From the **2022 PUBLIC COMPANY BOARD PRACTICES AND OVERSIGHT SURVEY**

Key Findings

Despite many pressing economic and political challenges, the competition for talent remains at the top of many directors' lists of key trends for the next 12 months. The increase in competition for talent continues to top the issues of concern for responding public company directors for the second year in a row, even amid growing concerns about the economy. The next two highest ranking issues, "growing inflation" and the "uncertain pace of the economic recovery" (tied with the "increasing pace of digital transformation") highlight these growing economic concerns.

Faced with increasing cybersecurity risk, directors warm to the idea of adding a cybersecurity-savvy director. Eighty-three percent of respondents indicate that their board's understanding of cyber risk has significantly improved compared with two years ago. Yet, amid the growing speed and sophistication of cyber threats, as well as the increased scrutiny of regulators, directors increasingly see a benefit in adding a cybersecurity-savvy director. Forty-two percent of respondents indicate that recruiting a cybersecurity-savvy director would benefit their board, compared to 36 percent of public company respondents last year.

ESG oversight is forming and norming at most boards, yet challenges remain. Boards continue to formalize procedures to address ESG oversight imperatives. This includes efforts to improve board reporting (70%) and delegating ESG oversight tasks to specific committees (64%). Yet developing clear ESG priorities presents a major barrier for boards and management teams. Forty-four percent of directors indicate that the lack of uniform disclosure standards presents the greatest challenge to the oversight of ESG issues. Feeling the pain of their management teams, boards find themselves immersed in an alphabet soup, starting with defining what the *E*, the *S*, and the *G* mean for their company. Many respondents indicate that defining scope (23%) and materiality (9%) are among the most challenging aspects of ESG oversight.

Boards get organized and formalize their oversight of human capital. Human capital is a growing point of focus on the boardroom agenda, and many boards have begun to formalize their governance structure, processes, and practices to oversee this critical asset. A majority of boards now discuss an enterprise-wide talent development strategy (68%) and a majority of respondents indicate that their board discusses human capital strategy on a more regular basis, as a recurring agenda item (57%). These discussions are perhaps a precursor to more targeted practices adopted by leading boards, such as delegating specific elements of human capital oversight to relevant committees (43%) or communicating reporting expectations to management (45%). Human capital oversight often is most likely to find its home in compensation committees (57%), which is increasingly transformed into a human capital committee with oversight over a much broader array of talent-related concerns.

A majority of directors indicate improvement in their board's understanding of DE&I issues. Nearly 3 in 4 boards (74%) now receive key DE&I metrics from management and nearly as many hold discussions on the organization's DE&I priorities (69%). These practices enhance the understanding many boards have of DE&I within their organization, but much work remains. A slight majority (58%) of respondents indicate that their board's understanding of DE&I issues has significantly improved compared to two years ago when the social justice movement sparked by the murder of George Floyd intensified rising societal and investor expectations. Similarly, 59 percent of respondents agree that their board understands how DE&I is connected to other board issues such as strategy, human capital, and technology. This may be due to the fact that only 29 percent of respondents have moved beyond traditional human capital issues, to discuss issues such as vendor selection, supply chains, and corporate purpose in relation to DE&I.

Discussion of climate change has increased at the majority of public company boards. Fifty-four percent of public company respondents indicate that the frequency of climate change discussions increased on the board agenda in the last two years. For 37 percent of those indicating discussions have increased, the main factor prompting increased discussion was the perceived relevance of climate change to the long-term growth prospects of the business, while 25 percent stated that its disclosure requirements were the primary driver. As director awareness of issues related to climate change increases, and as it is featured in more board discussions, it will become more of a key consideration in strategy, risk management, executive pay, accounting, and reporting of performance.

Quality of board discussions is seen as the most important driver of board performance. More than half of public company directors rate the quality of board discussion (57%) as the most observable indication of board performance. While in principle it is straightforward to understand the connection between board performance and the quality of board discussions, in practice many factors influence discussion quality. Quality input from management was the most widely selected key driver of exceptional board performance, identified by 59 percent of respondents.

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About the Survey

The *2022 NACD Public Company Board Practices and Oversight Survey* report presents results from our annual questionnaire. This report details responses from 372 public company directors on their boardroom activities to oversee several critical areas, including cybersecurity, ESG, human capital, and DE&I.

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