The Sustainability Board Report™

2021

Foreword

How do you measure competence?

This question has been central to our research on the state of sustainability governance in corporate boardrooms since 2019. Thus far, we have taken a lenient approach to assessing corporate directors' sustainability/ESG competence, or credentials[1]. That is, for example, if one actively embeds ESG factors into corporate strategy, or participates in a relevant forum, workshop, or training course.

Does this make you as competent in ESG matters as a Chief Sustainability Officer or Head of ESG? Probably not. But we feel it doesn't need to.

The role of the Board of Directors (BoD) is to govern, not manage. They should monitor a business' impact on all its stakeholders, including its commitment to material sustainability concerns. They should ensure these concerns are incorporated into the core business strategy. Progress should be monitored regularly by either a dedicated committee or as part of a shared committee, and by doing so create ESG preparedness. Directors must be informed and understand the implications of sustainability issues material to their business. At a minimum, directors therefore need to be conscious of material sustainability trends.

Often this consciousness refers to competence or formal qualifications. Since 'incompetence' is a loaded word, we have shifted the focus of our research from ESG competence to ESG consciousness. We now focus on both a BoD formal ESG preparedness (based on the presence of dedicated sustainability/ESG policy and board committees) and on director-level individual ESG consciousness (based on the application of our checklist - see page 9).

> ESG prepared boards monitor progress regularly by either a dedicated committee or as part of a shared committee

We believe boards that are not ESG prepared will quickly become laggards. They will have insufficient opportunities and levers to discuss ESG issues in a structured manner.

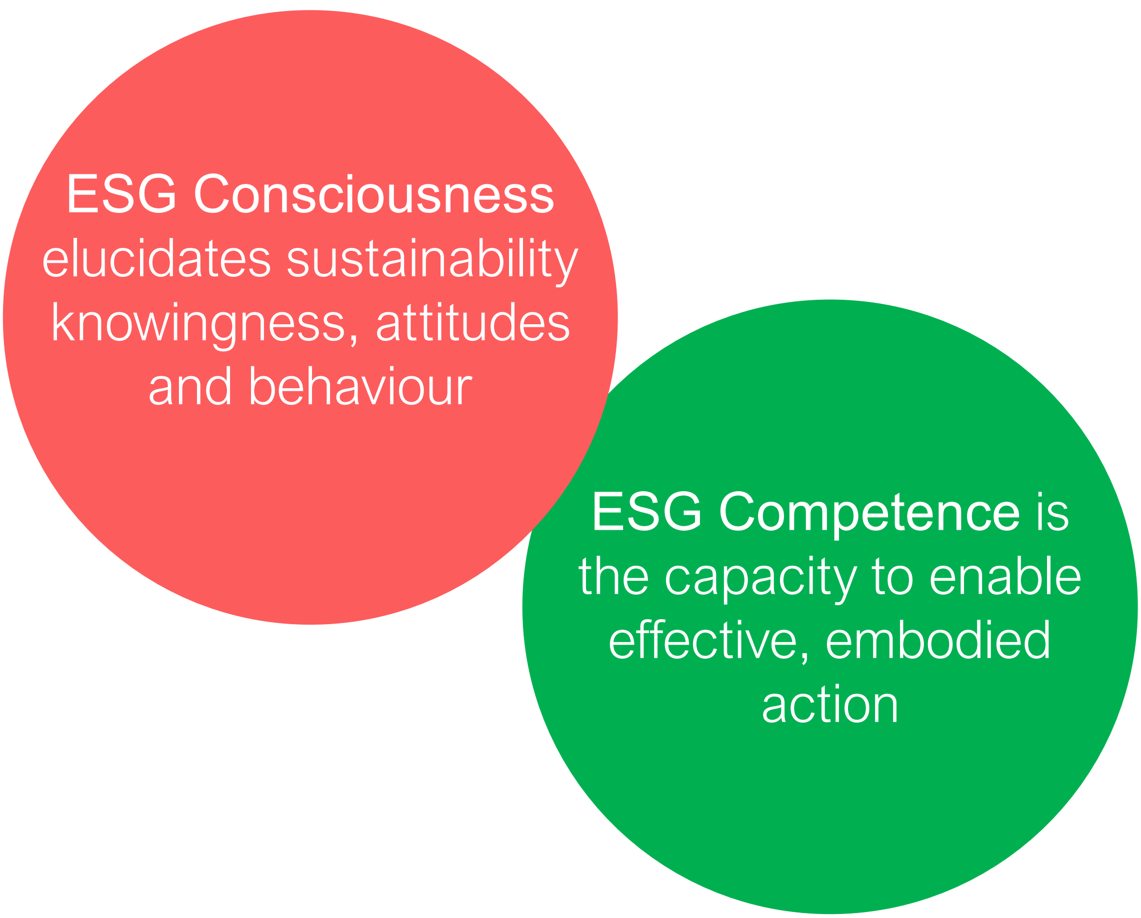
Stakeholders, particularly shareholders, should pressure them to disclose how they will govern ESG issues. This will ensure the companies do no harm, prepare for environmental and social disruption, and retain profitability and relevance in the long run.

[1] More about the difference on terminology re sustainability and ESG can be found on page 7

Foreword

In a paper from 2016 by Olsson, Gericke and Rundgren (p.183) the researchers define **sustainability consciousness** as a "concept that integrates the environmental, social and economic dimensions of sustainable development. Moreover, there are aspects that elucidate sustainability knowingness, attitudes and behavior in each of these three dimensions".

In a 2020 literature review, The European Commission defined **competences in sustainability** as "the interlinked set of knowledge, skills, attitudes, and values that enable effective, embodied action in the world with respect to real-world sustainability problems, challenges, and opportunities, according to the context" (cf. Wiek et al., 2011; Redman & Wiek, under review; UNESCO, 2007).



The Sustainability Board Report 2021 At a Glance

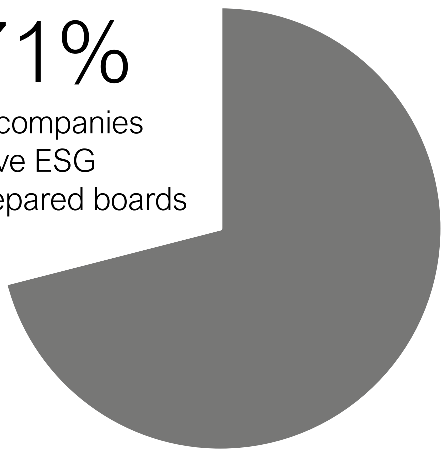
Total # of directors on surveyed companies

♀ 30% ♂ 70% 1260

# of directors on relevant (sustainability/ESG) committees

♀ ♂ 295

71%
of companies have ESG prepared boards



40%
of directors on relevant committees are ESG conscious

# of ESG conscious directors on relevant committees

♀ ♂ 119

52%
of women on relevant committees are ESG conscious

36%
of men on relevant committees are ESG conscious

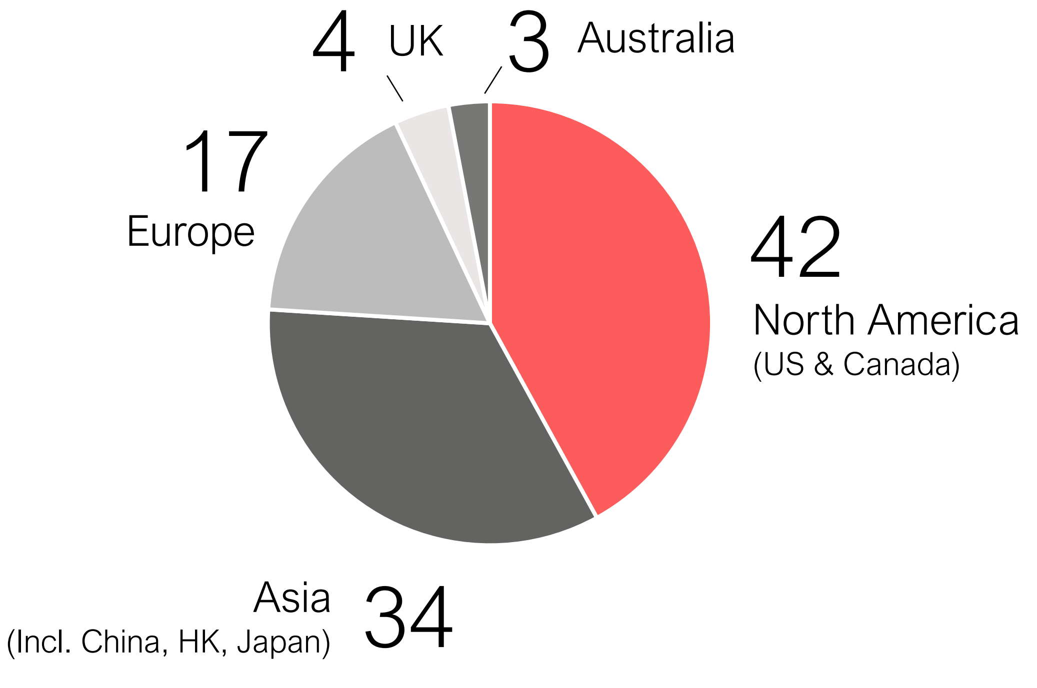
Executive Summary

TSBR releases an annual report on ESG preparedness of BoD of the world's largest 100 publicly listed companies. Last year we found that only 17% of directors on relevant sustainability committees are ESG competent.

Feedback over the last year from many executive and non-executive board members and advisors has confirmed our findings. There is generally a very low level of hard ESG competence on BoD.

That said, BoD are increasingly conscious of ESG matters. This is attained primarily via engagement and dialogue with auditors, consultancies, law firms, board assessors, or short webinars and (virtual) roundtables provided by think tanks and other knowledge organisations. That has also resulted in the lines between **consciousness** (awareness and knowledge of issues) and **competence** (capacity to act on issues) becoming increasingly blurred.

Geographical Makeup of our Sample Size



Executive Summary

Our report has three main conclusions:

1

Women are driving the board-level conversation on sustainability

2

BoD without sustainability corporate governance (CG) policy are at risk of losing touch with ESG best practice

3

Overall sustainability preparedness and consciousness has increased materially in 2021, however, ESG CG policy too often remains vague and lacklustre

Terminology & Scope

For the avoidance of doubt, regarding the use of certain terminology, we have added a small glossary below.
In earlier editions of this report, we referred to sustainability and ESG interchangeably. Most corporate governance policy now uses the ESG term which we also adopt. In cases where we use ‘sustainability’, it refers to broader concepts.

CSR

CSR stands for ‘Corporate Social Responsibility’. This term is somewhat outdated when referring to sustainability issues and rarely used anymore, as it is supposed to be reflective of an organisation's philanthropic pillar.
TSBR still recognises any CSR policy as part of our scope.

Sustainability

Sustainability in business in essence refers to ‘doing well by doing good’. The drawback of this term is that it casts a wide net, and therefore is not accurate about the specific issue it wants to address besides ‘doing good’.

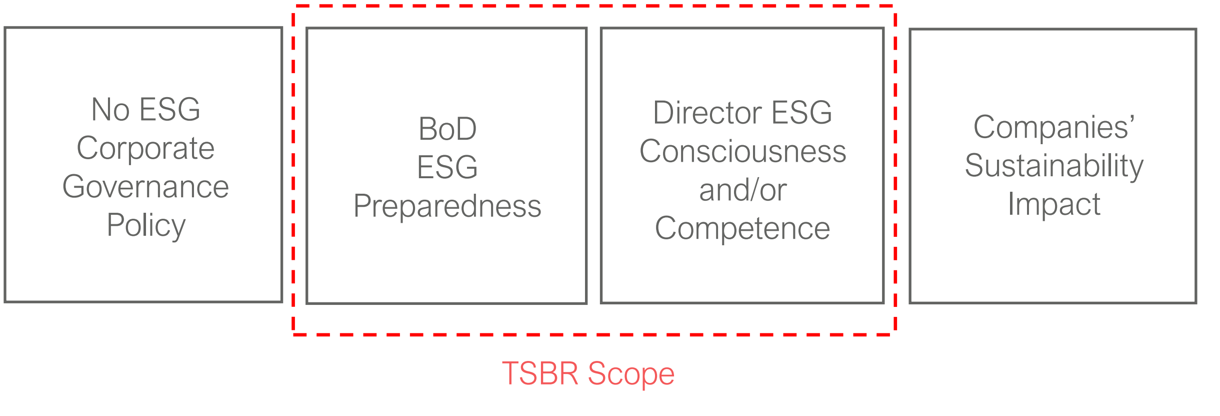
ESG

Environmental, Social and Governance (ESG) has become the preferred term in business lingo. The terminology has moved from sustainability to ESG as it better captures what issues are being addressed.

Impact

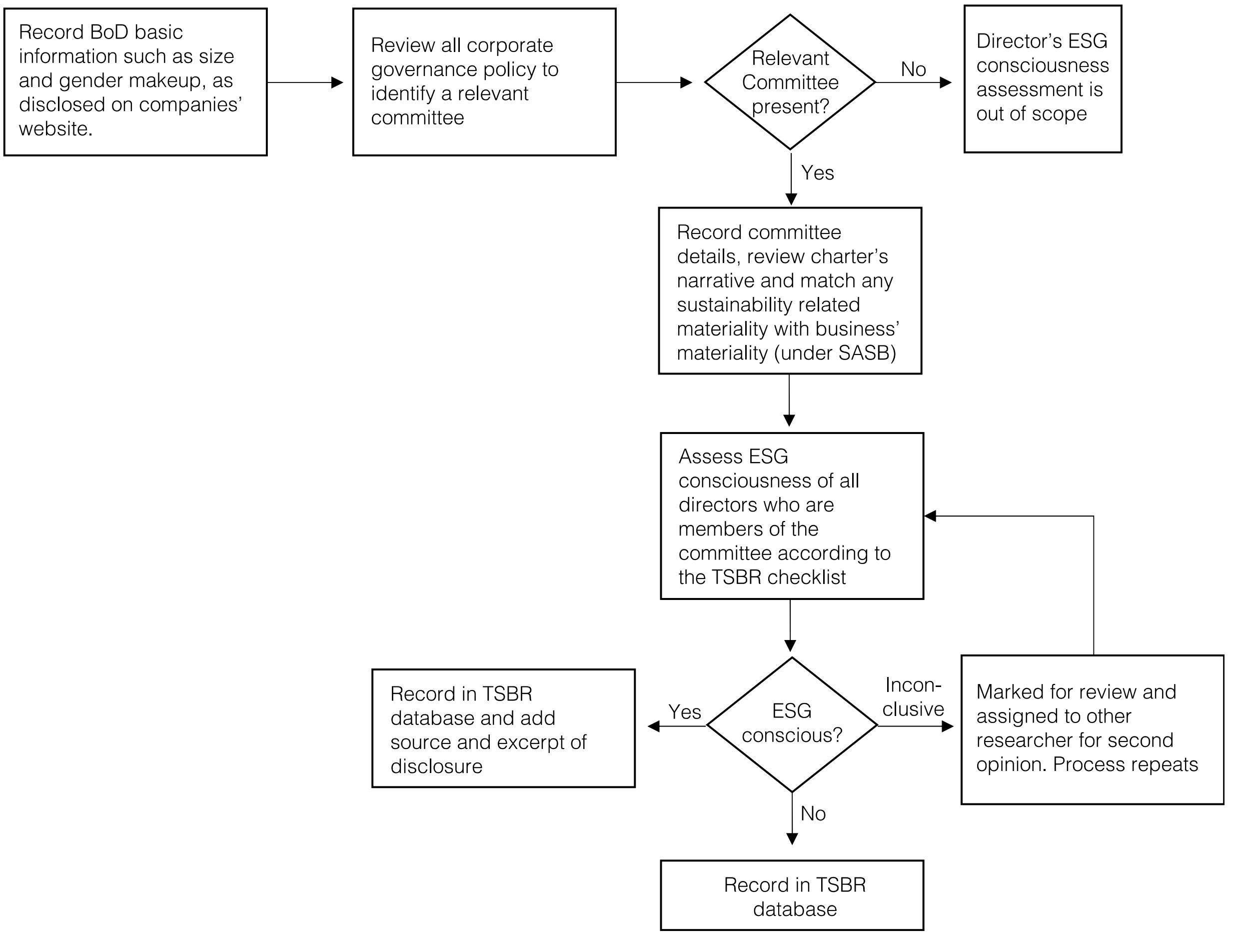
Impact is an emerging term. It is primarily used in finance, where it refers to 'doing good’ and in ESG to 'avoiding harm'.

TSBR survey scope



Methodology

Assessment Sequence and Process



Board ESG Policy Assessment

All data were collected from July to August 2021 and taken from the surveyed companies' websites. Since all organisations are publicly listed, the publishing of their corporate governance policy details is a legal obligation.

The proxy used for ESG preparedness at board level is the presence of a relevant board committee that stipulates ESG issues in its committee charter.

Terminology for 'sustainability committee' varies. Some committees are named 'ESG' or 'CSR' committee. Some sustainability responsibilities are part of shared committees such as Corporate Governance and/or Nomination Committee, Risk, or Public Policy/Affairs committees.

Methodology

So long as a sustainability narrative is clearly stipulated in their charters, these are referred to as relevant committees. Businesses that do not disclose any sustainability policy as part of their board committee charters do not qualify for the directors ESG consciousness assessment. Directors must be assigned to a relevant committee to qualify.

Director's ESG Consciousness Assessment

Directors' ESG consciousness was assessed against an ESG checklist. The checklist reads:

1. Executive or board experience actively involved in sustainability strategy or governance[2]
2. Board member of a business material (under SASB) non-profit organisation, foundation, charity, or fellowship of an international campaign body[3]
3. Formal ESG/sustainability certification/accreditation or published paper/research/book or report in the area, or teaching capacity[4]

For the 2021 report, a broader data screening was applied. For example, significant data was found through media screenings that took notable sustainability exposure, as per our checklist, into account. New data points uncovered were for example those of disclosed public speeches of directors, or minutes of relevant seminars and forums. This additional data of directors' ESG consciousness, lead to a significantly improved result than in previous years, shifting from 17% in 2020 to 40%. We will continue to use this methodology for future reports.

Adjudication

In cases where the ESG consciousness of a director was questionable, the data point was marked 'for review' and the assessment was then adjudicated by a different researcher.

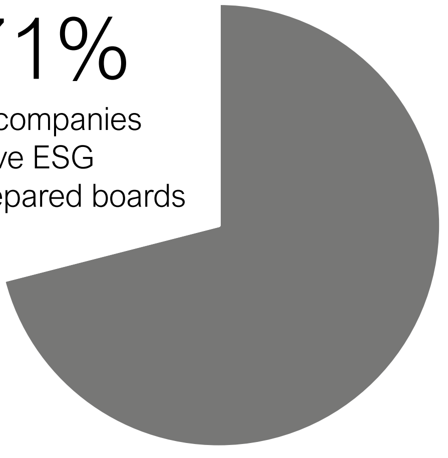
[2] For example: Published interviews with individuals expressing details about their' business' approach to ESG/sustainability, or e.g. published speeches or strategy
[3] For example: WEF (most common), UN Global Compact, CECP, WBCSD, think tanks with sustainability focus such as Aspen Institute, Salzburg Global Seminar, etc.
[4] For example: GCB.D, ICD.P, Harvard Corporate Governance Forum publication, author of a relevant book

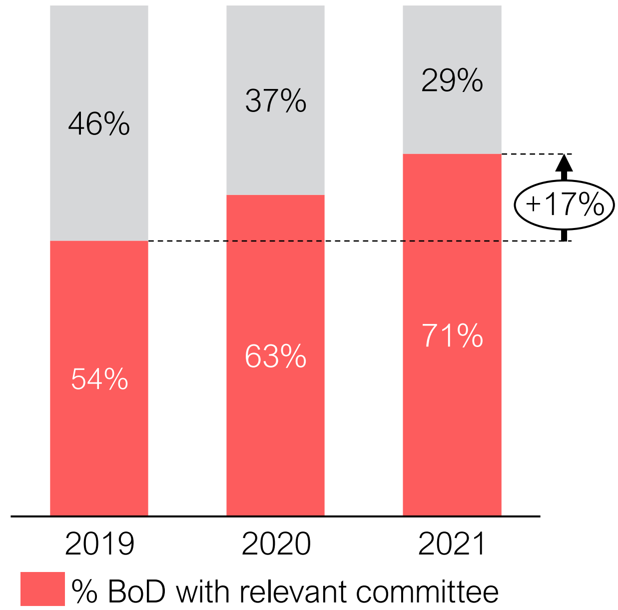
2021 Findings & Recommendations

BoD ESG Preparedness

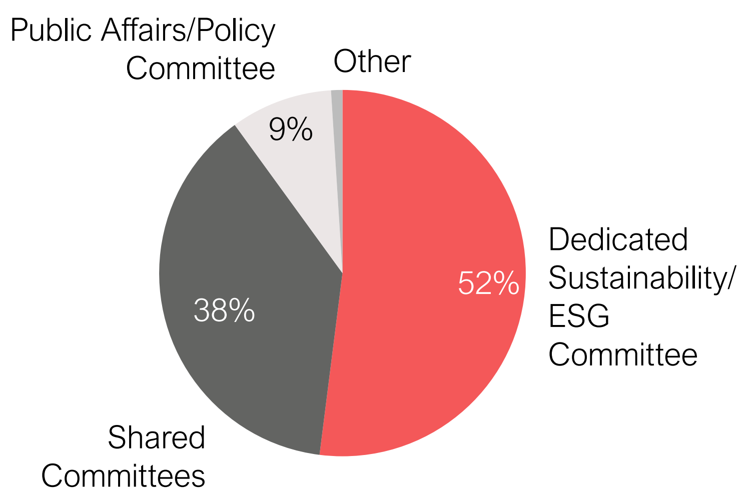
71%

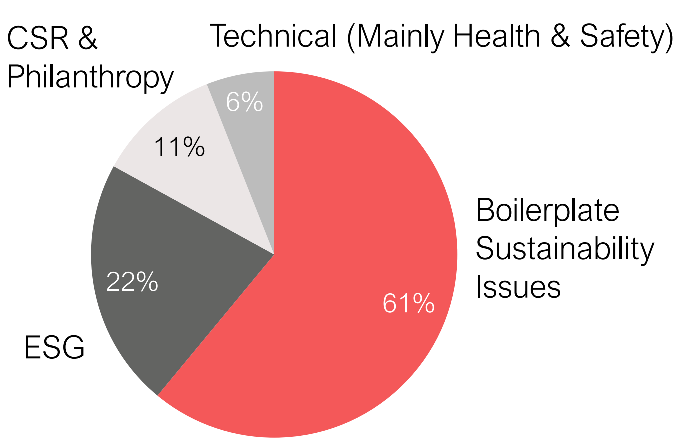
of companies have ESG prepared boards





Half of the surveyed boards have a dedicated sustainability, ESG or CSR committee – with most of the remaining having sustainability policy as part of another committee.



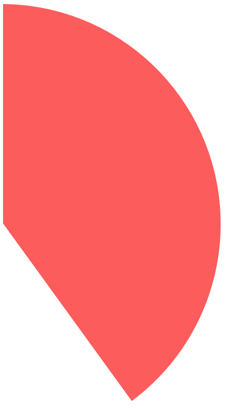


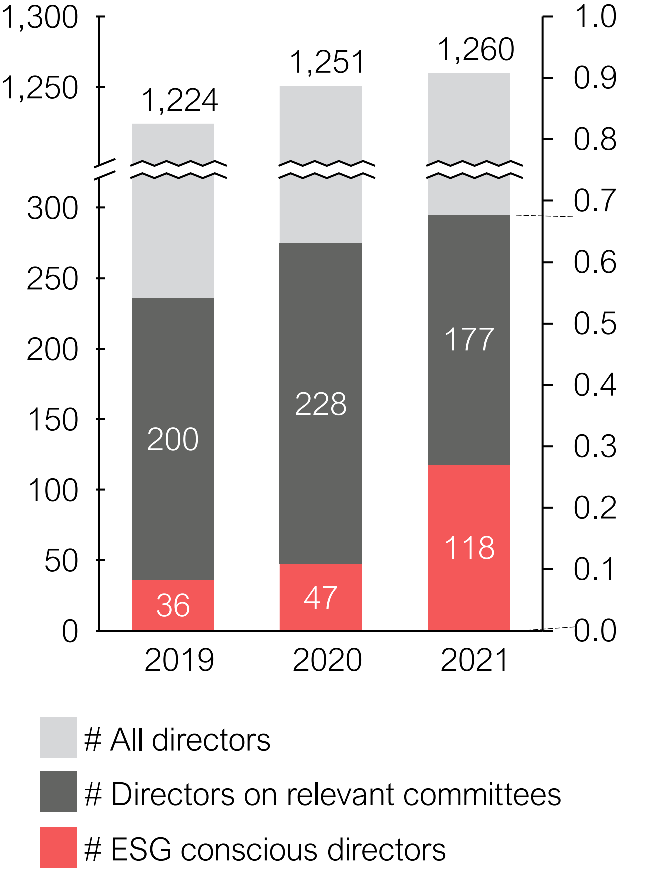
Narratives of sustainability governance, as stipulated in committee charters, read overwhelmingly as boilerplate excerpts. However, comprehensiveness varies. ESG narratives tend to be more relevant.

Directors' ESG Consciousness

40%

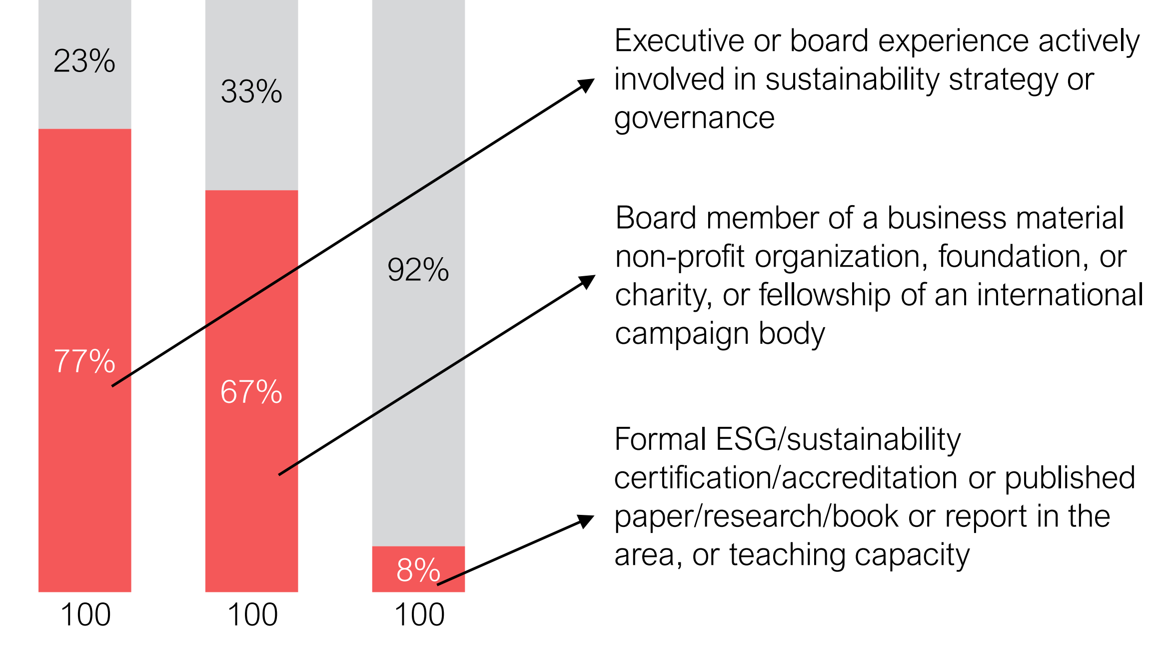
of directors on relevant committees are ESG conscious





On average, only 40% of directors on ESG committees are ESG conscious. Most of that consciousness derives from board experience or having been actively involved in sustainability strategy or governance.

ESG Consciousness Drivers



Gender & Director ESG Consciousness

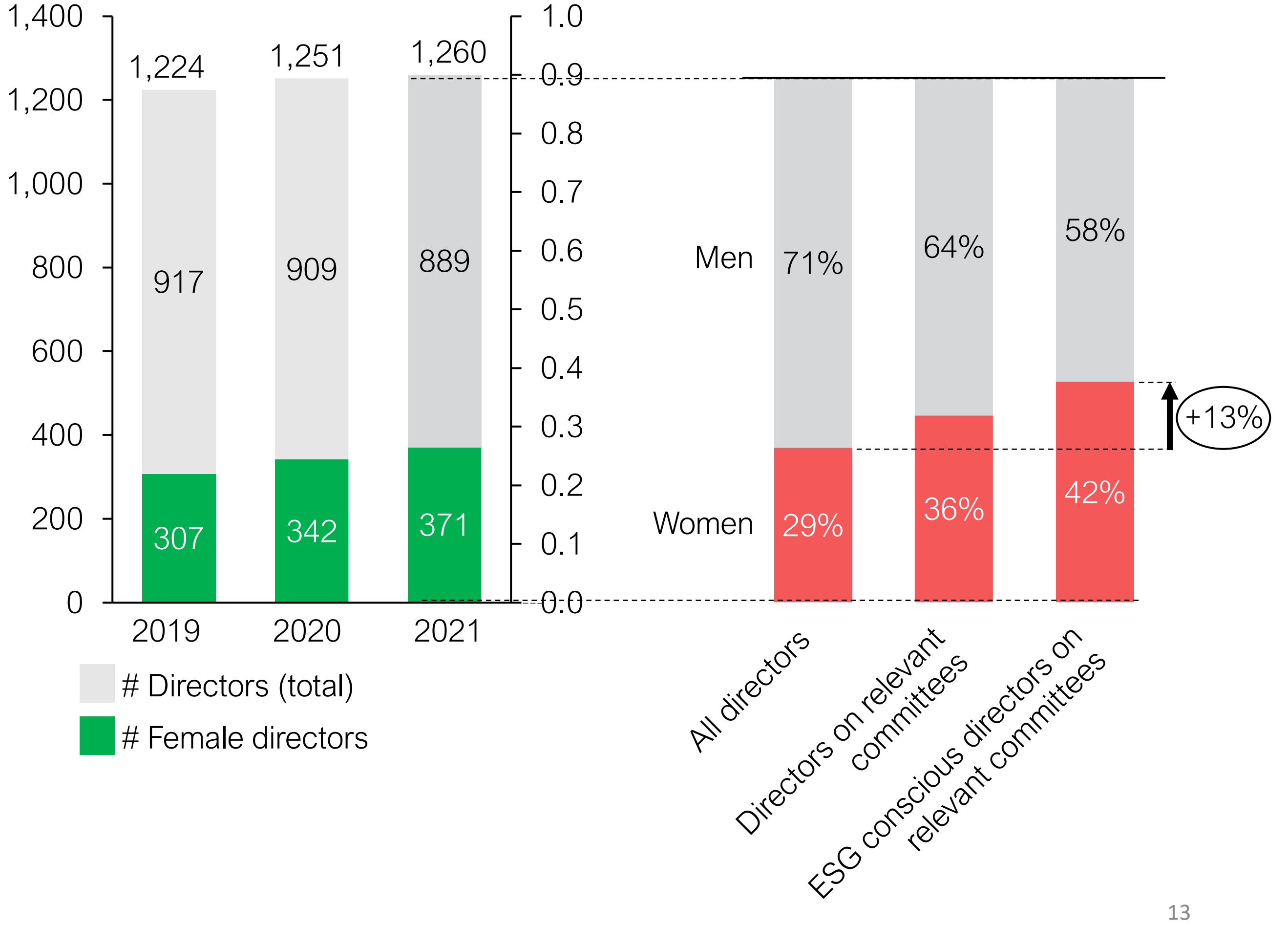
52%

of women on relevant committees are ESG conscious

36%

of men on relevant committees are ESG conscious

Not only are women, on average, more likely to be on ESG committees, but they are also more likely to be ESG conscious.



Findings & Recommendations

Firstly, our results across more than 600 historic data points show that there is a strong and significant correlation between ESG consciousness and gender. Women are on average more conscious of ESG issues. They can therefore be said to be driving the conversation on sustainability. This finding has been consistent ever since TSBR's first annual report in 2019.

> Women are on average more conscious of ESG issues

Various research, including a comprehensive literature review by Alexandre Di Miceli and Angela Donaggio[5], has had similar findings. Indeed, there seems to be substantial evidence connecting increased gender diversity at the top with enhanced environmental, social, and governance standards.

Why might this be? Rachel Howell, a lecturer in sustainable development at the University of Edinburgh, notes that "women have higher levels of socialisation to care about others and be socially responsible, which then leads them to care about environmental problems and be willing to adopt environmental behaviours."[6]

Whatever the cause, given the clear evidence connecting strong ESG with corporate performance, this makes another business case for greater gender diversity on boards and in senior management.

Secondly, the ESG preparedness of BoD and the ESG consciousness of directors themselves is increasing. Not only are more ESG committees being created (71% of companies, compared to 63% in 2020), but more directors are becoming ESG conscious too.

> Most corporate governance sustainability policies remain lacklustre

That said, most corporate governance sustainability policy, usually in the form of a committee charter, remains lacklustre. The lack of disclosure of material ESG issues and detail of what exactly the board's role is, suggests sustainability policy all-too-often remains a box ticking exercise.

When creating sustainability policies at board level, material factors of the business' industry must be clearly articulated. Simplistic and general stipulations like: 'oversee sustainability issues' or 'govern ESG factors' should not and cannot provide stakeholders

[5] https://www.ifc.org/wps/wcm/connect/60a2e87d-5c50-433f-b831-b77ee6d300cf/IFC+PSO_Women_Business_Leadership_web.pdf?MOD=AJPERES&CVID=nvUDNLJ

[6] https://www.theguardian.com/environment/2020/feb/06/eco-gender-gap-why-saving-planet-seen-womens-work

confidence that relevant issues are being monitored and adequately addressed.

> BoD should sign-off all sustainability/ESG reports

Moreover, BoD should sign-off all CSR/sustainability/ESG reports and make sure that all relevant material factors are being reported on. Although produced by nearly all the companies in our sample, such reports should not, however, replace governance policy. Indeed, sustainability reporting is often a siloed exercise conducted by internal ESG professionals and outside advisors.

Sustainability reports cannot replace in-depth conversations about material ESG issues, discussing potential strategic changes in relevant BoD committee meetings. By definition, these factors impact all stakeholders, particularly shareholders, and should be central to long term strategy.

Lastly, business leaders have a moral responsibility to society. We explored these dynamics in our scenario report on 'Sustainable Business Leadership in 2030'[7]. If BoD don't act, someone else will step in and push the agenda on sustainability. Hence creating ESG preparedness also functions as a defence mechanism.
Directors need to upskill and become at least conscious about ESG issues, but better – competent. What that exactly means will be up to every individual and their specific context.

[7] https://www.boardreport.org/sustainable-business-leadership-in-2030

About Us & Contact

The Sustainability Board Report is an independent not-for-profit project.

We aim to showcase different dimensions of sustainable business leadership and corporate governance. By drawing out best practice, our reports also help individual leaders, organisations and investors to understand the changing landscape of environmental, social and governance (ESG) preparedness, consciousness and competence.

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 a business level.

We support various stakeholders in their sustainability and ESG journeys with useful best practice and thought leadership. We collaborate with business leaders, board advisors and academia to create meaningful, actionable, and potent narratives.

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.

contact@boardreport.org
www.boardreport.org

Contributors

The Sustainability Board Report:

Frederik Otto

Nicolas Alexander

Tias van Moorsel

Helena Guðjónsdóttir

Advisory Board & Independent Contributors:

Helle Bank Jørgensen
Competent Boards

Prof. Mike Rosenberg
IESE

Jeannette Lichner
Non-Executive Director

Dr. Pamela Ravasio
Non-Executive Director

Steven Matchett
Editor

Photo Credits

Cover
Maja Segota

Page 10
Hans Luiggi

Page 16
USGS (United States Geological Survey)

Page 19
Christina @wocintechchat.com


TSBR
boardreport.org