New Demands Call for Transformational Leadership:
Best Practices to Thrive Within a Shifting Governance Landscape

Today's shareholders and stakeholders increasingly expect organisations to do well by doing good. To thrive in this stakeholder-centric landscape, modern governance leaders must manage a digital transformation that drives governance, risk and compliance (GRC) best practices – and that provides a holistic, integrated view of GRC throughout an organisation.

"Leaders are looking at new ways of measuring success, new ways of fostering innovation, new ways of collaboration, new ways of carrying out their missions and visions – all while keeping all stakeholders in mind."

Liam Healy
Managing Director, Diligent

As boards and leadership teams emerge from the COVID-19 pandemic, they are evolving to meet the 'new normal' of distributed workforces, disrupted workplaces and hybrid meetings. At the same time, under pressure from stakeholders to operationalise environmental, social and governance (ESG) principles, organisations are prioritising diversity and representation initiatives. These complex demands ensure that risk and compliance remain hot topics, particularly as legal, risk, compliance and audit teams face shifting obligations and develop new models of reporting 'up' to the board.

At its 2021 Modern Governance Europe event, Diligent created a virtual space for more than 1,500 governance, risk and compliance professionals from across Europe to come together and share insights and best practices on the topics that matter most today. Here are some of the key takeaways from the event:

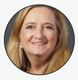
1. Boards Must Adapt to the 'New Normal' of Hybrid Work Environments

The rapid shift to a virtual environment brought challenges, but it also brought opportunities to remodel how board members interact and make decisions. Boards have moved past the initial scramble and, in some cases, have become virtuosos at meeting virtually. Specific functions, such as the audit committee, have become even more efficient by using virtual board meetings to review and discuss data.

Companies are now learning to use a hybrid model that complements routine virtual board meetings with a select few face-to-face, or to hold hybrid meetings that bring together in-person and remote attendees. Meanwhile, some boards will utilise in-person meetings for bigger themes such as strategy and succession but keep other board meetings virtual. Regardless of the meeting format, cybersecurity remains paramount. This will be an area of continual investment as organisations develop their hybrid models.

Recommended Actions

- ☑ To prepare for a mix of in-person and virtual meetings, digitise any remaining manual or administrative processes, including book-building, board evaluations, conflict of interest questionnaires, minute-taking and approvals.
- ☑ Make sure board materials are accessible across devices, so remote attendees have the same visibility that in-person attendees do.
- ☑ Prepare and send meeting materials and videoconference links through an encrypted platform to prevent the loss or theft of sensitive data.
- ☑ Reaffirm the need for your board to prioritise cybersecurity and establish common standards and best-in-class reporting to identify risks systematically.



"Being forced to go to a virtual format made boards and management committees think about what was absolutely necessary to get through the pandemic. And I think that's a reprioritisation and a focus that will really improve the effectiveness of corporate governance and really recentre directors on what is key and on what needs to be focused on and prioritised."

Eileen Kamerick
Member of the Board of Directors for Associated Banc-Corp, AIG Funds, Hochschild Mining plc., Legg Mason mutual funds, Alzheimer's Association, and ACV Auto Auctions

2. Boards Must Stay Informed of Evolving Risk Management Practices

Security threats, rising stakeholder obligations, distributed business models and a focus on ESG have introduced new risks into the corporate ecosystem. At the same time, legislation, such as the EU Directive on Due Diligence and Germany's Due Diligence Act, require deeper focus on compliance across the entire enterprise. Last year alone, there were almost 300 million changes to regulatory policy. At the same time, cybersecurity and geopolitical risks continue to pose a challenge to organisations of every size.

Companies that prioritise these risks effectively are generally those proficient at joining different stakeholder groups within the business – not only the legal function, but also tax, finance and compliance. These cross-functional groups typically have steering committees that are able to get feedback and strategic direction from the board and are adept at reporting back 'up' to the board.

Risks are not static, however. Once risks have been prioritised, organisations must continually reassess those priorities to maintain nimbleness and stay ahead.

"Board members are realising the power of ESG and what we do to structure that around integrated risk management, bringing lots of different risk management streams together. ESG is going from soft law, and sort of nice to have, through into hard law. Things like mission statements and external reports [are] out there, and they're open for scrutiny. Boards are becoming more aware of gaps between their mission statements [and] the reality of the numbers that they publish on things like CO_2 emissions."

Ezekiel Ward
Founder, North Star Compliance Ltd

Recommended Actions

- ☑ Create a clear road map that strategically shows where your organisation wants to go, from a risk and compliance perspective, over the next 24 and 36 months.
- ☑ Create a cross-functional compliance plan and document steps in the process. Communicate clear roles and responsibilities to stakeholders and automate any manual processes.
- ☑ Measure your risk and compliance programme against best practices and identify any gaps. Review it regularly to evaluate its effectiveness and to reframe priorities.

3. Boards Must Develop Strategies for Building a Diverse Pipeline

The pressure on corporate boards to build a diverse pipeline has never been so strong. Investors and stakeholders are continuing to push for improved board quality and view board composition, diversity and the board refreshment process as critical to long-term company performance. Diversity of knowledge and experiences better enables the board to identify risks and improve company performance. Yet the Diligent Institute's 2021 Global Board Gender Diversity Report found that men are still five times more likely than women to be board members. In Europe, 30% of board members are women, but there is still much more that can be done to diversify the boardroom.

"Think about the kind of qualities and attributes that you want from a board member, rather than thinking about what the person who you want to fill that position looks like, or even what their educational background might be. There are all kinds of experiences that people have had where they bring extra value onto a board, because they're bringing a different perspective."

Baroness Young of Hornsey
Member of the House of Lords, non-executive director of Bloomsbury Publishing PLC, and Chancellor of the University of Nottingham

Recommended Actions

- ☑ Examine existing governance processes and work with board leadership to remove inherent bias.
- ☑ Leverage technology like the Diligent Director Network to reach beyond the board's personal network and identify qualified candidates.
- ☑ Share news of Diligent's Modern Leadership initiative with your board and encourage directors to submit names of qualified diverse candidates in their network.

Diligent

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