The Sustainability Board

ESG Preparedness of Boards for 2024

1st of February 2024

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Every year since 2019, The Sustainability Board has assessed the ESG preparedness of the 100 largest public companies[1] in its Annual ESG Preparedness Report following a proprietary set of criteria. This assessment included an evaluation of formalised ESG oversight, such as the establishment of a sustainability committee or the delegation of ESG responsibilities to existing committees.

We assess, from publicly available information, the materiality and quality of such companies' oversight policy and screen for board diversity, committee composition, and individual directors' engagement on sustainability issues.

This memorandum outlines mechanisms that can enhance boards' accountability for ESG, highlighting our opinion as to the leading companies in each area based on our 2023 research*. We encourage other organisations and directors to review these practices for potential adoption or comparison.

Relevant Committee Charter Materiality

We assess the presence of a board ESG policy through the presence of a relevant board committee that stipulates ESG issues either in its committee charter, proxy statement, corporate governance policy, or annual report. Terminology for 'sustainability committee' varies. Some committees are named 'ESG' or 'CSR' committees. Some sustainability responsibilities are part of shared or common committees such as Corporate Governance, Nomination, Risk, Audit, or Public Policy/Affairs committees. As long as ESG oversight is clearly stipulated in their policies (mostly committee charters), these are referred to as 'relevant committees'.

We screen the charters for narrative and whether material sustainability issues, as per Sustainability Accounting Standards Board (SASB), are stated. This gives an indication of the committee's accountability.

Boards with comprehensive charters that include at least 40% of material issues:

- Comcast
- Microsoft
- Equinor
- BHP Group

[1] As per the top 100 companies of Forbes 2000; This sample has an overweight on US, European and Chinese companies.
* The Sustainability Board 2023 Annual ESG Preparedness Assessment: https://www.boardreport.org/2023report

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Director ESG engagement

This is an assessment of all directors' ESG engagement who are members of a relevant committee and hence arguably tasked with ESG oversight. ESG engagement of directors is evaluated using a checklist[2], which assesses them based on three distinct criteria. A director is considered ESG-engaged if they meet at least one of these criteria. In our ESG Preparedness Report for 2023, we noted the following:

1. 85% of directors worldwide, and 88% in the US, qualify as ESG-engaged due to their corporate experience in sustainability strategy. This engagement largely stems from their roles as either a current or retired CEO.

2. We also look at whether the director is a member of a relevant non-profit organisation dedicated to industry specific sustainability issues. The share of directors who satisfy this criterion declined from 58% in 2022 to 53% in 2023 and is 47% in the US.

3. The criterion with the least representation is formal certifications or credentials, with only 7% of directors meeting it. Not much progress has been made over the last 3 years in this area. Within this category, we also include lecturers, professors, and other faculty members who teach sustainability topics. Interestingly, these educators outnumber the individuals who possess formal (disclosed) certifications or credentials in the field.

Boards with a high number of ESG engaged directors on their respective relevant committee (number of ESG engaged directors vs total number of committee members):

- China Construction Bank (5/5)
- Johnson & Johnson (4/4)
- BHP Group (4/4)
- Total Energies (5/6)

[2] More details can be found here: https://www.boardreport.org/report-methodology

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Board gender diversity

Our research shows a strong correlation between directors' ESG engagement and gender. Women are 64% more likely to be engaged in ESG oversight than their male peers*. Hence, more women on boards will make the governance system more ESG engaged by default. Female directors were also 13% more likely to be part of a relevant committee (this number was at 24% in 2022)*.

Boards that stand out with full gender equality:
- BNP Paribas
- Coca-Cola
- Chevron

Boards with majority female directors:
- Citigroup
- AXA

Sustainability or ESG report sign-off

This data point confirms whether the board has signed off the company's sustainability or ESG report. 71 out of our sample of 100 companies had their reports signed off by the board, mostly by the chair, or in rarer cases the relevant committee chair. This signifies that the board has likely reviewed the report and is up to date with targets and progress, as well as accountable for its contents. It further adds credibility to the sustainability strategy.

All information is per our research cycle from September and October 2023. The full dataset can be found in our 2023 Annual ESG Preparedness Report.

* The Sustainability Board 2023 Annual ESG Preparedness Assessment: https://www.boardreport.org/2023report

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A note on stakeholder governance and engagement

Of course, the mentioned mechanisms are not the only ones which can be used to evaluate ESG preparedness. A detailed stakeholder engagement plan is also important, albeit beyond the scope of our assessment.

Essential to a corporation's survival is maintaining its license to operate. To do this, it must gain and retain the trust of its material stakeholders: those (1) who can reasonably be expected to be significantly affected by its activities, products and services; and (2) whose actions can reasonably be expected to affect the ability of the corporation to implement its strategies and achieve its objectives.

For example, the UK directors are required to include a "section 172 statement" in the strategic report of the company's annual return. This statement, in essence, must set out how directors have shown regard to the company's key stakeholders whilst exercising their duty to promote the best interests of the company for the benefit of shareholders as a whole.

Developing a stakeholder engagement framework for boards involves two key aspects: conducting a materiality assessment to determine relevant stakeholders and engaging with these stakeholders so that their views are available to directors when they consider key decisions for the business.

Assessing who the key stakeholders are in the delivery of purpose and strategy, and selecting the appropriate mechanisms for engagement, are crucial. Different stakeholder groups may require different approaches. For instance, engaging with institutional investors might involve investor roadshows, while engaging with the workforce might include employee councils and panels. The board needs to ensure that engagement mechanisms are effective and convenient for the stakeholders, not just for the company.

About
The Sustainability Board

The Sustainability Board (TSB) is an independent think tank that aims to advance sustainable leadership and corporate governance by providing research, thought leadership, intelligence, and professional development programmes.

- Within our Research & Policy Centre we create reports and promote sustainable practices in leadership and governance.
- Our Thought Leadership aims to provide valuable insights and perspectives on the latest trends and issues in sustainable leadership, corporate governance, and ESG engagement.
- Our Intelligence Unit provides customised research and analysis to help stakeholders assess organisations' performance as it relates to their sustainability commitments, management, and governance.
- Our new Sustainable Leadership Preparedness Programme (SLPP), creates the foundation for leadership up-skilling, networking, and organisational ESG preparedness.

Learn more under
www.sustainability-board.org

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