LEADERSHIP STRATEGY

Who You Need On Your Board Of Directors For Your Company To Be Environmental (E) & Socially (S) Friendly

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How your board of directors is structured and composed can help boost your firm's E&S performance. GETTY

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July 2022 was among the hottest Julys ever recorded in the Northern Hemisphere. The consequences have been harmful for many countries: droughts in Western North America and weeks of deadly heatwaves and wildfires across Southwestern Europe, to mention just a few. These non-isolated events have turned up the heat on the ESG (Environmental, Social, Governance) debate. More than ever, **pressure has grown for companies around the world to take action on ESG issues**, and this pressure may potentially drive demands for meaningful changes, beginning with boards of directors.

A company's strategy is the reflection of its board. At the apex of the corporate governance system and given their growing involvement in corporate purpose and ESG corporate strategies,

boards have become key when designing ESG actions. However, despite their paramount importance, the question remains: How well-aligned are boards (G) with environmental and social (E&S) goals? How your board of directors is structured and composed can help boost your firm's E&S performance. **Although there is no "one-size-fits-all" magic formula, some crucial factors should be considered: diversity, independence, and the presence of a sustainability committee**. Research has identified these as the factors that are most closely associated to positive E&S performance. In what follows, we provide a few suggestions on how to fill your board accordingly.

First, board diversity –in terms of gender, nationality, age, and functional expertise– appears to be the factor which correlates the most with higher E&S scores for firms. Research suggests moving away from traditional, uniform board composition models as much as possible, that is, avoiding the “male, pale, and stale” board prototype. A study conducted by the Esade Center for Corporate Governance in collaboration with Diligent offers some straightforward recommendations regarding diversity: **You need to balance gender representation, incorporate younger directors, increase the variety of nationalities in the boardroom, and look for board members with vast expertise and a wide variety of skills**. What diversity actually brings to the boardroom overall is a long-standing debate, but scholars seem to agree that the cognitive diversity these different profiles bring to the table is most relevant when deciding on E&S strategies.

ESG issues are relatively new, and, consequently, though it is an emerging area of study, there are still very few board members with long careers in ESG-related fields.

However, other types of complementary skills and know-how may help overcome the current lack of E&S expertise on corporate boards. In particular, the above-mentioned study reveals that **directors with extensive prior careers as top-level executives or those who have spent a part of their careers in international executive positions are associated to companies with better E&S performance track records**. Second, board independence also matters and has to be guaranteed. However, better E&S performance is not necessarily associated to a higher number of independent directors but, rather, to having a Senior Lead Independent Director or several independent directors with a short tenure on the board. This is not a contradiction. The fascinating takeaway here is that

boards that want to improve their firms' E&S performance need to improve the quality of the board discussions and their dynamics. Including more independent directors is not enough. This is why we find and suggest that having a Senior Lead Independent Director would be a key driver to move the company's E&S efforts forward.

Finally, sustainability committees are also relevant means to ensure companies meet their E&S goals. Generally, the board's quality depends on the quality of its committees: A large part of what is on a board's agenda will have previously been discussed in depth in its different committees, acting as working groups that facilitate interactions between directors and managers from the committees' different areas of responsibility. Nowadays, **having a sustainability committee makes it possible for firms to achieve a holistic and transversal vision of ESG issues in company management**. This committee also strengthens ESG issues within the boardroom, transforming them from minor issues on the agenda for pure compliance purposes into key and strategic issues in board debates. In addition, sustainability committees may help board members achieve more grounded leadership in what concerns ESG. Board directors may feel safer and have a greater capacity to ensure that what the company advances in terms of ESG is part of the firm's DNA, thus creating long-term value.

In sum, in this day and age and given the increasing pressure from stakeholders to improve corporate E&S performance, who is on the board of directors seems more important than ever. Consequently, embrace diversity, rethink independence, and incorporate a sustainability committee: **Refresh your board's composition often to be fully effective and proactive and prepare for what's lies ahead.**

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