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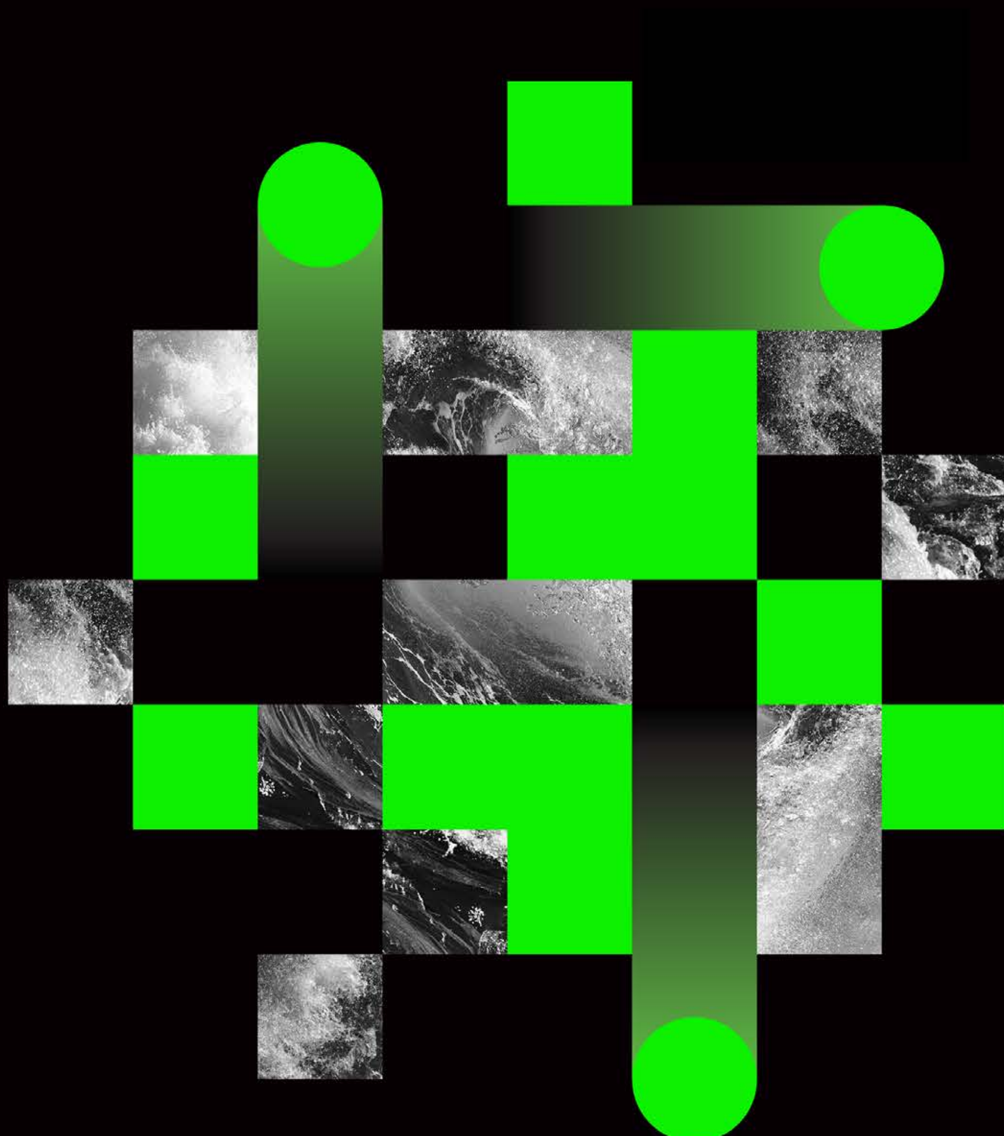

2021 Directors' alert

A new era of board stewardship begins

DECEMBER 2020

About Deloitte's Global Boardroom Program

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

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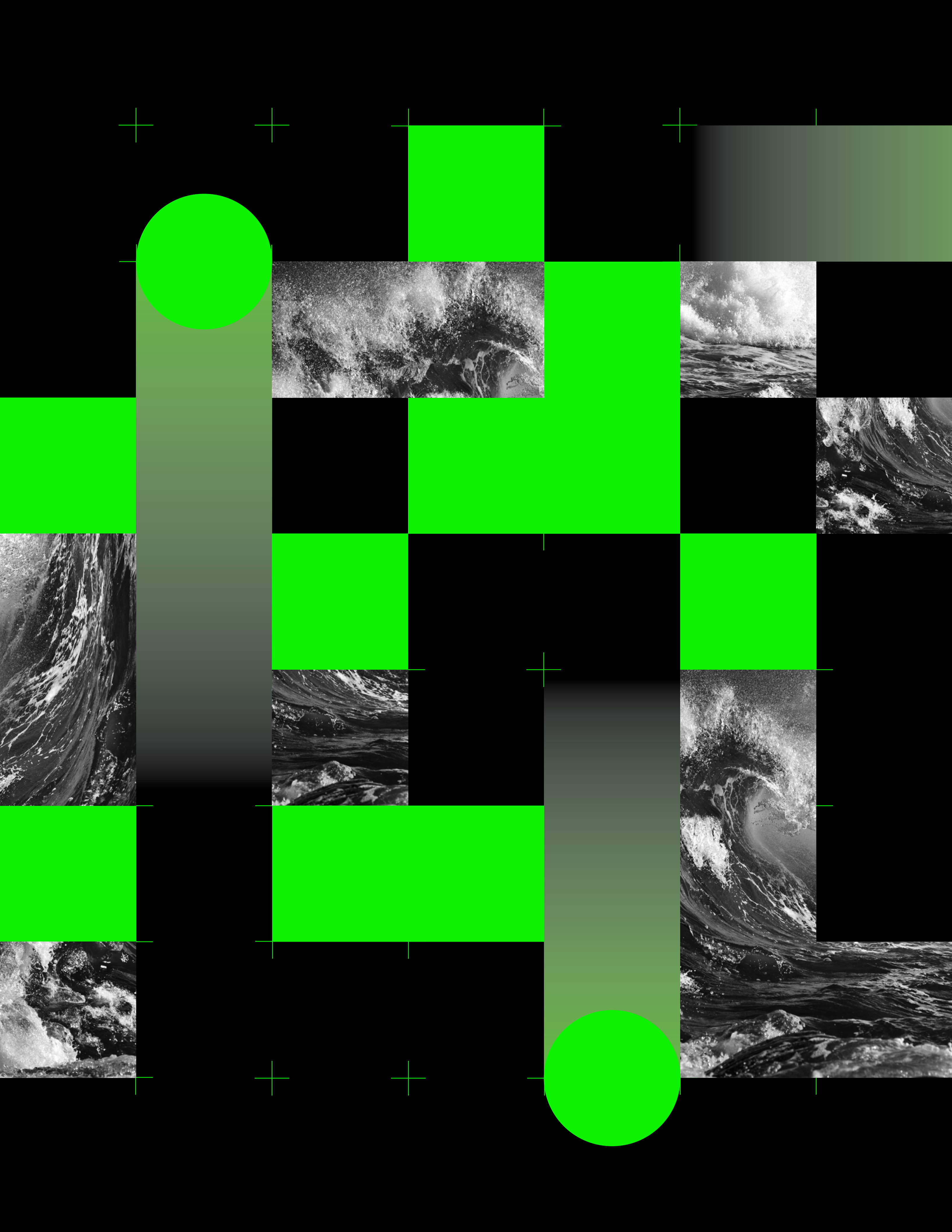

AS THE WORLD continues to be impacted by COVID-19 lockdowns and looks to recover from the economic turmoil the pandemic has wrought, boards of directors are finding their world—and their boardrooms—fundamentally transformed. Even the boardroom table is changing—from oak, walnut, or glass to pixelated squares on laptop screens. Traditional topics of boardroom discussion like growth, profit, and cost structure are making room for broader, more far reaching ones, including new risks to the business, workplace safety issues, increased stakeholder interest in governance, serious discussions about social and political turmoil, and racial injustice. There is also growing demand among stakeholders for companies to directly address societal challenges. While some forward-thinking boards were already making time for these discussions, the pandemic has brought them to the fore.

Take just two of these issues: climate change and social purpose. Even in the midst of the crisis, the push to have businesses respond and commit to climate has not abated. In Europe, the European Union's non-financial reporting directive established a common reporting framework across a broad range of nonfinancial environmental, social, and governance (ESG) areas, including climate change. And in Asia as well as the United States, investor interest in ESG investing continues to rise.

For boards, the pandemic has been a reminder of the multiple systemic risks they need to consider, and that navigating these risks will take ingenuity and thoughtfulness. At the same time, it has highlighted that no company is an island. There is, indeed, a social license to operate in many places, and boards that ignore the responsibilities their companies have to the wider world do so at their peril. And while the 2019 Business Roundtable "Purpose of a corporation" statement[1] addressed these themes, the pandemic has prioritized them as top concerns. Now, many directors are evaluating how their companies are contributing to the wider response to the pandemic, and how they are taking care of their people and their people's health and safety. Increasingly, too, board members are thinking about the key role that business has to play in the search for social and racial justice.

Directors around the world are clearly grappling with a panoply of issues that have few easy answers. Yet, the conversation is similar whether you are serving on a board in San Francisco, Shanghai, Stockholm, or Swansea. Indeed, one of the remarkable features of the current moment is the simultaneous and similar nature of the crisis, wherever you are. In the past, many professional directors have been reluctant to serve on too many boards at one time. Some shareholders and shareholder groups also sought limits to the number of board seats directors could take. Yet the pandemic has shown that there can be benefits to these cross-board connections. There has been a migration of good ideas across boardrooms about how to ensure the safety of employees; how to respond to a collapse—or even a quick rise—in demand; or how to respond to shifting societal expectations. As directors connect across industries and countries, many boards are learning from each other right now.

At Deloitte, we've been working with many board members of our clients to think through these issues and the conversations have been enlightening, reassuring, and challenging. We also felt that other board members, as well as C-suite executives, could benefit from hearing these conversations. So, we've created the 2021 Directors' alert series, a collection of edited interviews and short articles featuring some of the most thoughtful directors we know. Collectively, these directors represent a diverse range of industries and sectors and are leading voices in boardroom governance and culture. This is the first of several instalments—the rest will follow over the next few months. We hope you find these conversations as informative and illuminating as we have. And we hope that 2021 will bring respite to the disruption and difficulties of the last year.

Sharon Thorne | Deloitte Global Board Chair | Deloitte Global

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

Interview WITH **Barry Williams**

Barry Lawson Williams is the retired managing general partner of Williams Pacific Ventures, Inc., the investment and consulting company he founded in San Francisco in 1987. Williams recently retired from the board of Jacobs Inc. He currently is a director at Sutter Health Corp. He formerly served as a director on 14 boards, including Jacobs Engineering Group Inc, Navient Corp, CH2M Hill Companies Ltd, PG&E Corp., Northwestern Mutual Life Insurance Company, and SLM Corp. (Sallie Mae). In civic affairs, Williams is the past chairman of California Pacific Hospitals, the African American Experience Fund, and Management Leadership for Tomorrow.

AS COMPANIES RECOVER from the effects of the COVID-19 pandemic, if you had to choose a top priority for board members around the world to focus on first, which would you choose, and why?

Barry Williams: Understanding the implications of digital and how innovation is accelerating every aspect of how we do business. As you do your review of strategy, digital is a very important component that has tremendous impact.

I'm on a hospital systems board. We had a five-year plan: to transition to virtual visits for those people where virtual would make more sense than in-person visits. In the first month of the pandemic, we exceeded our five-year plan. *In the first month*. Now, we're trying to figure out who should continue to have virtual visits, and who would need in-person visits, and work through the implications of that.

But the implications are far reaching—this will impact staffing, real estate, and capital allocation. The more you can digitize and streamline some of these processes, it flows through all aspects of the business to make it more efficient. So I think that's going to be the greatest thing to deal with and I can't think of a better time to accelerate innovation than now. Because we have to do things differently.

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How has the pandemic changed the way your organization, investors, and stakeholders are thinking about different topics?

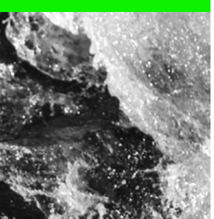
BW: I found there are four predominant topics in board discussions right now. First is *strategy*. I think most businesses understand that, whenever we get beyond this pandemic, we'll have to have new business models. People are focusing on what is the new new because you don't want to go back to how you did it before.

I think the second is *data and data security*. I hate to say this, but most companies are experiencing at least twice as many attacks on their data as before the pandemic. There are those who are acting in bad faith to take advantage of companies and get access to data during this pandemic.

Third, after the death of George Floyd this past May, there's a huge spotlight on the issue of *racial inequality and racial justice*. There are lots of discussions on racial equality and going beyond that, wealth inequality.

And finally, *human capital*. I think the whole approach to human capital has to be rethought. Many people have now found that they work well—and perhaps more effectively—at home and they may even prefer it. A lot of people don't want to live in big cities anymore; they want to be closer to their families, their parents. Meanwhile, companies are finding they can make better use of people if they offer more employment arrangements—staggered shifts, part time, and remote work.

The pandemic has placed a bright spotlight on all of these issues. Now, employees and investors want to know more about companies' positions on a wide variety of issues. People have had time to think; they want companies to stand up and take a position. They are demanding disclosure: What do you think about equality? What do you think about climate change? That's a major change, honestly.



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Some investors are pushing back on CEOs whose statements in the marketplace don't reconcile with actions their companies are still taking. Is this something you're talking about in the boardroom?

BW: I think it's just beginning to happen. Here in California, we tend to be on the forefront of many issues. Take the whole issue of representation on boards: California just came out with its second major mandate for public companies headquartered here. The first was on gender diversity; this one focuses on underrepresented people. Its aim is to ban all-white public company boards by the end of 2021, and it passed in September 2020.[2] People talk a lot about these legislative mandates, but they are just the first step.

Soon, the investment community will start demanding more disclosure about a wide variety of issues. ISS [Institutional Shareholder Services] came out with a new set of proposed policies[3] that recommends voting against the chair of the nominating committee at companies that do not have any racially or ethnically diverse board members.

In California, you all have had these terrible fires. What are you hearing and seeing from a board standpoint regarding climate change?

BW: I think that debate is just starting.

Shareholders and employees now have an interest in these issues and are demanding that companies take a strong position. The standing agenda will need to be enlarged to reflect things like climate change, diversity, and a whole bunch of public policy issues. Businesses will need to respond to how they impact the communities in which we live.

Businesses spend a lot on procurement and on philanthropy, but they have to be a lot more intentional about how those dollars are allocated and spent. So those are some of the ways that those conversations will be different. A lot of businesses are getting financial support and need it during these times to keep our economy going. I always cringe a little bit when newscasters say that companies are receiving government dollars. They're getting *our dollars*, taxpayer dollars. I think business has to understand that when you get financial support, that comes with some obligations. So that's another new conversation in the boardroom.

As a board member in the health care industry, what is the conversation around the importance of health equality in today's society? How much is it the board's responsibility, especially thinking about ESG and demands for more transparency?

BW: I don't think a year ago, our board thought much about health equality. We've had some employees step forward and take the lead in the industry. And now that is increasingly the fabric of our discussion.

We always knew that there was a disparity in access to health between different people. COVID-19 has shown those impacts in dramatic fashion. We know that a disproportionate number of Black and brown people have been impacted by COVID-19. Business has to put that on the agenda and understand that there are disparate impacts.

What do you see as the biggest issues facing companies' recovery efforts right now, as they try to position themselves to thrive long term?

BW: I think all businesses have to decide what is mission-critical and focus on a strategy that fosters that. And then reexamine all the other things they're doing. They may need to stop doing other things because of limited resources. Given all the risks that have been exposed in the pandemic, businesses need to focus on building a strong financial balance sheet in order to weather the storms we are experiencing.

There's going to be a lot more focus on strategy, a lot more focus on people. On handling risks. On innovation. Because that will be the way of the future: There'll be an acceleration of innovation and a lot more digitalization of functions.

With this refocus on strategy, will there also be a refocus on board composition, potentially?

BW: Well, I hope so, since I'm now focusing my efforts on increasing racial representation on boards. Among the traditional arguments for the importance of diversity is that diversity of thought leads to better decision-making, better business performance. Having more diversity helps companies better understand and serve diverse markets. And the best way to get diversity of thought is to have diversity in demographics, such as race and gender.

My favorite traditional reason to improve diversity is the war on talent. My kids and their non-Black friends are not going to go work for you unless you have a strong position on diversity and other issues, like climate change. Companies that are weak in these areas should get ready to lose the war on talent—and not just among young Blacks, but young people in general.

Coming out of this pandemic, I think the biggest argument for diversity is we have to come up with new business models. And the best way to get started is to include more diverse people in decision-making. To do something different, you have to have the best thinking and people with totally different experiences in those conversations.

Unfortunately, there are still people who equate diversity with a lowering of standards. And some people still think it's a supply issue, that there's not enough diverse talent out there, instead of working to identify and nurture that talent.

To do something different, you have to have the best thinking and people with totally different experiences in those conversations.

How do you think the pandemic has impacted trust of organizations? Has this come up in your boardroom discussions, and if so, how are you framing the discussion?

BW: The new word is *intentionality*. People understand they have to be more intentional about a host of issues.

So with everything that's gone on during the pandemic, directors have to question some very basic things. What is the basis of the proposals that are being put forth by management? What is the data behind them? The science? I think boards have to ask, *who had input into those discussions*? And also challenge whether—and to what extent—people who are not ordinarily in the discussion were involved.

The new word is *intentionality*.

I'm most concerned about trust issues between our stakeholders—employees, customers, and communities in which we serve—and businesses. Everybody understands the bright spotlight that's on us now because of George Floyd and the pandemic.

But people are still questioning if it really is going to be different today than what we've had before.

Are we really going to do something significant this time? Is it going to be sustainable?

In California, a lot of companies are doing great things. They make great pronouncements and financial commitments, too. But a lot of people still question: *Aren't these the same people who led to the predicament we're in now? Now, they're going to solve it with more dollars?*

Companies need more input from the communities they serve in their decision-making process. That's something boards will have to work on: to gain the trust of everybody in this stakeholder group, not just the people we talk the same language to every day.

Someone once told me, "When you get to the top, remember to send the elevator back down."

One of the key themes you've brought up is what's going to be different. To make bold change happen and sustain it, though, how can companies unlearn practices that inhibit transformation? How do you change behaviors?

BW: You have to handle it like you do with everything else in business: Have a business objective, then measure it, and tie it to compensation. Because if something is really significant, it ought to be measured in some form or fashion.

We have to be intentional about these goals, make them actionable. They need to be recast in terms of business objectives, measured, and then we need to compensate people based on their ability to meet those objectives. That's when we'll see some movement.

How should a discussion on topics such as climate change be structured in the boardroom? Should there be a special committee?

BW: I think that is an awfully good question. I don't know how many companies are dealing with it. I believe there are too many important issues to have a special committee on each. Think of the practicalities: You can't have a separate standing committee for diversity, the environment, etc. You might have a working committee on some. To start, boards could bundle these issues and deal with them in the public policy committee.

At a minimum, though, you need to have standing agenda items to have a very full, structured discussion on topics. And the only way to do that is to get it on the standing agenda.

What are the three secrets to having an effective board?

BW: I did a study on the experiences of 50 Black corporate directors to determine the characteristics that define an effective CEO and board member.

I came away with a shortlist on board effectiveness. Number one, boards have to have open discussions on topics and leaders should ensure everyone gets a chance to speak. I've been on many boards and typically, there are a handful of people who dominate the conversation. And other members don't speak because they don't want to repeat what someone else said or don't think their view is worth saying. When I was lead director of my last board, I would go around the room and seek out the people who didn't speak first and loudest to make sure they got a chance to put their view on the table first. One of the people I interviewed in my study said, "The first right answer is not always the best." If you allow other people to further shape it and provide their views, you can come out with an even better answer. I underscore that.

Second, the most effective boards have vehicles for independent agenda-setting. The agenda is not exclusively set by management or the lead director. On one board in which I was lead director, before each meeting I would call a third of the board individually to ask, "Why are you coming?" I wanted to know the two or three burning issues that each director wanted to discuss or questions they wanted addressed. Then I incorporated those issues into the agenda.

And third, I think it's important to have executive sessions. I liked executive sessions mostly at the beginning of the meeting because I wanted to hear the CEO's perspective on the business where he

could talk candidly without the rest of senior management there. It also helped to hear what he thought the purpose of the meeting was and what he wanted to get done.

A related question: What advice would you give to CEOs to help them make the best use of their boards?

BW: I would say, first and foremost, listen to all board members to make sure you get diverse points of view.

Don't just hire one. No one wants to be "the one." We've done that—it's not an attractive proposition.

Second, get in touch with board members between meetings when you have more time one-on-one to talk. Much of the business of the board takes place not in the board meeting, but between meetings. Every board member has issues. Sometimes they don't want to bother the whole board bringing them up; or they may just be thoughts that are not yet fully formed. Those can be better explored in a telephone call.

Third, CEOs should match up the skill sets of board members with their strategy goals. I hope this happens as the pandemic subsides because we are experiencing the need for a whole new set of skill sets and companies will have to upgrade their skill sets. Which leads to my favorite topic right now: *board rotation.*

Why is board rotation your favorite topic now?

BW: Typically, you get a board with between 10 and 12 people, including the CEO. So, at most, one person comes up for renewal each year. Often less. So, when you look at the need for new skill sets and making sure we improve diversity—these two goals are aligned. But both are a challenge, unless you have some board rotation. Either we will have to enlarge boards sooner than we thought, or we're going to have to just rotate some people off of boards and say, *Thank you. Here's the gold watch, you did a good job. There's nothing wrong with you, but we need a skill set.*

The pandemic has shown that we definitely need some new skill sets on boards. And if we see an increase in board rotation, we can accommodate the need for diversity more easily.

Regarding intentionality, what should companies do to retain their Black employees to continue to build trust? For companies hoping to recruit Black executives, what advice would you give them?

BW: Don't expect people to rush to join a company if there aren't any Black people or women on the board or in senior management. That's where companies should start—ensuring representation at the senior management level and at the board level.

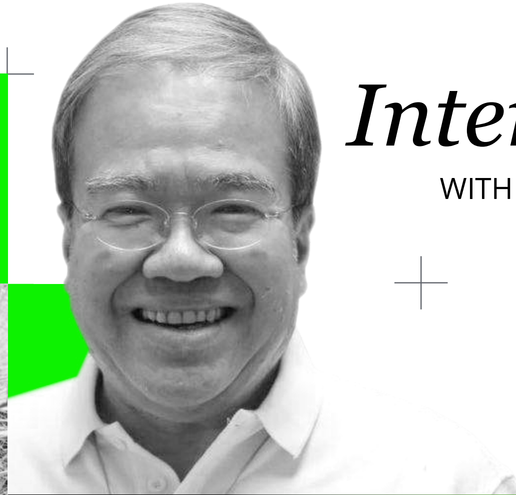
People want to be comfortable. Don't just hire one. No one wants to be "the one." We've done that—it's not an attractive proposition. When I'm asked the difference between my first job vs. my second job, I was treated very well in both organizations. But in my second job, I had more of a defined specialty. I also had a larger network of people like me, both inside and outside the company, that I could talk to, share thoughts with, and get their perspectives on a variety of issues.

But it's not just about hiring. Issues of retention come up even stronger. Companies have to build the case that Blacks will be treated well and offered opportunities after being recruited. In companies that want to promote internal people, I ask, *How many people of color have presented to the board? How many women have participated?* Because that's where you get known.

If you're going to recruit Black people, make sure there's a support system in place so they can succeed. Make sure there are mentors and sponsors—we all take from other people. There's a difference between a coach, a mentor, and a sponsor. A coach yells at you, a mentor listens to you, and a sponsor does something for you. Those are very different people playing different roles. To get ahead, you probably need all three.

I read a study somewhere that we've changed more in the last six months than we have in the past decade.

BW: We've got a long way to go, but I agree. And I hope we continue this momentum. There's a bright spotlight on things now. But spotlights can go out, too. We've got to make these things sustainable. We have to take advantage of the moment. ●



Interview WITH **Anthony Wu**

Anthony Wu Ting Yuk is a member of the standing committee of the Chinese People's Political Consultative Conference National Committee. In addition, he is an independent nonexecutive director and the chairman of China Resources Medical Holdings Company Limited, and an independent nonexecutive director of Guangdong Investment Limited, China Taiping Insurance Holdings Company Limited, CStone Pharmaceuticals, and Venus MedTech (Hangzhou) Inc. He is also the chief adviser to MUFG Bank, Ltd. Mr. Wu was formerly the chairman of the Hong Kong Hospital Authority, the deputy chairman and an executive director of Sincere Watch (Hong Kong) Limited, and an independent nonexecutive director of Fidelity Funds and Agricultural Bank of China Limited.

THE PANDEMIC HAS revealed underlying problems in many companies. Have your companies encountered such situations? How did they address these unexpected problems?

Anthony Wu: When faced with crisis, you have to respond quickly. If you wait, you will always be too late. And you need to have a plan B.

This pandemic came all of a sudden, like SARS in 2003. We did not know how to deal with it in the beginning, but very soon we realized it was no joke. After February and March, we all thought it was over, and then came the gradual ease of social-distancing rules. Who could have guessed we'd still be in the midst of it, and a third wave, too?

I serve on the board of a large medical and hospital management company. On the Chinese mainland, many hospitals were requisitioned by the government to treat COVID-19 patients, which meant many of our businesses had to almost completely suspend regular operations.

Two of our hospitals in Wuhan were also requisitioned, so we had to transfer our patients to other hospitals. In such complicated situations, you have to figure out how to mobilize resources and arrange logistics. We also needed to determine how to treat other patients from their homes. We made use of telemedicine or teleconsultation techniques and arranged for the delivery of medicine. I was deeply impressed by all of these measures.

One thing that I found very interesting was how different corporate cultures and locations reflected different ways of thinking. The mainland medical workers were very united: Many of our other hospitals volunteered to organize medical teams to go to Wuhan to help.

How did the pandemic impact different industries across China? Were some hit harder than others?

AW: As the pandemic developed, businesses were affected to different extents in different places. A manufacturing company in Dongguan, for example, could afford the lockdown. Workers would work as usual and goods could be exported or delivered to other provinces. But Hong Kong is a service-oriented economy. So, when places were locked down, there was no flow of people and many things slowed down.

Since January or February, many banks and other large companies have one-half of their staff working from home and the other half working in the office, especially in important departments, separated in two to three locations. They took this step to ensure operations would continue and minimize the risk of an entire department being exposed to the virus at the same time.

As a businessman, when you see a real need, you need to react very fast.

In the past, many business organizations focused on profit maximization. But now with COVID-19, there is more emphasis on corporate social responsibility. Do you think this trend will continue? Or will people forget and go back to their usual ways of working after the pandemic?

AW: At one of my companies, we were focused on helping Hong Kong. The outbreak seemed to have been controlled in April. At that time, the Hong Kong Special Administrative Region government was planning to implement the health code with Guangdong and Macau.

But in May, the private sector's testing capacity was fewer than 1,000 tests a day, and the tests were expensive: 3,000 Hong Kong dollars. Even if you had the money, you might not be able to get tested because there were so few tests available. So while it was good that the government was exploring reopening with the health code, the supporting facilities were not in place.

People complained: How could the working class afford it? How could cross-boundary families afford it? This is why we set up a joint venture to help Hong Kong introduce high-quality testing at very reasonable prices and to help prepare for reopening. It involved a lot of networking—relying on relationships built over the years to see how to help.

Our existing testing capacity is at least 30,000 samples a day. We realized this could help Hong Kong reopen. As a businessman, when you see a real need, you need to react very fast.

How you compete with others or how you leverage different networks to bring the price down is part of our social responsibility.

That's why we worked so hard to bring in high-quality and reasonably priced testing for Hong Kong. Back in May, each test cost HK$3,000. Now, the price has been brought down to HK$800 since we joined. To me the price is still too high, but at least we are providing a larger supply to drive down the price. Sometimes it's not possible to wait for the market to adjust itself. You need to make use of your own capacity to drive down the price.

How you compete with others or how you leverage different networks to bring the price down is part of our social responsibility.

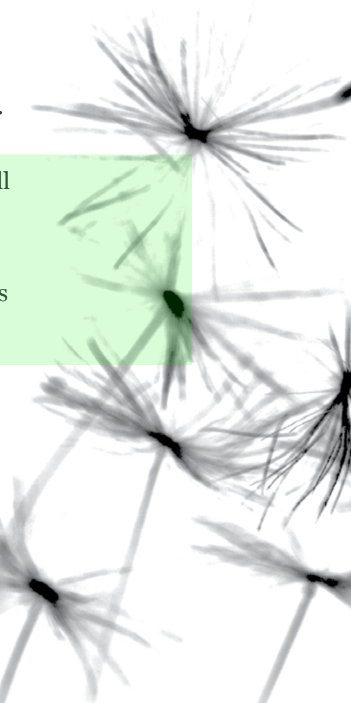
From a business perspective, it's very important to capture the market and to provide high quality and reasonable prices to the public in Hong Kong. This involves understanding what's happening; you have to be a bit more visionary. When we encountered the third wave, we were able to mobilize 16 air-inflated labs, which have already completed their mission and will soon be disassembled. But our existing 30,000 capacity is here to stay.

Businesses have enhanced their knowledge on this aspect and understand what social responsibility is. Instead of just donating money and volunteering, there are many things that you can do.

As a director, what are some of the lessons you learned that you hope to implement long-term, after the pandemic subsides?

AW: I hope the outbreak of COVID-19 this time will bring home some important lessons. When the community where you operate doesn't work together well, no matter how large your company is, it won't be able to survive. So, if every company can carry out social responsibility and work for the sustainability of society in the future, it's going to be powerful.

Such a large-scale pandemic will have a huge impact on financial results. We were concerned about how we would explain that to investors. But especially as a medical company, we were also asking ourselves, how do we carry out our social responsibility and help more people? Luckily, we are a relatively large group. We have made a lot of donations, such as masks, to hospitals and doctors.



Our international network played an important part, too. Because in January, the situation was very bad in China, but in other parts of the world, things were still okay. Our health care fund has abundant supplies, so we immediately delivered them to China to help address the needs for PPE.

Your companies also have had to make swift or dramatic decisions. How can the board and management achieve agreement as friction often occurs during times of crisis?

AW: First, I think the board and the management must always maintain good and open lines of communication.

This is something we need to do whether we are dealing with COVID-19 or not. And amid this crisis, I think it's a matter of who is taking charge and how to take charge of the situation. Not only do we need to listen to different opinions, but we also need to make decisions quickly.

This reminds me of how we dealt with SARS. The Hospital Authority where I serve as a board member was also encountering the issue. It was something we had never faced until then. Since then, they have set up a committee called Central Command Committee (CCC). Whenever there's an emergency, now the CCC will be activated immediately. This is led by management for operational purposes.

The board, meanwhile, set up a committee called Emergency Executive Committee (EEC). The chief executive is in the EEC while the chairman is in the CCC. This forms a link that brings all partners together. It also allows many ordinary procedures to be bypassed.

It's very important to be able to allocate resources swiftly. Indeed, the Hospital Authority has done a fairly good job this time. For example, we learned a lesson from SARS. The situation was really bad when masks and PPEs were out of stock back then. After the SARS outbreak ended, it was decided that hospitals should maintain a stock of at least three months. That's why when COVID-19 hit the worst, the stock was still sufficient for more than a month.

It's the same for commercial entities. You need to learn a lesson and think about what could happen two years later, when something else could happen, and plan for that. For example, if you adopt alternating shifts for employees to come into the office, have you also considered whether colleagues have enough computer equipment at home? There are many things to consider as everyone is locked down at home now. They can have plenty of time to sit down and think. There are many lessons to be learned.

That is, we always need to be prepared for danger in times of peace.

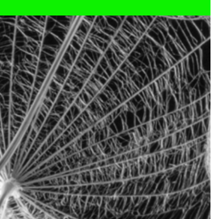
AW: It's true. During the Chinese New Year, people thought, "It will be OK. It won't be transmitted human-to-human." A lot of companies reacted slowly. They only hoped for the best. They didn't think of what they should do when the worst hit.

Instead, they thought, when summer comes, everything will be alright. But the pandemic showed us that the best-case scenario may not happen. And if it doesn't, you have to have contingency plans in place.

You have worked in so many companies across a variety of sectors: insurance, utilities, and health care. Have you come across any situation in which there was a lack of trust at such critical times or arguments among board members or with the management? As chair, how would you settle such issues?

AW: It's been very interesting this time—there weren't any arguments. Maybe it's because the companies where I serve as chair or as a board member are large companies. Everyone has been very rational.

And as everyone knew that the outbreak was here, we just executed what we agreed on right away without any arguments. We all agreed that it was a critical moment.



If you truly believe in combatting climate change and you have the passion, your subordinates will feel it.

I think the outbreak has, in a way, united us, even though social distancing has physically separated us. I think working patterns will also change in the future.

Consider this: If you and I had a meeting, we would each fly to Beijing for it in the morning today and fly back the next day. But, in the future, would that still happen when we can meet just as effectively on a video conference call? Of course, some meetings have to be held face-to-face. But when it comes to small meetings with one or two people only, especially preliminary meetings, this can now be done virtually.

What we consider "normal" will change. The hospitality industry must change. Indeed, many things will change.

There seems to be a growing awareness of how critical it is now for organizations to take bolder actions to combat climate change. After COVID-19, do you think business will view ESG or climate change differently?

AW: I hope so. And I do think so.

In my personal view, I find that large companies have a better understanding on this topic, while small- and medium-sized enterprises (SMEs) lack awareness. They may think that a half-degree Celsius of warming every few years is no big deal. In fact, that half degree may disrupt the whole ecosystem or chain.

But I think this COVID-19 outbreak will make many SME owners start to think that no one is immune because an outbreak will affect many things. I hope it will increase their awareness of health, climate change, environmental protection, and other issues.

Over the years, I've learned that in any organization, the leader plays a significant role. As a leader, first, you have to believe it yourself, practice it yourself. This is very important. People you engage with are all smart people. If you don't believe it, it's hard to sell it to them. If you truly believe in combatting climate change and you have the passion, your subordinates will feel it. Your passion can be spread widely.

Climate change and the board's role
A discussion with Rose McKinney-James

How does your board structure the conversation around climate change?

Rose McKinney-James: Overseeing climate change is an extension of the board's primary oversight responsibility. On my board, I play an important role in our climate strategy. I chair our corporate social responsibility (CSR) committee, which captures all of our sustainability work. That is where we also focus our ESG work, and that gives me an opportunity as a nonexecutive director to become directly involved and engaged with the management team about how we structure our answer to climate issues. Because this particular company is spread across the United States, it has varying impacts with respect to how its operations are influenced by climate. We have made a point to join, or set as a goal, the UN climate requirements so that we establish both a benchmark and series of goals, which will give us parameters to use for our operations activities.

How can boards gain expertise on climate issues?

RMJ: Climate and sustainability issues are becoming part of the board agenda, and every board member has a duty to educate themselves on the trends, to be inquisitive, to ask questions and never feel any are off limits, and to seek external support. I am considered the climate expert on my board. I'm not technical, but I understand the goals and appreciate the importance. I have been able to help my colleagues understand the linkage between the broader business areas of responsibility and the role climate plays.

Boards without climate expertise should seek external support to make sure they fully understand the risks and exposure, particularly from a reputational standpoint.

This is a leadership issue. This is an opportunity to innovate. If there are opportunities to create more resources, boards should consider it. Engaging your colleagues in a conversation around climate risk is a good way to introduce this and understand the linkage to achieving bottom-line business goals.

Rose McKinney-James directed the Department of Business and Industry, Nevada's largest state agency. She is the former CEO of CSTRR, a solar and renewable energy company, and a registered lobbyist with the Nevada Legislature, where she represented the interests of Fortune 500 companies, local government, and small business interests. McKinney-James serves on the board of directors of MGM Resorts International, where she currently chairs the Corporate Social Responsibility Committee. Additionally, she served as chair of governance and nomination for Employers Insurance, and chair of the compliance and diversity committees for Mandalay Resort Group. McKinney-James serves on the board of NACD Pacific Southwest, MGM Detroit, chairs the CRA committee for Toyota Financial Savings Bank, is the chair of the US Energy Foundation, and is the chair emerita for the American Association of Blacks in Energy.

Interview WITH Gordon Cairns

Chairman, Woolworths Group Limited

Gordon McKellar Cairns is the former CEO of Lion Nathan. During his seven-year tenure as CEO, the company was consistently recognized as a best employer, and he was awarded a "True Leaders" award on three separate occasions. In September 2004, he stepped down from full time executive life, and now serves as chairman of Woolworths Group Limited, and as a nonexecutive director of Macquarie Group Limited and World Education (a microfinance provider). Previously, he was chairman of Origin Energy for seven years, a nonexecutive director of Westpac Bank for nine years, chair of Quick Service Restaurants for six years, and chair of David Jones.

Deloitte Touche Tohmatsu Australia is currently the auditor for Woolworths Group Limited.

IT IS SOMETIMES said that a crisis is like water: It finds the cracks in an organization. What did the pandemic reveal for you at your companies and how has the experience made you wiser as a director?

Gordon Cairns: It has transformed our business permanently. We have been able to achieve more in the last three months in terms of speed, decision-making, and innovation than we would have achieved in a much longer period—one to three years. It has forced us to change the way we do business and operate, and I am very proud of the way my companies have reacted.

We have found that the speed of decision-making has accelerated. The management team pushed decision-making down to the people who have the information needed to make the decision. This is unusual in big companies, which normally syndicate decision-making. But we've pushed decision-making down to the managers closest to the customer. And then, we allowed them to make decisions based on 60% of the information. When they get the decision right, we've celebrated that. When they get it wrong, we've told them, "Don't dwell on it, just fix it quickly."

COVID-19 has taught us a lesson about how we work. It has had a significant impact on our engagement scores: They have increased dramatically. Absenteeism has gone down, which is contrary to the global trend. Our reputation is at an all-time high. However, there has been an increase in mental health issues. Employees have had concerns about health, jobs, and caring for elderly parents and others who may get sick.

It also taught us about our values. The mantra we've used throughout the crisis was *whatever it takes*: whatever it takes to ensure our customers and staff are safe. This means that while our revenue went up, our costs also went up, and therefore our profit did not grow as much as investors might have expected. This was because we spent the additional money to keep our customers and staff safe.

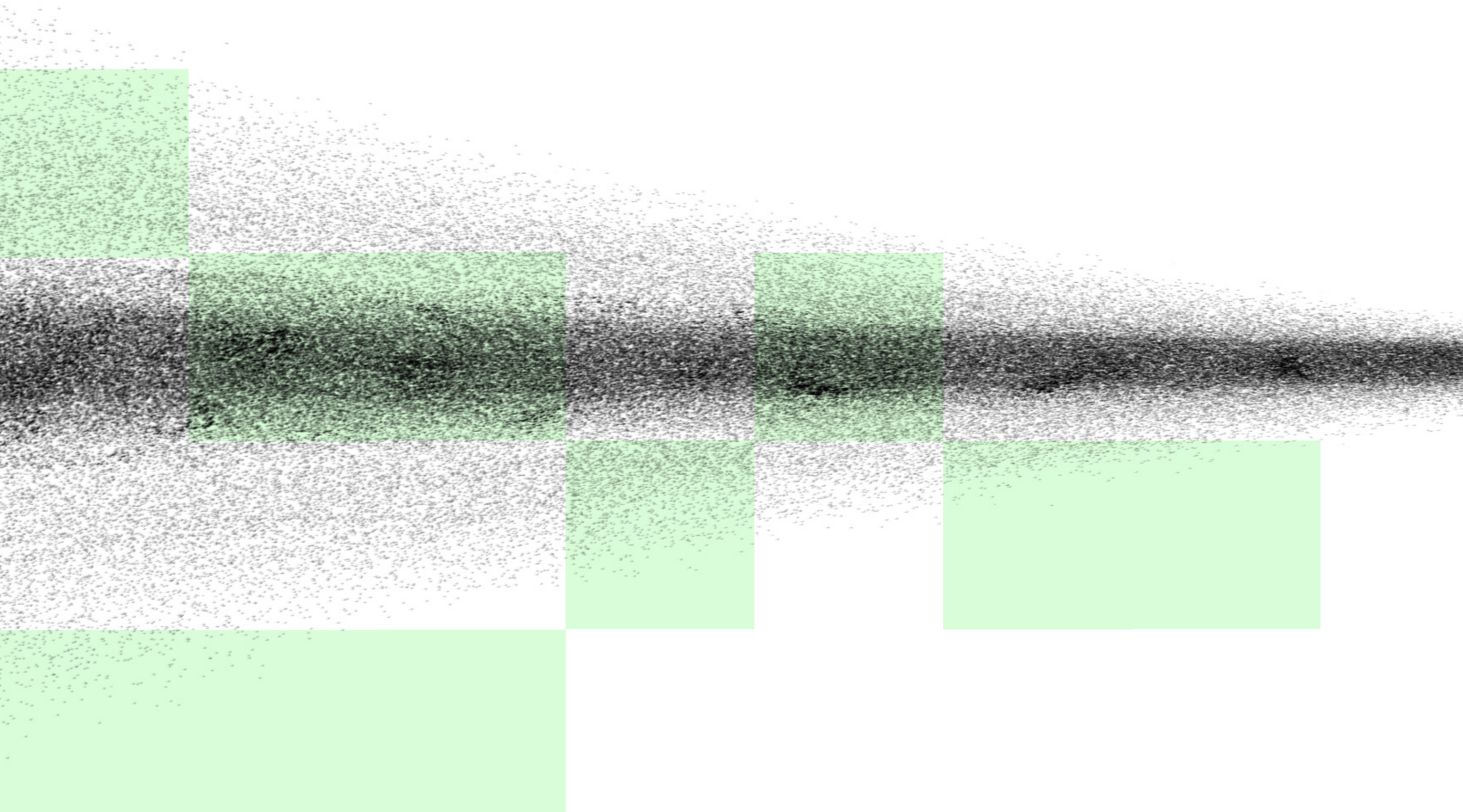
The mantra we've used throughout the crisis was *whatever it takes*: whatever it takes to ensure our customers and staff are safe.

Going forward, our challenge will be how to build the positive lessons we've learned from the pandemic into our systems and ways of working. We would be stupid to go back to the pre–COVID-19 ways.

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

GC: Good companies have crisis management policies and they put these policies in place. We had more than one crisis management team; one focused on external communication, one focused on ensuring communication internally, and another on logistics, all reporting in daily to the central team.

Early on, we made sure there was a clear understanding of our "*whatever it takes*" mantra,



strived for perfect communication, and then pushed decision-making down to the person who had the most information and empowered them to do whatever it took. This process worked well for us; we will factor in learnings so that it continuously improves.

In a pandemic like COVID-19, with a recession and high levels of unemployment, there is a danger that companies become conservative and wait for the economic conditions to pass. Woolworths has taken a countercyclical view to investment, so that we come out of the current environment stronger. We have accelerated our strategy, increasing investment in capital expenditures, and are actively looking at acquisitions. For example, we are investing heavily in digital and online. Many of the trends we have seen in digital and online have accelerated significantly. During this period, customer requirements have changed. There has been a significant increase in expectations.

The customer's interaction with our business has changed dramatically. They now want more flexibility and points of presence to interact with us. This has a significant impact on our business model.

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

GC: We have had to be more flexible and it has focused us on the most important things. The future of work has changed forever. There will be a greater focus on outcomes going forward rather than where you physically work from. We are going to find new ways of interacting; being virtual creates opportunities to interact more often. Working virtually can be more productive: There is less travel, meetings are more efficient, and you have fewer unproductive meetings.

Good companies should be exploring new and interesting ways of working, including how we use technology to allow us to perform virtual site visits and to attend remote locations, and how we can make everyday tasks virtual. What would have taken two days for a physical site visit can be virtually achieved in two hours. The board should be pushing management to explore this.

This will be transformative. We should reflect positively on how we can transform and use technology to facilitate that transformation; it is going to increase our productivity enormously.

The pandemic has led to calls from some quarters to rethink capitalism to some degree, and to reconsider the social contract that exists between business and society. How are boards balancing the need to adapt to the changing needs of society and their obligations to shareholders? Does this question change if the business has accepted government support during the pandemic?

GC: This will depend on the company. At one of my companies, we always start with our core purpose. When you start with that and you understand your social license to operate, it directs everything you do as an organization. We believe that we are in business with the permission of society, and we have to satisfy all of our stakeholders. We do the right thing. So there has been no major change for us.

The pandemic brought into sharp focus just how important our values are. And that they need to be real rather than statements on a poster or a notice board.

The pandemic brought into sharp focus just how important our values are. And that they need to be real rather than statements on a poster or a notice board.

When you have a crisis, you need to:

- Confront the issues immediately (and apologize if you caused the crisis)
- Take accountability at senior levels (chair and CEO)
- Promise to make restitution (and then do it quickly)
- Communicate—meet with key stakeholders (investors, shareholders, and staff)
- Go beyond the minimum legal requirements to do what's right

Keeping stakeholders informed about what the impact is and what you are doing about it is critical. If you communicate early and often and do the right thing by your stakeholders and explain your choices, the overall outcomes will be better.

How has the pandemic impacted trust in general? Among board members?

GC: The reputation of large companies will be affected by this pandemic depending on the way they handled it. How companies communicated during the pandemic will have impacts on their brands and reputations going forward.

We did not see a change in trust among board members or with management. This is because the principles that we operated under before the pandemic have continued to apply during the pandemic.

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

GC: There has been a significant increase in engagement with all stakeholders. As a chair, I have spent more time with investors and proxy advisers; they are particularly interested in what we are doing and why we are doing it. This increased engagement has been a positive. I expect it will be the new normal.

On the negative side of the ledger, there is a risk of regulatory overreach through this pandemic. Governments are becoming more involved in more business issues, which is, in my opinion, negative.

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

GC: There is a huge investor focus on this topic. But equally, it is a very big focus from our people—especially millennials—and other stakeholders. Investors now say that ESG and climate change are no longer a nice-to-have; it is no longer acceptable for this to be an addendum to your annual report. It needs to be a separate report; you should present it to us the same way you do your results and we will then determine how we assess your performance and how we vote.

But there has also been a major focus on health issues. The cost to society of health issues is enormous. The acceleration in ESG and climate change is not really COVID-19-related; it is defined by expectations of governments, investors, and our customers and employees.

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

When you accept that climate change is man-made, it defines your actions. At Woolworths Group, we have committed to have net positive carbon emissions by 2050. The expectation from governments, society, shareholders, and staff is: *"If you want to be a leader and you believe in your core purpose of a better tomorrow, then that better tomorrow is defined by the environment that we leave for our children."*

On most of my boards, there is a separate subcommittee whose scope includes sustainability.

This covers carbon reduction but also other ESG responsibilities. Establishing this as a regular subcommittee is one of the ways boards can ensure that management is appropriately focused on all matters ESG-related.

What are the top three secrets to an effective board?

GC: First, the board needs a very clear charter and understanding of what it is responsible for.

Second, the board has to be disciplined and prepared. You need a system that enables board meetings to be ordered and timely. On the boards I chair, we have a very simple system:

- All papers are taken as read.
- Executives present for five to 10 minutes on the relevant paper and provide an executive summary.
- Following this, I ask each board member in turn (alphabetically and alternating) if they have any questions.

This means you do not get people talking on top of each other; they each have a turn. It also means that everyone has the opportunity to speak and no one gets to hide. Each board member needs to be prepared.

Third, the board needs to have a performance ethic. On my boards, we have an annual performance review, which drives a significant difference in the culture. There is also an expectation that directors dissent and that an issue is discussed and debated. Once something is agreed upon, there is collective responsibility for the decision. This enables the board to operate efficiently and allows us to challenge each other and management.

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

GC: Ask for our help. Don't always come to the board with the answers; it is okay to come to the board and say you don't know the answer and ask for help. Vulnerability is a strength, not a weakness.

It is okay to come to the board and say you don't know the answer and ask for help. Vulnerability is a strength, not a weakness.

Seek outside mentors. Get yourself a mentor or adviser outside of the organization. There will be occasions when you do not want to talk to the chair about things. That's when you will need to be able to get external, independent advice. ●

Endnotes

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

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Our insights can help you take advantage of change. If you're looking for fresh ideas to address your challenges, we should talk.

Industry leadership

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