The Sustainability Board Report

2020

Executive Summary

The Sustainability Board Report aims to showcase different dimensions of good corporate governance and the importance of sustainable corporate leadership. By drawing out best practice and changes over time, it also aims to help organisations learn from their peers and competitors and understand the changing landscape.

The 2019 Report found that, despite significant variation in the quality and quantity of sustainability reporting, including across regions, there were certain key elements and patterns that made certain companies stand out. These were: the existence of board committees dedicated to sustainability; board committee charters explicitly addressing sustainability issues; and female representation on boards. The latter was linked to the finding that women board members were often responsible for driving sustainability efforts.

Our 2020 report explores these issues once again with an added focus on what has changed in the past year. Three takeaways emerge. First, we find that there has been a significant increase in the number of sustainability board committees across the 100 largest of the Fortune 2000 companies, driven mainly by increases in China. Second, expertise in sustainability and relevant prior experience at the board level tackling these issues is on the rise. Third, the past year has seen incremental increases in overall gender diversity on corporate boards. We conclude that, despite the direction of change being positive, its pace remains too slow.

The world is changing – perhaps faster than ever before. As environmental and societal challenges increase, company boards have an obligation to equip themselves with the people, the knowledge, and the tools needed to promote long-term sustainability. How fast they are able to change and anticipate trends will be a measure of their success.

2020 Overview

100
largest public companies

Drawn on Fortune 2000

19
countries

17% Increase in number of sustainability board committees — Up from 54 to 63

19% Increase in total number of directors on sustainability committees — Up from 232 to 275

33% Increase of directors with sustainability credentials on sustainability committees — Up from 36 to 48

11% Increase of women on board of directors — Up from 307 to 342

8% Increase in board gender diversity — Up from 25% to 27%

Methodology

All data relating to board of directors composition, board committees and charters were collected in July 2020. All information was taken from the companies' own corporate websites. Since all organisations are publicly listed the publishing of their board composition as well as board committees and committee charters is a legal obligation. Depending on the company there is a varying terminology for 'sustainability committee'. Some committees are named 'ESG' or 'CSR' committee, or the sustainability efforts are part of the 'Risk' or 'Corporate Governance' committee. In any case sustainability has to be clearly stipulated to qualify.

We found some information to be more comprehensive than others. We also used data from Bloomberg and Reuters if information was only very brief on corporate websites.

All bios of directors on sustainability board committees were carefully evaluated. Some profiles were deemed as "ESG, CSR and/or sustainability credentials" which plays an important role in this report.

We took a straight forward approach to deciding whether a director is to be considered to have those credentials and any experience that contributes directly or indirectly to sustainability credentials e.g. active membership in a relevant philanthropic foundation, or fellowship of the WEF or UN, or any experience within sustainability under consideration of materiality to the respective industry would be considered sufficient.

If a company did not have a dedicated sustainability board committee the biographies of the board were not further evaluated.

Findings

Sustainability Committees

Having a specific board committee with an explicit mandate to advise the company's leadership with regards to material sustainability strategy, performance, and impact and such can be central to translating ambition into evidence-informed decisions.

That said, not all committees are created equal, nor should they be. The materiality and relevance of sustainability issues differs hugely by sector and by company. There remains limited evidence to suggest that having a dedicated committee will, by itself, significantly improve the sustainability performance of a major international company, as those we examined in our data set.

However, as highlighted by Lynne Paine of the Harvard Business School, there is strong evidence to suggest that sustainability committees are a useful addition to many if not most boards in at least five ways: as a source of knowledge and expertise, as a sounding board and constructive critic, as a driver of accountability, as a stimulus for innovation, and as a resource for the full board[1].

Examining the board composition of the 100 largest of the Fortune 2000 companies in 2020, we observed a 17% increase in the number of dedicated sustainability committees as compared to 2019. Moreover, there are now 275 Directors on sustainability committees, a 19% year-on-year increase. Although the quantity of directors represented on such committees is no guarantee of their influence on decision-making, it is a positive recognition of the importance of sustainability issues to corporate strategy.

This increase in number of sustainability committees was largely driven by China, which reflects increased political and societal concern for environmental issues, as well as consumer protection and rights. It also suggests that corporate governance standards in China may be aligning with global best practice on sustainability. Given that the majority of companies that still do not have sustainability committees are in China, tracking this shift—including how it interacts with China's typically patchy disclosure on financial and non-financial information—will be an important area of focus going forward.

[1] https://hbr.org/2014/07/sustainability-in-the-boardroom

Findings

None of the five German assessed companies, on the other hand, disclosed having a sustainability committee or policy at board level. This is surprising since Germany places a strong emphasis on ethical business practices, most notably through the 1976 Co-Determination Act, which guarantees employee representation at board level. Given Germany's ambition in sustainability leadership, German companies looking to strengthen their sustainability performance would do well to establish dedicated committees.

Domain-specific experience/knowledge

As in virtually every other thematic area, domain-specific knowledge and relationships are fundamental to driving progress in sustainability. Although we find that shareholders and nomination committees often seek directors who have expertise and relationships that could help the company, they still rarely do so with sustainability issues in mind.

A closer review of the expertise and experience of the directors sitting on sustainability committees finds that only a small proportion of them, 48 out of the 275 directors, had explicit credentials on sustainability. Although that is an increase from the 36 directors in 2019, the overall weighted percentage (as compared to the total number of directors) is at 17%, barely a 2% increase from the previous year. Not only does this highlight a concerning lack of specific sustainability knowledge among board members, it also suggests that progress is far too slow.

Deep technical knowledge and board-level experience in addressing sustainability issues is no longer a rare resource. Equipping oneself with world-class leaders to best address the most important challenges in an organization's long-term strategic horizon is not only common sense: it is a must-do. Companies that fail to capture such low-hanging fruit risk falling behind.

Board gender diversity

Gender diversity on corporate boards has emerged as one of the foremost governance issues facing modern corporations. Indeed, as shown by Miller of Indiana University and Triana of Vanderbilt University[2], there is ample evidence that suggests gender diversity at the board level strengthens organizational value and performance. New information and

[2] M. Triana, T. Miller,"The Double-Edged Nature of Board Gender Diversity", Organizational Science, 2014: https://www.researchgate.net/publication/236626012_The_Double-Edged_Nature_of_Board_Gender_Diversity_Diversity_Firm_Performance_and_the_Power_of_Women_Directors_as_Predictors_of_Strategic_Change

Findings

perspectives on sustainability provide insights and fresh views at the board level. This area deserves further research.

When it comes to gender diversity, the situation remains dire. Reviewing board compositions, we find that the ratio of women to men on boards has barely budged from 25% in 2019 to 27% in 2020. Given that, as shown by our 2019 Report, women tend to be in the driving seat of sustainability efforts, more needs to be done to ensure long-term sustainability is promoted at the board level. Setting aside issues of ethics, principle and fairness, such lack of progress is also a bad sign for sustainability.

The benefits of diversity, in its many shapes and forms, on boards is becoming ever clearer. Although we have narrowed the focus of this year's report to gender, other aspects of diversity—and their relationship with progress on sustainability, warrant increased attention in the years to come.

Country Overview

Depicted below are the percentages of companies that **have a dedicated sustainability committee** at board level.

On this page we are only showcasing countries with a minimum of 8 companies in the Fortune 2000 (First 100) list. All European countries are taken together, including the UK.

76%
USA

60%
Europe

44%
China

38%
Japan

Detail Data

Country	Sample size 2019	Sample size 2020	Committees 2019	Committees 2020	Change %
USA	35	37	24	28	+17%
Europe	24	20	14	12	-14%
China	18	18	4	8	+100%
Japan	8	8	2	3	+50%

Conclusion

Too often, discussions on corporate sustainability focus on sustainability disclosure or the contents of corporate social responsibility reports, or other types of public relations collateral. The writing of these reports is usually outsourced without significant interaction with a company's top leadership.

Sustainability challenges are a matter of core business alignment and corporate strategy. One cannot ignore the macroeconomic implications arising from sustainability issues that are material. We therefore believe that sustainability strategy needs to be driven by a company's management committee, governed and supervised by the board of directors.

Indeed, as institutional investors like BlackRock increasingly shift their focus to sustainability credentials, firms that do not embrace this shift— starting with their corporate governance structure — risk drifting into irrelevance. The message is clear – adequately addressing sustainability issues is good for business, certainly never bad.

Lastly, we would also like to reemphasize the importance of (gender) diverse boards leading the discussion and subject matter of sustainability. Although our group does not specialise in this topic, it is impossible not to see the link between forward thinking corporations and diverse leadership. The prevailing narrative in this area is generally unchallenged and widely accepted. Time to act!

Expert Essays on Sustainability in the Boardroom

Sustainability in the Boardroom #1

By Helle Bank Jorgensen of Competent Boards

- We have: Sustainability Committees

- We want: Directors with Sustainability, Climate, SDG[1] and ESG Competencies

The writing is on the boardroom wall: Sustainability is no longer an afterthought or a nice to have; it is a strategic imperative. How a company deals with sustainability – proactively or reactively – impacts how the most material stakeholders, including shareholders, view the company and its directors.

BlackRock's vote against directors, due to lack of sustainability progress, got the attention of many boardrooms. Most now understand that duty of care is to anticipate before taking action, not to wait to be informed by management.

The good news is that the findings highlighted in this report show that boards are acting. 63 of the 100 largest public companies now have a sustainability board committee. And I expect that we will see close to 100% next year.

The bad news is that only 17% (48 out of the 275) of directors serving on the 63 established sustainability committees have explicit sustainability credentials. Imagine if only 17% of those directors serving on audit committees complied with the relevant securities exchanges' financial literacy requirements.

This should be concerning to the investors as well as other stakeholders. Board members serving on a sustainability, climate or ESG committee need to have sustainability, climate, and ESG insight to ask the right questions and challenge information presented to them. The role of directors is to provide oversight and foresight. Establishing a sustainability committee is not enough—a sustainability committee needs real sustainability and ESG competent directors serving and making informed decisions. They must have the skill to guide their fellow directors through complex trade-offs, balancing acts, and dilemmas.

There is no doubt in my mind that we will see more litigation related to how the board of directors handle climate, ESG, and other sustainability matters. Having ESG competent board members is the first line of defence and a way to stay ahead of changing compliance norms. It is also a way to ensure a more resilient and innovative company with an admirable impact.

The smart board member will step up and acquire the needed skills or step aside for those who will take on the stewardship role the 21st century calls for. The future will not favour the unprepared.

[1] UN Sustainable Development Goals https://www.un.org/sustainabledevelopment/

I strongly recommend that board chairs and nominating committees take a good look at the skills matrix and ensure that directors with sustainability credentials are represented, regardless of whether the company has a dedicated sustainability committee or not. Every board evaluation should assess whether the board members have the needed sustainability, climate, SDG and ESG competencies.

Good governance should be to disclose the core skills, expertise, and competencies of named directors – it will help investors and others in their evaluation.

I recommend that boards review the company's ESG profile together with thought leaders who can draw implications for their industry and company, and also that investors and other stakeholders examine the ESG competencies of elected directors.

The world is changing. Boards that understand and proactively act on the rising demands from stakeholders will find ways to evolve their business models and be part of the response to global climate, social, and biodiversity risks. At the same time, if done well, they will also win the hearts, minds and wallets of their most important stakeholders. ESG literacy and expertise begins with renewing the sustainability competence of directors who can evolve and develop the readiness of their boards.

Helle Bank Jorgensen

Helle Bank Jorgensen is the CEO of the Global ESG Competent Boards Certificate Program.

Helle is a globally recognised sustainability, climate change, and ESG advisor with close to 30 years of experience helping global companies and investors turn sustainability into strong and reliable financial results. She has worked with hundreds of world-leading companies, including IKEA, Nike, Shell, Unilever, Novo Nordisk and Vestas.

Apart from being a board member, Helle serves on His Royal Highness Prince of Wales A4S Global Expert Panel, the Cornerstone Capital Global Advisory Council, the WBCSD Governance & Internal Oversight High-Level Advisory Group and she is a judge for the Ethical Corporation awards. Helle also is a Board Facilitator for the UN Global Compact Board Program, and a regular keynote speaker and author of many thought-leading articles and books.

Sustainability in the Boardroom #2

By Wouter Scheepens of Steward Redqueen and TIAS, School for Business & Society

Board members should adopt sustainability as a key part of their corporate strategies. Just to be clear: with that I don't mean 'nice to have' charitable initiatives, but sound business models that are focused on generating long-term value. The question board members must answer is how do we remain successful in a VUCA-world (Volatile, Uncertain, Complex and Ambiguous)? How will our company be impacted by climate change, increasing inequality, resource scarcity and geo-political changes that challenge the 'ease of doing business'? This should not be considered as a 'doom and gloom scenario' that only requires more integral risk management, but also as a source for innovation and new business opportunities.

Several years ago, I started researching to what extent boards of large companies are involved in sustainability. Overall, it turns out the record is somewhat bleak. Most boards are preoccupied by immediate shareholder demands. The pressure of capital markets is high and short-termism rules. Considering societal changes or taking a longer-term view is often considered to be a distraction from the core responsibilities.

Those who say 'to embrace sustainability' are often focused on on 'low hanging fruit' or peripheral activities that may be perceived as 'green wash' (promoting sustainability more in words than action). In conversations, board members have told me that they got away with this for a long time. These insights are supported by the report 'The decade to deliver, a call to business action' (2019) which notes that nearly 100% of CEO's of the world's largest companies said that sustainability is critical to their future success (up from 93% in 2010). However, only 48% of companies are implementing sustainability in their operations. That means, at best, less than half of the companies really act on what is a business-critical subject. Even as a shareholder this would concern me.

Many companies are stuck; unable to scale sustainability at the pace required to address global challenges and achieve business success. The response to this is often a call for global standards, systems and metrics. I do not believe standards and metrics will be enough to help companies get out of this deadlock. A different starting point is needed. It is defining the purpose of the company and putting society at the heart of what the business does. Not as a side note, but as a core objective. It is crucial for boards to understand that the success of their company in the market depends on the positive impact it has on society. And while less than 50% of companies are implementing sustainability standards, it is likely that a much higher percentage of the population agrees that business should do more to address sustainability challenges. This may have repercussions. Companies must recalibrate to avoid a clash with society.

Some will ask whether companies can afford this 'purpose' focus? My question would be whether they can afford to hold on to a profit driver at the expense of society? Business cannot be successful in a society that fails. In this time of radical transparency, society can hold business accountable for any issue. And on a less defensive note, as the former Unilever CEO Paul Polman famously said: 'you cannot be a bystander in the system that gives you life in the first place.'

It will be hard work for a company to make this shift. I strongly believe this needs to be managed as an innovation process. One should be thinking outside the current box and accept that solutions will be found by trial and error. Experiments are key and progress will come step by step.

For board members this means that they must accept a different paradigm. Short-termism and an exclusively financial focus are not good enough anymore. Anticipating societal needs is part of the 'new normal' of business. Those boards that recognize this will create a competitive advantage and position their companies among the winners. Not just in the eyes of their shareholders, but also in those of their (grand)children.

Wouter Scheepens

Wouter is an expert on sustainability, impact, governance and board room advice

Wouter is a founding partner of Steward Redqueen. He has almost 20 years of experience in the field of sustainability and impact management. He is an advisor to (multinational) companies and other organisations with a particular focus on the interaction between the corporate sector and society.

Wouter is adjunct professor at TIAS, School for Business & Society. He also is a member of various (supervisory) boards of non-profits and he chairs the alumni network of Tilburg University (Vrienden van Cobbenhagen). In 2017 Wouter published the book 'Sustainability in the Boardroom' (in Dutch) which was longlisted as one the best management books in the Netherlands in that year.

The ESG Agenda

By Gillian Karran-Cumberlege and Stephen Cheetham of Fidelio Partners

It has been clear for some time from our Board Search and Evaluation assignments at Fidelio Partners that Environmental, Social and Governance (ESG) issues are climbing the Board Agenda. The looming climate emergency, the uncertain impact of the Covid-19 pandemic on the global economy, and a number of high-profile governance failures are all intensifying scrutiny of the Board and increasing complexity.

For many years the primacy of shareholders was the touchstone for Board decisions: the new stakeholder world is more complex, requiring the Board to make difficult trade-offs between conflicting demands in pursuit of sustainable value. This requires a step change in Board performance as well as sustained leadership from the Chair. In this article we share Fidelio's approach to the Board's ESG Board Agenda which we summarise below:

Purpose & Value
The Board requires a clear understanding of the organisation's purpose and value, as well as of the expectations of shareholders and other stakeholders

Strategy
The Board also needs to ensure the formulation and implementation of strategy reflects stakeholder interests as well as the company's purpose

Decision Making
Boards are developing a decision-making capability to navigate inherent trade-offs and to ensure that ESG is embedded in the organisation

Composition
Both at Board and Executive level skills, diversity and experience must align to deliver strategy and value for both shareholders and stakeholders

Remuneration
The Remuneration Committee needs to define a framework to underpin purpose and culture; align behaviours and execution with strategic goals; and drive value generation for shareholders and stakeholders

Risk
The Risk Committee will need to ensure a risk framework and capability to navigate the reputational and business model risks from stakeholder and shareholder expectations for the business

Engagement
Effective engagement with shareholders and stakeholders is required at both Board and Committee level

Working through this agenda is a priority for all Boards, especially those operating in regulated environments where the regulators are typically demanding ever-higher levels of accountability and transparency. The first two items – purpose, value and strategy – are perhaps the most difficult to deliver and should therefore be a near term focus for the Chair. In our advisory work we have found that the other agenda items fall into place more easily once the overarching decisions – for example, for an energy company to decarbonise its operations – have been made.

Gillian Karran-Cumberlege

Stephen Cheetham

This article has been written by Gillian Karran-Cumberlege, Head of Board Practice, and Stephen Cheetham, Senior Consultant, Fidelio Partners and also draws upon Fidelio's *ESG Leadership GRID*.

Gillian is an internationally recognised thought leader on ESG, she is a Board and Steering Committee Member of Chapter Zero, which supports Board Directors to address climate change on the Board Agenda. Gillian is also an advisory Board Member of the German British Forum. Previously Gillian served as an Independent Board Member of Jaguar Land Rover India and a Member of the Harvard Business School Alumni Board (2015-2018).

Stephen has worked on both sides of the investment management business as a senior Portfolio Manager and Head of European Governance at AllianceBernstein, and as a research analyst at Sanford C. Bernstein covering the European automotive industry.

About Us & Contact

The Sustainability Board Report is a privately funded not-for-profit project developed by a group of individuals passionate about sustainability leadership. We believe that business has the ability to drive meaningful change.

The report's purpose is to showcase the importance of sustainable corporate leadership. We focus on showcasing inspirational and impactful leadership on a systemic level. We are interested in future oriented policy and governance, and how leaders are executing ambitious plans for better business.

Our findings and research are based on proprietary methodologies. Before drawing conclusions we take academic papers and thought leadership into account. We aim to combine theoretic concepts with actionable recommendations on business level.

For all enquiries regarding this report, or if you would like to get in touch with one of the contributors, please contact us directly via email.

The spirit of this project is to create an open dialogue with business leaders and their communities.

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