

EY Center for Board Matters

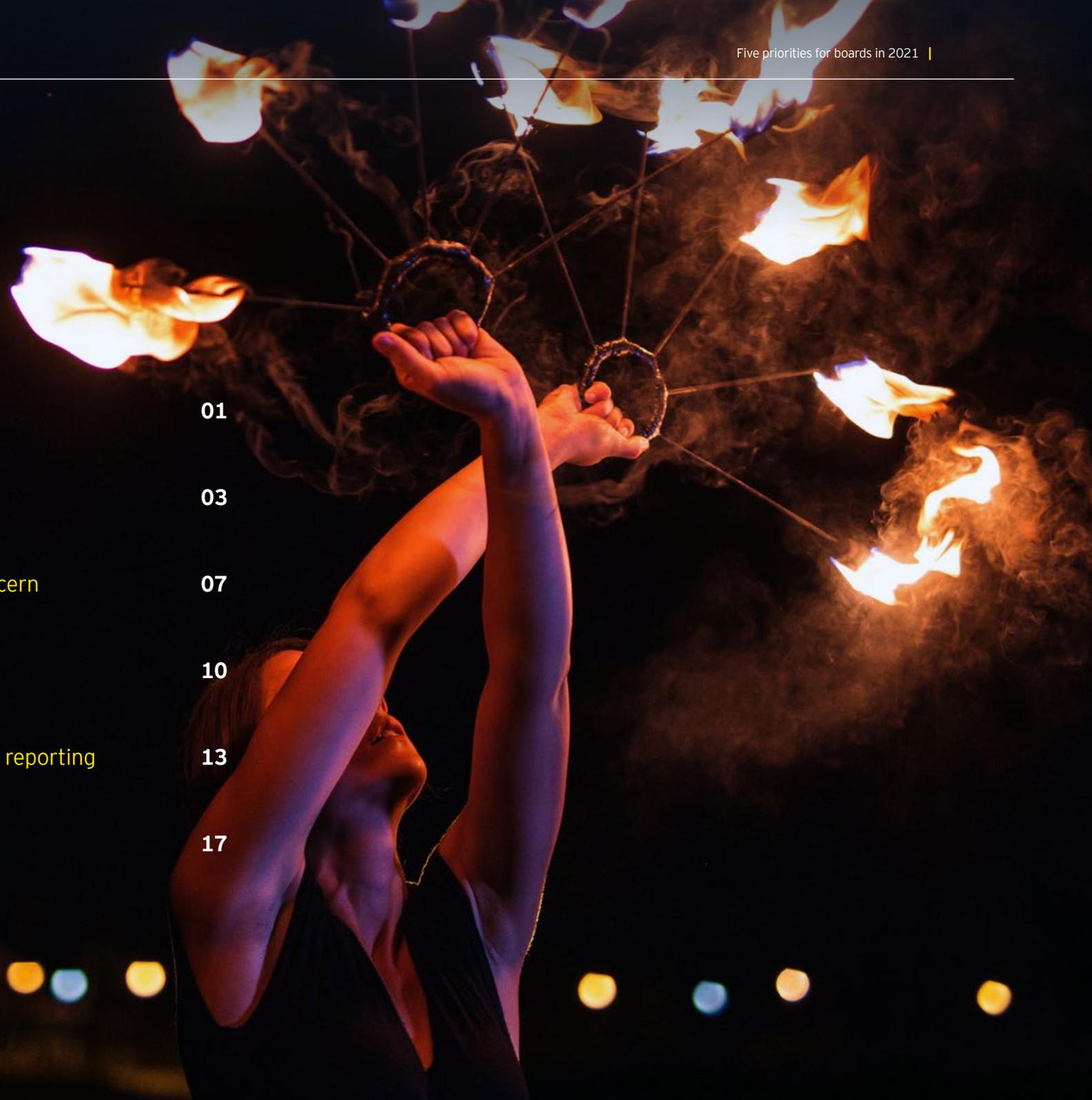
Board Agenda 2021



Building a better
working world

Contents

	Introduction	01
1	Cybersecurity oversight	03
2	Fraud detection and going concern	07
3	Enterprise resilience	10
4	Sustainability and nonfinancial reporting	13
5	Culture and societal change	17



Introduction

Where should
your board focus
in 2021?



“

Boards need to rapidly
reappraise their priorities
for 2021 so they can
shape their organization's
strategy and adapt.

Following a year of widespread disruption, boards are balancing many competing priorities as they support their organizations navigate this period of accelerated change. In addition to managing the operational disruption caused by the COVID-19 crisis, they must respond to emerging economic, social, regulatory and technological trends while reacting to ever-growing investor and stakeholder demands.

Agility is vital in this complex and fast-changing environment. Boards should rapidly reappraise their priorities for 2021 so they can shape their organization's strategy and adapt it as circumstances evolve. This will noticeably change the governance discourse and lead to new challenges for boards and audit committees in successfully fulfilling their steering and oversight role.

To understand these challenges and their impact on the board's priorities, we conducted the EY EMEIA Board Barometer 2021 which surveyed board members across Europe, the Middle East, India and Africa (EMEIA) and gathered insights into board member perspectives on strategic risks and opportunities.

The priorities of the participating board members have helped to inform the key themes of this publication:

Cybersecurity oversight

Strengthening the role of the board

Fraud detection and going concern

Reinforcing confidence in corporate reporting

Enterprise resilience

Approaching recovery and reinvention

Sustainability and nonfinancial reporting

Responding to the impetus for change

Culture and societal change

Accelerating organizational transformation

These topics are by no means the only priorities for boards today. Boards will have various other focus areas depending on the nature of their organization. Nevertheless, the topics outlined above merit special consideration.

We hope this publication will enable your board to better understand and act on these priorities during 2021.

1

Cybersecurity oversight
Strengthening the role of the board

How is your board
dealing with
cybersecurity
and privacy risk?





“

The oversight role of the board is crucial to supporting the cyber resilience of organizations through the COVID-19 crisis and beyond.

Organizations face greater cyber threats than ever before. In fact, European Confederation of Directors' Associations (ecoDa) has described cybersecurity as the “fastest growing, and perhaps most dangerous threat” facing organizations today.¹ Furthermore, a report published in October 2020 by the European Union Agency for Cybersecurity (ENISA) warned that cyber attacks were becoming more “sophisticated, targeted, widespread and undetected.”²

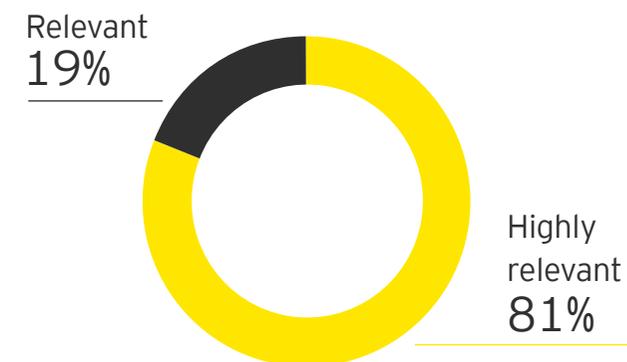
In 2020, EY published research that found 6 in 10 organizations had suffered a material or significant incident in the previous 12 months.³ Since then, the economic and operational disruption unleashed by the COVID-19 pandemic has notably increased both the motivation and opportunity for cyber attackers – a large and diverse group ranging from state-sponsored actors and organized crime groups through to financially motivated individuals and technologically enabled political and social activists.

Unsurprisingly, cyber attackers have looked to exploit the largescale shift to remote working. A remote workforce puts strain on organizational infrastructure and increases the risk that important processes are side-stepped and security controls are not properly applied to new systems and tools. With remote working likely to remain a permanent component of hybrid ways of working beyond the pandemic, it is essential to ensure the security of data, and of both mobile and virtual infrastructure.⁴

How is your board dealing with cybersecurity?

Accordingly, board members participating in the EY EMEIA Board Barometer 2021 consider cybersecurity as a highly relevant issue, with digital threats as the number one challenge.

Cybersecurity



Source: EY EMEIA Board Barometer 2021

¹ *Cyber-Risk Oversight 2020: Key Principals and Practical Guidance for Corporate Boards in Europe*, ecoDa, ISA and AIG, 2020 (accessed via www.ecoda.org, 18 December 2020).

² “ENISA Threat Landscape 2020: Cyber Attacks Becoming More Sophisticated, Targeted, Widespread and Undetected”, ENISA, 10 October 2020, via The European Union Agency for Cybersecurity, 2020 (accessed via www.enisa.europa.eu/news, 18 December 2020).

³ *How does security evolve from bolted on to built-in? Bridging the relationship gap to build a business aligned security program*, EY Global Information Security Survey, EYGM Limited, 2020 (accessed via www.ey.com on 15 December 2020).

⁴ “COVID-19: How CIOs can keep the lights on the pandemic and beyond,” EY, 2020 (accessed via www.ey.com, 18 December 2020).

Top five specific challenges

1. Digital threats (security breaches and fraud, data corruption)
2. Current global challenges of digital transformation
3. Framework and design of preventive security processes
4. Change in and follow-up with current regulation (e.g., GDPR needs)
5. Rapid evolution

Therefore, the oversight role of the board is crucial to ensuring the cyber resilience of organizations through the COVID-19 crisis and beyond. In particular, the board will want to understand what actions management is taking to ensure that remote access systems are fully patched, securely configured and able to withstand cyber attacks. They will also want to know that security controls and processes are being followed and that employees are not using platforms and tools that pose security risks.

Despite the widespread prevalence of cyber attacks, many organizations do not have a cyber incident response plan – a set of guidelines to help staff detect, respond to, and recover from an incident. The board can request such a plan and insist that all employees receive cybersecurity training on an annual basis, as a minimum. Cybersecurity should be the designated responsibility of a specific board member – ideally someone with related expertise.

Recommended actions

Given the high risk exposure of digital threats, it is key to evaluate the effectiveness of the cybersecurity function on a regular basis and to provide the Chief Information Security Officer (CISO) with adequate budget and resources to address any weaknesses identified. There may be a case for investing in new tools to prevent and detect cybercrime, such as artificial intelligence (AI) applications. AI can be particularly useful for identifying and remedying software flaws, detecting malware, automating incident reporting, performing root-cause analysis, and undertaking network monitoring to track user activity.⁵

The board should ask for – and review – a set of insightful key performance indicators in relation to cybersecurity and receive regular reporting from management. Also important is for the board to have access to information on supply chains – which suppliers have access to the organization's systems and what controls and security protocols do they have in place. A further consideration is whether the organization has adequate insurance to cover a major cybersecurity breach. Live hacking demonstrations can give boards insights into the effectiveness of the organization's cybersecurity.

It is worth noting that board members themselves can be attractive targets for hackers. This is because they have access to commercially sensitive data. At the same time, they may have received limited training in cybersecurity and will not necessarily be on the radar of the organization's IT team due to their seniority. As a result, they may be exchanging confidential information by email, inadvertently exposing the organization to the risk of cyber attacks and data breaches.

⁵ "With AI maturing, are humans still needed to fight cybercrime?" TechRepublic website, 2020 (accessed via www.techrepublic.com, 18 December 2020).

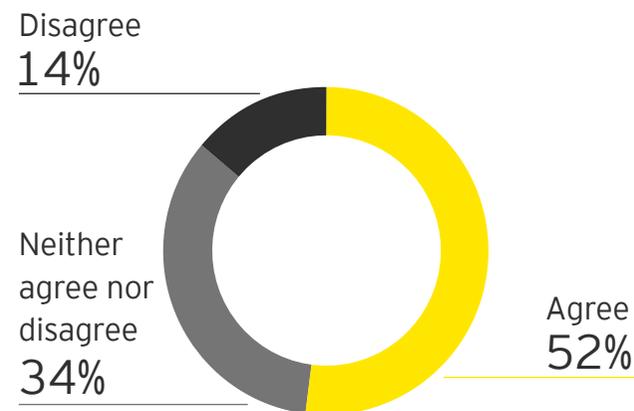
Cybersecurity should not only be seen as a defensive activity, it can be a critical agent of change that helps to drive business transformation and innovation. This will only happen, however, if CISOs collaborate with their colleagues across business operations and if cybersecurity is proactively designed into data, processes and systems from the outset. Today just 36% of organizations say cybersecurity is involved right from the planning stage of a new business initiative.⁶

The EY EMEA Board Barometer 2021 found that only the slight majority of board members consider their organizations' existing cyber prevention strategies as extensive and sufficient.

And even organizations with strong prevention strategies can be vulnerable to cybersecurity breaches that bring severe financial, regulatory and reputational consequences.

Having oversight of cybersecurity should ultimately be the function of the whole board even if it is delegated to the audit committee or another committee for closer monitoring. Also, by spending more time discussing cybersecurity and privacy risk, the board can demonstrate to the rest of the organization that these are critical business issues.

Strategies for preventing cyber attacks are extensive and sufficient



Source: EY EMEA Board Barometer 2021

Five key questions for boards

1. What is the board doing to embed a culture of cybersecurity awareness at the heart of the organization?
2. How regularly does the board deal with cybersecurity matters and what metrics does it use to monitor the organization's cyber-resilience?
3. What governance structures does your board have in place to provide oversight of cybersecurity and are those subject to regular effectiveness reviews?
4. How can your organization invest more strategically in cybersecurity to counter the risks it faces?
5. How is your organization designing cybersecurity into its data, processes and systems from the outset so that it can lead transformational change and innovate with confidence?

⁶ How does security evolve from bolted on to built-in? Bridging the relationship gap to build a business aligned security program, EY Global Information Security Survey, EYGM Limited, 2020 (accessed via www.ey.com on 15 December 2020).

2

Fraud detection and going concern
Reinforcing confidence in corporate reporting

How can your board provide an enhanced level of oversight to reduce the risk of the organization suffering a material fraud?



“

Fraud is not just a priority for boards — it is also attracting the attention of financial regulators and standard-setters.

In today's challenging economic climate, fraud is a heightened risk for organizations. A survey by the Association of Certified Fraud Examiners, published in December 2020, found that 79% of respondents had already observed an increase in overall levels of fraud during 2020, while 90% expected a further increase over the next 12 months.⁷

There are several explanations for the rise in fraud. Individuals may be tempted to misappropriate assets to support their lifestyles or to conceal their organization's viability challenges. Furthermore, remote working has undermined the effectiveness of controls in some organizations while pressure to respond fast to events has resulted in greater use of management overrides and workarounds, such as manual payments. Technological advances are also increasing the opportunities for fraud and the speed at which they are taking place.

How can your board provide an enhanced level of oversight to reduce the risk of the organization suffering a material fraud?

Fraud is not just a priority for boards – it is also attracting the attention of financial regulators and standard-setters. In particular, as the uncertainty associated with the COVID-19 pandemic may impact the effectiveness of a firm's existing control environment and an increase in the fraud risk exposure, which ultimately also affects the audit risk profile.

Currently, there is an ongoing debate on how boards, auditors and regulators can cooperate to better protect organizations from the risk of material fraud and boost confidence in the financial reporting process. As part of this debate, the International Auditing and Assurance Standards Board (IAASB) has been consulting with stakeholders across the financial reporting ecosystem to establish whether the International Standards on Auditing related to fraud and going concern need to be updated.⁸

The IAASB's consultation paper suggested a number of actions that boards could take to enhance the effectiveness of the financial reporting process. These include sharing their views on the organization's financial reporting and fraud risks with their auditors; creating an environment in which management is not resistant to challenge by the auditor; and assessing how management was challenged by the auditor during the audit, particularly with regard to the assessment of fraud risk.

⁷ Fraud in the Wake of COVID-19: Benchmarking report, Association of Certified Fraud Examiners, 2020 (accessed via www.acfe.com, 8 January 2021).

⁸ Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit. IAASB, 2020. (accessed via <https://www.iaasb.org>, 8 January 2021).

Recommended actions

The IAASB's paper highlights the "importance of a culture of honesty and ethical behavior, reinforced by active oversight, as well as management and those charged with governance placing a strong emphasis on fraud prevention and fraud deterrence." Hence it is critical the board sets the right tone at the top supporting a culture of integrity to deter others within the organization from following unethical practices.

Subject to the outcome of the IAASB's consultation, auditors' responsibilities may change in the context of the audit in future. Nevertheless, the board should have oversight of the structures and controls in place to minimize the risk – and speed up the detection of – fraud within their organization. They should strengthen the corporate governance through enhanced compliance management systems. In this context, they should receive regular reporting in relation to the effectiveness of these controls, as well as incidents of fraud or suspected fraud, including claims made via whistleblowing hotlines. When an incident has been confirmed, the board should ensure that the organization takes the necessary action in response.

While technology is accelerating the rate at which frauds are taking place, making it difficult to prevent and detect them, it also creates new opportunities to mitigate the risks. Increasingly, auditors are using data analytics to identify unusual transactions or patterns of transactions that might indicate a material fraud.⁹ By talking to their organization's auditors, boards can establish what other techniques – such as data mining – could be used to assist with the detection of a material fraud that might affect the organization's ability to continue as a going concern.

Boards can consider whether it would be appropriate to ask their auditors to perform a fraud risk assessment. This process would review the effectiveness of the organization's anti-fraud controls and compliance with laws and regulation. The assessment could also consider how the organization's corporate culture is influencing human behaviors in ways that might make a fraud more likely to occur.

Five key questions for boards

1. Do you understand the breadth of fraud risks that the organization faces and how these have been exacerbated by the COVID-19 pandemic?
2. How are you providing effective oversight of the organization's fraud prevention and detection processes?
3. How are you drawing on the skills and technological capabilities of your external auditor to mitigate the risk of material fraud?
4. In what ways would the organization benefit from a fraud risk assessment performed by an external auditor?
5. What are you doing to help establish an honest and ethical culture within the organization?

⁹ *Preventing and detecting fraud. Strengthening the roles of companies, auditors and regulators*. EYGM Limited, 2020. (accessed via www.ey.com, 20 January 2021).

3

Enterprise resilience

Approaching recovery and reinvention

How can your board draw on learnings from the COVID-19 pandemic to ensure enterprise resilience over the long term?



“

Almost three-quarters (73%) of respondents to the EY EMEA Board Barometer 2021 said that general crisis prevention measures and business continuity management will be very or extremely relevant to their organization in 2021.

The short-term enterprise resilience of organizations has been severely tested over the past 12 months. Many organizations were caught off-guard by the sudden onset of the COVID-19 pandemic and hampered by business continuity plans that were either out of date or inadequate in light of the challenges they faced. Resilience has also been challenged by ongoing supply chain disruption, threats to financial stability, pressure on business models, cybersecurity threats to critical infrastructure, and issues relating to workforce wellbeing.

Long-term resilience is also an important consideration, especially as organizations plan for a future beyond the pandemic. The economic and financial repercussions of the crisis are likely to persist for some time after the health crisis has receded, making the recovery period a potentially precarious time for businesses. Additional long-term challenges to enterprise resilience include changing consumer behaviors and expectations, the accelerated digitalization of the global economy, and the mounting threat of climate change.

How can your board draw on learnings from the COVID-19 pandemic to ensure enterprise resilience over the long term?

Boards will prioritize resilience as they monitor management teams to plan for this year and even further into the future. In fact, almost three-quarters (73%) of respondents to the EY EMEA Board Barometer 2021 said that general crisis prevention measures and business continuity management will be very or extremely relevant to their organization in 2021.

Over the months ahead, boards will provide oversight of contingency planning, scenario planning and stress testing. In addition, they will focus on assessing the liquidity needs of their organizations, strengthening supply chains and identifying the emerging market opportunities and risks created by changing customer expectations, new regulatory developments and the evolving business environment.

The EY enterprise resilience framework highlights nine key areas for boards to focus on, both now and going forward, as they support their organizations to plan for recovery.¹⁰ Priorities are likely to vary depending on the organization's level of resilience in each of these areas:

- ▶ **Employee health and wellbeing** – promoting employee safety and wellbeing, using public health information to educate the workforce and enabling effective remote working.
- ▶ **Talent and workforce** – putting people first, fostering diversity and inclusion, workforce planning, as well as sustaining and enhancing remote collaboration.
- ▶ **Consumer and brand** – responding to changing consumer behaviors, adopting a credible brand voice, and rethinking customer strategy in line with technological advancements.
- ▶ **Financial and investor** – asking the right questions around cashflows, liquidity and short- and long-term debt financing, communicating with investors, and reviewing different financial scenarios to support the organization through economic recovery.

¹⁰ "COVID-19 enterprise resilience," EY, 2020 (accessed via ey.com, 19 January 2021).

- ▶ **Risk** – understanding the broad spectrum of risks that the organization faces over the short-, medium- and long-term (including cyber, geopolitical, regulatory, reputational and third-party risks), adopting new processes and tools, and reviewing existing risk governance and internal controls.
- ▶ **Government and public policy** – monitoring new compliance obligations and changes to existing obligations, understanding the impact of policy changes, and communication with stakeholders about changing regulatory requirements.
- ▶ **Technology and information security** – investing in infrastructure and tools that support the resilience of business operations, using technology to drive innovation and reinvent the business model, and enhancing cybersecurity.
- ▶ **Insurance and legal disputes** – assessing whether the organization holds the right level – and type – of insurance to mitigate the risks it faces today and in the future.
- ▶ **Supply chain and global trade** – developing a strategy to manage the risk of supply chain disruption, investing in automation to improve the efficiency of the supply chain, and exploring new business models that reduce the organization’s dependencies on vulnerable suppliers.

Recommended actions

By adapting more responsive enterprise risk management processes and controls, boards can support their organizations to pivot strategically and build enterprise resilience. They can assess how effectively the “three lines of defense model” is being applied within the organization and has responded to the unexpected challenges. Based on that, they can discuss ways to further optimize the model with the management team so that it remains efficient and fit for purpose in the new risk environment. They can also use data-driven intelligence to help their organization seize the upside of disruption during the recovery era.

The board can ensure that business continuity plans, succession plans and crisis management processes are updated to reflect the organization’s learnings from the pandemic and reviewed on an annual basis thereafter. These learnings will cover a wide range of issues, from IT infrastructure and human wellbeing through to stakeholder communication and whether the board has provided effective support to the management team. Arguably, the biggest learning of all will be that crisis prevention is an ongoing process, not a one-off activity.

Five key questions for boards

1. What are the main lessons the organization learned about its own resilience following the outbreak of COVID-19?
2. How has the organization reviewed and updated its business continuity plan in response to the lessons learned from the pandemic?
3. What are the greatest threats and opportunities facing the organization in the short, medium and long term – and how is it planning to address them?
4. How is the board adapting the organization’s enterprise risk management processes and controls to be more responsive to change?
5. To what extent is the organization resilient enough to withstand another sudden and pervasive shock?

4

Sustainability and nonfinancial reporting
Responding to the impetus for change

What is your board doing to integrate sustainability within the organization and provide greater transparency to stakeholders?



“

Reporting is key to ensuring that organizations set sustainability goals and measure their progress toward meeting them.

The fundamental environmental and social challenges we face today make sustainability a critical issue for organizations. Business stakeholders – including customers, employees, investors and regulators – are all demanding that organizations play their part in addressing these challenges. As a result, organizations are expected to consider their long-term impacts on the environment and society as part of their business strategies.

At the same time, political developments are creating new sustainability-related risks and opportunities for organizations to manage. For example, the European Green Deal,¹¹ combined with a €1.8 trillion stimulus package, aims to “lay the foundations for a modern and more sustainable Europe”¹² post-COVID-19. It is likely to result in new rules and targets for organizations to comply with, as well as opportunities to gain market share through sustainable innovation.

What is your board doing to integrate sustainability within the organization and provide greater transparency to stakeholders?

Boards have both a responsibility and an opportunity to challenge their organizations transform into sustainably led businesses that create long-term value for all their stakeholders. To do this, they will need to take an

integrated approach to sustainability, considering the impacts of a wide range of environmental, social and governance (ESG) issues, including climate change, environmental degradation, social inequality and talent shortages. They should also follow ongoing developments in the sustainability space.

Reporting is key to ensuring that organizations set sustainability goals and measure their progress toward meeting them. Not only does reporting equip boards and management teams with invaluable insights that can be used to shape business strategy, it is also provides transparency around sustainability to the organization’s external stakeholders, including investors. Correspondingly, the EY EMEA Board Barometer 2021 highlighted non financial reporting as one of the top five challenges for audit committees in 2021.

The EY Global Institutional Investor Survey suggests that ESG information has never been more important to institutional investors, with 91% of those surveyed saying that nonfinancial performance had played a pivotal role in their investment decision-making over the past 12 months.¹³ What’s more, a surge in sustainable investment is currently underway, driven by investors’ awareness that companies with better ESG ratings tend to outperform their peers over time.

¹¹ “A European Green Deal,” European Commission website, 2020 (accessed via <https://ec.europa.eu>, 14 January 2021).

¹² “Recovery plan for Europe,” European Commission website, 2020 (accessed via <https://ec.europa.eu>, 6 January 2021).

¹³ *How will ESG performance shape your future? Why investors are making ESG an imperative for COVID-19 and beyond*, Climate Change and Sustainability Services (CCaSS) Global Institutional Investor Survey, EYGM Limited, 2020 (accessed 14 January 2021).

Recommended actions

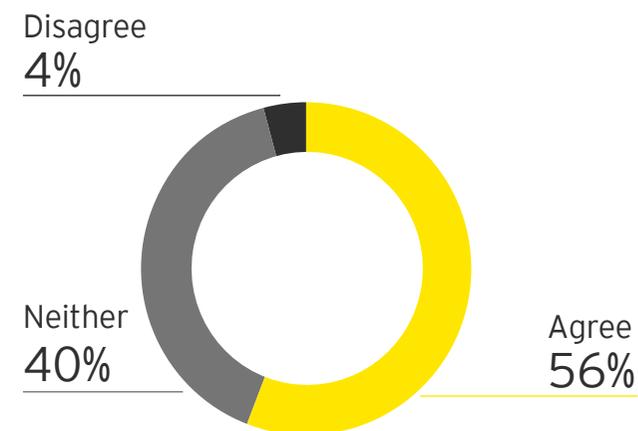
Boards can help their organizations to reassess both their purpose and their operational practices considering the social, economic and environmental changes taking place. This might involve new approaches to product innovation – for example, capitalizing on the circular economy – or even switching to a new business model such as a social-impact driven business model.¹⁴ They can also challenge management teams to understand and evaluate the broader value that the organization generates – beyond financial results.

EY recent research on corporate governance highlights the link between executive remuneration strategies and organizations' successful pursuit of sustainability objectives. Today many compensation strategies are still tied to short-term financial performance. If they want to encourage long-term thinking, however, boards and compensation committees will need to rethink how they design and evaluate compensation plans so that remuneration is linked to meeting sustainability goals.¹⁵

A particular challenge for boards is integrating sustainability-related risks and opportunities within overall strategy, so that later operational decisions are taken with sustainability considerations in mind.

The appointment of a chief sustainability officer (CSO), who reports to the CEO, can help in this respect. The CSO's responsibilities can include setting and measuring progress toward sustainability goals, conceiving nonfinancial performance indicators, ensuring compliance with standards and regulations, contributing to product innovation and supply chain resilience, as well as building trusted relationships with the organization's internal and external stakeholders.

The board integrates climate change, social and other sustainability-related risks and opportunities with the overall strategy



Source: EY EMEIA Board Barometer 2021

¹⁴ "How an integrated sustainability strategy can help you stand out," EY, 2018 (accessed via www.ey.com, 20 January 2021).

¹⁵ *Will there be a 'next' if corporate governance is focused on the 'now'?* EY Long-Term Value and Corporate Governance Survey, EYGM Limited, 2021.

Boards also need to ask how their organization can meet investor demand for reporting on nonfinancial information. For example, they could use the metrics and disclosures developed by the World Economic Forum's International Business Council, (EY is a member). This comprehensive set of ESG metrics aims to showcase how organizations generate both long-term financial and nonfinancial value for their stakeholders.¹⁶

Yet, there is no set of universally accepted set of global standards for reporting sustainability information. Nevertheless, boards should be aware of a consultation paper, issued by the Trustees of the IFRS Foundation in September 2020, which could represent a significant move in this direction. The paper asks whether the Foundation should play a role in setting global sustainability standards, alongside its role as a financial standard setter, and proposes the creation of a Sustainability Standards Board.¹⁷

The integration of sustainability – and broader ESG factors – into business strategy and enterprise risk management must be a board priority, both today and going forward. This will allow the organization to differentiate itself from its competitors, strengthen its business model and navigate ESG-related risks and strategic opportunities so that it creates and protects long-term value for all its stakeholders.

Five key questions for boards

1. Do the board and management team have a good understanding of the organization's strategic ESG risks and opportunities?
2. Should the organization appoint a CSO, and how could the board tap into the insights and expertise that a CSO can provide?
3. How is the board supporting and monitoring ESG strategy development, as well as related goals and metrics, including the identification and integration of nonfinancial key performance and management indicators?
4. How could the organization's executive remuneration strategy be revised to encourage a focus on sustainability and long-term value generation?
5. How is the organization using nonfinancial reporting to report on generating long-term value for stakeholders – and does that ESG reporting meet stakeholders' expectations?

¹⁶ Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation, World Economic Forum, 2020 (accessed via www.weforum.org, 6 January 2021).

¹⁷ Consultation paper on sustainability reporting, IFRS Foundation, 2020 (accessed via www.ifrs.org, 6 January 2021).

5

Culture and societal change

Accelerating organizational transformation

How is your board monitoring the organization's culture to ensure it is fit for purpose and aligned with broader societal developments?



“

It is crucial that their corporate cultures evolve in line with emerging trends.

The world is going through a period of immense cultural and societal change. While much of this change was underway prior to the COVID-19 pandemic, it has been accelerated by the pandemic. If organizations are to capitalize on the opportunities presented by change, and mitigate the associated risks, it is crucial that their corporate cultures evolve in line with emerging trends.

Since early 2020, there has been a widespread transformation in working practices. Around the world, millions of people have shifted to virtual working, making greater use of digital communication tools and collaboration platforms. This has changed cultural ideas around work – with work increasingly regarded as something that is done rather than a place that someone goes to. Going forward, many employees will therefore demand ever-greater flexibility around where, when and how they do their work – and organizations will need to have policies and tools to accommodate this.

Consumer behaviors and expectations have also evolved. The EY Future Consumer Index found that the COVID-19 crisis transformed the lives of consumers, with 50% saying that their values have changed¹⁸ and they are looking at life differently as a result of the pandemic. This will invariably have an impact on the goods and services they choose to buy, and who they choose to buy from. Organizations will need to adapt their own cultures and behaviors if they are to capitalize on these market shifts.

How is your board monitoring the organization's culture to ensure it is fit for purpose and aligned with broader societal developments?

Today, there is arguably greater scrutiny of corporate culture than ever before. A wide range of stakeholders – including employees, customers, regulators, investors and the media – are paying close attention to the issue. This is because culture is increasingly viewed as a key indicator of both an organization's short-term performance and long-term sustainability. Hence the challenge for boards is not only to provide robust oversight around organizational culture in an era of rapid change, but also to communicate an accurate picture of that culture to stakeholders.

At the same time, the culture of the organization – and the culture of the board itself – needs to evolve in ways that reflect the broader evolution happening within society. Since human capital is a key driver of long-term value, boards should recognize that while virtual working creates some challenges, it also presents some significant opportunities in areas such as pipeline development and succession planning; recruiting and onboarding; productivity; employee engagement and culture development. Technology can also be used as a way to build the workforce of the future through the upskilling and reskilling of people.

Similarly, changing consumer expectations and behaviors are an opportunity for the organization to grow market share. This relies on a corporate culture that facilitates agility, innovation and productivity.

¹⁸ Future Consumer Index: As consumers keep adapting, how will your business keep changing with them?, EY website, June 2020 (accessed via www.ey.com, 9 December 2020).

Recommended actions

The board sets the tone at the top when it comes to corporate culture. It does this through its values, actions and communications, supplemented by factors such as its composition, structure and processes.

Boards should be composed of a diverse range of people, with a broad base of skills and from a variety of backgrounds. From time to time, they need to review their composition to reflect the changing expectations of their stakeholders, oversee the strategic opportunities facing the organization, and demonstrate leadership in areas such as diversity and inclusion. The EY Long-Term Value and Corporate Governance Survey has also highlighted that the culture of a board with a strong focus on long-term value tends to “have enough trust to be honest, debate openly, and have healthy disagreements.”¹⁹

Given the ongoing requirement for virtual remote working, boards’ communication and security practices should be agile and effective. Boards should also reassess committee structures and agendas to optimize effectiveness and increase accountability.

In addition to setting the right tone, boards need to play an active role in communicating and monitoring their organization’s culture to ensure it stays aligned with its purpose as well as with broader societal trends. To do this, they will need to have regular conversations with the Chief HR Officer (CHRO) around human capital and talent management. They will also need to request metrics relating to employee development, engagement, wellbeing, attraction, retention, and diversity and inclusion. Additionally, it is important to evaluate the extent to which the CEO and other executives are acting as role models for the organizational culture to other members of the workforce.

An effective board recognizes that a healthy culture empowers employees to make autonomous decisions that are in line with the organization’s purpose and values. As a result, it plays a central role in reducing risk and delivering long-term sustainable growth.

Five key questions for boards

1. How should the organization’s culture adapt in response to the transformative cultural and societal shifts taking place today?
2. What can the board do to improve its own culture – for example, through composition, structure or processes?
3. How is the board monitoring the organization’s culture on an ongoing basis and ensuring continued alignment with its purpose?
4. Is the board receiving sufficient information from the CHRO in relation to culture-related metrics, and does it understand how that information is being collected, measured and controlled?
5. What measures is the board taking to ensure that management decision-making and corporate strategy are in line with the organizational purpose, culture and values?

¹⁹ Will there be a ‘next’ if corporate governance is focused on the ‘now’? EY Long-Term Value and Corporate Governance Survey, EYGM Limited, 2021.

Contacts

Peter Wollmert

EY EMEIA Assurance Leader
+49 711 9881 15532

Sven Hayn

EY EMEIA Center for Board Matters Leader
+49 40 36132 12277

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

© 2021 EYGM Limited.
All Rights Reserved.

EYG no. 002009-21Gbl

BMC Agency
GA 1018036

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com