THE CONFERENCE BOARD

Sustainability Practices

2020 EDITION

DESPITE A PANDEMIC: TRANSPARENCY CONTINUES TO INCREASE ACROSS KEY SUSTAINABILITY ISSUES

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DESPITE A PANDEMIC: TRANSPARENCY CONTINUES TO INCREASE ACROSS KEY SUSTAINABILITY ISSUES

by Thomas Singer, Anuj Saush, and Anke Schrader

Executive Summary

This year's analysis of corporate sustainability disclosure highlights both the disruption to annual reporting by the COVID-19 pandemic and the movement toward greater disclosure of ever-evolving sustainability practices.

Compared to 2019, disclosure has declined across many of the environmental and social practices examined in this analysis. The drop in disclosure is primarily due to reporting delays caused by the pandemic, with many companies reporting their sustainability data later than usual.[1] For this reason, readers are urged to use caution when comparing year-over-year data and resist attributing significant decreases in disclosure to a broader trend.

At the same time, the analysis reveals notable increases compared to the previous year in certain key areas such as the disclosure of climate-risk reporting, human rights, and water stress exposure. Worldwide, the representation of women on company boards is increasing, as is the number of companies that link executive compensation to sustainability metrics. These areas stood out this year and provide an indication of what is to come.

Insights for What's Ahead

The trend toward disclosing climate risks in financial reports is accelerating as regulatory and investor attention on the impact of climate change continues to mount. Overall, more companies are including climate risks in their SEC 10-Ks or equivalent annual reports. In the UK, the number of companies doing so more than doubled compared to last year. These increases likely follow the sustained focus of mandatory and voluntary regulatory initiatives on the topic of climate change. Large institutional investors, such as BlackRock, have explicitly called on companies to address climate risks in their reporting.[2] And the EU's Taxonomy Regulation, signed into law in 2020, requires financial institutions to make climate-related disclosures by the end of 2021.[3] Given the regulatory and investor attention to this topic, we see this trend accelerating.

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1 As a result of the pandemic, many jurisdictions have extended the deadlines for companies to disclose financial and nonfinancial information, as have several ESG reporting and rating frameworks (e.g., CDP, DJSI). For example, CDP extended its 2020 reporting deadline from July 29 to August 26, and accepted submissions (without scoring) through September 30. Similarly, the deadline for the Corporate Sustainability Assessment (CSA), used as the selection process for membership in the Dow Jones Sustainability Index (DJSI), was extended by two months to July 30.

2 For example, see: "Sustainability as BlackRock's New Standard for Investing," BlackRock, 2020.

3 See: "Regulation (EU) 2020/852 on the Establishment of a Framework to Facilitate Sustainable Investment, and Amending Regulation (EU) 2019/2088," Official Journal of the European Union, June 18, 2020.

Companies should be prepared to assess their exposure to water risks, which is a growing concern to investors as water insecurity can have a significant impact on companies' financial stability, reputation, license to operate, and the security of their supply chains.[4] Disclosure related to water stress exposure is becoming more widespread among companies in certain sectors, particularly in the materials and energy sectors. For example, one-third of materials companies now report their water stress exposure, up from 7 percent last year. This increase reflects investors' recognition of water risks as a significant and growing issue of concern, and acknowledges that action aimed at addressing water-related risks has been relatively limited. Nonetheless, water usage is still not high on many companies' lists of risks, but we expect that it will increase and not only in water-intensive industries. Indeed, an estimated USD 425 billion in business value may be at risk—and this is likely an underestimate.[5] Going forward, companies can expect more investor focus on the disclosure and management of water risks, particularly as some investors are labeling water stress "an understated risk."[6]

Efforts to increase gender diversity on boards in many countries are gaining traction, which can serve as a model for increasing ethnic diversity as well—albeit on a more accelerated basis than we've seen with gender diversity. The case for embracing demographic and cognitive diversity, at all organization levels, including the board, is clear.[7] Gender diversity is increasing: Among S&P Global 1200 companies, women account for 27 percent of board seats, up from 22 percent last year. But this has been a slow process, as this figure stood at 20 percent three years ago.[8] With companies and investors, especially in the US, now focused on increasing the ethnic diversity of corporate boards, they can look to efforts to increase gender diversity as a model. But companies will feel pressure to move even faster on ethnic diversity than they have on gender diversity.[9]

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4 *Cleaning Up Their Act: Are Companies Responding to the Risks and Opportunities Posed by Water Pollution?* CDP Global Water Report, 2019, p. 33

5 *Cleaning Up Their Act*, CDP Global Water Report, 2019.

6 Andre Bertolotti and Yuxi Suo, *Troubled Waters,* BlackRock Investment Institute, July 2020.

7 See: Jared Landaw, *Maximizing the Benefits of Board Diversity*, The Conference Board, June 2020; Sundiatu Dixon-Fyle, Kevin Dolan, Vivian Hunt, and Sara Prince, *Diversity Wins: How Inclusion Matters,* McKinsey & Company, May 19, 2020.

8 Thomas Singer, *Sustainability Practices 2017 Key Findings*, The Conference Board, December 2017, p. 20.

9 See: Matteo Tonello, *Corporate Board Practices in the Russell 3000 and S&P 500: 2020 Edition*, October 2020, p. 5.; Paul Washington and Merel Spierings, *Insights for Investors and Companies in Addressing Today's Social Issues*, The Conference Board, October 28, 2020.

The COVID-19 pandemic has highlighted the interconnection between environmental health and public health and will bring greater urgency to efforts aimed at protecting biodiversity. The majority of emerging infectious diseases in humans come from other animals, and biodiversity loss—including land-use change, rapid deforestation, and wildlife exploitation—increases infectious disease risk by bringing people and domestic animals in close proximity to pathogen-carrying wildlife.[10] As evidenced by the COVID-19 pandemic, the risks associated with biodiversity loss are significant for companies across sectors, yet few companies have policies aimed at protecting biodiversity. Signs point to a growing spotlight on biodiversity issues, as several industry-led initiatives have emerged with the aim of encouraging business action on biodiversity. One notable development is the recent launch of a market-led initiative to standardize a reporting framework for companies to prepare nature-related financial disclosure. This framework, the Task Force on Nature-related Financial Disclosure (TNFD) recommendations, will be based on the Task Force on Climate-related Financial Disclosures (TCFD) principles and will operate alongside it.[11]

Regulatory activity related to human rights risks is picking up across jurisdictions.[12] Several regulatory initiatives have emerged in the EU, India, and Canada focused on human rights, which encompasses issues such as forced labor, child labor, unfair wages, restrictions on trade union rights, etc. This regulatory activity appears to be having an impact on disclosures. For example, compared to last year, the biggest increases in the number of companies with policies seeking to prevent or mitigate potential adverse human rights issues were among companies in India and Canada. Companies should keep abreast of emerging regulatory trends in this area and actively prepare to understand the human-rights-related risks associated with their upstream and downstream value chain.

Because we expect sustainability issues to be increasingly integrated into the business, companies should consider how they reward and incentivize sustainability performance. Continuing a trend observed over the last few years, more companies are linking executive compensation to sustainability metrics. This practice is most prevalent among energy companies. Overall, the most common sustainability metrics included in these compensation plans are targets related to safety, greenhouse gas (GHG) emissions, and/or diversity.[13] In light of the focus on employee health as a result of the pandemic, ethnic diversity in light of the wordwide protests of racial inequality, and the ongoing focus on environmental issues (see above), companies should explore how they can incorporate material environmental, social and governance (ESG) factors into their remuneration design.

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10 *Biodiversity and the Economic Response to COVID-19: Ensuring a Green and Resilient Recovery*, OECD, September 28, 2020.

11 See: Task Force on Nature-related Financial Disclosure.

12 This refers to internationally recognized human rights, understood, at a minimum, as those set out in the International Bill of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

13 Paul Hodgson, Matteo Tonello, and James Reda, *CEO and Executive Compensation Practices: 2019 Edition*, The Conference Board, p. 10.

In the next few years companies can expect to see greater consistency, but not uniformity, in sustainability reporting. A number of companies have made high-profile announcements recently relating to harmonizing sustainability reporting.[14] These developments come on top of major institutional investors advocating earlier this year that companies adopt specific reporting frameworks.[15]

At the same time, however, companies are focusing on making sure their sustainability disclosures are relevant to their business—and not just satisfying reporting frameworks.[16] Moreover, as a recent report observed in the context of human capital-related disclosures, the reporting frameworks are not yet harmonized—with a wide disparity in the topics, the types of disclosures (quantitative vs. qualitative), and the specific metrics they endorse. Thus, any "convergence" is likely to take some time.

Nonetheless, we do see the basis for increased consistency in reporting. In many cases, frameworks agree on a core set of topics that companies should consider addressing.[17] And companies do look at their competitors and other peers to help them determine what to disclose in the area of ESG, thereby creating a dynamic that can reinforce consistency.[18] Thus, we expect to see a trend toward increased consistency in the topics, if not the specific metrics, that companies disclose, particularly within the same industry. Boards should, therefore, ensure that management has a process in place to evaluate ESG disclosure topics on at least an annual basis.

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14 For example, in September 2020, five leading sustainability reporting organizations issued a statement detailing an intent to work together toward comprehensive corporate reporting. The following week, the Big Four accounting firms, in collaboration with the World Economic Forum, announced a common set of ESG metrics for all companies to report on, across sectors and geographies. In October the Financial Reporting Council, the UK's reporting supervisory body, proposed developing a new framework for corporate reporting that accommodates the interests of a wider group of stakeholders (beyond investors) and puts nonfinancial reporting on a par with financial reporting. And in 2020 the International Federation of Accountants (IFAC) called for the creation of a new sustainability accounting standards board that would exist alongside the International Accounting Standards Board (IASB).

15 See: "A Fundamental Reshaping of Finance," BlackRock, January 14, 2020; and "CEO's Letter on our 2020 Proxy Voting Agenda," State Street Global Advisors, January 28, 2020.

16 See: Thomas Singer, Anuj Saush, and Anke Schrader, *Sustainability Practices 2019 Edition: Trends in Corporate Sustainability Reporting in North America, Europe, and Asia-Pacific*, The Conference Board, February 2020, p. 3; *Telling Your Sustainability Story Authentically, Reliably, and Effectively* (working group report), The Conference Board, forthcoming 2021.

17 See: *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*, World Economic Forum, September 22, 2020, p. 6. See: *Brave New World: Creating Long-term Value through Human Capital Management and Disclosure,* The Conference Board, forthcoming, which finds that 10 out of 23 topics related to human capital management issues are covered by at least half of the eight reporting frameworks that were examined.

18 *Telling Your Sustainability Story Authentically, Reliably, and Effectively* (working group report), The Conference Board, forthcoming 2021.

About this Report

Since 2012, The Conference Board has tracked and analyzed corporate sustainability disclosure to identify trends and emerging ESG issues of relevance to companies. This edition of *Sustainability Practices* summarizes the key findings from the latest analysis of sustainability reporting. In total, The Conference Board analyzed sustainability disclosure data on 92 environmental and social practices tracked by Bloomberg for more than 6,000 companies across North America, Europe, and Asia-Pacific. Data included in this analysis are from the most recent year available on Bloomberg as of November 2, 2020.

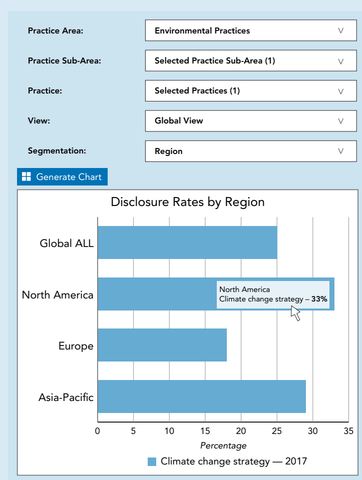
This report primarily highlights disclosure data by country and by sector. The country-level analysis is based on the 250 largest publicly traded companies (by revenue) domiciled in that country. The analysis examines disclosure rates of companies in each of the 10 largest economies (by GDP at Purchasing Power Parity) in North America, Europe, and Asia-Pacific. The following markets are also included in the analysis: Hong Kong, Singapore, and Switzerland.

The sector-level analysis is based on companies in the S&P Global 1200 index and the 11 business sectors defined by the Global Industry Classification Standard Code system (GICS).

Sustainability Practices Dashboard

This report presents the key findings from the full data set, which can be accessed through the Dashboard. The Dashboard includes data on 92 environmental and social practices—encompassing, among others, atmospheric emissions, water consumption, biodiversity policies, labor standards, human rights practices, and charitable and political contributions. For each practice, the Dashboard illustrates the percentage of companies disclosing it as well as a median performance value for that practice (for example, the percentage of companies disclosing waste and the median waste generated by those same companies in metric tons).

The Dashboard allows benchmarking comparisons to be made by region, country, sector, revenue group, and index (including the S&P Global 1200, S&P 500, and Russell 3000).



Source: The Conference Board/Bloomberg, 2018

Climate Risks

Reporting on climate-related risks continues to gain traction. The increase in climate-risk reporting likely follows the sustained focus of mandatory and voluntary regulatory initiatives on this topic. For example, large institutional investors, including BlackRock, are explicitly calling on companies to address climate risks in their reporting.[19] The International Monetary Fund recently called for mandatory disclosures on material climate change risks.[20] And in the EU, the taxonomy regulation will require financial institutions to make climate-related disclosures by the end of 2021.[21] The inclusion of climate-related risks in company reporting is likely to become more common.

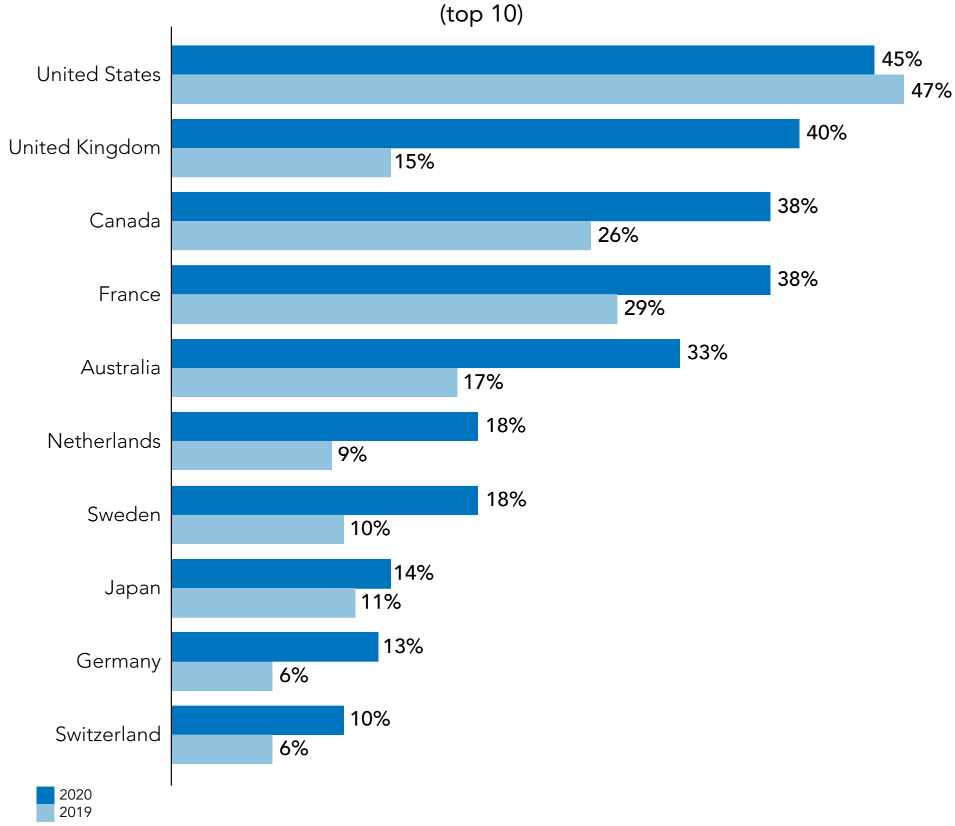
More companies disclose climate risks, especially in Europe

Companies in the US (45 percent), UK (40 percent), Canada (38 percent), and France (38 percent) are most likely to include climate-related risks in their annual reports. With the exception of Australia, where 33 percent of companies now disclose these risks, climate risk reporting remains mostly absent among companies in Asia-Pacfic. This is despite the fact that many of the economies most vulnerable to climate change risks are in Asia.

Figure 1

Climate-risk disclosure, by economy

(top 10)



Source: The Conference Board/Bloomberg, 2020

19 For example, see: "Sustainability as BlackRock's New Standard for Investing," BlackRock, 2020.

20 *Global Financial Stability Report: Markets in the Time of COVID-19*, International Monetary Fund, April 2020.

21 *Taxonomy: Final report of the Technical Expert Group on Sustainable Finance*, EU Technical Expert Group on Sustainable Finance, March 2020.

Disclosure of climate-related risks increased compared to last year, particularly among companies in Europe. For example, the number of UK companies disclosing climate risks more than doubled compared to last year, from 15 percent to 40 percent. Other notable increases in disclosure included companies in Australia (+16 percentage points vs. last year), Canada (+13), France (+9), and the Netherlands (+9).The only decreases compared to last year were among companies in the US (-2 percentage points) and Indonesia (-1).

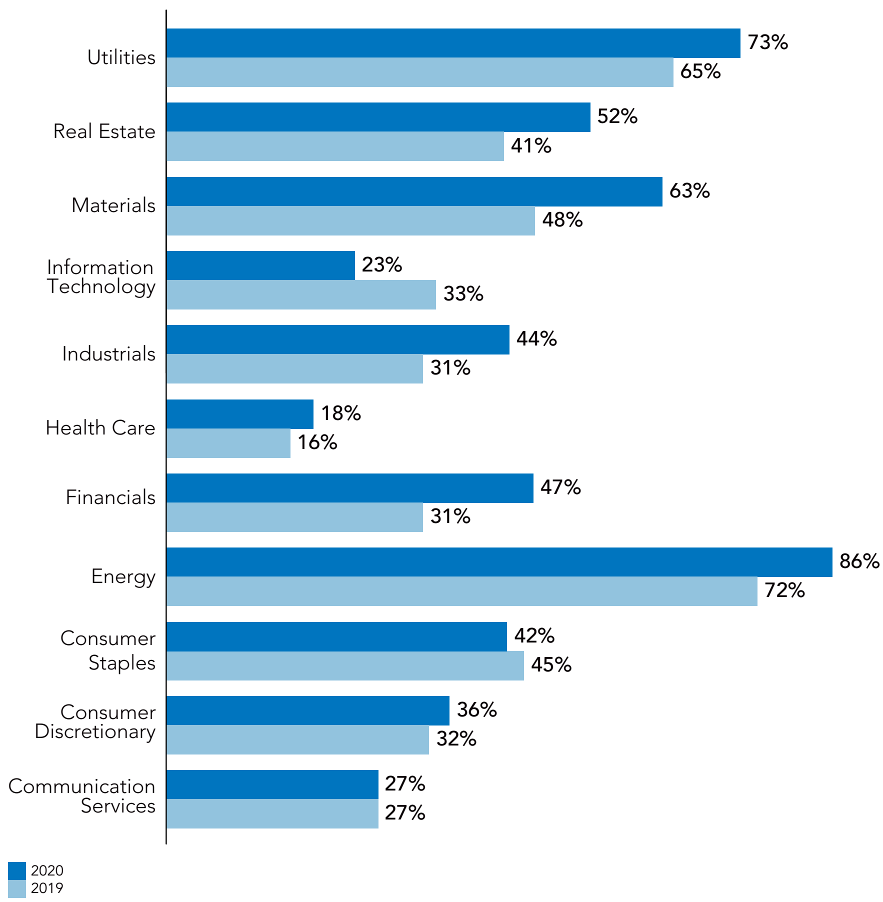
Energy sector discloses climate risks more than any other sector

In the energy sector, 86 percent of companies in the S&P Global 1200 disclose climate risks—the highest rate across sectors and up from 72 percent last year. The sectors with the next highest disclosure rates are utilities and materials, with 73 percent and 63 percent of companies reporting climate risks, respectively. Compared to last year, financial companies had among the biggest increases in disclosure: 47 percent of financial companies now disclose climate-related risks, up from 31 percent last year.

Figure 2

Climate-risk disclosure, by sector

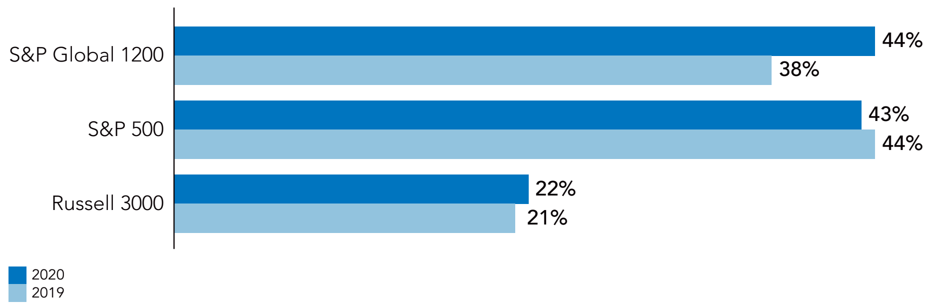
(S&P Global 1200)



Source: The Conference Board/Bloomberg, 2020

Beyond climate-risk reporting, corporate commitments to emissions reductions also appear to be growing. For example, the number of organizations with net-zero commitments has doubled in less than a year.[22] And several jurisdictions, mostly in Europe, (e.g., Denmark, France, Sweden, the UK, and New Zealand) enshrined a net-zero emissions target into legislation in 2020.[23]

Figure 3
Climate-risk disclosure, by index



Source: The Conference Board/Bloomberg, 2020

22 *Accelerating Net Zero: Exploring Cities, Regions and Companies' Efforts to Decarbonise*, Data-Driven Envirolab and New Climate Institute, 2020.

23 Net Zero Carbon Tracker, Energy and Climate Intelligence Unit

Water

Water risks are more regional than carbon risks and are not necessarily material to all companies, but, for a subset of companies and their stakeholders, water risks represent a significant and growing issue of concern. Water insecurity, for example, can threaten companies' financial stability, reputation, license to operate, and the security of their supply chains.[24] Companies that report exposure to substantive risks from water insecurity report USD 425 billion in combined business value at risk, with almost half of the risks anticipated to hit within the next one to three years.[25]

In its annual Global Risks Report, the World Economic Forum (WEF) has listed water crises as a top-five risk in terms of impact every year since 2012.[26] But action aimed at addressing water-related risks remains limited. For example, a recent analysis by CDP found that the vast majority of companies have no goal or target to reduce water pollution.[27] Despite this inaction by individual companies, water-related disclosure is increasingly getting the attention of investors, perhaps unsurprising considering the potential magnitude of water crises. In a recent report, BlackRock identified water stress as "an understated risk."[28]

Companies in Taiwan and those in materials sector lead water use reporting

Our analysis finds that water use is most widely reported by companies in Taiwan, where 28 percent of companies report this information. The next highest disclosure rates for water use are found among companies in France (25 percent), the US (24 percent), and China (24 percent).

24 *Cleaning Up Their Act,* CDP Global Water Report, 2019, p. 33.

25 *Cleaning Up Their Act,* CDP Global Water Report, 2019, p. 33.

26 Emilio Granados Franco, *The Global Risks Report 2020*, World Economic Forum.

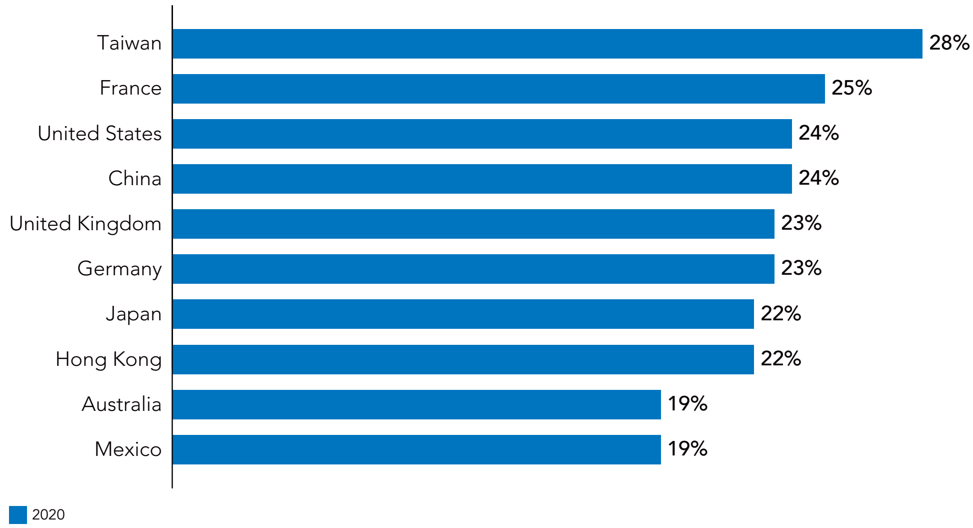
27 *Cleaning Up Their Act,* CDP Global Water Report, 2019, p. 21.

28 *Troubled waters,* BlackRock Investment Institute, July 2020.

Figure 4

Total water use disclosure, by economy

(top 10)



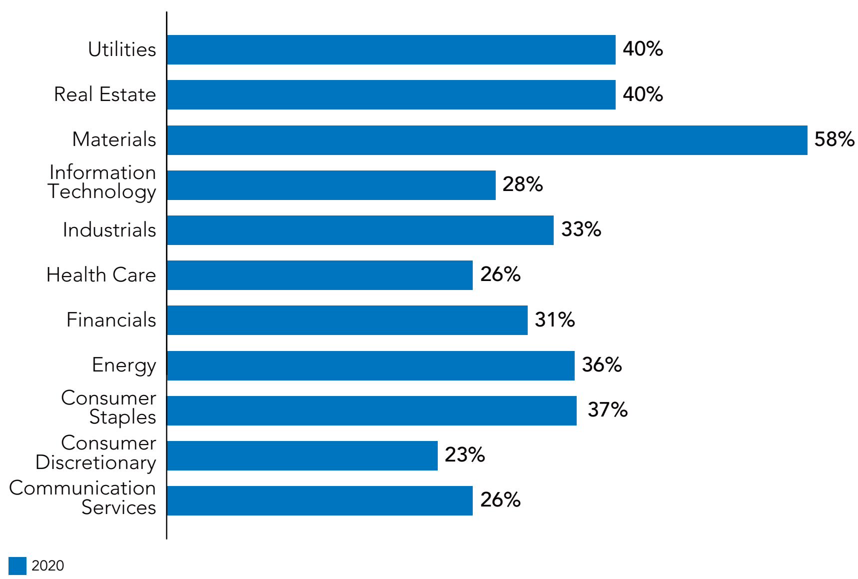
Source: The Conference Board/Bloomberg, 2020

The analysis by sector finds that materials companies lead in disclosure of water use: among the S&P Global 1200, more than half (58 percent) of materials companies reported their total water use. The sectors with the next highest disclosure rates are the real estate and utilities sectors, each with 40 percent of companies reporting their water use.

Figure 5

Total water use disclosure, by sector

(S&P Global 1200)



Source: The Conference Board/Bloomberg, 2020

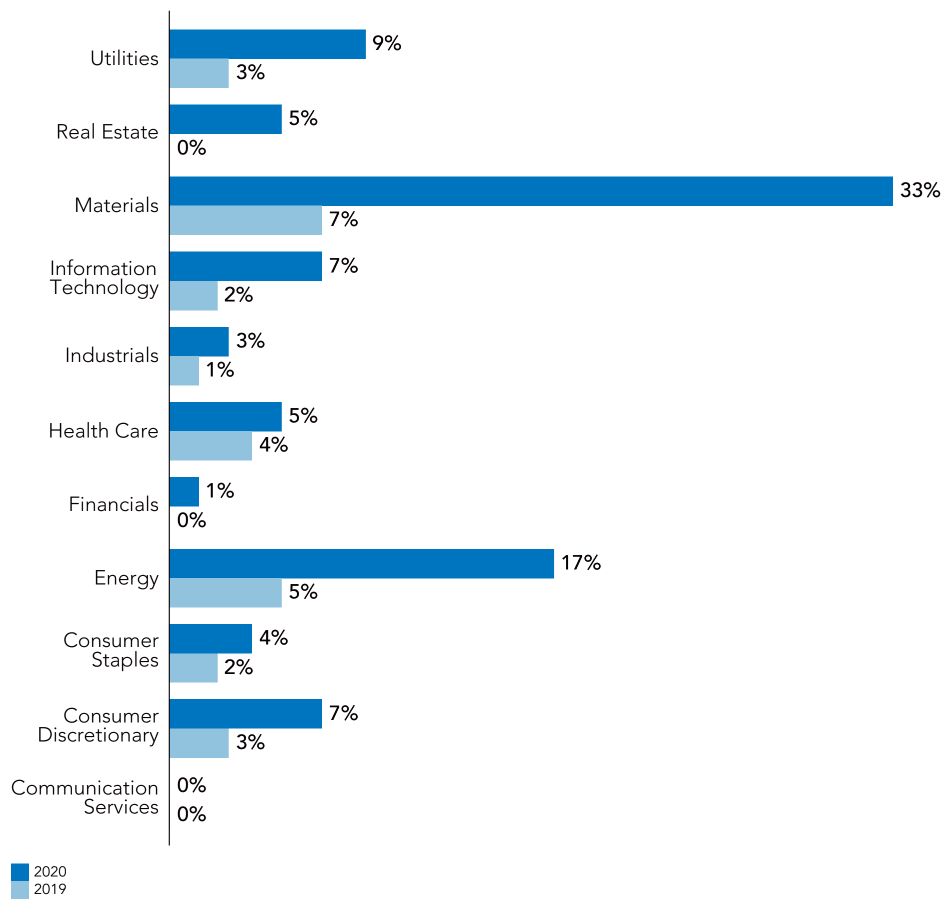
More companies are starting to report water stress exposure

Compared to last year, one of the most significant increases in disclosures is in the number of companies reporting their water stress exposure (which refers to the percentage of fresh water withdrawn in regions with high or extremely high baseline water stress). This is especially true for companies in the materials and energy sectors. For example, 33 percent of materials companies and 17 percent of energy companies now report their water stress exposure, compared to 7 percent and 5 percent last year, respectively. This suggests that reporting frameworks such as TCFD and Sustainability Accounting Standards Board (SASB) are having an impact, as both frameworks explicitly include water stress exposure as a material metric for companies in these sectors.

Figure 6

Water stress exposure disclosure, by sector

(S&P Global 1200)



Source: The Conference Board/Bloomberg, 2020

Biodiversity

The COVID-19 pandemic has brought renewed focus on the interconnection between environmental health and public health, and greater urgency to efforts aimed at protecting biodiversity. The majority of emerging infectious diseases in humans come from other animals, and land-use change and wildlife exploitation increase infectious disease risk by bringing people and domestic animals in close proximity to pathogen-carrying wildlife.[29] Biodiversity loss, including land-use change and rapid deforestation, is a key driver of emerging infectious diseases.[30] Notably, biodiversity loss has been absent from the WEF's top five risks for almost a decade. This year, however, biodiversity loss featured in the top five in terms of both likelihood and impact.[31] A separate survey of sustainability experts places biodiversity loss as the number two issue, behind climate change, in perceived urgency among a list of 20 sustainable development challenges.[32] As evidenced by the pandemic, the risks associated with biodiversity loss are significant for companies across sectors.

Over the last few years several industry-led initiatives have emerged with the aim of encouraging business action on biodiversity. One of the most prominent initiatives, the One Planet Business for Biodiversity, launched in 2019 as a business coalition to protect and restore biodiversity within the value chains. Another notable development is the recent launch of a market-led initiative to standardize a reporting framework for companies to prepare nature-related financial disclosure. This framework, the Task Force on Nature-related Financial Disclosure (TNFD) recommendations, will be based on the TCFD principles and operate alongside it.

France has the highest share of companies with biodiversity policies

The analysis by country finds that biodiversity policies are most common among companies in France, where 40 percent of companies have such a policy.[33] This relatively high share of companies with biodiversity policies can be attributed to France being one of the first countries, in 2012, to explicitly include biodiversity as one of the subjects that companies must include in their nonfinancial reporting.[34] In addition, in 2018 Entreprises pour l'Environnement (EpE) launched an initiative aimed at mobilizing companies on the topic of biodiversity.[35] The initiative has resulted in more than half of CAC 40 companies (the 40 largest publicly listed companies in France) making biodiversity pledges.

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29 "Biodiversity and the Economic Response to COVID-19: Ensuring a Green and Resilient Recovery," OECD, September 28, 2020.

30 "Biodiversity and the Economic Response to COVID-19," OECD, September 28, 2020.

31 *The Global Risks Report 2020*, World Economic Forum.

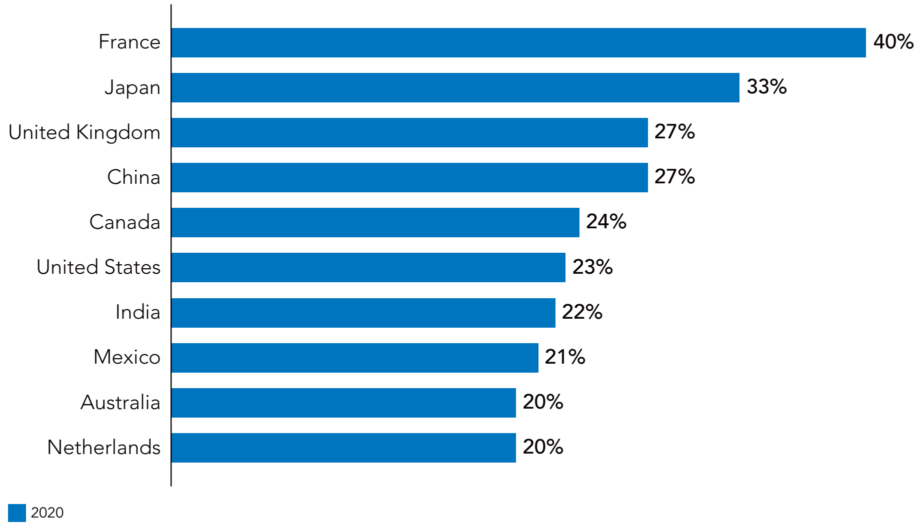
32 *The 2020 Sustainability Leaders*, GlobeScan and SustainAbility, p. 10.

33 It should be noted that in previous years the highest disclosure rate was among companies in Japan; last year 72 percent of companies in Japan reported having a biodiversity policy. Reporting delays due to the COVID-19 pandemic have undoubtedly impacted this year's figures.

34 *Corporate Biodiversity Reporting and Indicators: Situation Analysis and Recommendations*, IUCN French Committee, September 2014, p. 24.

35 See: Act4nature international, 2020.

Figure 7
Biodiversity policy disclosure, by economy
(top 10)



Source: The Conference Board/Bloomberg, 2020

After France, biodiversity policies are most common among companies in Japan (33 percent), the UK (27 percent), and China (27 percent). US companies are sixth on the list, with 23 percent of the US sample disclosing a biodiversity policy (a drop by 11 percentage points compared to last year). The biggest increases in disclosure compared to last year were among companies in India (+6 percentage points), Malaysia (+5), and the UK (+5).

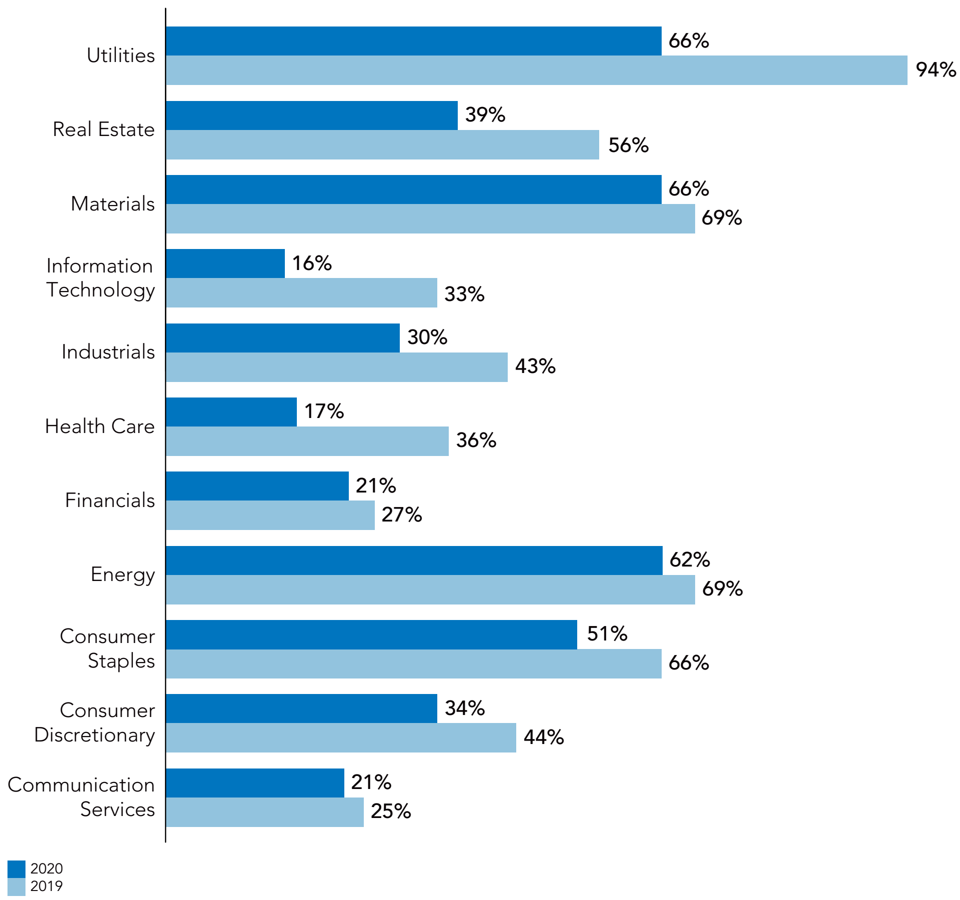
Materials and utilities companies are most likely to have biodiversity policies

The analysis by sector finds that biodiversity policies are most common among companies in the materials and utilities sectors, where two-thirds of companies report having such a policy. These policies are far less common among information technology and healthcare companies, as only 16 percent and 17 percent of companies in these sectors report having a biodiversity policy, respectively.

Figure 8

Biodiversity policy disclosure, by sector

(S&P Global 1200)



Source: The Conference Board/Bloomberg, 2020

Gender Diversity and Pay Equity

Substantial research shows that diversity brings many advantages to an organization: increased profitability and creativity, stronger governance and better problem-solving abilities. Employees with diverse backgrounds bring to bear their own perspectives, ideas and experiences, helping to create organizations that are resilient and effective, and that outperform organizations that do not invest in diversity.[36]

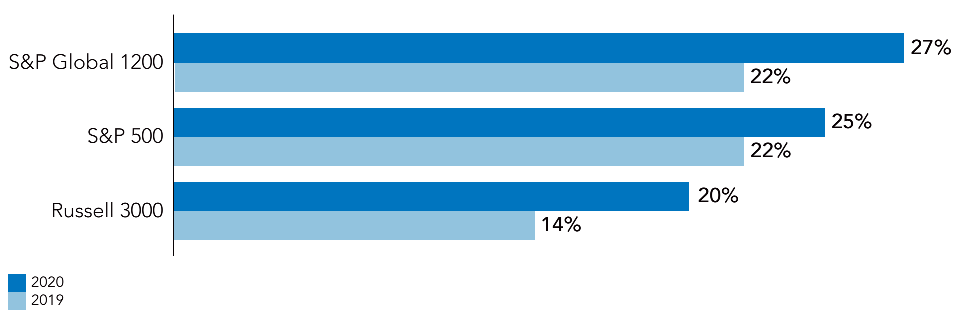
This year, issues related to workplace diversity, equity, and inclusion (DE&I) have risen to the top of many companies' priorities. Indeed, investors are now increasingly vocal about the need for companies to improve disclosure and management of DE&I issues.[37] In the US, this type of reporting may change significantly given the SEC's new rules on human capital management disclosure, which require a company to disclose, when "material to an understanding of the business," a description of its 1) human capital resources, and 2) any human capital measures or objectives that are a focus of managing the business.[38]

Board gender diversity and company-wide gender pay equity top findings

The data on board gender diversity reveals an overall increase in women's representation among company boards. Among S&P Global 1200 companies, women now hold a median of 27 percent of board seats, up from 22 percent last year.

Figure 9

Percentage of women on the board, median by index



Source: The Conference Board/Bloomberg, 2020

36 Vijay Eswaran, "The Business Case for Diversity in the Workplace Is Now Overwhelming," The World Economic Forum, April 26, 2019.

37 For example, see: "Diversity Strategy, Goals & Disclosure: Our Expectations for Public Companies," State Street Global Advisors, August 27, 2020; and "Comptroller Stringer and Three New York City Retirement Systems Call on 67 S&P 100 Companies Who Issued Supportive Statements on Racial Equality to Publicly Disclose the Composition of their Workforce by Race, Ethnicity and Gender," New York City Comptroller Scott Stringer, July 1, 2020.

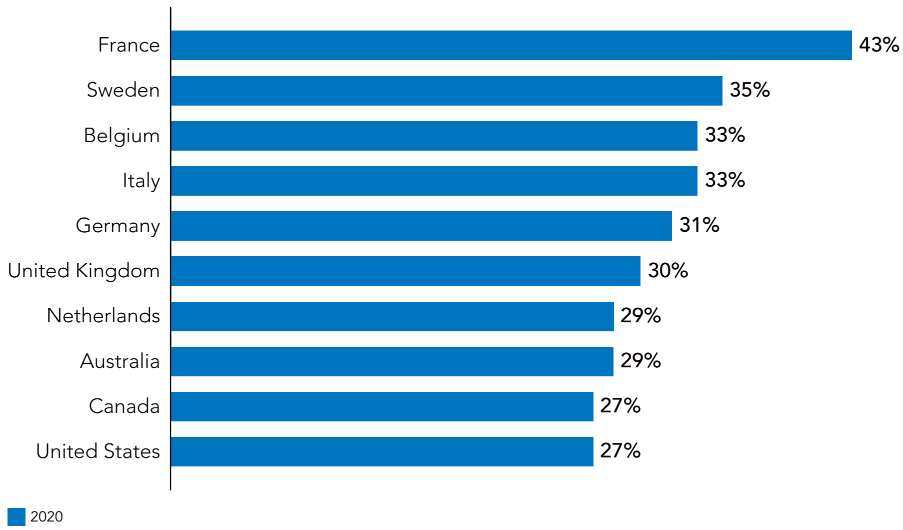
38 See: US Securities and Exchange Commission: Modernization of Regulation S-K Items 101, 103, and 105.

The analysis by country finds that the median percentage of women on boards remains highest among European companies: these companies occupy the top seven spots in terms of gender diversity. For example, companies in France report a median of 43 percent of female directors, and in Sweden women account for 35 percent of board seats. Companies in Belgium and Italy each report women account for one-third of board seats.

Figure 10

Percentage of women on the board, median by economy

(top 10)



Source: The Conference Board/Bloomberg, 2020

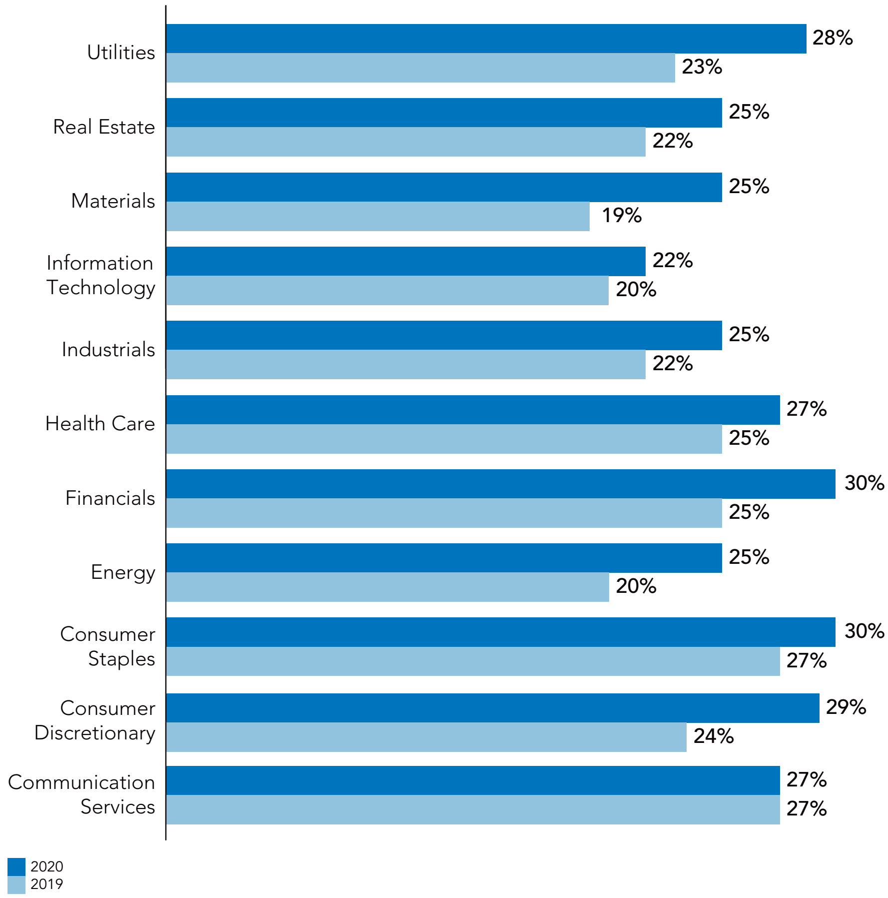
While board diversity levels remain low across companies in Asia, these figures have edged up for most economies over the past year. This follows last year's trend, which also saw gender diversity rise across boardrooms in Asia, albeit in babysteps. Malaysia stands out across emerging Asia: companies in Malaysia report a median of 25 percent of female directors (up from 22 percent last year), nearly on par with US boardrooms. This uptick is largely driven by the Malaysia Securities Commission's target to increase the share of women on boards to 30 percent by 2020, which was first publicly announced in 2017. The initiative was orignially driven by the "30% Club" initiative, a group of Malaysian chairmen and business leaders. The commission has yet to set a new post-2020 target.

Globally, the sector analysis also reveals a similar upward trend: This year, only one sector reported fewer than 1 in 4 women on the board—a notable improvement from last year when seven of the 11 sectors reported a median of less than 25 percent. The consumer staples and financials sectors reported the highest percentage of female directors, 30 percent. The materials sector reported the biggest uptick compared to last year (from 19 percent to 25 percent).

Figure 11

Percentage of women on the board, median by sector

(S&P Global 1200)



Source: The Conference Board/Bloomberg, 2020

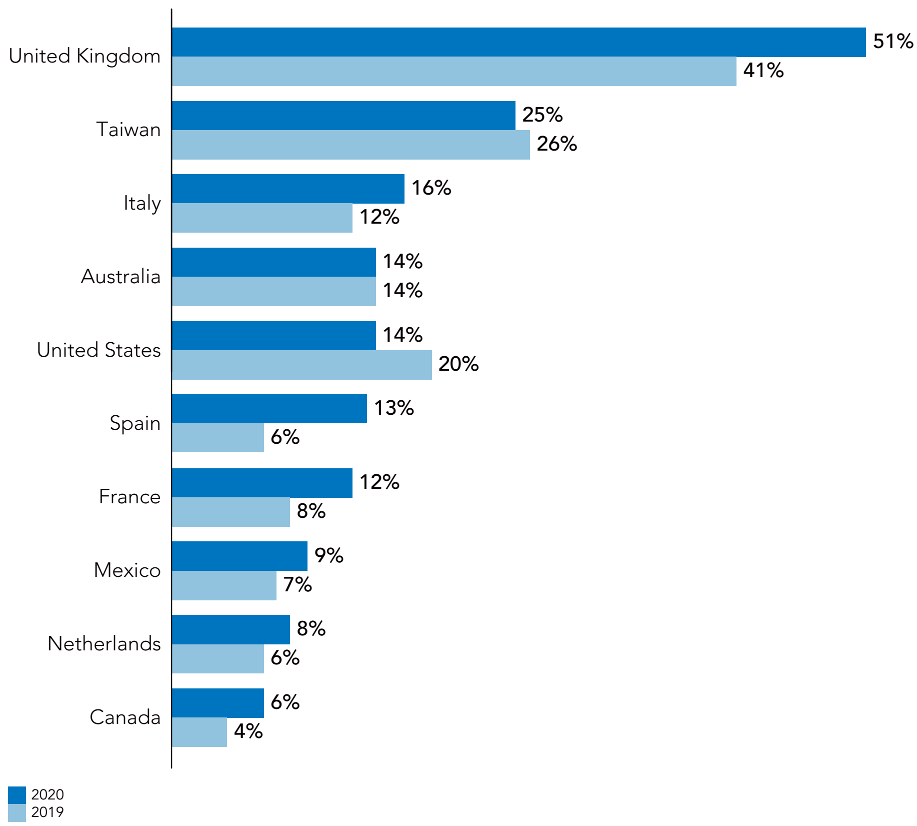
Despite these trends, there remains significant room for increasing both women's representation on boards and their leadership opportunities within the board. For example, a recent report from The Conference Board found that almost all board chair positions remain held by men (less than 5 percent of companies in each of the Russell 3000 and S&P 500 indexes have a female board chair), and less than 1 out of 5 board committees in the Russell 3000 are led by women.[39]

39 Matteo Tonello, *Corporate Board Practices in the Russell 3000 and S&P 500: 2020 Edition*, The Conference Board, October 2020, p. 4.

Companies are increasingly disclosing data on gender pay equity

The data reveals this type of disclosure is gaining traction across most of the economies examined: disclosure of gender pay gap data increased (though only slightly) among companies in 15 of the 26 economies examined. This type of disclosure is most prevalent among UK companies, where more than half (51 percent) of companies now report gender pay data, up from 41 percent last year. Besides the UK, where gender pay gap reporting requirements are clearly having an effect, this type of disclosure is most common among companies in Taiwan (25 percent of companies), Italy (16 percent), Australia (14 percent), and the US (14 percent).

Figure 12
Gender pay gap disclosure, by economy
(top 10)



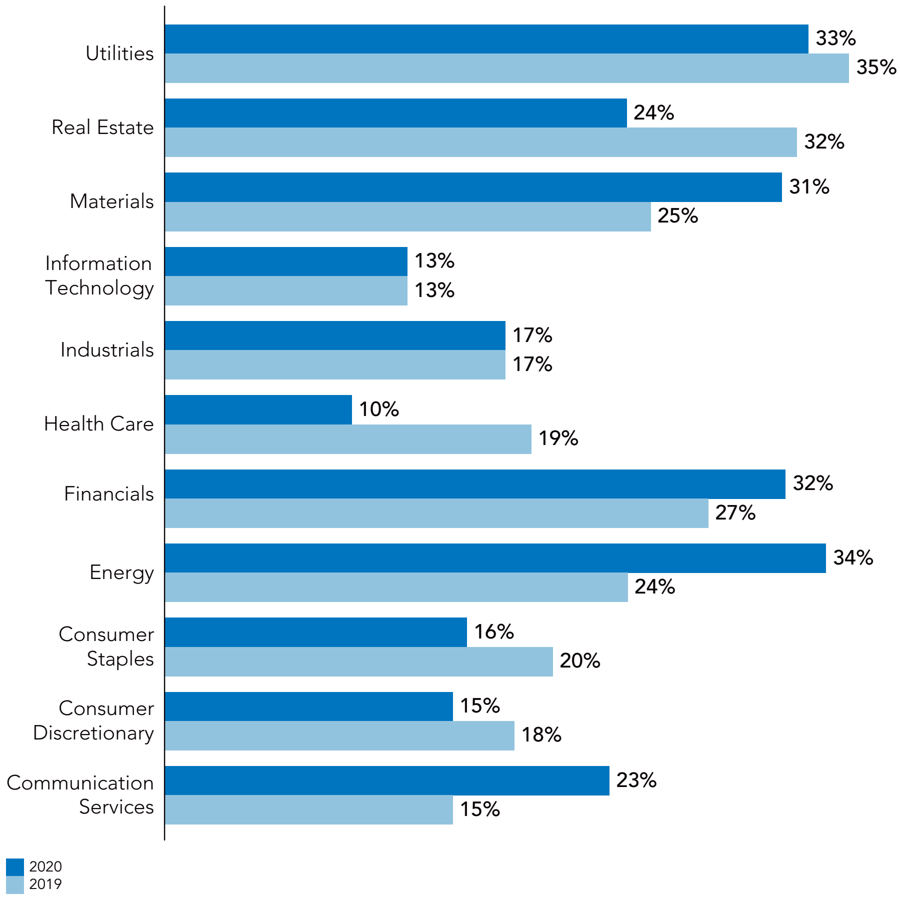
Source: The Conference Board/Bloomberg, 2020

The analysis by sector shows energy companies had the biggest uptick in disclosure of gender pay data. This year, more than one-third of energy companies reported gender pay gap data, up from 24 percent last year. Companies in the communication services, materials, and financials sectors have also increased their gender pay transparency.

Figure 13

Gender pay gap disclosure, by sector

(S&P Global 1200)



Source: The Conference Board/Bloomberg, 2020

Human Rights

Over the course of the last year a number of initiatives have emerged focused on the issue of human rights.[40] In the context of corporate sustainability, important human-rights-related issues include forced labor, child labor, unfair wages, discrimination, restrictions on freedom of association and collective bargaining, and other human rights concerns.

Regulatory activity related to human rights risks is on the rise

As with many ESG initaitives, several new developments in human rights have come out of Europe. For example, the EU is developing a legislative proposal requiring businesses to carry out due diligence in relation to the potential human rights of their operations and supply chains.[41] [42] Similar discussions are taking place in other jurisdictions, with the objective of holding companies liable for human rights breaches in their supply chains, unless companies can demonstrate they undertook reasonable due diligence. The Swiss Responsible Business Initiative, for example, seeks to require companies headquartered or registered in Switzerland, and companies under their control, to respect human rights and international environmental standards in their operations abroad and through their business relationships (i.e., including their supply chains). The initiative aims to make it mandatory for companies to conduct human rights and environmental due diligence. In Sweden, a campaign launched in 2020 by a group of over 30 large companies and a coalition of civil society organizations seeks to mandate human rights due diligence.[43]

The uptick in human rights initiatives is spreading beyond Europe. In India, for example, the government began the consultation process for its National Action Plan on Business and Human Rights (NAP) in 2020. And the Canadian government began a consultation process in 2019 concerning the adoption of supply chain legislation, and it appointed the first Canadian Ombudsperson for Responsible Enterprise (CORE). The new position was created with the mandate to review alleged human rights abuses arising from the overseas operations of Canadian companies.[44] In the US, the Customs and Border Protection secured its first penalty-related collection for forced labor in 2020 under the

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40 This refers to internationally recognized human rights—understood, at a minimum, as those set out in the International Bill of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. See: UN Guiding Principles on Business and Human Rights.

41 See: European Parliament Working Group on Responsible Business Conduct.

42 As described by the UN Office of the High Commissioner for Human Rights: "Human rights due diligence is a way for enterprises to proactively manage potential and actual adverse human rights impacts with which they are involved. It involves four core components: (a) Identifying and assessing actual or potential adverse human rights impacts that the enterprise may cause or contribute to through its own activities, or which may be directly linked to its operations, products or services by its business relationships; (b) Integrating findings from impact assessments across relevant company processes and taking appropriate action according to its involvement in the impact; (c) Tracking the effectiveness of measures and processes to address adverse human rights impacts in order to know if they are working; (d) Communicating on how impacts are being addressed and showing stakeholders—in particular affected stakeholders—that there are adequate policies and processes in place."

43 See: "Take action campaign" ("Visa handlingskraft"), which calls on the Swedish government to introduce a new law on human rights due diligence for business.

44 "The Canadian Ombudsperson for Responsible Enterprise—Lingering Questions on the Role's Mandate and Powers," Hogan Lovells, April 30, 2019.

Trade Facilitation and Enforcement Act of 2015, signaling a stronger stance against the importation of goods produced using forced labor.[45]

Uptick in companies with human rights policies in India, Canada, and Australia

This regulatory activity appears to be having an effect on human rights-related disclosures. For example, compared to last year, the biggest increases in the number of companies with human rights policies were among companies in India (55 percent this year vs. 38 percent last year), Canada (47 percent vs. 33 percent), and Australia (45 percent vs. 32 percent). Companies in these jursidictions also reported notable increases in disclosure of other policies, including employee whistleblower policies, social supply chain management policies, and policies against child labor. In India, for example, 68 percent of companies now report having a whistleblower policy, a signifcant jump from the 46 percent of companies that did so last year. Policies against child labor are also becoming more common among Indian companies: 40 percent of companies report having these policies, up from 28 percent last year. And in Australia, 44 percent of companies now report having a social supply chain management policy, up from 34 percent last year. And though disclosure rates decreased among the US sample, US companies are tied with UK companies for having the highest disclosure of social supply chain management policies.

Figure 14

Human rights policy disclosure, by economy

(top 10)

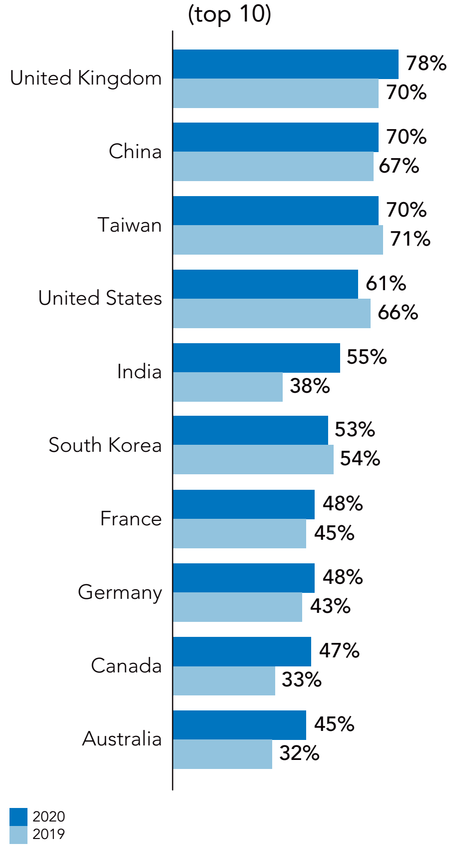
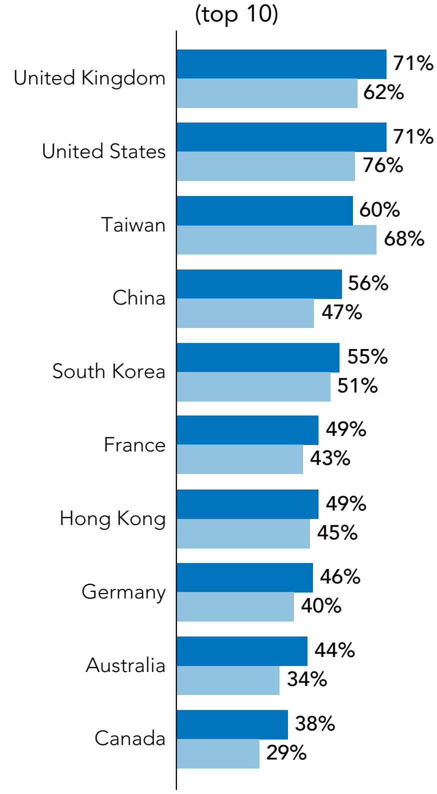


Figure 15

Social supply chain management policy disclosure, by economy

(top 10)



Source: The Conference Board/Bloomberg, 2020

45 "US Fines Food Company Over Forced Labor Imports from China," Reuters, August 14, 2020.

Incentive Compensation

The practice of tying executive compensation to sustainability performance metrics continues to gain traction. Among the S&P 500, for example, 26 percent of companies make this link, up from 23 percent last year.

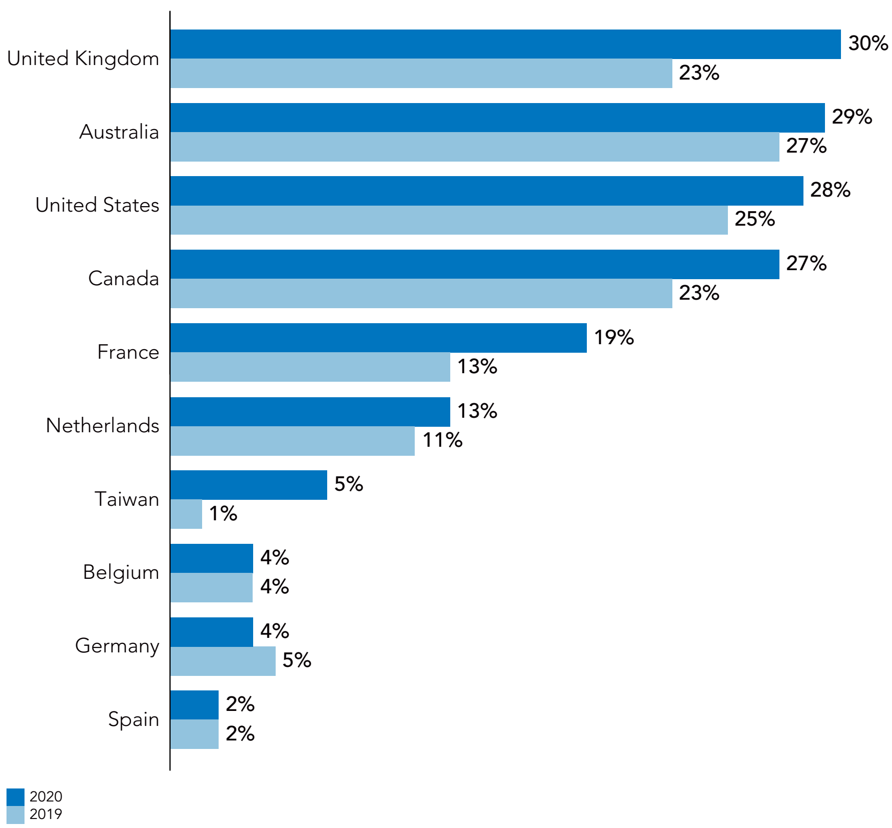
Companies in the UK, France and Canada report biggest increases in tying compensation to sustainability

The analysis by country finds that this practice is most prevalent among companies in the UK, Australia, the US, and Canada. More than one-quarter of companies in each of these countries include sustainability metrics as part of executive compensation. Compared to last year, the biggest increase was among companies in the UK (30 percent vs. 23 percent last year), followed by companies in France and Canada. This practice remains mostly absent among companies across Asia, with the exception of Australia, where 29 percent of companies link compensation to sustainability metrics.

Figure 16

Executive compensation linked to ESG, by economy

(top 10)



Source: The Conference Board/Bloomberg, 2020

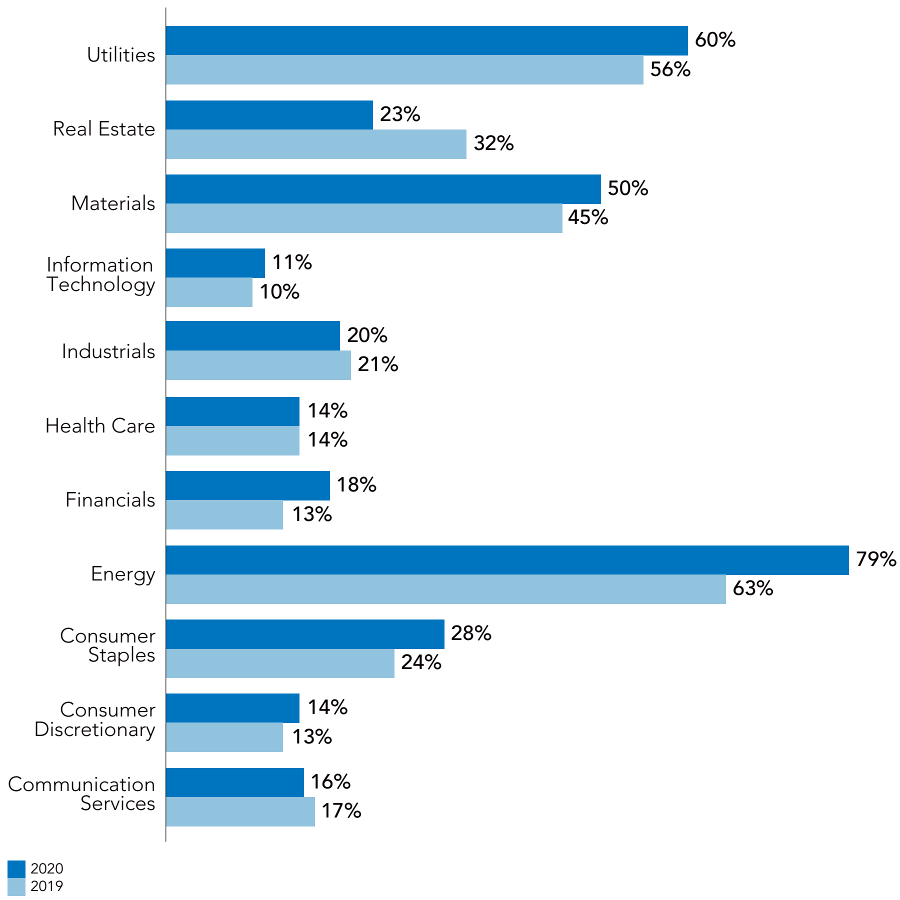
Energy companies are most likely to connect compensation to sustainability

The analysis by sector finds that this practice is most common among energy companies: 79 percent of energy companies in the S&P Global 1200 include sustainability metrics in their executive compensation schemes. Compared to last year, energy companies also reported the greatest increase in this practice (up from 63 percent last year).

Figure 17

Executive compensation linked to ESG, by sector

(S&P Global 1200)



Source: The Conference Board/Bloomberg, 2020

Diversity likely to feature more in compensation schemes

In most cases the sustainability metrics included in these compensation schemes are targets related to safety, GHG emissions, and/or diversity, and almost always apply to short-term incentive (STI) plans.[46] Given the growing focus on DE&I issues, diversity targets may increasingly feature in compensation schemes. For example, in 2020 Starbucks announced that, beginning in FY2021, the company will link executive pay to efforts to increase diversity at the company.[47] In another example, Verizon has included diversity targets in its STI plan for more than a decade, with the most recent targets aiming for at least 60 percent of its US-based workforce comprised of minority and female employees, and directing at least USD 5.2 billion of the company's overall supplier spending to minority- and female-owned firms.[48] In 2014 Verizon also introduced an environmental target to its STI plan, aiming for a reduction in carbon intensity by 3 percent compared to the previous year. The target has grown every year since, and now aims for a reduction in carbon intensity by 10 percent compared to the previous year.[49]

46 See: Paul Hodgson, Matteo Tonello, and James Reda, *CEO and Executive Compensation Practices: 2019 Edition*, The Conference Board, p. 10.

47 "Starbucks Ties Executive Pay to 2025 Diversity Targets," *The Wall Street Journal*, October 14, 2020.

48 Verizon 2020 Proxy Statement, p. 30.

49 Verizon 2020 Proxy Statement, p. 30.

Appendix

Exhibit 1

Sample Distribution, by Economy

Number of companies

Asia-Pacific	
Australia	249
China	251
Hong Kong	248
India	250
Indonesia	250
Japan	249
Malaysia	250
Pakistan	250
Singapore	247
South Korea	250
Taiwan	250
Thailand	248
Europe	
Belgium	145
France	250
Germany	250
Italy	245
Netherlands	129
Poland	246
Russia	248
Spain	242
Sweden	249
Switzerland	247
United Kingdom	247
North America	
Canada	248
Mexico	153
United States	249
Total	**6,140**

Note: For some economies the sample is less than 250 companies due to data availability.

Source: The Conference Board/Bloomberg, 2020

Exhibit 2

Sample Distribution, by Revenue Group

Number of companies (percent of total)

	Global sample		North America		Europe		Asia-Pacific	
	No. of companies	Percent of total	No. of companies	Percent of total	No. of companies	Percent of total	No. of companies	Percent of total
Less than USD 250M	1490	24%	51	8%	825	33%	614	21%
USD 250M to USD 999M	1561	25%	129	20%	650	26%	782	26%
USD 1B to USD 4.9B	1552	25%	150	23%	623	25%	779	26%
USD 5B+	1528	25%	320	49%	395	16%	813	27%
Undefined	9	0%	0	0%	5	0%	4	0%
Total	**6,140**	**100%**	**650**	**100%**	**2,498**	**100%**	**2,992**	**100%**

Source: The Conference Board/Bloomberg, 2020

Exhibit 3

Sample Distribution, by Sector

Number of companies (percent of total)

	S&P Global 1200 index	
	No. of companies	Percent of total
Communication services	70	6%
Consumer discretionary	146	12%
Consumer staples	92	8%
Energy	58	5%
Financials	190	16%
Health care	111	9%
Industrials	201	16%
Information technology	122	10%
Materials	103	8%
Real estate	62	5%
Utilities	67	5%
Total	**1,222**	**100%**

Source: The Conference Board/Bloomberg, 2020

About the Authors

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