

## **2021 Directors' alert**

A new era of board stewardship begins

## About Deloitte's Global Boardroom Program

The Deloitte Global Boardroom Program brings together the knowledge and experience of Deloitte member firms around the world in the critical topics of universal interest to company boards and the C-suite. Its mission is to promote dialogue among Deloitte practitioners, corporations and their boards of directors, investors, the accounting profession, academia, and government. Since 2009, the program has launched over 65 boardroom programs in Asia, Europe, the Middle East, Africa, and the Americas. [Find us online.](#)

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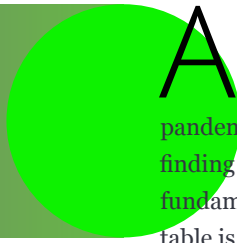
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The image is a complex graphic design featuring a grid of black and white photographs of ocean waves. The grid is composed of various sized rectangular cells. Some cells are solid green, some are solid grey, and some contain black and white photographs of waves in different stages and directions. The grid is set against a black background. There are several green plus signs (+) at the intersections of the grid lines. Two large green circles are positioned at the top-left and bottom-right corners of the grid. A white horizontal bar is centered across the grid, containing the text "INSTALLMENT 1: DECEMBER 2020".

INSTALLMENT 1: DECEMBER 2020



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 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

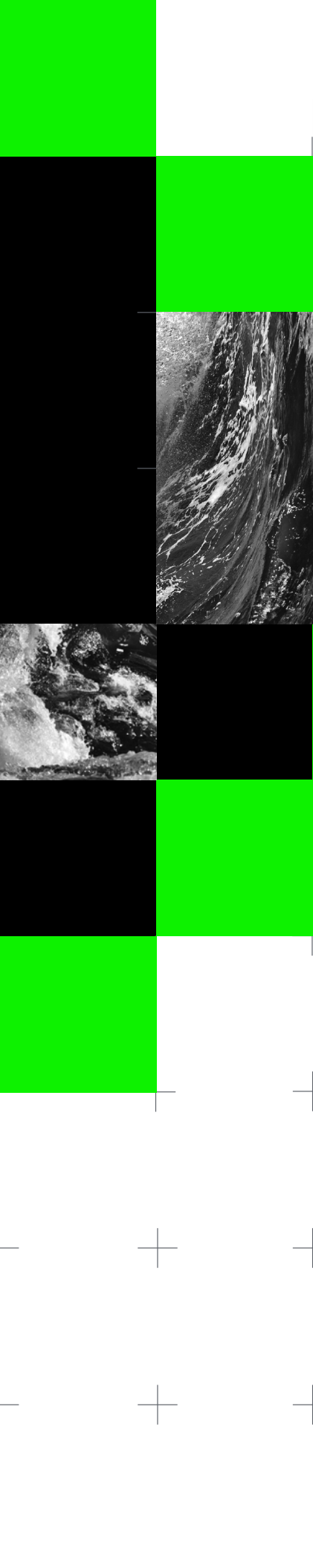
thinking about the key role that business has to play in the search for social and racial justice.

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.

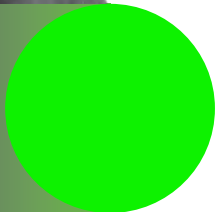
At Deloitte, we've been working with many board members of our clients to think through these issues and the conversations have been enlightening, reassuring, and challenging. We also felt that other board members, as well as C-suite executives, could benefit from hearing these conversations. So, we've 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.

**A** S 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.

**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.

**I can't think of a better time to accelerate innovation than now. Because we have to do things differently.**

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.

**[People] ... are demanding disclosure: What do you think about equality? What do you think about climate change? That's a major change, honestly.**

**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. 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 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.

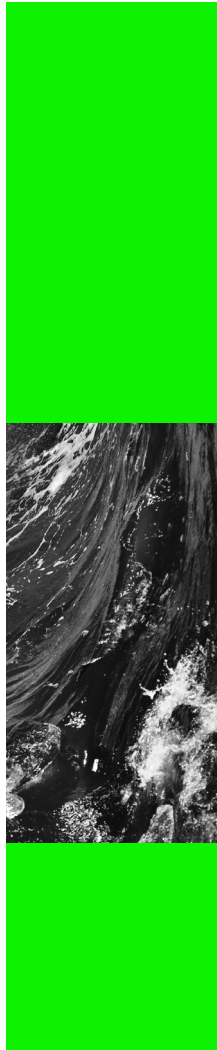
My favorite traditional reason to improve diversity is the war on talent. My kids and their non-Black friends are not going to go work for you unless you have a strong position on diversity and other issues, like climate change. Companies that are weak in these areas should get ready to lose the war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

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

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.



**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.

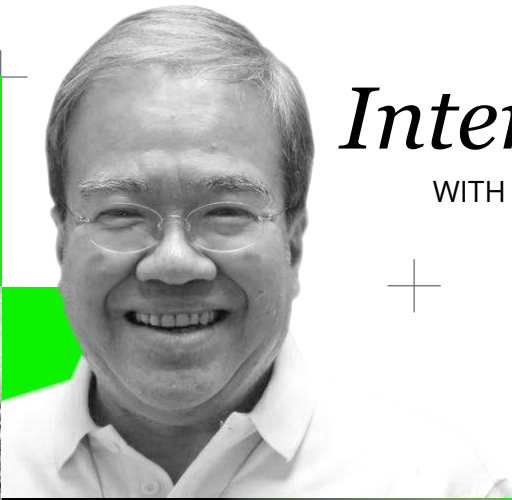
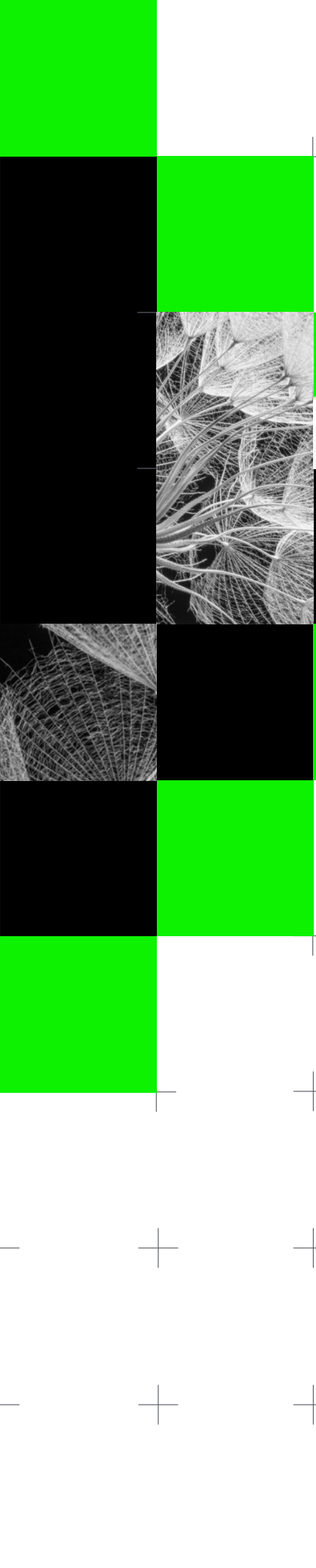
People want to be comfortable. Don't just hire one. No one wants to be “the one.” We've done that—it's not an attractive proposition. When I'm asked the difference between my first job vs. my second job, I was treated very well in both organizations. But in my second job, I had more of a defined specialty. 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.

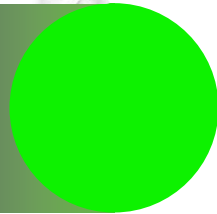
**I read a study somewhere that we've changed more in the last six months than we have in the past decade.**

**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.

**T**HE 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.

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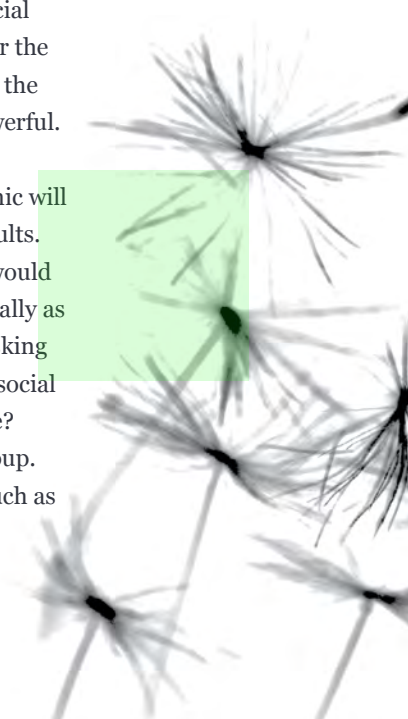
From a business perspective, it's very important to capture the market and to provide high quality and reasonable prices to the public in Hong Kong. This involves understanding what's happening; you have to be a bit more visionary. When we encountered the third wave, we were able to mobilize 16 air-inflated 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

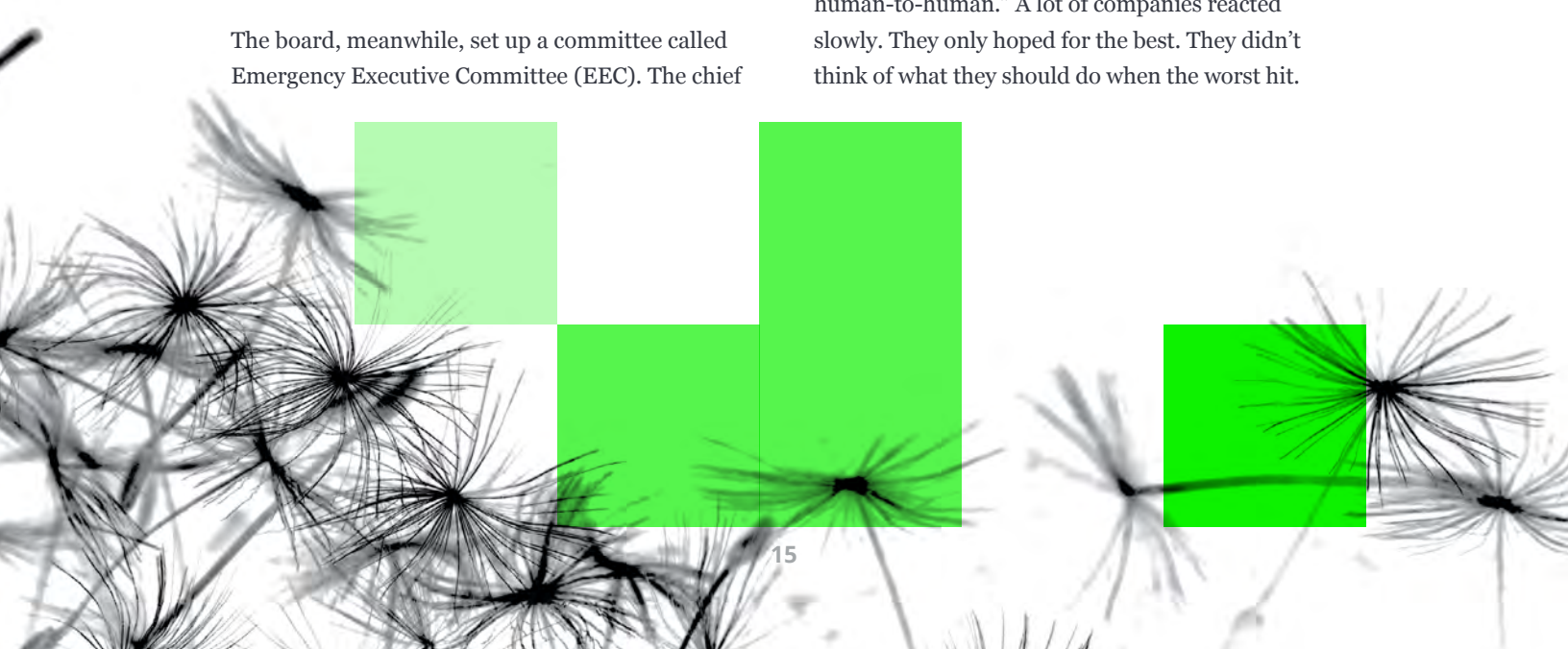
executive is in the EEC while the chairman is in the CCC. This forms a link that brings all partners together. It also allows many ordinary procedures to be bypassed.

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.

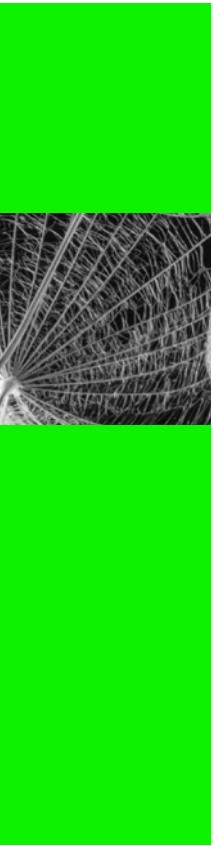


Instead, they thought, when summer comes, everything will be alright. But the pandemic showed us that the best-case scenario may not happen. And if it doesn't, you have to have contingency plans in place.

**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.

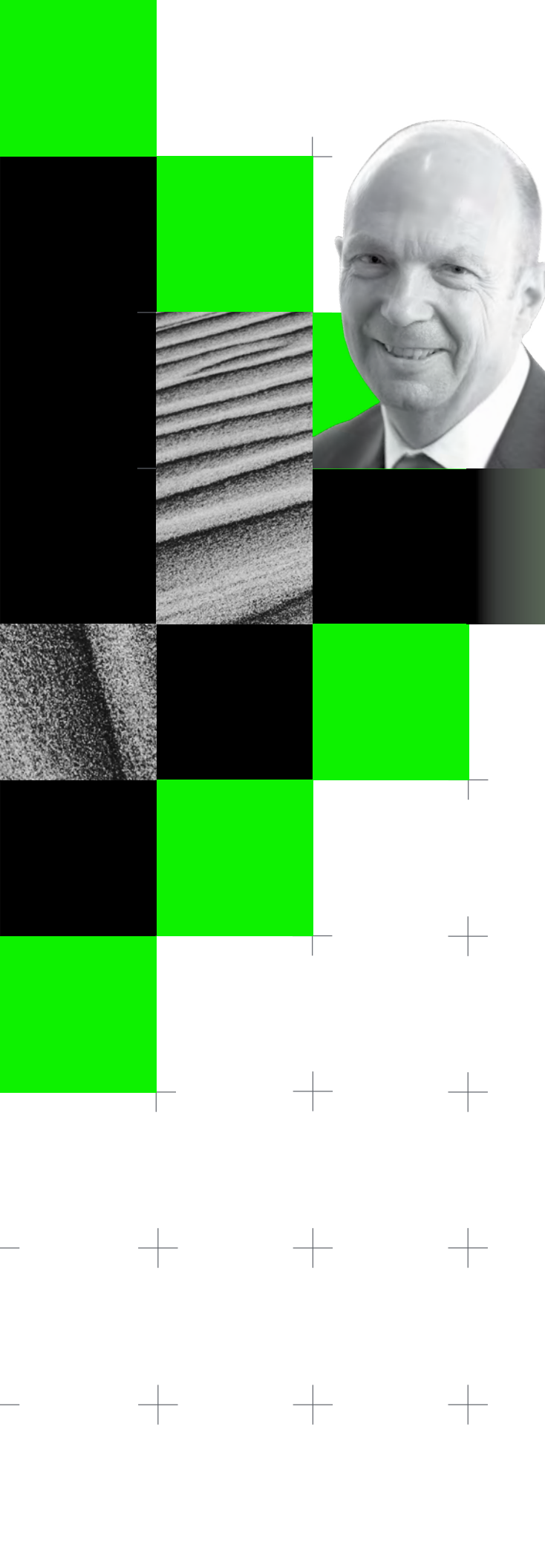
#### How can boards gain expertise on climate issues?

**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. ●

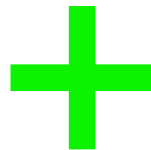


# Interview

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.

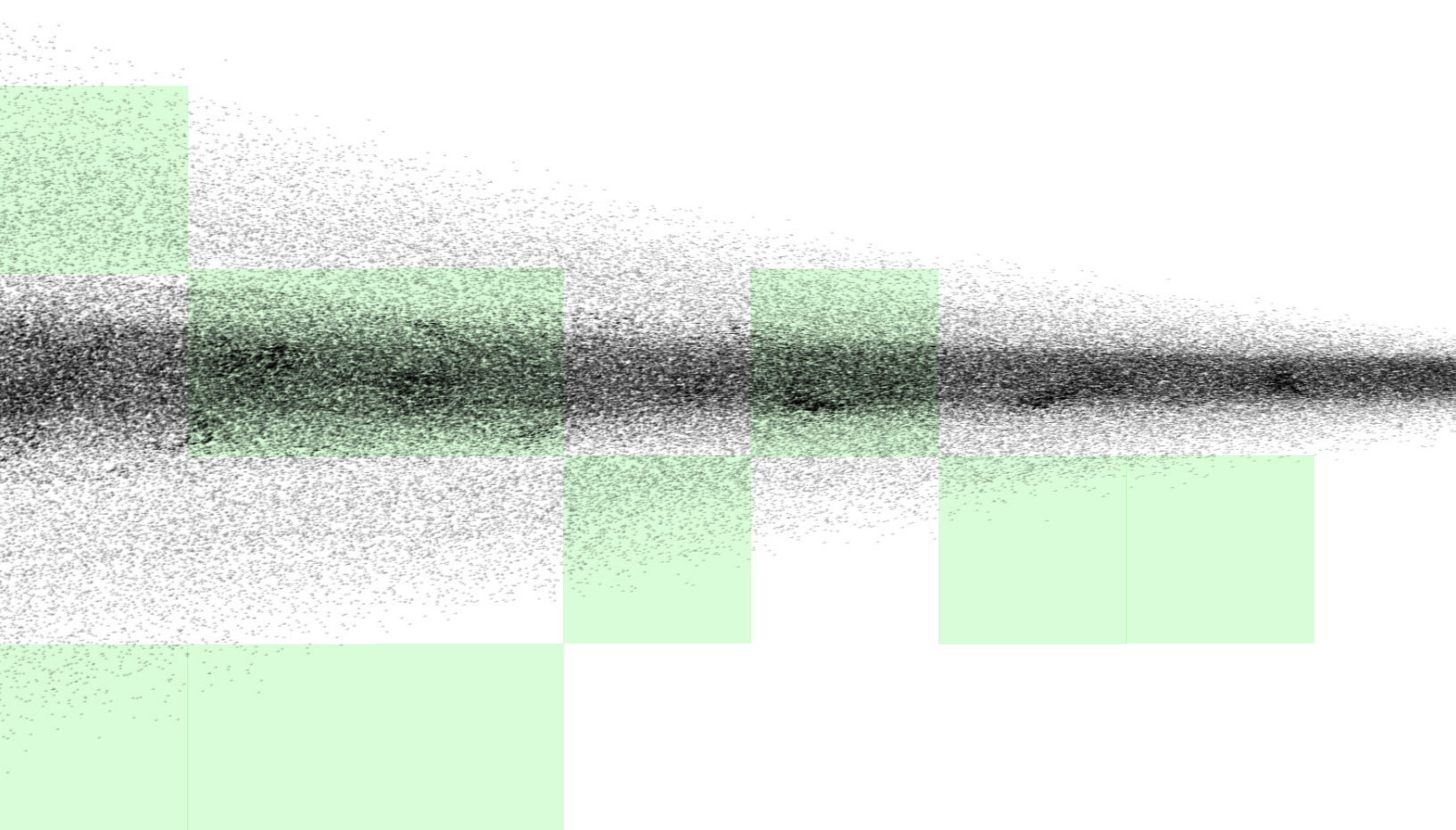
**The mantra we've used throughout the crisis was *whatever it takes*: whatever it takes to ensure our customers and staff are safe.**

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.

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.**

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

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. ●



INSTALLMENT 2: JANUARY 2021

# Global outlook, January 2021

By Ira Kalish, chief global economist,  
Deloitte Touche Tohmatsu Ltd.

**IN OUR JANUARY *Directors' alert, independent directors in Singapore and Europe weigh in, along with Deloitte Global CEO Punit Renjen, on the leadership challenges and new priorities boards face at this pivotal and historic moment. Board directors will need to help management overcome pressing, immediate challenges while helping guide organizations on the best path to thrive in the future. To navigate effectively, directors will need to model and encourage smart, effective, skilled leadership, coupled with open communication and a commitment to transformation. How quickly regional economies can emerge from the grip of COVID-19 will impact boardroom agendas around the world. With that in mind, we're kicking off this alert with Deloitte's global economic outlook.***

As 2021 begins, the world faces promise and peril. Vaccine distribution is underway, offering the promise that COVID-19 could ultimately be quelled sometime this year. Meanwhile, however, the pandemic continues to threaten economic stability, especially in parts of the world where the outbreak has not been controlled. This is true in the United States and the United Kingdom and threatens to be a problem elsewhere if the new strains of the virus spread further. The challenge for policymakers will be to stifle the current outbreak, protect those who are disrupted, and speed up distribution of vaccines.

## **United States**

The US economy clearly weakened toward the end of 2020. Personal income and consumer spending both

declined<sup>1</sup> in November and some measures of housing activity<sup>2</sup> weakened after many months of stellar performance. Although the number of new infections began to abate toward the end of December,<sup>3</sup> public health officials worry that the increase in holiday travel in late December will result in yet another surge in infections in January and into February.

Meanwhile, the US Congress passed and the president signed a spending package of about US\$900 billion.<sup>4</sup> It includes extended unemployment insurance, cash for households and businesses, and money for education and medical care. It will modestly buttress the economy for a few months, but more will likely be needed. Now that Joe Biden has become president, Congress is expected to take up his request for additional funding to boost testing capabilities and distribution of vaccines.

Eventually, the virus will be defeated. When recovery comes, middle-income to upper-income households will likely stop saving such a large share of their income and spend more on consumer-facing services, such as restaurants and travel. This shift in behavior will go a long way toward boosting the rate of economic growth. On the other hand, even a robust recovery later this year will not likely erase the troubles faced by many former employees of consumer-facing industries; they will remain unemployed. Disruption of the job market will be a longer-term problem, one whose solution will be debated in Congress. There will be plenty of talk about the K-shaped recovery in which upper-income households prosper while lower-income households suffer prolonged economic disruption and risk.

### **European Union**

After a second surge of the virus began in Western Europe in October, many governments imposed new restrictions, setting the stage for a decline in economic activity in the fourth quarter. But as the quarter unfolded, the surge reversed: In several countries, people stayed home and avoided social interaction, and the number of new infections fell sharply. That decline, in turn, led many analysts to expect a rebound in economic activity in the first quarter of 2021. But by early January, the new strain of the virus ravaged the United Kingdom, where they experienced the highest number of hospitalizations since the crisis began. And it has started to wreak havoc elsewhere, especially in Italy and Spain. Across Europe, the surge is causing stress on the health care system.

Consequently, many European countries now plan to extend economic restrictions. In Germany, for example, the government is extending the lockdown until the end of January.<sup>5</sup> The UK government is imposing stricter limits on economic activity. In France, the government is extending lockdowns geographically and has postponed removing existing restrictions. These and other measures are likely to cause economic growth to decelerate in the first quarter. Moreover, the situation may remain

precarious until most of the general public has been vaccinated. As one health official in France said, “We have another four months of collective effort ahead of us.” That assumes rapid vaccination. Yet so far, the number of vaccinations administered is far below initial plans. Thus, the European outlook is starting to deteriorate.

### **China**

China's economic growth continues at a healthy pace. Consumer spending has been boosted by confidence that the virus is under control. Fixed asset investment has been helped by substantial funding for state-owned enterprises as well as regional governments. And exports have performed well. This is partly due to the fact that China is a leading producer of products in high demand during the pandemic, such as personal protective equipment and technologies used for remote interaction.

Yet the strength of China's economy has come with a cost: rising debt. Moreover, the government is evidently keen to avoid the kinds of financial pitfalls that often emerge when credit creation is excessive. The government is allowing bad corporate debtors to default on loans and bonds<sup>6</sup> rather than encouraging lenders to roll over loans. This

suggests that the government wants to create a sounder financial base for the coming decade. Although a system of credit that punishes failure will eventually generate more productive investment and faster growth, in the short term, it will create disruption.

### **Emerging markets**

Emerging markets have experienced a range of economic outcomes during the pandemic, but the common denominator has been a sudden, temporary collapse in economic activity followed by a rise in debt.<sup>7</sup> Although many emerging market countries are now growing rapidly, achieving a full recovery will depend on many factors, including how rapidly vaccines are distributed in poorer countries. Even in the best circumstances, many countries will remain laden with debts that could stymie growth and create financial vulnerabilities. The ability to service and pay down debts will depend on the path of global commodity prices, the volume of remittances from expats living in affluent countries, the value of the US dollar (in which many external debts are denominated), the speed and breadth of the massive tourism industry recovery, and the health of global trade in manufactures. All these factors, to some degree, depend on how soon, and how completely, the virus can be eradicated.



**Ira Kalish** is the chief global economist of Deloitte Touche Tohmatsu Ltd. He is a specialist in global economic issues as well as the effects of economic, demographic, and social trends on the global business environment. He advises Deloitte clients as well as Deloitte's leadership on economic issues and their impact on business strategy. In addition, he has given numerous presentations to corporations and trade organizations on topics related to the global economy. He is widely traveled and has given presentations in 47 countries on six continents. He has been quoted by *The Wall Street Journal*, *The Economist*, and the *Financial Times*. Dr. Kalish holds a bachelor's degree in economics from Vassar College and a PhD in international economics from Johns Hopkins University. ●



# *Interview*

WITH **Chaly Mah**

Independent director,  
Singapore



**Chaly Mah** is currently the Chairman of Netlink NBN Trust, Singapore Tourism Board, Surbana Jurong Group and the Singapore Accountancy Commission. He serves on the boards of Capitaland Limited, Flipkart Pte Ltd, Economic Development Board of Singapore, Monetary Authority of Singapore and National University of Singapore Board of Trustees. He is currently Singapore's Non-Resident High Commissioner to Papua New Guinea. Mr. Mah was previously CEO of Deloitte Southeast Asia and Chairman of Deloitte Singapore. He was the CEO of Deloitte Asia Pacific and member of the Deloitte Global Executive from 2007 to 2015 and the Vice Chairman of Deloitte Global Board from 2015 to 2016.

**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? How has the experience made you wiser as a director?**

**Chaly Mah:** One thing the pandemic revealed was that all the scenario planning and business continuity planning (BCP) just didn't work. None of it worked. That was quite scary. You can laugh now, but at the time, it was scary.

For example, most companies would never have expected they would not have enough workers, or that they wouldn't have workers at all. Most also didn't anticipate having no supplies. But during the lockdown, we had no supplies because the entire supply chain was disrupted.

Going forward, I think one lesson learned is that we have to have BCP include the possibility of other pandemics. This will likely not be the only pandemic in our lifetime. Think about SARS; that wasn't all that long ago.

One of the companies I am involved in relies on subcontractors to help lay fiber networks. When the pandemic hit, there was a surge in demand for additional fiber networks since so many people were now working from home. But the lockdowns closed the dorms where our subcontractors' workers stayed, halting progress. For a couple of months, this posed a real challenge. This is just one example of a scenario that nobody anticipated. Now, we are trying to spread our contract suppliers around, and are requiring them to have some of their workers not stay in dorms. Another lesson we learned is that risk management is not just about managing your own

risk: You need to go down to the next level, making sure all your suppliers also have proper risk management processes in place. No one really anticipated this, either.

Another company I am involved in has shopping malls in China. When the Chinese government shut down some of our malls there due to the pandemic—no foot traffic, no income for tenants—this impacted not just our financial performance but also our asset valuation. At that point, nobody knows how long or when the pandemic will come to an end. Asset valuation, and how it impacts the financials will be another big challenge for boards. The bigger question for most companies is, *How do you prepare for a recovery?* At some point, business is going to return to normal, but it may

**At one of my companies, we immediately brought together teams of young people, gave them a blank piece of paper, and asked them what they thought the future would look like—and how they thought we should get there.**

not be in its current form, so boards will need to review their current business models to determine if they are still relevant in the *new normal* postpandemic.

When the pandemic dragged on, we started to look at the sustainability of our business. How will businesses change? What is the future of shopping malls, the future of offices, the future of work and how we work? Will working from home become a permanent fixture? We all had to consider our business models. At one of my companies, we immediately brought together teams of young people, gave them a blank piece of paper, and asked them what they thought the future would look like—and how they thought we should get there. When asked to come up with ideas that could position the company forward, these young people became excited and felt empowered to make a difference for the future of the company.

Finally, the impact the pandemic has had on tourism has been very painful. I serve on the Singapore Tourism Board (STB). Our mandate is to bring tourists into Singapore and generate economic activity for the country. When your border is closed, you can't do that. Suddenly there is a crisis to manage every day—tour agents closing shops, areas frequented by tourists closed down, etc. While some activities have returned to near normalcy, tourism is still a big challenge: The travel industry in Singapore likely won't get back to pre-COVID levels in the immediate future.

**What are some of the most important factors for companies to consider over the next three-year period?**

**CM:** I think trust—the social contract between society and business—is very important. On the road to recovery, we'll really need to build trust in the system. In Singapore, most people trust the government and its systems. The STB recently launched the SG Clean quality mark, a certification standard for restaurants and hotels to help people feel more confident and safer about traveling to Singapore and doing business here. I think it will help with the recovery.

**Will companies become more risk-averse in financial management? Should they?**

**CM:** Yes, because companies have never seen something like this before. They will be much more aware of black swan events, which will need to be added to the board's agenda. Prudent financial management is something that companies somehow just never seem to learn. During SARS, companies overborrowed. During the global financial crisis, companies also overborrowed; they didn't seem to have learned from the previous crisis.

I think prudent financial management is very important for a board. Boards should ensure management stays within the risk tolerance level the board has set for them. At one of my companies, our board uses risk indicators, targets, and trending risks. Whenever a key risk is trending toward the risk tolerance limits, we ask management why and what steps are they taking to address the risk.

**Will being too risk-averse slow down the recovery?**

**CM:** I think it will. Stronger companies, particularly the ones that have gone on to raise cash, may use this crisis as an opportunity to make acquisitions. Right now, their boards are saying, *Let's not waste this crisis. Let's look at those things we always wanted to do. Can we make an acquisition or look into M&A to expand the business or invest in other areas to get us there?* Of course, on the flip side, companies that are struggling may not be able to sustain their businesses and would become acquisition targets. So, you would see the stronger get stronger, and the weaker get eaten up. Unfortunately, this is the cruel reality of business. But well-managed companies could make use of this opportunity to expand and make acquisitions.



Another key area of focus is cyber risk. Since COVID-19 began, cyber risk has become part of the standing board agenda. With work-from-home arrangements becoming more prevalent, every time an employee accesses company systems from home, it presents a cyber risk. Some cyber incidents could cripple companies. This is why cyber has become an urgent matter for the board.

**How do your companies balance between the needs of a business and those of society?**

**CM:** The pandemic has made the divide between the haves and have nots much more pronounced. In Singapore, we're very fortunate to have a government that takes care of its people and is very progressive. But in other countries, poorer people don't have access to good health care, which is why so many people have died.

**How, then, does this translate to companies?**

**CM:** Boards are now asking questions around societal impact: How do we take care of our people and the future generation? How do new work-from-home arrangements impact mental health? The whole talent agenda has changed. The mental health component is a big challenge because it's very difficult to track stress when employees are working from home. Some companies are doing little things, like sending care packages to employees working remotely, to let them know they are still thinking of them.

Boards are becoming more inclusive about ESG (environmental, social, governance) goals. Organizations that received government support and were not as badly impacted should consider giving some of the money back to society.

At one of my companies, for example, we waived internet installation charges to help people work and go to school virtually. We prioritized homes that were not connected and connected them free of charge. These are just a few things companies can do to bridge the gap between the haves and the have nots.

The Singapore government is doing a great job helping senior citizens go digital. It has deployed ambassadors to teach older generations how to use contract tracing apps, and other things we need to do to have a more inclusive society.

**Boards are now asking questions around societal impact: How do we take care of our people and the future generation? How do new work-from-home arrangements impact mental health? The whole talent agenda has changed.**

Trust between management and the board is now very critical. And a level down, the trust level between management and employees is also very important because management is making very difficult decisions such as pay freezes and pay reductions, and employees want to know why. Management needs to continue to build trust with the entire organization. For many younger

employees, this is probably their first experience of a crisis and economic downturn.

### **And what about investors?**

**CM:** Transparent and open communication has become even more important now. We have numerous discussions at the board level, particularly around disclosure and, if asset valuation has been impacted, there are questions about profit warnings. These will be the sorts of discussions to have with your stakeholders and investors. Timing becomes critical when you issue a profit warning; it has become a board agenda item. With management busy with the day-to-day issues, boards have been asking about the impact, when you disclose, to what extent do you disclose, and how big is the impact. These are not easy questions to answer.

**This crisis has taught us that every time there is an event with a potential major impact on your financial performance, you have to consider whether and when you need to disclose.**

For boards to be transparent and have open communication with investors, they need to have policies in place for continuous disclosure. In the past, the continuous disclosure regime seemed to be around transactions and acquisitions—when are you aware of an acquisition and when you disclose it. But this crisis has taught us that every time there is an event with a potential major impact on your financial performance, you have to consider whether and when you need to disclose.

### **And what about ESG issues in the boardroom?**

**CM:** Boards are asking questions around social impact as well as the environmental and governance concerns. Climate change and its impact on rising sea levels are real challenges. The government here committed to spending one billion dollars a year for the next 100 years to manage flood risk and rising sea levels. The projections show if nothing is done, in 50 to 60 years, parts of Singapore may be under water. Consider fiber networks, connected to homes, which are all underground and protected in pipes. Any time there's a cut, to get down there you need to dig. Every time you dig, there's water, which requires pumping out in order to access the pipes. So questions to ask management would be: *What happens if parts of Singapore are underwater? Even if the fiber is water resistant, how will you access it?*

Boards would be irresponsible if they didn't have ESG goals in their discussions around the impact of climate change. And while carbon footprint is a very complicated subject, boards are now starting to think about it, because the call to action is now.

On all the boards I'm involved in, there's an ESG plan, management commits to certain targets, and the board holds them accountable for it. Management is measured based on reports on how they executed against the plan.

### **Should companies have a board committee dedicated to this area?**

**CM:** It really depends on the type of business. It's not one-size-fits-all. The boards I'm involved in have a committee but not at the board level, though there is a board sponsor for the committee. Other organizations have this as a board-level committee.

More broadly, ESG is getting a lot of traction. Boards really need to make it part of the agenda because getting ahead on ESG can drive down business costs in the long run. Increasingly, as a condition for investment, investors are demanding companies set and meet specific ESG goals. Banks, meanwhile, are promoting sustainability in their product mix: Green bonds and green loans are priced more favorably than typical bonds and loans, but can only be used for green projects. There are also sustainability bonds, which are priced lower, but require companies to achieve carbon footprint targets by a certain period.

Now, some companies are exploring whether they should include a carbon penalty into the cost of capital. It's a new concept that's still evolving, but boards really need to take this seriously. Sustainability bonds and green bonds can all help drive down cost, but, on the other hand, if you start to include the cost of carbon into your weighted average cost of capital, it will drive up your cost of capital.

### **What do you think are the top three secrets to an effective board?**

**CM:** Trust among board members, and between management and the board. Without that, the board—and the company—can't function. The second is transparency, open communication, and candid discussions. Third, the board must have independence; you can have diverse perspectives, and yet be able to respect each other's views.

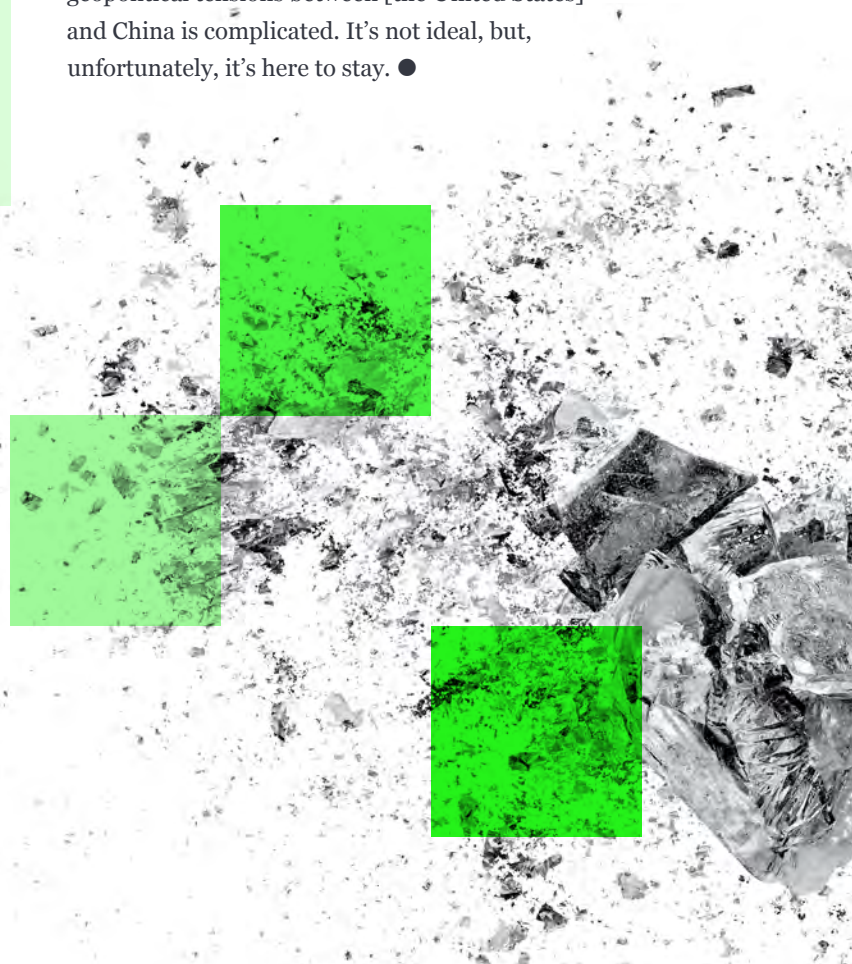
### **And for a new CEO?**

**CM:** Similarly, the CEO needs to build trust with his own people, command respect, and take leadership and accountability for his or her team. Between the CEO and the board, having trust and open communication is really important; that communication channel needs to stay open.

### **Which external trend do you think boards should be talking more about and why?**

**CM:** The "unknown unknown" is what I'm most concerned about. This involves a company's resilience and sustainability. Manufacturing companies in Asia, for example, have seen customers start to diversify their supply chains. Instead of using production facilities only in China, many companies are shifting some of their production base to countries like Vietnam and Cambodia.

Companies will need to assess the external environment and geopolitical situations and adjust their business models as needed. The current geopolitical tensions between [the United States] and China is complicated. It's not ideal, but, unfortunately, it's here to stay. ●





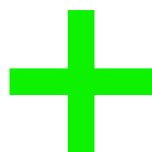
# *Interview*

WITH

# **Karin**

# **Dohm**

Independent director,  
Germany



**Karin Dohm** is a member of the management board of Hornbach Baumarkt AG and Hornbach Holding AG, and takes on the CFO portfolio in both companies on April 1, 2021. She also serves on the supervisory board of Ceconomy AG and is the independent deputy chair of Deutsche Europshop AG. Previously, Dohm held several leadership roles at Deutsche Bank AG; most recently she was the global head of government and regulatory affairs. She started her career as a partner at Deloitte.

**IT IS SOMETIMES SAID that a crisis is like water, it finds the cracks in an organization. What did the pandemic reveal for you? What are the biggest issues facing your companies in the recovery?**

**Karin Dohm:** Indeed, the biggest challenges have been how unpredictable and quick developments have occurred and now, a year later, how we're all still grappling with the pandemic. From an organizational perspective, the crisis has taught us to reflect upon our general approach to governance and ask hard questions, such as: What will we be facing in the next 18 months, having left behind all sense of normalcy? How does it affect our systems and the process of decision-making? How well are we prepared to react, in terms of scenarios and plans? And how do we avoid falling back into old habits, with a deceptive sense of certainty?

**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?**

**KD:** Similar to the global financial crisis in 2008, liquidity turned out to be key during the pandemic. Here in the European Union, governments and central banks did an excellent job this time supporting the available liquidity in the market. Once again, interdependencies and intellectual property (IP) are garnering further attention. I expect that we will see changes in production and distribution chains, especially in the pharmaceutical and manufacturing industries over the next few years; boards and political leaders will want to safeguard IP, such as research and development.

My background is as an auditor, so I tend to focus on risk management processes more than most board members typically do. I think COVID underscored the need to regard the potential consequences of distress as a risk to supply chains, to revenues, which

were affected due to customers' behavioral changes, and more. This can be applied to any form of disruption, no matter where it derives from.

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

**KD:** In general, companies need to focus not only on the short-term acceleration of any envisaged changes but also on mid-term and long-term strategic developments and innovation, independent of and beyond the circles of crisis management. For any board, maintaining the vision and looking beyond the immediate future has been challenging in 2020. On the other hand, the pandemic crisis has shown that boards can operate more flexibly. Board members tend to be pulled together more than before and the amount and frequency of exchange has intensified. It has also revealed the growing demand for boards to support complex decisions.

**The pandemic has led to calls in some quarters to rethink capitalism to some degree, and to reconsider the social contract that exists between business and society. How are boards balancing the need to adapt to the changing needs of society and their obligations to shareholders?**

**KD:** The pandemic indeed has raised boards' awareness of these issues. However, I am not sure how profoundly this awareness is leading to long-term change if you look across our economies. To transform based on the lessons learned during the pandemic, we need to adopt a broader set of actions than we did so far. Just to give a tiny but important example: Within the health care industry, for example, companies should consider creating new payment schemes for nursing staff, so their compensation is more aligned with the medical and societal value they bring.

I am convinced that 2021 is the year where we need to develop further and embed an ESG approach to corporate actions. Not only because investors and shareholders demand that (rightly so!). But also, out of our own conviction, as one of the lessons of 2020 was that we cannot just carry on like we did.

**How has the pandemic impacted trust in general? Among board members? How about with balancing trust and challenge with management?**

**KD:** As in any crisis, COVID-19 rightly increased the frequency and exchange of communication between companies and their stakeholders. I believe intensified communication is a meaningful tool for crisis management in general.

**Many companies have been much more engaged with investors in this period—updating them on results on liquidity and perhaps also raising finance. 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 as the standard going forward?**



**KD:** In Germany, one of the areas that needs further development is the format of annual shareholder meetings. Ideally, we should offer both virtual as well as onsite participation going forward. This discussion has just started.

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

**I am convinced that 2021 is the year where we need to develop further and embed an ESG approach to corporate actions. Not only because investors and shareholders demand that (rightly so!). But also, out of our own conviction, as one of the lessons of 2020 was that we cannot just carry on like we did.**

**There is a growing call for companies across industries to more intentionally integrate ESG into a range of key performance measures. This should place ESG, including climate, as more central topics on the board's agenda. Do you think companies get this? Are they doing enough to report their ESG progress, as investors are beginning to demand?**

**KD:** Yes, with different paces and breadth, though. I think that speed is critical, and it would help if companies' efforts to reduce their CO<sub>2</sub> footprint is accompanied by governmental standards and incentives. Do we need an ESG committee in the board? No! This is not a ring-fenced topic. It is pervasively important for our overall strategy and planning. We expect serious further regulation within the European Union in the next few years, which is why the entire board needs to prioritize and focus on this now.

**What are the top three secrets to an effective board?**

**KD:** Trust, transparency, and genuine interest in the company and its environment.

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

**KD:** Reach out and use the board as a sparring partner and in its advisory capacity.

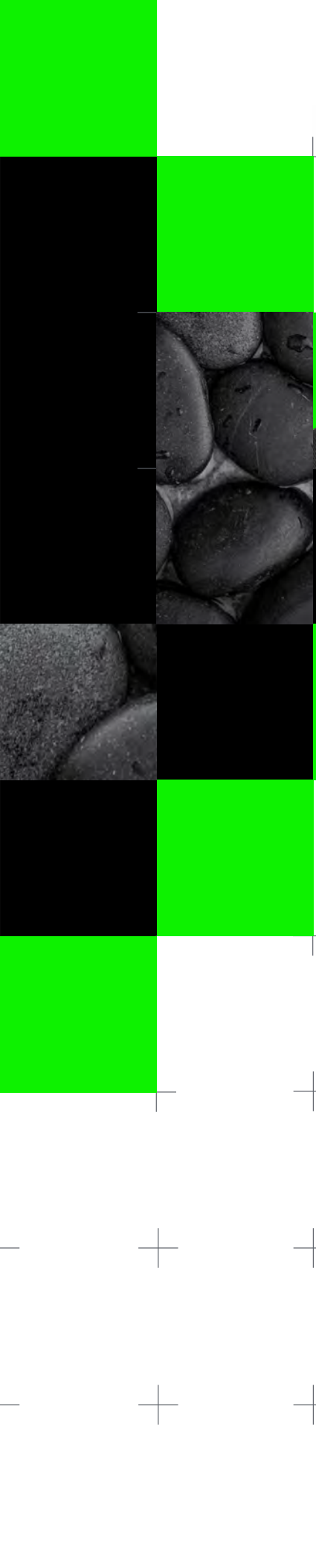
**What single external trend do you think boards should be talking more about and why?**

**KD:** In-depth assessments of cyber risks. Across industries, the challenges and risks associated with cyberthreats will increase in range and depth over time. ●

**KD:** ESG and the reflection of ESG criteria in a company's activities and reporting is—and needs to be—of ever-rising importance, independent of the current situation. Nevertheless, COVID increased the focus and the attention on ESG, even if we are still discussing the ways to achieve such change and how quickly we can make change happen. We have a strong dynamic in this process of discussion.

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

**KD:** Any company's impact on its environment and the climate needs to be a critical measure that management and boards apply when designing strategies and defining actions. That should not be the job of a committee; it needs to be ingrained in the everyday work of a board as a whole. I think that nonexecutive directors have an obligation to take on the role of challenger in this situation. Because directors are not bound in daily business issues, they can push to embed the climate discussion into the company's strategy and related KPIs.



*Interview*  
WITH **Punit**  
**Renjen**  
Deloitte global CEO



**Punit Renjen** is Deloitte's global CEO and a member of the Deloitte Global Board of Directors. Prior to his current role, Renjen served as the chairman of Deloitte LLP (US member firm) from 2011 to 2015. He served as CEO of Deloitte Consulting from 2009 to 2011. Outside of Deloitte, he is a member of The Business Roundtable, The International Business Council of the World Economic Forum, and several not-for-profit boards, including the US-India Strategic Partnership Forum (vice chairman). Previously, he served as the chair of the United Way Worldwide.



## WHAT IS THE key to an effective board?

**Punit Renjen:** To be effective, a board must keep a laser-like focus on the organization's purpose and values—and hold management accountable to do the same. The best boards are focused not just on oversight of current management activities, but on the long-term strategy and success of the organization. They are forward-looking and bring a diverse mix of skills, backgrounds, and perspectives that enable them to ask the right questions. They help management anticipate trends and shape strategies to capitalize on opportunities.

**The COVID-19 pandemic has led to calls in some quarters to rethink capitalism and reconsider the social contract between business and society. How are boards balancing adapting to the changing needs of society with obligations to shareholders?**

**PR:** The COVID-19 pandemic accelerated the shift in society's expectations of business to measure success through a multistakeholder lens, rather than primarily to maximize shareholder value. In 2019, Business Roundtable released a new statement with nearly 200 signatories (Deloitte included) saying that companies should take a broader view of their stakeholders—one that includes investing in employees, dealing fairly with suppliers, and supporting communities. As the pandemic has worsened socioeconomic inequalities around the world, this commitment has only become more important.

**What shifts have you seen over the past year in the way companies, investors, and other stakeholders are thinking about ESG?**

**PR:** 2020 has been a year unlike any other. COVID-19 was a shock to the system and brought about fundamental shifts in business and society. As CEOs and boards have navigated the uncertainties and disruption, it's clear that trust is more critical than ever. Resilient leaders build and nurture solid relationships and a bank of trust prior to a crisis. To maintain that trust—particularly during a crisis—leaders need to be transparent, challenging each other with tough questions and supporting each other through difficult decisions.<sup>8</sup>

**As CEOs and boards have navigated the uncertainties and disruption, it's clear that trust is more critical than ever.**

In addition to the challenges brought about by the pandemic, the world has reached a tipping point on societal issues. From racial justice to climate change, people around the world are demanding action.

In September, Deloitte joined with the other Big Four and Bank of America to announce a common set of metrics and disclosures related to the SDGs and other ESG objectives. If business collectively agrees on how we measure progress in these areas, stakeholders can better understand company performance and investors can ensure they are investing in sustainable enterprises. From a

societal perspective, enhanced reporting will set us on a path to a more sustainable, equitable future.

**Let's take a deeper dive on the topic of climate change. What is the role of the board of directors with respect to climate? How can the board work effectively with management to set and reach key goals?**

**PR:** The future of the planet depends on the business community acting on climate change. This is what stakeholders and employees expect, particularly millennials and Gen Z, for whom climate is the primary concern. And it's what we

should expect of ourselves as responsible global citizens.

That's why in September, Deloitte stepped up our response to the climate crisis with the launch of *WorldClimate*—our commitment to achieve net zero emissions within Deloitte by 2030 and green our own operations. Through *WorldClimate*, we are encouraging our people to make responsible climate choices at work and home. And we are engaging our broader ecosystem to create solutions that facilitate the transition to a low-carbon economy.

Board-level and CEO-level support, collaboration, and accountability are critical to any environmental sustainability initiative, which won't go far without buy-in from the top. The board and senior management must work together to embed environmental sustainability into the organization's strategy, elevate it to the importance of a "must-have," and set tangible, measurable goals.

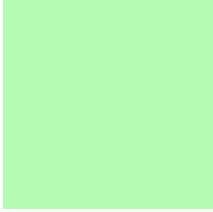
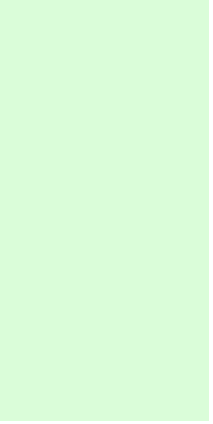
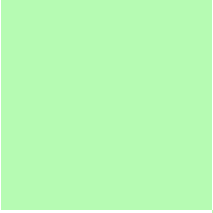
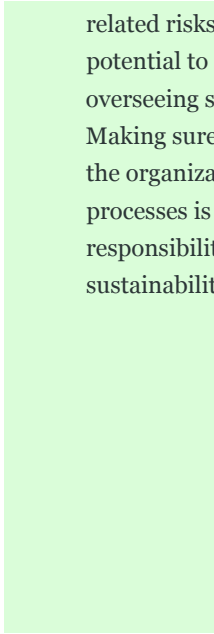


**There is a growing emphasis on more intentionally integrating ESG (including climate) into enterprise risk management practices, which helps position these topics more centrally on the board’s agenda. What is at risk if companies fail to take these topics seriously?**

**PR:** As ESG-related matters have grown in importance to investors, customers, and employees, so has awareness of potential ESG-related risks and the need for organizations to identify, disclose, and manage these potential risks. ESG-related risks ranging from climate change to workplace culture to board gender composition have the potential to impact a company’s reputation and performance.


Boards should play a central role in assessing ESG-related risks, identifying those with the most potential to impact the organization, and overseeing steps taken to mitigate these risks. Making sure that ESG matters are integrated into the organization’s enterprise risk management processes is an essential part of the board’s responsibility to oversee the long-term success and sustainability of the organization. ●

**The board and senior management must work together to embed environmental sustainability into the organization’s strategy, elevate it to the importance of a “must-have,” and set tangible, measurable goals.**





**INSTALLMENT 3: APRIL 2021**



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

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

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

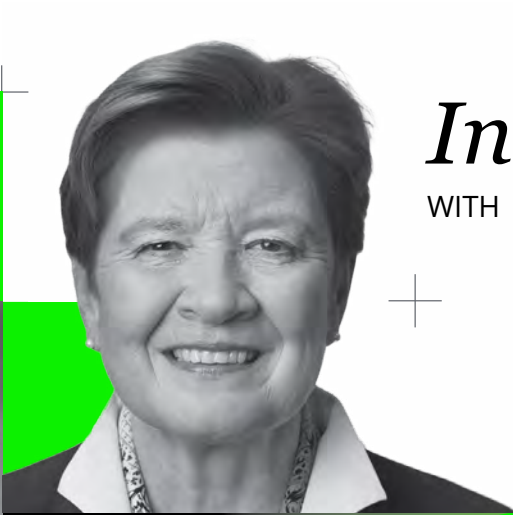
like these are why we have boards of directors in the first place. Strong and resilient boards will have the diversity of skills, backgrounds, and thought to make reasoned assumptions about the present and the future—and to constructively challenge management's thinking—steering the organization through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

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

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

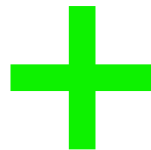
**Sharon Thorne** | Deloitte Global Board Chair | Deloitte Global

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



# *Interview* WITH **Monica Mächler**

Independent director,  
Switzerland



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

**F**ROM YOUR PERSPECTIVE, what is the biggest challenge most companies face right now?

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

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

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

**The pandemic has led to calls in some quarters to rethink the social contract that exists between business and society. How are boards balancing the need to adapt to the changing needs of society and their obligations to shareholders?**

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

**Corporations need to be interlinked with the environments they operate in. For companies to be sustainable and achieve success for decades to come, it is critical to foster this embeddedness.**

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

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

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

**How has the pandemic impacted trust among board members?**

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

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

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

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

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

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

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

**In difficult times, leadership must also be strong so that the board speaks with “one voice.” Often, I think that such challenges help unify a board way more than in normal times when there is not as much of a pressing need to join forces.**



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

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

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

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

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

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

**What could corporate leaders do to make that happen?**

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



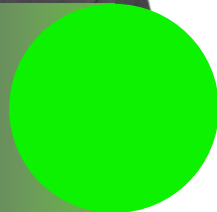


# *Interview*

WITH **Ivan**

**Menezes**

CEO and executive director,  
Diageo plc, United Kingdom



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

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

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

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

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

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

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

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

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

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

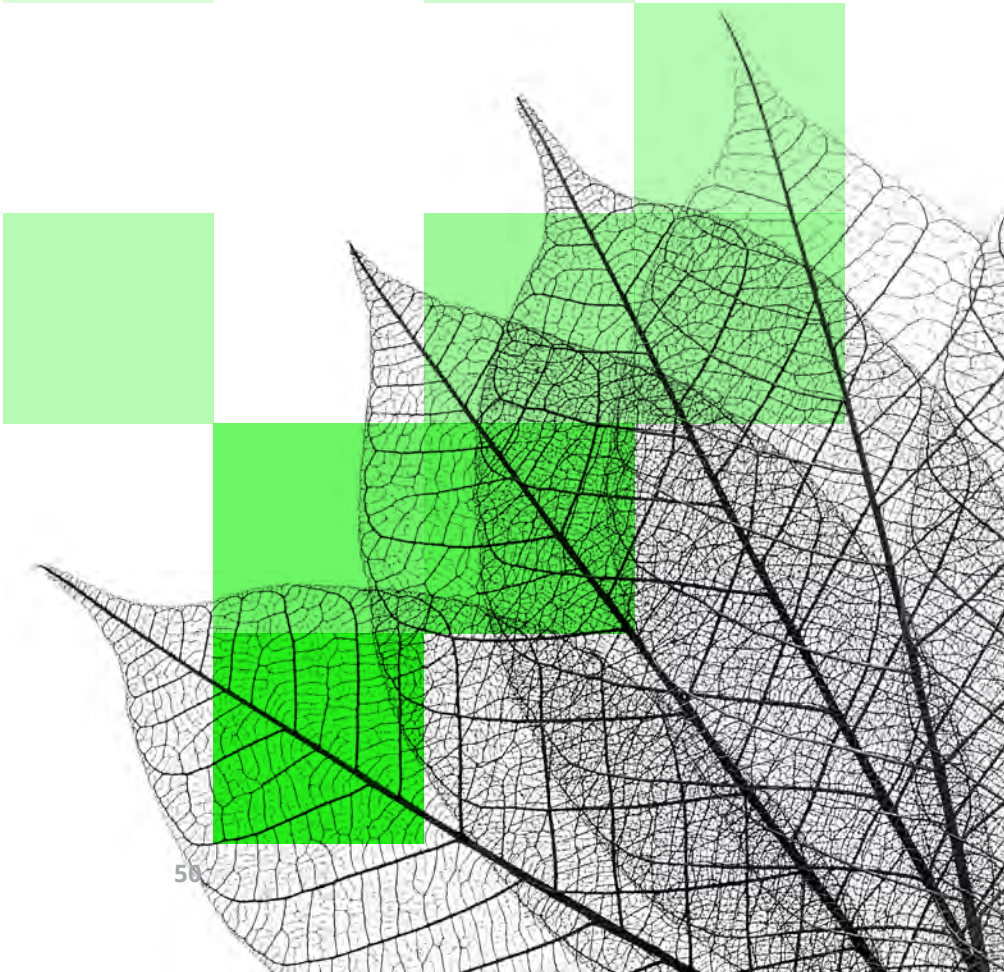
**How has the pandemic encouraged you, as CEO, to think differently about risks?**

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

**The pandemic has led to calls in some quarters to rethink capitalism to some degree, and to reconsider the social contract that exists between business and society. How are boards and**

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

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



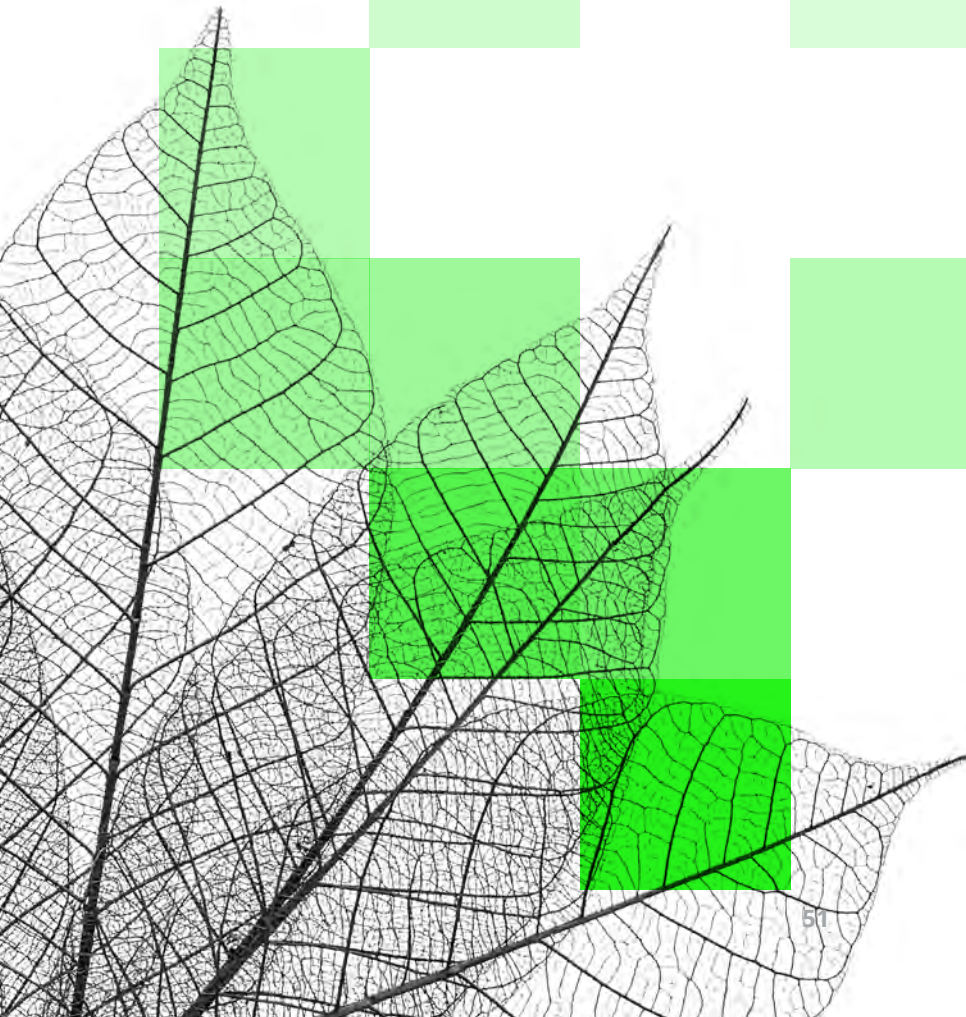
also developed and launched our new 10-year ESG action plan—we call it “2030: The Spirit of Progress,” and it’s based on 25 stretching societal goals with very bold ambitions on positive drinking, diversity and inclusion, and sustainability. We plan to build on the good progress we’ve already made over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

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

**Many companies have been much more engaged with investors in this period. Do you think the pandemic has changed the engagement level of investors with their portfolio companies forever and for the better? What has worked well and what should be bottled and used forever?**

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

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



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

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

**What are the top three secrets to an effective board?**

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

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

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

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

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

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

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

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

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

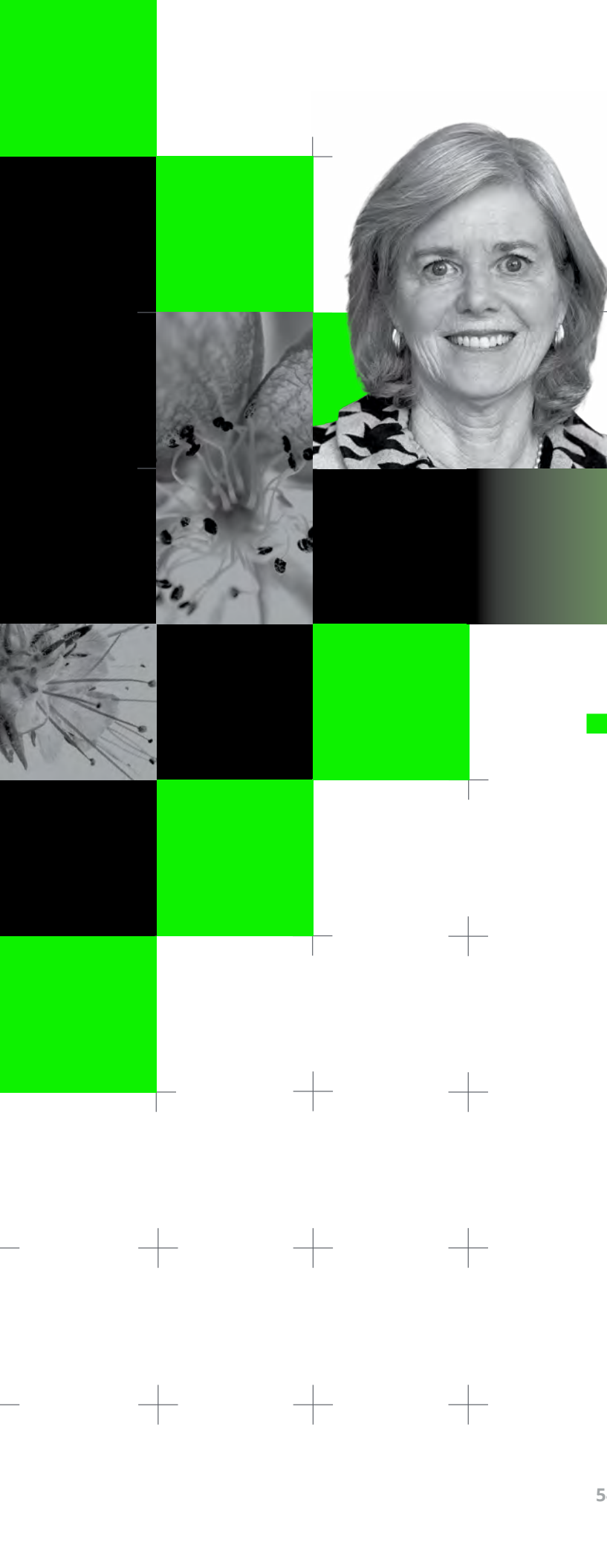
**In some way or fashion, how has the pandemic changed you, as a leader?**

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

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

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

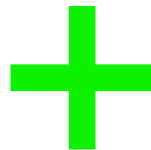
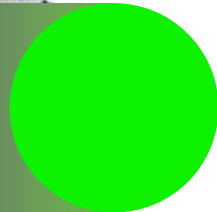
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# *Interview*

WITH **Barbara**  
**Stymiest**

Independent director,  
Canada



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



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

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

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

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

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

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

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

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

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

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

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

**The pandemic has led to calls in some quarters to rethink capitalism to some degree, and to reconsider the social contract that exists between business and society. How are boards balancing the need to adapt to the changing needs of society and their obligations to shareholders?**

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

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

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

**Has the pandemic accelerated these trends in the boardroom?**

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

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

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

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



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

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

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

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

**And what does that mean for boards?**

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

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

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

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

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

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

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

**This is not a "black swan" event.**

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

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

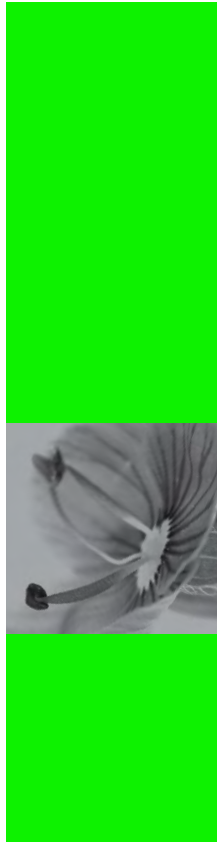
**BS:** The role of leadership has never been so important. There needs to be agility and collaboration between senior management and board leadership. We all need to be able to create much more robust strategies, to be able to pivot strategy, to be able to cocreate strategy with stakeholders, to be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

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

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

**What can the board do to provoke that?**

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



## About the authors

**Sharon Thorne** | [globalchair@deloitte.co.uk](mailto:globalchair@deloitte.co.uk)

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.

**Dan Konigsburg** | [dkonigsburg@deloitte.com](mailto:dkonigsburg@deloitte.com)

Dan Konigsburg leads Deloitte's Global Boardroom Program, a global network that promotes dialogue in the critical area of corporate governance across 66 countries. The Program coordinates thought leadership on governance issues developed by Deloitte member firms to advance thinking on corporate governance issues around the world. Konigsburg serves as Chairman of the OECD's Business Advisory Committee (BIAC) on Corporate Governance, is a member of the Board of Governors of the International Corporate Governance Network (ICGN), and serves as a director on the board of the US Council for International Business (USCIB).

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### Industry leadership

**Sharon Thorne**

Deloitte Global Board Chair | Deloitte Global  
+44 207 303 5709 | [globalchair@deloitte.co.uk](mailto:globalchair@deloitte.co.uk)

**Dan Konigsburg**

Senior managing director, Global Boardroom Program | Deloitte Global  
+1 212 492 4691 | [dkonigsburg@deloitte.com](mailto:dkonigsburg@deloitte.com)

## Endnotes

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### **Deloitte Insights contributors**

**Editorial:** Karen Edelman, Hannah Bachman, Nairita Gangopadhyay, Abrar Khan, and Rupesh Bhat

**Creative:** Sylvia Chang

**Promotion:** Maria Martin Cirujano

**Cover artwork:** Sylvia Chang

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