

2022 Governance Outlook

5 Risks & Opportunities



Introduction

What a year...

As we near the second anniversary of the onset of the COVID-19 pandemic, it feels as if we've arrived at our "new normal." Like a shadow, this pandemic feels permanently attached — changing form but never gone.

In 2021, this reality set in for many of us. Organizations shifted from crisis mode to long-term transformational strategies. It was clear that we had reached an inflection point — one that would require an evolution of supply chains, human capital and data strategies. But the window to act would be small, and organizations that missed the opportunity would be left behind.

In November, Diligent partnered with Censuswide on a survey of 900 Chief Risk Officers, CFOs, CISOs, CIOs and other risk and finance directors in the U.K. and the U.S. Looking ahead, survey respondents identified and ranked **the top risks facing their organizations in 2022:**

1. Human capital

Talent management, recruitment and retention

2. Technology and cyber risk

Specifically related to remote work

3. Regulatory change and compliance

With a focus on environmental, social and governance (ESG) and climate

4. Supply chains

Outsourcing and third-party risk

5. Lack of diversity

And the threat of groupthink

One silver lining of this pandemic: We've seen elevated levels of urgency around important topics like diversity, cyber risk and climate change, which have finally reached critical mass in boardrooms and C-suites. At the same time, organizations are experiencing great pressure to innovate — driven by investors, regulators and competitors. While this 2022 outlook report dives into the five risk areas, it also explores the opportunities associated with each. I believe that 2022 will be a springboard for those who are willing to take the leap.

I can assure you that the 2022 outlook here at Diligent is no less catalytic. In the last 18 months, we've added some incredible product functionality around ESG, risk and compliance integration, dashboards, peer groups and data modeling that I'm excited to share with you in the months ahead.

I wish everyone a safe and healthy 2022 and look forward to telling your stories of innovation in our 2023 outlook.



Brian Stafford
CEO, Diligent Corporation

Powering This Report

Diligent Institute

The Diligent Institute is an academic-level research arm focused on global boards and governance. This 2022 Outlook draws insights from the Institute's [What Directors Think](#) report (published January 2022), an annual survey in partnership with Corporate Board Member.



Inside America's Boardrooms is Diligent's [weekly web show](#) for board members and governance professionals. This 2022 Outlook draws insights from recent episodes on human capital management and diversity.

CENSUSWIDE THE SURVEY CONSULTANTS

Censuswide is a Diligent research partner based in London. Diligent and Censuswide conducted a survey of 900 executives (Chief Risk Officers, CFOs, CISOs, etc.) in the U.K. and U.S. to gauge their perspectives on the 2022 risk landscape.



The Corporate Director is Diligent's bi-weekly podcast featuring interviews with corporate directors, industry experts and other global business leaders.

FORTUNE

Fortune is a global media organization dedicated to helping its readers succeed in business. Diligent and Fortune launched a partnership and resource hub in 2021 called [The Modern Board](#), powered by roundtables and insights from corporate boardrooms.



Next Gen Board Leaders is a community of young corporate directors organized by Diligent and Spencer Stuart. The group meets regularly to discuss emerging boardroom topics.

2022 by the Numbers

This survey of 900 executives was conducted by Diligent and Censuswide in November 2021.

Top 5 Organizational Risks in 2022



Top 3 Work From Home (WFH) Concerns



Cybersecurity Breaches



Employee Health and Safety



Onboarding, Training and Development



4 in 5 people

impacted by a cyber breach in the last 18 months say it was a result of WFH tech issues or WFH employee behavior.

Top ESG Risks

40%

say their governance, risk and compliance (GRC) strategy is not aligned with their ESG strategy.

38%

say ESG is merely a box-ticking exercise or reporting activity at their company.

31%

say ESG is a strategic imperative or an integral part of their business.

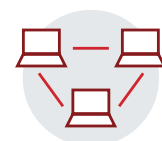
Departments Most Likely to Experience "Risk Failure" in the Next 12 Months



Supply Chain and Purchasing



Accounting and Finance



Information Technology

Human Capital

01

“Everyone’s losing talent, no matter how good your culture, policies or pay packages. The velocity of change is unprecedented, and expectations are so much higher in terms of freedoms and allowances and work-from-home percentages, vaccination policies, [among other] complicating factors ... It’s a really, really challenging time.”

– Scott Gibson, Board Member, Northwest Natural Gas Company and Pixelworks
([What Directors Think report](#))

As the pandemic normalizes work from home (WFH), employees find they have fewer geographic restrictions and more choices. “The Great Resignation” was the term coined mid-2021 to describe the now long-term spike in employee turnover, driven by a newly empowered remote workforce.

According to Chris O’Neill, board member with Gap Inc., we’re seeing a new level of focus on talent and culture as we head into 2022 – in part because organizations have little choice if they want to stay competitive.

“One of the silver linings from [the pandemic] has been intentionality around talent – the realization that people are burning out, and we need to think about culture in a different way as we evolve and adjust to the pandemic,” said O’Neill on an [episode](#) of Inside America’s Boardrooms.

The Risk:

The war on talent shows no signs of slowing, as companies struggle to adjust to higher levels of turnover and competition.

The Opportunity:

As organizations design new hybrid working models, they have an opportunity to redefine company culture and norms in ways that can positively impact talent acquisition and retention over the long term.

Focus on Culture and the Future of Work

In 2022, the “War on Talent” will be inextricably tied to the future of work (FoW). As companies design new hybrid working models, they are subsequently shaping the company culture and norms that will drive future talent retention and acquisition.

Organizations in 2022 must reimagine employee benefits and employee wellbeing – a topic that will increasingly find its way into discussions of ESG, equity and sustainability.

Actions



Management: Define the role of the office: Is it for collaboration, socialization, training? Define what is remote work vs. office work. This is an opportunity to rethink employee tools and resources – and the cultural implications that follow.



Boards: Refocus on succession planning at all levels, from the C-suite down into the organization. Board members should ask management about their strategies for retaining top talent and ensure that these align with the company’s diversity, equity and inclusion (DE&I) goals. How is the organization innovating compensation plans accordingly?

“We’re starting to see a cultural divide between companies who truly care about their employees and those that don’t. It’s not just about offering employees an app. It will become clear which companies are actually listening and researching what a better work environment looks like.”

– Board member during Diligent’s roundtable discussion, “Shaping the Workplace of the Future”

Technology & Cyber Risk

02

“Digital resilience is business resilience.”

– Maria Morris, Board Member with Wells Fargo and S&P Global
[The Board's Role in Driving Digital Resilience webinar](#)

In the survey by Diligent and Censuswide, 3 in 10 respondents had experienced a cyber breach within the last 18 months; 77% of those breaches were related to the new WFH landscape.

Following the sudden onset of the COVID-19 pandemic, the WFH transition happened abruptly, with little time to build proper cyber defenses. Over the last two years, organizations have scrambled to plug the gaps — a scramble that continues as many board members and management teams struggle to keep pace with new cyber threats.

“Some [board members] wouldn’t have the slightest clue if their router had a password or not...,” explained board member Scott Gibson in [What Directors Think](#). “I don’t think people appreciate how it only takes one weak link...”

In December 2021, organizations were notified of the [Log4j vulnerability](#), a foundational piece of software language with the potential to carry malicious code across billions of devices — a breach that cyber experts expect will take years to correct.

The Risk:

Cyber breaches are on the rise as organizations battle new threats in the work-from-home (WFH) landscape.

The Opportunity:

With the spotlight back on cyber risk, CIOs and CISOs have the opportunity to build a stronger foundation with the board and other management team members.

Strengthen the CIO-Board Relationship

In 2022, an effective relationship between the CIO/CISO and the board becomes even more important. According to Diligent CISO Henry Jiang, it's the CIO's or CISO's responsibility to speak the language of the board and to align cyber discussions with the enterprise risk framework.

"In a board meeting, I don't say, 'Our unmitigated vulnerability count is 500,'" said Jiang. "I talk about how the risk is tied into people, technology, process and regulatory risks."

In turn, board members have a responsibility to educate themselves outside of board meetings, ask questions when they don't understand something, and probe as they would with any other enterprise risk.

"Boards just need to continue to say, 'Okay, what's new in this arena? What are we likely to see next? And how can we best look around the corner and try to position ourselves to defend effectively against it?'"

— John Hayden, Board Member with E.W. Scripps Co. and Tiberius Acquisition Corporation ([What Directors Think report](#))

Actions



CIO/CISO: Educate the board on how threats have changed as a result of remote work. First, assess the knowledge level of the board members so that the information can be tailored accordingly.



Boards: Probe on risk prevention, but also on response and recovery. Cyberattacks will happen, but how long will it take the organization to detect, defend and recover? Ensure defenses are strongest around the company's most valuable assets.



Management: Integrate the CIO/CISO and the cybersecurity strategy horizontally across the management team. Ensure partnership with key departments. Consider where company culture will need to support the cybersecurity strategy.

Regulatory Change & Compliance

03

“We’ve been talking about ESG disclosure, particularly focused on TCFD and SASB, for the last four years. In [2022], we (BlackRock) are looking for urgency from companies in disclosing their plan for how their businesses will adapt to the net zero transition.”

– Jessica McDougall, Director for BlackRock Investment Stewardship

The Glasgow Climate Pact, Sustainable Finance Disclosure Regulation (SFDR), minimum global tax, state-led data privacy acts — these are just a few regulations that will require significant legwork in 2022 as companies prepare for the compliance obligations to come. From a data and reporting perspective, few organizations are ready for this lift.

In the survey by Diligent and Censuswide, respondents who lacked confidence in risk and compliance capabilities listed three top reasons:

- 1 Difficulty providing real-time or near-real-time reporting
- 2 Legacy technology (e.g., spreadsheets) hindering the ability to get a true picture
- 3 Ineffective methods of illustrating or interpreting data

For many organizations, legacy systems have created silos that must now be integrated if organizations hope to meet the complex reporting requirements ahead.

The Risk:

Many companies are unprepared to meet reporting requirements in 2022, with forthcoming regulations spanning tax, data privacy, ESG and climate.

The Opportunity:

Before major regulations come into effect, organizations have an opportunity to rethink their tech stack and lay the foundation for more seamless compliance and reporting — especially around ESG.

Integrate and Automate Data

According to James Howl, HSBC's Head of Finance for Asia Wealth Management and Global Customer Propositions, HSBC has excellent data available throughout the bank, but it's dispersed across "multiple legacy systems and in different parts of the organization."

"What we're trying to do," explained Howl, "is access [the data], utilize it, surface it from that granular level, and bring it together to better enable visualization and analytics — and to provide business insights that we haven't had before."

Especially with respect to ESG and climate regulations, organizations will increasingly need to integrate with external data sources in order to meet reporting requirements (think Scope 3 emissions).

Actions



Boards: Ask management about the data and technology required to meet reporting obligations ahead. How can dashboards keep the board informed on the compliance posture related to climate, data privacy, global subsidiaries and other impending regulations?



Management: Map out your digital transformation journey for the board and report on progress. Define the short-, intermediate- and long-term milestones as your organization takes steps to integrate data and technology. Ensure you have the talent in place to accomplish them.

"The importance of centralizing your climate data can't be overstated — the core benefit being able to 'collect once, reuse many times.' Demands from regulators will continue to grow and change, and investors already have their own differing demands, which further complicates matters. Overloading high-value staff with the collection and calculation of data for multiple frameworks using spreadsheets is riskier and more error-prone than ever before."

— Adrian Fleming, ESG Senior Commercial Director, Diligent ([Guide to Meeting Climate Reporting Expectations](#))

Supply Chain

04

“Many organizations underestimated the global nature of their supply chains. COVID-19 has made them very aware.”

– Board member ([The Pandemic Agenda: How Corporate Boards Are Navigating COVID-19 Challenges](#))

In the survey by Diligent and Censuswide, “supply chain & purchasing” was ranked the number one department or function most likely to experience risk failure in the next 12 months. The challenge, described one board member in the Diligent Institute’s *What Directors Think* report, is that every touch point represents a potential complication: “You can have problems anywhere. Your supply chain [is] not just China.”

Not only do supply chain challenges vary significantly by industry, but demand remains difficult to predict. Even at the pandemic’s onset, for example, few automotive or furniture suppliers could have predicted the multi-year surge in demand for cars and home improvement that now follows.

“The truth is the companies [with the most agile supply chains were] thinking about these kinds of issues before [the pandemic] arose,” explained Robert Shapiro, a board member with Overstock.com. “They already had the personnel, and they know how to approach these issues.”

The Risk:

Even two years into the pandemic, supply chain resilience continues to challenge companies as they navigate large fluctuations in market demand.

The Opportunity:

Organizations have the opportunity to diversify and rebuild supply chains with more sustainable partners and an eye to reducing third-party risk.

Mitigate Future Risks

As organizations diversify their supply chains, they must once again keep an eye on impending regulations and seize the opportunity to mitigate future risk. With various nations and industries already requiring Scope 2 and 3 emissions reporting, organizations will need to account for the climate impact of their suppliers and beyond. Boards and management teams should take the opportunity in 2022 to assess the sustainability of new and existing suppliers — and address data/reporting requirements at the outset.

Actions



Boards: Integrate supply chain oversight and cyber risk discussions where relevant. As evidenced by several recent cyberattacks, cybercriminals continue to exploit third-party vulnerabilities as a means of entry.



Management: Ensure the organization has centralized all third-party data within a secure system that keeps a robust audit log. AI and real-time monitoring should be baked into your program, as should analyst-driven due diligence reports on Tier 1 vendors/suppliers.

Lack of Diversity

05

“[My boards] have engaged in what we’re calling ‘courageous conversations’ where we underscore the need to be candid around what is possible, what we have failed to do in the past, and what we have the opportunity to think about going forward.”

– Rose McKinney-James, Board Member with MGM Resorts International and Toyota Financial Savings Bank ([Inside America’s Boardroom](#))

COVID-19 has amplified inequalities globally. Throughout 2021, the Black Lives Matter movement served as a stark reminder of the progress yet to be made. Lack of minority representation, particularly in positions of power, is a problem that extends to corporate leadership, where the makeup of boards and executive teams rarely mirrors the communities, employees or customers they serve.

According to John W. Rogers Jr., board member with NIKE, McDonald’s and The New York Times Company, and co-founder of the Black Corporate Directors’ Conference, 2021 was filled with difficult conversations but also some positive steps forward.

“The management teams have always been open and willing to discuss these issues, but there’s added urgency now,” said Rogers in an [episode](#) of Inside America’s Boardrooms. “Not only [is management] interested in the diverse board members that we can help [recruit], but they’re also more interested than ever in doing business with African American firms...and making sure there’s a pipeline of talent for future leadership roles in the management teams.”

The Risk:

A broad lack of minority representation — extending from corporate leadership to the front lines — puts companies at risk of further missteps threatening performance, reputation and social progress.

The Opportunity:

This year, organizations have the opportunity to make real progress toward the commitments made in 2021 and bring more transparency to diversity discussions.

Demonstrate Progress on Diversity Goals in 2022

Under pressure in 2021, many organizations set lofty goals to improve diversity. In 2022, organizations must be prepared to show marked progress on their diversity commitments:

- How has the organization internalized and operationalized these goals?
- What changes have been made across hiring, training and development?
- Which key performance indicators (KPIs) should leadership use to track progress in 2022?

Boards will play an important oversight role this year — ensuring their organizations take actionable steps toward diversity targets — while applying a similar lens to their own board composition and diversity.

Actions



Boards: Never stop building the pipeline of board candidates; boards should not wait for an open seat to begin their search for diverse candidates. Building a diverse board takes time, and the best Nominating & Governance Committees are always building pipeline.



Management: Report publicly on diversity metrics. Organizations should be proactive and forthcoming in disclosing diversity metrics, along with any current gaps and how they're working to fill them. Take the opportunity to engage proactively with both investors and employees about steps your organization is taking to improve diversity at all levels.

Further Reading, Watching & Listening:



RESEARCH

[What Directors Think](#)

Diligent Institute, in partnership with Corporate Board Member, surveyed over 400 directors about the key challenges and opportunities for business in 2022.



VIDEO

[Top Challenges Facing Boards in 2022](#)

In this episode of Inside America's Boardrooms, Maria Moats and host TK Kerstetter make some predictions about the 2022 board landscape.



PODCAST

[A 2021 Governance Year in Review and 2022 Predictions](#)

In this episode of The Corporate Director Podcast, hosts Dottie Schindlinger and Meghan Day are joined by TK Kerstetter to make predictions for 2022.



WEBINAR REPLAY

[The Board's Role in Driving Digital Resilience](#)

During this webinar, industry leaders discussed the evolving industry landscape and the board's role in balancing digital risks and digital innovation.



VIDEO

[Battling Systemic Racism: How Boards Can Have a Positive Impact](#)

In Part 3 of our series on systemic racism, we discuss the poor representation of African-American/Black professionals in the boardroom and C-suite — and what board members can do to make a positive impact.



VIDEO

[The Rising Tide of ESG - Navigating the Road Ahead](#)

What kind of ESG obligations can organizations expect in 2022? View a short highlight video from our Modern Governance Summit panel.



About Diligent

Diligent is the leading governance, risk and compliance (GRC) SaaS provider, serving more than 1 million users from over 25,000 organizations around the globe. Our modern GRC platform ensures boards, executives and other leaders have a holistic, integrated view of audit, risk, information security, ethics and compliance across the organization. Diligent brings technology, insights and confidence to leaders so they can build more effective, equitable and successful organizations.

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