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Sustainability in the spotlight: Has ESG lost momentum in the boardroom?

June 2023

Contents

Is ESG still a priority or is it losing momentum?

In the last year, we've seen watershed moments in the world of ESG. In Europe, there has been added pressure on companies to tighten and enhance their approach to sustainability more broadly, without relying on the blanket term "ESG." Meanwhile, in the United States, high-profile and divisive backlash has made some companies and leaders fearful to even use the term ESG. This begs the question: is ESG still a priority, has it lost momentum in the boardroom or does it just depend on where you are in the world?

In 2022, our inaugural survey and report set out to understand how boards were structuring oversight of ESG and how companies were pivoting to address these issues. In light of how rapidly the financial and ESG climate has changed over the last year and with new insights from a much larger, more global sample of board members, this updated edition aims to shed additional light on the following:

- Organizational approach: How are directors and companies thinking about, managing and overseeing ESG issues, and how has this changed in the last year? What are the biggest obstacles?
- Boardroom action: How often do boards discuss and evaluate progress on ESG goals? What actions are boards taking in light of current or upcoming regulatory changes, and where do they need better insight?
- Strategy & future state: Where are environmental and social metrics incorporated? What are the benefits? How could things change in the next few years?
- Oversight structures: Where does ESG oversight sit within the board? On committees? How are these structures changing?
- Regional distinctions: Are there differences by geography?

Methodology

Diligent Institute and Spencer Stuart surveyed 992 board members from April 13 to May 3, 2023, spanning public/listed, pre-IPO and other private companies across industries.[1] U.S.-based companies account for a little less than half of the respondents (44%); about one-third (34%) represent companies based in the European Union or the U.K. (hereafter referred to as "Europe"); and the remainder represent companies based elsewhere across the globe. A full demographic breakdown can be found in the Appendix.

This report contains global analysis as well as regional breakdowns comparing responses from U.S.-based company directors and Europe-based company directors. Additionally, this report contains insights from Diligent Compensation and Governance Intel[2] and the Diligent Institute Corporate Sentiment Tracker[3] to further contextualize the survey results. For each chart, totals may not sum to 100% due to rounding.

1. Please note that these responses may or may not be from 992 unique companies. We did not ask respondents to list the name of the company they based their answers on.
2. Diligent Compensation and Governance Intel is a Diligent proprietary database containing information from public company filings.
3. The Corporate Sentiment Tracker is an AI-powered tool that analyzes what topics corporate leaders are speaking about in the news (English-language sources only). The Corporate Sentiment Tracker is powered by Manzama, a Diligent brand.

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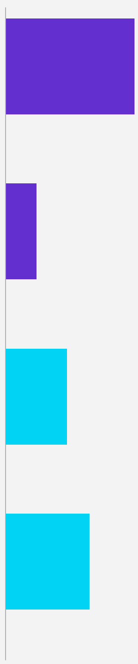
Key Findings

Most companies globally view ESG issues in terms of opportunities, but the EU is more optimistic than the U.S.



56% Europe-based companies that see ESG issues as opportunities

13% Europe-based companies that see ESG issues as risks

30% U.S.-based companies that see ESG issues as opportunities

34% U.S.-based companies that see ESG issues as risks

Biggest obstacles to ESG progress

45% Need better insights around how their ESG goals link to overall company strategy

22% Lack of clarity as to what ESG means to the business

22% Competing business or strategic topics on the board agenda

2% Public backlash against ESG

Board oversight has coalesced around the full board

Board has oversight of ESG

2019	2023
20% said the full board oversees ESG*	**49%** said the full board oversees ESG

*According to a 2019 report from the Diligent Institute

30% Have changed oversight structures around environmental or social issues in the last year

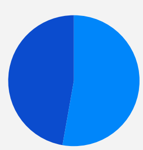
Of those that changed:

27% Created a new committee

19% Formalized oversight in governance

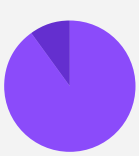
Renewed focus and rigor on ESG reporting

60% Taking extra care to ensure that their ESG strategy is adequately reflected in annual reports/filings

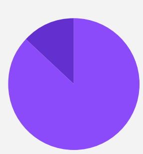


53% Enhancing their current ESG disclosures

Continued adoption of environmental and social metrics



90% Have incorporated environmental goals or metrics into one or more areas of their businesses



87% Have done the same for social goals/metrics

ESG predictions

47% More concerted effort or continuation of current strategy on ESG initiatives

29% More concerted efforts

18% Stronger linkage between ESG initiatives and business impact

ESG still top of mind for corporate leaders

To contextualize our survey findings, we wanted to learn more about how corporate leaders (C-suite level or higher) are speaking about ESG issues publicly and globally using Diligent Institute's Corporate Sentiment Tracker.

Looking back a year ago to spring 2022, the Sentiment Tracker recorded 4,394 articles in which corporate leaders from 302 companies spoke about the term "ESG" in the month of May. Over this one-year period, the lowest count was recorded in December 2022, when the ESG article count was 3,624 from 183 companies.

In March 2023, the number of ESG articles peaked strongly, with a count of 5,624 ESG-related articles from 324 companies.

Which specific ESG-related topic areas are being discussed the most frequently? The Tracker categorizes topics based on the World Economic Forum's International Business Council (IBC) ESG metrics outlined in their whitepaper: "Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation." The topics include related terms grouped together for better analysis.

In the last year, the top ESG-related topics discussed by corporate leaders in the news are economic risk, emerging technology risk (as it relates to risk oversight and ethical considerations) and renewable energy.

Some of the terms driving discussions of economic risk include "inflation," "recession," "higher costs" and "cost of living." For example, the Corporate Sentiment Tracker recorded and analyzed nearly 13,000 stories about inflation in the last year from 1,000 companies.

Meanwhile, emerging technology risk became the biggest driver of ESG-related articles beginning in February 2023, and this has continued throughout the year to date due to ethical and business considerations around AI.

What ESG topics are top of mind?

Economic risk	Emerging technology risk	Renewable energy

Risk vs. reward: How are companies approaching ESG issues?

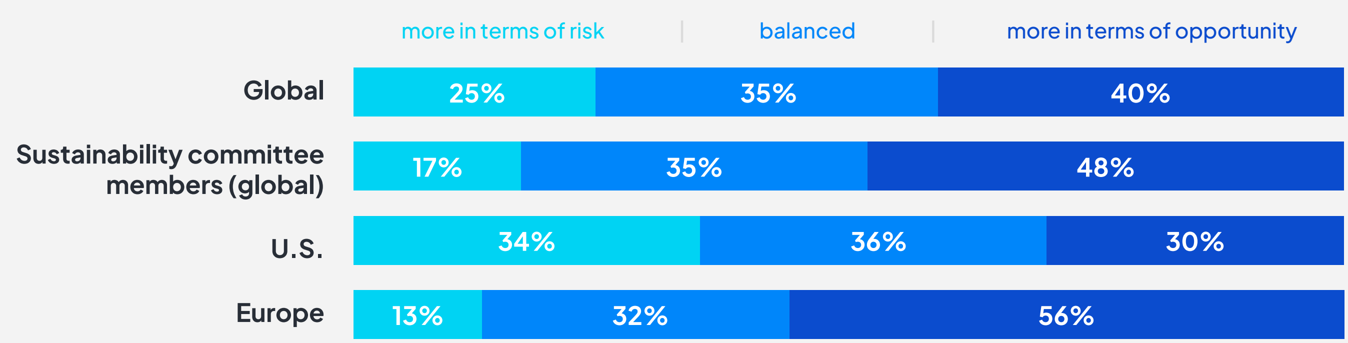
Do companies think of ESG in terms of risk or opportunity?

We asked respondents whether their companies view ESG issues mostly in terms of risk or opportunity on a 10-point scale, with 0 being mostly in terms of risk and 10 being mostly in terms of opportunity. Across the board, 5 is the most frequently selected single answer, with 35% of directors saying their companies take a balanced view of ESG in terms of both risk and opportunity. Forty percent of respondents globally selected answers in the 6–10 range, indicating that they view ESG more in terms of opportunity.

European directors are far more likely to focus on opportunity compared to their U.S. counterparts (with 56% selecting 6–10 responses compared to 30%). Conversely, U.S. directors are more likely to indicate that their organizations view ESG issues in terms of risk compared with their European counterparts (34% compared to 13%).

When we look at U.S. respondents who are members of sustainability/ESG committees, the results are similar to those of Europe: about 48% say that their organizations view ESG more in terms of opportunity.

Do companies view ESG in terms of risk or opportunity?



Question: Does your organization view ESG mostly in terms of risk or opportunity? (Please choose an answer between 0 and 10 where 0=Mostly in terms of risk, 5=Balanced between risk and opportunity, and 10=Mostly in terms of opportunity.)

Are companies leading with high ambition on ESG?

We asked our respondents to best characterize their organization's approach and ambition on ESG issues. Globally, the most popular response is that our respondents' organizations have effective leadership and high ambition across both environmental and social issues.

In the U.S., 25% of directors choose this option, a vastly smaller percentage than the 50% of directors who do in Europe. More U.S. directors indicate that they are keeping up with expectations and disclosures at 36%. U.S. directors are also slightly more likely to prioritize the social side of ESG than the environmental, or to indicate that ESG is not a priority.

European directors, meanwhile, are more likely to indicate a prioritization of environmental issues, while only 2% indicate that ESG is slowing down because of other priorities or that ESG issues are not a priority.

Reporting effective leadership and high ambition on E&S issues

50% Europe | **37% Global** | **25% U.S.**

Question: How would you best describe the organization's approach and ambition on ESG/sustainability? This question had a set of statements to choose from.

What are the biggest obstacles companies are facing with ESG?

What are the biggest obstacles to ESG strategy integration, according to directors? A little more than a quarter (27%) globally say that there are no obstacles. However, the biggest obstacles cited by others are: 1) lack of clarity around what ESG means for the company and 2) competing business or strategic interests, both at 22%.

On the other hand, few respondents cite public backlash (2%), lack of desire to pursue ESG initiatives (2%) or ESG not being a priority (7%) as major concerns.

In Europe, only 2% of our respondents say that ESG is not a priority, while this number is 12% among U.S. respondents. Respondents who indicated that ESG is not a priority were more likely to say their organization views ESG in terms of risk versus opportunity. They averaged 3 on our 10-point risk-to-opportunity scale (versus the balanced global average of 5.4)

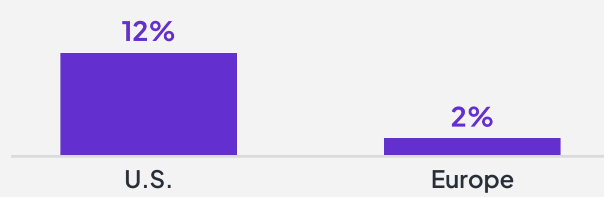
What are the biggest obstacles to ESG strategy integration?

22%
Lack of clarity around what ESG means for the company

22%
Competing business strategic interests

Question: What's been your organization's biggest obstacle to current and previous attempts at ESG strategy integration?

Percent of respondents that say ESG is not a priority



Adapting to local markets

Are companies adapting their ESG strategies to local markets? Globally, directors are split: 37% try to strike a balance — maintaining core features of their ESG metrics across markets while adapting to local specifics — while 35% adopt the same strategy across markets.

U.S. directors are more likely than Europeans to indicate that they are still figuring this out. In Europe, directors are more likely to indicate that their companies adopt the same strategy across markets.

Looking at market capitalization, smaller companies are more likely to still be figuring out how to adapt their ESG strategy to local markets, if at all, compared to their larger counterparts. Companies with less than 1.9 billion USD in market cap are also more evenly spread between options, whereas larger companies (with 2 billion USD or larger market cap) have largely coalesced around either adopting the same strategy consistently across markets or striking a balance.

Adapting ESG strategy to local markets

By region

	Global	U.S.	Europe
Consistent across markets	35%	33%	44%
Caters exclusively to local markets	12%	11%	11%
Combining core features with local idiosyncrasies	37%	35%	37%
Still figuring this out	16%	21%	8%

Adapting ESG strategy to local markets

By market capitalization

	<$300mm	$300mm–1.9bn	$2–9.9bn	$10+bn
Consistent across markets	32%	35%	33%	44%
Caters exclusively to local markets	18%	12%	11%	11%
Combining core features with local idiosyncrasies	23%	37%	35%	37%
Still figuring this out	28%	16%	21%	8%

Questions for your board and management team

01. How does our organization view ESG issues — in terms of risk or opportunity?

02. Are we facing obstacles when it comes to ESG integration? What are those obstacles and how can we overcome them?

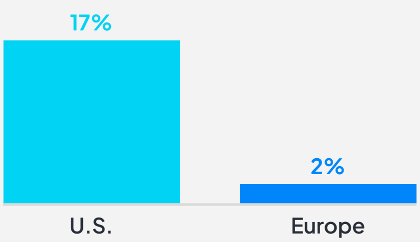
03. What does our ESG profile look like internationally? Do we need to re-evaluate how we execute our strategy outside of where we're headquartered?

Navigating ESG in the boardroom

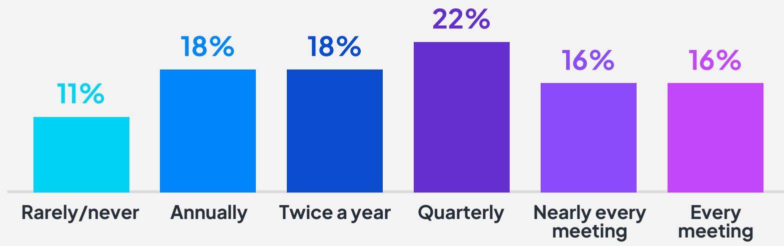
How often do boards evaluate progress on ESG goals?

Globally, the spread is fairly even — from rarely or never to at every meeting — indicating that there is no "one-size-fits-all" approach. In the U.S., directors are more likely to indicate discussing progress twice a year or annually, while more European directors chose quarterly, at nearly every meeting or at every meeting. The bottom line: European boards seem, on average, to be discussing progress on ESG goals more frequently, which suggests a higher level of engagement on these issues.

What percentage of boards rarely or never discuss progress on ESG goals?



How frequently does your full board evaluate progress on ESG-related goals/strategies?



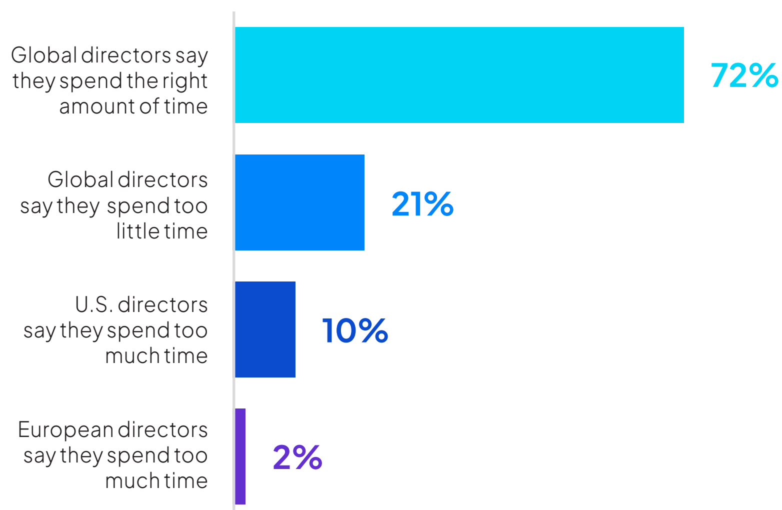
Question: How frequently does your full board evaluate progress on ESG-related goals/strategies?

Discussing ESG issues in board meetings

Do directors think they spend the right amount of time discussing ESG in the boardroom? The answer was largely yes, at 72%. This trend holds true for both U.S. and European directors, according to our results.

In Europe, a smaller percentage of directors indicate that their board spends "too much time" on this issue compared to the U.S., at 2% compared to 10%.

Time spent discussing ESG



Board action around ESG regulation

How are boards responding to recent ESG legislation and regulation, and how are they preparing for more to come? In general, directors are focusing on disclosures. More than half (60%) are taking extra care to ensure that the company's ESG strategy is adequately reflected in annual reports and filings, or that they are enhancing the company's current ESG disclosures (53%). Additionally, 38% are looking to install ESG-monitoring solutions at the board level.

In terms of upskilling the board:

- 29% are engaging in educational programs.
- 24% are bringing in external consultants.
- 10% are looking to appoint new directors with ESG backgrounds.

In the U.S., fewer boards are taking action in response to legislation compared to boards of companies in Europe, where the Corporate Sustainability Reporting Directive (CSRD) has already begun its rollout. Whatever type of action was listed in our survey, a higher percentage of European directors indicate that they are doing it. While 14% of U.S. directors say they aren't taking any action, only 2% of European directors say the same. And while U.S. directors were more likely to report that their companies view ESG in terms of risk, they were less likely than European directors to say their boards are conducting scenario planning around ESG risks (12% compared to 33%).

Board action around ESG regulation (global)

14%

of U.S. directors aren't acting in light of proposed ESG regulations

2%

of European directors aren't acting in light of ESG regulations

Note: Respondents were asked to select all that apply.

How many current directors have sustainability backgrounds?

Globally, 10% of respondents say their boards are looking to appoint new directors with ESG expertise, yet finding current directors with a professional background in sustainability is rare. Currently, less than one percent (0.8%) of 110,000 directors across 7,226 public companies globally have a professional background in sustainability, according to data from Diligent Compensation and Governance Intel.

Given growing scrutiny in this area, boards may have to make sure they have access to the expertise they need to properly oversee ESG given their organization's particular context — location, industry, size — and what issues are most material based on that context.

In our board work at Spencer Stuart, we find that recruiting CEOs, CFOs and other leaders to boards who have been effective leaders in businesses that have made real progress in capturing opportunities for sustainability or addressing risk effectively can be equally or more effective than recruiting a functional expert. Boards can also consult climate scientists and experts, engage in director education on these issues or bring in directors who have overseen company transformations in ESG-related areas. The question each board may need to answer is, do you need an ESG expert on the board, or is raising the level of ESG fluency across the whole board sufficient?

Where do boards need ESG insight?

Given the variety of actions boards are taking to prepare for increased regulatory scrutiny around ESG, where does the board need better data? Globally, most directors are focused on the environmental side: They want more insights into the linkage between environmental goals and business strategy (45%), clarity on their environmental goals (30%) and more visibility on progress (26%).

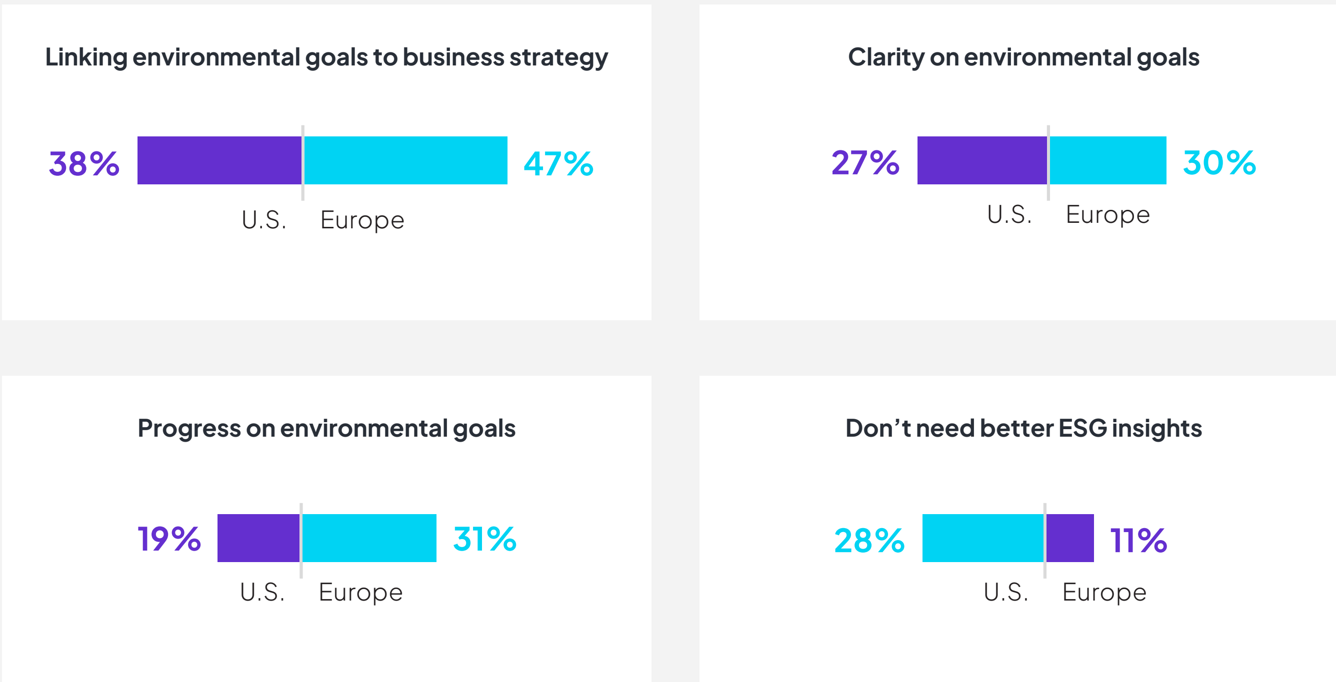
For the majority of options listed, European directors are more likely to indicate that they needed better insights compared with U.S. directors. In particular, European directors are more focused on the environmental aspects of ESG.

A smaller percentage of respondents indicated that they want more insight on talent, ethics and culture, and DE&I reporting — this could be because the human element is easier for companies to get insights on, because boards, especially those in the U.S., have already upped their game on this front due to stakeholder interest and pressure, or because the social side of ESG is much more specific to each region and is thus not prioritized or is discussed differently depending on where companies are located.

Where does the board need better ESG insights? (global)

45%	**Better linkage of ESG goals to corporate strategy**
30%	**Clarity on ESG goals**
26%	**Progress on ESG goals**
22%	**Talent attraction/retention**
19%	**None of the above**
18%	**DE&I reporting**
13%	**Ethics & culture**
5%	**Other**

Where does the board need insight?



Question: In what ESG-related areas do you think the board needs better internal insights, data or visibility? (Please select all that apply.)

Questions for your board and management team

01. How do current, upcoming and proposed ESG regulatory changes impact your organization, including the board specifically? What can the board be doing to upskill or otherwise prepare?

02. How can you avoid "ESG burnout" — among the board, management and the company at large?

03. What solutions could your organization be using to get better, more focused insights on material ESG issues across the organization?

How are boards connecting ESG to corporate strategy?

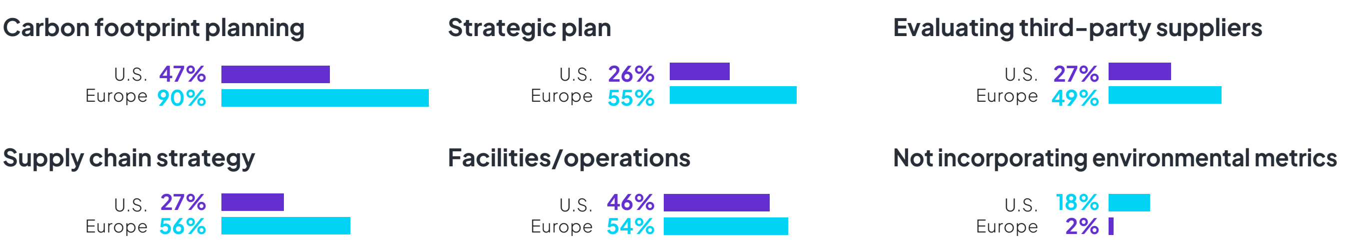
Incorporating environmental metrics or goals

Globally, companies are incorporating environmental and social metrics/goals into many different areas of the business. On the environmental side, nearly two-thirds (63%) of respondents report working on carbon footprint reduction efforts, including making new decisions around their company's physical locations and business travel policies. Half of respondents are now incorporating environmental metrics into facilities/operations decisions.

Meanwhile, only 38% are incorporating environmental metrics into supply chain strategy, and only 33% consider environmental metrics in evaluations of third-party vendors.

Across the board, European companies seem to be integrating environmental metrics into more areas of the business compared to the U.S. In our survey, 18% of U.S. respondents say they are not incorporating environmental metrics into any of the areas listed. By comparison, nearly 90% of European respondents said their companies are incorporating environmental metrics into their carbon footprint reduction plans (compared to 47% in the U.S.), and more than half are incorporating these metrics into supply chain strategy, facilities/operations decisions, third-party vendor evaluations and into their companies' strategic plans more broadly.

Incorporating environmental metrics



Incorporating environmental metrics (global)

- **63%** Carbon footprint reduction
- **50%** Facilities/operations
- **39%** Strategic plan
- **38%** Supply chain strategy
- **36%** Integrated risk management
- **33%** Evaluation of vendors
- **27%** Capital allocation/financing
- **22%** Employee recruitment, training, evaluation or compensation
- **21%** Executive recruitment, training, evaluation or compensation
- **17%** Director appointments, training or evaluation
- **14%** M&A opportunities
- **10%** None of the above
- **3%** Other

Note: Respondents were asked to select all that apply.

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Incorporating social metrics or goals

Many respondents report incorporating social metrics in the areas of employee and executive training, evaluation and compensation, and in director training and evaluation. However, only 30% of respondents globally say they incorporate social metrics when evaluating and choosing vendors.

This finding holds partly true across the U.S. and Europe, with both regions incorporating social metrics into the areas of employee and executive training, evaluation and compensation, and director training and evaluation at similar rates. However, European directors report higher rates of social metric inclusion in other areas compared to the U.S. Meanwhile, 18% of U.S. directors report no inclusion of social metrics, compared with only 6% of European respondents.

Incorporating social metrics (global)

- **54%** **Employee recruitment, training, evaluation or compensation**
- **45%** **Executive recruitment, training, evaluation or compensation**
- **42%** **Director appointments, training or evaluation**
- **33%** **Strategic plan**
- **30%** **Evaluation of vendors**
- **22%** **Facilities/operators**
- **22%** **Integrated risk management plan**
- **15%** **Capital allocation/financing**
- **13%** **None of the above**
- **6%** **M&A opportunities**
- **3%** **Other**

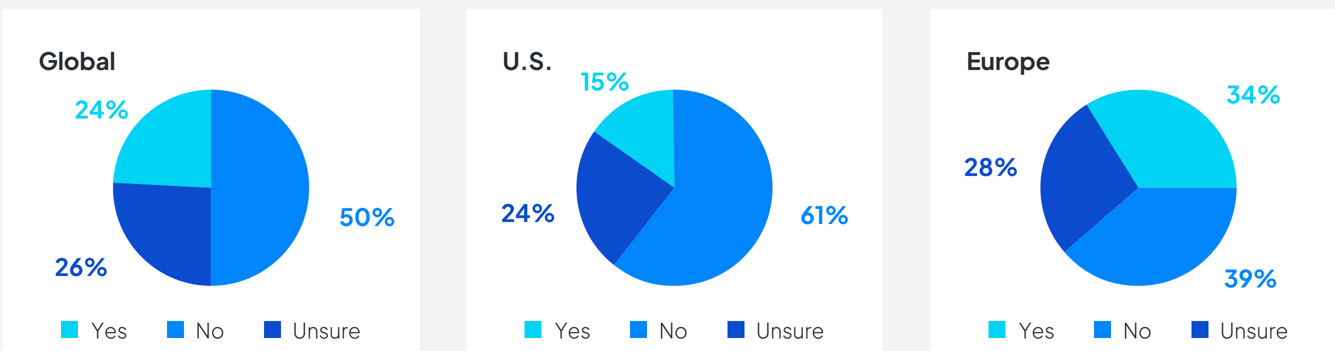
Note: Respondents were asked to select all that apply.

ESG and stock performance

Given that many companies are incorporating environmental and social goals across the business, do public company directors believe that this process has led to better performance of their stock? Globally, nearly half of public company directors answer no. In the U.S., the majority of directors reject the idea that ESG metrics lead to improved stock price (61%), while European directors are more split on the issue.

For those who answer "no," nearly half indicate that investors care more about a company's financial metrics than its ESG results. Another 27% say a combination of all the options listed are at play — including that ESG metrics are different across jurisdictions and companies, and that investors are unsure how to value a company based on ESG metrics.

Have ESG metrics led to better performance of your stock?



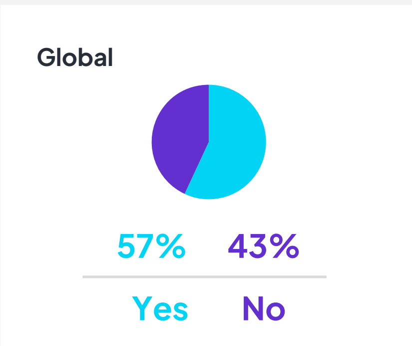
Why don't ESG metrics lead to better performance (global)

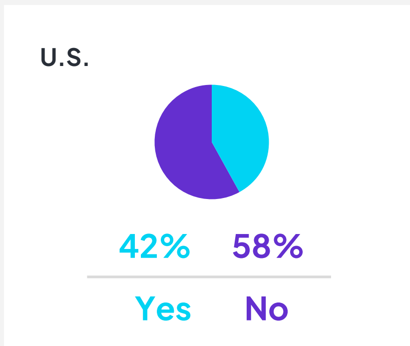
Question: If respondent answers "No" to Q21 and serves on a public company board.

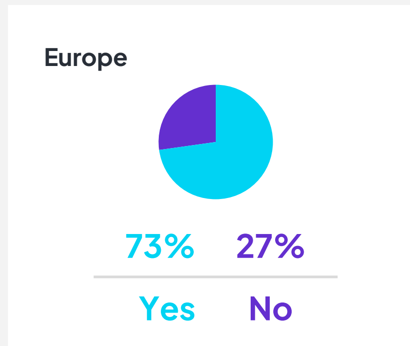
ESG and security valuation

Relatedly, ESG metrics are not yet used as a direct input in conventional security valuation models. Do directors think ESG metrics should be included in securities valuation? Globally, more than half (57%) say yes. In the U.S., this percentage is only 42%, compared to 73% in Europe. This could indicate a desire on the part of European directors for investors to recognize and reward progress on ESG goals.

Should ESG be incorporated into security valuation?







Where do directors see their companies' ESG efforts headed?

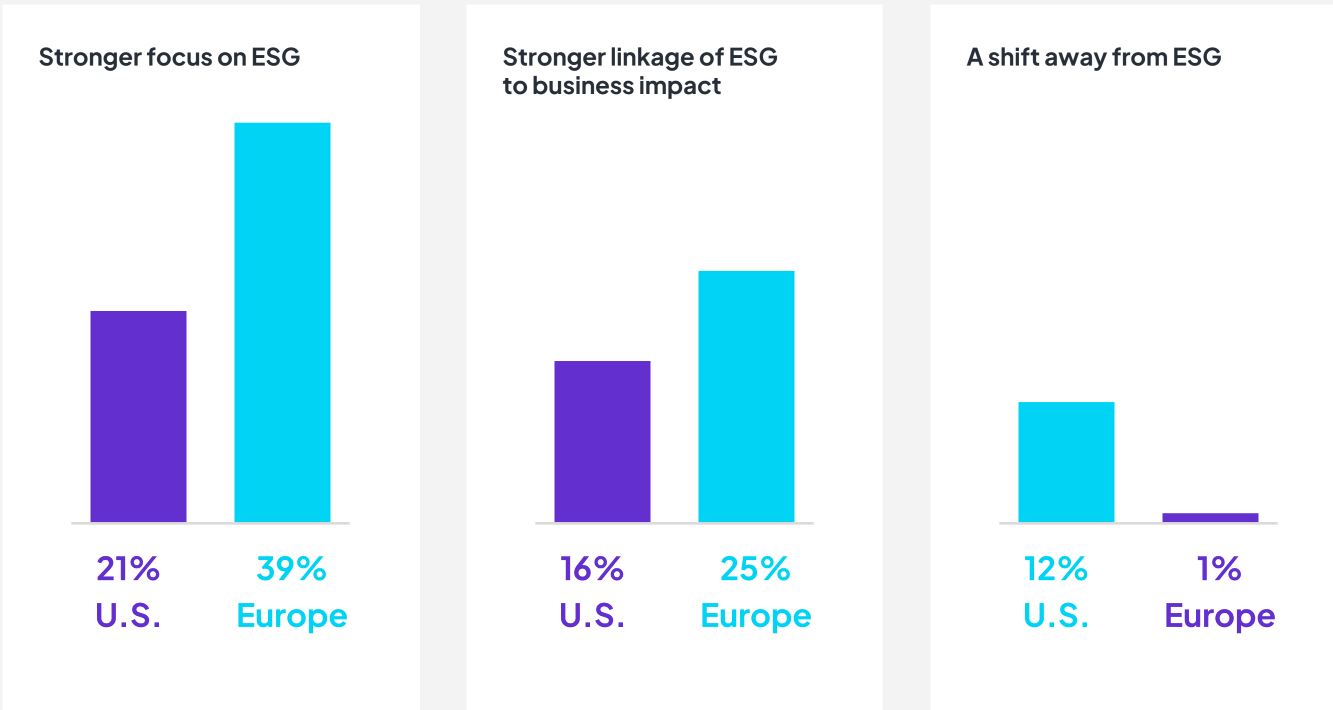
Globally, 29% of surveyed directors predict a stronger focus on ESG objectives in the next five years. Another 19% predict a continuation of current efforts around ESG, and a similar number (18%) predict a stronger linkage between ESG and business impact. This could indicate a willingness on the part of many boards to go full steam ahead on ESG, and a belief that these issues are not going away from the board agenda anytime soon, but that they will remain integrated with company strategy and become more concrete over time.

In Europe, a higher percentage predict a stronger focus on ESG compared to the U.S., at 39% compared to 21%. Meanwhile, 32% of U.S. directors predict either a continuation of their current strategy and goals or a shift away from ESG to focus on other business priorities, compared with just 13% of European directors. In fact, less than 1% of European directors predict a shift away from ESG in the coming years.

Envisioning ESG efforts over the next 5 years (global)

29%	**A stronger focus on ESG**
19%	**Continuing current strategy**
18%	**Stronger link between ESG and business impact**
13%	**New ESG processes**
6%	**Discussions but no change**
6%	**A shift away from ESG**
5%	**Unsure**
3%	**Other**

Directors' predictions for the future



Questions for your board and management team

01. Do you have a good understanding of how the organization's ESG goals align with the broader strategy, mission, values and purpose? Can you clearly articulate that connection to shareholders and other stakeholders?

02. Does the board have a clear understanding of the organization's ESG trajectory? Are those goals realistic?

ESG board oversight structures

How is ESG oversight evolving in boardrooms?

We were also keen to learn more about whether board oversight structures around ESG had been changed in the last year. About a third of our respondents say yes (30%) with the remaining two-thirds (65%) saying no. In the U.S., these numbers are 23% and 71%, respectively. Meanwhile, in Europe, far more boards have changed their oversight structures in the last year, at 41%.

The most common way in which boards have changed their oversight structures in the last year is increased discussion about ESG in the boardroom (29%). About 27% of our respondents globally indicate that their board created a new committee or subcommittee to oversee one or more ESG issues, while 19% report formalizing ESG oversight in governing documents, including committee charters.

In Europe, directors are again far more likely to have created a new committee and to have increased ESG discussion compared with the U.S. Meanwhile, the U.S. is more likely to have formalized ESG oversight in governing documents and to have kept ESG oversight within traditional board committees — either by renaming an existing committee to better oversee one or more ESG issues or by moving oversight responsibilities from one committee to another.

What percentage of boards changed ESG oversight structures in the past year?

41% Europe

30% Global

23% U.S.

Note: Totals may not sum to 100% due to rounding.

How is board ESG oversight changing? (global)

29%	Increased discussions
27%	New board committee to oversee ESG-related issues
19%	Formalized oversight in governing documents
11%	Shifted responsibilities to a different board committee
10%	Existing committee renamed to encompass ESG
4%	Other

Regional evolutions in ESG oversight

U.S.

28% Formalized oversight in governing documents

24% Have increased discussions

Europe

37% Created a new committee

32% Have increased discussions

Note: Respondents were asked to select all that apply.

Who takes responsibility for broad ESG oversight?

The oversight of ESG is now firmly falling on the shoulders of the full board, according to nearly half our survey respondents (49%). This trend holds for the U.S. and Europe, at 45% and 55%, respectively. Only 18% of our global sample give ESG oversight responsibility to an ESG/sustainability committee. Even fewer (15%) relegate ESG oversight to the nominating/governance committee.

There are some regional differences worth noting. European boards are more likely to assign oversight responsibility to an ESG/sustainability committee compared to U.S. boards, at 31% versus 8%. U.S. boards are more likely to give oversight responsibility to the nominating/governance committee, at 27% compared with 3% in Europe.

ESG board oversight (global)

49%	Global
18%	ESG/sustainability committee
15%	Nominating/governance committee
5%	Audit committee
5%	None/NA
4%	Risk committee
3%	Other
1%	Compensation/remuneration committee
0%	Public policy committee

Board oversight of ESG by region

U.S.

45%	27%
Full board	Nominating/governance committee

Europe

55%	31%
Full board	ESG/sustainability committee

How many companies globally have ESG-related committees?

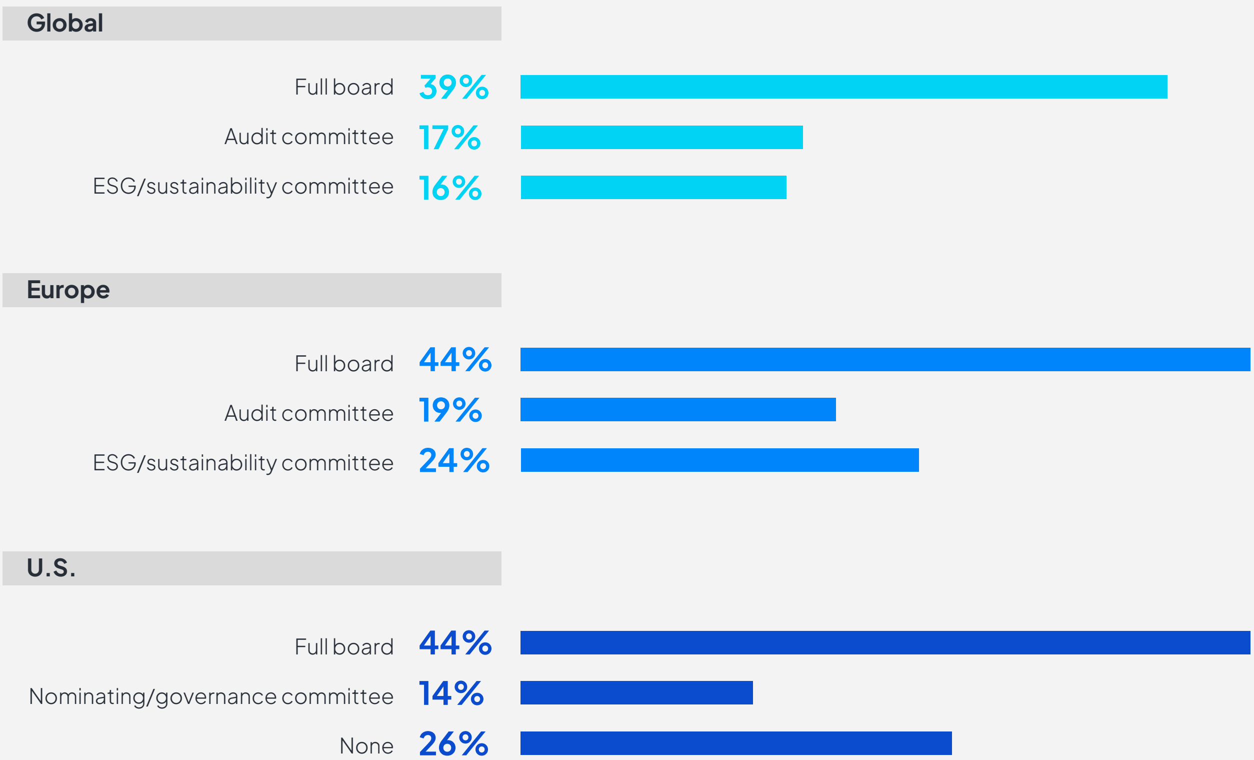
According to data from Diligent Compensation and Governance Intel, as of May 2023, 46% of the companies in our global sample of about 6,500 public companies have at least one ESG-related board committee. This includes ESG committees, sustainability committees, DE&I committees and any other committee relating to a specific ESG issue area.

Why aren't more boards dedicating ESG oversight to an ESG or sustainability committee, if they have one? One answer may be that while the ESG/sustainability committee (or other committees) deals with specialized issues and tracks progress on ESG goals, the full board still has final or predominant oversight. Also, some boards divvy up ESG responsibilities to existing board committees, preferring not to create additional committees.

Who oversees environmental sustainability issues at the board level?

For environmental issues specifically, most boards globally retain oversight at the full board level (by a wide margin), or delegate to an audit committee or an ESG/sustainability committee, in that order. In the U.S., audit committees are slightly more popular than ESG committees for housing environmental issue oversight, and the nominating/governance committee is once again in the mix. In Europe, environmental oversight largely falls to the full board or a dedicated ESG committee, with the audit committee in a more distant third position.

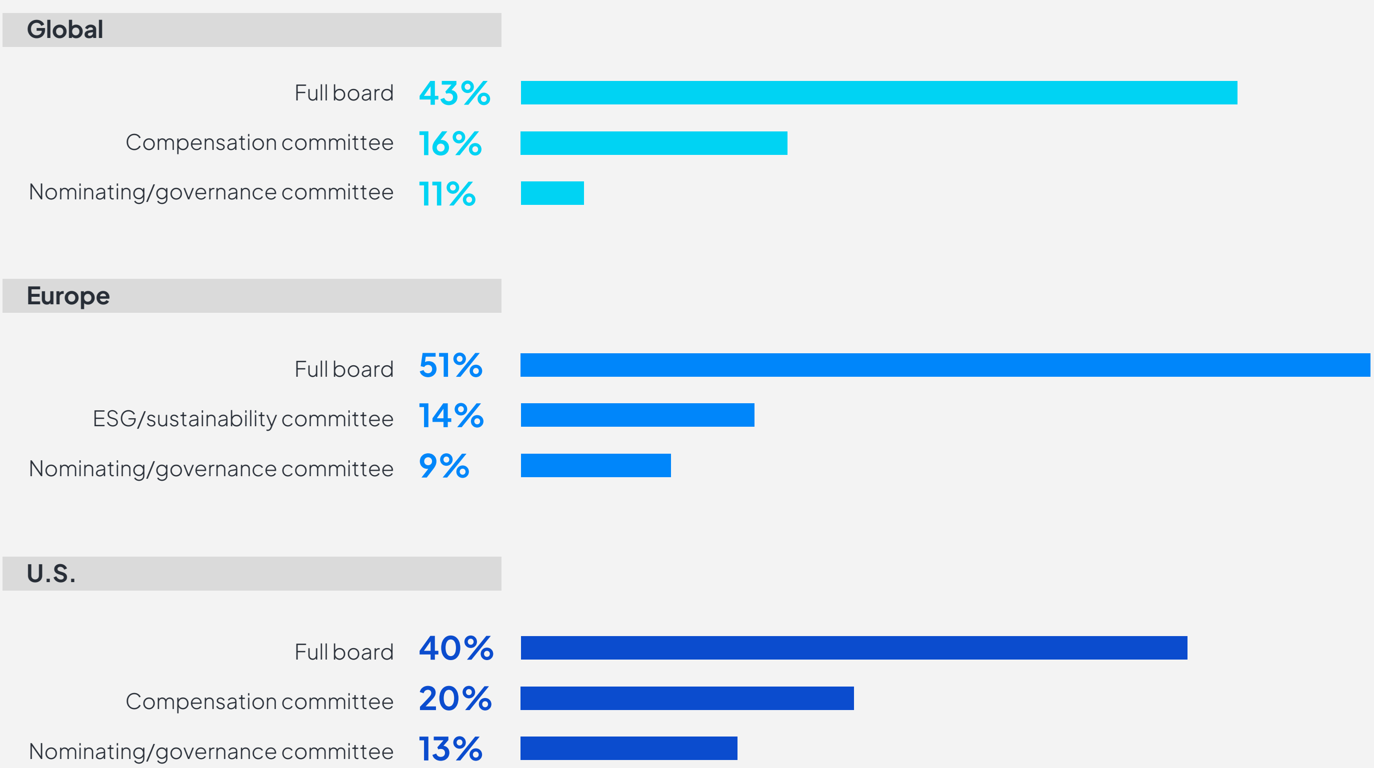
Where do boards delegate environmental oversight?



Who oversees social issues at the board level?

For social issues, oversight is a bit more spread out among the committees beyond the majority of boards who delegate social oversight to the full board. In the U.S., oversight of various social issues falls to the nominating/governance committee, compensation committee and audit committee, if not the full board. For Europe, the full board is again in first place by a wider margin, with the ESG/sustainability committee being used for social oversight more so than in the U.S.

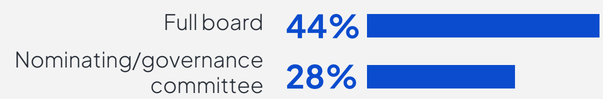
Where do boards delegate social oversight?



Who oversees governance issues related to ESG at the board level?

For governance issues related to ESG, the full board is once again the most common choice for oversight globally, in the U.S. and in Europe, followed by the nominating/governance committee.

Where do boards delegate ESG governance issues?



Who reports to the board on environmental and social issues?

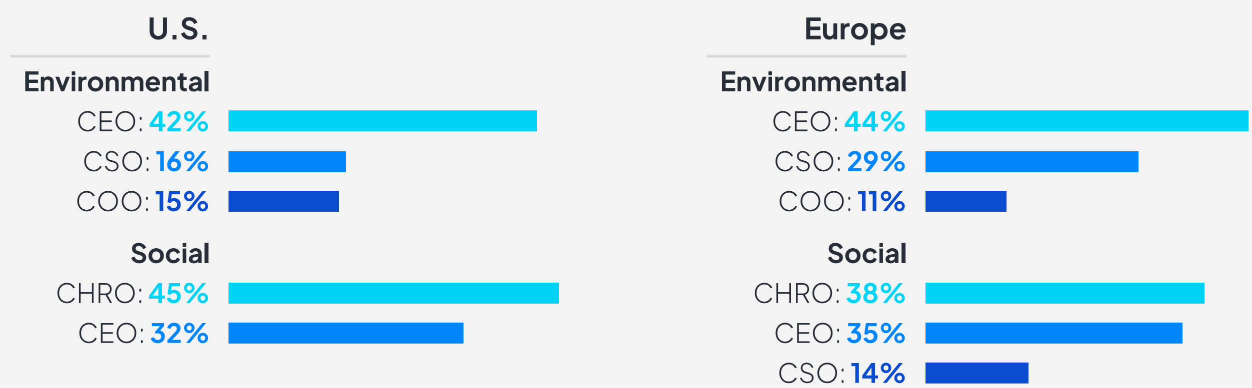
For environmental issues, responsibilities seem more distributed across a broader set of C-suite stakeholders — with a wider variety reporting up to the board outside the chief executive officer, including the chief financial officer, chief operating officer, chief sustainability officer and chief risk officer. For social issues, reporting responsibilities fall broadly on the CEO or chief human resources officer.

In Europe, the chief sustainability officer is more likely to report to the board for both environmental and social issues compared to the U.S.

Who reports to the board on E and S issues? (global)

	Chief human resources officer	Chief sustainability officer	Chief executive officer	Chief operations officer	Chief strategy officer	Chief diversity officer	Chief risk officer	Chief financial officer	NA/None	Unsure
Social	41%	9%	34%	4%	1%	2%	1%	3%	5%	1%
Environmental	3%	21%	41%	14%	2%	0%	5%	6%	7%	1%

Reporting to the board on E&S issues



C-suite ESG responsibility — it takes a village

It is clear that organizations often use a primary member of the C-suite to report to the board on ESG issues. In our work at Spencer Stuart, however, we're seeing more and more collaboration required across the whole C-suite on these issues given the related complexities and intersections with other areas — finance, risk, etc. This is an area to keep an eye on as the picture continues to evolve.

A recent Spencer Stuart survey of chief sustainability officers found that while they interact with the board much less frequently than do other parts of the business, the ease of interaction with the board is on a par with that of other parts of the business.

Questions for your board and management team

01. How long has it been since the board last assessed current ESG oversight structures? Should you re-evaluate them?

02. What is the reporting structure to the board on ESG issues? Does this need to be altered?

Final thoughts on growing disparities between U.S. and European companies

The following section is a brief commentary on the results of the survey from the Diligent Institute and Spencer Stuart report teams.

As seen in the survey results, how companies tackle ESG issues varies based on industry, size, location and more. In particular, stark differences remain when comparing ESG oversight, strategy and integration for U.S. companies and boards and their European counterparts.

For Europe, directors and their organizations appear full steam ahead on ESG. As a recap, directors of European companies indicate that their organizations are more likely to view ESG in terms of opportunities, they tend to discuss progress on ESG goals more frequently in meetings, they are integrating E and S metrics into more areas of their businesses at higher rates, they are taking more extensive action around regulatory changes and they see their ESG journey developing in the future to be more focused, extensive and aligned with overall business strategy.

By contrast, U.S. companies currently are less likely to view ESG in terms of opportunity than European companies. Although U.S. companies tend to view ESG more in terms of risk, boards are less likely to have conducted ESG scenario planning than their European counterparts. U.S. company directors indicate that their organizations are incorporating ESG metrics into fewer areas of the business, and fewer U.S. directors than European directors predict that their companies will embrace a more concerted focus on ESG initiatives in the next five years. U.S. boards, however, have focused on ensuring company ESG strategy is adequately reflected in annual reports and other filings and on enhancing ESG disclosures.

In the survey, about the same percentage of respondents globally, in Europe and in the U.S. say that they spend the “right” amount of time discussing ESG issues in the boardroom. However, what the “right” amount actually means may differ by region — U.S. respondents report discussing ESG issues less frequently, on average, compared to their European counterparts.

Over time, will the U.S. “catch up” with their European peers on ESG strategy integration? As the SEC finalizes new rules around climate disclosures, and shareholders and other stakeholders continue to make their preferences known, this is certainly a possibility. Or, will growing questions about relevance to business strategy lead to escalating resistance?

Whether or not the acronym ESG survives, the importance of governance and the nature of an organization’s environmental and social impact will continue to be key considerations for boards of directors and investors alike.

Diligent Institute | SpencerStuart

Related resources

We hope you enjoyed this report! Curious to learn more? Check out these related research and programs from Diligent Institute and Spencer Stuart:

- 2022 Sustainability in the Spotlight report: Diligent Institute and Spencer Stuart's inaugural survey of directors on ESG strategy and oversight.
- Diligent Institute Certificate Programs in ESG & Climate Leadership: Diligent Institute offers certificate programs designed to equip board directors and executives with the skills and knowledge needed to address the most pressing modern governance challenges and opportunities. **Use discount code DI-Spotlight20 to receive a 20% discount on any of Diligent Institute's Certificate Programs!** Thank you for reading!
- Insightia, a Diligent Brand 2023 ESG report: What do investors want when it comes to corporate action on ESG? Issuers are set to be held accountable for emissions reporting on a global scale, with regulators, standard setters and investors alike calling for mandatory Scope 3 reporting. Read the full report to learn more.
- ESG report — Diligent Institute and Institute of Directors, India: Stay tuned for a similar report focusing on ESG-related corporate governance practices in India, coming summer 2023.
- Spencer Stuart Board Indexes: Our Board Indexes provide a comprehensive view of governance practices among leading public corporations in various countries, localities and industries.
- Spencer Stuart Board Governance Trends: Spencer Stuart has long played an active role in corporate governance by exploring key concerns of boards and innovative solutions to the challenges they face.
- License to Transform: Spencer Stuart's 2022 Survey of Sustainability Leaders: New insights on the evolving role of the chief sustainability officer, which is growing in responsibility and influence as sustainability becomes a core driver of value, innovation, talent retention and more.
- License to Transform: A Guide for CEOs on the State of Sustainability Leadership: Chief sustainability officers are poised to play a vital role in transforming and future-proofing their businesses — but they need support from the CEO and the right blend of skills on their team.

Acknowledgments

This report was compiled by the Diligent Institute research team and Diligent data analysts in partnership with Spencer Stuart's board practice.

Appendix — Survey Demographics

Note for all – totals may not add to 100% due to rounding

Board Type		
Public/listed company (main board or supervisory board)	54%	646
Pre-IPO Company	5%	59
Other private company	24%	286
Neither/I do not serve on a corporate board	17%	209
	Answered	1,200

Board Role		
Answer Choices	Responses	
Non-Executive Director	13%	127
Board Chair	21%	206
Board Vice Chair	3%	25
Committee Chair	27%	271
Independent Director	18%	175
Lead or Senior Independent Director	7%	72
Executive Director	10%	99
Other	2%	17
	Answered	992

Market Capitalization (USD)		
Less than 300 million	22%	214
300 million to 1.9 billion	29%	292
2 to 9.9 billion	29%	291
10+ billion	20%	195
	Answered	992

Company Headquarters Location		
North America*	57%	566
Europe	34%	337
APAC	7%	71
Central/South America	1%	8
Middle East/Africa	1%	5
	Answered	987

Note: U.S. respondents comprised 44% of our respondents at 434 total.

Committee Representation		
None	7%	65
Audit	54%	532
Compensation/Remuneration	53%	527
Nominating/Governance	51%	504
Ethics	4%	44
Executive	15%	153
Finance	13%	124
Innovation	5%	53
Public Policy	2%	18
Risk	19%	191
Sustainability/ESG	23%	231
Technology	10%	98
Other (please specify)	10%	97
	Answered	992

Note: Respondents select all that apply.

Industry Breakdown (Global Industry Classification Standard)		
Charity/non-profit	1%	14
Communication Services	3%	25
Construction/Property	6%	56
Consumer Discretionary	9%	88
Consumer Staples	5%	49
Energy and resources	10%	102
Financial Services	17%	165
Healthcare and life sciences	10%	104
Industrials	13%	129
Information Technology	10%	104
Manufacturing (including Pharma)	8%	79
Materials	3%	25
Professional Services	3%	29
Utilities	2%	23
	Answered	992

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Diligent Institute informs, educates and connects leaders to champion governance excellence.

We provide:

- Original, cutting-edge research on the most pressing issues in corporate governance;
- Certifications and educational programs that equip leaders with the knowledge and credentials needed to guide their organizations through existential challenges;
- Peer networks that convene directors and corporate executives to share best practices and insights; and
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For more than 35 years, our Board Practice has helped boards around the world identify and recruit independent directors and provided advice to board chairs, CEOs and nominating committees on important governance issues. We serve a range of organizations across geographies and scale, from leading multinationals to smaller organizations.

Our global team of board experts works together to ensure that our clients have unrivaled access to the best existing and potential director talent, and regularly assists boards in increasing the diversity of their composition.

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