climate-related and cybersecurity issues. These proposals reflect an expansion not only of the disclosure obligations of public companies but also of the SEC's involvement in the internal corporate governance of public companies. In part, the rules would require public companies to disclose the relevant expertise of their directors, as well as the board's role in oversight of these specific areas. While couched in terms of disclosure, the purpose of these proposed rules is to drive (by mandating disclosure of their actions or failures to act) public companies and their boards to actively account for climate-related and cybersecurity risks. The rationale for the proposed rules is that public investors are seeking this information and that disclosure of cybersecurity risks and climate-related information can have a material impact on public companies' financial performance or position. It also supposes that such information may be material to investors making investment or voting decisions. In any event, both sets of proposed rules will increase the cost and complexity of public reporting and help feed an army of lawyers and consulting "experts."

While the proposed rules may be modified before being finalized, most observers expect that, when adopted, they will include provisions applicable to boards that are similar to those in the proposals. For this reason, boards should begin to prepare for their possible adoption.

In its proposing release on cybersecurity risk management, the SEC set forth specific disclosure requirements about board and management expertise and about the board's approach to cybersecurity risk management policies. In the climate-risk rule proposal (more than 500 pages long), the SEC laid out an even more expansive set of disclosure and corporate governance requirements. These proposed rules would impose extensive, prescriptive and complex disclosure requirements on public companies to provide quantitative and qualitative information about climate-related risks, greenhouse gas emissions and climate-related financial measures. They also would require disclosure about the resilience of their business strategies in light of potential future changes in climate-related risks and descriptions of the analytical tools, including scenario

analysis, that the company uses to assess the impact of climate-related risk.

In addition to the time and expense that the proposed disclosure requirements will require, the proposed rules also impose specific and new requirements onto corporate boards. Dictating board processes is an unusual expansion of federal securities regulations into state corporation law, but boards should take steps so they will be prepared to respond when these new rules become effective.

Boards will need to identify directors and board committees that should have responsibility for the oversight of climate-related and cybersecurity risks. Boards will then need to describe the process and frequency by which they become informed about these risks. Companies will also be required to disclose whether they have specific management positions responsible for overseeing these risks, such as a chief information security officer or a chief sustainability officer for cybersecurity and climate risks, respectively. If there is such a specific position or committee, the company will need to disclose how this person or committee reports to the board. In addition, similar to what the SEC has previously done for audit committees, companies will be required to identify whether any involved directors have expertise in assessing these issues. Boards should provide supporting information to fully describe the nature of the expertise.

The climate-related risk proposal will require boards to disclose their processes for how, and how frequently, they discuss climate-related risks; how the board considers climate-related risks as part of its evaluation of business strategy, risk management and financial oversight; and how the board sets and oversees progress against climate-related targets or goals, including interim targets or goals. In the case of these risks, boards will be asked to explain not only what climate-related risks are material to the company, but also how they decide whether to mitigate, accept or adapt to particular climate-related risks.

In preparing for this, boards should note that the combined effect of the SEC proposals may be that boards are increasingly composed of directors with the specific expertise desired by the government, rather than an emphasis on wisdom, general business experience or acumen. Boards should consider how best to implement these requirements and how they might impact the way their board is constituted and how it functions. As boards consider how best to comply, they could initiate searches for cybersecurity and environmental experts, who will likely be in demand under the new regime. Boards could also try to enhance the knowledge of existing directors through training. Some boards may choose instead not to seek these specific technical skills, but to engage third-party experts who can assist the board in its oversight responsibilities.

Boards should also determine how to adjust their oversight responsibilities to accommodate the new mandates. They must consider whether additional meetings may be necessary (and, if so, how many) to do this work in an already crowded board calendar. Directors should consider creating specific management positions to assist them in formalizing climate and cyber risk analysis as part of the company's overall business strategy.

Dictating board processes is an unusual expansion of federal securities regulations into state corporation law.

The SEC's proposed rules may certainly change before adoption, and may likely be challenged in court, but the impetus behind these proposals is real. Investors, both individual and institutional, have demonstrated significant and sustained interest in climate change, cybersecurity and other ESG-related issues. Although the proposals are framed as disclosure requirements, they are designed to impact corporate behavior, including that of board members. Boards and their advisors should plan now for how best to respond to the proposed rules and, in the case of the climate-related rules, to the broader social forces driving them. ■

Doug Raymond *is a partner at the law firm of Faegre Drinker Biddle & Reath LLP (www.faegredrinker.com). He can be reached at douglas.raymond@faegredrinker.com.* ***Jason Tian*** *assisted in preparing this column.*

HCM Disclosure: A Strategic Opportunity

Use the proxy to highlight your strengths in human capital management.

BY TODD SIRRAS, ANDREW FRIEDLANDER AND KEVIN KIM

Human capital management (HCM) disclosure is evolving rapidly, and the proxy is quickly becoming the most prominent area for boards to tell their HCM story.

Disclosure rules effective in November 2020 required issuers to describe "human capital resources … and any human capital measures or objectives that the company focuses on in managing the business" in the 10-K's Business section. As with all 10-K requirements, disclosure is required to the extent that it is material to understanding the business. HCM arguably has become "material" as companies focus more on nonfinancial elements of their business strategy and stakeholders' priorities.

We encourage companies to be thoughtful and comprehensive about their HCM strategy and use these new rules to highlight HCM strengths and leadership — but at an appropriate pace. Balance HCM with other strategic priorities, and don't overcommit through external messaging.

Rules notwithstanding, institutional investors, proxy advisors, investment managers and other stakeholders drive the evolution of these expectations. For example, State Street will vote against director nominations for "insufficient" HCM disclosure. BlackRock expects robust board oversight of HCM topics and disclosure of actions to support a diverse workforce and HCM approach. The two leading proxy advisors announced policy updates regarding "against" recommendations for insufficient HCM disclosure, such as director diversity and skills, HCM risk oversight and pay equity audits.

Give your HCM story life

The 10-K and proxy have print-media analogs. The 10-K is like *The Economist*: dense, text-laden and comprehensive. The proxy statement is becoming more like *The Guardian*: also comprehensive, but more approachable in tone and more likely to use illustrations and graphics.

Our review of 2022 proxy and 10-K filings from a sample of leading consumer-facing companies shows more HCM disclosure than 2021. The 10-Ks are more likely to include nonquantifiable discussions of culture and HCM

strategy and governance. These proxy excerpts show increased disclosure prevalence and depth regarding:

HCM strategy (board/management role). "These efforts are overseen by our board of directors — which has designated to our organization & compensation committee the responsibility for board-level oversight of the company's human capital management and inclusion and diversity policies and practices — and implemented under the direction of our chief administrative officer." — Humana

Culture (employee engagement). "We conduct the Our Voice Survey, which measures employee sentiment about important aspects of our culture, such as employee engagement, development, health and wellness, collaboration, execution, innovation and compliance, and risk. The results are closely reviewed by the board, senior leadership and the human resources organization, and managers are provided with detailed anonymized reports highlighting their team results." — Johnson & Johnson

Culture (values). "Visa has fostered a culture where all employees are encouraged and empowered to be leaders. To build this culture, we have embraced the following Visa leadership principles that are integrated into all we do and drive accountability for the way we act and the way we lead. Employees are evaluated not only on their performance, but also against our leadership principles: We lead by example, we excel with partners, we communicate openly, we act decisively, we enable and inspire, and we collaborate." — Visa

Diversity, equity and inclusion (cultural tenets). "Our vision is to be a beacon of diversity, equity and inclusion for our colleagues, customers and communities. Our mission is to embed DEI into how we think, act and operate by fostering an inclusive culture and an environment that inspires, reflects and provides equitable access for every one of us. The work we do to advance this mission is guided by and organized into five focus areas: colleague, customer, supplier, community and marketing." — Macy's

This trend will continue. The 10-K is primarily fact-oriented, e.g., geography breakdown, gender and racial demographics, and safety initiatives.

Research findings

We compared 2021 and 2022 10-Ks and proxies to assess the evolution of HCM disclosure. Nearly all of the companies significantly expanded proxy disclosure this year to address broader HCM topics in greater depth. Common expansions focused on DEI, compensation below the executive level and how HCM supports and drives company culture. The following are examples in each category:

- DEI initiatives, including education/training (anti-bias training that promotes equal accessibility), recruiting outcomes or goals (targets or progress toward expanding employee diversity) and employee resource groups (initiatives and support systems to increase affiliation among underrepresented employees).
- Subexecutive compensation and benefits, focusing on pay equity design practices and results of pay equity assessments.
- Culture and work environment, including surveys assessing employee satisfaction and actions to address concerns.

We saw more robust proxy HCM disclosure (voluntary and nonprescribed) than 10-K HCM disclosure (required by the SEC and therefore more rigid) in our sample. Proxy disclosure expanded materially since 2021, when proxy HCM discussions tended to reference other disclosures (corporate social responsibility reports and 10-K disclosure).

Proxies from 2022 contain more HCM disclosure depth, quantifiable elements and illustrations/exhibits that make the information easily digestible. In 2022, 10-Ks remained focused on quantifiable or regulated items, like health and safety. Incentive programs with HCM-related health and safety measures were featured in both the proxy and the 10-K.

Engage your stakeholders

Stakeholders are interested and have had multiple opportunities to review annual HCM disclosures. They will see through greenwashing, so companies should put their best foot forward. Tying business strategy to relevant concrete HCM actions is key to a leading HCM strategy (and associated disclosure).

We expect "best in class" disclosures will continue to be refined as regulatory requirements and stakeholder expectations solidify. HCM disclosure that is true to the business focus and not performative comes from a place of strength and creates competitive advantages for attracting and keeping talented employees.

The proxy statement showcases governance and HCM items. The 10-K requires material facts, but context about why and what that means for employees, customers, suppliers and others is better suited and more accessible in the proxy. We expect leading firms to continue moving toward the proxy to provide a compelling HCM story. ■

Todd Sirras *is managing director,* ***Andrew Friedlander*** *is a senior associate and* ***Kevin Kim*** *is an associate at Semler Brossy.*

WHO'S ON BOARD 2021

The Directors Roster annual review of newly elected board members.

The *Directors & Boards* Directors Roster — a quarterly record of new director appointments — is compiled from public and private sources by Roster editor Barbara Wenger. For this year in review section, we present a selection of the board appointments made over the 2021 reporting period. The companies adding the new directors are listed alphabetically, followed by the name of the new director with his or her title and affiliation at the time of the appointment. To include your board announcement, email **bwenger@directorsandboards.com**.

NEW DIRECTORS
January – December 2021

Companies adding new directors: **586**
Number of new directors: **656**

Category	Number	% of Total
Retired	*216*	*33%*
Senior Officers	*211*	*32*
Chairmen/CEOs	*131*	*20*
Finance	*40*	*6*
Legal	*30*	*4*
Academia	*26*	*4*
Consultants	*2*	*1*
Total	*656*	*100%*
Women	*327*	*50%*
Men	*329*	*50%*
Companies appointing more than one new director	*68*	*12%*

3M
James R. Fitterling, chairman & CEO, Dow

ABERCROMBIE & FITCH
Kenneth Robinson

ACADEMY SPORTS + OUTDOORS
Tom Nealon, president, Southwest Airlines Co.
Beryl B. Raff, chairman & CEO, Helzberg Diamonds

ACCENTURE
Beth E. Mooney

ADOBE
Melanie Boulden, president, Stills Beverages Business Unit, Coca-Cola North America

ADM
Ted Colbert, EVP, Boeing

ADT
Sigal Zarmi, managing director, Morgan Stanley

AFFILIATED MANAGERS GROUP INC.
Felix V. Matos Rodriguez, chancellor, The City University of New York

AGCO CORPORATION
Matthew Tsien, president, General Motors Ventures

ALASKA AIRLINES INC.
Daniel Elwell
Jessie J. Knight Jr., managing director, Knight Angels Consulting LLC

ALBERTSONS COMPANIES
Mary Beth West

ALLSTATE
Donald Brown, EVP & CFO, NiSource Inc.

AMAZON.COM INC.
Edith W. Cooper

AMEREN
Leo S. Mackay Jr., SVP, Lockheed Martin Corporation

AMERESCO
Claire Hughes Johnson, executive team, Stripe Inc.

AMERICAN AIRLINES GROUP INC.
Adriane M. Brown, venture partner, Flying Fish Partners
Douglas M. Steenland

AMERICAN EXPRESS
Thomas J. Baltimore, CEO & president, Park Hotels & Resorts
Charles E. Phillips Jr.
Lisa W. Wardell, president & CEO, Adtalem Global Education

AMERICAN INTERNATIONAL GROUP INC.
James Cole Jr., chairman & CEO, The Jasco Group

Verizon announces appointment of Roxanne S. Austin to board

Roxanne Austin is president and CEO of Austin Investment Advisors, a private investment and consulting firm, and chairs the U.S. mid-market investment advisory committee of EQT Partners. She was named 2018 Director of the Year – Corporate Leadership and Service by the Forum for Corporate Directors and one of the most influential directors in the boardroom by the National Association of Corporate Directors in 2013. She is cochair of the annual Corporate Governance Conference at Northwestern's Kellogg School of Management.

"Roxanne is a highly experienced leader who brings to Verizon several decades of audit, finance, operating and executive experience in a range of technology industries, as well as distinguished service as a director at a diverse group of public companies," said Hans Vestberg, Verizon chairman and CEO. "We are excited to welcome Roxanne to our board and know that her strong expertise in finance, strategic planning and cybersecurity and her knowledge of telecommunications and media will be extremely valuable as we continue to focus on our strategic direction as a technology leader."

Austin was the president and CEO of Move Networks, an IP-based television delivery service. She also was president and COO of DIRECTV, a digital television entertainment service. She served as EVP and CFO of Hughes Electronics Corporation, and was a partner of Deloitte and Touche before joining Hughes. She currently serves on the boards of Abbott Laboratories, Target Corporation, Teledyne Technologies Inc. and AbbVie Inc.

Verizon Communications Inc. offers communications, information, and entertainment products and services to consumers, businesses and governmental entities worldwide. — *Barbara Wenger*

ANTHEM INC.
Susan D. DeVore

AON
Byron Spruell, president, National Basketball Association

APPLIED MATERIALS INC.
Rani Borkar, corporate VP, Azure Hardware, Microsoft

APPLOVIN
Asha Sharma, COO, Instacart

ARROW ELECTRONICS INC.
Fabian T. Garcia, president, Unilever North America
Carol P. Lowe

ASPEN TECHNOLOGY INC.
Jill D. Smith, president & CEO, Allied Minds

AT&T
Luis A. Ubinas

AVALARA INC.
Bruce Crawford, SVP for strategic development, Jacobs Engineering Group
Srini Tallapragada, president, Salesforce Inc.

AVIENT
Neil Green, EVP & CDO, Otis Worldwide Corporation
Ernest Nicolas, SVP & CSCO, Rockwell Automation Inc.

BADGER METER INC.
Henry F. Brooks, president, power & controls, Collins Aerospace

BEST BUY
Mario J. Marte, CFO, Chewy Inc.
Steven E. Rendle, chair, president & CEO, VF Corporation

BIOGEN
Maria C. Freire, president & executive director, Foundation for the National Institutes of Health
William D. Jones, president & CEO, CityLink Investment Corporation

BLACKROCK INC.
Beth E. Ford, president & CEO, Land O'Lakes Inc.
Kristin Peck, CEO, Zoetis Inc.

BLUCORA INC.
Tina Perry, president, The Oprah Winfrey Network

BOEING
Lynne Doughtie

THE BOSTON BEER COMPANY
Michael M. Lynton

BRINK'S INCORPORATED
Louis Parker, cofounder & CFO, Visible Men Academy

BURLINGTON STORES INC.
Michael Goodwin, SVP & CIO, PetSmart

CAMPBELL SOUP COMPANY
Grant H. Hill, owner & vice chair, Atlanta Hawks

CASEY'S GENERAL STORES INC.
Gregory A. Trojan

CATALENT INC.
Michael J. Barber, chief diversity officer, General Electric

Monica Lozano joins Apple's board of directors

Monica Lozano, president and CEO of the College Futures Foundation, has been elected to Apple's board. "Monica has been a true leader and trailblazer in business, media and an ever-widening circle of philanthropic efforts to realize a more equitable future — in our schools and in the lives of all people," said Tim Cook, Apple's CEO. "Her values and breadth of experience will help Apple continue to grow, to innovate, and to be a force for good in the lives of our teams, customers and communities."

Apple chairman Arthur Levinson said, "Monica has been a pioneer in every organization fortunate enough to benefit from her vision and expertise. After a thorough and fruitful search, I couldn't be more confident in the positive impact Monica will have on our board and Apple as a whole."

"I've always admired Apple's commitment to the notion that technology, at its best, should empower all people to improve their lives and build a better world," said Lozano. "I look forward to working with Tim, Art and the other board members to help Apple carry those values forward and build on a rich and productive history."

In her role at the College Futures Foundation, Lozano works to expand access to higher education, partnering with philanthropic organizations, state and local governments and local communities to improve opportunity for low-income students and students of color. She is a cofounder of the Aspen Institute Latinos and Society Program. Prior to College Futures, she spent 30 years in media as editor and publisher of *La Opinion*, the largest Spanish-language newspaper in the country, and then as chair and CEO of the parent company, InpreMedia.

She currently serves on the boards of Target Corporation and Bank of America Corporation. She is a member of the American Academy of Arts and Sciences Commission on the Future of Undergraduate Education and serves on the advisory council of the Public Policy Institute of California's Higher Education Center.

Apple Inc., based in Cupertino, Calif., makes personal computers, smartphones, table computers, computer peripherals and computer software. It is considered one of the Big Five companies in the United States. — *Barbara Wenger*

CATERPILLAR
Gerald Johnson, EVP, global manufacturing, General Motors
David W. MacLennan, chairman & CEO, Cargill Incorporated

CDW
Anthony R. Foxx, chief policy officer, Lyft Inc.

CEDAR FAIR ENTERTAINMENT COMPANY
Louis Carr, president of media sales, BET Networks

CHENIERE ENERGY INC.
Patricia K. Collawn, chairman, president & CEO, PNM Resources
Lorraine Mitchelmore

CHEVRON CORPORATION
Marillyn A. Hewson

CIGNA
George Kurian, CEO, NetApp

CISCO SYSTEMS INC.
John D. Harris

COLGATE-PALMOLIVE COMPANY
Kimberly A. Nelson

COMMERCIAL VEHICLE GROUP
Ruth Gratzke, president, Siemens
Michael Nauman, president & CEO, Brady Corporation

CONAGRA BRANDS
Manny Chirico, chairman & CEO, PVH Corp.
Fran Horowitz, CEO, Abercrombie & Fitch

CONSOLIDATED EDISON INC.
Karol V. Mason, president, John Jay College of Criminal Justice
Dwight A. McBride, president, The New School

CORNING INCORPORATED
Pamela J. Craig
Roger W. Ferguson Jr., president & CEO, TIAA-CREF

CROWDSTRIKE
Laura J. Schumacher, vice chair, chief legal officer, AbbVie Inc.

CROWN
Dwayne Wilson

CSX CORPORATION
Thomas P. Bostick, Bostick Global Strategies

CUMMINS INC.
Carla Harris, vice chair of wealth management, Morgan Stanley
Kimberly A. Nelson

CURTISS-WRIGHT CORPORATION
Anthony J. Moraco

DECKERS OUTDOOR CORPORATION
David A. Burwick, president & CEO, The Boston Beer Company

DISCOVER FINANCIAL SERVICES
David L. Rawlinson II, CEO, NielsenIQ

DISCOVERY INC.
Robert L. Johnson, founder & chairman, The RLJ Companies

DUPONT
Deanna M. Mulligan

Anthony R. Foxx, chief policy officer, Lyft Inc.

Manny Chirico, chairman & CEO, PVH Corp.

Laura J. Schumacher, vice chair, chief legal officer, AbbVie Inc.

Halim Dhanidina, associate justice, California Court of Appeal, Second District

Olu Fajemirokun-Beck, limited partner, Entrepreneurs Roundtable Accelerator

Judith "Jami" A. Miscik, CEO & vice chair, Kissinger Associates Inc.

EASTMAN CHEMICAL COMPANY
Vanessa L. Allen Sutherland, EVP & CLO, Norfolk Southern Corp.

EATON
Robert Pragada, president & COO, Jacobs Engineering Group
Darryl L. Wilson, founder, chair & president, The Wilson Collective

ELI LILLY AND COMPANY
Kimberly H. Johnson, EVP & COO, Fannie Mae
Gabrielle Sulzberger

EMPIRE STATE REALTY TRUST
Grant H. Hill, owner & vice chair, Atlanta Hawks

ENTEGRIS
Rodney Clark, VP of worldwide IoT, Microsoft
Yvette Kanouff, partner & chief technology officer, JC2 Ventures

ENTERGY CORPORATION
Brian Ellis, SVP & general counsel, Danaher

EQUIFAX INC.
Melissa D. Smith, chair, CEO & president, WEX Inc.

EQUINIX INC.
Ron Guerrier, CIO, HP Inc.

EXXON MOBIL CORPORATION
Michael J. Angelakis, chairman & CEO, Atairos
Jeffrey W. Ubben, cofounder, Inclusive Capital Partners

FIDELITY NATIONAL FINANCIAL
Sandra Douglass Morgan

FIS
Halim Dhanidina, associate justice, California Court of Appeal, Second District
Mark J. Hawkins, president & CFO emeritus, Salesforce Inc.

FISERV INC.
Kevin M. Warren, chief marketing officer, UPS

FLOOR & DECOR
Dwight James, SVP, customer engagement, Delta Air Lines Inc.

FORD MOTOR COMPANY
Jon Huntsman Jr.

FREDDIE MAC
Alberto G. Musalem, CEO, Evince Asset Management LP

FRESH DEL MONTE PRODUCE INC.
Kristin Colber-Baker, global director of diversity, Mars Inc.
Lori Tauber Marcus, founder, Courtyard Connections

FRONTIER COMMUNICATIONS
Margaret M. Smyth

FULTON FINANCIAL CORPORATION
George K. Martin, managing partner, McGuireWoods LLP

GENERAL MOTORS
Mark A. Tatum, deputy commissioner, National Basketball Association
Margaret Whitman

GOLDMAN SACHS
Kimberley D. Harris, EVP, Comcast

THE GOODYEAR TIRE & RUBBER COMPANY
Karla R. Lewis, president, Reliance Steel & Aluminum Co.

GREAT LAKES DREDGE & DOCK COMPANY LLC
Earl Shipp

HALLIBURTON
Bhavesh "Bob" V. Patel, chairman & CEO, LyondellBasell Industries

HANESBRANDS INC.
William S. Simon, president, WSS Venture Holdings

HCA HEALTHCARE INC.
Hugh F. Johnston, vice chairman & CFO, PepsiCo

HIBBETT SPORTS INC.
Linda Hubbard, president & COO, Carhartt Inc.

HOLLYFRONTIER
Manny Fernandez

HOSTESS BRANDS LLC
Olu Fajemirokun-Beck, limited partner, Entrepreneurs Roundtable Accelerator
Hugh G. Dineen

HOWMET AEROSPACE
Sharon Barner, VP, CLO & corporate secretary, Cummins Inc.

HP INC.
Bruce Broussard, president & CEO, Humana
Judith "Jami" A. Miscik, CEO & vice chair, Kissinger Associates Inc.

Nick Caldwell, VP of engineering, Twitter

Tekedra Mawakana, COO, Waymo LLC

Henry Moniz, EVP & chief compliance officer, ViacomCBS Inc.

Horacio Rozanski, CEO, Booz Allen Hamilton Inc.

Richard H. Carmona, chief of health innovations, Canyon Ranch

Aparna Bawa, COO & interim CLO, Zoom

HUBSPOT INC.
Nick Caldwell, VP of engineering, Twitter

HUMANA
Marcy S. Klevorn
Jorge S. Mesquita

IDEX
Lakecia N. Gunter, VP & general manager, Microsoft

ILLINOIS TOOL WORKS INC.
Darrell Ford, EVP & CHRO, UPS

INNOVIVA
Deborah L. Birx

INTEL CORPORATION
Andrea J. Goldsmith, dean of engineering, Princeton University School of Engineering and Applied Science

INTERNATIONAL PAPER
Anton V. Vincent, president, Mars Wrigley North America, Mars Incorporated

INTUIT INC.
Tekedra Mawakana, COO, Waymo LLC

JETBLUE AIRWAYS
Monte E. Ford

JPMORGAN CHASE & CO.
Phebe N. Novakovic, chairman & CEO, General Dynamics Corporation

KELLOGG CO.
Michael Schlotman

KEYCORP
Tekedra Mawakana, COO, Waymo LLC

KIMCO REALTY CORPORATION
Henry Moniz, EVP & chief compliance officer, ViacomCBS Inc.

KOHL'S CORPORATION
Robbin Mitchell, partner & managing director, Boston Consulting Group

THE KROGER CO.
Kevin Brown, EVP, global operations, Dell
Judith A. Sourry

L BRANDS
J.K. Symancyk, president & CEO, PetSmart

LEAR CORP.
Patricia L. Lewis, EVP & CHRO, UnitedHealth Group

LEGALZOOM.COM INC.
Elizabeth Hamren, VP for gaming, Microsoft LendingTree LLC
Adrienne Harris, professor of practice, University of Michigan, Gerald R. Ford School of Public Policy

LEVI STRAUSS & CO.
Elliott Rodgers, chief information officer, Ulta Beauty Inc.

LIBERTY TRIPADVISOR HOLDINGS INC.
Christy Haubegger, EVP, communications, Warner Media LLC

LOCKHEED MARTIN CORPORATION
Patricia E. Yarrington

LL FLOORING
Ashish Parmar, SVP & CIO, Tapestry Inc.

MARATHON OIL COMPANY
Holli C. Ladhani
Brent Smolik

MARINEMAX
Adam M. Johnson, chairman & CEO, NetJets

MARRIOTT INTERNATIONAL INC.
Horacio Rozanski, CEO, Booz Allen Hamilton Inc.

MARTIN MARIETTA MATERIALS
Anthony R. Foxx, chief policy officer, Lyft Inc.

MASONITE
Jay Steinfeld

MASTERCARD
Candido B. Bracher

MCKESSON CORPORATION
Richard H. Carmona, chief of health innovations, Canyon Ranch
Linda Mantia

MERCK & CO. INC.
Stephen L. Mayo, Bren Professor of Biology and Chemistry, California Institute of Technology

MOLSON COORS BEVERAGE COMPANY
Julia M. Brown

MOODY'S
Lloyd W. Howell, EVP, CFO & treasurer, Booz Allen Hamilton Inc.
Zig Serafin, CEO, Qualtrics

NEUROCRINE BIOSCIENCES INC.
Johanna Mercier, chief commercial officer, Gilead Sciences Inc.

THE NEW YORK TIMES COMPANY
Beth Brooke

NORTONLIFELOCK INC.
Emily Heath, SVP, chief trust & security officer, DocuSign Inc.
Sherrese Smith, corporate partner, Paul Hastings LLP

OSHKOSH CORPORATION
Douglas L. Davis

OUTBRAIN INC.
Kate Jhaveri, EVP & CMO, National Basketball Association

OWENS CORNING
Paul E. Martin

PAGERDUTY INC.
Bonita C. Stewart, VP, global partnerships, Google

PALO ALTO NETWORKS
Aparna Bawa, COO & interim CLO, Zoom

PEPSICO
Edith W. Cooper, cofounder, Medley Living
Dave Lewis

PHILLIPS 66 COMPANY
Lisa Davis

PIPER SANDLER COMPANIES
Robbin Mitchell, partner & managing director, Boston Consulting Group

THE PNC FINANCIAL SERVICES GROUP INC.
David L. Cohen, SEVP, Comcast

Zendesk Inc. board of directors adds San Antonio Spurs executive Brandon Gayle

Brandon Gayle is the executive vice president of revenue, brand and communications for Spurs Sports & Entertainment, owners and operators of the NBA San Antonio Spurs, Austin Spurs (NBA development league), San Antonio FC (USL), and management of the AT&T Center in San Antonio. He leads the organization's operations across ticketing, premium seating, sponsorship, media, marketing, digital and business communications.

"As we move into this next growth phase at Zendesk, it is going to be more important that we build a sense of purpose and long-term vision into our product, team, customers and communities. We're excited to have Brandon join our board on this journey," said Mikkel Svane, CEO, chairman and founder of Zendesk.

Gayle spent more than six years in multiple roles with Facebook, most recently as director of global sports partnerships and solutions. His team was responsible for providing global operational support across premium content distribution, product education and analytics. He led global sports partnerships at Instagram for two years and served as director of strategic partnerships at Groupon. He also served in a strategy and finance role with the front office of the New York Jets and as a consultant at Bain & Company.

Based in San Francisco, Calif., Zendesk Inc. provides software-as-a-service products related to customer support, sales and other customer communications. — *Barbara Wenger*

POLARIS INC.
Darryl Jackson, VP, financial services, Hendrick Automotive Group

PRINCIPAL FINANCIAL GROUP
Alfredo Rivera, president, North America, The Coca-Cola Company

PROCTER & GAMBLE
Marc Allen, SVP & chief strategy officer, Boeing

PVH CORP.
George Cheeks, president & CEO, CBS Entertainment Group
Allison Peterson, chief customer officer, Best Buy

QUALCOMM
Greg Johnson, EVP & general manager, Intuit Inc.

R.R. DONNELLEY & SONS COMPANY
James Ray

RAYTHEON
Bernard A. Harris Jr., CEO, Versalius Ventures

ROKU INC.
Gina A. Luna, partner, GP Capital Partners LLC
Laurie Simon Hodrick, visiting professor of law, Stanford Law School

S&P GLOBAL
Gregory Washington, president, George Mason University.

SCHLUMBERGER LIMITED
Samuel Leupold

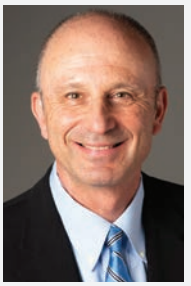
SERVICENOW
Lawrence J. Jackson, global creative director, Apple Music

SKILLZ INC.
Jerry Bruckheimer

SOLAREDGE TECHNOLOGIES INC.
Betsy S. Atkins, chairman & CEO, Baja LLC

SPLUNK INC.
Dennis Via, EVP, Booz Allen Hamilton Inc.

Pfizer's chief scientific officer joins Agilent Technologies board



Mikael Dolsten, chief scientific officer and president of worldwide research, development and medical at Pfizer Inc., has joined the board of Agilent Technologies. Dolsten has been involved in advancing more than 30 drugs and vaccines to approval. Most recently, he co-led Pfizer's collaboration with BioNTech to develop its Comirnaty COVID-19 mRNA vaccine.

"Mikael's outstanding scientific, medical and research background makes him a valuable addition to the Agilent board," said Mike McMullen, Agilent president and CEO. "His leadership in small-molecule medicines, biotherapeutics, gene therapies and vaccines will be a key asset for Agilent moving forward."

Dolsten has served in a variety of roles for Pfizer since 2009, including chief scientific officer; president of R&D; and senior vice president and division president, biotherapeutics research and development. In his current role, he leads a team of more than 8,000 scientists and oversees all global research operations across six therapeutic areas for Pfizer. Prior to 2009, he was president of Wyeth Research and executive vice president and head of worldwide research for Boethringer Ingelheim.

He has served as an advisor to the Obama administration for regulatory sciences, to then-Vice President Joe Biden in the Cancer Moonshot initiative and to the U.K. government for the 2021 G7 Summit.

Agilent Technologies, established in 1999 as a spin-off from Hewlett Packard, is an analytical instrumentation development and manufacturing company that serves worldwide markets. Its global headquarters is in Santa Clara, Calif. — *Barbara Wenger*

SPX FLOW
Sonya McCullum Roberts, president & group Leader, Cargill Incorporated

SQUARE
Shawn "Jay-Z" Carter, founder, ROC Nation

STRYKER
Giovanni Caforio, CEO & chairman, Bristol-Myers Squibb Company

TAPESTRY INC.
Thomas R. Greco, president & CEO, Advance Auto Parts
Pam Lifford, president, Warner Bros./Warner Media Studios

TELEDYNE TECHNOLOGIES INCORPORATED
Michelle A. Kumbier

TENET HEALTHCARE CORPORATION
Cecil D. Haney

T-MOBILE U.S. INC.
Bavan M. Holloway
Letitia A. Long

TRACTOR SUPPLY CO.
Joy Brown, chief data officer, Verizon Media Group

TYSON FOODS INC.
Maria Claudia Borras, EVP, Baker Hughes Company

U.S. BANCORP
Kimberly Ellison-Taylor, executive director, Oracle

UNDER ARMOUR INC.
David W. Gibbs, chief executive officer, Yum! Brands

UNITED AIRLINES HOLDINGS INC.
Laysha Ward, EVP, Target

UPS
Kate Johnson, president, Microsoft
Russell Stokes, SVP, General Electric

VECTOR GROUP LTD.
Wilson L. White, senior director, government affairs, Google

VERIZON
Carol B. Tomé, CEO, UPS

VIASAT INC.
James Bridenstine

VISA
Linda J. Rendle, CEO, The Clorox Company

WALGREENS BOOTS ALLIANCE INC.
Valerie Jarrett, distinguished senior fellow, University of Chicago Law School

WALMART INC.
Randall Stephenson

THE WALT DISNEY COMPANY
Amy L. Chang
Calvin McDonald, CEO, lululemon

WASTE MANAGEMENT
Sean Menke, president & CEO, Sabre
Maryrose Sylvester

WAYFAIR
Jeremy King, SVP, Pinterest
Michael E. Sneed, EVP, global corporate affairs, Johnson & Johnson

WEYERHAEUSER COMPANY
Deidra Merriwether, SVP, W.W. Grainger Inc.

YELP INC.
Tony Wells, chief brand officer, USAA

ZENDESK
Steve Johnson, VP of user experience, Netflix

ZOOM
Janet Napolitano, professor, Goldman School of Public Policy, University of California, Berkeley

A Dissatisfied Workforce Is the Biggest Risk of All

(continued from page 72)

ly likely to decline your offers of employment as they move on to their next interview.

Ignoring Social Issues Risks Losing Valued Employees

Boards that fail to heed these warnings on diversity not only have to worry about the views of prospective employees, but also must think about the concerns of those who are already on the team. As the Great Resignation has shown, employees have shown a willingness to hit the exits for a number of reasons, such as the effects of COVID, unsatisfactory pay and insufficient benefits. Might employees be willing to leave their positions because their companies are not paying sufficient attention to DEI?

Well, like any good lawyer, I would not ask that question if I did not at least think I knew the answer. The proof can be found in a survey conducted by McKinsey & Company in September 2021. In a quest to discover what was driving the Great Resignation, McKinsey queried almost 6,000 people of working age on their reasons for leaving their companies. The report saw 54% of respondents stating that their reason for quitting was that they didn't feel valued by their organizations, with 51% stating that they did not feel a sense of belonging in the workplace. Notably, the likelihood to state that they did not feel as if they "belonged" at their place of business was much higher when the respondent was classified as non-White or multiracial.

To make matters worse, in the same survey, when employers were asked why their employees were leaving, senior executives were largely unaware of their charges' reasons for departure. They cited compensation, work-life balance and poor physical and emotional health as the reasons their employees were heading for the exits.

Boards should help ensure a company maintains a diverse leadership and a watchful eye on DEI and related social issues because, if they don't, they may not be able to find people who want to work for them.


Bill Hayes

Boards should help ensure a company maintains a diverse leadership and a watchful eye on DEI and related social issues because, if they don't, they may not be able to find people who want to work for them. And then they are tangling with the biggest risk of all: the future of the business itself.

Disagree? Let me know at bhayes@directorsandboards.com. ■

***Bill Hayes** is managing editor of* Directors & Boards.

ADVERTISER INDEX

A Dissatisfied Workforce Is the Biggest Risk of All

Boards and companies ignore DEI concerns at their own peril. **BY BILL HAYES**

In this edition of *Directors & Boards*, we run the gamut in covering the risks that face public companies. We tackle geopolitical risk and the need for international directors. Cybersecurity has its moment in the spotlight. Risks in the supply chain are addressed. All of these are vital concerns for directors. But, in my opinion, the number one risk facing boards and public companies is people — their people.

Public company boards should pay close attention to trends around DEI and related social issues or risk being put out of business by the watchful people who work for them now and the people who might have worked for them but decided not to because the company's standards on diversity are lacking.

Diverse Executives Want to Work for Diverse Companies

We recently published a story on the *Directors & Boards* website that cites the views of diverse executive candidates who decline to join companies whose boards and management teams are not fully committed to DEI (see "Diverse Executive Candidates Demand a Commitment to DEI"). I figured, "OK, that's something people say, but when it comes time to receive a needed paycheck, you're probably going to make some compromises." (Full disclosure: If you somehow missed my photo, I am a somewhat middle-aged white guy who has lived in a bubble of privilege.) As I worked on the story and scoured the survey results it cites, however, I was floored by this nugget: More than one in three diverse executive candidates (36%) have declined a job offer because the organization lacked diverse representation at the leadership level.

According to Michelle Delcambre, operating partner of early-stage venture capital firm Felicis Ventures, "I'm encouraged to see this population of people taking the power back and not feeling forced into these opportunities just because they have presented themselves. Instead, they are looking into opportunities that have both presented themselves and are culturally values-aligned to what this population of people cares about and values."

In other words, if you are on the board, or part of the leadership, of a company that is only paying lip service to diversity, the best and brightest candidates are increasing-

(continued on page 71)

JDRF IMPROVING LIVES. CURING TYPE 1 DIABETES.

Together, we will fight for a world without type 1 diabetes

At JDRF, we're leading the fight against type 1 diabetes (T1D) by funding research, advocating for policies that accelerate access to new therapies, and providing a support network for millions of people around the world.

About T1D

T1D is an autoimmune disease that strikes both children and adults suddenly. There is nothing you can do to prevent it. If you have T1D, you must constantly monitor your blood-sugar level, inject or infuse insulin through a pump, and carefully balance these insulin doses with your eating and activity. Despite advances that are giving people with T1D better tools to control their disease, those living with it are still at risk of developing serious health problems.

Get Involved!

Whether you donate your time or dollars, life-changing breakthroughs in T1D treatments and therapies couldn't happen without you.

Find your local JDRF Chapter at jdrf.org to make a real difference in the lives of 1.6 million people living with T1D in the U.S.

JDRF
200 Vesey Street, 28th Floor
New York, NY 10281
800-533-CURE (2873) | info@jdrf.org

jdrf.org