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What's Stopping Boards from Turning Sustainability Aspirations into Action?

By N. Craig Smith, INSEAD and Ron Soonieus, Camunico

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As environmental and societal challenges increase, company boards have a fiduciary and moral duty to arm themselves with the people, the knowledge, and the tools needed to promote long-term sustainability.

"Get the board of directors on board" was a key recommendation for driving sustainable business practices in a major report from *MIT Sloan Management Review* in 2017.[1] Board engagement with sustainability has been urged by organizations with a focus on sustainability, such as Ceres[2] and the UN Global Compact[3], and by organizations focused on corporate governance, such as the National Association of Corporate Directors (NACD)[4], as well as in academic research[5].

Simply put, if an issue is not on the board's agenda, it's unlikely to be at the heart of an organization's strategy. Although board engagement is increasingly recognised as key to ensuring sustainable business practices, there is evidence that only a minority of boards give the subject sufficient attention. A 2018 Ceres survey found that only 31% of 600 large, publicly-traded U.S. companies had board oversight of sustainability[6]. A 2014 United Nations Environment Programme Finance Initiative report (based on 2011 Bloomberg data for 60,000 companies) found that "the governance of sustainability is still at an embryonic stage… most companies still have not taken responsibility for sustainability issues at the highest governing body of the corporation."[7] While a 2014 survey of over 2500 executives from around the world found that 86% agreed that boards should play a strong role in sustainability, but only 42% reported that their boards were substantially engaged[8].

This lack of board attention to sustainability is short-sighted. Arguments aside about the inherent importance of sustainability, good governance alone would seem to demand it be given more attention. It is a fiduciary responsibility of board directors to enhance firm long-term value and mitigate business risk[9], and surveys suggest investors care about sustainability — and more than executives believe[10].

Company reporting and other disclosures necessitate that many boards do engage with sustainability, but this is often at the margin and may be all they do. At minimum, fundamental questions need to be addressed of what sustainability means for the business and what the future holds as sustainability increasingly impacts business inputs and outputs.

Organizations with a focus on sustainability, such as the UN Global Compact[11], and those that focus on corporate governance, such as the National Association of Corporate Directors (NACD)[12], have long championed the need for effective board engagement to produce tangible results on company social and environmental impacts.They ground the rationale for action in the fiduciary duty of board members to enhance firm long-term value and mitigate business risk, and in moral obligation, given the pressing sustainability issues facing humankind.

Their claims of the need for board engagement are supported by academic research which has found that if an issue is not on the board's agenda, it's unlikely to be at the heart of company strategy. In other words, if a company is to fulfil its sustainability aspirations, the board of directors must be engaged and supportive if not driving sustainability as a prime consideration in business decision-making.

A new Board Agenda (BA) and Mazars survey, ***Leadership in Corporate Sustainability – Europe Report 2018*** [13], developed in association with the INSEAD Corporate Governance Centre, shows that while boards are increasingly conscious about the need to incorporate sustainability into broader business practice, they struggle to get the right information, expertise and processes in place to deliver on their commitments.

In this report, we look at how well, and indeed whether, sustainability issues are being understood at board level. Drawing on the BA findings and on 25 interviews with non-executive board members, we focus on three key aspects of the problem: What are boards really saying about sustainability? What are the obstacles to them taking more effective action? What changes should be made by boards so that their companies respond more effectively to sustainability challenges?

Looking past the 'low-hanging fruit'

In 2019, shareholders generally recognise that the integration of environmental, social and governance factors into business practice is vital to managing risk and creating long-term value for the company. While the business case may vary from firm to firm (or even within a firm) there is broad agreement that thinking sustainably makes financial sense.

Unfortunately, with social and environmental challenges escalating, we have now reached a tipping point where market-led actions are no longer enough. Just how widely recognised this is, and whether business leaders have the knowledge and means to take effective action, is still up for question.

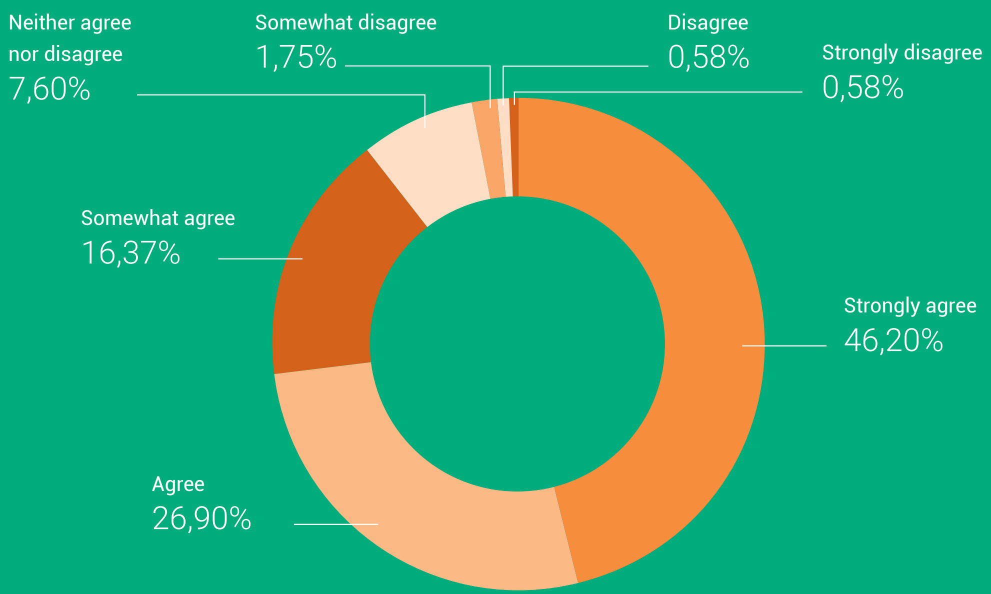
The BA report clearly shows that for the majority of boards and business leaders, sustainability has become a key factor to contend with, measure and address. However, there is also evidence of a growing divergence between businesses which integrate sustainability into the heart of their organisation's activities, and those that take a more on-the-side and tick-a-box approach. There are companies which feel they are already doing the right things and those who recognise that as the challenges escalate it is no longer sufficient to target and meet year-on-year improvements in areas such as social responsibility and eco-efficiency. To maintain the momentum and ensure real change occurs, businesses must look past minimising carbon emissions and other 'low hanging fruit' and make the difficult decisions necessary to integrate sustainable practices throughout their core business processes and that of their, often complex, supply chains.

Board engagement requires more than good intentions

The BA survey suggests boards are very aware that the companies they govern cannot be successful in the long term without considering the communities they work in and the natural environment they depend on. Of the 234 business leaders polled (from various ranks and diverse-sized companies), three quarters believe that ignoring sustainability will affect their company's ability to create long-term value *(see Figure 1)*; 53% said they see a clear business case for sustainability; while 57% say they aim to meet their sustainability obligations.

Figure 1:

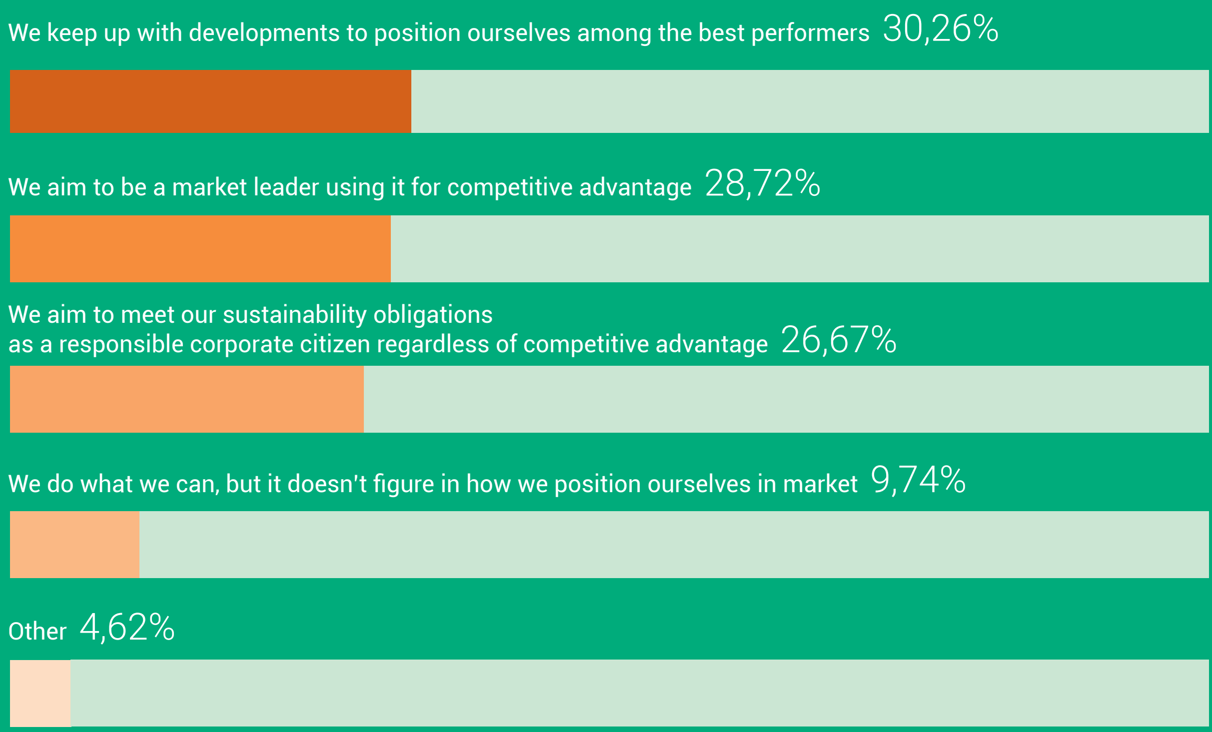
Do you agree that ignoring sustainability will affect your company's ability to create value in the long term



Almost a third indicated that their organisations aim to be market leaders in sustainability and a further 30% aim to be seen as strong performers *(see Figure 2)*. More than a quarter said that sustainability was viewed as part of their firms' obligations outside a purely business case, indicating a recognition of their moral responsibilities for incorporating sustainability into their business strategy.

Figure 2:

Your company has a clear idea of where it is trying to position itself on sustainability

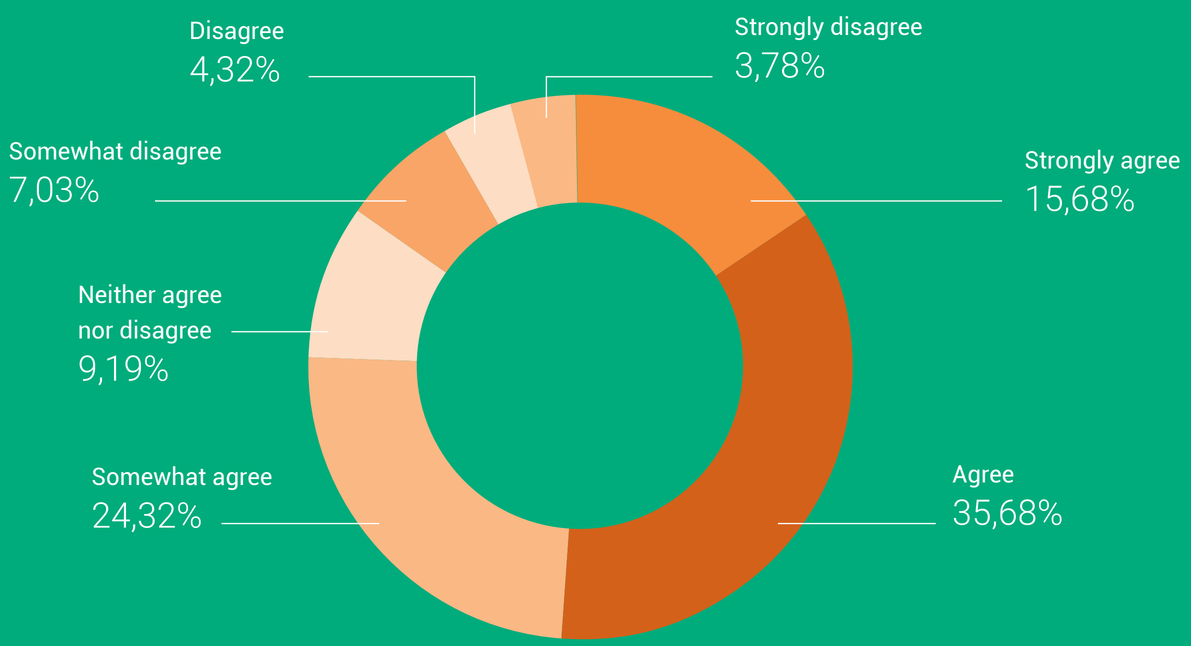


While this is encouraging, their awareness does not necessarily extend to identifying the policies which need to be in place, and information required, to meet growing environmental and societal challenges. Although sustainability risks and opportunities appear to be understood, the survey responses show that boards are only starting to recognise the complexity of sustainability and the difficulties their companies face in integrating and measuring it.

Half the respondents could not say that their companies' sustainability principles and intentions were delivered by effective business policies; a quarter could only partially agree that their policies served sustainability; while a worrying 15% indicated that their policies may not be up to the mark *(Figure 3)*.

Figure 3:

The sustainability principles and intentions of your organisation are delivered by effective business policies and objectives



Need for greater board attention

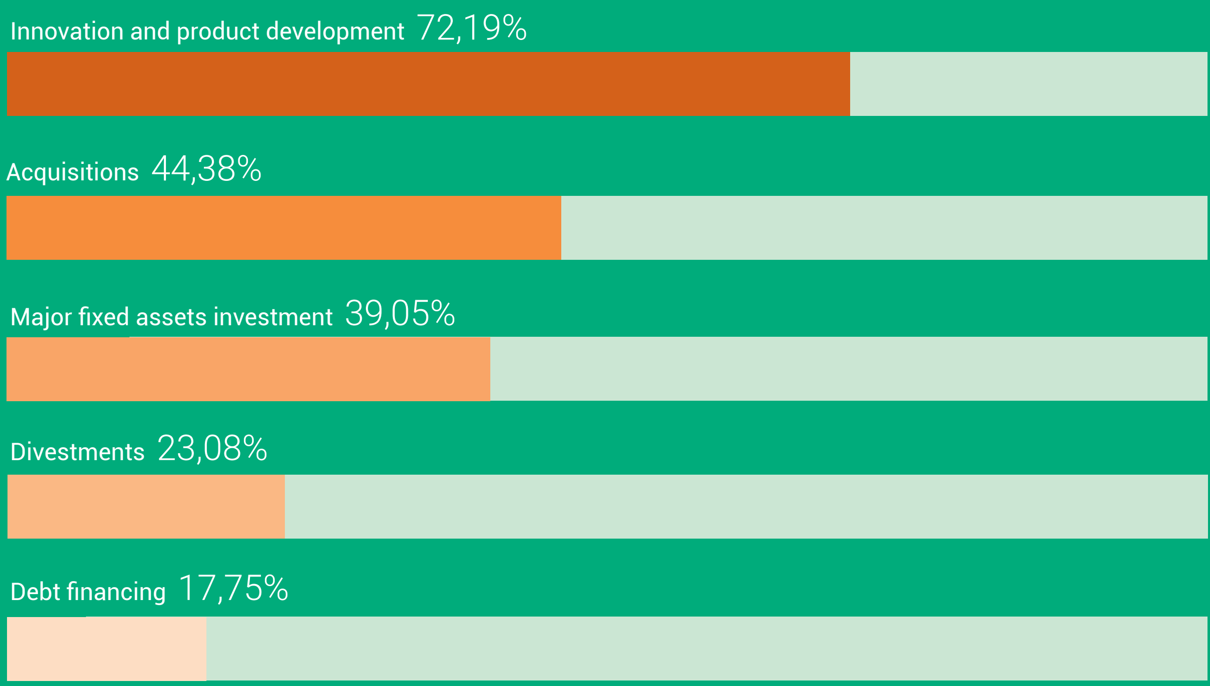
Despite offering a degree of optimism about businesses' ability to integrate sustainability into the management of their companies, the responses to the BA survey indicate a concerning lack of specific sustainability knowledge among board members:

- Nearly two thirds of respondent could not say that their company required sustainability expertise or mindset in appointing non-executive board members or recruiting executives who are members of the board.
- Only 50% said they believed their companies had the right information and measures in place for them to understand its position, ambition and progress with regards to sustainability.
- More than 20% indicated that board members struggled to see how sustainability fitted into their company strategy, or had no-one on the board with specialised knowledge or interest.

This lack of understanding, or even interest, is intriguing when considered against figures which show that sustainability opportunities and risk are explicitly considered in key business activities such as innovation and product development (70%), acquisitions (44%) and fixed asset investment (39%) *(Figure 4)*.

Figure 4:

Sustainability opportunities and risk are explicitly considered as an integral part of investment decisions (select all that apply)



Of equal concern were responses that indicated:

- Less than 30% of companies have a head of sustainability who reports to either the board (either directly or via the CEO)
- More than half don't have a head of sustainability
- Only 17% of boards have a dedicated sustainability committee

Given growing societal awareness and demand for companies to conduct their business sustainably – studies suggest **50% of customers are influenced by key sustainability factors**[14] – one must ask: ***why are boards not more engaged with sustainability?***

To better understand directors' divergent attitudes to sustainability and the frequency and depth at which it is discussed during board meetings, we conducted in-depth interviews with 25 highly experienced European non-executive directors representing 50 large, well-known companies. In return for the promise of anonymity, they were refreshingly frank in their feedback.

Five Archetypes of Board Behaviour

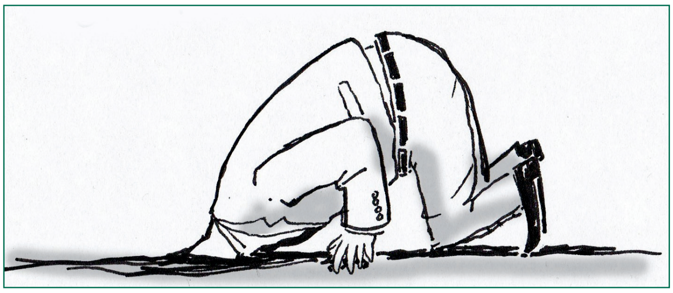
An analysis of the interview responses revealed **five distinct archetypes of board members' behaviour**[15] which go a long way to identifying why there is such a divergence in boards' attitudes and why, in too many cases, sustainability issues are being buried. These archetypes are:

- The Deniers
- The Hard-headed
- The Superficial
- The Complacent and
- The True Believers

Our research profiles these types and identifies strategies for dealing with them. While the interviews revealed a tendency for directors to gravitate towards companies where they would be surrounded by like-minded board members — birds of a feather flock together — many found themselves on boards where members had very different ideas on how sustainability "fits" with their business principles and strategy. One board member we spoke to had been elected by employees, rather than directors, to speak out on environmental issues. She found herself on a board where she clearly did not belong. "I have been laughed at," she confided. "Having the board take sustainability seriously has been a long and lonely battle."

We offer suggestions on how sustainability might be tackled where boards are predominantly characterised by a particular archetype as well as, in conclusion, overall recommendations for turning sustainability aspirations into effective action.

1. The Deniers



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These are the board members who see sustainability as nothing more than a buzzword or a fad that will go away. For their companies, sustainability is typically (at most) a page in the annual report. Or, as one respondent noted, "If it does get onto the board's agenda, it's item number 38". As open hostility to sustainability is largely unacceptable today, this archetype isn't always so obvious. In fact, environmental and social issues are most likely to be conspicuous by their absence. "In the five boards I'm on, it's almost never discussed," one director noted. "Although most have a section in the annual report," he added.

Other board members in this category were reported to have referred to sustainability as the "the last wagon in the train" or "the CEO's new toy".

"In my experience, sustainability in the short run is about value destruction," one denying director told us. "There's a natural order of things. For a corporation to be secure, it must be prosperous."

Another interviewee summed up his company's attitude to sustainability as 'the technocratic approach', admitting, "We are listed much higher on the Dow Jones Sustainability Index (DJSI) that we think we should be. Apparently, we have become very skilled in filling-out their 300-page questionnaire."

In our experience, this is particularly dangerous, as it can lead to greenwashing – the use of PR, marketing or corporate communications to overstate the environmental benefits, or understate the environmental damage, of a company's products and service.

Consider the Volkswagen Group. It was listed in the 2015 DJSI as the world's most sustainable automaker, and marketed its vehicles as being environmentally "clean diesel". History has shown this was far from the case, as the engine software had been programmed to enable millions of vehicles to pass emissions tests while emitting up to 40 times the permitted levels of pollutants.

Overcoming denial

Whether you find yourself on a board of deniers or merely reporting to them, it's essential to meet them on their own terms. Approach sustainability - indirectly if necessary - through specific, concrete concepts like cost-reduction, business opportunity, consumer demand, or risk exposure, rather than abstract notions of "the planet" or "future generations".

Also, choose your moment wisely. Never raise the issue in times of crisis. "That's when companies resort to alpha-male behavior to fix things," said one interviewee. Or, as another advised, "Never address these things at the end of the meeting, out of the blue."

Patience is an essential strategy. The consensus from our small sample of sympathetic directors was that one-to-one conversations about sustainability were preferable to whole-board onslaughts. Once you have established an amicable relationship, it may be possible to bring denial out into the open. One interviewee recalled eventually asking fellow directors: "What drives your resistance to sustainability?" It was only after engaging in rational argument with his colleagues, that he was able to make headway. His ultimate advice was: "Never give up!".

2. The Hardheaded

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Unlike deniers, hardheaded board members are ready to talk about sustainability - and in positive terms. For them, it is definitely a factor affecting their business, but just one among many, so it tends to be reduced to strategic reasoning. How can the costs be minimized? Are there any market opportunities? If so, how can they be maximized? As one board member put it, "We do what we can, but our business is still gas."

Hardheaded board members are particularly prevalent in organizations on the "dark side" of sustainability. Oil and gas companies, transport operators, and agrochemical giants all take a surprisingly keen interest in the environmental and human impact of their operations, as do businesses where health and safety are a major concern.

If you work for such a company, you may be used to hearing directors say: “Society is demanding solutions, but it’s not giving up on our products and services”; “The end-user is not as demanding as people like to think”; or “Recyclable plastic technology is available but very costly.”

Hard-headed directors tend to raise quite complex ethical considerations. For instance, one of our respondents asked, “Who are we to say that rainforests are rainforests, when the prosperity of the local people comes from palm oil?” Another’s comment verged on the neo-colonial: “Take Congo. It’s a complex situation and the easiest thing would be to leave. But this doesn’t help the country one bit. And what would replace us?” It can be difficult to counter such viewpoints and not at all obvious that they are wrong.

Persuading the hardheaded

Again, it’s essential to meet hardheaded board members on their own terms. Rather than shrugging shoulders, directors should encourage their company to “be the best in class” or to choose a more ethically acceptable route that’s “not too far from existing practice”, as two of our interviewees suggested. “We will never be green,” said a third hardheaded director. “But we focus on the issues we really can influence.”

If these issues are many and diverse, perhaps it’s time to suggest appointing a dedicated sustainability director or simply additional non-executive directors from other industries, citing the need for diversity of thought. One board member from our sample reminded us, “Sector knowledge is important for two-thirds of your board. But one-third should bring in different thinking.”

Hardheaded board members are nothing if not reasonable, so start with areas where results are tangible. From there, you can move on less tangible yet no less important matters, such as longer term risk. “The board started to get an interest in the environment, when it started to raise these issues from a strategic risk perspective,” one director noted.

“Consider making sustainability part of the risk or strategy committee to give it more ‘skin in the game’,” another advised.

Sustainability can be relevant in different ways on multiple existing board committees: Corporate Governance, Audit, Compensation, and Nominating Committees. When doing this it is also important to make sure your cause gets some whole-board attention. To ensure directors are focused requires good timing and the presentation of arguments and questions instead of speeches.

And be ready to concede when you are beaten. As one interviewee noted it: “If the CEO is not interested, it’s tantamount to flogging a dead horse.” Temporarily giving ground does not mean giving up the ghost forever. Monitor the situation and the individual characters, so that you can distinguish the “alpha-male quick-fixers” (whom we met on the denying board) from the ever-reasonable hardheads. Develop antennae for future disruption, risk, and alternative technologies that will support sustainability arguments in board meetings to come.

3. The Superficial

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The superficial board member archetype consists of decent folk who want to do their bit for society and the environment. However, as the old saying goes, the road to hell is paved with good intentions. These directors are well-meaning but are often scared of taking the lead. Sometimes they are more concerned with being seen to do the right thing than actually doing it. As a result, they often end up making far less positive impact than hardheaded directors. As one of our interviewees said, "The boards I'm on don't have a lot of interest in sustainability. They don't see it as a differentiator. But most want to be decent, nothing more, nothing less."

Superficial archetypes have a shallow understanding of the need for sustainability. "The outside world is demanding CSR and sustainability reports or officers," said one director. "That's why we create them, not because we see a business benefit in doing so." Conversations about sustainability go around in circles, rather than following linear arguments. The upshot is often that well-meaning boards pass the buck, rather than taking action.

Board-level Sustainability Committees: For and Against

Many companies today include sustainability among the responsibilities of existing board committees. Often this is the audit committee. While impact is usually greater when sustainability is linked to risk, this can cast social and environmental issues in a rather negative light. A better option is the creation of a dedicated sustainability committee or a committee for "sustainability and innovation" [16]. These can be a particularly effective solution for boards that fit our **superficial** or **complacent** archetypes.

While there is no one-size-fits-all solution when creating a sustainability committee, having a "use-by" date, beyond which the group should be disbanded or at least re-evaluated – in essence a "pop-up committee" – helps keep a focus on targets.

It is also important to ensure the committee doesn't become - in the words of one director - "the playground of the 'softer' NEDs". Make sure that the CEO regularly participates in the committee meetings. Often the key to success is patience. Ultimately, a great deal can be achieved with just a few people who believe in the importance of sustainability and set themselves modest goals.

For sustainability committees to be effective and impactful their work must be taken back to the board and effectively communicated, to ensure recommendations are understood and have the support of all board members.

The worst boards of this kind implicitly promote greenwashing. By talking the talk, they encourage executives to do the same and fail to give the strategic framework executives and managers need to take real action.

Turning good intentions into good results

The trick with these board members is to play on their good intentions, rather than dwell on past failures or unintended consequences of previous decisions. They often don't know where to start, so make positive suggestions and choose them wisely. Isolate the issues that are close to the mission of the organization. For example, a state-owned bank has a duty to serve the wider population, rather than just its customers and its own executives. One respondent advocated regularly reminding fellow directors: "We can't put ourselves on the wrong side of the fence."

If the desire to do good is genuine, superficial but well-meaning archetypes are prime candidates for a dedicated sustainability committee: a safe, transitional space, where the most active advocates of sustainability can talk through the issues and suggest concrete actions for the whole board to ratify *(see box-out)*.

4. The Complacent

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Unfortunately, many early adopters of initiatives like CSR reports, green product lines, or responsible supply chains, have not kept up-to-date with the latest thinking on sustainability. Directors in this category are often reluctant to talk about sustainability, for fear of disrupting a business with deeply engrained habits. Sometimes they use past sustainability triumphs to shut the conversation down. Complacent board-members invariably let good practice get in the way of best practice and may result in the board doing even less than boards with superficial board members.

Spurring the complacent into action

Most importantly, as one director told us, "Don't embarrass people, policy and decisions of the past 20 years." Focus (once again) on small actions, rather than wholesale strategic review. For example, if you're recruiting a new CEO, try to get sustainability credentials included in the recruitment criteria. Save any negative comments for current consequences of complacency and call cases of greenwashing, for example, as they arise. Seek out like-minded directors and create coalitions. Refrain from knocking early efforts to be on the right side of history but try to move the debate so that the board regains some of its old spirit and becomes populated by "true believers".

5. The True Believers

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These boards members are not defined by the *strength* of their belief. They are characterized by the way they understand the term "sustainability". For true believers, like Paul Polman, former CEO of Unilever, the long-term economic viability of their organization is closely linked and dependent on social and environmental responsibility.

True believers resemble the hardheaded in that they are always undertaking careful analysis of business benefits and disadvantages. However, they are different in that they take a truly long-term approach to governance. They recognize the immensity of the challenges facing the planet and society and the fundamental changes businesses must make so that environmental and human concerns become an innate driver of the company, deeply integrated in its strategy.

As one interviewee from a board of true believers noted:

"Sustainability is no longer only about the environment, no longer a tick-box exercise. It has developed to be a more holistic and broader view that you could call long-term value creation. The question is always: Are our products and business models future-proof?"

These companies are likely to have several of the following: sustainable products (like "green bonds" or energy-saving devices); ethical supply chains (policed for reasonable wages and working conditions, and no child labour); employment practices that exceed the regulatory minimum; a board "expertise matrix" that includes CSR; sustainability as a criterion for recruiting and remunerating senior executives; energy-neutral facilities and low-carbon operations; a strong commitment to integrating sustainability into R&D and innovation. Beyond having the board on board, many of the other lessons for driving business sustainability are **strongly evident** in the companies with true believer boards[17]. This is not to say that true believers do not sometimes get it wrong. True believers need to consider not only how but to engage with other board members but also not to get too carried away in advancing attention to sustainability relative to the economic constraints, albeit from a long-term perspective.

One interviewee noted, "Sustainability is not a goal on its own but rather a framework that guides strategy execution and the creation of long-term value."

Table 1:

Board Sustainability Archetypes and How to Respond

Archetype	Belief	How to Spot	Typical Comments	How to Respond
“The Deniers“	Sustainability is a fad that will go away.	More typically in hiding today — evident through absence of discussion of sustainability or its relegation to end of agenda.	“I don't see how these issues are our problem, let governments and NGO's take care of them” In private: “climate change is a hoax”.	Careful timing Focus on risk exposure One-on-one initially Patience and perseverance
“The Hardheaded“	We'll act if it makes business sense, otherwise it's not our problem	Often found in less sustainable industries. Focus is on strategic reasoning coupled with healthy skepticism. Supports sustainability only to the extent it pays or is clearly demanded by stakeholders (e.g., ensures license to operate).	“Sustainability in the short-term means value destruction.” “The end user isn't as demanding as you think - there are a few who care, but not the masses.” “I don't see the business benefit.”	No grand speeches, introduce sustainability as good management. Stay close to existing practice and look initially for low hanging fruit. Incorporate within existing board committees (especially as strategic risk factor). Aspire to be “best in class”.
“The Superficial”	Look at us, we're beautiful	Speak of importance of sustainability but may only be a superficial acceptance and understanding of the real issues. Failure to walk the talk. May become manifest in greenwashing.	“Sustainability affects society and business, so we need to be seen to do our bit.” “We'd like to adopt the recyclable plastic but we need industry-wide agreements first.”	Play to their good intentions. Make positive suggestions closely aligned with the business. Create board sustainability committee to focus on turning good intentions into good actions.
“The Complacent”	We have good practices in place already	Not always so easy to spot. Can point to sustainability achievements as an early adopter of sustainability practices, but they may be some years back.	“We have been doing our fair share for a very long time.” “We reduce CO2 and have many social and community engagements... what else can we do?”	Acknowledge past successes while pointing to shortcomings of current practices. Emphasis on best practice and more strategic approach. Include sustainability expertise in board/CEO recruitment criteria.
“The True Believers”	Sustainability is fundamental to good governance and long term value creation.	Rare but increasing in number. Passion and rigour. Strong commitment to sustainability as innate to the business, while undertaking careful analysis and decision-making.	“Sustainability is not a box-ticking exercise. It's about business purpose.” “The challenges facing the planet and society are immense and business must change fundamentally.”	Sustain sustainability, by keeping it in the DNA and on the agenda. Act consistently and always with a view to the long-term. Seek out uncomfortable realities and business opponents. Keep asking questions.

Reviewing and Communicating Your Sustainability Strategy

Our interviews with the NEDs highlight the many different attitudes to sustainability between boards, and between board members. While some directors understand the importance of sustainability to a limited extent, others have a deeper holistic understanding of their responsibilities and the changes their companies need to make to help address the very profound effect sustainability challenges are having on our planet. Of the latter, some believe they are doing enough while others struggle to make a greater impact. In each case it seems that while many boards accept the critical nature of sustainability, they are grappling to find the ways to address it.

The BA report highlights these inconsistencies and the frustrations of board members who have a hard time translating broad commitments into action. As Tom Dellay, Carbon Trust CEO, notes, "In too many cases, company boards are struggling to articulate a strategic narrative… Many suffer from a real dissonance in their strategy, where they can see the need for significant - even transformative - change at some future point, but simply tinker around the edges of business-as-usual in response to the commercial pressures of today." [18]

The message then to all boards is that sustainability is something that needs to be given more attention and in very specific ways.

Of course, this is easier to achieve in some environments than others. Research suggests that directors of privately held companies find it easier to take a long-term perspective than boards of publicly traded organizations, where earnings are scrutinized quarterly and stocks are sold in milliseconds. Family-controlled business, particularly, have the luxury (and the challenge) of looking generations ahead. It is also likely to be easier in more profitable businesses.

However, businesses of any kind can ensure that sustainability remains on the board agenda and ensure that directors not only help to initiate sustainable practices, as required, but also 'join the dots', for employees, investors, customers and other stakeholders to demonstrate how a company's actions today can have a real impact on both its profitability and the future of its business and that of the planet.

Historically, business has sat on the sidelines, adopting sustainable practices as necessary to enhance competitiveness and meet stakeholder pressure or regulatory requirements. This is rapidly changing as consumers and other stakeholders increasingly demand change, and escalating human development and environmental challenges prove too much for governments and international bodies to resolve on their own. We have reached the stage where the cost of inaction will impact not only an organisation but the very environment in which it operates.

A deeper understanding of what sustainability means

It is one thing to have sustainability on the agenda, but it is something else to identify what sustainability really means to a company. Sustainability as a term is quite broad and an understanding of what it entails can differ widely between directors. It is increasingly associated with questions of company purpose and what value creation means to the organisation. Just how this fits, and how it is incorporated, into the firm's core products, business model and innovation strategy, are all considerations which demand the attention, drive and decision-making of a well-informed board. Being able to identify answers to these basic questions is the difference between having a superficial check-the-box attitude to sustainability and a profound holistic understanding of how an organisation can drive transformation and ensure long-term value.

Sustainability reporting – more than tick-a-box

Sustainability reporting is standard practice for large and mid-cap companies around the world. However, it is what lies behind the reporting that matters; the initiatives that are put in place to ensure that the sustainability performance is being delivered.

Sustainability issues should be linked to nearly every decision a board member makes so that when the company's sustainability report makes the boardroom agenda, they are involved in not only approving the report but also ensuring that the underlying processes that feed into it are sufficient and appropriate

Sustainability reporting today is becoming increasingly more sophisticated, moving from "feel good" stories of company sustainability projects that may have little real impact relative to the company's overall "footprint", to more comprehensive and quantified assessments of company social and environmental impacts and efforts to mitigate more harmful impacts. Board members need to ensure the report says not only, 'Here's what we're doing on sustainability' and 'Here's the progress we're making' but also 'Here's where we need to do better'.

In 2019, a growing number of companies are moving towards a form of integrated reporting that embeds sustainability performance within the company business model, measuring and highlighting potential economic consequences (positive and negative) of attention to sustainability. As Polman demonstrated with the Unilever Sustainable Living Plan what gets measured gets acted on. This is further supported by academic research which has shown that measuring and reporting sustainability performance can, in itself, spur greater attention to sustainability[19].

Companies also need to think about their investments and whether their capital investment policy is aligned with the goals and values of their organization. This includes investments in R&D, acquisitions, or new initiatives. They should ensure, as in the words of one director we interviewed, that "sustainability is becoming increasingly synonymous with innovation."

A growing number of business leaders are incorporating sustainable practices way beyond what is needed to ensure competitive advantage. For example, some firms, such as Barry Callebaut[20], FairPhone[21] and Patagonia[22] are taking this to an even higher level to adopt what we term "Radical Corporate Sustainability." Their practices are driven in the first instance by key sustainability challenges that are then incorporated into their business strategy. These companies embrace their moral responsibilities beyond the expectations of consumers, investors, and other stakeholders. While this commitment may be considered extreme, the BA study shows that some participants are well aware that their obligations extend beyond the traditionally framed fiduciary duties of board members. As John Mackey, Whole Foods CEO said in his book Conscious Capitalism, "Just as people cannot live without eating, so a business cannot live without profits. But most people don't live to eat, and neither must businesses live just to make profits." [23]

Immediate actions

So what actions can boards take now to turn their sustainability aspirations into actions? We have narrowed this down to six points and included some of the often difficult questions board members should be asking (also see exhibit, Boards and sustainability - from aspirations into action).

1. **Revisit** company statements of purpose.
   - What does value creation mean to your company?
   - Is there a comprehensive view of how the world is changing—not least in regard to climate change — and the role your organisation plays in that changing world?
   - How is your company creating societal progress and does your corporate culture effectively support this?
   - Is this consistent with contemporary sustainability demands and principles?
   - Is it aligned with the Sustainability Development Goals (SDGs)?

2. **Arrange** a meeting of the entire board with the sole purpose of discussing what sustainability means to the organisation. Compare leading edge sustainability practices with your own and leave ample time to address in-depth the:
   - risks and opportunities into the medium- and long-term.
   - gaps between current sustainability performance and where the organization needs to be.
   - the strategies already in place for getting there, and those identified for future development.
   - board sustainability priorities for attention in the short- medium- and long-term, noting where they intersect with the board's understanding of company purpose.

3. **Audit** board member sustainability expertise and mindset. Evaluate the level of understanding and mindset on sustainability within the board.
   - Is it adequate to embed sustainability thinking into board processes, risk management and investment decisions such as M&A and innovation?
   - To what extent does the board need to prioritise recruitment of new members and any specialist expertise required?
   - Does board membership need to evolve to better reflect its sustainability priorities?

4. **Evaluate** adequacy of sustainability information provided to the board.
   - How do organisation sustainability goals translate into metrics?
   - What information is currently reported?
   - What further information is required?
   - Does your board have benchmark data on company performance and that of competitors?
   - Are the right KPIs in place for management?
   - Are they part of an overall dashboard, integrating sustainability metrics with other firm performance metrics?
   - Are additional resources needed to better understand or investigate data on your firm's sustainability performance?

5. **Organise** the board to ensure board oversight on sustainability is effectively managed.
   - Which board committees should engage in detail on sustainability?
   - Should there be a sustainability committee and how will its deliberations be brought to the main board?
   - Would an independent expert panel help to challenge board actions and progress?

6. **Explore** how the firm engages with, and learns from, its critics — NGOs and others. Does the board need to hear from them independently?

These steps will help boards to not only drive sustainable, long-term growth and profitability for their companies but also to address the pressing sustainability challenges that affect the communities in which they operate. It is a role that customers, investors and other key stakeholders have come to expect.

So Philipp Hildebrand, Vice-Chairman of global investment management corporation, BlackRock, observes that "sustainability considerations do more than fulfil an investor's values… measured with data on environmental and social impact, and governance practices… they can have a material impact on investment performance." [24] BlackRock research found that global companies that reduced their carbon footprints the most every year outperformed the carbon laggards. While his colleague, Larry Fink, Founder, Chairman and Chief Executive of BlackRock, noted in his 2019 annual letter to CEOs:

"Unnerved by fundamental economic changes and the failure of government to provide lasting solutions, society is increasingly looking to companies, both public and private, to address pressing social and economic issues. …. Companies cannot solve every issue of public importance, but there are many – from retirement to infrastructure to preparing workers for the jobs of the future – that cannot be solved without corporate leadership."[25]

What may seem radical today will be common practice tomorrow

In 2012, Polman showed that Unilever was a company ahead of its time when he told The Guardian: "I don't think our fiduciary duty is to put shareholders first. I say the opposite. What we firmly believe is that if we focus our company on improving the lives of the world's citizens and come up with genuine sustainable solutions, we are more in sync with consumers and society and ultimately this will result in good shareholder returns." [26]

These sentiments may have been extreme for the time – indeed Polman's thinking was seen by many as radical corporate sustainability of his time – seven years on, the idea is not so extreme. Consumers expect companies to think beyond the bottom line, and board members increasingly recognise their sustainability responsibilities. It is now up to them to ensure they are equipped with the knowledge, the tools, and the people to meet these obligations.

Profiles

N. Craig Smith holds the INSEAD Chair in Ethics and Social Responsibility at INSEAD in Fontainebleau, France and is a specialist professor at the INSEAD Corporate Governance Centre. His latest book (with Gilbert Lenssen) is Managing Sustainable Business (Springer: 2018). He works with organizations on business ethics and CSR/sustainability, including board level workshops on sustainability.

Ron Soonieus is an INSEAD executive in residence and Managing Partner at Camunico. He advises senior management on sustainable business strategies, governance and leadership and has developed specific expertise on the role of the board in sustainability and long term value creation. At INSEAD Ron focusses on sustainablity in cooperation with the INSEAD Corporate Governance Centre and the Hoffmann Global Institute for Business and Society.

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5 Recent research focuses on factors that potentially affect the likelihood of board attention to sustainability, such as board diversity (e.g., Walid Ben-Amar, Millicent Chang, and Philip McIlkenny, "Board Gender Diversity and Corporate Response to Sustainability Initiatives: Evidence from the Carbon Disclosure Project," Journal of Business Ethics, 142: 369-383 (2017)) and director interlocks (e.g., Natalia Ortiz de Mandojana and Juan Alberto Arragon Correa, "Boards and Sustainability: The Contingent Influence of Director Interlocks on Corporate Environmental Performance," Business Strategy and the Environment 24: 499-517 (2015)). For a broader examination, see for example, Greening the Boardroom: Corporate Governance and Business Sustainability (Greenleaf 1997).

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Boards and sustainability - from aspirations into action

1 Revisit

company statements of purpose.

- What does value creation mean to your company?
- Is there a comprehensive view of how the world is changing—not least in regard to climate change — and the role your organisation plays in that changing world?
- How is your company creating societal progress and does your corporate culture effectively support this?
- Is this consistent with contemporary sustainability demands and principles?
- Is it aligned with the Sustainable Development Goals (SDGs)?

2 Arrange

a meeting of the entire board with the sole purpose of discussing what sustainability means to the organisation. Compare leading edge sustainability practices with your own and leave ample time to address in-depth the:

- risks and opportunities into the medium - and long-term.
- gaps between current sustainability performance and where the organization needs to be.
- the strategies already in place for getting there, and those identified for future development.
- board sustainabilitypriorities for attention in the short-medium-and long-term, noting where they intersect with the board's understanding of company purpose.

3 Audit

board member sustainability expertise and mindset. Evaluate the level of understanding and mindset on sustainability within the board.

- Is it adequate to embed sustainability thinking into board processes, risk management and investment decisions such as M&A and innovation?
- To what extent does the board need to prioritise recruitment of new members and any specialist expertise required?
- Does board membership need to evolve to better reflect its sustainability priorities?

4 Evaluate

adequacy of sustainability information provided to the board.

- How do organisation sustainability goals translate into metrics?
- What information is currently reported?
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- Does your board have benchmark data on company performance and that of competitors?
- Are the right KPIs in place for management?
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the board to ensure board oversight on sustainability is effectively managed.

- Which board committees should engage in detail on sustainability?
- Should there be a sustainability committee and how will its deliberations be brought to the main board?
- Would an independent expert panel help to challenge board actions and progress?

6 Explore

how the firm engages with, and learns from, its critics — NGOs and others. Does the board need to hear from them independently?

INSEAD Europe Campus
Boulevard de Constance
77305 Fontainebleau Cedex, France
T +33 1 60 72 40 00

INSEAD Asia Campus
1 Ayer Rajah Avenue
Singapore 138676
T +65 6799 5388

INSEAD Middle East Campus
Al Khatem Tower, Maryah Island
ADGM Square
P.O. Box 48049
Abu Dhabi - UAE
T +971 2 651 5200

insead.edu