Report Tracks the Evolution of ESG in Boardrooms

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Survey shows shifts in ESG oversight and incorporation of goals and metrics.

ESG continues to become an increased focus of boards of directors, with 71% of boards incorporating ESG goals and metrics into overall company strategy and 34% of boards discussing ESG at every or nearly every meeting, compared with 15% pre-coronavirus.

ESG Board Oversight

Sustainability in the Spotlight: Board ESG Oversight and Strategy, a report by Diligent Institute and Spencer Stuart, surveyed nearly 600 corporate directors to gather insight on how boards are addressing ESG, adjustments they have made since the onset of the pandemic and steps they are taking to increase board member competence and fluency around ESG topics. One aspect of the survey was determining who on the board oversees ESG, with 43% of respondents assigning oversight of ESG to the full board, 30% entrusting it to the nominating and governance committee, and 15% having established an ESG/sustainability committee for such responsibilities. While stressing that the status of ESG oversight assignment is “evolving,” Julie Daum, leader, North American board practice for Spencer Stuart, says part of the reason boards are choosing to keep ESG within the board as a whole has to do with the need to manage board size.

"There's a balance boards are trying to keep with size right now. If you add a committee, you tend to have to add a director or two, just because of workload." The addition of a sustainability committee will likely require an increase in board size, Daum says.

Dottie Schindlinger, executive director of the Diligent Institute, believes the responses are indicative of boards taking a much more thoughtful approach to how they view ESG and its impact on the company.

"This is becoming a much more focused issue for boards. They are spending more time talking about the issue. They're not just lumping ESG onto one committee, but maybe they're having the environmental piece being covered by the audit and risk committee. There definitely seems to be a more concerted effort to have this be a regular topic on the agenda."

Spotlight on Sustainability Post-Pandemic

One factor that has helped to thrust ESG on to that board agenda has been the coronavirus pandemic. In a version of the survey prior to the pandemic, 20% of respondents stated that they "rarely" or "never" discuss ESG with their boards. Post-pandemic, just 4% of respondents make the same statement. A similar fluctuation can be found in the percentage of respondents stating that they discuss ESG at every meeting. Prior to March 2020, 10% of those surveyed said that they discussed ESG at "nearly every meeting." In the latest survey, that number has leapt to 20%. Schindlinger believes a large reason for the increase in ESG's profile post-pandemic is the need to address workforce issues.

"We've heard throughout the pandemic that one of the ways that ESG became a much more prominent topic was thinking about social considerations related to employees and workforce talent. Those issues have become really big topics of conversation around the board table because of the Great Resignation. I also think having good public health policies and safety policies for employees became something that boards were dealing with in some cases for the very first time. Having a strong ESG program becomes a competitive advantage from a talent acquisition standpoint."

Integrating ESG into Business Planning

The survey revealed that boards are responding to regulator and investor desires by integrating ESG into increased aspect of their business planning. Seventy-one percent of boards are incorporating ESG into their strategic plans, while 52% are considering it in the area of integrated risk management. Almost half of boards (48%) are making ESG metrics and goals a part of director appointments, with 46% considering sustainability when making decisions related to executive compensation. Daum was surprised that so many boards were factoring ESG into the exec comp arena, calling it a "huge change." In fact, a January 2021 survey of U.S. public directors cosponsored by Diligent Institute found just 10% of boards tying ESG metrics to executive compensation. Schindlinger states that the overall results point to a sea change in how boards are approaching sustainability efforts.

"ESG was not really seen as completely core to the way the company was going to grow. I think that has largely changed for many companies. They're now seeing that ESG isn't a subtopic. It's the whole thing. It's got to be woven into every part of corporate strategy, every strategic decision that is made, every area of risk that is reviewed."

Strengthening Director Fluency

If ESG is going to play an increased role in strategy and decision-making, that means directors will have to bolster their competency and fluency in sustainability. The survey revealed that companies are taking a wide variety of steps to bring their directors up to speed, with 42% engaging outside consultants to bridge the knowledge gap and 38% providing training for the board or sending them to outside training programs.

"About 80% of boards said that they are looking to increase the board's fluency on this topic," says Daum. "Chances are that there aren't people on the board who necessarily have a background that's relevant to this. I think there is a perceived lack of real understanding in the boardroom, and if boards are honest with themselves, they know they need to become better educated about it."

Different Industries, Different Approaches

When asked for her impressions on the survey’s findings, Schindlinger says she is not surprised about ESG’s growing focus in the boardroom but expresses intrigue as to the range of ways boards are handling ESG integration. However, she says the different ways of approaching ESG make sense because sustainability means different things to different industries.

“An energy company is going to have a completely different approach than a technology services company, and a tech services company will be different than a financial services company. Frankly, that should be the case. Your ESG strategy should be very individualized to what your company is trying to accomplish, should be unique to your industry and should be effective.”

For her part, Daum compares the establishing of ESG protocol for boards to creating diversity throughout a company or industry, saying that it is not about “fast and quick change” and that a thoughtful evolution should be expected.

“A lot of the things that companies are grappling with are not easy. They’re not short-term. It’s not completely clear what the measurements are for success. This is going to be an ongoing conversation, and we’re all going to be learning from each other what works best.”