

Sustainability: Genuine Commitment and Explicit Net Zero Targets

2022 Global Board Culture and Director Behaviors Study

Every three years, Russell Reynolds Associates surveys a global group of board directors, asking them about their board, their fellow directors, how they spend their time, and what topics they focus on the most. This year, over 1,100 directors participated. Russell Reynolds Associates uses the information they provide us in our work assessing directors, recruiting and evaluating board leaders, and as part of our board effectiveness and advisory work.

The 2022 survey data was particularly rich, and Russell Reynolds Associates will be publishing a series of reports throughout this year looking at high performing director and board leader behaviors, the attributes of high performing boards, sustainability, DE&I, and other topics. This series will help directors around the world understand the latest trends and insights in each of these areas, and learn what they can do to enhance their own board performance and effectiveness.

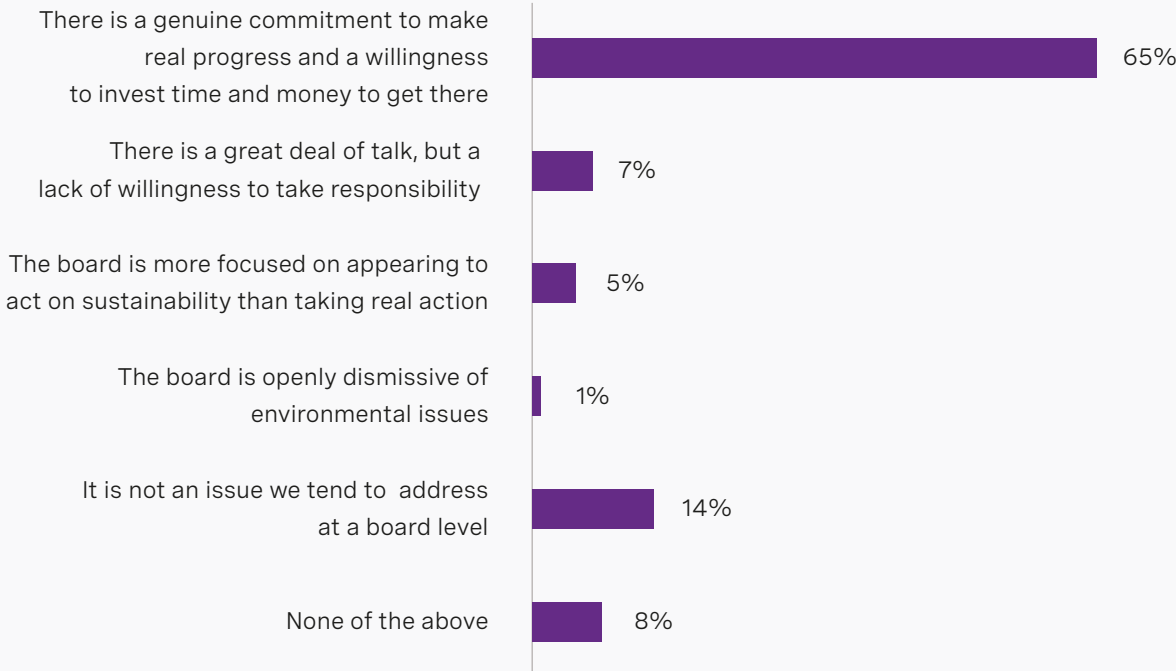
As pressure mounts from stakeholders, sustainability has never been a bigger focus for boards.

Investors, lawmakers, regulators, employees, and customers are all focused on sustainability, and often wondering if the board is doing enough to set up the company for long-term success in an increasingly sustainability-minded environment. Around the world - from regulators in Europe to the Securities and Exchange Commission in the US - governments are actively considering new standards for consistent disclosure on sustainability related topics. Our research shows that 73% of boards are discussing sustainability strategy at least once per year, and 65% of directors say their board is making a genuine commitment to sustainability.

How often does your full board review...	Sustainability Strategy	Sustainability Disclosures
At every meeting	6%	3%
At most meetings	16%	8%
At least twice a year	23%	21%
At least yearly	28%	39%
Less than yearly	10%	9%
We do not review	8%	9%
We do not have this	8%	10%

Source: Russell Reynolds Associates' 2022 Global Board Culture and Director Behaviors Survey. "How often does your full board review..." N=956. 2022.

How would you characterize your board's attitude towards environmental sustainability?

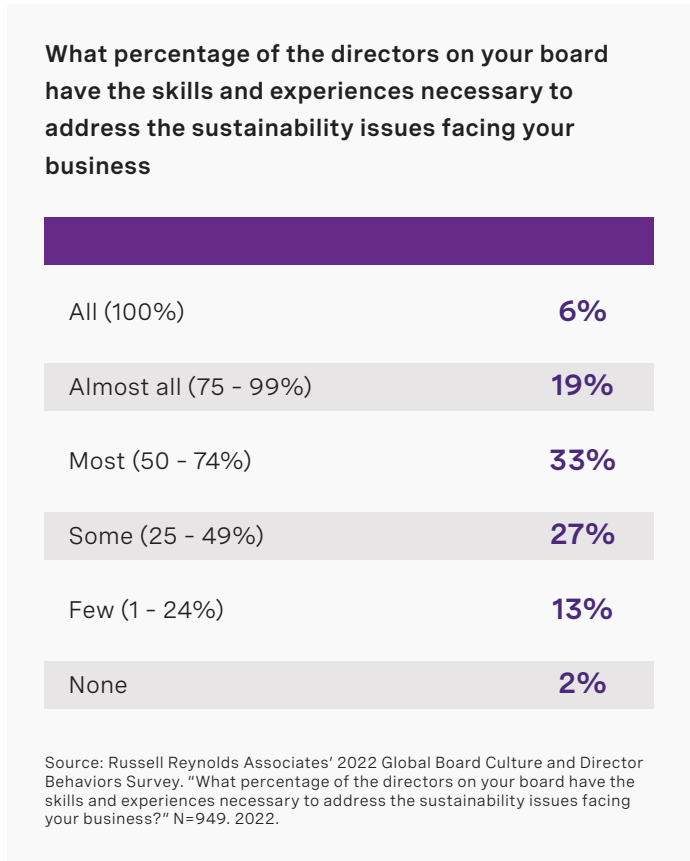
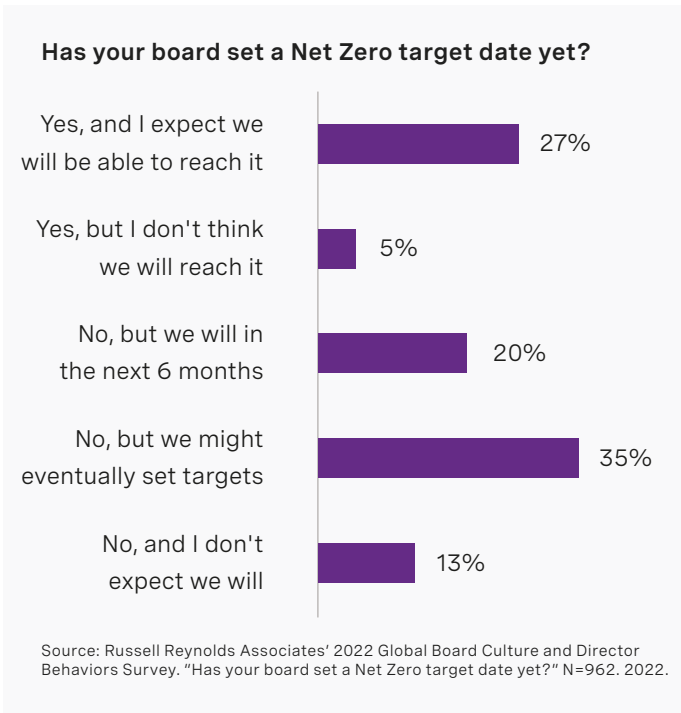


Source: Russell Reynolds Associates' 2022 Global Board Culture and Director Behaviors Survey. "How would you characterize your board's attitude toward environmental sustainability?" N=951. 2022.



This commitment is critical to meeting evolving sustainability disclosure and performance requirements, whether set by investors, regulatory bodies, or others. Of particular focus is commitment to Net Zero targets, the goal established by the Paris Agreement to limit global warming to 1.5 degrees Celsius compared to pre-industrial levels. More than two-thirds of boards - 68% - have not set a Net Zero target date, and only 27% have set targets that they believe their companies will achieve. While that may seem concerning, it is important to note that only 5% of directors explicitly said they did not think their company will reach its Net Zero target dates; 20% will likely set their targets in the next six months, and another 35% anticipate doing so at some future date.

In recent years, investors have been clear that sustainability and climate risk is the responsibility of the full board. Rather than having a sole "ESG director" or "sustainability director," expectations are increasing for the entire board to bring a minimum level of sustainability awareness - if not expertise - to their work, using it to identify both risks and new opportunities for value creation. In our survey, directors reported feeling confident that their board collectively has sufficient expertise to address the sustainability issues facing their businesses.



While 58% of directors in our survey said that a majority of the directors on their board have the necessary skills and experiences to address sustainability, it is unclear if that is perception or reality. Corporate governance analysts have reported a lower-than-desired level of directors with sustainability qualifications or relevant experience on major boards today. But, to the extent that skill or capability gap exists, it may be closing: Our recent research with nominations and governance committee chairs found that 63% say sustainability is now a critical leadership competency for prospective directors, and the majority surveyed said that the competency is more important now than ever before.

It's clear that boards have work to do to build confidence among their management teams, investors, and other stakeholders as to their ability to effectively manage sustainability. What is less clear is whether this requires directors to personally possess technical sustainability expertise, or whether effective management can be enabled by the board's reliance on outside expert advice when needed. As the sustainability leaders and laggards of each industry become increasingly easier to identify, the market will likely provide a useful measurement for the importance of sustainability credentialing for the board.





From Insight to Action

In our study on *The Board's Role in Sustainable Leadership*,¹ we identified actions for boards to take in order to strengthen their engagement with and oversight of corporate sustainability activities, including:

1. Proactively engage with external stakeholders about sustainability to ensure you understand their priorities and concerns
2. Embed sustainability into all discussions with the CEO and executive team
3. Establish a purpose-driven culture at all levels that looks at issues through a sustainability lens
4. Educate directors on sustainability
5. Apply a sustainability lens to corporate strategy decision-making
6. Identify key material factors based on the business, setting goals and establishing clear metrics for tracking progress toward them
7. Structure the board to engage meaningfully on sustainability
8. Change compensation models to account for sustainability targets
9. Prioritize a sustainability mindset when hiring directors
10. Prioritize a sustainability mindset when hiring CEOs

As investors and stakeholders continue to advocate for sustainability efforts, and as expectations grow for corporations to play a central role in making the world a better place, board leaders must find ways to enable and drive sustainability in the corporation. By engaging thoughtfully around these 10 actions - which relate to the issues of board leadership; board culture; purpose, strategy, and risk alignment; structure and process; and people and composition - board leaders can ensure that their company "does well by doing good."



Methodology

Over 1,100 supervisory board-level directors from more than 41 countries participated in the Russell Reynolds Associates' 2022 Global Board Culture and Director Behaviors Survey, with 55 percent of respondents based in Europe, 27 percent in the Americas, 12 percent in Oceania, 3 percent in Asia, 2 percent in Africa, and 1 percent in the Middle East. Industries represented included financial services (26 percent of respondents), industrial and natural resources (22 percent), consumer (11 percent), technology (11 percent), healthcare (10 percent), and professional and business services (6 percent). Forty-four percent of respondents' companies had annual revenue over \$1 billion.

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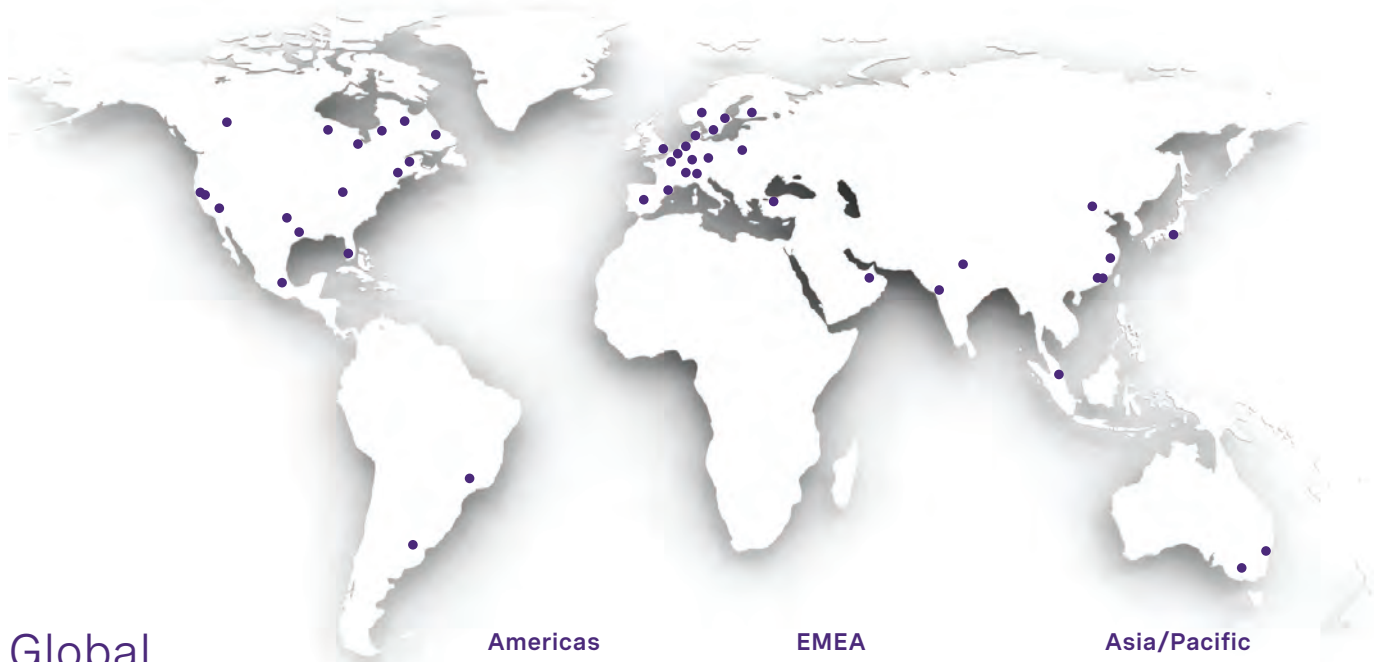
References

1. <https://www.russellreynolds.com/en/insights/articles/the-boards-role-in-sustainable-leadership>

About Russell Reynolds Associates

Russell Reynolds Associates is a global leadership advisory and search firm. Our 470+ consultants in 47 offices work with public, private and nonprofit organizations across all industries and regions. We help our clients build teams of transformational leaders who can meet today's challenges and anticipate the digital, economic and political trends that are reshaping the global business environment. From helping boards with their structure, culture and effectiveness to identifying, assessing and defining the best leadership for organizations, our teams bring their decades of expertise to help clients address their most complex leadership issues. We exist to improve the way the world is led.

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