

FUTURE BOARDROOM COMPETENCIES™

2020 REPORT



**THE GREAT RESET -
DO WE NEED NEW COMPETENCIES
IN THE BOARDROOM AND C-SUITE?**



COMPETENT BOARDS

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"Board members need to keep developing new capabilities and keep learning about the burning issues that could put their companies at risk, so they're ready for action."

- Paul Polman

Former CEO, Unilever; Chair of IMAGINE

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FOREWORD

There is no telling what will define the business landscape post-pandemic. However, the trend remains clear. The foundation on which our global economic systems and governance practices have been built is nearing expiry.

With a heightened sense of urgency surrounding environmental, social, and humanitarian problems, there is an elevated sense of societal pressure on leading organizations and their board of directors to take action.

The future of good corporate governance has begun to outgrow the notion of transactional thinking with respect to decision making. Serving board of directors must apply a strategic approach to meeting the growing expectations of shareholders and all other stakeholders. An approach that requires deep reflection on purpose, analysis of strategy, and consideration of all perspectives in an effort to achieve short-term profitability and long-term sustainable value creation.

As the world enters a period of reset, board members should not only equip themselves with the necessary competencies to meet new expectations but should also be willing to adapt their own outlook through a strong willingness to learn.

The findings of this report suggest that in order for board members and other executives to be future-ready, they must stay curious with a strong willingness to expand their knowledge and adapt to new conceptual interpretations. Moreover, board members should be constructively critical in challenging the status quo with respect and integrity.

Future-ready board members are highly focused on cooperative decision-making and inclusiveness. They have a demonstrated ambition to tackle systemic inequalities through actions that increase board diversity and promote a more equitable decision-making process. They are ready to apply their **wisdom** in making sense of complex information to effectively balance the needs of all stakeholders and adapt the strategic approach accordingly.

Any leader must understand the interconnectedness across environmental, social, and governance (ESG) issues and how it relates to business strategy. Obtaining the relevant ESG and sustainability competencies is imperative for business leaders in understanding how future scenarios may expose the company to emerging risks or present further business opportunities.

I hope that you will find value in this report and use it to reflect on and further develop your competencies.

November 30, 2020



Helle Bank Jorgensen
CEO and Founder,
Competent Boards

EXECUTIVE SUMMARY

This report provides an overview of the essential competencies, qualities, and traits the board of directors and other business professionals will need to navigate the dynamics of a global business landscape shaped by the greatest challenges of our time.

Organizations and the individuals that lead them hold the innate responsibility of delivering on a shared vision that drives long-term sustainable value creation while executing on short-term needs.

As global conditions come to normalize, we enter a period of great reset - for which the board of directors need to be prepared.

Using data collected via survey, this analysis evaluates insights from the Competent Boards global faculty and other business leaders in an effort to determine the elements comprised within a future-prepared board member.

The report uses the qualitative method to draw a comprehensive list which business leaders can use to reflect on their ability to effectively manage emergent risks and opportunities.

We asked four questions:

- **What does stewardship in the 21st century look like?**
- **What does a future-prepared board member look like?**
- **What new competencies are, or should be, demanded of board members?**
- **What are the personal traits, qualities, and diverse perspectives needed in the boardroom?**

The findings indicate that future-ready board members will need to apply a lens of curiosity that supports a culture of continual learning and strategy adaptation in order to meet growing expectations.

The survey determined that effective board leadership should be aligned with a distinct sense of purpose that is informed by a deeply-seated literacy of the material ESG challenges faced by the company.

Although an objective list of relevant skills and experience may apply to every qualified board member, the survey results indicate that the definition of a future-prepared leader may extend further.

According to the survey's findings the personal attributes or traits within an individual's internal value system may also play a role in defining a board member who is future-prepared.

As the COVID-19 pandemic shines a light on the many cracks within the foundations of our societal and governance structures, it becomes clear that the board of directors is expected to leverage their power and influence to take meaningful action.

The findings indicate that board members must reflect on their current outlook and set of competencies in order to identify areas for which they can develop their capacity to meet demands for extraordinary board-level stewardship in the 21st century.

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We are at the beginning of the Decade of Action, but time is already running out.¹

- His Royal Highness, Prince of Wales

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(1) Prince Charles urges firms to appoint 'suitably empowered' chief sustainability officers (Business Green, 2020) - <https://www.businessgreen.com/news/4023694/prince-charles-urges-firms-appoint-suitably-empowered-chief-sustainability-officers>

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Adding value to the decision-making process or business judgment calls needs confidence, curiosity and courage.

- Prof. Mervyn King
Chair Emeritus, King Committee on Corporate Governance

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INTRODUCTION

Today's board members and business executives are traveling across a business landscape vastly different than ever seen before. The acceleration of globalization, proliferation of technology, and elevated urgency surrounding a changing climate and biodiversity loss has produced increasingly treacherous terrain for companies with rigid business models. Now in 2020, board members and other business leaders are forced to address these challenges against the backdrop of the global crisis that is the COVID-19 pandemic.

As the board of directors navigate a setting so unfamiliar, pressure mounts as all stakeholder groups are intently observing boardroom decisions with a growing list of expectations in-hand. Undoubtedly, the adverse impacts generated by these complex phenomena indicate that a great-reset in corporate governance is not only necessary but required - and business leaders must be prepared.

Our research uses qualitative analysis to evaluate survey responses from our international faculty members and reveal the **quintessential competencies, qualities, and traits** that are comprised within a future-ready board member.

We hope that the results of this report can be used as a road map for both current or aspiring board members to reflect and act on what it is that they need to cultivate in order to effectively lead companies through future storms, and emerge on top with a refined sense of purpose. Many are calling the unprecedented challenges a tsunami - either leaders learn to surf, or they and the companies they serve will sink.

Today, we are in a world of despair where transgressing planetary boundaries continue to create new risks for businesses such as increased resource limitations, and supply chain disruptions.

We are not only transgressing the planetary boundaries, but also social and cultural ones. Technology has provided an opportunity for people to be more connected than ever. But many are feeling left out or struggling with cyberbullying, fake news, and constant bombardment of new information and expectations that put a strain on mental health.

Human rights are under tremendous pressure as modern slavery and economic exploitation of human life, as well as nature, is on the rise. This makes the role of directors and executives even harder to navigate, as stakeholders can use their phones to ruin a company's reputation within a few seconds. With so many moving pieces, companies and their directors may struggle to ensure that all operations can stand up to the scrutiny of stakeholders and uphold the integrity they expect.

We need to move towards a net positive impact on nature, humans, and the economy. And to do so the actions of board of directors and executives must extend beyond a nicely written report. ESG integration requires leadership and an ESG transformation mindset. Therefore, board members and executives must ensure that this mindset is embedded across all levels of the organization.

With more attention being cast to the board of directors in addressing various environmental, social, and economic challenges, new initiatives will continue to alter the regulatory landscape. The European Commission recently announced a proposed intervention in the area of corporate law and governance with the general objective of establishing more robust accountability measures to improve a company's integration of sustainability into long-term decision making.² This initiative, among other mounting pressures, underscores the responsibility of the board of directors and its power in creating meaningful action.

The board of directors is obliged to not only deliver returns to shareholders but also to clearly define the role of the company in society. A society that in return expects that elected board members bring exceptional capabilities to the boardroom.

For example, board members should have an understanding of how company resources are being utilized and be clear on how these actions impact nature and stakeholders. Furthermore, the board of directors must understand how the current and future states of nature and society will impact the company and its ability to thrive in the long-term. A task that has been considered "one of the most demanding, complex and taxing activities in the world of public life".³ With increased public discussion on the role of corporations in times of crisis such as COVID-19, there is increasing stakeholder pressure for board members to perform on ESG-related issues.

A recent survey from Edelman found that 71% of 12,000 respondents would lose trust in a company if they perceived that the company was placing profit over people.⁴

Leading companies have certainly responded to these pressures. It was recently reported that 63 of the 100 largest public companies now have a board committee overseeing sustainability matters.⁵ However, the same study identified that only 17% of those serving on these committees had relevant training or experience when it comes to ESG and sustainability.⁶

This dichotomy emphasizes how critical it is that board members work towards building and applying the necessary competencies in addressing ESG-related issues and adopt an approach to leadership that facilitates ongoing dialogue with shareholders and other stakeholders.

We are now in a period of awakening, where major transformations are taking place in all corners of the globe, altering the traditional context for boardroom decision making and heightening the expectations of corporate leaders and board of directors. We believe that reformulating the pre-existing definition of corporate stewardship in the 21st century will catalyze a pivot in social outlooks from one of despair to one of hope.

The proceeding text will discuss the necessary tools board members must cultivate in order to rise to the challenge of delivering more authentic leadership that enhances business performance and delivers on all stakeholder expectations.

This report explores the foundational requirements board members need in order to navigate the dynamic nature of a world evolving faster than ever before.

(2) Study on directors' duties and sustainable corporate governance (European Commission, 2020) - <https://op.europa.eu/en/publicationdetail/-/publication/e47928a2-d20b-11ea-adf7-01aa75ed71a1/language-en> (3) How to Play the Board Game (The Economist, 2020) - <https://www.economist.com/business/2020/11/21/how-to-play-the-board-game?src=gft> (4) Trust Barometer Special Report: Brand Trust and the Coronavirus Pandemic (Edelman 2020) - <https://www.edelman.com/research/covid-19-brand-trust-report> (5) The Sustainability Board Report 2020 - <https://www.boardreport.org/reports-research> (6) Ibid

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Stewardship is the accountability one has for leaving the company - with all its stakeholders - stronger than when you arrived. How can you best help the company navigate the path to its best future.

- Eric Wetlaufer
Board of Directors, TMX Group;
Investment Management Corporation of Ontario (IMCO)

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Today's board members must bring not only their current expertise and experience to the boardroom but recognize the importance of continuing learning and development. They must be flexible, working collaboratively with board members and executives to understand and manage the accelerating changes faced by companies particularly from an ESG perspective.

- Judith Mosely

Non-Executive Director, BlackRock World Mining Trust plc; Galiano Gold and Eldorado Gold

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METHODOLOGY

We used qualitative analysis to gather information from internationally renowned leaders on the competencies they believe will be required of board members post-pandemic. The report aims to develop an understanding of how corporate governance has evolved and the material competencies, traits, and qualities current, and future board members must acquire to drive sustainable growth in the short and long term.

The findings are derived from responses to a four question survey from the Faculty of Competent Boards, consisting of over 100 board members, executives, investors, and experts representing a diverse range of industries and geographies. Additional responses analyzed include those submitted from participants enrolled to achieve the ESG Global Competent Boards Designation, as well as alumni and other global leaders in our network. The data were coded to identify the frequency of the different themes and ideas that were submitted in the survey responses.



1- What does stewardship in the 21st century look like?

2- What does a future-prepared board member look like?

3- What new competencies are, or should be, demanded of board members?

4- What are the personal traits, qualities, and diverse perspectives needed in the boardroom?

Furthermore, stewardship in the 21st century goes beyond purpose and will require a high caliber of accountability in delivering on promises. It is the responsibility of the board to live the company values and fulfill their roles as sense makers in times of inherent uncertainty.



Managing Director, Global Head ESG Research,
Institutional Shareholder Services ESG (ISS ESG)



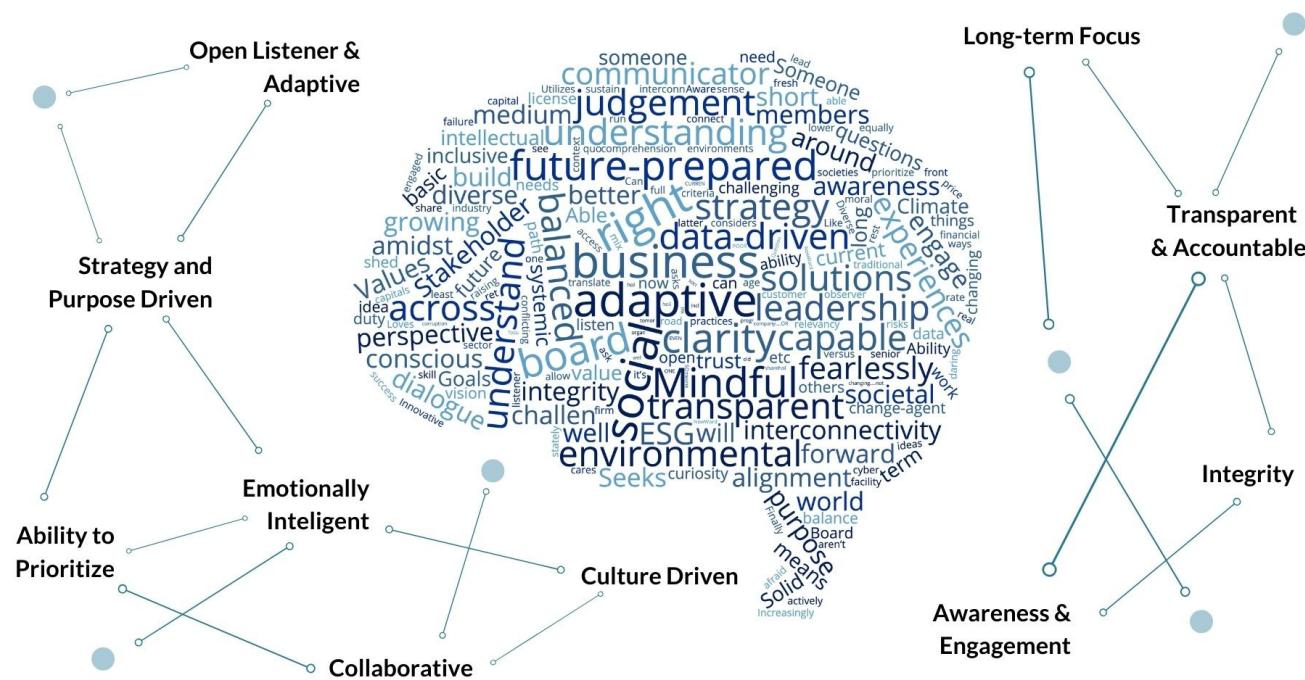
Collectively, stewardship in the 21st century is centered around a value-driven purpose that promotes health and wellbeing by dissolving systemic inequalities to build companies that are more equitable, diverse, and prepared.

(7) Some Thoughts for Boards of Directors in 2020: A Mid-Year Update - (Harvard Law School Forum on Corporate Governance, 2020) - <https://corpgov.law.harvard.edu/2020/07/02/some-thoughts-for-boards-of-directors-in-2020-a-mid-year-update/>

WHAT DOES A FUTURE-PREPARED BOARD MEMBER LOOK LIKE?

In a fast-paced environment with many unknowns, the qualities of a board member of today and tomorrow need to be multifaceted. It has become clear that the board of directors is expected to not only evaluate the current landscape but also learn to project their wisdom beyond what is visible to seek out imminent opportunities or alert management to impending risks.

According to the findings, a key determinant of a future-ready board member is that they have gathered their wisdom through a deeply rooted sense of curiosity and willingness to learn. This is exemplified in the data by the number of responses suggesting prepared board members will have adapted their outlooks as a result of their endeavors to listen to all stakeholders who may each carry diverse and adverse expectations. They recognize the interconnectivity of needs and are committed to finding solutions that meet environmental, stakeholder, and shareholder demands.



As sense makers, a critical characteristic of a future prepared board member is a purpose-driven mindset. Common survey responses highlight the essential role board members play in distilling the company purpose in a vision that also reflects societal shared principles and values. They have an ability to communicate how board-level actions relate to the long term interests of the company and behold the entrepreneurial spirit that drives a compelling strategic vision.

Honesty plays a key role in gaining trust. Therefore, a future-ready board member must be transparent when engaging in cooperative processes and remain accountable to the stated purpose and given strategy.

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Like a stately person who cares for the environment, social and governance in a strategic sense, this person should possess moral, domain, intellectual and spiritual capital. Must be ready to deploy all these capitals fearlessly!

- Shailesh Haribhakti

Independent Director of Lafarge Holcim Subsidiaries

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WHAT NEW COMPETENCIES ARE, OR SHOULD BE, DEMANDED OF BOARD MEMBERS?

Establishing a boardroom culture of respect and transparency fosters innovation by creating a space where honest opinions can be shared without hesitation. This practice welcomes conflicting arguments that, in turn, shape direction and ultimately produce a powerful shared-vision.

Board members should be willing to not only voice their own opinion but also engage with the opinions of others in order to avoid common boardroom biases such as groupthink. This is supported by the survey data as the results indicate that a future-ready board member is both forthright and precise in their questioning and careful not to accept answers readily.

Future-prepared board members see diversity of thought as an opportunity to engage with new ideas and possibly challenge the status quo; however, this may not always be comfortable. PwC's 2020 Annual Corporate Directors Survey found that more than one-third of directors find it difficult to voice a dissenting opinion.⁸ This highlights the importance of ensuring that boardroom dialogue is kept open and respectful if the board is to deliver the best-in-class thinking.

Furthermore, our survey data indicate that this sense of openness should extend beyond the boardroom, as it should also be applied to stakeholder communication and engagement. Taking a stakeholder-centric approach to decision-making is developmental in building resilient corporate cultures that ultimately create positive impacts for society at large.



Understanding that profitability and performance are interdependent with community expectations of sustainability, stakeholder concerns are fundamentally shareholder concerns.

- Jane Diplock AO

Chair, Regulatory Committee, Abu Dhabi Global Market;
Director, Singapore Exchange

The most common response in our survey indicates competency in ESG as an essential element of the future-ready toolbox. In this period of major economic system disruption and a looming recession, we are at risk of losing many years of positive social development, emphasizing the urgency surrounding environmental and social issues such as the climate crisis, biodiversity loss, and systemic racial injustice.

While the rapid advancement of technology may bring about emerging risks to organizations with respect to cybersecurity, these developments create new avenues for education and learning. Beyond this, increased availability of data and information will boost data-driven solutions that ultimately promote sustainable development.

Future-ready board members should engage with the tools, resources, and opportunities available to broaden their understanding of critical ESG topics and how to address them. Our survey results indicate that knowledge of the United Nations Sustainable Development (SDGs) goals sets a comprehensive foundation for sustainable business model development. Thus, future-prepared board members have the ability to utilize the SDGs as a tool to identify the most material ESG issues and how they relate to business strategy.

Obtaining the knowledge, skills, and confidence to take action will be a key indicator of a future-ready board member as ESG-related challenges are imperative to the organization's social license to operate and ability to succeed across projected climate scenarios. Further, the board matrix should reflect these competencies so stakeholders can evaluate the board of directors' level of preparedness.

(9) Turning Crisis into Opportunity: PwC's 2020 Annual Corporate Directors Survey (PwC, 2020) - <https://www.pwc.com/us/en/services/governance-insights-center/assets/pwc-2020-annual-corporate-directors-survey.pdf>

It is compulsory that each board seat holds an individual who embodies a global citizen mindset and is committed to demonstrating action towards strengthening diversity, equity, and inclusion.



- R. Gopalakrishnan
Retired Director, Tata Sons Limited

A sense of genuine curiosity is, therefore, necessary to drive innovation that helps the board identify novel solutions and pursue them. This fortifies the idea that a board of directors who practices curiosity in seeking new opportunities and has the courage to act upon them will be more likely to triumph beyond times of crisis.

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Board service nowadays is very different than it was fifteen or twenty years ago. There are many more expectations of Board members, and having ESG insight is important to providing effective oversight.

- Robert H. Herz

Director, Morgan Stanley, Fannie Mae, Workiva Inc.,
The SASB Foundation

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The research findings are limited by the subjective nature of elements perceived to make an effective leader. The conclusions in this report are drawn directly from the qualitative data collected and are relative to the frequency of themes mentioned. Future research will be needed to better define who makes the right candidate for board positions, as well as the building blocks needed to get there.

As we continue to observe a forceful evolution of the global business landscape with respect to ESG and sustainability, Competent Boards is committed to continuing our work on the future of good corporate governance as we endeavor to develop a comprehensive evaluation structure to ultimately determine the “TOP 100 ESG Competent Boards” and “TOP 100 ESG Competent Board Members”.

Who are the “TOP 100 ESG Competent Boards™” and “TOP 100 ESG Competent Board Members™”?

We would appreciate your contributions to our processes in selecting the TOP 100 Competent Boards and Competent Board Members. A list we will publish in 2021. Please submit your nominations by clicking the icon.



AFTERWORD

Board members are now subject to new behavioral expectations like never seen before, and with this comes a new set of tasks and responsibilities that extend beyond stakeholder vs. shareholder primacy. Future-ready board members will need to rise to recent challenges by maintaining support for management teams while balancing increasing stakeholder expectations and capturing opportunities to support communities in the wake of these new transitions.

Furthermore, it is paramount that board members not only hone the competencies and experience to deliver necessary foresight but also aim to fulfill the necessary behavioral qualities outlined in this report to gain the trust of all stakeholders.

WHAT'S NEXT

Please take a moment to reflect on the findings in the report and the list of suggested competencies, qualities, and traits. We would encourage readers to use the report and the list below, as a tool to help lay a road map for learning in 2021 by identifying areas for personal development.

- Ability to Challenge
- Ability to Prioritize
- Courage
- Climate Competent
- Adaptive, Open, Listening & Willing to Learn
- Curious
- Committed to Governance Best Practice
- Collaborative
- Empathy
- Education Requirements & Experience
- Culture-Driven
- Enthusiastic
- ESG Competency
- Emotional Intelligence
- Entrepreneurship
- High Standard for Ethics, Health, Privacy
- High Degree of Awareness & Engagement
- Forthrightness
- SDGs Competent
- Integrity
- Humble
- Sense Maker
- Long-term Focus
- Inclusive & Committed to Diversity & Equity
- Stakeholder Focused
- Strategy and Purpose Driven
- Independence
- Supply Chain Competent
- Transparent, Clear, Accountable & Honest
- Innovative & Creative
- Technology, Data & Cybersecurity Competent
- Persuasive
- Pragmatic
- Wisdom

Perhaps, there are items you believe may be missing from the list provided. We would be delighted to have you share these ideas with us by clicking the icon. By doing so, you will also receive periodic updates from Competent Boards on the development of this research.



ACKNOWLEDGMENTS

We would like to acknowledge the contributions made by the Competent Boards Faculty members, Global Competent Boards Designation holders (GCB.D) and ESG Competent Boards Certificate Program students, and all those supporting the #CompetentBoardsMovement that Helle Bank Jorgensen started in Davos in 2018.

ABOUT COMPETENT BOARDS

Competent Boards provides professional development and advisory services focused on bringing ESG, Climate and Sustainability insight to boards, investors and executives globally. The faculty delivering the highly praised online ESG Competent Boards Certificate Program consists of over 100 of the world's leading board members, C-suite executives, investors, and experts. The holders of the Global ESG Competent Boards Designation (GCB.D) have completed 12 strategic modules and joined online dialogues with renowned global leaders focusing on crucial strategy issues, discussed through the lens of COVID-19 and its impacts.

12 Strategic Topics Covered in the ESG Competent Boards Certificate Program:

1. New Risks and Expectations for Boards, Executives, and Investors in Light of COVID-19
2. Dealing with Dilemmas and Turning Risks into Opportunities During and After the Pandemic
3. SDGs Competent Boards
4. Climate Competent Boards
5. ESG Competent Boards
6. Human Rights and Supply Chain Competent Boards
7. Diversity, Equity, and Inclusion in the Boardroom
8. Anti-Corruption, Integrity and Transparency
9. Responsible Use of Data and Cybersecurity
10. Tax, Investment, and Pay in an ESG-focused world
11. Shareholder and Stakeholder Engagement and Disclosure
12. The Future of Good Corporate Governance

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What is our purpose? Why do we exist? How will we sustain this business over the next 50 to 100 years successfully and profitably for all of our stakeholders? Those are very essential conversations for boards.

- Kathleen Taylor CM
Chair, Royal Bank of Canada (RBC), Vice-Chair, The Adecco Group;
Director, CPPIB and Air Canada

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so you can provide oversightTM
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