

### 1 FUNCTION DESCRIPTION

The Board of Directors is the elected or appointed members of the organizational body whose duty is to oversee, but not manage, the activities of the company. In many countries this body is called the Board of Directors, but can in other countries be referred to as the Board of Governors or the Supervisory Board. Board duties vary across countries and jurisdictions, but typically include oversight of business strategy, risk management and legal compliance, as well as the recruitment and compensation of executives.

### 2 VALUE PROPOSITION

Boards are uniquely positioned to drive change by overseeing the integration of sustainability into the company's mission, strategy, goals and practices. Further, the words and actions of Directors also often carry a high degree of symbolic significance and explicit support for the company's sustainability goals and strategies can help managers and employees realize that these are in fact considered business relevant and important to the future of the organization.

Executives, investors and researchers increasingly acknowledge that proper management of sustainability-related risks and opportunities are key to the growth and long-term profitability of a company, and that there is a set of material sustainability issues for every company. Consequently, and considering also the long-term orientation of Boards compared to management, the fiduciary duty of Boards is increasingly seen to include the responsibility to effectively manage risks and opportunities related to sustainability. Further, an increasing number of investors seek to engage directly with Boards on sustainability issues –also referred to as Environmental, Social and Governance (ESG) factors - and consider Board adoption of ownership of sustainability an important proxy for good governance.

From a legal perspective, there have also been significant developments recently, and it is several jurisdictions more explicitly considered the duty of Boards to consider the interests and concerns of a broader set of stakeholders, and there are examples of Boards as well as individual directors being held legally responsible for inaction with respect to sustainability issues.

### 3 STRATEGIC INTEGRATION

To fulfill the potential for sustainability to drive revenue, productivity and risk mitigation, the Board must treat sustainability as a strategic priority rather than as an optional or peripheral activity.

In this understanding, the Chairperson should make sure to allocate sufficient time on the Board agenda to align on the issues that are material to the company and to agree on what groups of stakeholders –other than investors—that they consider it most important to engage with and understand.

It can be an advantage for the Board to explicitly acknowledge –internally and/or externally-- that oversight of sustainability issues and consideration of broader stakeholder interests are part of its fiduciary duty. It should agree that it is a priority to integrate sustainability-related risks and opportunities into its different duties and decision-making processes and to ensure that Directors from the Management on a regular basis receive relevant information on the company's sustainability priorities.

### 4 OPERATIONAL INTEGRATION

Boards should most importantly make sure to evaluate the long-term impact of sustainability on its industry and, on that basis, make sure that sustainability-related risks and opportunities are considered on a regular basis during the strategic discussions of the entire Board.

Boards should oversee materiality assessments and the definition of sustainability priorities and goals. More specifically, Boards can also shape or approve the policies, codes of conducts, and the internal and supplier audit procedures that need to be in place to manage risk and to realize the sustainability goals. Further, it is becoming common practice for Boards to play a role in determining the adequate level of corporate disclosure and sign off on the company's sustainability and integrated reports.

As the Board typically has the authority to hire, direct and terminate the chief executive, the incorporation of sustainability criteria into CEO succession planning, recruitment and not least remuneration are all sound steps for Boards to drive sustainability leadership and performance.

Boards are increasingly advised to proactively include information about its ESG performance into its communication with investors. Finally, direct engagement of board members with other key stakeholders can be important for the Board in terms of understanding changing perspectives, building trust and creating new types of partnerships and alliances.

## 5 CULTURAL INTEGRATION

A challenge in getting the Board's attention is often caused by failing to successfully link sustainability to the corporate strategy, and a lack of alignment among directors on why and to what extent sustainability is material to their company. Board members are often chosen based on past merits in other companies and/or particular legal or financial expertise, and tend to avoid unfamiliar subjects like sustainability.

To secure Board buy-in and support, management and the company's sustainability function can frame sustainability in terms of the changing context around the fiduciary duty, potential liabilities for Boards and directors, and by zooming in on a set of highly material issues, rather than talking about sustainability as a whole. Further, many directors at a stage of their career where they can be motivated with opportunities to build their legacy, and sustainability-driven innovation and industry disruption is an opportunity for Directors to build a reputation for visionary leadership.

A solid understanding of the sustainability issues and trends that affect the company's business environment is a prerequisite for meaningful deliberations about related business opportunities and risks. Consequently, it is in the interest of the sustainability function to accelerate change by facilitating that Board members receive inspiration and training, and that they directly are exposed to the changing expectations of investors, customers, employees and other stakeholders.

It is widely acknowledged that gender diversity of the Board –as well as diversity in terms of background, expertise and experience—helps the Board challenge business-as-usual and is conducive to realizing both additional risks and opportunities related to sustainability.

## 6 EMERGING TRENDS AND INNOVATIONS

### **Formalizing the importance of sustainability**

Leading companies are increasingly formalizing the role of the Board on sustainability by including specific references to sustainability as an imperative in its Board manuals and charters. A new concept for an annual "Statement of Significant Audiences and Materiality" goes one step further, encouraging Boards to disclose publicly the company's prioritization of sustainability issues and stakeholder groups.

### **Organizing Board Committees around sustainability**

Many companies are nowadays establishing a specialized committee – often called a Responsibility or Sustainability Committee - to carry the principal responsibility for overseeing the company's strategies, policies and disclosures in this area. This can be a helpful step to demonstrate the seriousness of the matter and to ensure that sufficient time is dedicated to sustainability matters. However, regardless of whether a sustainability committee exists or not, the key is for sustainability-related considerations to be firmly integrated into more 'traditional' Board committees such as those responsible for auditing, risk management, nomination and compensation.

### **Goal setting on Board diversity**

Realizing that representation of diverse skills and perspectives is critical to effective decision-making, Boards are increasingly setting goals and adopting policies to increase the representation of women on the Board and to secure a greater diversity and balance with respect to skills, cultural background, ethnicity and age. More Boards make public disclosures on Board diversity and on its future goals and plans.

### **Board training on sustainability aims to accelerate change**

Most Board members today have little direct experience with sustainability and there is growing interest for opportunities to educate or in other ways engage Boards. As first of its kind, the Global Compact Board Programme has been well-received by Boards of several multinational companies as an important opportunity to advance alignment among Directors on the materiality of sustainability and on the roles that they can play in future-proofing their company by further integrating sustainability-related concerns.