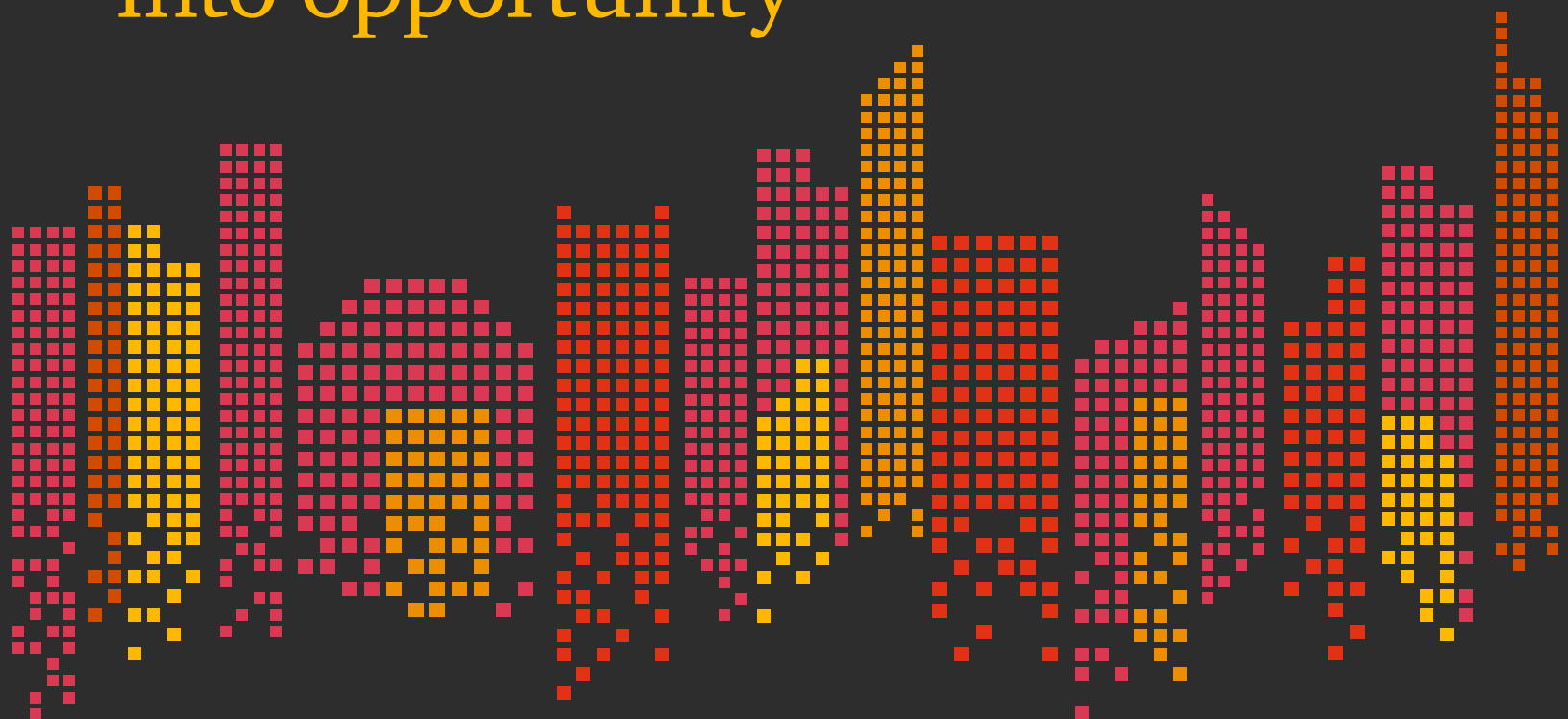


# Turning crisis into opportunity



PwC's 2020  
Annual Corporate Directors Survey



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# Introduction

2020 has presented unprecedented challenges for companies. While the year generally started like any other, by the end of the first quarter, the COVID-19 pandemic created an unprecedented global health emergency. Business was upturned across the globe, unemployment shot through the roof, US GDP took the greatest fall on record, and many workforces shifted to an entirely remote setting, all while communities confronted untold sickness and fatalities. America also saw a new level of social unrest, as protests for racial justice swept the nation. Against all of this, a presidential election looms.

With everyday life upended, boardrooms changed drastically. Gone were the site visits, strategy retreats, and board dinners. Gone was the boardroom itself. But the work didn't slow, and most directors reported devoting significantly more time to their duties.

In many ways, directors believe that boards and companies have met the early challenge, even during the crisis. Boards show increased awareness and increased focus on areas that institutional shareholders have emphasized in recent years, like environmental, social, and governance (ESG) issues and shareholder engagement. They have made changes to deal with problems in company culture, and they are thinking more broadly about issues like company strategy and executive compensation. In many ways, they are responding to the current climate and to shareholder concerns.

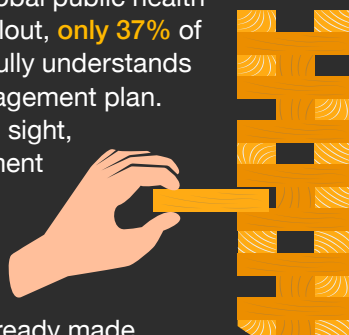
But in other ways, boards continue to be plagued by seemingly intractable problems. Directors continue to report dissatisfaction with the performance of some of their peers. Board refreshment still lags as leadership frequently avoids both the tough conversations with directors who should be replaced and the hard work of long-term board succession planning. Boardroom discussions suffer as directors, keen to maintain a collegial atmosphere, avoid sharing dissenting views. And even while making some improvements in boardroom diversity, directors aren't always convinced of the importance of that diversity.

Boards face all of these challenges against the backdrop of a global crisis. But while the challenges are significant, this moment of crisis also creates opportunities. Forward-thinking boards find ways to inspire positive change. With strong leadership, boards may be able to leverage the crisis into changes in board composition, revamped board practices, re-envisioned diversity and inclusion efforts, and re-focused board priorities.

# Key findings

## On shaky ground—overseeing crisis from the boardroom

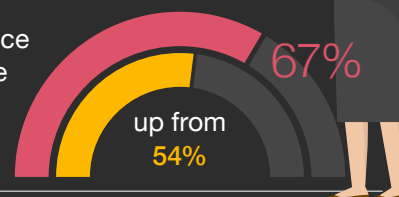
While the world faces a global public health crisis and its economic fallout, **only 37%** of directors say their board fully understands the company's crisis management plan. With no end to the crisis in sight, boards do not have a moment to lose when it comes to crisis planning and management—including learning from any mis-steps the company has already made.



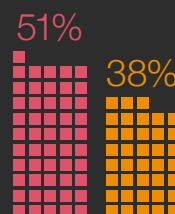
## Boards make progress on ESG—but there's still work to be done

Compared to 2019, directors are much more likely to say that issues like climate change should be taken into account when developing company strategy.

Importance of climate change



But only about half of directors say their board fully understands ESG issues impacting the company.



And even fewer think those issues actually have a financial impact on the company.

## Supporting diversity—in theory

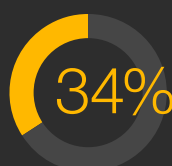
**84% of directors** agree that companies should be doing more to promote gender and racial diversity in the workplace. But while incentive plans can be an effective way to encourage action, **only 39%** of directors support including diversity and inclusion goals in company pay plans.



84%

39%

And while national conversations about racial justice heat up, board efforts on racial and ethnic diversity continue to lag. Only 34% of directors believe it is **very important to have racial diversity on their board.**



## Next please! Directors want to see turnover, but boards aren't planning for it

49%

of directors say that at least one fellow board member should be replaced.



But when it comes to succession planning and looking ahead, many directors are in the dark.

Only **49%** say a board succession plan is shared with the full board.

**10%** say their board doesn't have a succession plan at all.

# Risk and strategy

## Director blind spots pre-crisis

Although the COVID-19 pandemic took most of the world by surprise, signals of a potential economic downturn had been emerging for months. Yet many directors say their boards had not taken steps to prepare for a downturn in the 12 months before the recession began.

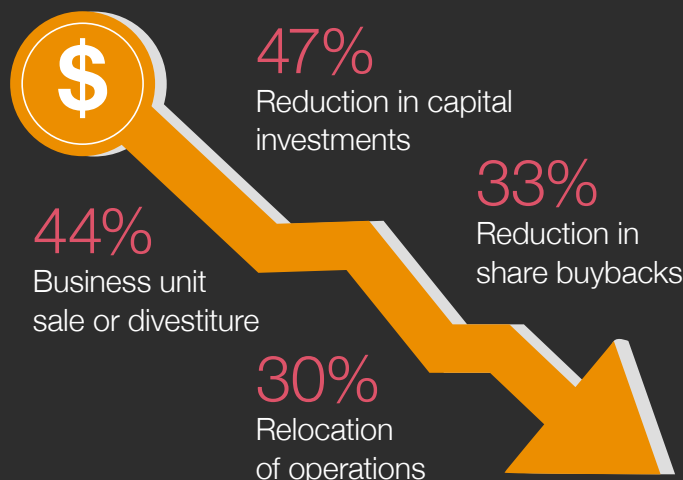
More than a quarter of directors (28%) said their companies had not taken any steps at all to address a downturn. Fewer than half of directors (47%) say their boards had reduced capital expenditures. Forty-four percent (44%) had explored a sale or divestiture, but only one-third (33%) had reduced share buybacks, which would increase cash reserves or liquidity. In the year prior to the recession, only 14% had reduced the share dividends that investors had come to expect.

While many companies were caught off guard by the downturn, boards can take this moment to address central issues of strategy and capital allocation. Half of directors (50%) report that since the COVID-19 pandemic, their companies have reorganized debt structures and/or made changes to their capital allocation. Few say they have increased their M&A activity, as many companies find ways to shore up capital for now. But finding the right uses for that capital as time goes on will rely on boards' ability to take a long-term view on the future of the company.



## Caught unprepared for the economic downturn

Directors saying their companies had taken or discussed the following actions to prepare for an economic downturn:



Q21: Which of the following has your board discussed or put into place in the past 12 months to address an economic downturn?

Base: 564-604

Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

## Crisis management demands more attention

The COVID-19 pandemic showed all companies how quickly a crisis can grow, and how easily the unprepared can fall. While the scope of the pandemic caught most of the world by surprise, companies need to be prepared to face unexpected circumstances, and having a response plan in place is key.

Surprisingly, only 37% of directors say that their board has a strong understanding of the company's crisis management plan. But despite not fully understanding the plan, and despite the clear missteps many companies made, most directors gave management high marks for their performance during the crisis. Ninety-nine percent (99%) of directors said companies did a good or excellent job of dealing with interruptions in internal operations due to COVID-19. Ninety-six percent (96%) said the same for management teams dealing with supply chain interruptions—even though consumers are likely to have a different take.

Even if these companies navigated the first part of the COVID-19 challenge successfully, it doesn't necessarily follow that they will have success with the next crisis. A crisis plan will grow stale unless it is revisited after the event and revised in light of what worked and what didn't. As part of that process, boards can push their management teams to find opportunities within the crisis. Those that are able to do so will come out on top.

### Falling short on crisis management



Q19. How well do you think your board understands the following?  
Response: Very well

Base: 667

Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

### PwC perspective

#### In crisis preparedness, don't overlook the value of looking back

Any company can be hit with a crisis at any time, from a cyber breach, to a safety issue, to an environmental disaster. But rarely are so many companies confronted with a crisis at once. 2020's COVID-19 pandemic and its associated impacts gave almost every company a taste of crisis management. And while that crisis and its economic impact is certainly not over, companies can benefit now from launching a comprehensive crisis review.

While most directors were pleased with their management team's response, there were clearly winners and losers in the early part of the crisis. Boards can leverage their companies' experiences so far in 2020 to spur a complete evaluation of what worked, what didn't, and what needs to improve in the future. Through that evaluation and revision exercise, directors may also benefit from a deeper understanding of the whats and whys of the crisis plan. They will also be more prepared for the next chapter.

For more on crisis management, read [\*Being prepared for the next crisis: The board's role.\*](#)



Spotlight:

## COVID-19 resources for the board

The COVID-19 pandemic and its fallout are testing companies like never before. Most directors say executives have done a great job of navigating the challenges thrown at them in the early days of the crisis. They praise their own boards as well, reporting high levels of director engagement and a strong ability to challenge management.

Directors show confidence today, but of course not all companies managed 2020's challenges well. Some companies faltered, or even failed. For those that made it through, the crisis is far from over, and key challenges remain ahead. While confidence can be a good thing, overconfidence can lead to complacency. By remaining focused and building on their early successes, boards can help their companies succeed—no matter how the pandemic unfolds.

As the pandemic and its economic impact continues to develop, PwC's [COVID-19 board resources website](#) will continue to offer timely resources and perspectives to help boards guide their companies through each stage. In addition, our [Emerge Stronger](#) video series offers practical advice to take lessons learned from the pandemic, and turn them into valuable insights for use in your board oversight role.

### Despite what investors and consumers may think, directors give management teams straight A's on COVID-19 response



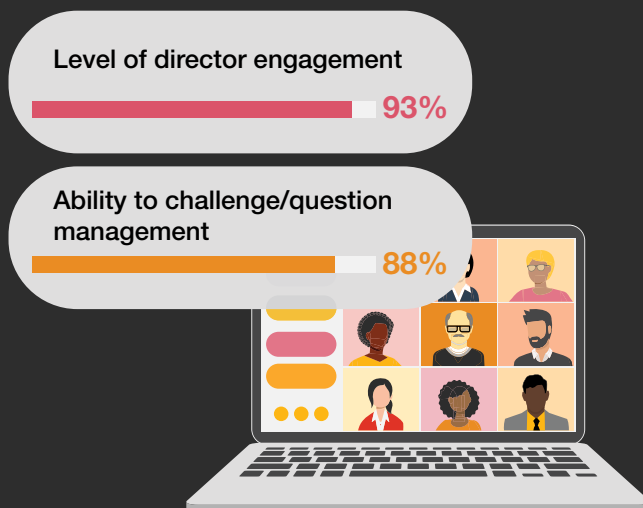
Q30. How would you rate management's handling of internal operations in response to the COVID-19 pandemic in the following areas? Response: Good or excellent

Base: 252-260

Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

### Directors are logging on—and remaining plugged in

Directors giving positive ratings for...



Q33. How would you rate your virtual board/committee meetings in the following areas? Response: Good or excellent

Base: 260

Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.



# Environmental, social, and governance issues

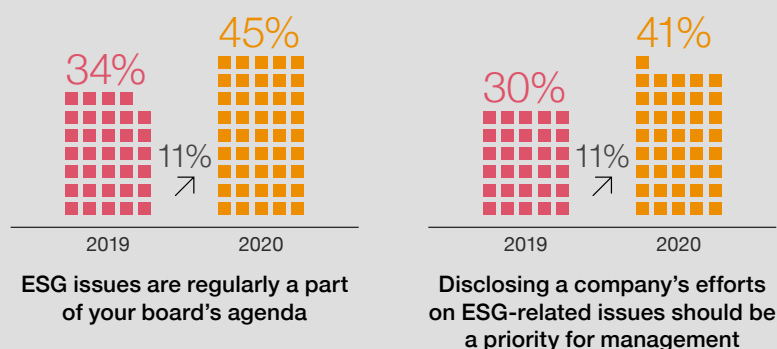
## Directors start to come around on ESG

Institutional shareholders have continued to emphasize to their portfolio companies the importance of creating long-term, sustainable business models. As part of this, they have pushed companies to offer more disclosure of ESG metrics. And while the COVID-19 pandemic has shifted the economic focus in many ways, institutional shareholders remain committed (and may be even more committed) to the importance of managing ESG risks and opportunities in their portfolio companies.<sup>1</sup>

Although shareholders emphasize that ESG risks will impact the bottom line, directors are not convinced that they're connected to the company's bottom line. Only 38% of directors say ESG issues have a financial impact on the company's performance—down from 49% in 2019.

In other ways, directors' practices and views are changing. In 2020, just under half of directors (45%) say that ESG issues are regularly a part of the board's agenda, up from just 34% in 2019. Directors are also much more likely to say that disclosing a company's efforts on ESG-related issues should be a priority for management.

### ESG gains in the boardroom



Q20. Which of the following statements do you agree with about ESG (environmental/social/governance) issues? (select all that apply)

Base: 660 (2019); 624 (2020)

Sources: PwC, 2019 Annual Corporate Directors Survey, October 2019; PwC, 2020 Annual Corporate Directors Survey, September 2020.

### Female directors are more likely to see the link between ESG and strategy

ESG issues are linked with company strategy

60% female vs. 46% male



Q20. Which of the following statements do you agree with about ESG (environmental/social/governance) issues? (select all that apply)

Base: 624

Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

1. For example, see a discussion of BlackRock's 2020 Investment Stewardship Report available [here](#).



That figure is up 11 points, from 30% to 41%. Directors are also giving greater weight to ESG expertise in the boardroom. The percentage of directors saying that environmental/sustainability expertise is important went up nine points, to 60%.

As companies are facing financial pressures from many sides during the continuing pandemic and economic recession, those that have taken a broader view of their long-term strategy, including responding to ESG issues, may be in a better position to confront these challenges. For companies that have traditionally focused on the narrow question of financial performance quarter to quarter, 2020 may offer the inflection point to consider the broader, long-term context.



## PwC perspective

### Taking on ESG oversight

For companies, ESG is about risk, and it's about opportunity. It's about the ways in which value could be destroyed or created. Boards play a critical role in ESG oversight. Those that are successful in that task focus on:

- **Linking purpose and strategy.** From the board's unique vantage point, determine whether the company has appropriately articulated and defined its purpose, and whether that purpose is linked to and reflected in its strategy. Ensure that it is comprehensive and considers the right stakeholders.
- **Requiring reliable ESG information.** Companies can choose from a variety of disclosure regimes for their ESG information, and using the right metrics is key. Affirm that the information prepared by the company is consistent and reliable.
- **Crafting the right disclosure.** With purpose and strategy linked, and the right information available, the company can determine its key messaging. For the board, ensure that this messaging translates to the company's disclosures. Ensure checks are in place on what information is disclosed, where it is disclosed, how it is reviewed, and whether it fully reflects the company's purpose and strategy.
- **Allocating oversight.** Overseeing how the ESG strategy aligns with the company's business strategy is a job for the full board. But each committee also has ownership over some element of ESG issues, and coordination and communication are key.

For more on understanding and overseeing ESG risks and opportunities, visit the [ESG page](#) on our website.

## Thinking more broadly about strategy formation

Directors say ESG issues are playing a larger role in their board discussions. They also increasingly think these issues should play a role in determining company strategy.

Issues of human rights, climate change, and income inequality are playing a bigger role in strategy. The percentage of directors saying that the company should take climate change into account when developing its strategy jumped 13 points in just one year (67%, up from 54%). The percentage of directors saying the same about immigration, human rights, and income inequality also increased since 2019.

But while more directors say these topics should have a role, the current economic downcycle may put boards to the test. While making it through the immediate crisis must be the first priority, boards can also take this opportunity to shift the conversation to broader, long-term concerns. Many companies will emerge from the crisis looking different. Now may be the time to work out how to incorporate issues like climate change and income inequality into their companies' strategic goals—particularly as these topics remain top of mind for investors focused on the long-term viability of their portfolio companies.

### Male directors less likely to see a connection between certain ESG issues and strategy

Climate change should be taken into account when forming strategy

79% vs. 62%  
female male

Human rights should be taken into account when forming strategy

79% vs. 64%  
female male

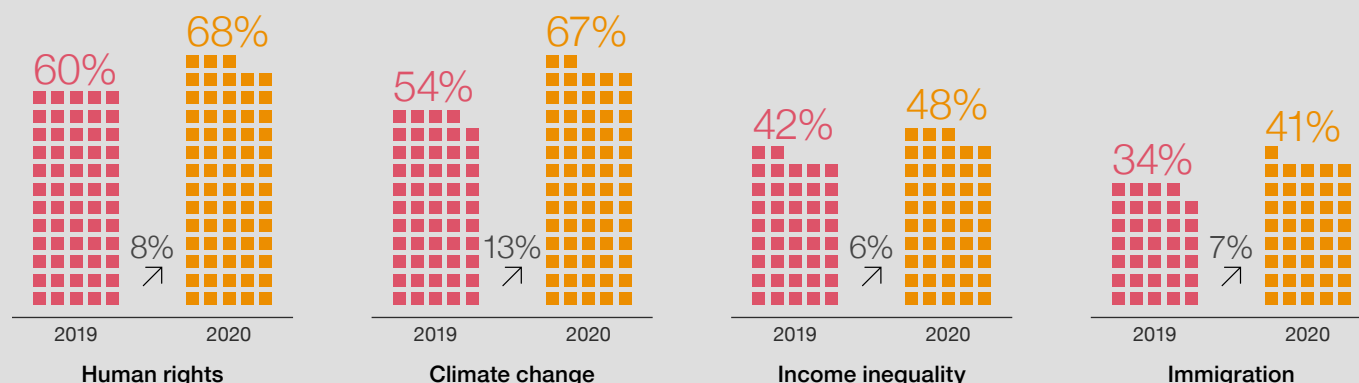
Q18. To what extent do you think your company should take the following issues into account when developing company strategy? Response: Very much and somewhat

Base: 663-667

Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

### Broadening the scope of strategy discussions

A rising percentage of directors think social issues should play a role in forming company strategy



Q18. To what extent do you think your company should take the following issues into account when developing company strategy? Response: Very much and somewhat

Base: 702-707 (2019); 660-667 (2020)

Sources: PwC, 2019 Annual Corporate Directors Survey, October 2019; PwC, 2020 Annual Corporate Directors Survey, September 2020.

# Board diversity

## Gender diversity ticks up, but male directors remain unconvinced

The representation of female directors on boards has increased steadily over the years, from 16% of S&P 500 board seats in 2009 to 26% in 2019.<sup>2</sup> While this shift reflects consistent pressure from institutional shareholders for boards to diversify, as well as measures like state legislation that requires public company boards to have female directors, the percentage of female directors is still only about half of their representation in the US population.<sup>3</sup>

Directors, for their part, agree that diversity on boards has benefits. Ninety-four percent (94%) say that it brings unique perspectives to the room. More than four out of five directors agree that it improves relationships with investors (85%) and that it enhances board performance (83%). Seventy-two percent (72%) also agree that board diversity enhances company performance.

So if directors agree on the benefits, why aren't boards diversifying more quickly? Female directors often point to leadership. They are more than twice as likely as male directors to say that board leadership is not invested in diversity (44% versus 20%). And female directors are more than three times as likely to say that boards are not diversifying because the CEO is not committed to the issue (32% versus 9%).

As boards confront questions about the very survival of a company during a public health and economic crisis, they may risk losing focus on critical board composition and diversity issues. But inflection points such as these can also provide the opportunity for leadership to take a bold step and invest in real change on the board.



### Female directors point to leadership in boards' failure to diversify

Board leadership is not invested in board diversity

44% female vs. 20% male

CEO is not invested in board diversity

32% female vs. 9% male

Q7. In your opinion, what has impeded efforts to increase board diversity in general (i.e., why haven't boards become diverse more quickly)? (select all that apply)

Base: 668

Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

2. Spencer Stuart, 2019 U.S. Spencer Stuart Board Index, October 2019.

3. See the US Census Bureau's website [here](https://www.census.gov).



## PwC perspective

### Boards and racial diversity

During the spring of 2020, the country faced a reckoning on racial justice different from any it had seen before. Polls suggest that 15 to 26 million people participated in Black Lives Matter protests in the weeks following George Floyd's death, making it perhaps the largest movement in US history.<sup>4</sup> Corporations got involved too—making statements, changing policies, and renewing commitments to diversity. But what is the role of the board?

Generally, directors say they support corporate racial diversity. More than four out of five (84%) directors think that companies should be doing more to promote diversity in the workplace. Yet when it comes to actually tying executive pay to these actions, it's a different story. Just 39% of directors think diversity and inclusion goals should be included in executive compensation plans.

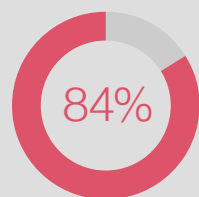
What's more, while most directors support doing more on gender and racial diversity at their companies in general, there is less support for change at the board level—especially when it comes to racial diversity. While less than half of directors (47%) say gender diversity is very important on their boards, only 34% say the same about racial diversity.

Stakeholders are demanding that corporate leaders in the US be part of the solution and take action to help dismantle racism and injustice. This can, and should, start with the boardroom. Boards can:

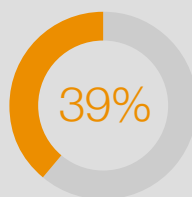
- Require standardized reporting on diversity and inclusion efforts. This can reveal trends at the company and help the board hold management to account.
- Ensure the company has created a strategic inclusion and diversity plan—and has shared that plan with the board of directors.
- Tie diversity and inclusion targets to executive pay.
- Take a look at the boardroom itself and whether it truly has a diverse set of voices.

Read [\*Four Ways Boards Can Lead on Racial Diversity\*](#) for more about boards' role in this issue.

### How committed are directors to corporate diversity?



84% of directors think companies should do more to promote diversity in the workplace



But only 39% support linking executive compensation with diversity goals

Q27. To what extent do you agree with the following? Response: Very much and somewhat; Q24. Which of the following non-financial metrics do you think should be included in executive compensation plans? (select all that apply)

Base: 657, 661

Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

4. Larry Buchanan, Quoctrung Bui and Jugal K. Patel, "Black Lives Matter May Be the Largest Movement in U.S. History." *NY Times*, July 3, 2020.

## A move away from subject matter expertise

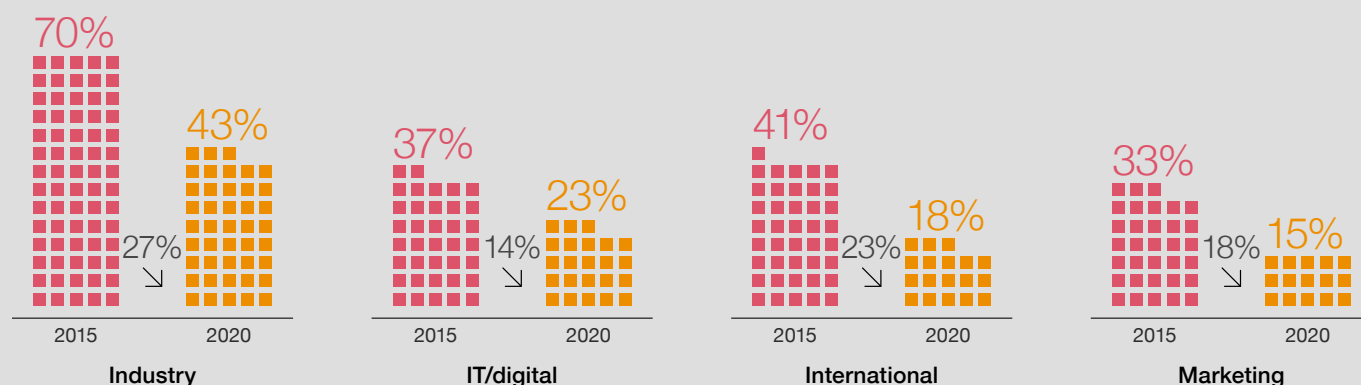
As shareholders push for more board diversity, they have also encouraged boards to think more broadly about how to create diversity of thought. As part of this, boards have been adding more female directors, and directors who bring racial diversity to the board. But they are also demonstrating a move away from the idea that they need certain subject matter experts.

Compared to responses five years ago, directors are much less likely to say that a variety of areas of expertise are “very important” to the board. They still highly value financial, operational, and risk management expertise. But, for example, the percentage of directors saying industry expertise is very important dropped by 27 points. International expertise and marketing expertise dropped by 23 and 18 points, respectively.

These drops may relate to the blurring of lines between industries, and the sense that most directors have broad experience. In addition, as boards focus more on diversity and the value of having the right mix of voices, people, and opinions, particular types expertise may be less important.



### Fewer directors see value in specific areas of expertise



Q1. How would you describe the importance of the following skills, competencies, or attributes on your board? Response: Very important

Base: 779-782 (2015); 681-686 (2020)

Sources: PwC, 2015 Annual Corporate Directors Survey, October 2015; PwC, 2020 Annual Corporate Directors Survey, September 2020.

# Board refreshment

## Directors want refreshment, but boards fail to plan for the next chapter

Boards are making strides in many areas, yet their own composition remains one of the toughest challenges for boards to confront. For the second year in a row, about half (49%) of directors say that at least one fellow director on their board should be replaced. Twenty-one percent (21%) say that two or more directors should go. These numbers remain high, despite intense shareholder focus on board refreshment.

What stands in the way of board refreshment? Many directors point to board leadership's unwillingness to have difficult conversations with underperforming directors (20%) or to an ineffective assessment process (19%).

It's also clear that director succession planning is not a priority for boards. Ten percent of directors say their board doesn't have a succession plan at all, and 33% say it is ad hoc. For boards that do have a plan in place, less than half (49%) of directors actually share that plan with the entire board. So for many directors, they simply have no idea what the next chapter of the board will look like—and no input into those decisions.

Making real change in this area requires work from board leadership. It requires clear succession planning and open discussions with the entire board about what is to come. It also requires leadership to have hard conversations with respected peers. But 2020 may pose a unique opportunity for board leadership to push for change. For some, the early days of the crisis may have even highlighted shortcomings on the board. For example, boards with directors who are in sitting executive roles, or who serve on multiple boards, benefited from those broader insights.

### Directors want change, but boards are not looking ahead

**49%** of directors say that at least one fellow board member should be replaced

Q3. In your opinion, how many directors on your board should be replaced? (select one); Q10. Which of the following is true with regard to your board's succession planning? (select all that apply)

Base: 686; 678

Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.



But board succession planning is not a priority

Only **49%** share with the full board

**33%** say the plan is ad hoc

**10%** say they don't have a plan at all



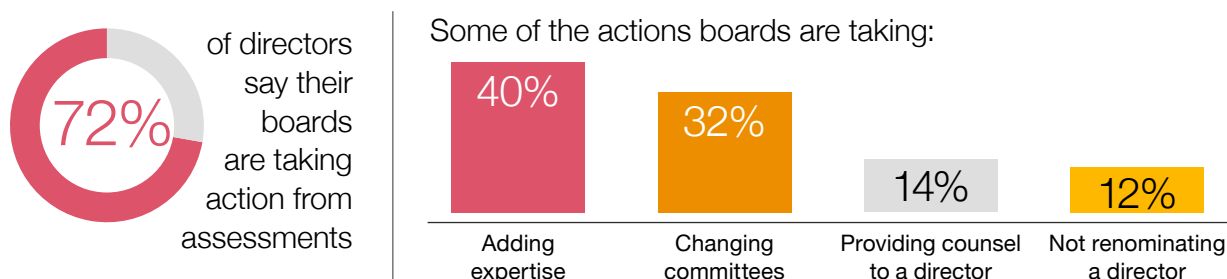
## Boards sidestep the tough conversations

Once, performance assessments may have been seen as check-the-box exercises. Today, most boards take them seriously, and they take action as a result. In 2014, 50% of directors said their board made changes as a result of their assessment process. In 2020, that figure is 72%.

In response to their last performance assessment, 40% of directors say their boards or committees added additional expertise—an increase from 29% saying the same in 2014. Boards also commonly react to assessments by changing the composition of their committees (32%, up from 20% in 2014).

But boards aren't seeing similar improvements when it comes to taking the toughest steps. The percentage of directors saying their boards chose not to renominate a director changed little since 2014 (12%, up from 9%). And only 14% say their board provided counsel to a director, down slightly from 16%. In fact, the area where directors give board leadership the lowest marks is in dealing with underperforming directors, with one in four (25%) saying leadership is not very or not at all effective in that area.

### Taking assessments seriously means changes—but not in all areas



Q9. In response to the results of your last board/committee assessment process, did your board/committee decide to do any of the following? (select all that apply)

Base: 677

Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

## PwC perspective

### Drive change in the boardroom by having the hard conversations

Like every other workplace, the boardroom looks different in 2020. The shift to virtual interactions may make conversations about the most difficult topics—like board refreshment—even more challenging.

But as boards face the unique challenges of 2020, it is more important than ever that board leadership addresses the issue of board refreshment. For boards that are not yet conducting individual performance assessments of each director, now is the time to institute the practice. And for board leadership who may have been avoiding the difficult conversations, now is the time to face that challenge. During this crisis, it is even more critical that boards be able to identify the directors who are not adding value. And board leadership must be willing to ask those directors to either change their behavior or make room for directors who will bring more to the table.





# Board practices

## Holding their tongues when they disagree

Board oversight means asking the tough questions, demanding answers, and arriving at sometimes uncomfortable conclusions. To do that, the boardroom requires honesty and frank discussions.

Yet directors privately confess that they hold back dissenting views. More than one-third of directors (36%) say that it is hard to voice a dissenting opinion in their boardroom.

For many directors, the problem traces back to the fear that dissenting opinions will damage collegiality in the boardroom. Fifty-two percent (52%) of directors say that the desire to maintain a collegial atmosphere contributes to muffled dissent. Thirty-two percent (32%) say it stems from dominant personalities in the boardroom.

As the COVID-19 pandemic and accompanying economic crisis exposes weaknesses in companies and entire industries, boards' leadership is more critical than ever. The disruption in business as usual creates an opportunity for board leaders to shift the status quo. With everything else changing, board leaders can use the moment to encourage a new level of openness and honesty in their discussions.

### Older and younger directors disagree about what stifles dissent

Dominant personalities in the boardroom

41% vs. 22%  
60 and younger 71 and older

Lack of director expertise

26% vs. 40%  
60 and younger 71 and older

Q12. In your opinion, which of the following contribute to directors' reluctance to voice dissenting views? (select all that apply)

Base: 531

Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.



## PwC perspective

### Overcoming the hidden dynamics holding boards back

Board members are highly educated, accomplished, successful individuals. Yet every director has witnessed derailed discussions, dismissed opinions, directors who dominate, and those who seem to be biting their tongue. Many of these problems can be traced to four common biases we see in boardrooms.

- **Authority bias:** Overvaluing the opinion of one director with a particular set of skills or experience, or a director in a leadership role.
- **Groupthink:** Being overly concerned with coming to a consensus.
- **Status quo bias:** A reluctance to change the way things are.
- **Confirmation bias:** The tendency to overvalue evidence that confirms one's view, while undervaluing evidence that disproves it.

For much more about boardroom biases and tools to improve boardroom culture, look for our forthcoming paper *Effective board culture: The hidden dynamics that hold boards back—and how to overcome them*.



## Shareholder engagement continues to bring benefits

Investors have increased their focus on shareholder engagement in recent years. Large institutional shareholders, in particular, have made it a priority by beefing up their stewardship teams and increasing the number of engagements they conduct every year.

At the same time, director involvement in shareholder engagement continues to grow. In 2020, 58% of directors say a member of their board (other than the CEO) is involved in these discussions, up from just 42% in 2017.

As the practice continues to grow, directors see the effect. Eighty-seven percent (87%) think the engagement has a positive impact on proxy voting, up from 59% in 2016. More than three-quarters (76%) also see a positive impact on investing decisions, up from just 63% four years ago.

Companies that took shareholder engagement seriously over the past several years may be seeing those dividends now. By building shareholder relationships with their most important investors during the “calm times,” companies may find that having that existing connection is more important than ever as they are put to the test in 2020. Shareholders will likely be pushing companies to address topics like strategy adjustments, changes in capital allocation, and executive compensation design before the 2021 proxy season.

### Seeing the positive impact of shareholder engagement

**58%** of directors say their boards are involved in shareholder engagement

**87%**  
see a positive  
impact on  
proxy voting

**76%**  
see a positive  
impact on invest-  
ment decisions

Q15a. Has a member of your board (other than the CEO) had direct engagement with investors during the past 12 months?; Q15b. To what extent do you agree with the following regarding your board's direct engagement with investors? Response: Very much and somewhat

Base: 676; 380-389

Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.



Spotlight:

## Corporate reputation and personal reputation merge

For directors, board service can go well beyond just fulfilling a professional duty. Many feel a strong connection to the company, associating their personal brand with that of the company. They see the company's governance decisions and major events as a reflection of themselves.

A majority of directors say that issues like disclosing a material weakness (76%) or going through a recent reputational crisis (72%) reflect negatively on the board members themselves. These are issues that perhaps the board may feel some responsibility for preventing. A majority of directors also feel that having a dual-class share structure or experiencing a recent cyber breach (both 66%) reflect negatively.

With directors associating their own reputation with that of the company they serve, it's clear that the connection is strong. They may have more at stake in their role than many investors give them credit for.

### Directors take corporate governance issues to heart

Directors responding that the issue reflects negatively on the board of directors:

76%

Material weakness disclosures

72%

Recent reputational crisis

66%

Dual-class shares

66%

Recent cyber breach



Q14. To what extent do you think the following issues reflect negatively on a company's board of directors? Response: Very much and somewhat

Base: 649-661

Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

### Younger directors are more likely to see an impact on their personal brand

Recent reputational crisis impacts directors' reputation

78%  
60 and under

vs.

64%  
71 and older

Q12. In your opinion, which of the following contribute to directors' reluctance to voice dissenting views? (select all that apply) Response: Very much and somewhat

Base: 531

Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

# Culture and talent management

## Taking action on company culture

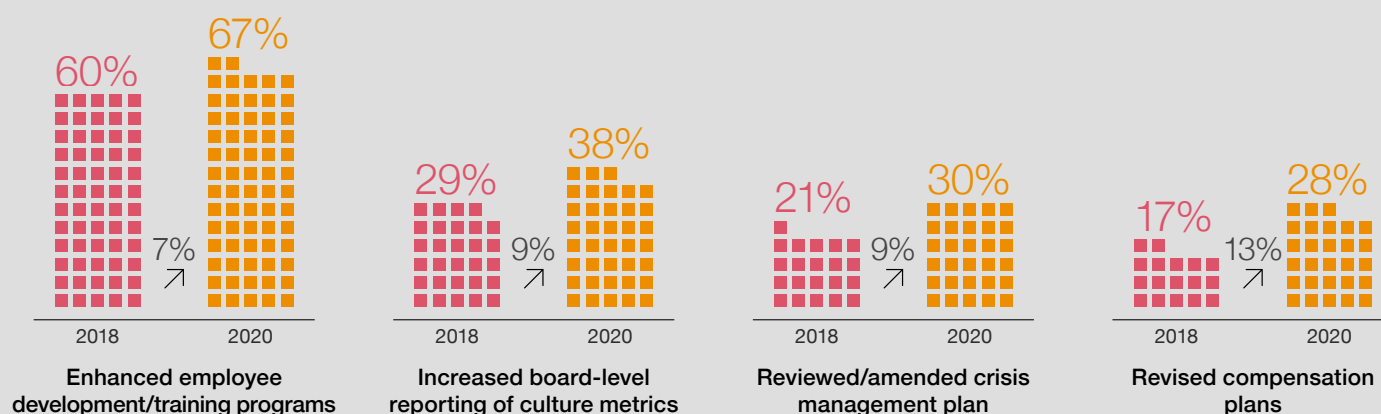
The risks posed by problematic company culture came into the spotlight in recent years. High-profile cheating scandals, corporate misdeeds, and movements like #MeToo forced many companies to re-examine how their own cultures could be contributing to problems.

Over the last several years, many more directors say their boards are taking a variety of actions to address corporate culture. Most commonly, companies have enhanced employee development and training programs. Two-thirds of directors (67%) say their companies have taken this step, up from 60% in 2018. More directors also say their companies are increasing reporting to the board about culture metrics. This could include employee engagement survey results, media coverage, or hotline trends, which can give a data-based view of an inherently ephemeral topic.

More directors also report reviewing or amending their compensation plans. By re-examining how their plans motivate employees, they may uncover some root causes for problematic behaviors and be able to adjust accordingly.

As many companies struggle with the challenges posed by balancing employee and customer safety with business needs, navigating remote work environments and a radically different view of the workplace, the issue of company culture will be even more challenging. In addition to the question of whether the company has the right culture, boards will also be grappling with how to define, build, and sustain a corporate culture at this moment.

### Taking steps to address company culture



Q17. Several high-profile companies' reputations have been damaged recently by what could be called failings in their corporate culture. Which of the following actions has your company taken to address corporate culture? (select all that apply)

Base: 675 (2018); 668 (2020)

Sources: PwC, 2018 Annual Corporate Directors Survey, October 2018; PwC, 2020 Annual Corporate Directors Survey, September 2020.

## When it comes to executive pay, how much is too much?

At a time when the US has experienced record-high levels of unemployment and economic uncertainty, directors also see issues with excessive executive pay.

While nearly all directors (95%) at least somewhat agree that incentive pay plans promote shareholder value, 69% also somewhat or very much agree that executive pay exacerbates income inequality.

Directors continue to view proxy advisors and compensation consultants as having too much influence on executive pay, but many put at least some of the blame on the board as well. More than half (60%) at least somewhat agree that compensation committees are too willing to approve overly-generous pay packages or incentives. More than two-thirds of directors (68%) think that executives are overpaid, and 52% think targets are too easy to achieve.

The current climate is forcing boards to take a hard look at executive pay. Plans and targets that were reasonable earlier in the year may not make sense by December. With many companies experiencing uncertainty and volatility, boards may worry about executive retention if appropriate incentives are not in place. At the same time, the optics of these decisions, and of overall pay numbers, are key. Companies and boards will need to focus on transparent disclosure of what steps they have taken, and why, in order to convince shareholders that they've made the right decisions during turbulent times.

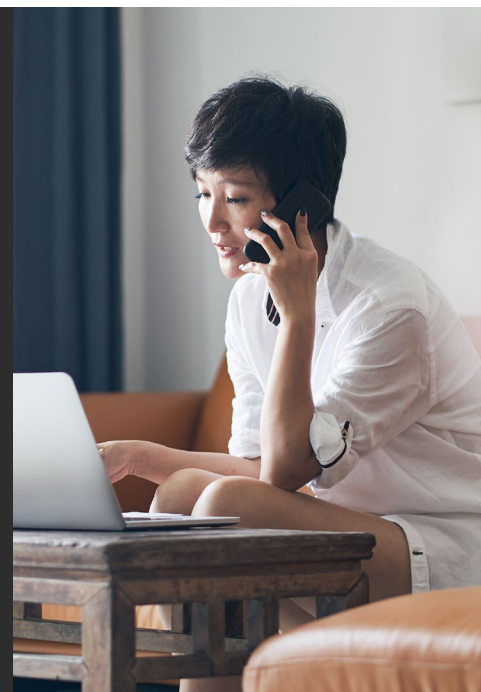
### Directors trace problems with executive pay



Q23. To what extent do you agree with the following regarding executive pay in the US? Response: Very much and somewhat

Base: 654-659

Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.





## Taking a broader view of incentive pay—in some areas

As the idea of corporate purpose has pushed companies to think beyond just the bottom line, directors are also rethinking how to measure performance.

While most directors do not support having diversity and inclusion goals as part of executive compensation plans (see page 12), they do support a variety of other non-financial goals. More than half of directors think customer satisfaction (72%), safety (58%), quality (54%), and employee engagement (54%) should be a part of the calculation.

During tough times, compensation committees still need to keep their executives incentivized. With the business climate changing so rapidly in 2020, boards have the opportunity now to reconsider the future of the company and to create the right incentives to encourage management to get there.

### Directors think beyond financial metrics

Percentage of directors who think incentive compensation should be linked to:



### Female directors are more likely to support many non-financial performance metrics

Employee attrition

59% vs. 52%  
female male

Diversity/inclusion metrics

58% vs. 32%  
female male

Environmental goals

41% vs. 31%  
female male

Q24. Which of the following non-financial metrics do you think should be included in executive compensation plans? (select all that apply)

Base: 661

Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

Q24. Which of the following non-financial metrics do you think should be included in executive compensation plans? (select all that apply)

Base: 661

Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

# Gender in the boardroom:

## 7 areas where male and female directors differ

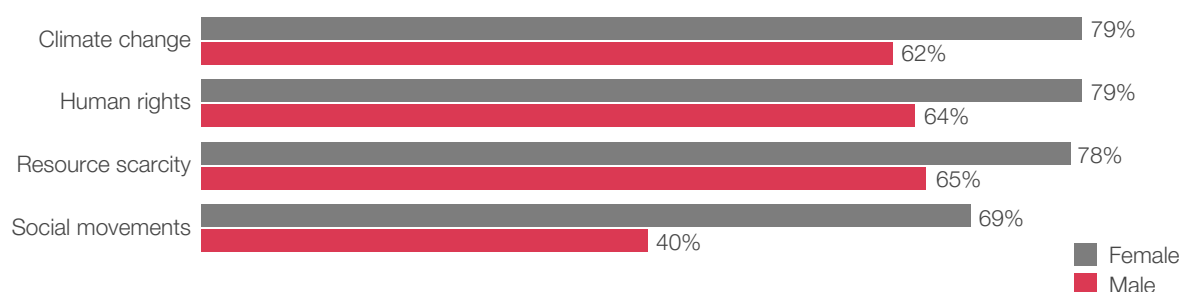
With a continuing push toward greater diversity on boards, shareholders and others emphasize the need for diversity of thought in the boardroom. The idea is that diverse voices will improve the discussion and make boards better-equipped to handle what is to come.

The findings of our *Annual Corporate Directors Survey* show that directors of different genders do, in fact, have very different views on a variety of issues. Read on to explore the differences in how female and male directors view issues ranging from ESG to board practices and beyond.

### 1. Should ESG be connected to strategy?

Female directors are more likely to see room in strategy discussions for social and environmental issues. By large margins, they are more likely to say that issues relating to the environment, social injustice, and human rights concerns, should have an impact on company strategy.

#### **Female directors are more likely to agree that company strategy should incorporate:**



Q18. To what extent do you think your company should take the following issues into account when developing company strategy?

Response: Very much and somewhat

Base: 633-637

Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.



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## 2. What's the role of ESG in the boardroom?

Female directors may be playing a role in elevating ESG issues in the boardroom. They are more likely to say that their board has taken a number of steps in this area, including making ESG issues a part of enterprise risk management (ERM) discussions, and linking those issues to company strategy.

### Female directors are more likely to say that ESG issues are:



Q20. Which of the following statements do you agree with about ESG (environmental/social/governance) issues? (select all that apply)

Base: 599

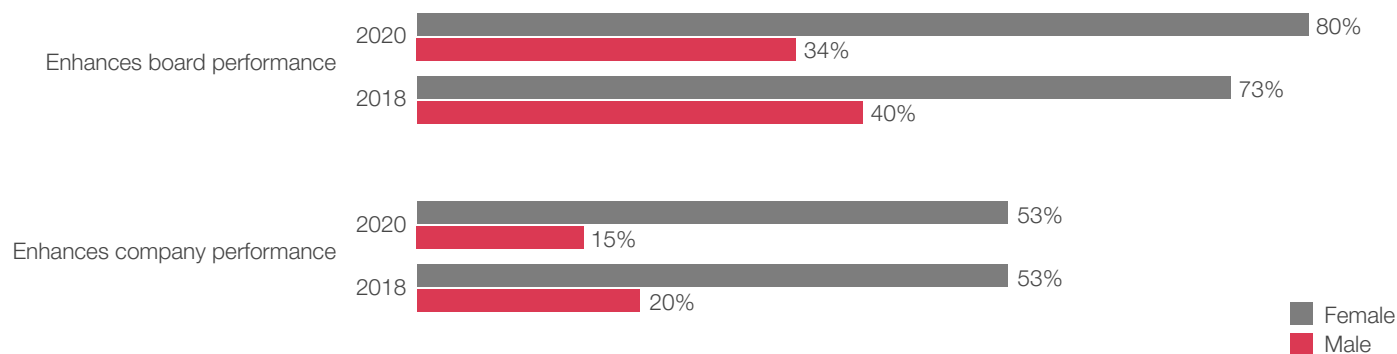
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

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## 3. What's the value of board diversity?

On the topic of what diversity brings to boards, male and female directors have a very different view. Female directors are much more likely to strongly agree that diversity brings certain benefits to boards, including enhancing the board's and the company's performance. What's more, as boards have become more diverse, male directors have not become more convinced about the benefits of diversity. In fact, their belief in those benefits has waned.

### Female directors are more likely to strongly agree with the following about board diversity



Q6. To what extent do you agree with the following statements about board diversity? Response: Strongly agree

Base: 634-635 (2020); 674 (2018)

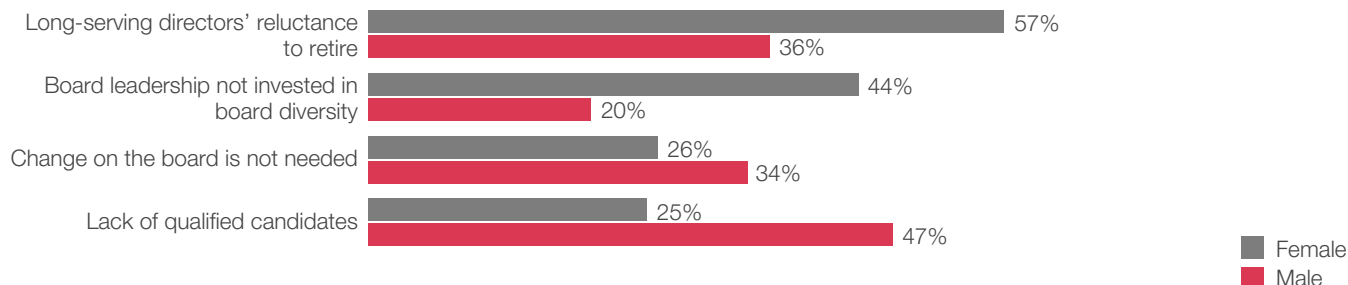
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020; PwC, 2018 Annual Corporate Directors Survey, October 2018.

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## 4. What's getting in the way of board diversity?

When asked why boards haven't been able to add diversity more quickly, male directors are much more likely to point to outside factors. Almost half say that qualified candidates are not available, and more than a third say that change on the board simply isn't needed. Female directors, on the other hand, are more likely to point to factors on the board, such as lack of turnover or lack of leadership in the area.

### Female and male directors disagree about what inhibits board diversity



Q7. In your opinion, what has impeded efforts to increase board diversity in general (i.e., why haven't boards become diverse more quickly)? (select all that apply)

Base: 623

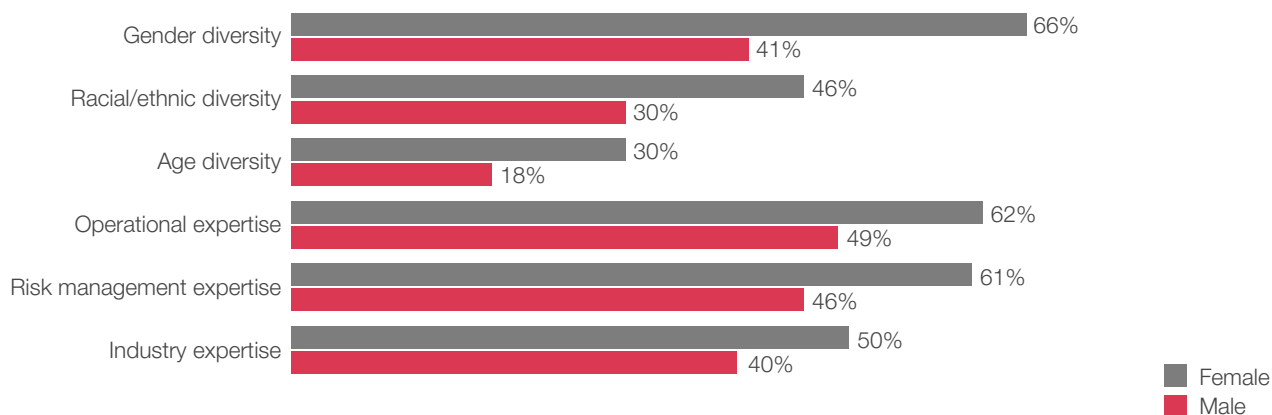
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

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## 5. What's most important when it comes to board composition?

Female directors are much more likely to say that diversity is important on their board. This is true for gender diversity as well as racial/ethnic and age diversity. They are also more likely to value other types of expertise. So when it comes to board composition, female directors may be a driving force for diversity of skills and backgrounds.

### Female directors are more likely to think the following are "very important"



Q1. How would you describe the importance of the following skills, competencies or attributes on your board? Response: Very important

Base: 633-637

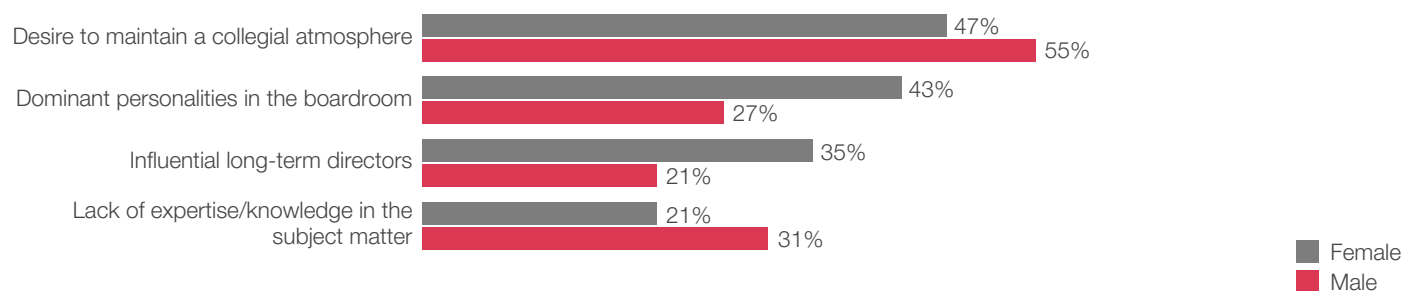
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

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## 6. What stifles board dissent?

More than one-third of all directors agree that it is difficult to voice a dissenting opinion on one or more topics in the boardroom. But female and male directors have different opinions about why that is. Female directors are more likely to trace it back to specific directors—certain dominant personalities or influential directors stifling the discussion. Male directors, on the other hand, think directors don't weigh in because they don't have expertise in the subject matter, or because they want to maintain a collegial atmosphere.

### Male and female directors identify different factors muting dissent



Q12. In your opinion, which of the following contribute to directors' reluctance to voice dissenting views? (select all that apply)

Base: 505

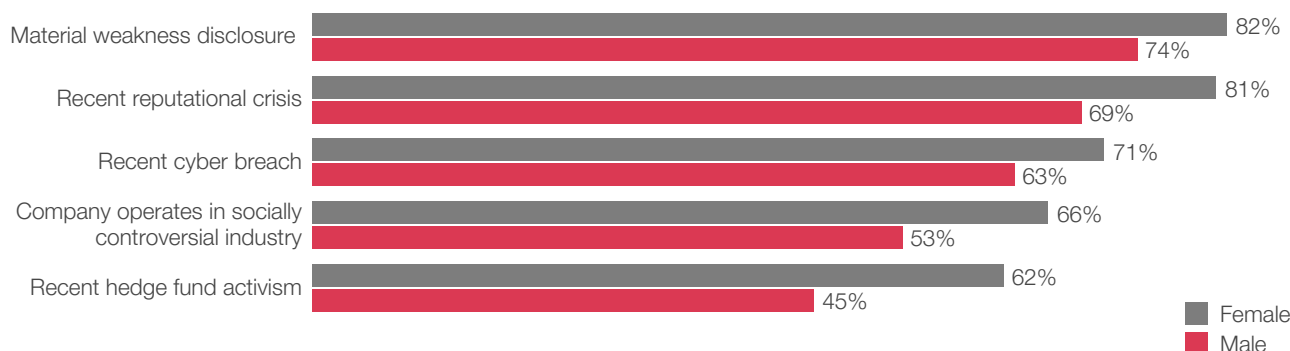
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

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## 7. How does the company's reputation reflect on the board?

Female directors are more likely to say that certain actions at the company reflect negatively on the board of directors. Male directors are less likely to draw this connection in a number of areas, but most clearly when it comes to recent reputational crises, such as a product recall or #MeToo scandal.

### Female directors are more likely to think the following have a negative effect on the board's reputation



Q14. To what extent do you think the following issues reflect negatively on a company's board of directors? Response: Very much and somewhat

Base: 619-628

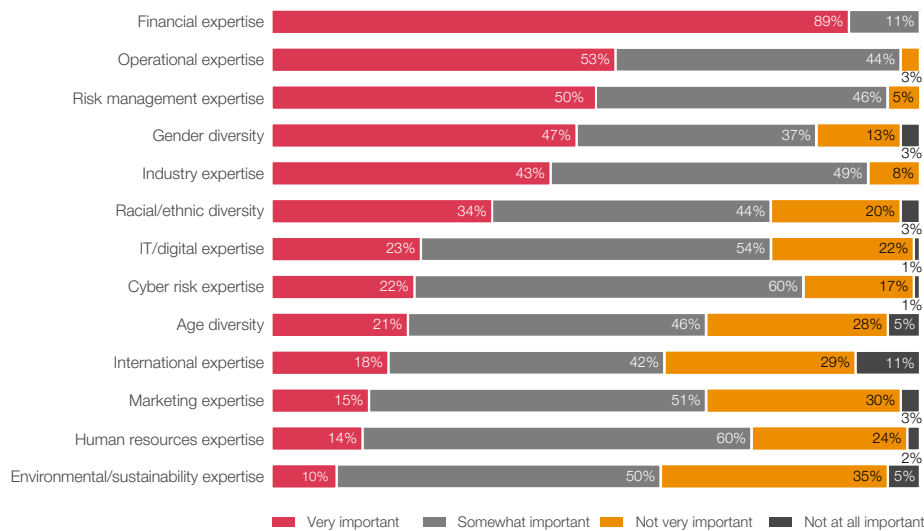
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

# Appendix: Complete survey findings

Note: Due to rounding, some charts may not add to 100%

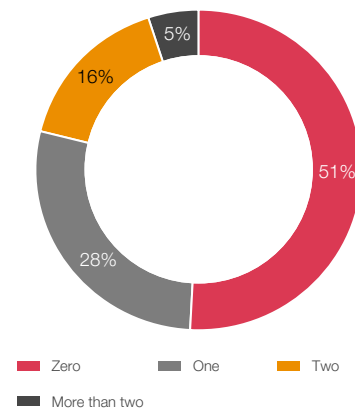
## Board composition/diversity

### 1. How would you describe the importance of the following skills, competencies or attributes on your board?



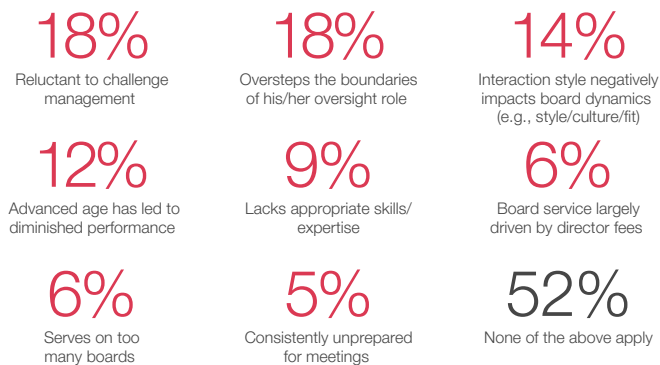
Base: 681-688  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

### 3. In your opinion, how many directors on your board should be replaced? (select one)



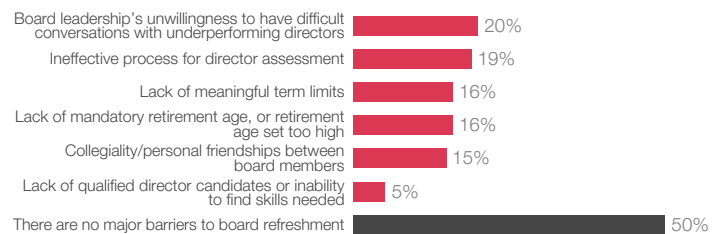
Base: 686  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

### 2. Do you believe any of the following about any of your fellow board members? (select all that apply)



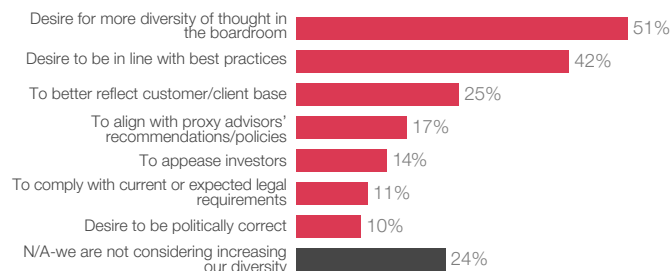
Base: 682  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

### 4. In your opinion, what are the major barriers to board refreshment? (select all that apply)



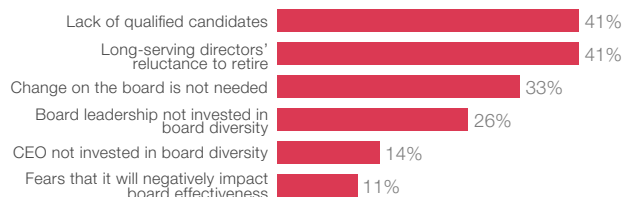
Base: 685  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

## 5. If your board is considering increasing its diversity, why? (select all that apply)



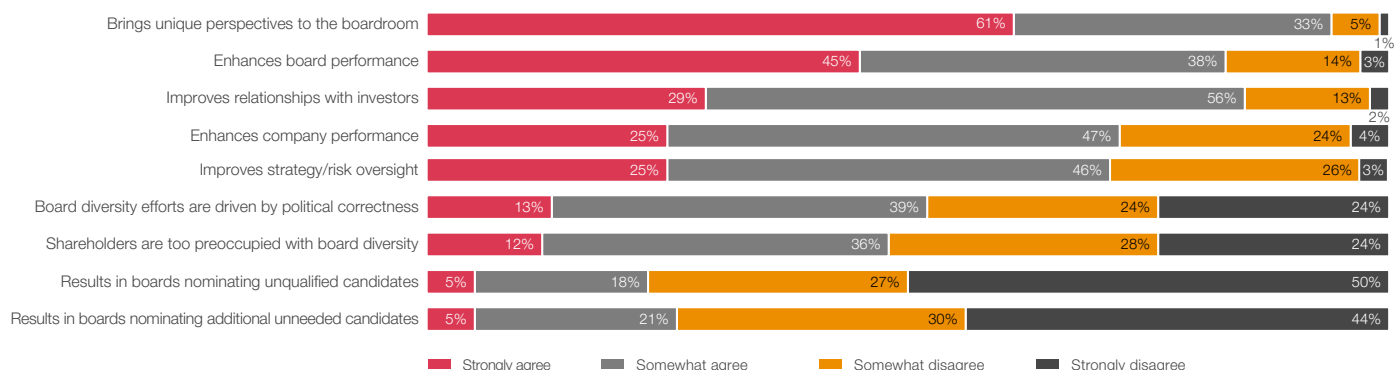
Base: 683  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

## 7. In your opinion, what has impeded efforts to increase board diversity in general (i.e., why haven't boards become diverse more quickly)? (select all that apply)



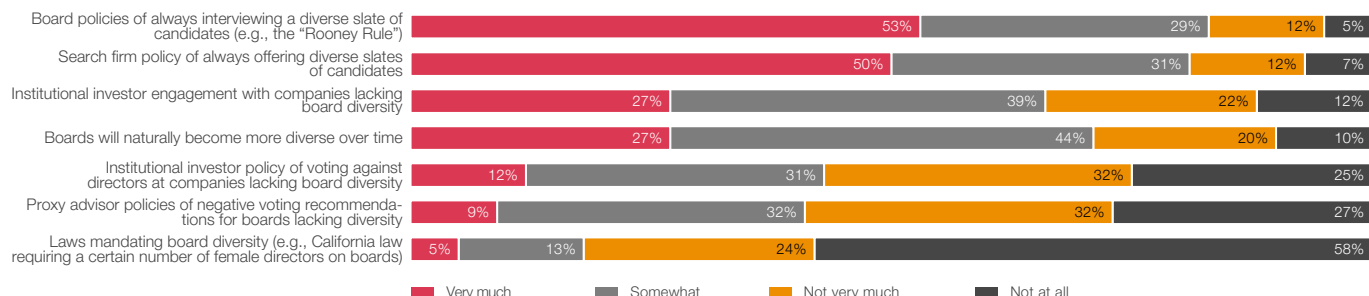
Base: 668  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

## 6. To what extent do you agree with the following statements about board diversity?



Base: 674-684  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

## 8. To what extent do you support the following methods of achieving diversity on public company boards?



Base: 678-683  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

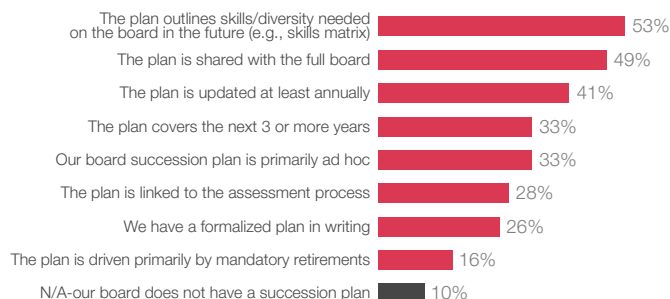
# Board practices

## 9. In response to the results of your last board/committee assessment process, did your board/committee decide to do any of the following? (select all that apply)



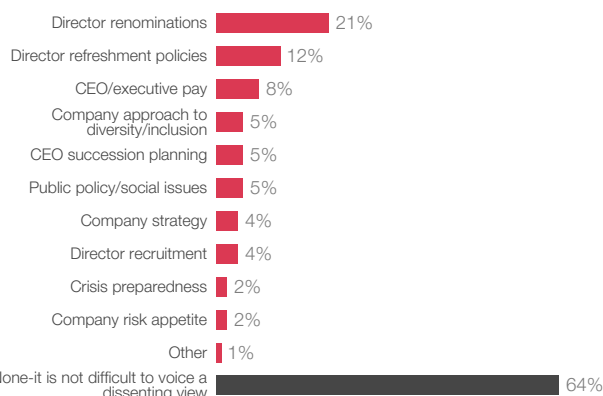
Base: 677  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

## 10. Which of the following is true with regard to your board's succession planning? (select all that apply)



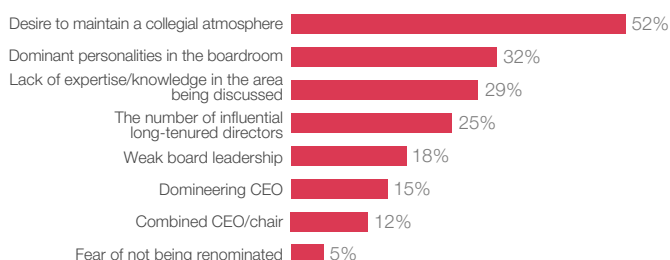
Base: 678  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

## 11. In your opinion, on which of the following issues is it difficult to voice a dissenting view in the boardroom? (select all that apply)



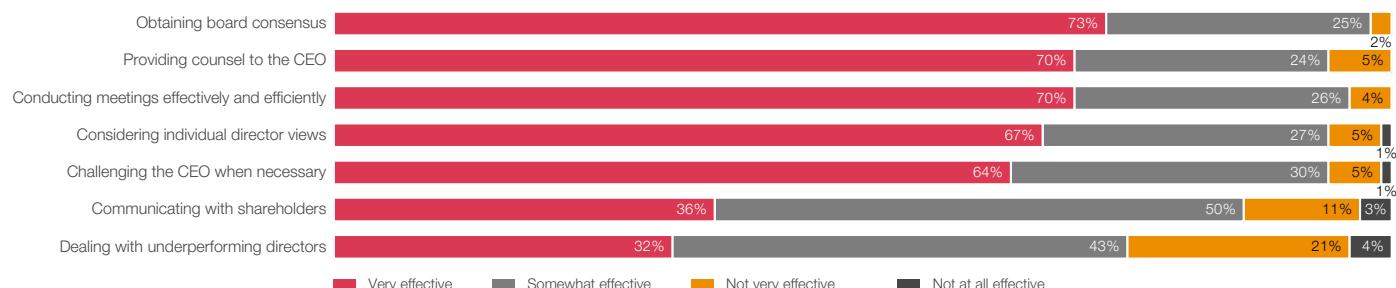
Base: 677  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

## 12. In your opinion, which of the following contribute to directors' reluctance to voice dissenting views? (select all that apply)



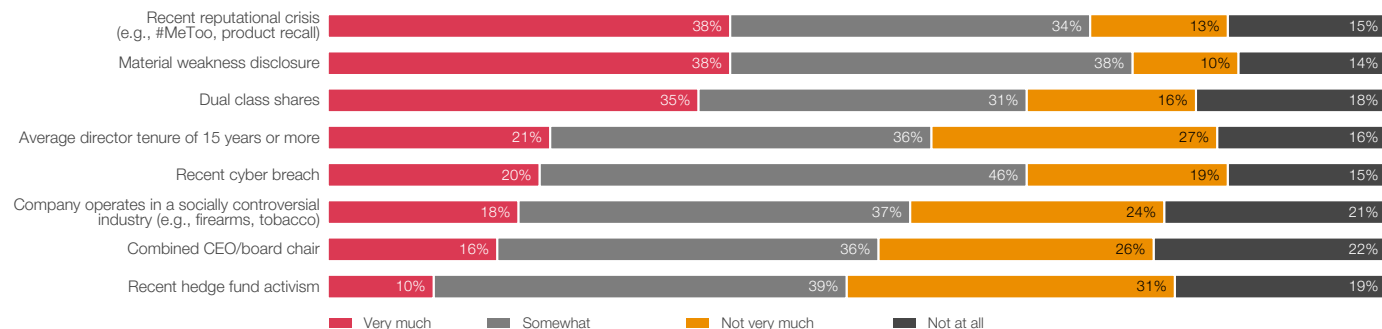
Base: 531  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

## 13. How effective is your board leadership (chair/lead director/presiding director) in the following areas?



Base: 646-673  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

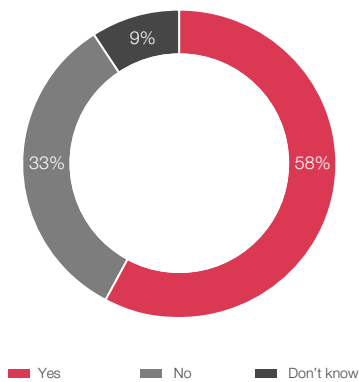
## 14. To what extent do you think the following issues reflect negatively on a company's board of directors?



Base: 649-665  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

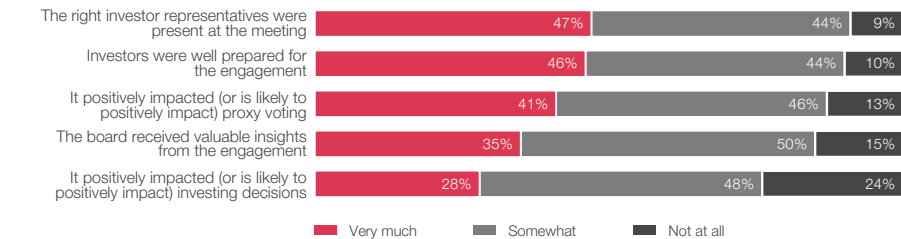
# Shareholder communication

15a. Has a member of your board (other than the CEO) had direct engagement with investors during the past 12 months?



Base: 676  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

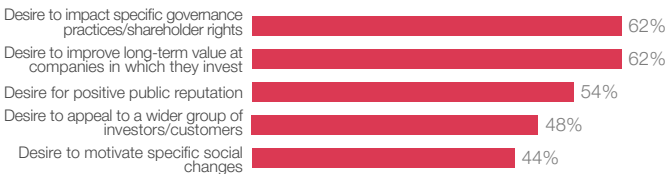
15b. To what extent do you agree with the following regarding your board's direct engagement with investors?



Base: 366-389  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

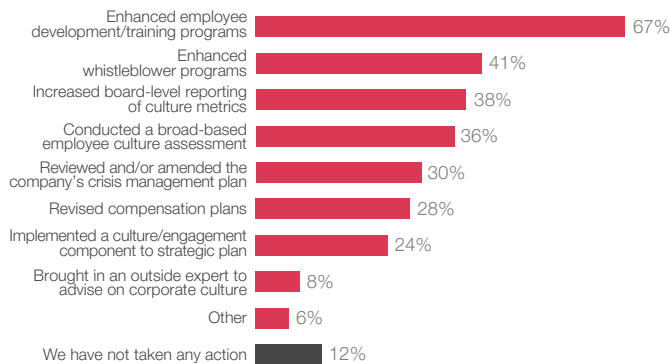
## Strategy/risk

16. Which of the following do you think drives institutional investors' corporate governance policies and priorities? (select all that apply)



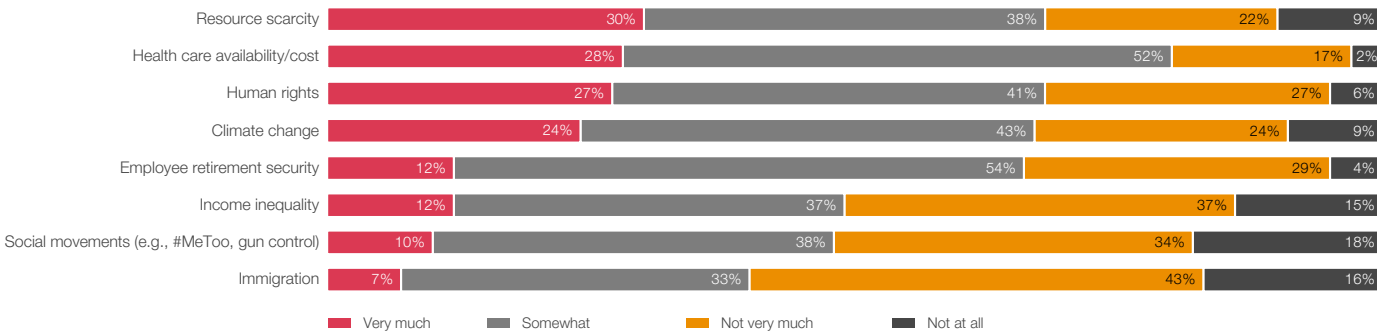
Base: 671  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

17. Several high-profile companies' reputations have been damaged recently by what could be called failings in their corporate culture. Which of the following actions has your company taken to address corporate culture? (select all that apply)



Base: 668  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

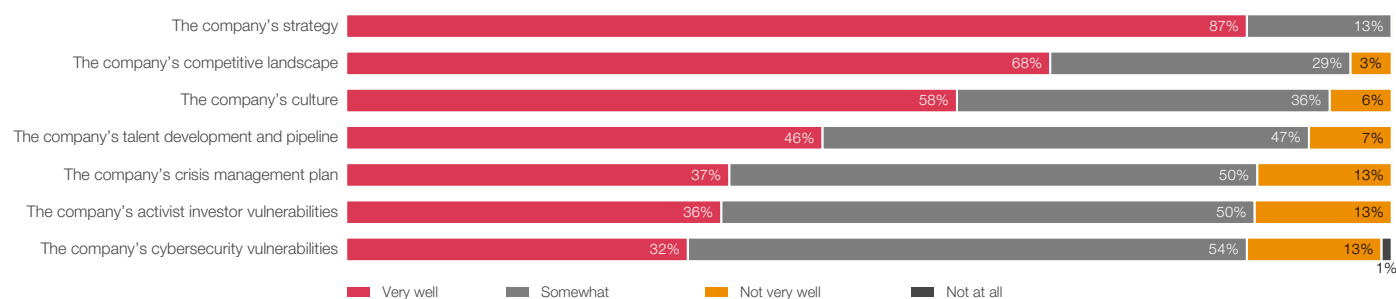
18. To what extent do you think your company should take the following issues into account when developing company strategy?



Base: 660-668  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

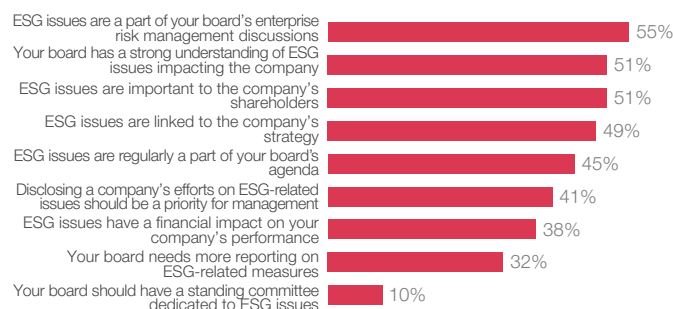


## 19. How well do you think your board understands the following?



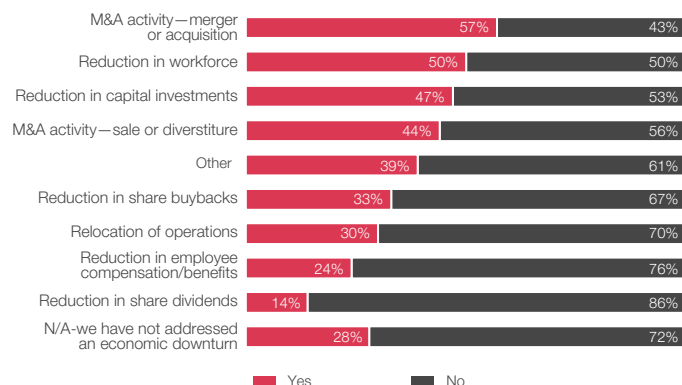
Base: 665-671  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

## 20. Which of the following statements do you agree with about ESG (environmental/social/governance) issues? (select all that apply)



Base: 624  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

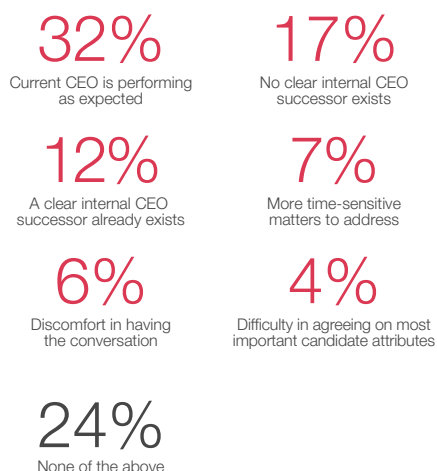
## 21. Which of the following has your board discussed or put into place in the past 12 months to address an economic downturn?



Base: 130-604  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

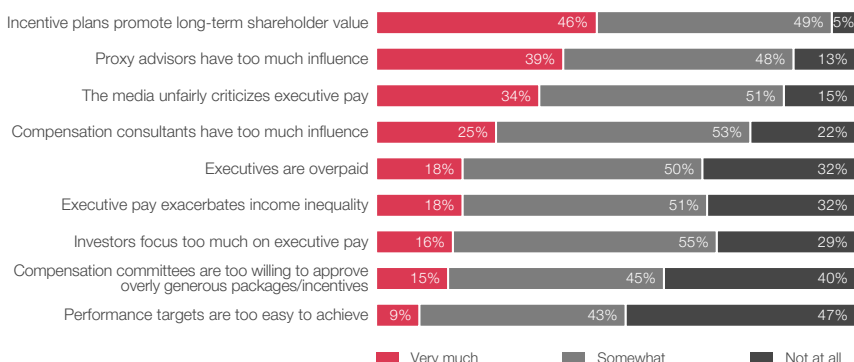
# Executive compensation/talent management

## 22. What is the single greatest challenge to more timely and effective CEO succession planning? (select only one)



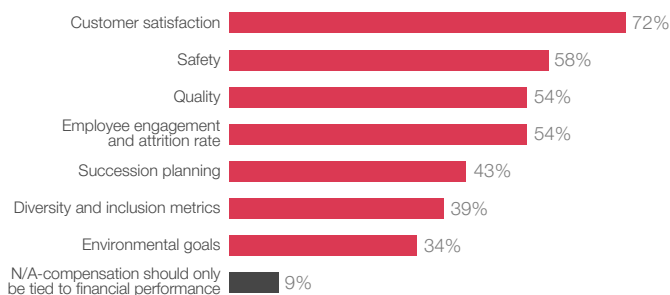
Base: 662  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

## 23. To what extent do you agree with the following regarding executive pay in the US?



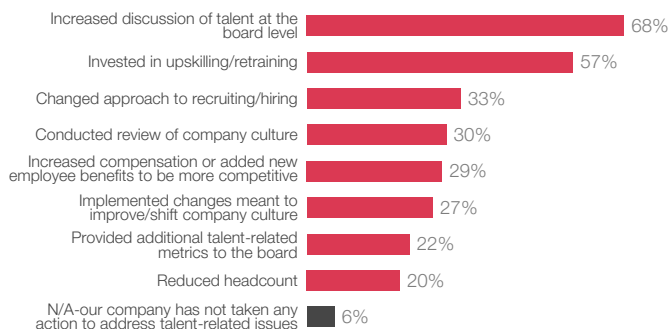
Base: 654-659  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

**24. Which of the following non-financial metrics do you think should be included in executive compensation plans? (select all that apply)**



Base: 661  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

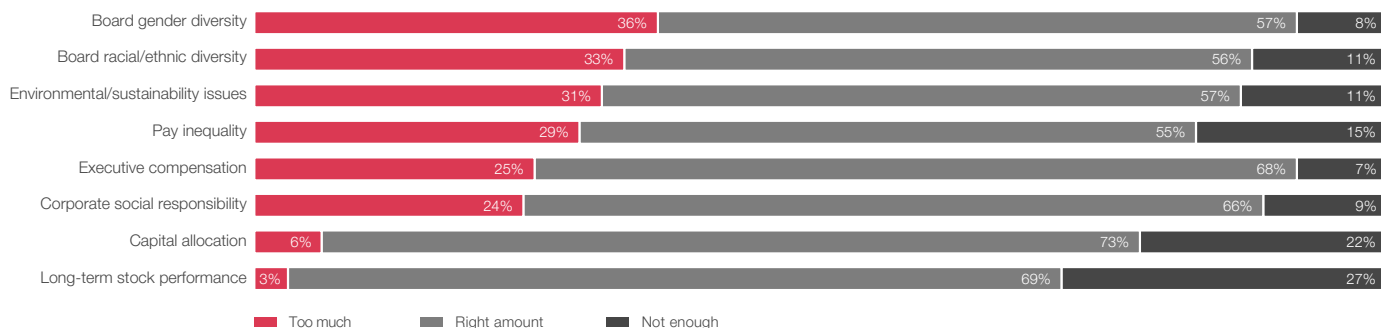
**25. Which of the following steps has your company taken, or plan to take, to address talent-related issues? (select all that apply)**



Base: 658  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

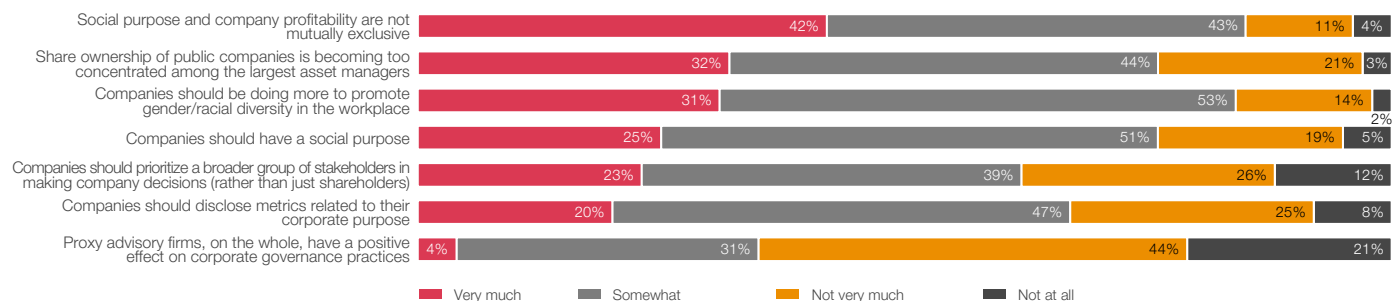
## The broader environment

**26. Do you feel that institutional investors devote too much attention, just the right amount of attention or not enough attention to the following issues?**



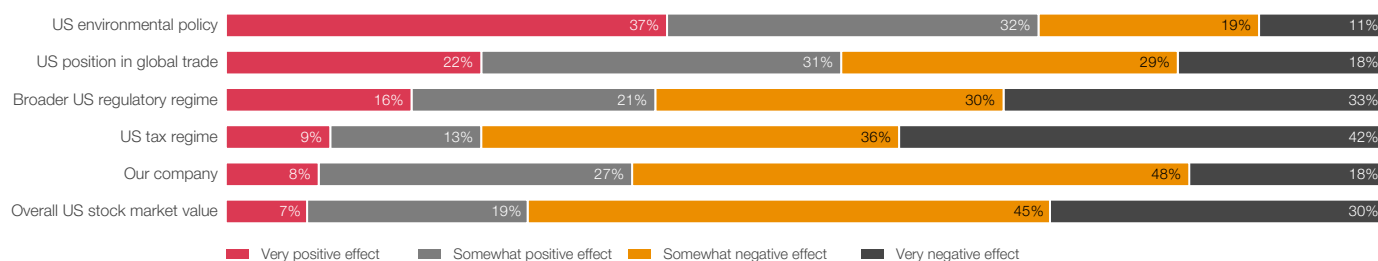
Base: 651-657  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

**27. To what extent do you agree with the following?**



Base: 652-657  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

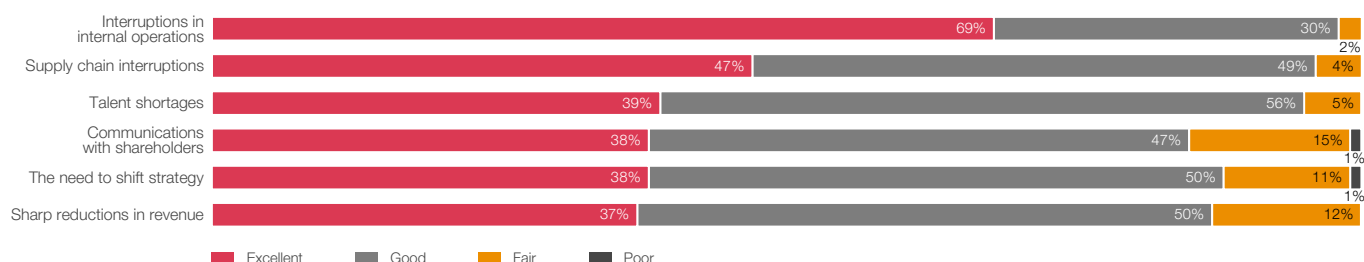
## 28. In your opinion, how would a change in the party occupying the White House in the 2020 election impact the following?



Base: 644-647  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

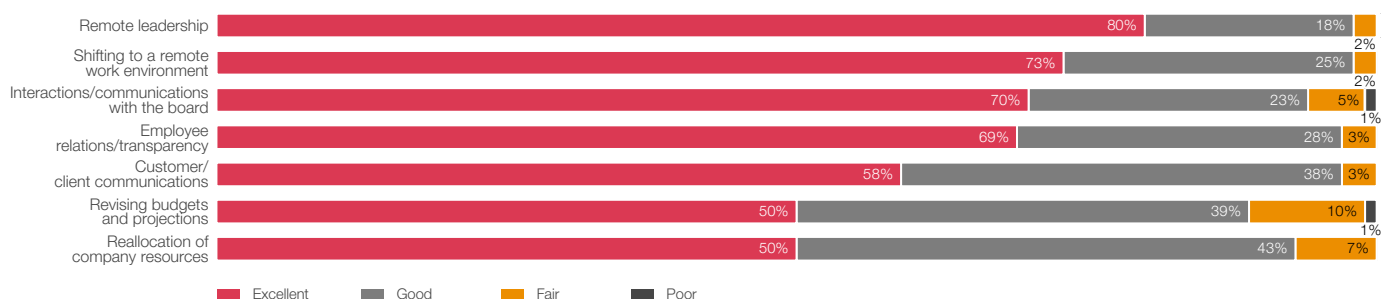
## Implications of COVID-19

### 29. How would you rate your company's response to the following COVID-19-related impacts on business?



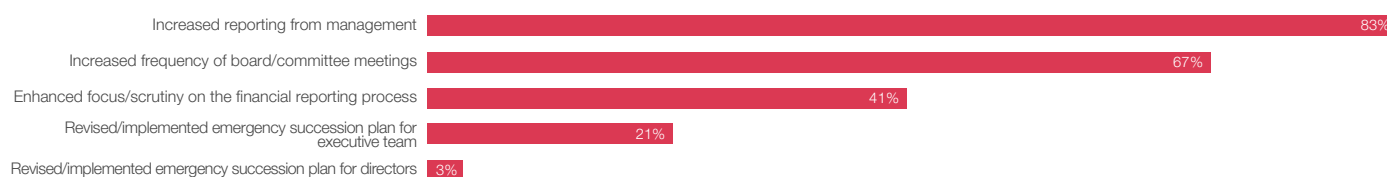
Base: 190-254  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

### 30. How would you rate management's handling of internal operations in response to the COVID-19 pandemic in the following areas?



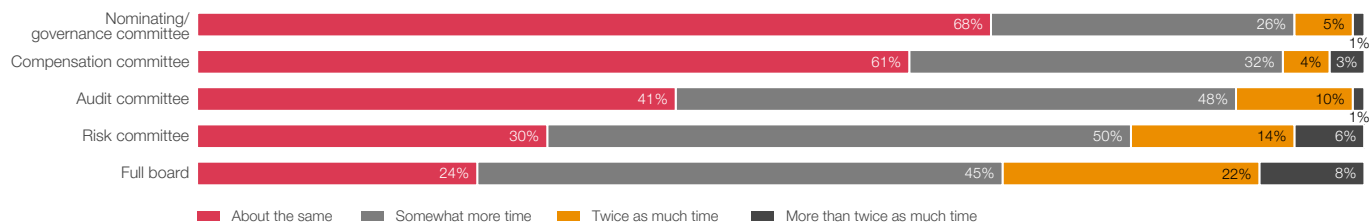
Base: 235-260  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

### 31. How did your board practices change in response to COVID-19? (select all that apply)



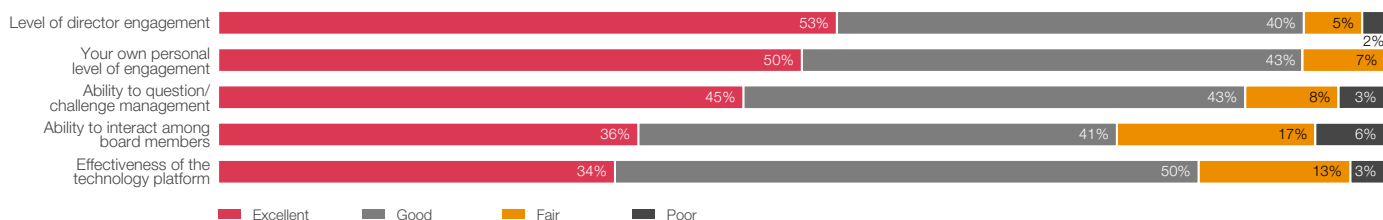
Base: 236  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

### 32. Compared to a similar period in 2019, how much time are you spending on your board and committee responsibilities during the COVID-19 crisis?



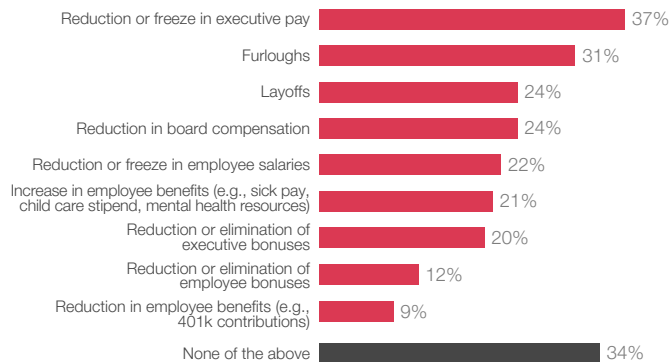
Base: 122-255  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

### 33. How would you rate your virtual board/committee meetings in the following areas?



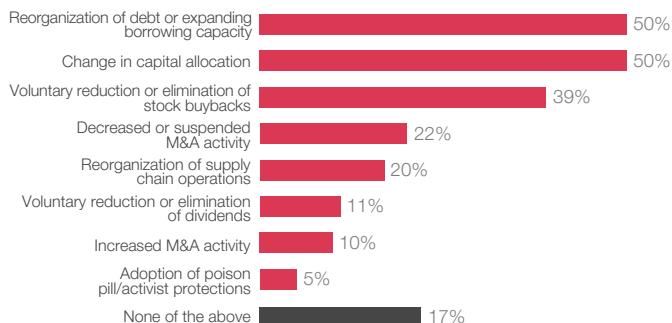
Base: 256-260  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

### 34. Which of the following changes in the area of human capital management has your company made in response to the COVID-19 pandemic and its ramifications? (select all that apply)



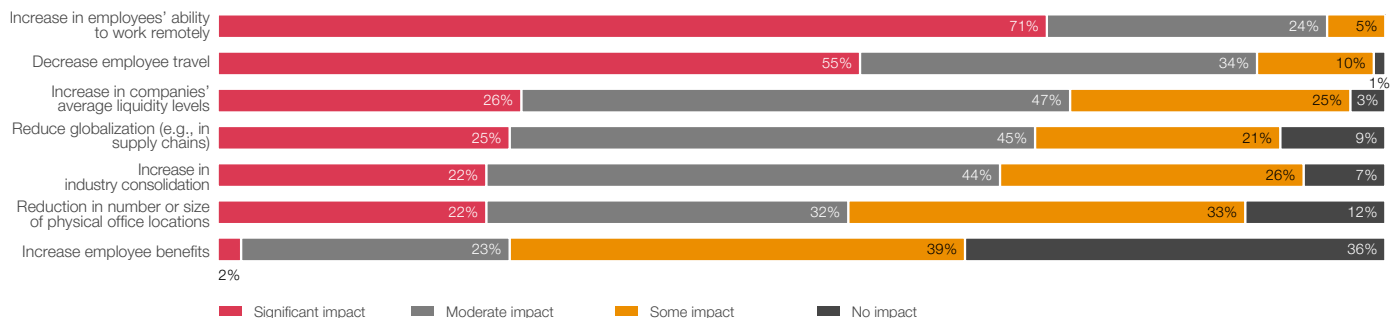
Base: 259  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

### 35. Which of the following strategic changes has your company made in response to the COVID-19 pandemic and its ramifications? (select all that apply)



Base: 260  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

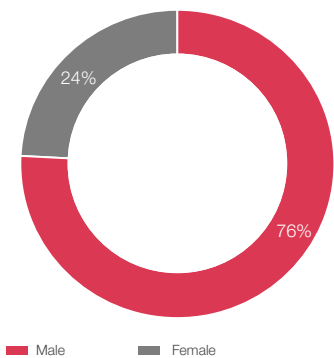
### 36. In your opinion, to what extent will COVID-19 have the following long-term structural impacts on business in general?



Base: 257-260  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

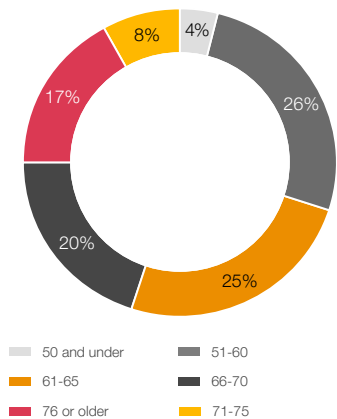
# Demographics

You are:



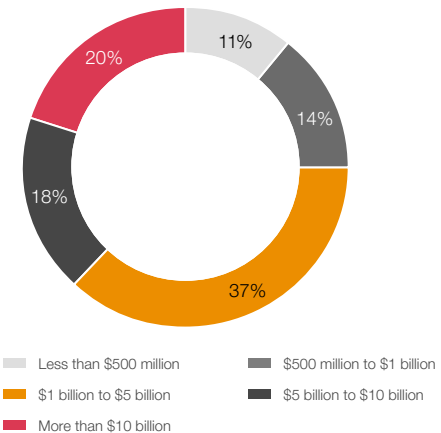
Base: 642  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

Your age is:



Base: 651  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

What are the annual revenues of the largest company on whose board you serve?

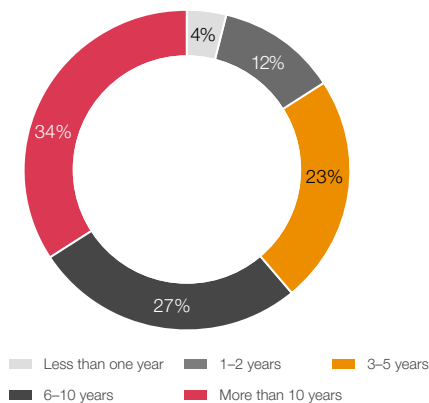


Base: 652  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

## About the survey

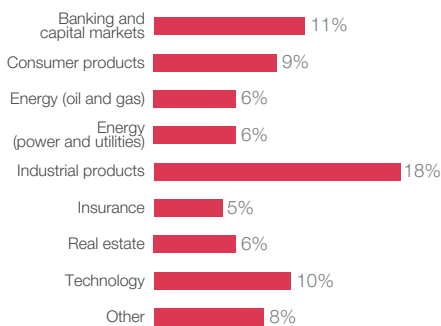
PwC's *Annual Corporate Directors Survey* has gauged the views of public company directors from across the United States on a variety of corporate governance matters for more than a decade. In 2020, 693 directors participated in our survey. The respondents represent a cross-section of companies from over a dozen industries, 75% of which have annual revenues of more than \$1 billion. Seventy-six percent (76%) of the respondents were men and 24% were women. Board tenure varied, but 61% of respondents have served on their board for more than five years.

How long have you served on this board?



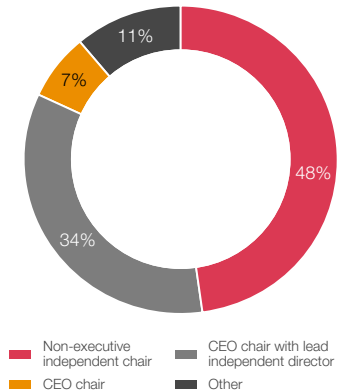
Base: 647  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

Which of the following best describes that company's industry? (select only one)



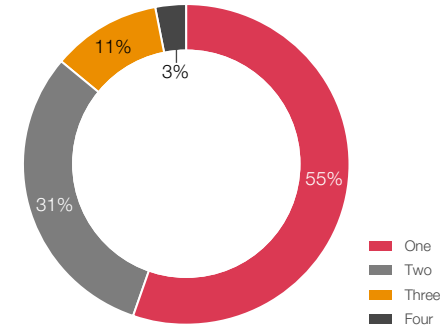
Note: Asset and wealth management, business and professional services, health services, media/entertainment/telecommunications, pharma and life sciences, and retail each comprised less than 5%.  
Base: 649  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

Which of the following describes your board leadership structure?



Base: 652  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.

How many public company boards do you currently serve on?



Base: 649  
Source: PwC, 2020 Annual Corporate Directors Survey, September 2020.



# How PwC can help

To have a deeper discussion about how this topic might impact your business, please contact your engagement partner, or a member of PwC's Governance Insights Center.

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