

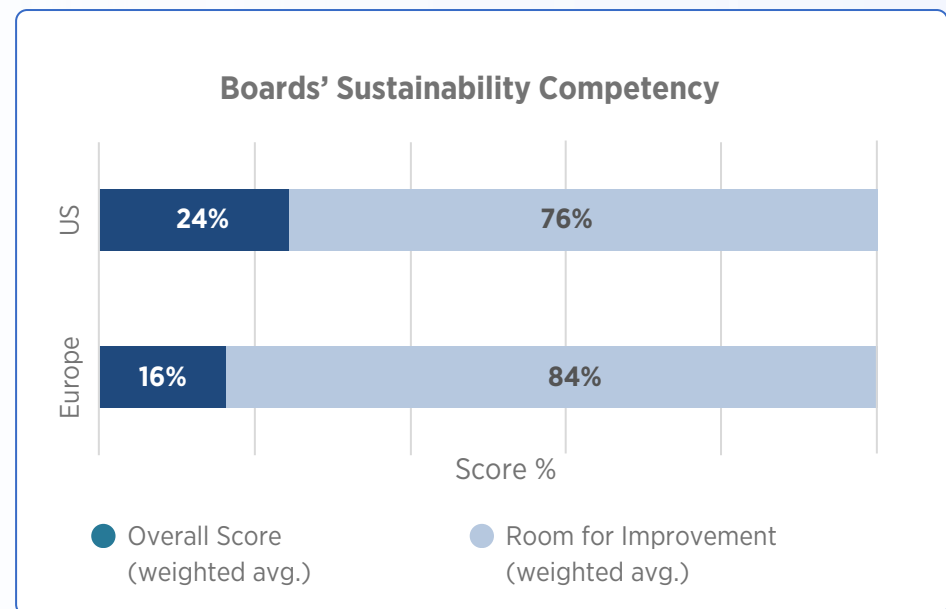
How Competent is Your Board?

A Ground-Breaking Tool to Measure Sustainability Credentials

- A shocking majority of top companies are lagging in sustainability expertise! This is a wake-up call for corporate boards and investors.
- Only 2% of Fortune 500 companies are sustainability superstars. Is your board one of them?
- US boards are edging out European counterparts in sustainability. Why?

Highlights

- In contemporary corporate governance, the competency of boards serves as a pivotal cornerstone, exerting a profound influence on not only reputations but also the adaptive capabilities essential in our ever-evolving global market terrain. The embracing of sustainability competency transcends the realm of mere regulatory compliance; it emerges as a strategic imperative, a compass guiding us toward creating enduring value and sustained success.
- To address this pressing need, a pioneering tool has been meticulously crafted for the sustainability competency of corporate boards. This tool uses publicly available information to evaluate individual directors based on their roles, employment history, service experience, committee participation, and education, providing a comprehensive view of a board's readiness for sustainable business management.
- An assessment of publicly available information of 390 boards of Fortune 500 European companies and 447 boards of Fortune 500 US in 2023 reveals a concerning reality: a significant number of boards lack basic sustainability expertise:
 - Only 2% of these companies stand out as beacons of progress, boasting boards with an abundance of sustainability competence.
 - By contrast, more than 4% of boards in the US and Europe show no evidence at all of competence in this increasingly critical area of their companies' business.
 - Despite stricter regulations in Europe, our research suggests that US boards are better equipped to deal with sustainability issues.
- The landscape of board competency reporting is transforming due to regulatory changes and heightened stakeholder expectations. Companies must now provide transparent disclosures about their board members' competencies to address global business challenges. Global sustainability disclosure initiatives like the ISSB and ESRS are revolutionizing corporate governance by mandating detailed reporting on sustainability and climate risks, linking them to financial performance, and necessitating skilled oversight in these areas for strategic and responsible governance. The U.S. SEC is soon releasing a climate standard, and California's Governor Newsome signed climate disclosure bills affecting 5,000 companies with strict reporting requirements. Non-compliance with sustainability regulations can lead to financial penalties and reputation damage. Insufficient board competence in sustainability and ESG may hinder smart, strategic, and innovative decisions for long-term value creation.



- For companies, this assessment tool offers a gauge of sustainability competency, enabling strategic board formation, alignment with regulatory requirements, and proactive talent recruitment. Investors benefit from enhanced transparency, applicability, and the ability to assess companies' transition plans and optimize sustainability competencies over time.

Why is this important?

Today, board members find themselves navigating uncharted waters with unprecedented demands for expertise in sustainability matters. This demand is fueled by two formidable driving forces.

First and foremost, the criteria within numerous sustainability evaluation frameworks are undergoing a notable tightening, embracing more stringent standards and establishing ambitious milestones. These changes necessitate a higher level of competency and commitment from board members in the realm of sustainability. The emergence of global sustainability disclosure initiatives, such as the International Sustainability Standards Board's global standards (IFRS S1 and IFRS S2) and the European Sustainability Reporting Standards, is fundamentally transforming corporate governance across the globe. These standards mandate comprehensive disclosure of sustainability and climate-related risks and opportunities, directly linking them to a company's financial health and performance. The governance disclosure requirements specifically ask to ensure that the administrative, management, and supervisory entities are equipped with the necessary skills and knowledge to effectively oversee and guide the entity's sustainability and climate initiatives. Consider, for instance, the impending Corporate Sustainability Due Diligence (CSDD) directive, which explicitly mandates the assessment and rewarding of board and management contributions to sustainability outcomes. This underscores the imperative for boards to have the right tools to evaluate their performance concerning business sustainability outcomes.

Second, the intensification of local regulatory pressures further underscores this global trend. Jurisdictions like the U.S., U.K., Canada, Australia, India, Singapore, and Hong Kong are enforcing specific directives aimed at enhancing corporate accountability. In the U.S., for instance, the Securities and Exchange Commission has highlighted the critical need for clear and reliable sustainability reporting. Additionally, California's enactment of the Climate Corporate Data Accountability Act and the Climate-Related Financial Risk Act demands rigorous disclosures regarding carbon emissions and climate-related financial risks.

Amidst these pressing imperatives, a significant challenge confronts both investors and corporate executives – the lack of comprehensive methodologies and data to assess a board's ability to effectively address the complex array of sustainability challenges that companies face today. Currently, the concept of "sustainability readiness" has received limited attention, especially among board members. Notably, major global sustainability data providers such as Refinitiv, MSCI, and ISS typically evaluate a board's sustainability competence based on basic criteria, including the mere existence of a sustainability committee, the publication of sustainability reports, or, in some cases, the incorporation of sustainability performance into compensation structures.

ESG evaluation systems	Evaluation criteria
ISS ESG Governance QualityScore	<ul style="list-style-type: none"> • Existence and independence of sustainability committee • Disclosure of environmental performance for incentives plans • Vote support for E&S shareholder resolutions
MSCI Corporate Governance Score	<ul style="list-style-type: none"> • Board independence and diversity
Sustainalytics Corporate governance company report	<ul style="list-style-type: none"> • Existence of various ESG policies and reporting • Existence of board member/committee responsible for ESG oversight
Refinitiv ESG governance pillar scores	<ul style="list-style-type: none"> • ESG reporting and transparency (under CSR strategy)
Vigeo Eiris ESG score governance pillar	<ul style="list-style-type: none"> • A "board of directors" criteria, no deeper breakdown available
S&P Global Governance profile	<ul style="list-style-type: none"> • Governance structure and oversight • ESG disclosure and existence of sustainability report
Bloomberg Board Composition Scores	<ul style="list-style-type: none"> • Diversity, refreshment, director roles, independence
Thomson Reuters ESG data	<ul style="list-style-type: none"> • Existence of CSR sustainability committee, external audit, report
Infomerics Corporate governance rating	<ul style="list-style-type: none"> • Board composition and functioning
Brickwork Ratings Corporate governance rating	<ul style="list-style-type: none"> • Board composition and effectiveness (decision-making)
Crisil Corporate governance grading	<ul style="list-style-type: none"> • Board performance

While these factors are undeniably crucial for developing a board that is prepared for sustainability challenges, it is unlikely that the mere presence of a committee, a report, or benchmarks for executive pay can fully assess a board's effectiveness in understanding and providing guidance on intricate sustainability policies and critical material issues impacting financial and sustainability business outcomes. The true measure of effectiveness lies in the individual expertise of directors themselves, their ability to contribute essential knowledge, and their wealth of experience in formulating insightful questions, offering wise counsel, and adeptly navigating the complex regulatory compliance landscape.

Using the right tool at the right time

The ground-breaking tool to assess the sustainability credentials of corporate directors, developed by Copenhagen Business School and Competent Boards, uses publicly available sources to determine the likely ability of individual directors to oversee sustainable business management. A score for each director is calculated based on the following five attributes critical to sustainability performance:

The Role Score

Evaluates competence based on a director's past employment titles and sustainability-related roles.

The Sustainability Employment Score

Assesses whether a director has worked at companies known for their sustainability practices during their tenure.

The Committee Score

Considers a director's participation in sustainability-related board committees.

The Service Experience Score

Evaluates a director's involvement in governing bodies, foundations, intergovernmental organizations, and non-governmental organizations focussed on sustainability issues.

The Education Score

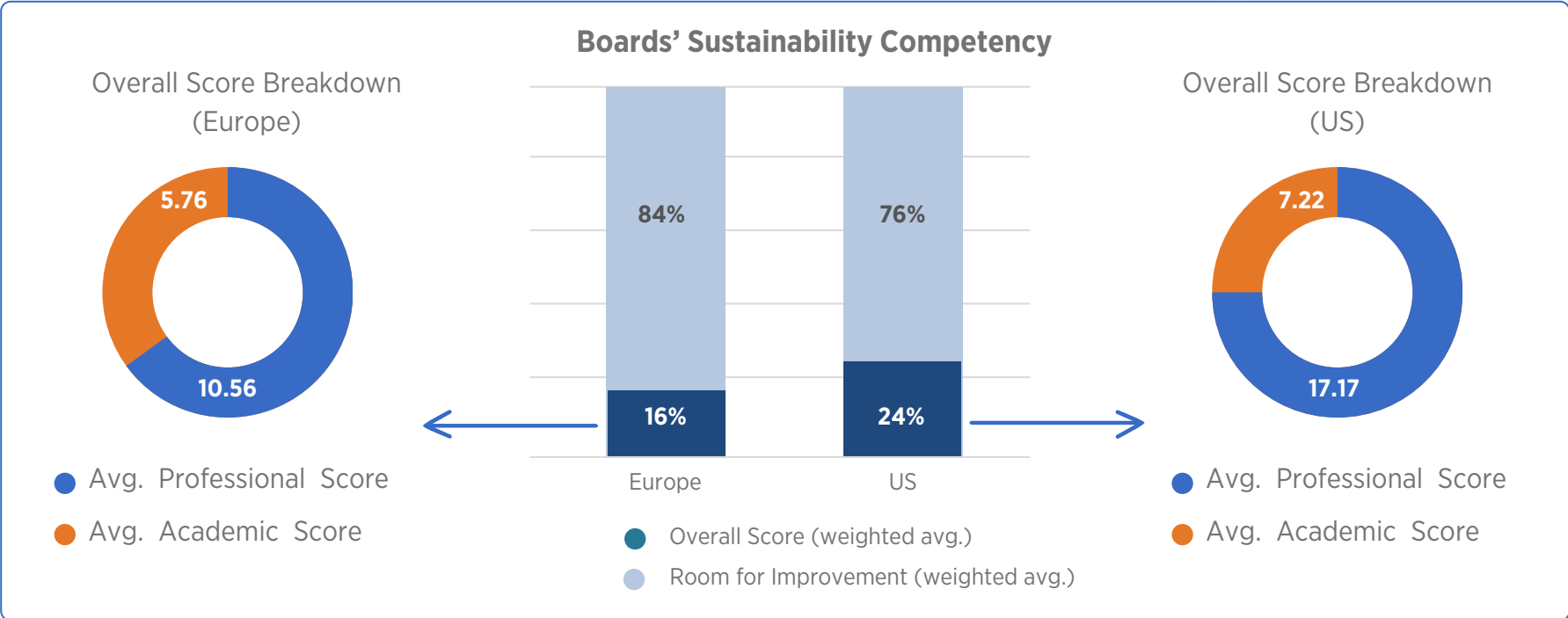
Uses educational qualifications to indicate a director's knowledge of sustainability issues.

What sets this tool apart is its ability to generate individual sustainability competency scores for directors, which are then aggregated using a sophisticated methodology (Appendix A). This methodology considers factors such as the director's influence within the board, including age and tenure relative to their peers, as well as the distribution of sustainability competency across the board.

Key findings from the assessment

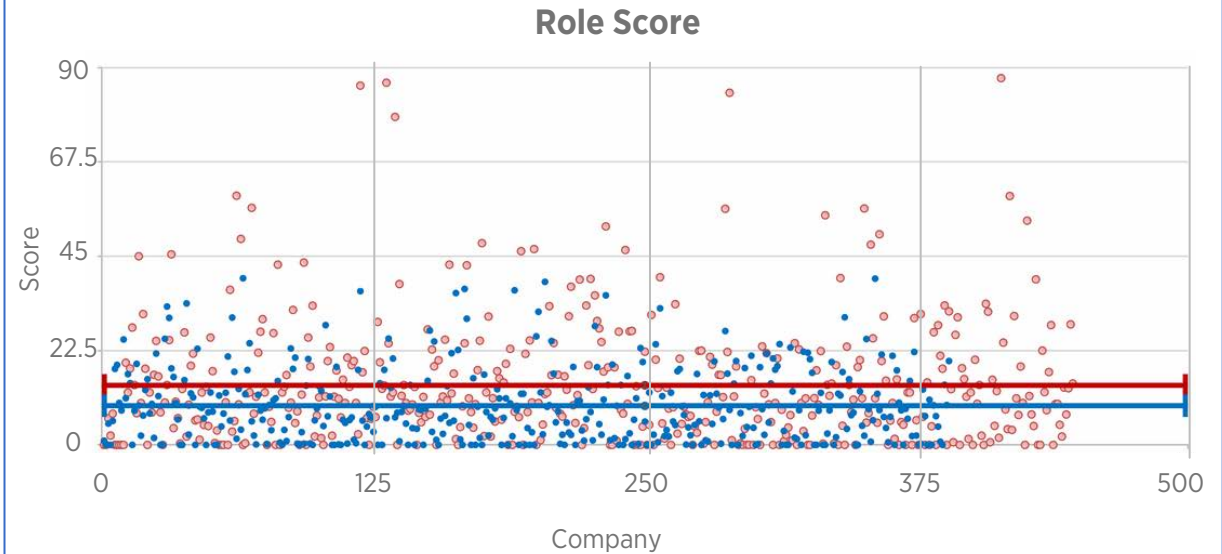
In this comprehensive assessment, we turned our focus to the 390 boards in Europe and the 447 boards in the US public companies in the Fortune 500 list during the year 2023. The findings that have emerged from this evaluation unveil a deeply concerning trend that warrants our attention.

Here's a spotlight on each attribute separately:

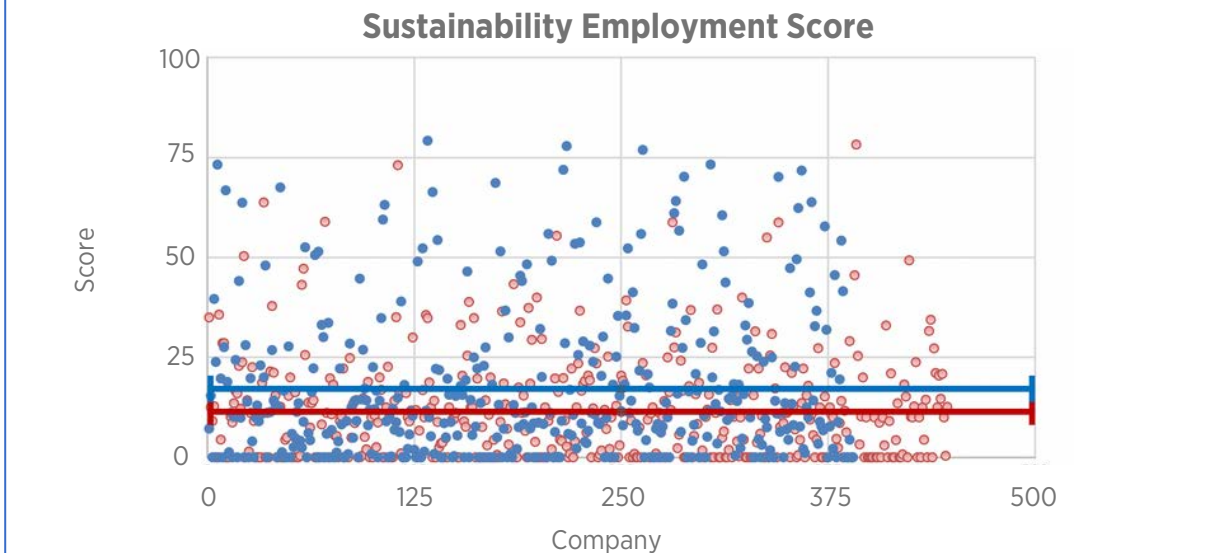


- The professional score of board members is determined through a comprehensive amalgamation of various factors, including role score, sustainability employment score, service experience score, and committee score. The academic score reflects the education score. This particular score focuses on analyzing the formal education of board members in areas relevant to their board roles, placing a premium on specialized knowledge and training in fields pertinent to their governance responsibilities.
- While US boards are marginally ahead of the European boards, the room to grow competency for both groups is above 70%. This highlights a significant opportunity for growth and development in board competencies, emphasizing the need for continuous learning and adaptation to the evolving demands of corporate governance and sustainability practices.

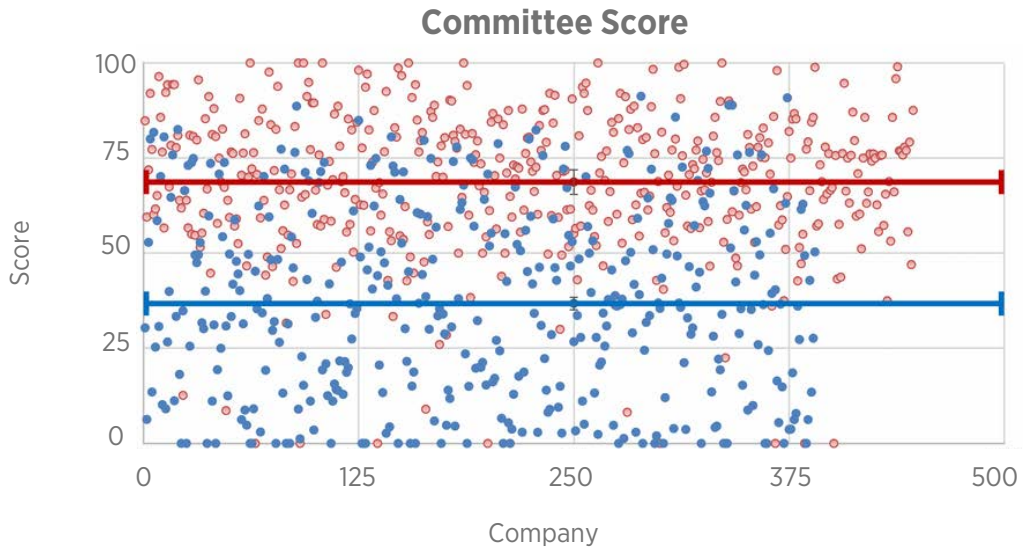
- The US boards' performance is slightly better than the European counterparts.
- 60% of European and 62% of US boards perform poorer than average.
- Only 1% of the US boards perform exceptionally in this attribute.



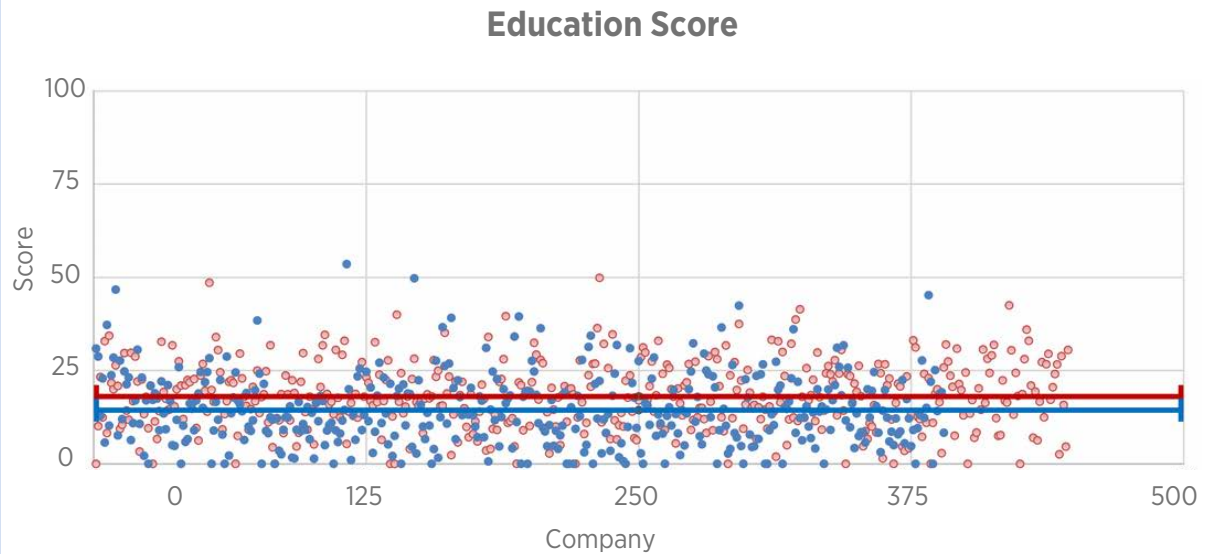
- The only attribute where European boards, on average, perform better than the US boards.
- 2 out of 10 European boards and 3 out of 10 US boards have no relevant competency.



- US boards significantly outperform European boards in this area.
- Over 50% of European boards perform below average, while over 50% of US boards exceed the average.
- 30% of US boards demonstrate strong performance in this attribute.



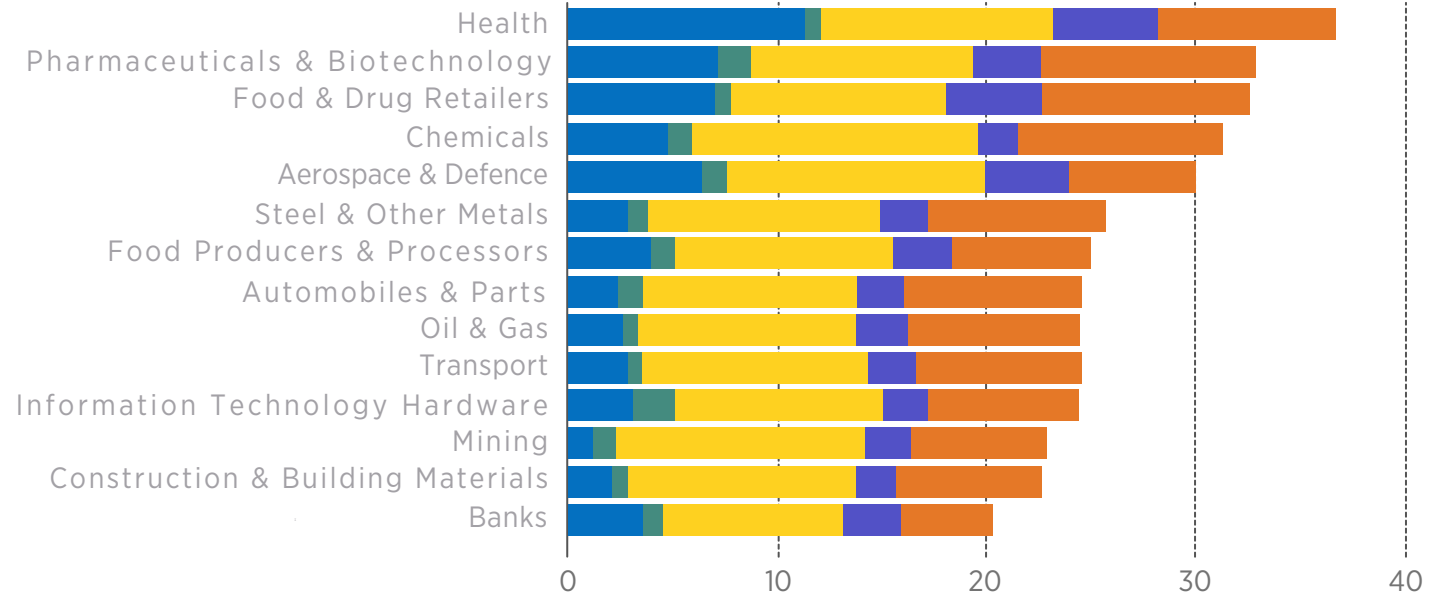
- This attribute is the weakest area of performance for both European and US boards.
- 55% of European boards and 36% of US boards perform below average.
- 9 out of 10 boards in both Europe and the US demonstrate low competency in this area.



Comparison of the score by sectors (not all sectors included) in Europe and the US.

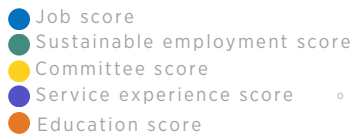
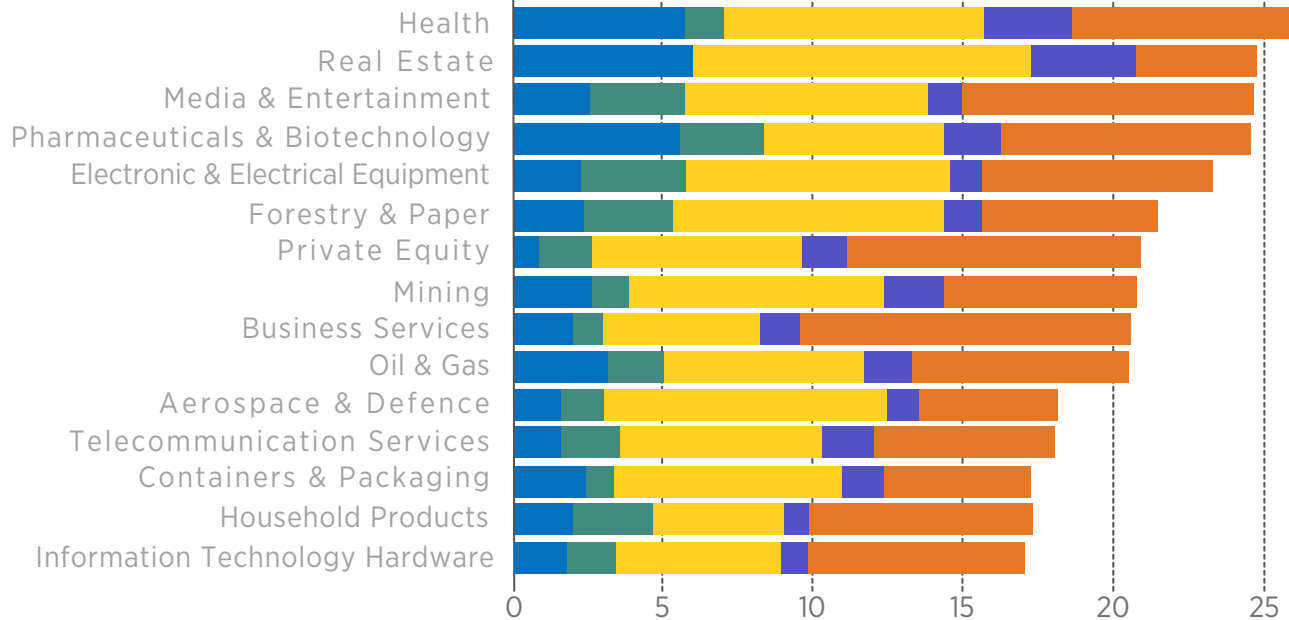
Fortune 500 US companies by sector (not all sectors included)

Average Score by:



Fortune 500 European companies by sector (not all sectors included)

Average Score by:



How can companies and investors benefit from this robust assessment?

For Companies

- An invaluable measure of sustainability competency: This tool stands as a much-needed barometer for evaluating the sustainability expertise within your board. Historically, companies have grappled with a dearth of practical and effective mechanisms for assessing the ESG readiness of their boards. This innovative approach swiftly provides a panoramic view of your board's sustainability credentials to discern whether it is adequately equipped to tackle the looming sustainability challenges.
- Strategic board formation: Armed with insights into your board's present sustainability and ESG proficiency, you gain the means to shape its composition for the future strategically.
- This means proactively recruiting talent with specific expertise in areas critical to your sustainability agenda and diversifying the board to cover a broad spectrum of ESG issues.
- Navigating the regulatory requirements: Fulfilling the intricate requirements imposed by regulatory authorities can indeed prove to be a complex undertaking, often necessitating substantial adaptations within the realm of corporate governance. This invaluable tool serves as a launchpad, offering a pivotal head start by facilitating the evaluation of each director's contribution to their company's sustainability and ESG outcomes. While establishing a comprehensive system to evaluate each director's impact remains essential, the wealth of data regarding directors' expertise stands as a robust and reliable foundation upon which to construct an assessment framework.

For Investors, Rating Agencies and Insurers

- Transparency and applicability: In the modern investment landscape, there's a growing demand for methodologies and datasets that are both transparent and universally applicable, facilitating the evaluation and reporting of sustainability endeavors and compliance. This methodology aligns seamlessly with these requirements, extending its applicability to companies spanning all sectors while factoring in sector-specific criteria for material issues. This deliberate approach guarantees that the essential methodological decisions are lucid and readily assimilated by stakeholders within the finance sector and beyond.
- Enhanced ESG assessments: Investors can harness this distinctive data point to bolster their assessments of companies' transition strategies. Understanding the pivotal role of the board in steering the green transition holds profound significance in discerning the legitimacy of these strategic plans. This tool equips investors with the means to gauge whether companies have the necessary expertise to set appropriate targets, advise on strategic changes, and adapt their business models to meet evolving sustainability challenges.
- Maximizing sustainability expertise: Over the long term, investors can leverage this tool to monitor and enhance a board's sustainability competency, thereby safeguarding the realization of enduring strategic plans. With every addition or departure of a board member, investors can effortlessly monitor the evolution of the board's competency, compelling companies to judiciously shape their boards by recruiting individuals with the requisite expertise.

Contributor PRINCIPAL AUTHOR

Helle Bank Jorgensen is an internationally recognized expert on sustainable business practices, with a 30-year record of turning environmental, social, and governance (ESG) risks into innovative and profitable business opportunities. She works with many global Fortune 500 board members and executives, as well as smaller companies and investors.



Helle founded [Competent Boards](#) with the support of a handful of business leaders, including Paul Polman, Jim Hagemann Snabe, Annette Vershuren and Torben Möger Pedersen.

Her vision was that board members, investors, and those advising them need to be informed about ESG, climate and other material issues that shape business of today - How can you make informed business decisions if you aren't informed?

Now, 5 years after, board members, investors, and business leaders in more than 55 countries have successfully obtained the Global Competent Boards ESG or Climate & Biodiversity certificate and designation thanks to Helle's visionary online and bespoke education programs, and, more importantly, the mindset, confidence and tools needed to make a positive impact.

In addition to Competent Boards, Helle has a few other brainchildren, including the world's first green account, the first integrated report, the first holistic supply chain program and many innovative business solutions, and latest [The Future Boardroom](#).

She is a business lawyer and accountant by training. She is a preeminent voice on ESG and serves at Nasdaq Center for Board Excellence's Sustainability & ESG Insights Council; World Economic Forum (WEF) Expert Network for Corporate Governance, Leadership, and Emerging Multinationals; and Accounting for Sustainability (A4S) established by HM King Charles III, among other roles.

Originally from Denmark, she now lives in Canada, where she was recognized in 2023 as a Global Changemaker by The Globe and Mail and one of the Top 50 Influencers to Follow by Analytica. In 2022 she was named one of Canada's Most Powerful Women. She was also selected as one of LinkedIn's Top Voices in the Green Economy in the US and Canada and received the SustainabilityX® Magazine's Global 50 Women in Sustainability Award.

Helle is a frequent speaker at events organized by Financial Times, Fortune, Reuters, Wall Street Journal, Greenbiz, Collision, Nasdaq, World Economic Forum, Deloitte, IFAC and other renowned organizations.

She has been interviewed by Fortune, Financial Times Agenda, Board Agenda, Wall Street Journal, and several other newspapers, magazines and podcasts around the world.

Her Amazon bestseller, [Stewards of the Future: A Guide for Competent Boards](#), was published in 2022.



Contributor PRINCIPAL AUTHOR

Dr. Kristjan Jespersen is a distinguished figure in the realm of Sustainable Innovation & Entrepreneurship, holding the esteemed position of Associate Professor at the Copenhagen Business School (CBS) in Denmark. His multifaceted role encompasses a diverse range of responsibilities and contributions to the fields of ESG (Environmental, Social, and Governance) and sustainability.



As the Director of the Nordic ESG Lab, Kristjan leads a pioneering research and experimentation hub dedicated to advancing the understanding of ESG indicators and the reliability of ESG-generated data. His work here plays a pivotal role in shaping the future of responsible investing and corporate sustainability practices.

In his capacity as the course coordinator for the ESG Minor, Kristjan imparts his extensive knowledge to students specializing in Finance, Economics, and Accounting, enabling them to grasp the intricacies of ESG investing—a skillset of growing importance in the business world.

Beyond the classroom and research lab, Kristjan has made significant contributions on the global stage. He has actively supported the development of an international framework aimed at addressing and reversing EU-driven global deforestation, showcasing his commitment to addressing pressing environmental challenges.

Furthermore, Dr. Jespersen extends his expertise to leading U.S. MBA schools, where he annually teaches multiple courses, enriching the knowledge base of future business leaders. He also serves as a valued faculty member for CBS Executive Education and Danish Technical University (DTU), further cementing his reputation as an influential academic figure.

Complementing his academic roles, Kristjan Jespersen has transitioned into the corporate world, taking on the role of Environmental, Social, and Governance (ESG) Advisor at Loh-Gronager Partners since 2021. In this capacity, he assumes responsibility for guiding and monitoring the implementation of ESG best practices, both within the firm and across its portfolio businesses. His consultancy services extend to numerous multinational corporations, where he offers invaluable insights and guidance on ESG and sustainability-related topics.

Kristjan's academic journey culminated in the attainment of a PhD from Copenhagen Business School, with a research focus on Payments for Ecosystem Services (PES) and the pivotal role of Conservation Finance (CF) in managing and safeguarding natural environments. His scholarly achievements and practical contributions make him a leading authority in the fields of ESG and sustainability, enriching the academic landscape and corporate sustainability initiatives alike.

Contributor CONTRIBUTING AUTHORS

Jeff Thomson is a Senior Strategic Advisor for Competent Boards. He is the former CEO at IMA (a growing and global management accounting association), a former COSO Board Member (COSO recently published guidance on improving trust and confidence in sustainable business information using their internal control framework which Jeff coauthored with the former FASB Chair and others), and former AT&T SBU CFO. Jeff also serves on the board of the Coleridge Initiative, a non-profit focused on using connected data and data science to improve societal outcomes in education, prisoner reform, and various causes to serve the underprivileged.



Ayman Chowdury is the Director of Programs and Advisory at Competent Boards. Ayman brings a strong track record of success and expertise in advising organizations on sustainability and ESG issues. As the former Executive Director of the Canadian chapter of the United Nations Global Compact, Ayman was instrumental in uniting a diverse range of companies, including Fortune 500 companies, to champion critical issues such as climate change, DEI, SDGs, and governance enhancement. Beyond the private sector, he brings a wealth of experience in international management consulting for development sector projects, funded by multi-lateral and bi-lateral agencies such as the World Bank, IFC, ADB, JICA, and UNDP.



About Competent Boards

Competent Boards™ is the original and premier creator of online environment, social, governance (ESG) and Climate education programs for board directors and business leaders.

Our world-class professional development and advisory services help boards better understand what is needed to respond successfully to today's enormous economic, environmental and social challenges.

We have educated directors and leaders in over 55 countries, and over 180 global board members, leaders and experts contribute directly to the program content. The exceptional value of the programs is reflected in the many testimonials received from alumni.

The ESG Designation Program and Climate and Biodiversity Designation Program are the two flagship and interactive programs. For each program, there are self-guided versions as well as interactive programs.



About Copenhagen Business School

Copenhagen Business School (CBS) was established in 1917.

Today, with 20,000 students and 1,500 employees, CBS is one of the largest business schools in Europe and one of the 8 Danish universities.



Appendix A: Tool Methodology

The methodology offers a robust approach to evaluate sustainability competence in corporate boards. By considering various aspects such as past employment, service experience, committee involvement, and formal education, the aim is to identify board directors with a strong foundation in sustainability.

The aim is to ensure effective sustainability governance within organizations. The methodology consists of the following components:

- 1 Role Score:** This component evaluates a director's sustainability competence based on their past employment titles. To achieve a perfect score, a director must have spent 100% of their career in sustainable companies, with a minimum of 1 year of experience, or have worked in sustainable roles for 10 or more years.
- 2 Sustainability Employment Score:** This score assesses whether a director's past employment was at firms recognized as sustainable during their tenure. To obtain a perfect score, a director should have spent 100% of their career in sustainable companies, with a minimum of 1 year of experience, or have worked in sustainable roles for 10 or more years.
- 3 Service Experience Score:** This component evaluates a director's involvement in governing agencies, foundations, intergovernmental organizations (IGOs), and non-governmental organizations (NGOs) related to sustainability. A perfect score requires 100% of one's career in sustainability-related roles, with 10 or more years of experience in such positions.
- 4 Committee Score:** Participation in sustainability-related board committees is considered as an indicator of sustainability competence. A director can achieve a perfect score by spending 70% of their career on sustainability-related board committees, with a minimum of 1 year of experience, or by serving on such committees for 5 or more years.
- 5 Education Score:** This score utilizes a director's formal education as an indicator of their knowledge in sustainability-related topics. To attain a perfect score, a director should have spent 100% of their career in sustainability roles, with a minimum of 1 year of experience, or have worked in such roles for 10 or more years.

Multipliers are incorporated into the methodology, although they currently have a limited impact on the overall assessment.



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