

# The Conference Board Environmental, Social & Governance Center

## The Roles of the Board in the Era of ESG and Stakeholder Capitalism

*Session Three: Communications and Engagement*

Chatham House Rule Convening

October 13, 2022



## Session Two Takeaways: Board Composition

- 86% of the S&P 500, and 54% of the Russell 3000, disclose that their directors have ESG experience in one or more of the following six key areas: corporate governance, human capital, cybersecurity, ESG in general, climate, and the environment. 54% of S&P 500 (and 33% of Russell 3000) directors have some kind of ESG experience
- According to the Working Group participants, human capital, sustainability, governance, and strategic planning are the areas of professional experience that have become more important in directors. While companies may want to add directors with specialized experience in key ESG areas such as HCM and cyber, generalist skills and attributes are still deemed more important by the Working Group participants. Deep industry knowledge can also help in ESG oversight. A key question that companies will need to address: what are the criteria for qualifying as having ESG experience?
- Although corporate proxy statements tend to emphasize the diversity of “hard” skills and experience of the board, the consensus of Working Group participants is that the board and company are well-served by having directors with certain skills and attributes in common, such as openness to change, intellectual curiosity, and proactiveness.
- A company’s purpose isn’t only useful in its employee recruitment efforts; it can also help attract and retain high-quality directors.



## Session Two Takeaways: Committees and Board Leadership

- 96% of the Russell 3000 currently disclose the assignment of some form of ESG responsibilities to the full board and/or one or more board committees.
- The Nom/Gov committee currently leads the way in having ESG responsibilities, but this may be a “parking space” for many companies.
- Before deciding how to allocate ESG responsibilities, companies will need to determine which ESG areas truly matter for them so they can focus on those. Since one committee generally doesn’t have the bandwidth (or expertise) to oversee all aspects of ESG, ESG responsibilities are typically allocated to several committees.
- Companies should address the full board’s role with respect to ESG, both in terms of overall oversight and strategy and the “marketplace” (products and services) and “workplace” (operations) aspects of ESG.
- Companies should think about the composition (and staffing) of their committees to ensure they can effectively oversee the expanding list of committee responsibilities.
- In choosing a board chair or Lead Independent Director, consider whether the person has the key attributes and skills necessary for this new era.



## Session Two Takeaways: Capabilities

- To assess the board's capabilities, it's helpful to begin with understanding where the firm is on its ESG journey: compliance mode, cost-saving mode, risk reduction mode, or industry leadership mode. And, of course, to understand the ESG issues that are strategically important for the firm.
- There are several ways to improve board fluency, including covering costs of attending external programs and bringing in outside expertise to keep the board up to date.
- A majority of boards have a good understanding of the views and expectations regarding the firm of shareholders and policymakers/regulators; but have a lesser understanding of the views of employees and customers.
- The lack of understanding of their business partners' (and customers') views/expectations regarding the firm presents an opportunity for educating the board.
- It's important for the CEO to be transparent with the board as to how the company is being viewed by its various stakeholders. Directors will also want to engage directly with their firm's stakeholders to hear first-hand about their attitudes toward the company.



# Agenda

Time (Eastern)	Topic
2:00 PM	Welcome & Introductory Remarks
2:05 PM	Communicating with the Board on ESG Issues and Stakeholder Expectations
3:00 PM	The Board's Role in Communicating on ESG and Engaging with Stakeholders
3:50 PM	Wrap-up, Next Steps
4:00 PM	Adjournment



# Lead Participants

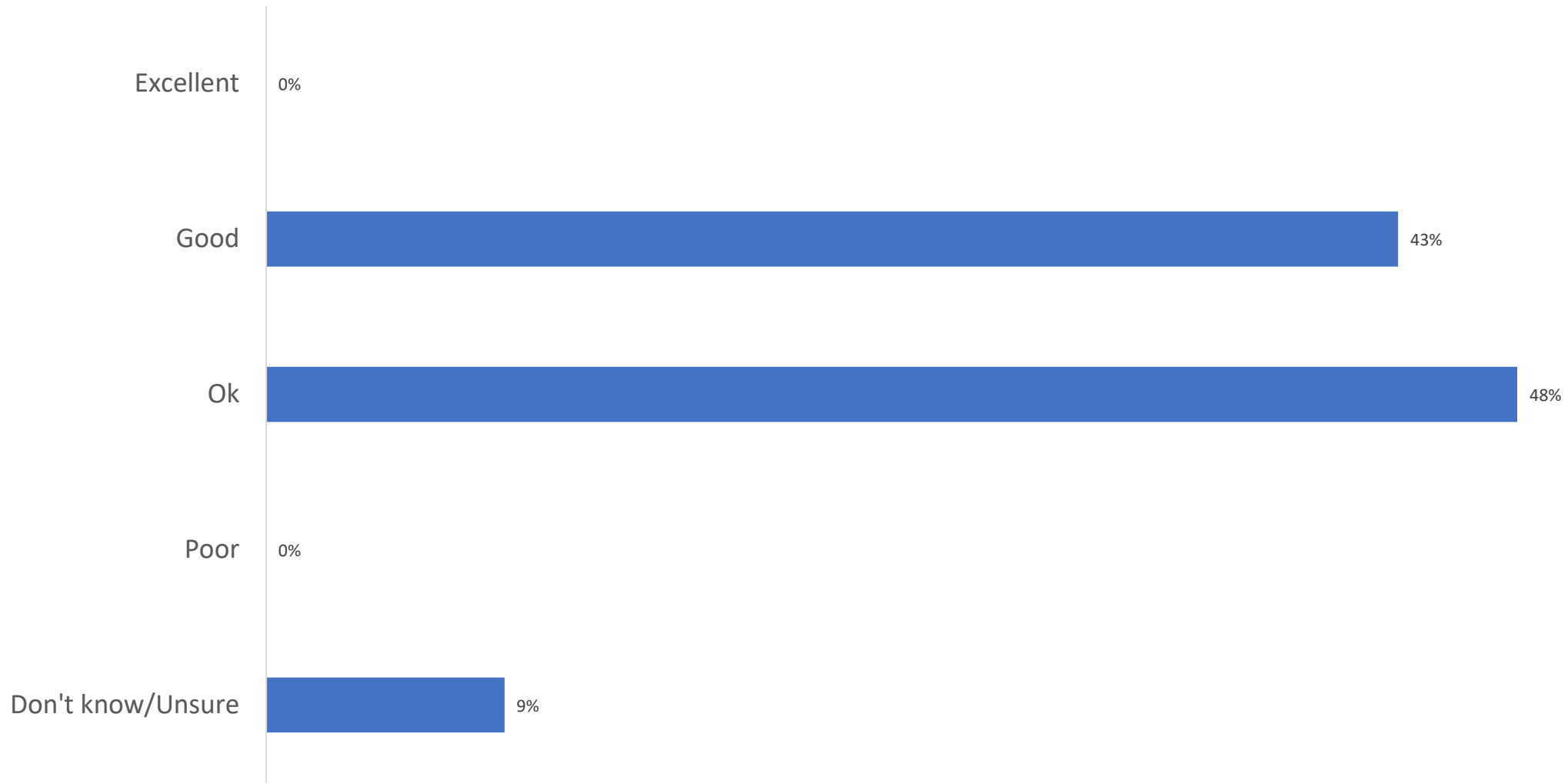
- [Lyuba Goltser](#), Partner, Weil, **Gotshal & Manges LLP**
- [Kelly Grez](#), Corporate Secretary and AVP, Legal, **Merck**
- [P.J. Himelfarb](#), Partner, **Weil, Gotshal & Manges LLP**
- [Ross Jeffries](#), Deputy General Counsel & Corporate Secretary, **Bank of America**
- [Ann Kappler](#), EVP and General Counsel, **Prudential Financial**
- [Stuart R. Levine](#), CEO, **Stuart Levine & Associates**, Board Director Positions at Broadridge Financial Solutions, D'Addario & Company, Gentiva Health Services, European American Bank, Olsten Corp, Former Global CEO for Dale Carnegie & Associates
- [Bill Ultan](#), Managing Director-Corporate Governance, **Morrow Sodali**



# Communicating with the Board on ESG Issues and Stakeholder Expectations



## How would you describe the quality of information that you provide the board on ESG and stakeholder expectations?

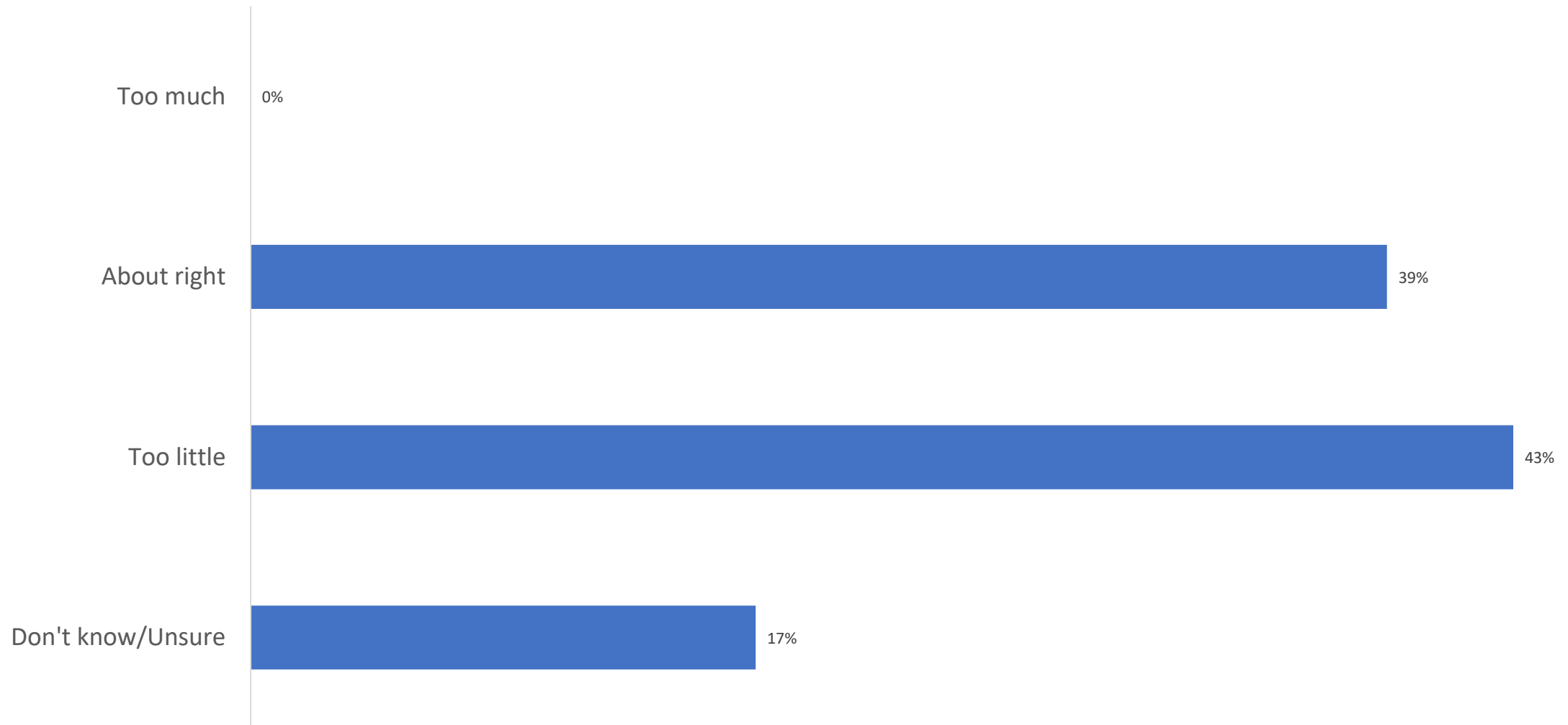


Source: The Roles of the Board in the Era of ESG and Stakeholder Capitalism  
Working Group Session Three, 44 Respondents





## How would you describe the quantity of information that you provide the board on ESG and stakeholder expectations?



Source: The Roles of the Board in the Era of ESG and Stakeholder Capitalism  
Working Group Session Three, 46 Respondents



# Scope of ESG Issues: Ever Expanding and Evolving

## Environmental (~80 Issues)

Biodiversity and conservation	Plastic, packaging, and materials
Climate	Waste
Energy	Water and effluents
Greenhouse gas (GHG) emissions	Air pollution

## Social (~100 Issues)

Animal rights and welfare	Supply chain and procurement practices
Corporate citizenship and philanthropy	Corporate culture
Economic impact	Diversity, equity, and inclusion (DEI)
Human rights	Talent recruitment and development
Corporate political activity	Employment and labor relations
Public health	Employee health and safety
Product safety	Sexual harassment

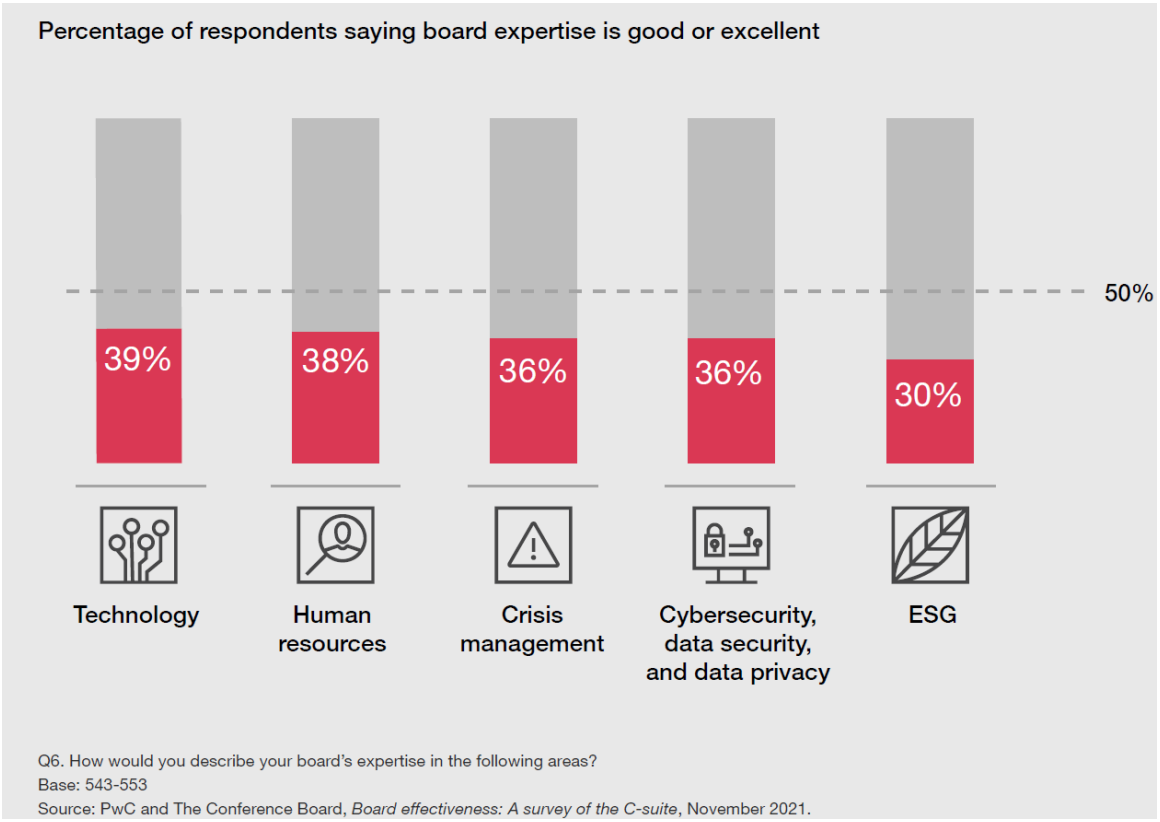
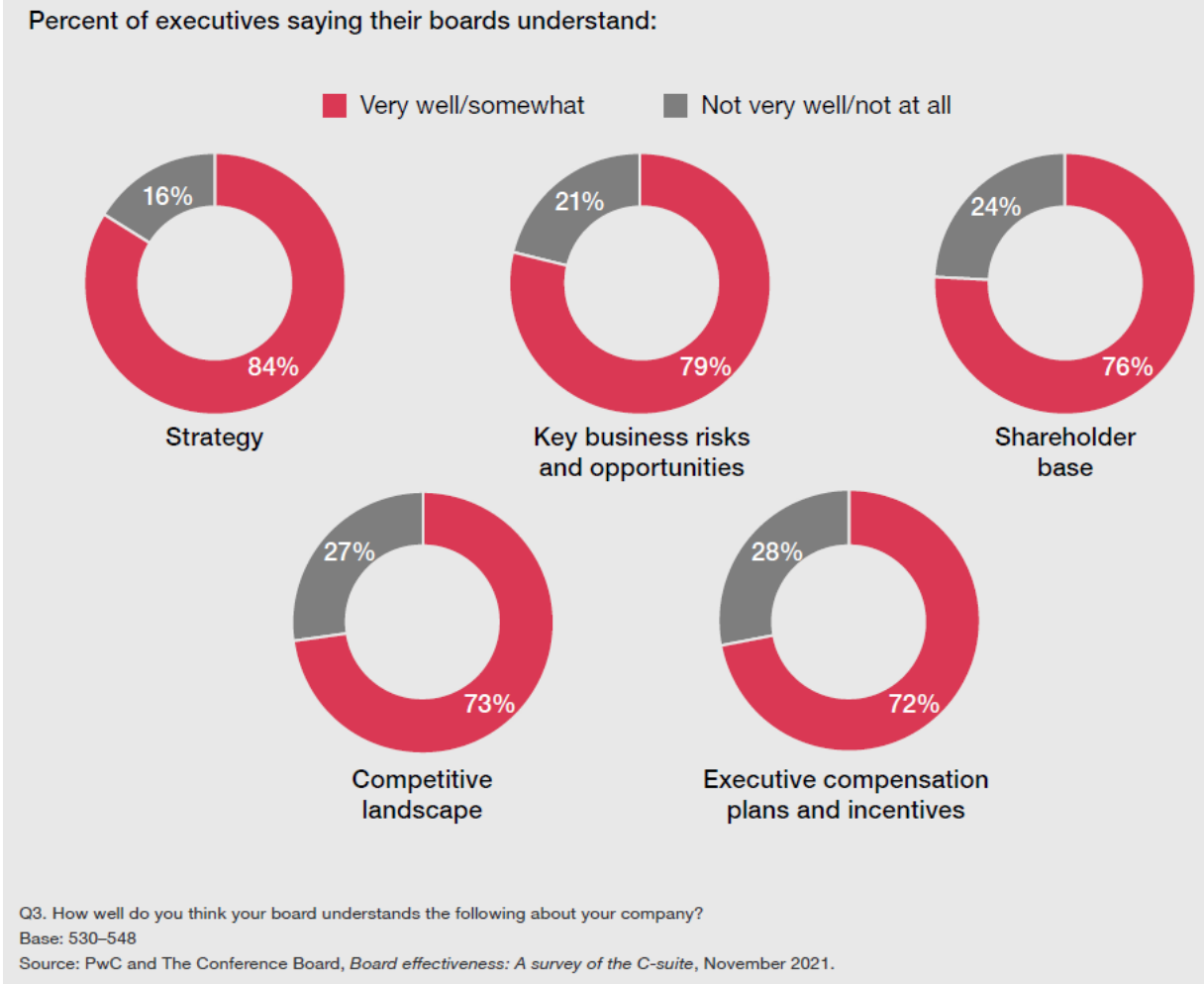
## Governance (~50 Issues)

Anti-competitive behavior	Data security & privacy
Ethics and compliance	Crisis management
Corporate purpose	Litigation
CEO succession	Intangible assets and innovation
CEO performance evaluation	Corporate reputation
Shareholder engagement	Tax strategy
Stakeholder engagement	Risk management
Board diversity	Executive compensation

Source: These data are drawn from 2021 R3000 proxy disclosures  
Data provided by ESGAUCE



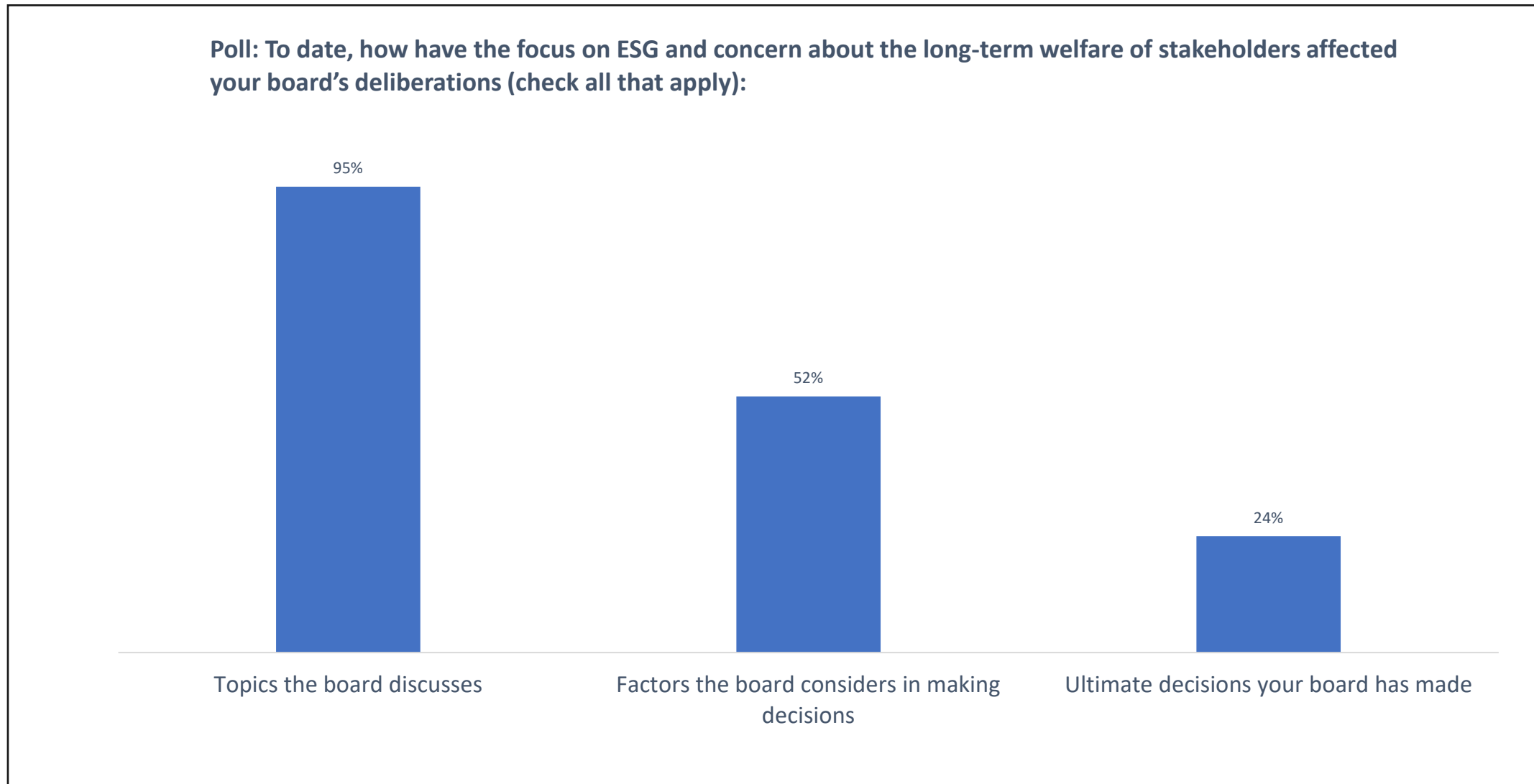
# Boards understand strategy but may lack ESG expertise



Source: [Board Effectiveness: A Survey of the C-suite \(2021 Edition\)](#)



# ESG changing board discussions – also affecting information boards need



Source: [The Roles of the Board in the Era of ESG and Stakeholder Capitalism Working Group Session One](#), 51 Respondents



# How Well Boards Consider ESG Issues and Stakeholders in Key Decisions

## Very Well

- Corporate Culture
- Regulatory Disclosure

## Moderately Well

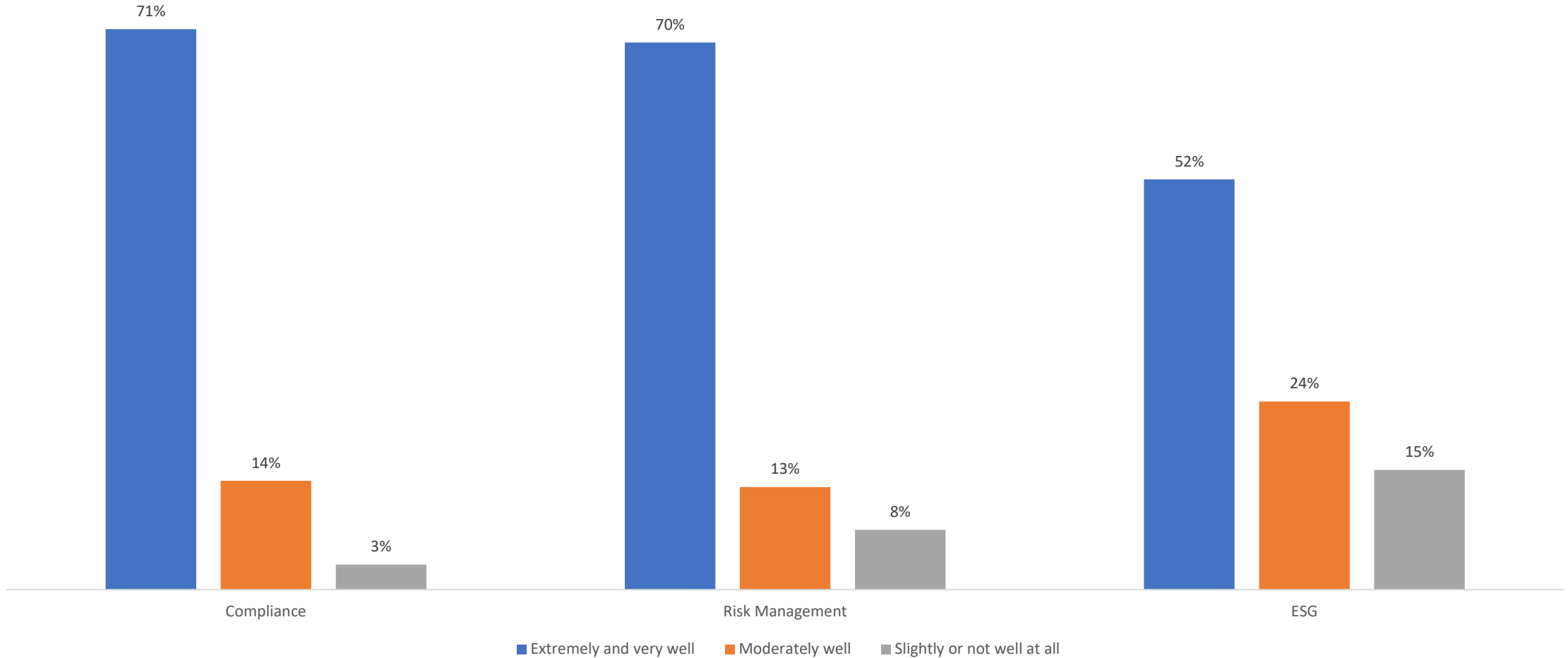
- Strategic Plan
- Business Plan and Operating Budget
- Product and Services
- Internal Controls
- External Communication
- Internal Communications

## Not Well

- M&A
- Organizational Structure and Staffing
- Compensation and Benefits
- Capital Budget



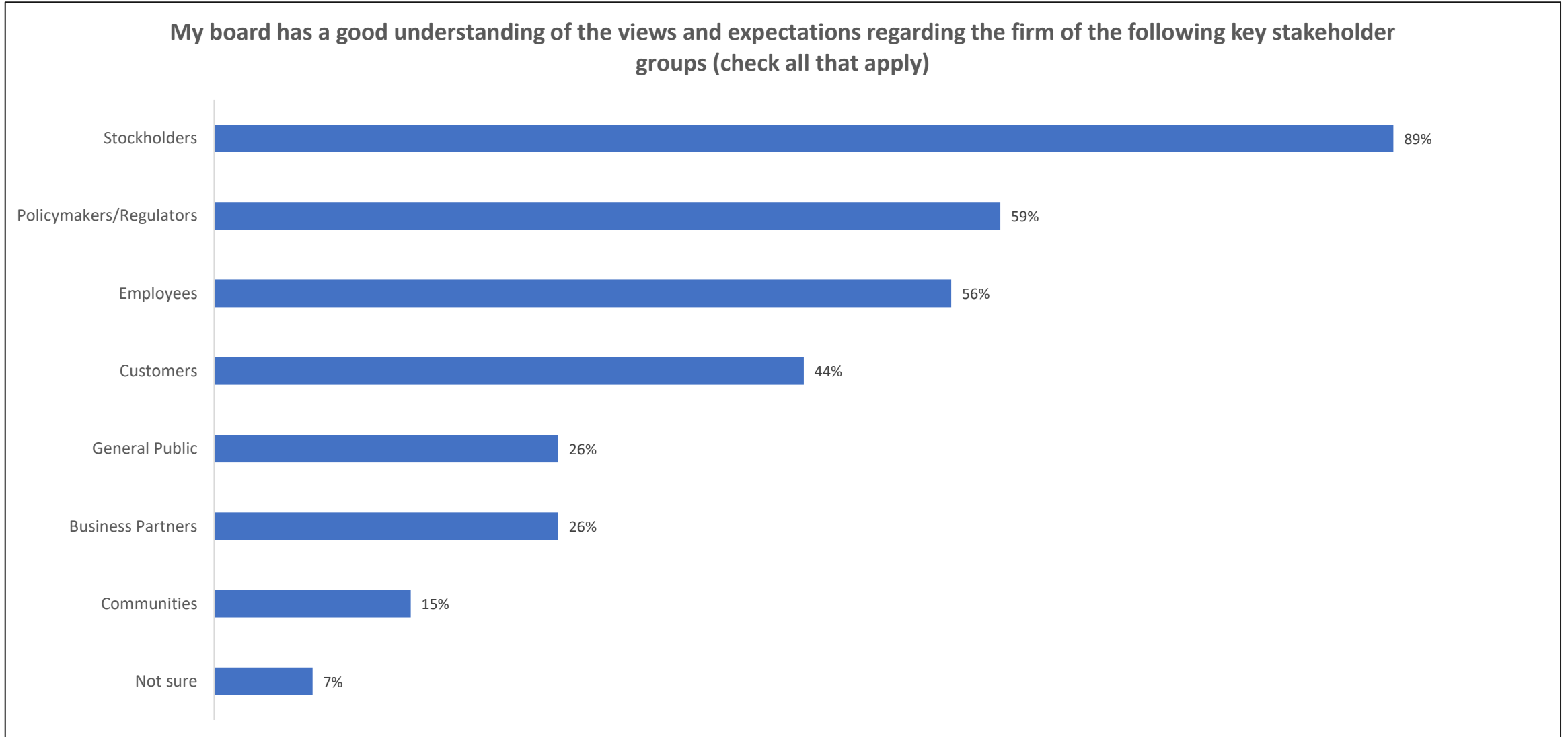
### How well does your board engage the following areas:



Source: [Aiming for Alignment in Compliance, Risk, and Sustainability](#) (The Conference Board, 2022), 122 ESG, Risk, and Compliance Executives. Respondents who chose 'unsure' are not shown



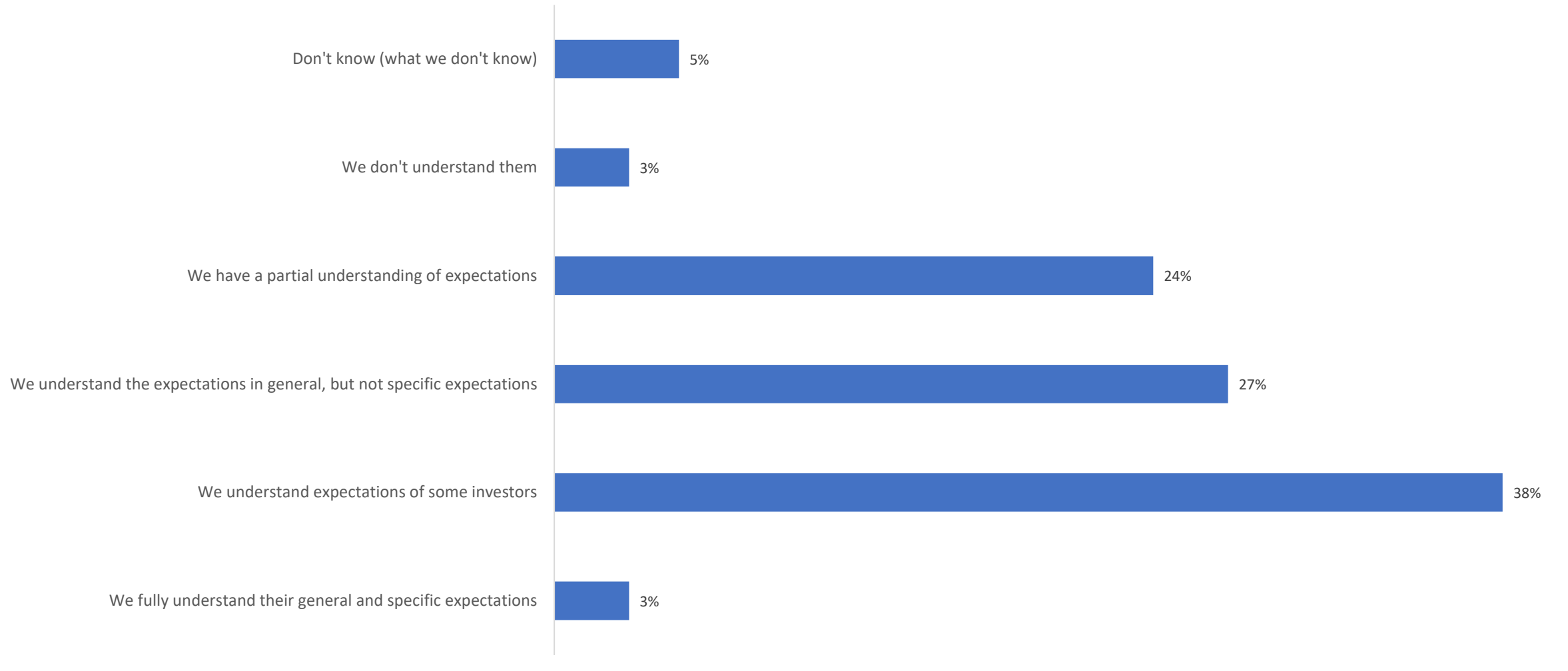
# Boards' understanding of stakeholder views and expectations



Source: [Roles of the Board in the Era of ESG and Stakeholder Capital](#)  
Session Two, 27 Respondents



### How well do you think your company understands the general and specific expectations of your major investors regarding human capital management?



Source: Human Capital Management Working Group Session One, 44 Respondents

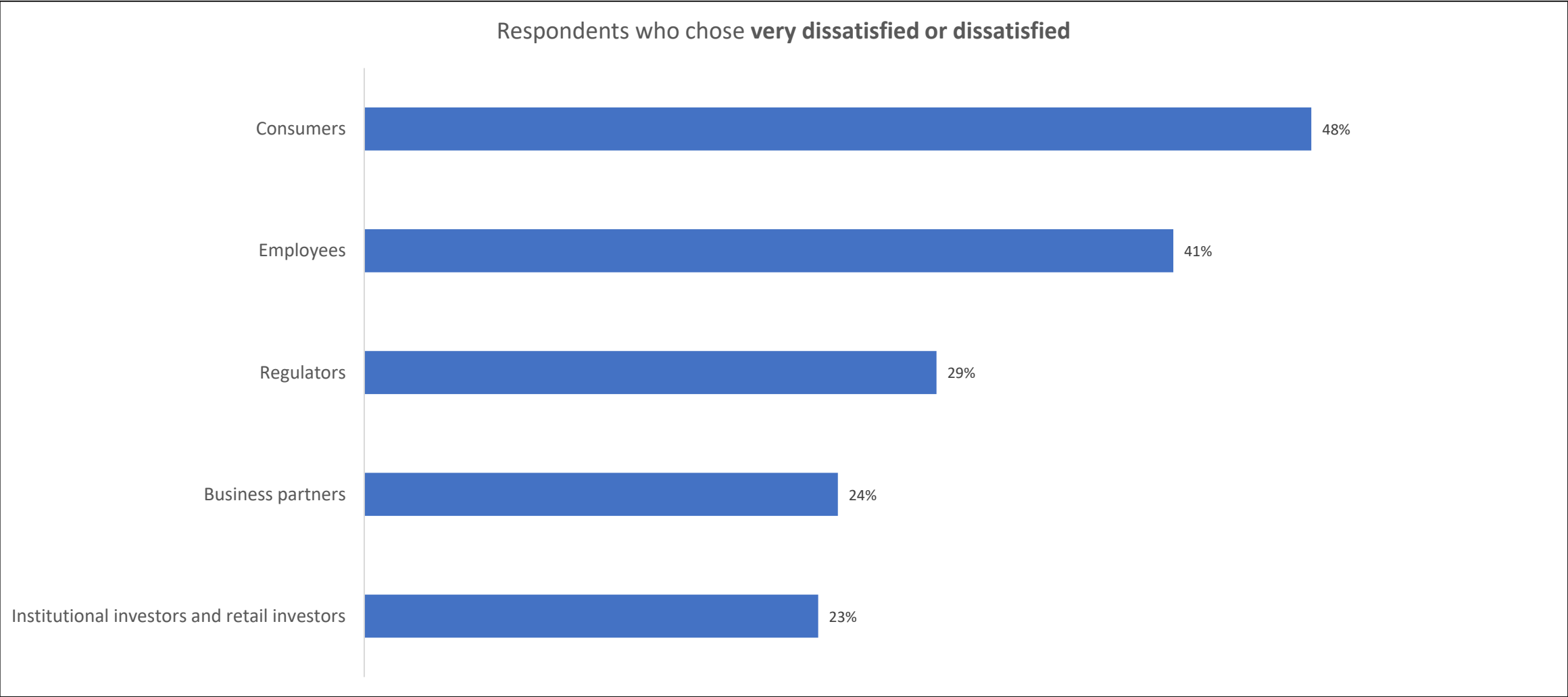




# The Board's Role in Communicating on ESG and Engaging with Stakeholders



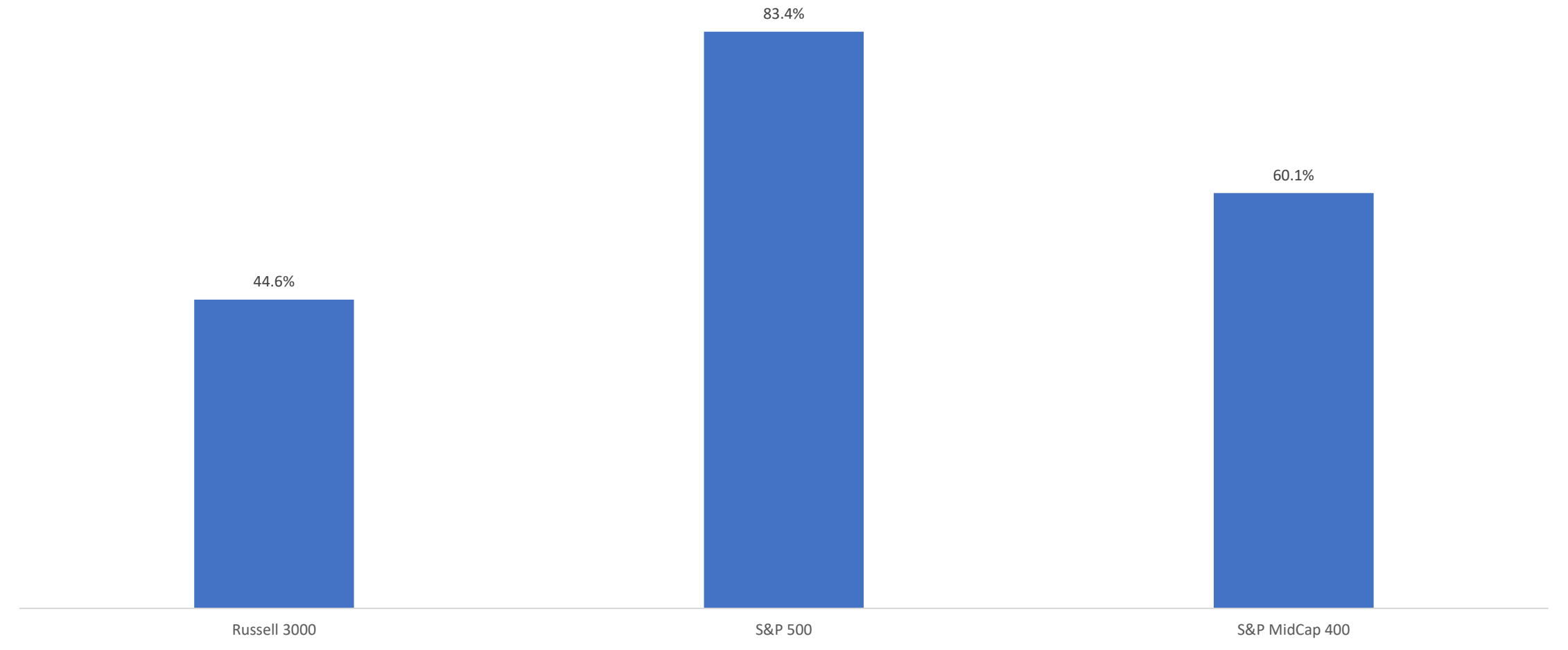
# How satisfied are you with your two-way engagement on sustainability with:



Source: [Telling your Sustainability Story Working Group](#) Session, 30 Respondents



### Section of Proxy Statements Including Shareholder Engagement Disclosure, by Index (2022)



Source: These data are drawn from proxy disclosures up until September 17<sup>th</sup>  
Data provided by ESGAUGE

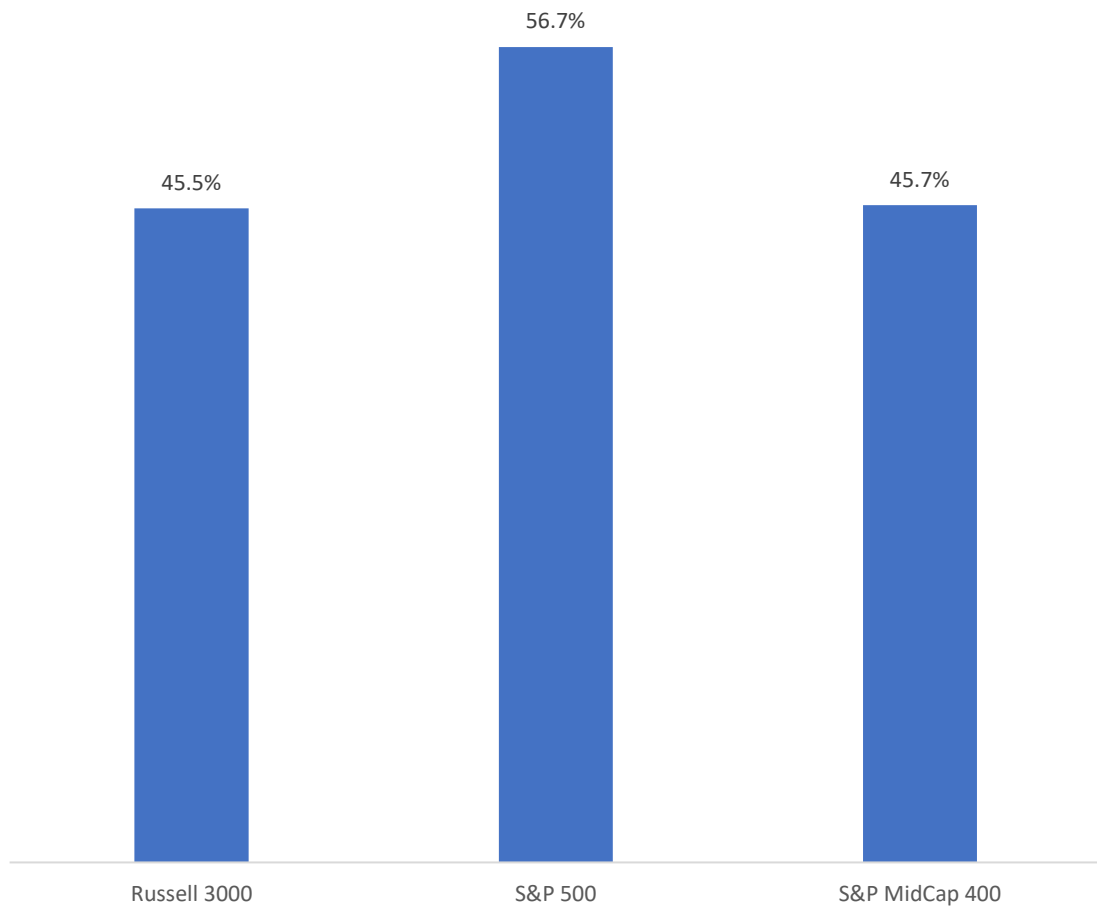
Russell 3000  
n= 2773

S&P 500  
n= 457

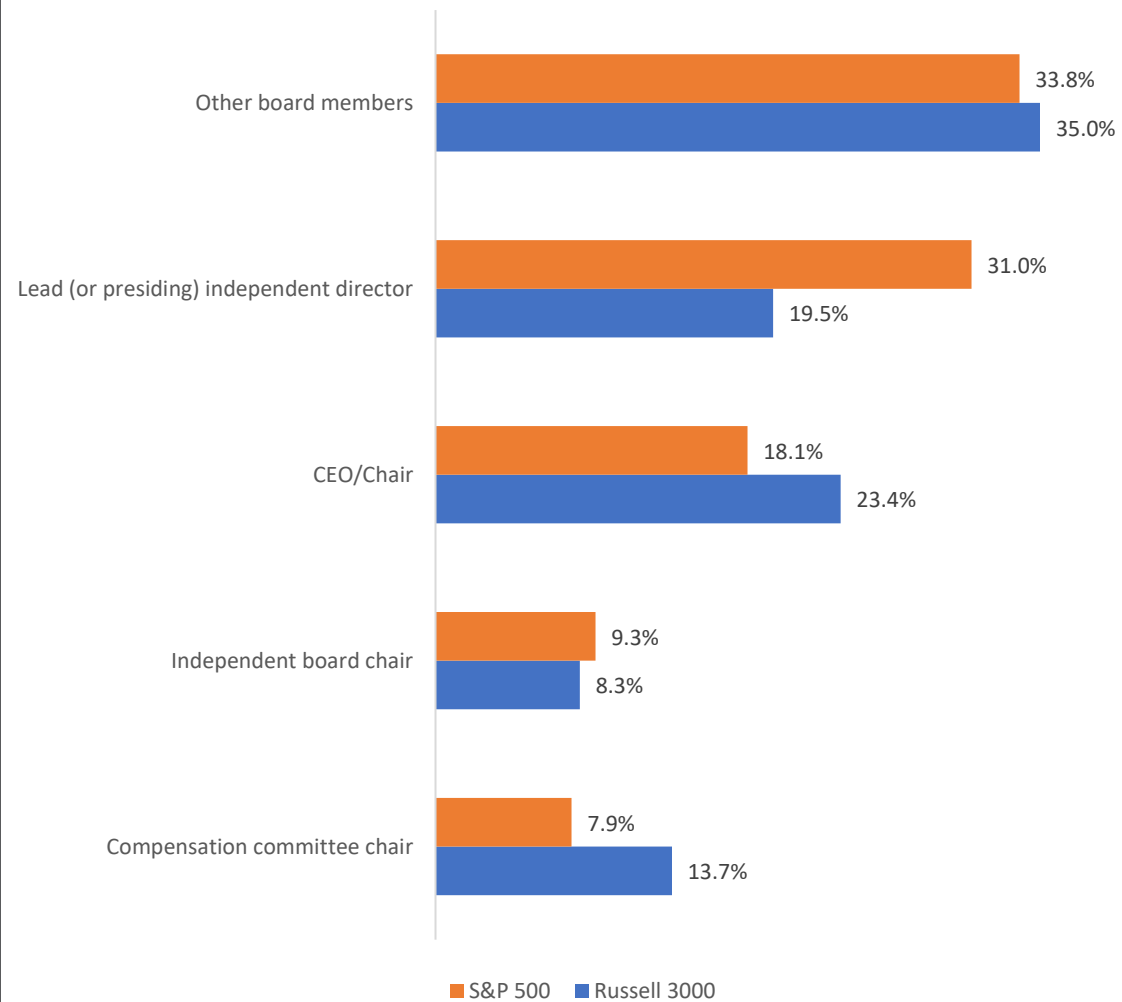
S&P MidCap 400  
n= 368



### Disclosure Explicitly Refers to Director Involvement in Engagement, by Index (2022)



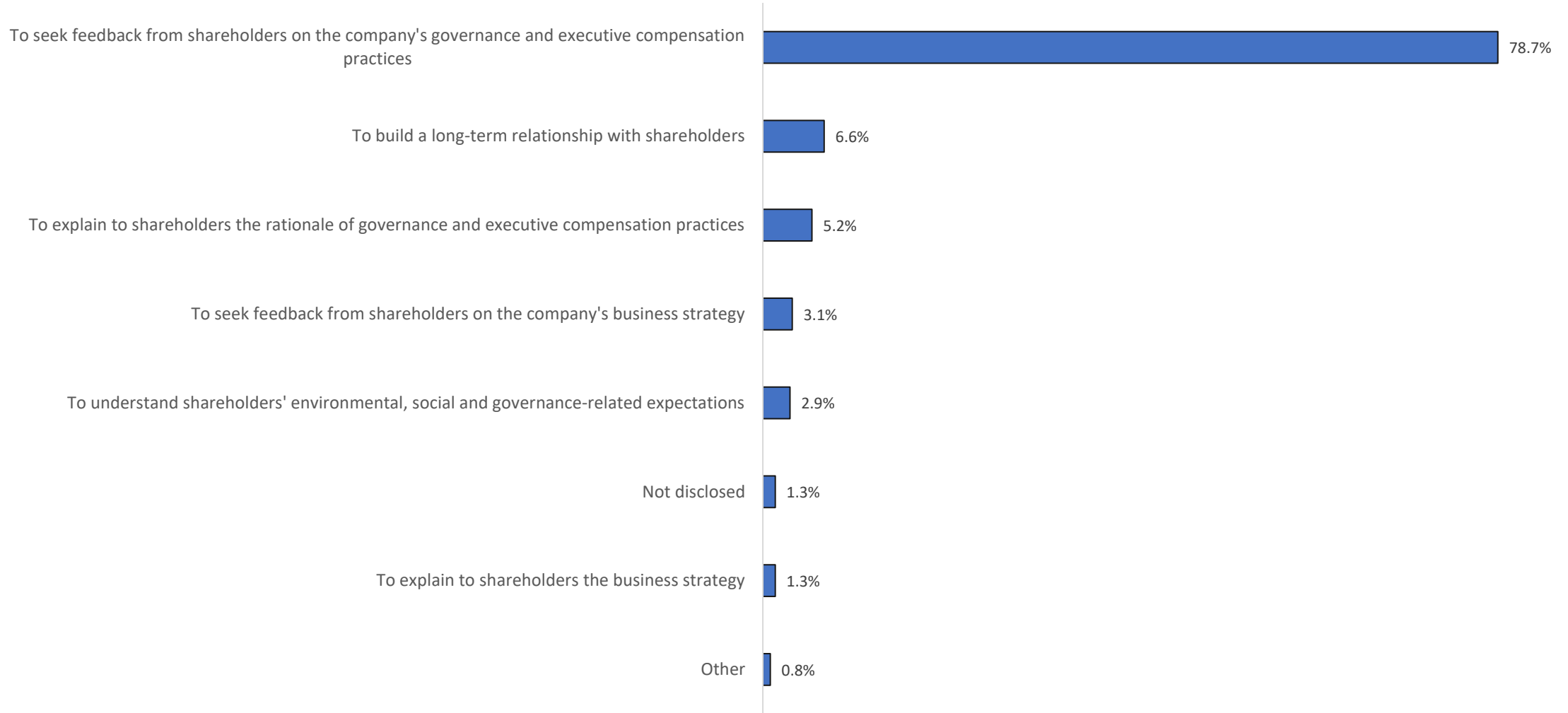
### Stated Leadership of Board/Shareholder Engagement Process, by Index (2022)



Source: These data are drawn from proxy disclosures up until September 17<sup>th</sup>  
Data provided by ESGAUGE



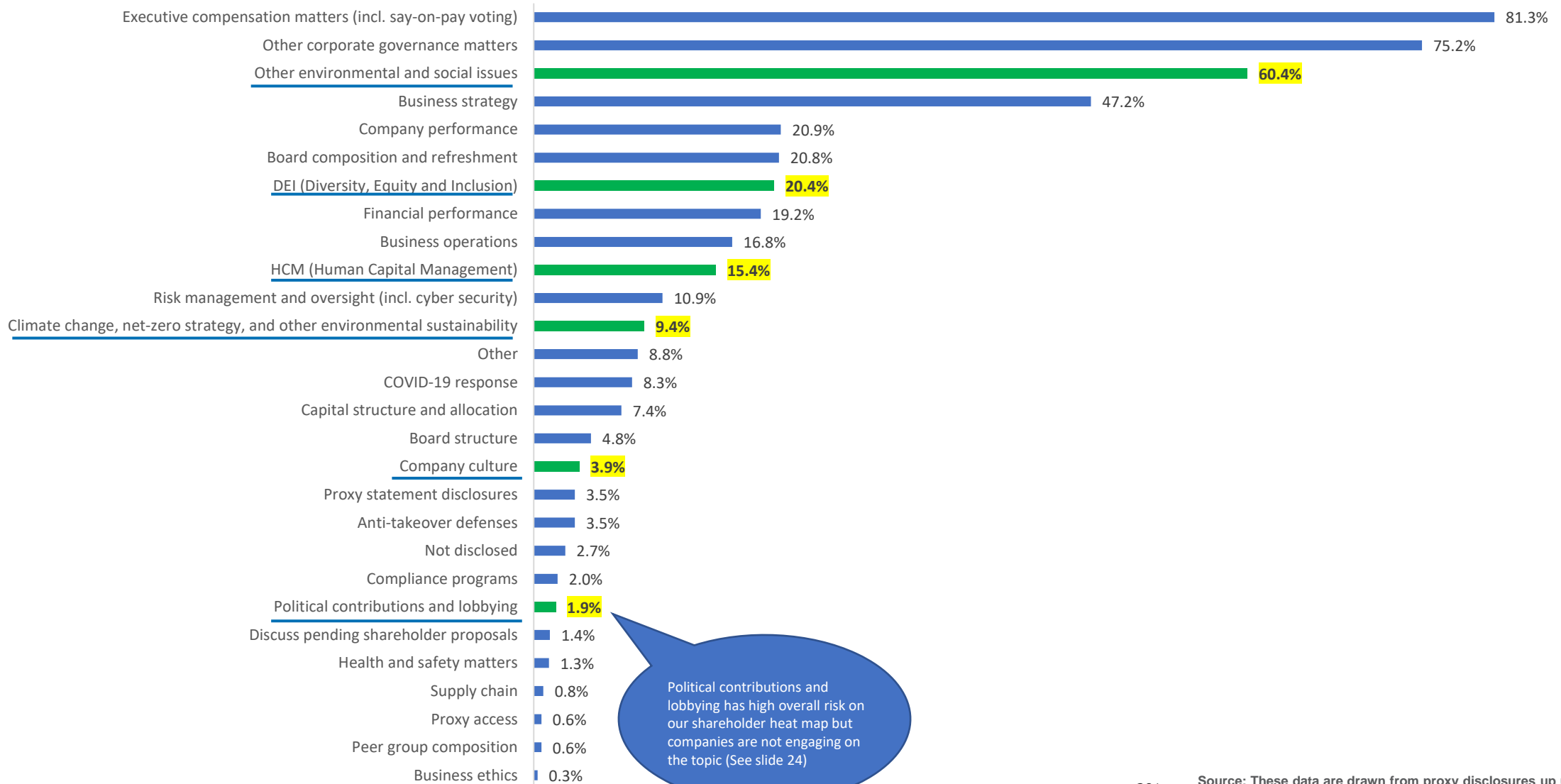
### Stated Reasons for Shareholder Engagement, (S&P 500 2022)



Source: These data are drawn from proxy disclosures up until September 17<sup>th</sup>  
Data provided by ESGAUGE



## Shareholder Engagement Topics, (S&P 500 2022)

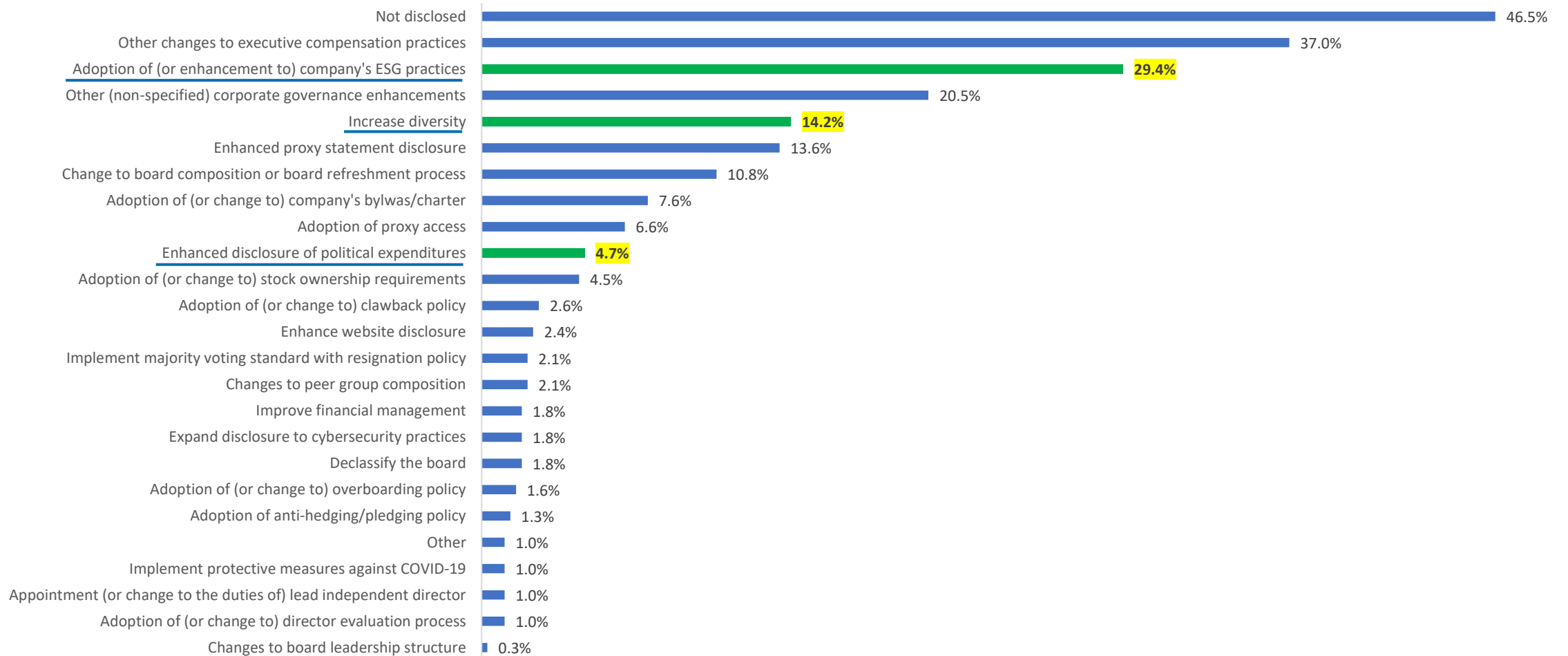


n= 381

Source: These data are drawn from proxy disclosures up until September 17<sup>th</sup>  
Data provided by ESGAUGE



## Actions in Response to Engagement, (S&P 500 2022)



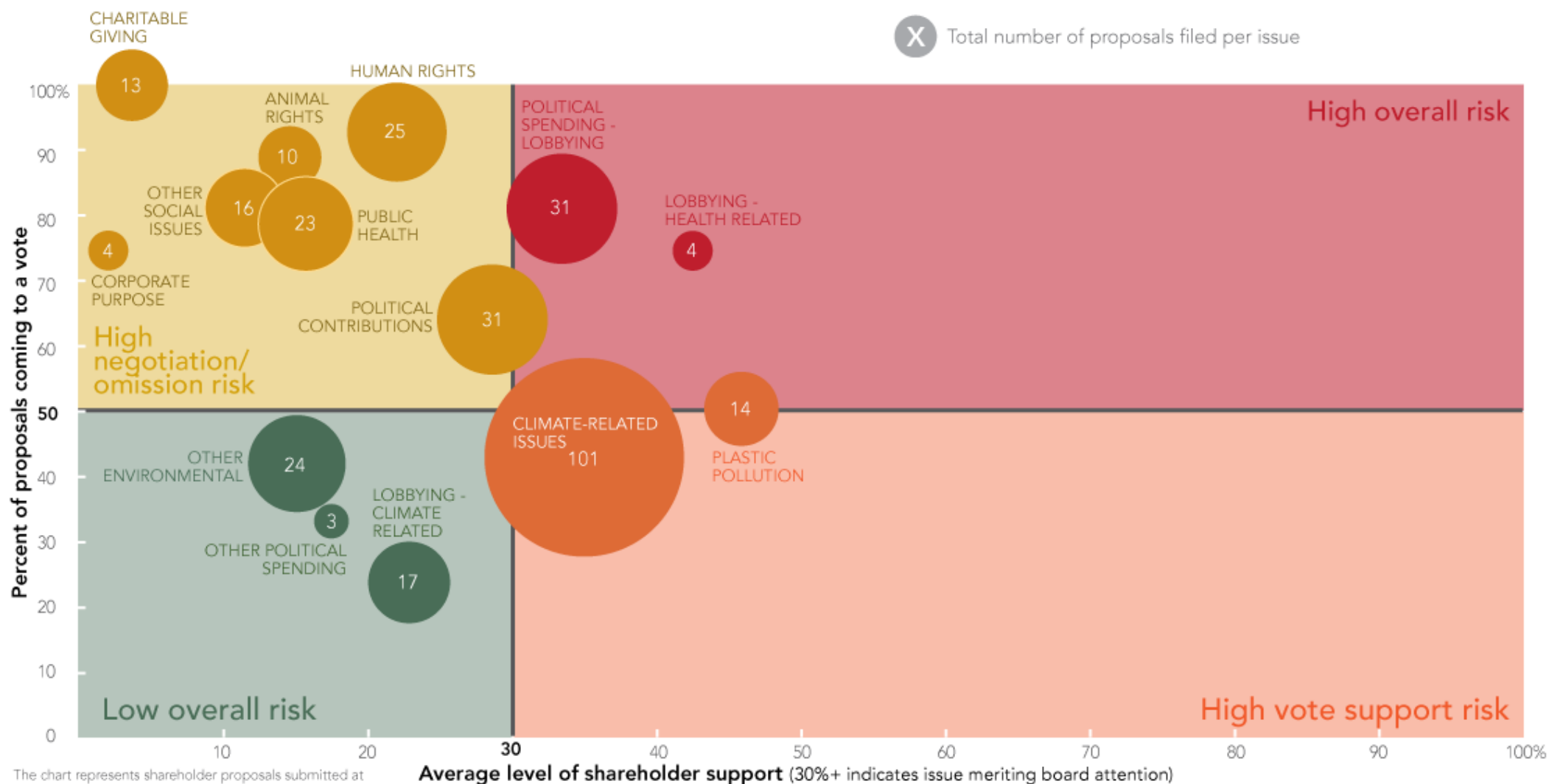
Source: These data are drawn from proxy disclosures up until September 17<sup>th</sup>  
Data provided by ESGAUGE

n= 381



# Environmental & Social Proposals 2022

Risk that shareholders could overturn status quo



The chart represents shareholder proposals submitted at Russell 3000 companies between January 1 and mid-July, 2022. It includes topics for which at least two proposals went to a vote.

**Average level of shareholder support** (30%+ indicates issue meriting board attention)

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Data drawn from The Conference Board ESG Advantage Platform, powered by ESGAUCE

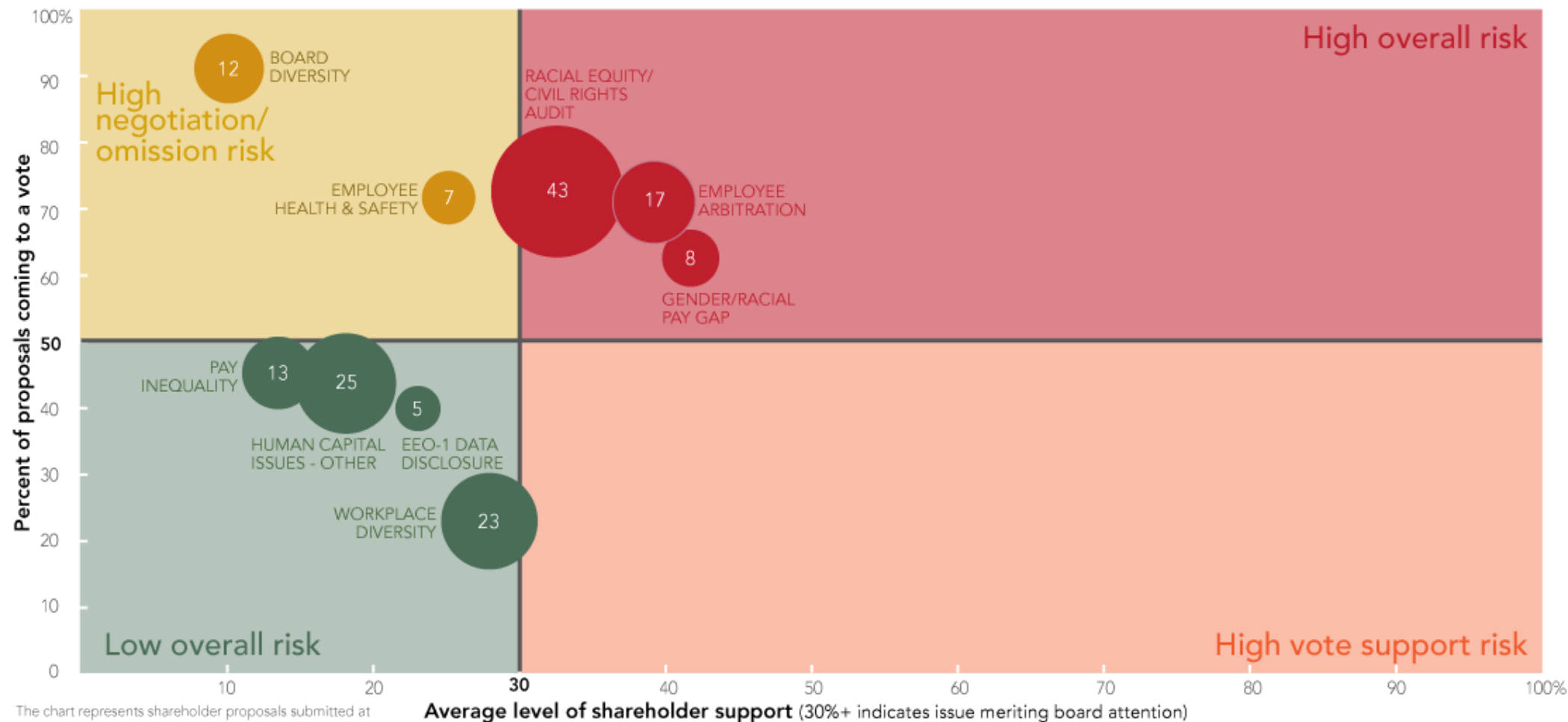




# Human Capital Management Proposals 2022

Risk that shareholders could overturn status quo

X Total number of proposals filed per issue



The chart represents shareholder proposals submitted at Russell 3000 companies between January 1 and mid-July, 2022. It includes topics for which at least two proposals went to a vote.

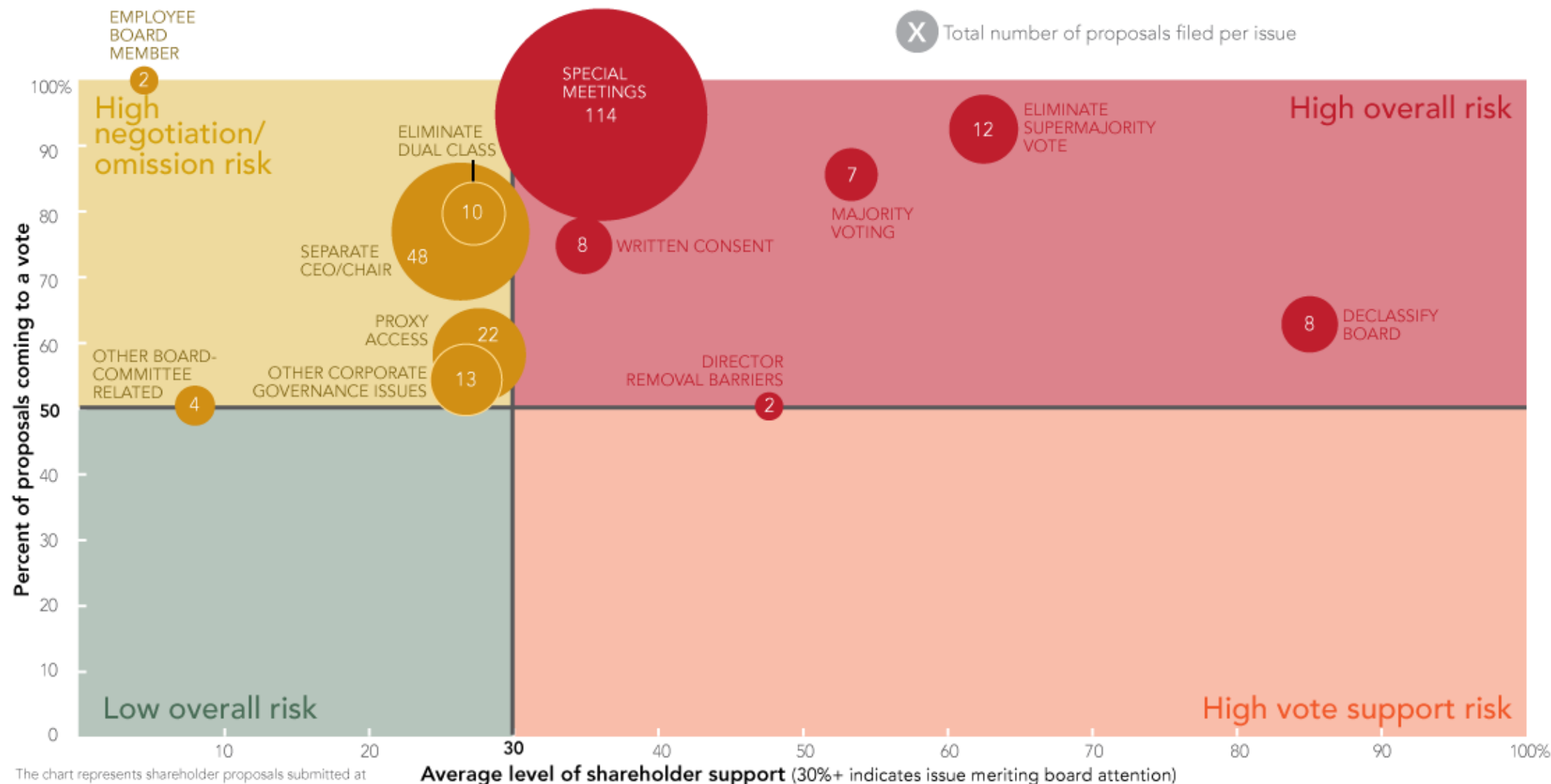
Average level of shareholder support (30%+ indicates issue meriting board attention)

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# Corporate Governance Proposals 2022

Risk that shareholders could overturn status quo



The chart represents shareholder proposals submitted at Russell 3000 companies between January 1 and mid-July, 2022. It includes topics for which at least two proposals went to a vote.

**Average level of shareholder support (30%+ indicates issue meriting board attention)**

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# Upcoming Programs



## Building a Sustainability Culture Session Four

October 26 | 2:00 – 4:00 PM Eastern

[Register here](#)



## Maximizing the Benefits of Board Diversity

November 30 | 3:00 – 5:00 PM Eastern

[Register here](#)



## Best Practices/Metrics in Reporting on Corporate Citizenship & Philanthropy

November 8 | 2:00 – 4:00 PM Eastern

[Register here](#)



## Roles of the Board in the Era of ESG and Stakeholder Capitalism Session Four: Effectiveness and Evaluation

November 15 | 2:00 – 4:00 PM Eastern

[Register here](#)



## 2022 ESG Summit: Collaborating While Competing in ESG

December 8 | 2:00 – 5:00 PM Eastern

[Register here](#)

