

The Corporate
Governance Centre

Designing Sustainability Governance

Board structures and practices
for better ESG performance

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Contents

The purpose of this report is to help corporate boards assess and improve their structures and practices for addressing sustainability/ESG (these terms are used interchangeably throughout). Based on qualitative and quantitative research, the following pages present both a review of the present and a vision of the future.

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Summary

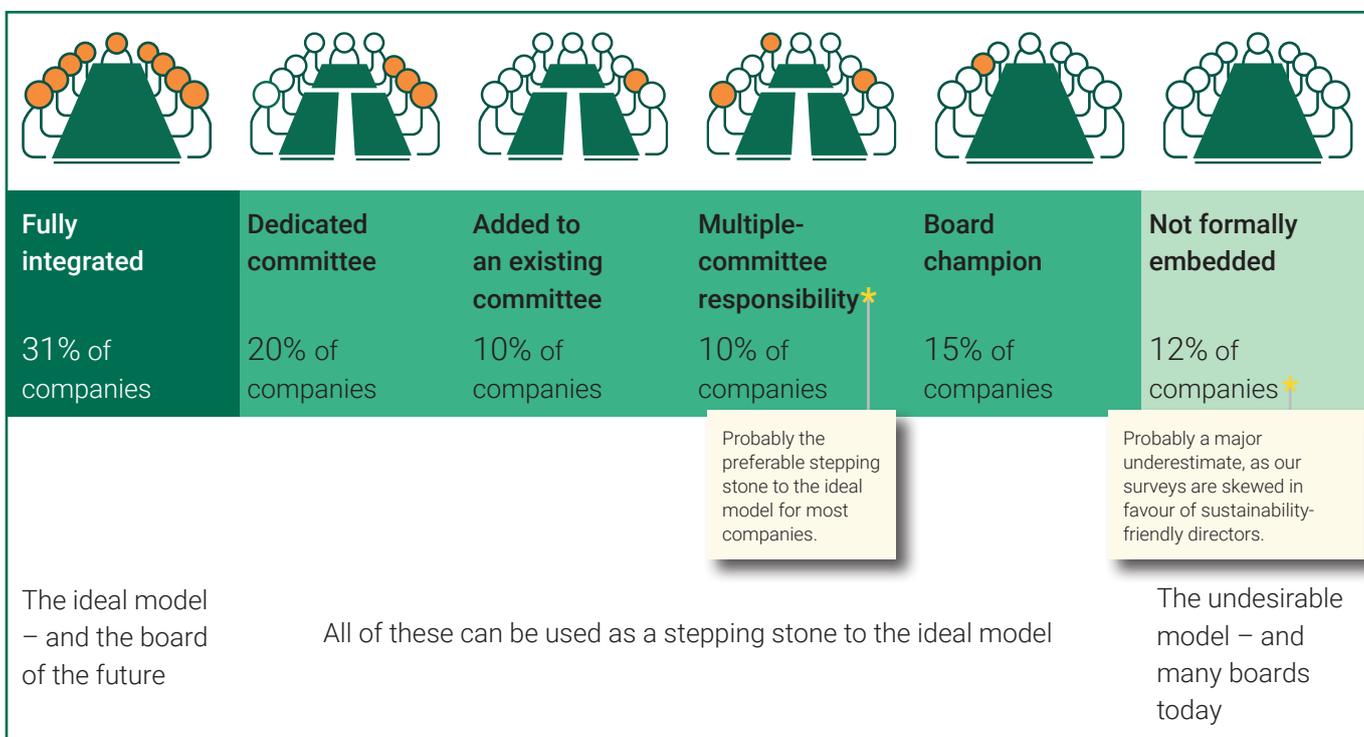
In today's rapidly changing world it is clear that many corporate boards struggle with ESG (Environmental, Social and Governance) for two key reasons:

- **A vicious circle of skills shortages** – directors generally lack sustainability expertise and people with sustainability expertise generally lack board-ready credentials. Until these two groups come together and learn from each other, the knowledge gap will only get wider.
- **A paralysis trap of speed and complexity** – the combination of rapid change and huge variety of ESG challenges demands contrasting skills – intuitive, quick thinking versus disciplined logic and deep understanding. These competing demands often lead to inaction.

Both of these problems can be solved by improvements in **board structures** and **complementary practices**.

Board structures: six possible models

Research shows that **six different ESG governance models** are commonly in use. All of these models have their pros and cons, but there is definitely an ideal model, an undesirable model and a preferable, practical pathway to achieving the ideal of full integration. Any models can be temporary or permanent, but full integration should be the ultimate goal.

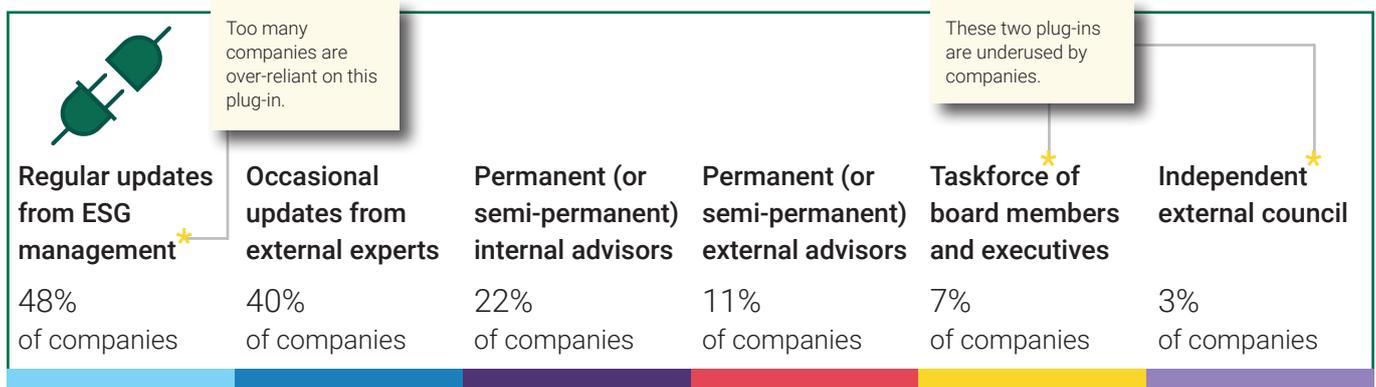


Source: BCG-INSEAD Board ESG Pulse Check (March 2022). Some 2% of companies surveyed say they use a "different" model.

Complementary practices: six possible plug-ins

Research also finds that six complementary practices are used – but most of them insufficiently.

These six “plug-ins” can be mixed and matched in any combination to boost boards’ ESG performance.



Source: BCG-INSEAD Board ESG Pulse Check (March 2022)

In general, boards would do better to:

- Seek more **input from external specialists** to complement updates from sustainability managers with an outside-in view.
- Find more **permanent or semi-permanent** solutions with regular injections of expertise, rather than relying on occasional or ad-hoc advice.
- Be more open to **supplementary structures**, such as director–manager taskforces or independent external sustainability councils, to maximise learning about ESG.

Choosing the right model(s) and plug-ins

Any individual board’s choice of model(s) and plug-ins requires a great deal of thought and discussion. Key factors include the current governance structure, level of directors’ ESG knowledge, sustainability management structure, corporate culture, organisational purpose/mission and needs of stakeholders/shareholders.

91% of board members say that their goal is to spend more time on strategic reflection about sustainability. This will only be possible if they have the right structures and practices in place.

Introduction: designing governance for good

This report isn't designed to last. Frankly, in 50 years' time – and ideally sooner – it will look like an ancient relic. In 2072, CEOs won't make impassioned speeches about people, planet and purpose anymore. Companies won't need Chief Sustainability Officers or ESG Reports. Corporate boards won't bother with dedicated sustainability committees, corporate responsibility champions or ESG advisors.

That's not to say business leaders will forget all about the environment, society and good organisational governance. Quite the opposite. Fifty years from now, sustainability will be so integrated with doing business that delivering environmental and human capital will be as important as delivering financial capital. Whether in terms of impact on the company or impact by the company, thinking about sustainability will be a reflex for every director as they oversee executives and approve strategic moves.

But that's all in the future. Today, as I look out at the world's boardrooms – from my dual vantage point in the INSEAD Corporate Governance Centre and my advisory practice – I see a very different picture. There are only a few boards that get ESG governance right. Most are struggling to comprehend how the world is changing and how this transformation impacts their businesses. Some are even paralysed by their inadequate knowledge and ineffective structures.

Until a new generation of directors emerges with ESG in their DNA, we need to fill the knowledge gap and find interim solutions, structures and practices for sustainability governance. Hence this report, which provides support for boards of directors as they navigate through the fast-changing and complex landscape of ESG right now. My objectives in the following pages are simple:

- To help boards evaluate whether their structures are fit for purpose in this rapidly changing world.
- To help directors organise themselves to address ESG more effectively.

In pursuing these objectives, I'll draw on research and expert opinion but mostly on insights from boards and directors. My catalogue of six models and six plug-ins represents a range of practical choices that others have already made. There is no one-size-fits-all option, but you will find solutions for your organisation and its stakeholders in the pages that follow.

It took hundreds of years to develop the financial standards and best practices by which companies are managed and governed today. Thanks to the climate crisis, biodiversity loss, ageing populations, social inequality, a global pandemic and, as I write, the return of war to Europe, we don't have the luxury of time for designing our sustainability governance. We have to act now, however imperfectly. This report isn't for ever – but it is for good.



Ron Sooniens, Director in Residence,
INSEAD Corporate Governance Centre

Research and methodology

This report is based on a combination of qualitative and quantitative research, complemented with extensive desk research and long professional experience.

Qualitative

I looked in depth at twelve companies that each apply one of the six models set out in this report (or some combination of these models). For six of these companies, I conducted semi-structured interviews with non-executive directors (NEDs), executive directors and other executives – all with sustainability responsibilities – in order to gain three different perspectives on ESG governance. I then selected six comparable companies – in terms of their board-level sustainability structures – and completed extensive desk research into their ESG governance.

I have also drawn on my previous qualitative research project, [What's Stopping Boards from Turning Sustainability Aspirations into Action? \(2019\)](#), co-authored with N. Craig Smith, INSEAD Chaired Professor of Ethics and Responsibility, and interviews conducted for the (mainly qualitative) studies listed below. Overall, this report is informed by over 50 semi-structured interviews on sustainability governance with a range of company directors, as well as countless conversations with board members around the world.

Quantitative

Most of the statistics (and some of the quotes) in this report come from three recent surveys of board members on the topic of sustainability governance, in which I have been involved on behalf of INSEAD:

- [Directors can up their game on Environmental, Social and Governance Issues/The BCG–INSEAD Board ESG Pulse Check \(March 2022\)](#) – 122 respondents (referred to in this report as the BCG–INSEAD Board ESG Pulse Check)
- [INSEAD–Heidrick & Struggles: Changing the Climate in the Boardroom \(December 2021\)](#) – 301 respondents
- [Board Agenda–Mazars–INSEAD: Leadership in Corporate Sustainability – European Report 2018](#) – 234 respondents

As well as providing data and an up-to-date barometer of the global picture, these reports set the general context for my thinking (see next section). The respondents, drawn from INSEAD's and its respective research partners' worldwide board networks, are hands-on, practising directors at companies covering a range of sectors and sizes (but with a geographical emphasis on Europe and North America). I am extremely grateful to all of them for sharing their insights and wisdom – and allowing INSEAD to pass it on to others.

Experiential

As a sustainability specialist with a 25-year-plus career – as an executive, board member, advisor to boards and Director in Residence at the INSEAD Corporate Governance Centre – my hands-on experience inevitably informs every sentence of this report. I am confident that readers will appreciate and benefit from this practitioner's-eye-view of sustainability governance.

Context and backstory

As if you hadn't noticed, the world is changing. Just 20 years ago, companies were grappling with comparatively simple challenges like globalisation. Then came digitalisation, cyber security and, perhaps most pressing of all, the climate crisis. Other issues came thick and fast, clamouring for executive and board attention in a whole new language that sometimes reads like secret code: #MeToo, LGBTQ+, BLM, SDGs, COVID-19, COP27.

Translation into business terms doesn't make such matters any easier to deal with: equal opportunities, diversity, equity and inclusion (DEI), labour rights, supply-chain ethics, green operations, whistleblowing/harassment/bullying/right-to-disconnect policies, workplace safety, decarbonisation, sustainability reporting, social impact, community engagement, the circular economy, rising geopolitical tensions...the list goes on. Park them under the umbrella of "ESG" or "sustainability", if you like, but it won't stop the rain from falling.

Caught in a perfect storm of "issues", businesses also find themselves answerable to a growing number of stakeholders: shareholders, customers, employees, suppliers, communities, governments and NGOs, all the way up to "people and planet".

Even shareholders are a far-from-homogeneous group these days. New technology is enabling "shareholder democracy" by bringing individual investors out from the institutional bloc and allowing them to vote directly. Meanwhile "activist" investors are no longer necessarily hedge funds out to make a quick buck; many are campaigners with an overt sustainability agenda linked to long-term returns on investment (and possibly a desire to help "save the world" at the same time). After all, climate risk is business risk. Witness the example of Engine No.1, the tiny investment fund that won three seats on the ExxonMobil board and is now using them to drive carbon reduction.

It may be impossible to satisfy all stakeholders at once, but business leaders have no choice but to try and navigate a course between their competing demands. As Larry Fink of BlackRock put it in his 2022 letter to CEOs:

"In today's globally interconnected world, a company must create value for and be valued by its full range of stakeholders in order to deliver long-term value for its shareholders."

Where does that leave corporate boards? Well, it turns out that ESG puts directors centre stage. The clue is in Fink's words "long" and "term", which go to the heart of both sustainability and the directorial mandate. ESG decisions and impacts, by their very nature, have a more distant horizon than most CEO tenures. Likewise, the role of the board is to take the long view into account, while the executives focus more on the day-to-day.

The great news is that most boards recognise the enormous significance of ESG for their companies in today's changing world. Previous research at INSEAD and elsewhere (for example, our **Leadership in Corporate Sustainability – European Report 2018**) suggests that nearly 75% of board members acknowledge the vital importance of sustainability to their long-term corporate strategies.

The even better news is that boards also acknowledge their own strategic, long-term role with respect to ESG. Our recent **BCG-INSEAD Board ESG Pulse Check** reveals that 91% of directors believe their own focus should be more on improving strategic reflection than on monitoring operations.

The bad news is that less than half of the 91% believe they are effective at driving that strategic reflection.

The even worse news comes when we dig down into specifics, although we do at least get to the root of some of this ESG ineffectiveness. Our recent report, **Changing the Climate in the Boardroom**, suggests that 85% of directors need to increase their climate knowledge. Even more specifically, nearly half have insufficient understanding to address climate implications for financial performance or investment decisions – both of which are key board functions. Perhaps these percentages are hardly surprising, given that 69% say climate knowledge is not a formal requirement for joining – or staying on – their boards. Another finding from the survey is that directors' most common source of climate expertise is "the executive team" – the very group whose performance they are supposed to be overseeing!

Why do so many boards struggle with ESG governance? First, let's acknowledge that board members are generally intelligent, hard-working business experts with immaculate track records and the highest standards of integrity. They genuinely care about their companies and want to do the right thing by society as a whole. That rules out a few of the most obvious and uncharitable explanations for their lack of knowledge and failure to address it. Let's focus instead on the two most compelling arguments:

1. **Boards are caught in a vicious circle.** Simply put, people who know about sustainability tend not to have the right (or at least the perceived) experience to join boards. Conversely, board-ready candidates tend to lack ESG expertise. There's no shame in this situation. To some extent it is a generational inevitability. Even among fast-rising board potentials, few people have a strong grasp of E, S and G, which – as we've seen – form a maze of complex and fast-moving issues. That takes us to the second compelling argument...
2. **Boards sometimes get paralysed by the combination of speed and complexity.** Once again, to put it simply – and to borrow from the extensive work of INSEAD strategy professor, Yves Doz, and practitioner, Andrea Cuomo – boards find it hard enough to master speed of change and complexity of challenges, individually. Speed requires intuition and creativity on the part of directors. Complexity, on the other hand, requires logic and discipline. Put speed and complexity together and, in an ideal world, you should get strategic agility. In the boardrooms of the real world, however, you often get passivity and paralysis, as directors try to cope with the competing variables and the limited availability of the contrasting skills required to address them. Again, there is no shame in this. But part of the solution is to acknowledge the all-too-human problem.

How can boards turn their ESG performance around? There are, no doubt, many ways to break the vicious circle and escape the paralysis trap. Greater minds than mine have conducted wide-ranging academic research on the intersection between corporate governance and sustainability.

For my part, I'll stick to an area that I know well: board structures and practices.

The rest of this report will focus on the question of how corporate boards can best organise themselves – in the context of today's complex and fast-changing world – to address sustainability strategy and ESG oversight. I can't offer a one-size-fits-all solution, because such a thing doesn't exist. However, in the next section I'll outline six "models" and six "plug-ins" that can be mixed and matched to improve board performance in all things ESG. And, in my conclusion, I promise to present a preferred solution.

Six “models” for embedding ESG in corporate governance	Six “plug-ins” to use with any of the models
Fully integrated into all board operations and decision making	Updates from external experts or advisors
Dedicated committee	Permanent (or semi-permanent) external advisors
Added to an existing committee’s responsibilities	Permanent (or semi-permanent) internal advisors: executives or technical experts
Multiple-committee responsibility	Updates from sustainability management
One director assigned the role of sustainability board champion	Sustainability taskforce of board members and executives
Not formally embedded (apart from maybe signing off on the sustainability report)	Independent external sustainability council

Before getting carried away by the means, however, let’s remind ourselves of the end.

More precisely, let’s remind ourselves of the mission of a corporate board. It’s to serve the shareholders, right? Wrong, in fact. In almost every country in the world, corporate law states that the fiduciary duty of the board is to the corporation, which by most definitions is legally distinct from its owners. It follows that directors are legally required to understand the issues that affect the company’s ability to survive and thrive in the long term.

The challenge – some might say impossibility – comes in translating this general fact into concrete ESG duties. The process is all the more difficult given the lack of generally accepted metrics and best practices for corporate sustainability performance.

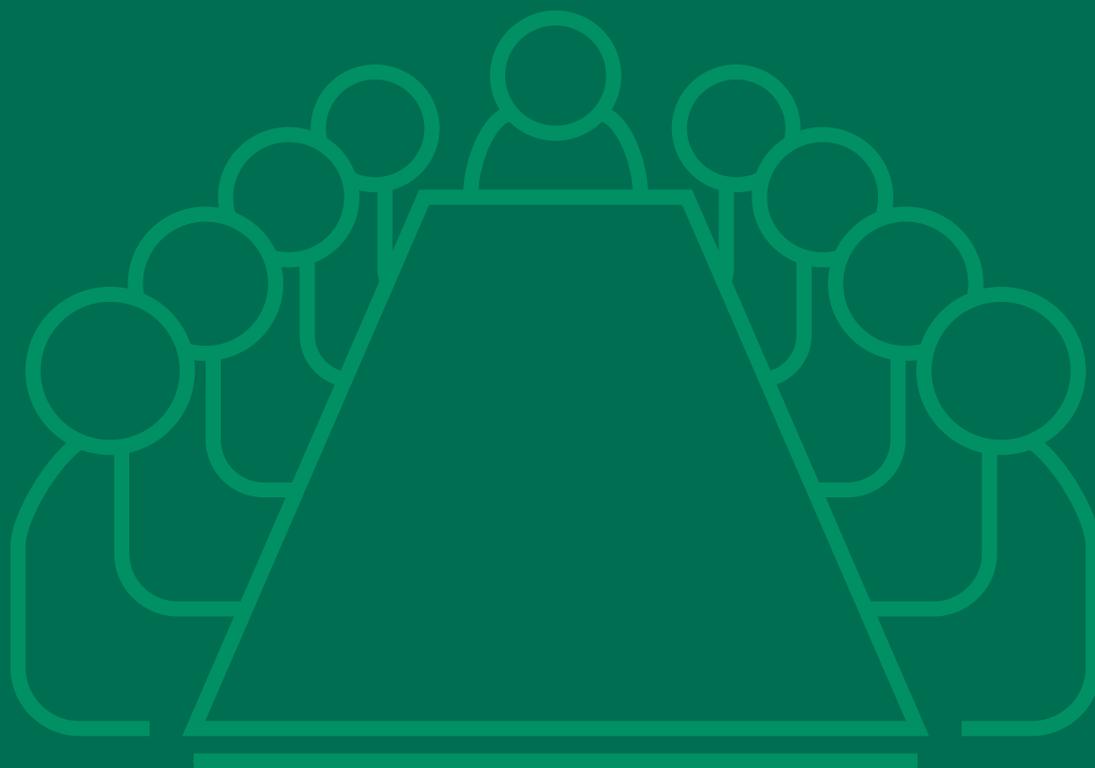
Of course, some boards already have explicitly defined fiduciary duties with respect to ESG. But in many companies, directors’ sustainability responsibilities and objectives remain undefined. That blank sheet of paper can be rather daunting, but the basic objectives are reasonable and realistic:

- To have enough ESG knowledge to understand (a) what society expects from your business and (b) what that means for business practice. You don’t need in-depth knowledge of the sustainability issues themselves – and certainly not all of them.
- To be able to perform effective oversight of sustainability management at the company. It’s not enough to view ESG performance through the management’s eyes; you need to be able to assess and judge it independently.
- To have the breadth and depth of vision – beyond the horizon of typical CEO tenures – to evaluate both financial and non-financial return on investment. It’s about open-mindedness and a willingness to expand on your current field of expertise.

In essence, your mission as a business director, should you choose to accept it, is to have enough understanding of ESG to “know what you don’t know” and to “know who to ask”. Now who says that’s impossible?

A catalogue of models and plug-ins

Ways to embed ESG in corporate governance



How to use

This section of the report is designed to help boards **compare and contrast** tried-and-tested sustainability structures (“models”) and supplementary practices (“plug-ins”), with a view to evaluating and/or designing their own ESG governance.

The list on the following pages is not supposed to be exhaustive. No doubt there are other options and variations out there, but **these are the solutions that I’ve encountered most frequently in my consultancy, teaching, research and board memberships.**

Similarly, the models are not necessarily mutually exclusive. I’ve seen successful combinations of two or more, especially on a temporary basis.

Likewise for the plug-ins: any one of them (or a combination of several) can be used with any board structure.

One final caveat: **the suggestions in the following “catalogue” of models and plug-ins are not definitive.** For example, under the rubric “Where it works” there may be many other situations and companies where a given model might be a perfect choice. However, I have confined my recommendations to what I have observed myself or what I have been told by trusted interviewees. This is a report based on practice, not theory or speculation.

Key

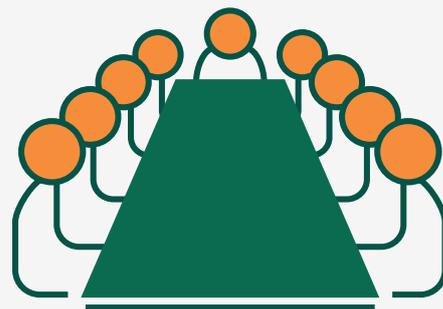
For the purposes of the following pages:

- Large companies have annual revenues of US\$>10B
- Medium companies have annual revenues of US\$1-10B
- Small companies have annual revenues of US\$<1B

All numbers and percentages are taken from the **BCG–INSEAD Board ESG Pulse Check (March 2022)**

Fully integrated: the ideal model

ESG is an integral part of all board deliberations and decisions, although it may not yet be in the DNA of every director. Sustainability is fully integrated into the organisation's long-term strategy and enshrined in the board's statutes. This is the board of the future!



How it works

- Nearly all agenda items include some consideration or discussion of sustainability implications, although some ESG issues are agenda items in their own right
- Various committees may prepare recommendations, but the final decision always rests with the full board

Where it works well

- Organisations of all sizes with a long-standing commitment to – and culture of – sustainability
- Smaller, newer organisations with products or services focusing on some aspect of ESG
- Boards that have a critical mass of members with proven ESG knowledge and mindsets

Pros

- Demonstrates to employees and the outside world that the company is committed to sustainability – but only if there are visible results!
- Makes ESG a permanent boardroom presence – part of all discussions and all decisions
- Provides a rich multi-dimensional perspective on ESG with a powerful, full-board business focus

Cons

- Limits participation of non-board-members, whether external advisors or sustainability managers...
- ...which may lead to tunnel vision or missed opportunities
- Needs constant attention, especially from the chair, to make sure ESG remains part of the governance DNA – this ideal can be hard to live up to!
- Allows little time for deep dives and the kind of granularity required for these complex matters
- Sustainability eventually becomes implicit rather than explicit – and the board may slide towards the “not formally embedded” model

WARNING! ▲

All companies should be aiming for this model in the long term, but that doesn't make it the best short-term solution. Don't let perfect be the enemy of good.

Top tips

- Find creative ways to involve external and internal sustainability expertise (see plug-ins) and to broaden your perspectives
- Pay special attention when renewing the board to keeping the ESG culture alive
- Keep telling the outside (and inside) world about your board and company's sustainability efforts – people who are in the habit of doing good often forget to talk about it!

Usage stats

- 31% of companies use this model (or at least their directors say they do) – the most popular option overall
- Favoured by large companies (16% are fully integrated) and even more so by small to medium companies (41%)
- Equally popular in Europe (31%) and North America (33%)

What they say

“Traditional knowledge and experience remain important. But one third of the board should have knowledge and experience in how the role of business in society is changing and what that means for corporate strategy. This is essential to get sustainability embedded into board dynamics.”

Member of multiple property and construction boards

Dedicated committee: the high-visibility but high-stakes model

A standalone sustainability committee, set up and run just like the audit committee (or any other). Has its own charter and agenda.



How it works

- Reaches decisions and makes recommendations for the whole board to approve
- May shoulder other well-defined ESG-related responsibilities, as delegated by the full board

Where it works well

- At a company that's far behind on ESG and needs (or wants) to catch up quickly
- At an organisation where (some element of) ESG has a major impact on overall strategy

Pros

- Communicates strong board commitment, both internally and externally
- Speeds up the “greening” process and/or enables a step change
- Allows for “deep dives” and thorough deliberations...
- ...which frees up time for the full board
- Enables executive participation...
- ...which develops close connections with ESG managers (and potential board talent)
- Lowers risk of sustainability becoming deprioritised

Cons

- Could backfire if the impression of strong commitment (see “Pros”) doesn't turn into action quickly
- Can be complex to set up and administer
- Requires coordination, cooperation and alignment with other committees to avoid duplicating effort or missing key issues
- Misses the full-board perspective in ESG discussions
- Provides an excuse for some board members not to engage with ESG
- May increase the size of the full board (if there are limits to the number of committees a member can sit on)

WARNING! ▲

Beware of repurposing a health and safety committee as a sustainability committee. Yes, its members are used to focusing on non-financial issues, but they may find it difficult to broaden their perspective to cover all of E, S and G.

Top tips

- Clearly define – and frequently revisit – the mandate
- Add some heavyweight directors as members to underline the importance of ESG
- Don't attempt this as a high-visibility quick fix or a way to silence your critics – this is a high-maintenance option that requires belief, organisation and dedication

Usage stats

- Used by 20% of companies
- Equally popular in North America (22%) and Europe (21%)
- Most popular in large companies (34%) and least popular in small companies who may be put off by complexity (just 8%)

What they say

“A dedicated committee helps to focus the mind and to reach the granularity that is expected but it's not enough. Every decision made by the board needs to take sustainability into account.”

Chair of a pharmaceutical company

Consider a “pop-up” committee

If you need the oomph of a dedicated committee, but everyone agrees the full board really should have responsibility for ESG, consider a temporary structure. While it exists, the pop-up can make full use of the pros (above) and the plug-ins (see pages 18–19). The trick: rather than setting an end date, define SMART goals to achieve before the committee is dissolved.

Added to an existing committee: the narrow-perspective model

ESG is formally added to the responsibilities of a committee that already exists. It's integrated into the committee's charter and features in all agendas.



How it works

- Depending on the company, its industry, its ESG-maturity and its board-committee structure, the chosen committee might be governance, audit or any other
- The committee then has responsibility for making recommendations and decisions for the whole board to approve on most sustainability issues and may have a few other delegated ESG responsibilities

Where it works well

- Where and when there is a specific link to an existing committee (e.g. an audit committee preparing for integrated reporting)
- For companies that care about ESG, but where it is known to have limited impact

Pros

- Relatively easy to set up because the committee already exists, and its charter only needs editing (but do check the knowledge and interest of its members)
- Members already have specialist expertise in an area impacted by sustainability

Cons

- May send the message that the board as a whole doesn't care
- Risks becoming the side hustle of a committee that may itself be of only secondary interest to the full board
- Makes less of a statement and provides less oomph than a dedicated ESG committee
- May lead to an overly narrow (or negative) focus that omits some ESG issues completely

Top tips

- Look beyond an immediate need or a suddenly perceived risk. Realistically, it might be the motivation for your choice of this model, but make sure you futureproof the committee's role or recognise this option as a temporary fix.
- Consider your public and company-wide messaging carefully – this mustn't be seen as the lazy option!

Usage stats

- 10% of companies choose this model (one of the least popular)
- Most favoured by medium companies (33%), but only half as popular for large companies (16%) and avoided by small companies (3%)
- Much more popular in North America (22% of companies) than Europe (just 6%)

What they say

"My predecessor made ESG part of the risk and compliance committee many years ago. Maybe this made sense back then. In my mind, there is much more to ESG than risk and compliance, so making ESG part of the responsibility of the full board was one of my first actions when I started."

Chair of a well-known global bank

Multiple-committee responsibility: the multi-faceted model

ESG responsibility is distributed among some or all of the existing board committees – and is added to each of the charters.



How it works

By way of examples:

- Remuneration committee integrates ESG into performance and compensation plans
- Audit committee covers non-financial or integrated reporting
- Risk committee ensures and tracks progress of sustainability compliance
- Nominating committee ensures the right ESG knowledge and experience on the board and promotes a strong ESG culture
- Governance committee ensures integration of ESG into organisational structures and effective communication to investors and other stakeholders

Where it works well

- Where the existing committee structure is comprehensive and sufficient to cover all aspects of sustainability
- For companies that are on their way to applying the fully integrated model but where certain ESG matters still require detailed preparation

Pros

- Brings ESG into the context of key aspects of your governance and business
- Requires all members of relevant committees to consider – and quickly get up to speed on – specific angles of sustainability

Cons

- May send the message that the board as a whole doesn't care (again similar to previous model)
- Feeds potentially fragmented and patchy treatment of ESG – with no joined-up thinking and some committees letting other priorities take over
- Complex to administer, schedule and coordinate, as it requires strong coordination between the committee chairs and oversight from the board chair
- May require more than one board member to attend ESG calls with investors

Top tips

- Communicate very carefully about why this model was chosen and how it works
- Ensure that you find ways to address positive opportunities (rather than just mitigating risks)
- Make sure the whole doesn't add up to less than the sum of the parts!

Usage stats

- 10% of companies choose this model, making it one of the least popular structures
- Moderately popular among medium companies (22%), less so among large companies (11%) and less again for small (8%)
- More prevalent in Europe (10% of companies) than North America (6%)

What they say

"ESG requires a lot of granularity and preparation. That can be done in committees. Having too many committees is awful, so I prefer to use existing committees and put specific ESG topics close to where they belong."

Serial chair of multinational companies

When the "multi-faceted model" becomes the "ideal model"

The summary on this page is all about the multiple-committee model as a standalone option, which can be risky. Sustainability issues may get pushed out to the various committees and rarely come back to the full board. On the other hand, if the committees systematically bring their deliberations – not just their conclusions – to the attention of the full board, ESG becomes fully integrated, as per the "ideal model" on page 11. The combination of multiple-committee responsibility and full-board scrutiny can be very powerful indeed.

Board champion: the soloist model

One director is assigned as the board's official champion for sustainability. The new duties are integrated into the board charter and one director's role description.



How it works

- Usually, the champion is a director with more experience and expertise (or, as a bare minimum, interest) in sustainability than other board members
- The role includes raising ESG awareness at board level (even some educating of fellow directors), as well as interacting directly with executives (particularly sustainability managers)

Where it works well

- In a small company with just one line of products or services, where sustainability has limited impact (i.e. low complexity)
- In a larger company that needs to catch up quickly on ESG, but has compelling reasons not to install a dedicated sustainability committee
- When extensive use is made of plug-ins (see pages 18–19)
- When the champion has gravitas, broad credentials and the respect of other board members

Pros

- Easy and quick to implement if there's a well-respected, committed candidate already on the board
- An excellent way to explore longer-term options for redesigning ESG governance
- Provides a natural bridge between the board and sustainability managers

Cons

- Tricky and slow to implement if an outsider has to be found and on-boarded
- Could be construed as greenwashing by those outside the boardroom
- Could be construed as a "Trojan Horse" by those inside the boardroom
- One person, no matter how talented, enthusiastic and respected, will always be a mathematical minority
- Doesn't work if the champion is a "weaker" board member, no matter how much they know and care about ESG

Top tips

- If you find a well-respected, committed candidate who is unsure about their own level of ESG knowledge, consider adding an independent advisor (see page 18) as a complementary plug-in
- Otherwise, try combining a champion with an ESG taskforce made up of executives or an independent advisory council (see page 19)
- The chair should ensure that the champion has a voice – and that the full board listens

Usage stats

- Moderately popular: 15% of boards have a champion
- Much more popular in Europe (15% of companies) than North America (just 6%)
- Spans all sizes of company: used by 14% of large companies and 11% of medium, rising to 20% of small

What they say

Opinions vary:

"Sustainability is too important to be delegated to one board member. Eventually we'll all have to have sustainability expertise on the board."

Chair of the sustainability committee at a European technology company

"The model of an external advisory council reporting to a board champion is very effective for challenging the board with the right level of independence and pressure."

Sustainability director of a multinational bank

Not formally embedded: the no-longer-fit-for-purpose model

The board as a whole may have some formal responsibilities, such as signing off the sustainability report, but ESG is neither embedded in the corporate governance structure and board charter, nor fully integrated into directors' discussions and decisions. Most individual members lack expertise on sustainability.



How it works

- The board deals with sustainability in an ad-hoc fashion, “when it needs to”, rather than systematically
- No specific committee or individual member has an official ESG mandate
- There may be annual updates from ESG managers but there is little board-level exposure to sustainability during the rest of the year

Where it works well

Almost nowhere in this day and age, but:

- Possibly excusable in a small organisation with limited complexity or low sustainability impact
- Possibly a short-term option in an organisation with powerful and highly respected sustainability managers
- Realistically, in an organisation fighting for its survival

Pros

- None, except that any measures you take to address sustainability will be an improvement!

Cons

- Too many to list! But, to cut a long story short, sustainability is inevitably neglected and directors do not develop their ESG expertise
- The longer this model prevails the harder it is to escape, as candidate board members who bring ESG expertise are unlikely to be interested in joining

WARNING! ▲

It's tempting to think you can go straight from **no formal embedding** to **fully integrated** (the ideal model) by improving director education, tweaking your meeting agendas and editing a few pages of your charter. However, this is difficult to achieve. Far better to adopt one of the other models on the previous four pages, if only as a temporary solution. You can also make ample use of the plug-ins described in the next three pages to start encoding ESG in your board DNA.

Top tips

- If you see your own board reflected in this model, it's time to wake it up and shake it up
- If you meet resistance, you can start by adopting some of the plug-ins on the following pages, but you should also consider the structural adjustments outlined on the previous pages

Usage stats

- 12% of directors admit that their board has no ESG governance responsibilities. We suspect that the actual percentage is higher because directors with no interest in sustainability also have no interest in responding to our surveys!
- Unsurprisingly, the situation is better in large companies (just 5% fail to oversee sustainability at board level) than in medium companies (11%) and small companies (20%)
- Perhaps more surprisingly, North America (6%) seems more advanced than Europe (where 15% of boards have no ESG oversight)

What they say

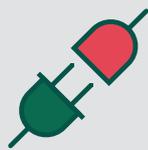
“There is rarely any discussion. It feels like a formality for the board, even though management does take the topic seriously.”

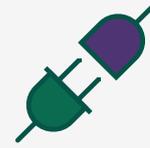
Board member at a global logistics equipment provider



Plug-in practices to boost your board's ESG performance

The following six plug-ins are all supplementary practices suitable for use with any of the preceding models. Several plug-ins may be used together to help turbo-charge your ESG governance.





Updates from external experts or advisors

External advisors provide one-off updates on ESG – not necessarily the same expert for every meeting. The speaker can tackle sustainability from any perspective – from a global overview of the existing regulatory landscape to a proposed new local government policy on carbon reduction.

Pros

- Flexible and endlessly variable
- Possibility of inviting truly world-class experts or advisors into your boardroom
- These updates can become part of the development plan for directors

Cons

- Perspectives remain, by definition, external
- One-off visitors are unlikely to connect their topic to the specific needs of the organisation

Usage stats

- Used by 40% of companies

Permanent (or semi-permanent) external experts or advisors

At least one external advisor is assigned to the board for several months or more. This external advisor usually liaises with the board's ESG champion or the chair of the sustainability committee.

Pros

- Long-term advisors have time to become familiar with the company, its history and its culture...
- ...which means advice is focused and tailored to organisational needs
- Helps to break the vicious circle (i.e. board members lack ESG expertise and people with ESG expertise lack board-ready credentials) by injecting sustainability knowledge

Cons

- Generalist advisors may lack detailed knowledge of all ESG issues
- Niche experts may miss the wider sustainability picture
- In short, it's hard to find the right person! So supplement with occasional visits from complementary experts and advisors (see previous column)

Usage stats

- Used by just 11% of companies – are others missing a trick?
- Commonly used to support the redesign of ESG governance structures

Permanent (or semi-permanent) internal experts or advisors

This option is usually installed after clear, specific targets have been agreed (such as carbon reduction). In practice, it tends to become a kind of target-tracking process for the board, involving a range of internal people from executives to technical experts or subject specialists.

Pros

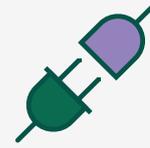
- Demonstrates focus and dedication
- Provides board-level support for management targets

Cons

- Risk of tunnel vision or complacency – while neglecting some ESG issues entirely
- Tendency to neglect broad strategic reflection in favour of implementation

Usage stats

- Used by 22% of boards
- Companies that have a net-zero commitment are six times more likely to apply this practice (13%) than those that don't (2%)



Updates from sustainability management

Sustainability managers give ad-hoc or regular presentations and/or status updates to the board. The presenter could be a manager looking after a specific aspect of sustainability, the Chief Sustainability Officer or a combination of people.

Pros

- Demonstrates board interest in ESG and support for sustainability managers
- Items discussed are, by definition, highly focused on the context and needs of the organisation
- Improves directors' relationships with key executives

Cons

- Risk that the update becomes an end in itself, rather than a means to better, broader ESG governance – this shouldn't be the only time the board ever addresses sustainability
- Danger of narrow focus – especially on topics where the company is already doing well
- Directors may become too reliant on managers for ESG insights, thus leading to failure of oversight

Usage stats

- Commonly used – by 48% of boards

Sustainability taskforce of board members and executives

In effect, this is an informal version of the dedicated sustainability committee (see page 12) – without the need for a formal statute. It has a permanent core of members, including one or more directors and some executives whose duties go beyond "pure" sustainability management. However, it can also invite other managers and external specialists as needed.

Pros

- Easy to set up and easy to change membership
- Possible precursor to a dedicated board committee

Cons

- Not such a commitment or heavyweight influence as a formal board committee

Usage stats

- Used by just 7% of companies

Independent external sustainability council

This is like an extra board, but only for ESG and without voting rights. The role is fairly formalised. In two-tier jurisdictions, the council may advise *either* the management board or the supervisory board, but by far the most effective solution is for it to advise *both* boards. The council's mandate can be broad (unsolicited advice on any ESG issue) or narrow (more like a review panel providing a second opinion, sometimes only on the sustainability report). The board can ignore some or all of the recommendations.

Pros

- Council members develop good knowledge of the company, resulting in well-tailored advice
- Helps the board to assess and judge ESG strategy and performance independently from management
- Demonstrates high organisational commitment to ESG and willingness for external scrutiny, especially if the council has a broad mandate and significant freedom
- Enables the board to independently balance ESG imperatives against other priorities

Cons

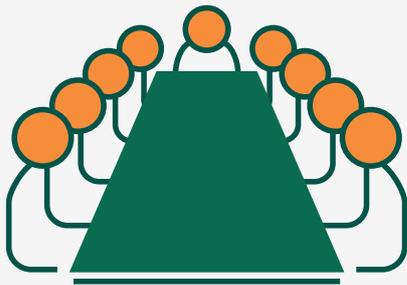
- Members expect to be taken seriously
- If their advice isn't followed, this option could backfire

Usage stats

- Used very rarely – by just 3% of companies, which is a shame, as this plug-in can be highly effective, especially in larger, more complex organisations

Models and plug-ins in use

The following real-life examples show how companies are putting our six models and six plug-ins of sustainability governance into practice.



Fully integrated: the ideal model

At one **well-known global bank**, ESG used to be the formal responsibility of the risk and compliance committee. However, the new chair believed risk and compliance to be a too narrow lens through which to view ESG, and he wanted the entire board to engage with sustainability. Where was the broad strategic reflection and the exciting new sustainability-related opportunities? Now ESG is the official responsibility of the full board, enshrined in its official duties, and it increasingly comes into every board discussion and decision. Today, the bank's directors are asking different questions; they have become much more forward-looking and aware of their broad set of stakeholders.

Another large global bank clearly insists in its terms of reference that the board is:

Collectively responsible for the long-term success of the company and delivery of sustainable value to shareholders.

The document also includes, among "matters reserved for the Board":

Oversight consideration and approval of the Group's Environmental, Social and Governance (ESG) strategy.

The words are simple, but the implications are powerful and far-reaching.



Dedicated committee: the high-visibility but high-stakes model

One large pharmaceutical company, a world leader in its areas of specialisation, has four board committees, one of which is entirely dedicated to ESG. Its remit is as follows:

The Committee shall assist the Board of Directors in matters relating to corporate governance and in promoting sustainable management of the Company's activities. The Committee shall supervise compliance of internal business principles and principles of behaviour with respect to legal as well as safety and environmental matters. The [...] Committee shall oversee the sustainability reporting.

This works well for the company concerned, but the model doesn't fit all organisations. At one **construction company**, the transformation of a health and safety committee into a sustainability committee just didn't work. The members couldn't break free from their narrow, risk-focused H&S mindset. On the other hand, at a leading **consumer goods company** a similar solution was the perfect preparation for full integration. The lesson? Different strokes for different folks (once again). And, paradoxically, if your sustainability committee is working well, it may be time to get rid of it!



Added to an existing committee: the narrow-perspective model

In practice, there are usually two approaches to this model. First, **risk-driven**, as at a well-known US-based **multinational technology company**. Here ESG is written only into the charter of the audit and compliance committee, whose members – among other duties – must:

Review and discuss with management [...] major risk exposures, including financial, operational, data privacy and security, competition, legal, regulatory, compliance, civil and human rights, sustainability, and reputational risks, and the steps [...] to prevent, detect, monitor, and actively manage such exposures.

Second, there is the more positive **opportunity-focused** approach. At one **European-based energy company**, the largest of the board committees is dedicated to strategy and sustainability. Its importance is underlined by the fact that both the chair and deputy chair of the full supervisory board are mandated members. Their official role is to:

Debate on the strategic perspective, orientation and further development of the company as well as affairs with strategic importance for the company. In particular they shall deal with fundamental issues of the strategy [...] including business policy and entrepreneurial orientation.

All this “debating” and “dealing with” is explicitly a way of “preparing” for full-board decisions. Meanwhile, the words “risk” and even “sustainability” are conspicuous by their absence.

A few companies succeed in combining the risk-driven and the opportunity-focused approaches. Another **European energy company** has an innovatively titled sustainability and scenarios committee. The duties are innovative too. Scenario planning involves dreaming up potential futures – not simply projecting the lines of current graphs into the future but setting a company’s products and services in situations of profound economic, social, environmental and governmental change. In other words, it’s about thinking the unthinkable and making corporate strategy as robust and future-proof as possible.

Blurring the boundaries: dedicated committee or part of an existing committee?

Some boards appear to incorporate sustainability into a committee with far wider responsibilities. For example, one **household-name purveyor of fizzy drinks** has an ESG and public policy committee, the logic being that public policy is all about the demands of society, whether already enshrined in law or not. What are public policies, after all, but the codification of what society expects?

In other words, these are effectively dedicated ESG committees – with a broad forward-thinking outlook, rather than simply compliance with today’s rules.

Conversely, a major **sporting apparel company**, based in the US, has a corporate responsibility and sustainability committee. At first glance, this looks as if it is entirely devoted to the usual ESG matters. However, it also has duties that are more typical of a nomination committee, namely searching for and suggesting new board members. Thus sustainability is firmly embedded in the board-renewal process.

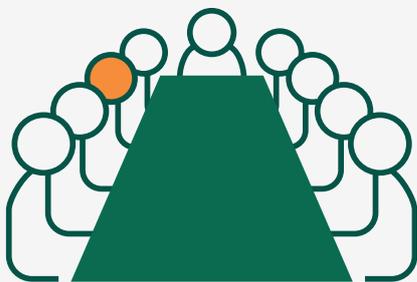


Distributed committee responsibility: the multi-faceted model

Here, the possibilities are almost endless (but see page 14 for some examples). The trick is to analyse the existing committee structure carefully and to map your salient ESG issues onto it. One **household-name energy company** has a health, safety and environment (HSE) committee, which is a natural home for the “E”, while the “G” is allocated to the nominating committee. The “S”, however, is split across the HSE, nominating and audit committees (issues like diversity for nominating and risk and reporting for audit).

One **consumer and healthcare technology company** has a longstanding quality and regulatory committee, which has partial responsibility for environmental matters, while the rest of the “E” sits in the audit committee, along with “S”. The nominating committee has responsibility for the “G”.

It goes without saying that, whatever combination of committees is chosen, each charter has to be carefully drafted (and regularly checked) to ensure that no aspect of ESG falls between the cracks.



Board champion: the soloist model

Again, the possibilities are endless, depending on the profile of the individual champion and the choice of supplementary practices deployed to support the director concerned. One **European financial institution** combines a board champion with an external advisory board. It also has an internal executive council (see next section).

Meanwhile, a **European telecoms company** has an “unofficial” board champion, chosen for their long experience in environmental policy. This option works because the person in question has a national reputation and strong public profile. The role may be unofficial, but the arguments are compelling, which means that the other directors always pay careful attention.



Not formally embedded: the no-longer-fit-for purpose model

As already noted, this is rarely an ideal solution, but that doesn’t prevent its widespread use by companies whose leaders delude themselves that ESG isn’t relevant to their business!

One such company, a **financial services provider**, once invited me in to talk to their board. I did my research and gave the requested two-hour presentation, which seemed to tick the board’s sustainability-update box for another year. The directors were adamant that climate change wasn’t a major priority for them. After all, the company only had offices, not factories or fleets of lorries. Carbon neutrality might well have been a task for facilities and office managers – the people who bought energy, stationery and business travel – but it wasn’t a matter for boardroom discussion. I later learned that the company was targeted by an environmental NGO over its investments in fossil fuels.



Plug-ins

I won't go into detail with examples of all of the supplementary practices listed in this report. As mentioned above, they're all valuable in the right context. The most popular, **updates from sustainability management** (used by nearly 50% of companies) and **updates from external experts or advisors** (used by 40% of companies), are self-explanatory.

My experience, from sitting on both sides of the table, is that these two practices deliver maximum value if complemented with other initiatives. As one frustrated sustainability manager told me: "I'm getting 30 minutes a year to give the board an update on sustainability. They all sit back, relax and enjoy the show. But they don't ask critical questions, especially if we rank higher in some index than we did last year." In other words, this becomes a box-ticking exercise rather than an opportunity to learn.

Perhaps the most interesting cases are the organisations that have changed their choice of plug-ins and models. One **European bank** used to have a board champion supported by **external advisors** and an informal executive council (chaired by the board champion). This seemed to work so well that they eventually dispensed with the champion and formalised the council, which now consists of several directors as well as executives.

An entirely **independent sustainability council** is a particularly flexible – but underused – practice. Academics, technical specialists, ESG investors, NGO leaders and others are all potential members. In jurisdictions with two-tier board structures, this plug-in is most effective when the council works with both the supervisory and the management board. In my experience, an independent council that reports only to the executive board is a missed opportunity for directors to learn and engage.

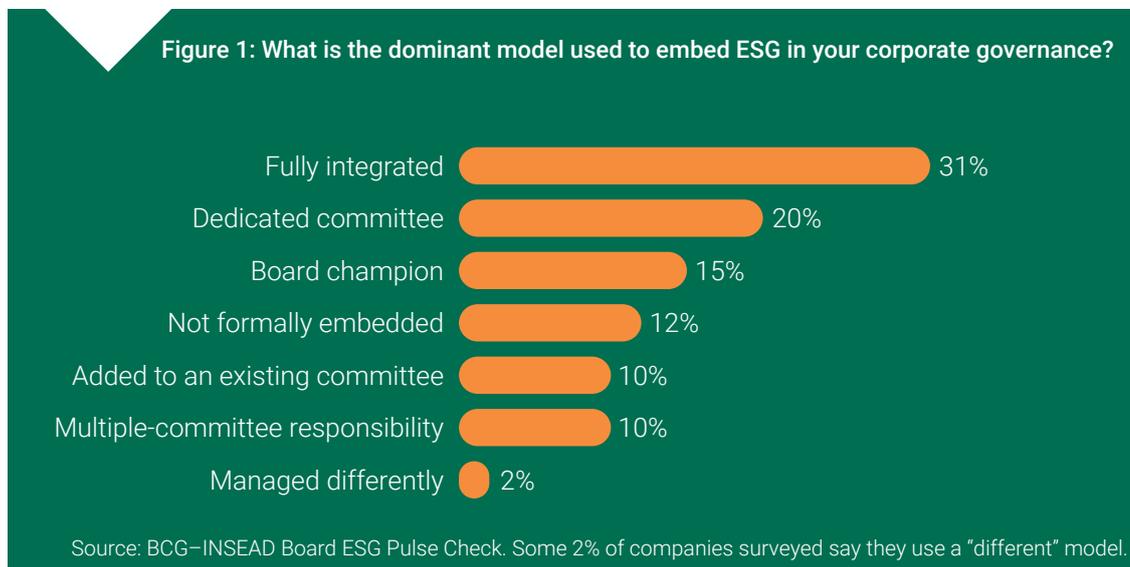
One **European conglomerate** has an independent sustainability advisory board that has acted as a sparring partner for the executive committee for over a decade – covering every topic from nutrition and inequality to climate change and renewable energy. "Our experience is that this can be powerful," says the Chief Sustainability Officer. "It helps prepare the ground for future issues and often results in the supervisory board requesting ideas."

In single-tier systems, there's only one board to report to, but the independent sustainability council can serve a variety of purposes. One option is to provide strategic direction through a mixture of solicited and unsolicited advice – as implemented at a well-known **European auto manufacturer**. Another is to provide reflective input on decisions already taken or the sustainability report. A **US-based investment company** recently instituted an external council with this remit. The six members are chosen for their combined breadth of expertise. Together they cover the entire ESG spectrum.

Independent advisory councils have to feel that they are being listened to, however. One frustrated board member tells a cautionary tale: "We had a few council members who felt they weren't heard and went rogue by leaking their concerns to the press."

Conclusions and recommendations: how to design your perfect sustainability governance

Current corporate governance practice suggests that there is no one-size-fits-all structure for addressing sustainability. All the models described in this report are used widely across the world (see Figure 1).



However, there is an ideal model, which in my opinion is also the inevitable model. The board of the future will fully integrate ESG into all of its deliberations and decisions. Sustainability won't even need to be explicit in corporate governance charters, because it will be an integral part of doing business.

It's therefore pleasing to see that the "fully integrated" model is already the most used (see Figure 1) and that only 12% of directors say they have not formally embedded sustainability in their corporate governance.

It's similarly positive to see so many different practices used to complement ESG governance structures. All of the beneficial "plug-ins" described in this report are in use across the world (see Figure 2).

Figure 2: What practices do you use to complement your ESG governance model?



Source: BCG-INSEAD Board ESG Pulse Check

On closer analysis, however, the numbers in Figures 1 and 2 are a little less uplifting.

- First, some of the most valuable practices, such as board–executive taskforces and independent external councils, merit much more widespread use.
- Second, two of the three most popular plug-ins are entirely focused on listening to advisors, executives and technical specialists, which suggests that boards may not have the right information to perform their oversight duties effectively.
- Third, adding up the percentages in Figure 2 (respondents could tick several boxes) suggests that most companies are using only one of these valuable practices, when they could be benefiting from several.
- Fourth, returning to Figure 1, usage is no guarantee of good usage. Experience tells me that the ideal model is the hardest to pull off. Examples of genuine full integration are rare. I therefore fear that some boards are mistaking worst practice (not formally embedded) for best practice (full integration). Meanwhile, other boards may be striving for the ideal...but trying to run before they can walk.

In the real world, most boards will need to adopt one of the four other recommended models and some combination of the plug-ins as a stepping stone to the ideal of full integration.

How do you choose the right model(s) and plug-in(s) for your board and your organisation?

The obvious place to start is by analysing where you are today. It goes without saying that you should adopt the model that fits best with your existing committee structure and the existing level of sustainability knowledge in your boardroom. Carefully consider the pros and cons, and compare your own practice with that of comparable boards and companies.

Similarly, when it comes to selecting plug-ins, it's obvious that you need to support your existing practices and compensate for the gaps. You also have the freedom to experiment with multiple plug-ins, as they involve less of a commitment than restructuring your board.

As suggested throughout this report, any structures or plug-ins can be temporary – for example, a pop-up sustainability committee or a short-term appointment of a board champion. In any case, given that ESG is such a fast-moving field, you'd be well-advised to re-evaluate your structures and practices regularly.

As well as dovetailing with management structure, your decision should be aligned with your organisation's purpose or mission, the interests of your stakeholders and the needs of your shareholders.

It is also very important to look at how sustainability is organised at management level in your company. Currently, according to the **BCG–INSEAD Board ESG Pulse Check**, 30% of companies have no dedicated head of ESG and 19% don't manage ESG separately. On the other hand, based on the same survey, 27% of companies have a head of ESG who reports to the CEO and 6% have a head of ESG who reports directly to a member of the executive team (but not the CEO). These percentages are even more prevalent in companies with net-zero commitments.

Even if you do have a longstanding sustainability team, there's no guarantee that your ESG management has achieved maturity. Many traditional ESG teams simply fulfil a reporting function, filling in forms for initiatives such as the Dow Jones Sustainability Index every year or publishing an annual report. The key is to engage the management to work with the board and its committees on the execution and operationalisation of ESG strategy.

It goes without saying that a company with no ESG management can't adopt a fully integrated board structure overnight. It may have to start with a board champion before working ESG into the committee structure – with ample use of external advisors along the way.

It also goes without saying that any restructuring of a board should only be undertaken after a great deal of thought and discussion. As well as dovetailing with management structure, your decision should be aligned with your organisation's purpose or mission, the interests of your stakeholders and the needs of your shareholders.

Companies where sustainability is advanced, well managed and integrated with other functions will have a wide choice of board structures. Similarly, companies where ESG is part of the culture and history, such as sometimes seen with family companies embedded in their local communities, may be closer to full integration than they seem. If you are managing for the next generation rather than the next quarter's results, it's very likely that you are practising sustainability without ever having preached it.

Finally, having made your decision about how to design your sustainability governance, you should also be transparent about your chosen structure and practices in official documents and the public domain (e.g. the annual report and company website).

Most important of all, whichever way you choose to embed sustainability in your corporate governance, take your actions and duties seriously. The world's greenwashing antennae are finely tuned these days. Those who overstate, overpromise, pay lip service or go through the motions will be found out. And this may have implications for the share price...or even the personal liability of directors.

Returning to the present, it is essential to be honest about your board's shortcomings. In particular, are you caught in the vicious circle of knowledge shortage or the paralysis trap identified at the beginning of this report?

How do you use the models and plug-ins to break the vicious circle of knowledge shortage? To recap, this occurs when directors lack sustainability knowledge, but can't find board-ready people with ESG expertise. As a result, the board members remain ignorant about sustainability and the ESG-savvy people remain ignorant about corporate governance.

The key here is to choose models and plug-ins that will develop directors' understanding of ESG (and ESG-savvy people's grasp of board governance). Bring experts into the boardroom or build on the existing expertise in related board committees, for example. The most obvious way to benefit from sustainability specialists with no board credentials is to create an independent external council or to enlist a semi-permanent advisor, whether that's a one-person-band or a specialist consultancy.

How do you use the models and plug-ins to escape from the paralysis trap? To recap once again, paralysis may occur when speed of change meets complexity of challenge in the boardroom. Directors who have the experience, intuition and creativity to deal with rapid change do not necessarily have the knowledge, logic and discipline to master complex challenges – and vice versa.

The solution is about bringing diverse skillsets, experience banks and knowledge bases into the boardroom.

Again, the solution is about bringing diverse skillsets, experience banks and knowledge bases into the boardroom – whether as part of a taskforce, sustainability committee or sustainability council, or as advisors and presenters. You might just find yourself breaking the vicious circle at the same time as escaping the paralysis trap.

A tentative recommendation: your existing board committees may be your best route to the ideal model. I began my research for this report with an open mind – fully prepared to accept that my conclusion might reflect the “no-one-size-fits-all” reality that I see in today's boardrooms. Yet, the more examples I saw, the more convinced I became that the key to successful sustainability governance is using existing committees well. So, I tentatively recommend a combination of the ideal “fully-integrated” model and the interim model of “multiple-committee responsibility”. There are several reasons why I make this recommendation (while acknowledging that it might not work for every company).

- **More work by committees gives the board more time for strategic reflection**, which is what so many directors say they strive for.
- **ESG affects all aspects of business**. By distributing sustainability to different committees, you take it to the heart of discussions about the most important aspects of your business.
- **Ultimate decisions and responsibilities remain with the full board**, which keeps all directors engaged. At the same time, broad strategic reflection at board level is linked to specific operational insights from the different committees and individual directors.
- **A board that doesn't yet live up to the ideal is constantly learning** by getting input from committees to trigger whole-board reflection and vice versa.

Of course, this combined model of fully integrated plus multiple-committee responsibility can be supplemented with structured external advice on the bigger ESG picture and the longer term (to the full board), as well as specialist expertise on individual sustainability issues (to individual committees). And so to my other key recommendation, which is to make more use of the simple “plug-in” practices highlighted in this report.

Make more use of the simple
“plug-in” practices highlighted
in this report.

Let's conclude by fast-forwarding 50 years. In the fully integrated boards and companies of the future, there'll be no separate committees, councils, departments and reports for sustainability. There will still be experts in individual sustainability issues – just like there will always be experts in individual business issues – and some of them will be sitting on boards.

However, there won't be any advisors like me: people whose job it is to educate boards on how to structure themselves and adopt practices to address sustainability more effectively.

I take my lead from the head of sustainability who told me: “My job is to make myself redundant.” I would like to thank all readers of this report for helping to make me redundant.



About the author

Ron Soonieus advises senior management and boards on how to set their sustainability/ESG agenda and how to integrate these topics into corporate strategy, governance and culture.

He works as a Senior Advisor at Boston Consulting Group and through his independent advisory practice. As Director in Residence at the INSEAD Corporate Governance Centre he focuses on the role of the board in ESG and teaches sustainability for various INSEAD programmes.

Ron co-founded the Radix Centre for Business, Politics and Society, a think tank focused on aligning public policy with responsible business. He has written articles and papers on sustainability and ESG, and published in a range of media, including *Harvard Business Review (HBR)*, *Management and Business Review (MBR)*, *Singapore Institute of Directors Bulletin*, *The Wall Street Journal*, *INSEAD Knowledge* and *Board Agenda*.

He was listed as a “world-leading management thinker” by *Management and Business Review (MBR)*; named one of the world’s “100 Green Board Members” by Fairforce; and was a winner of the EFMD case competition for the INSEAD case study, *Barry Callebaut: Forever Chocolate*.

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