

The Role of the Board in the Sustainability Era



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Executive summary



The need for sustainability across the full spectrum of environmental, social, and governance (ESG) issues is remaking companies, supply chains, and economies. At the same time, companies are facing disruptions on other fronts—including the potential of generative AI to change how companies operate, new trade risks, geopolitical uncertainty, and regulatory changes. Taken together, these changes are driving the most profound business transformation in 50 years—and are having a fundamental impact on how the boards governing these companies must operate.

Our global survey this year, conducted and developed in partnership by BCG, Heidrick & Struggles, and the INSEAD Corporate Governance Centre, finds that boards are adapting, making changes to how they approach their own composition, their governance and process considerations, and the metrics they track. The survey, a follow-up to similar research in 2022, also reveals that boards continue to wrestle with certain challenges, most notably how to integrate sustainability fully into company strategy. And the survey highlights that these challenges are a global phenomenon, with very few differences evident in the findings across regions and sectors, despite the variances in governance practices, codes of conduct, and responsibility.

Though fully integrating sustainability into strategy and board operations is complex, there is a clear path forward. First, boards can further sharpen governance by, for example, reevaluating the makeup of the board, ensuring that deliberations take a long-term perspective, and improving transparency on issues such as director selection and evaluation. Second, the board can carve out time for deep examination of how sustainability will impact the business, digging into issues such as the prospect of scarcity for some critical resources and the opportunity to build new ecosystems to create progress. Third, directors can personally model strong leadership, including by making tough, consequential decisions and bridging the divide, where possible, between various stakeholders on contentious issues that range from balancing climate risk and energy needs to the role of stakeholder capitalism to businesses' role in addressing societal issues.



Boards increase focus on sustainability— but gaps remain



There has been an undeniable shift in the expectations for the role of business in society. Trust in government has ebbed—and people are increasingly looking to business to lead the way in addressing major societal challenges.¹ These heightened expectations, added to boards' traditional responsibilities to oversee finances, manage risk, and select company leadership, are reshaping the role of board directors.

At the same time, regulations, including the Corporate Sustainability Reporting Directive in Europe and the universal proxy introduced by the Securities and Exchange Commission (SEC) in the United States as well as the adoption of pass-through voting by some institutional investors, are upping requirements around transparency and

accountability for corporations' social and environmental impacts. In addition, while the number of shareholder lawsuits aimed directly at directors and officers on this topic is small, it is likely to grow.

To gain insight on how all these forces are shaping the agenda and work of boards, BCG, Heidrick & Struggles, and the INSEAD Corporate Governance Centre cast a wide net. The survey, conducted in early 2023, captured the insights of 879 respondents hailing from more than 45 countries and 19 industries. In parallel, a series of roundtables and discussions were conducted with some 200 directors in cities around the world. (This section is continued on page 8.)

1. *Edelman Trust Barometer 2023*, Edelman, edelman.com.

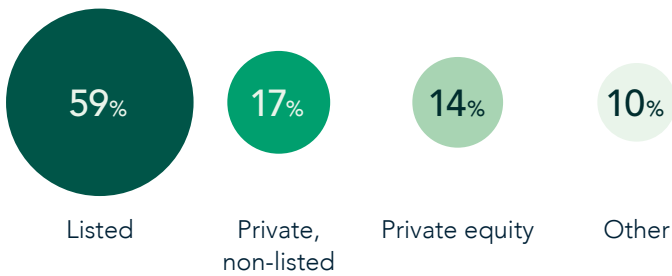
2023 survey respondents

Assessing sustainability in the boardroom

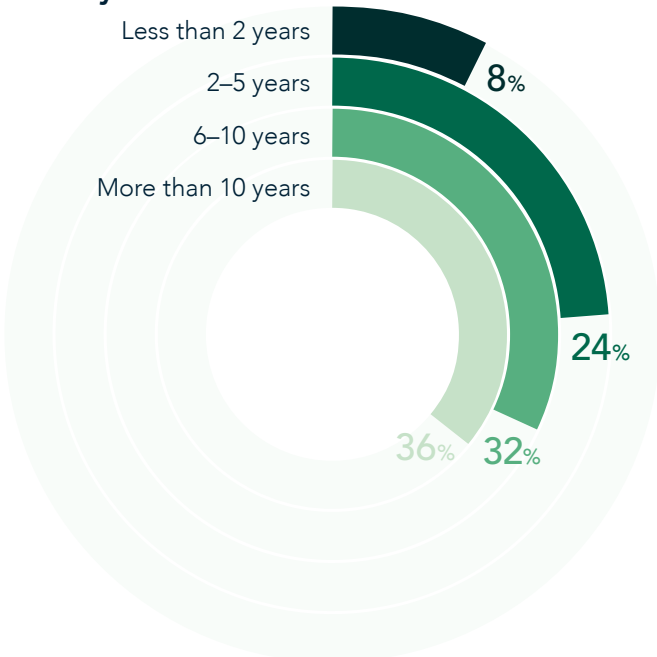
The respondents to our survey have extensive board experience: two-thirds are long-serving board members, with a tenure of at least 6 years, and one-third have served in their roles for more than 10 years. Respondents represented 19 different industries, including manufacturing, finance and

insurance, energy, and healthcare, and more than 45 countries. Compared with results from a similar survey published in 2022, our current survey garnered more than three times the number of respondents—an indication of the increased resonance of sustainability among directors broadly.

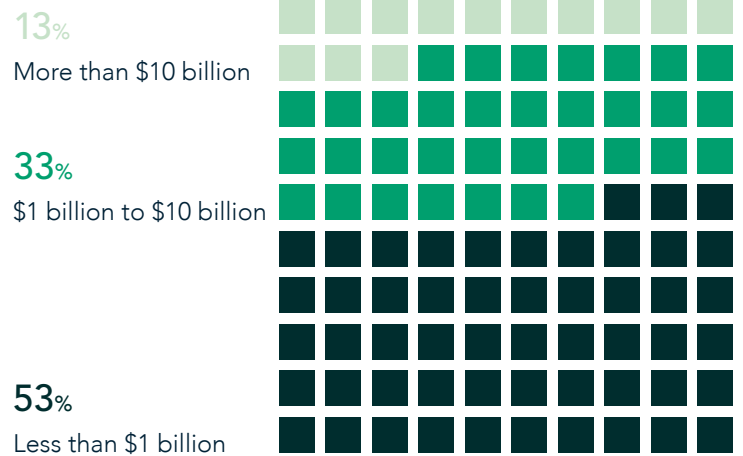
Organization ownership



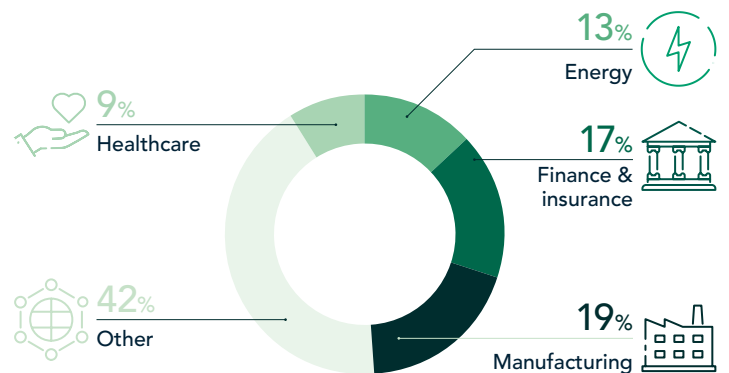
Seniority



Organization revenue



Industry



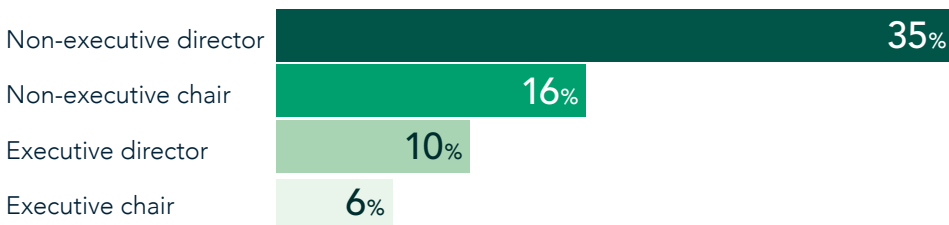
Source: BCG, INSEAD, and Heidrick & Struggles survey of corporate directors, 2023, n = 879

For additional, qualitative data, through late 2022 and early 2023, we conducted a series of roundtables and discussions throughout Asia, Europe, and North America, bringing together some 200 directors. Participating directors serve on an average of three or more boards currently and have an average tenure of board service of more than 10 years.

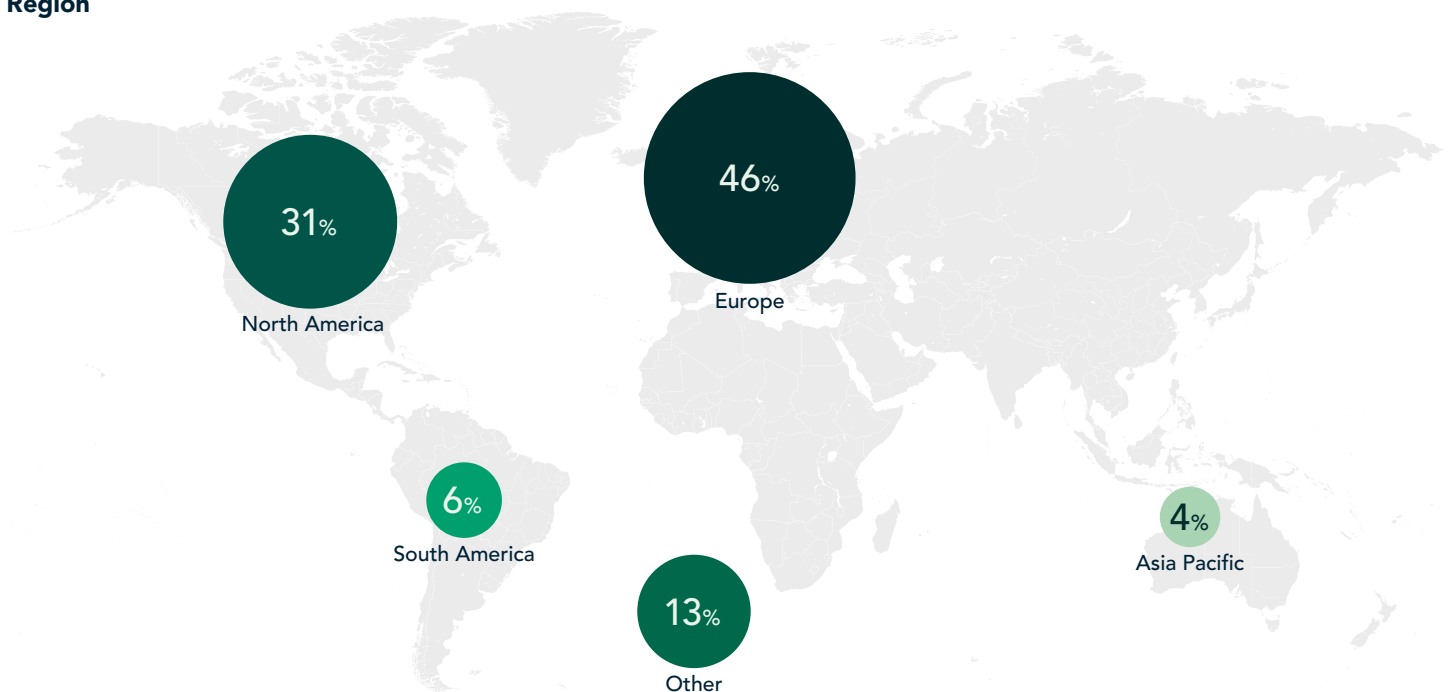
The sessions were held under the Chatham House Rule, which ensures that attendees can use the information discussed but that the identity of participants will not be divulged. This format set the stage for deep and candid discussions about the complex challenges facing boards today.



Designation



Region



Source: BCG, INSEAD, and Heidrick & Struggles survey of corporate directors, 2023, n = 879

The results of our survey show a significant shift in how boards operate. More than two-thirds of respondents (69%) reported that boards' expanding remit is increasing time requirements for directors. Not surprisingly, the share was higher for directors in the energy (77%) and finance and insurance (74%) sectors, two sectors in which balancing the world's need for more energy with climate change is creating significant new risks and opportunities.

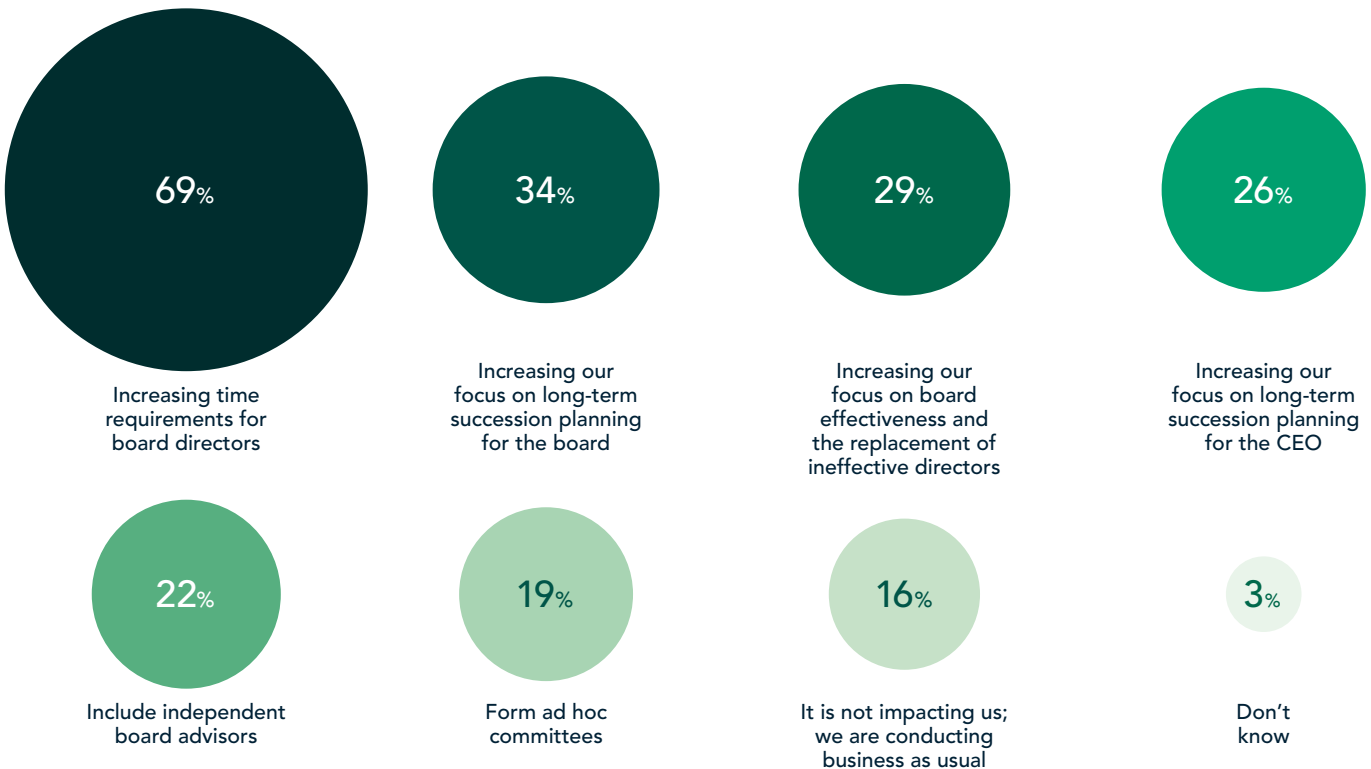
Directors also cited their increased remit as one factor driving an increased focus on long-term succession planning for the board or the CEO, seeking independent advisors, or forming ad hoc committees.



Today's environment is creating fundamental changes in traditional ways of working and the way directors are considering board composition and choosing sources of information. Just 16% of respondents said that societal expectations around sustainability are not affecting the way the board works at all.

Increasing societal expectations are changing how boards operate

Share of respondents identifying key activity shift as relevant



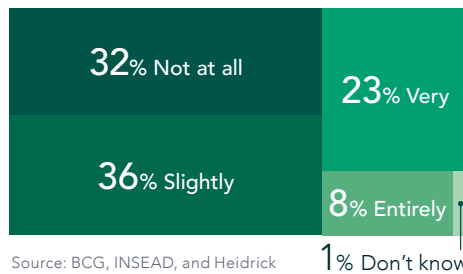
Source: BCG, INSEAD, and Heidrick & Struggles survey of corporate directors, 2023, n = 879

Stakeholder pressure motivating action

Despite greater attention to meeting societal expectations overall, most boards do not feel financial pressure to act on sustainability issues. Some 68% said sustainability considerations have no effect or a slight effect on financial performance today.

The majority of directors say sustainability has little financial impact on the business today

Question: How large an impact does sustainability have on your company's financial performance today?



Source: BCG, INSEAD, and Heidrick & Struggles survey of corporate directors, 2023, n = 879

In addition, when looking at respondents' key motivators of action on sustainability, only 19% were acting on sustainability because it is having a severe impact on the way they do business today.

So why are boards acting? Just over half said they are addressing sustainability because of increasing legislative and regulatory requirements, with a similar share saying they are acting because it's the right thing to do. On the latter issue, one director serving on the board of an energy company noted, "The biggest concern [on the board] is the push from regulation to move faster than the sector can move and still support the energy infrastructure."

Directors also cited increasing expectations from capital providers including investors and the importance of sustainability in attracting and retaining talent as major motivators of action. A smaller share—about one-quarter—see a longer-term financial risk from not integrating sustainability into the business: 10% expect a negative impact on medium- to long-term financial results, and 13% see a threat to survival in the medium to long-term. However, in roundtable discussions, board members frequently expressed a lack of confidence in their ability to understand both the long-term implications of the overall global shift toward sustainability and demands of stakeholders. Noted one director, "[There is] not sufficient information on what elements of sustainability directly impact our business and what our customers and stakeholders expect of us regarding sustainability."

Key motivators to act on to address sustainability

Question: What are the key drivers for your company to address sustainability?

It's the right thing to do



We see increasing legislative and regulatory requirements on sustainability



Expectations from providers of capital (investors, insurers, lenders)



Sustainability will have an impact on attracting and retaining talent



Increasing customer demands



Increasing pressure from the communities in which we operate



Sustainability will severely impact the way we do business today



Sustainability is a threat to the company's medium- or long-term survival



Sustainability will negatively impact our medium- to long-term financial results



Other



Source: BCG, INSEAD, and Heidrick & Struggles survey of corporate directors, 2023, n = 879

A push for expanded knowledge

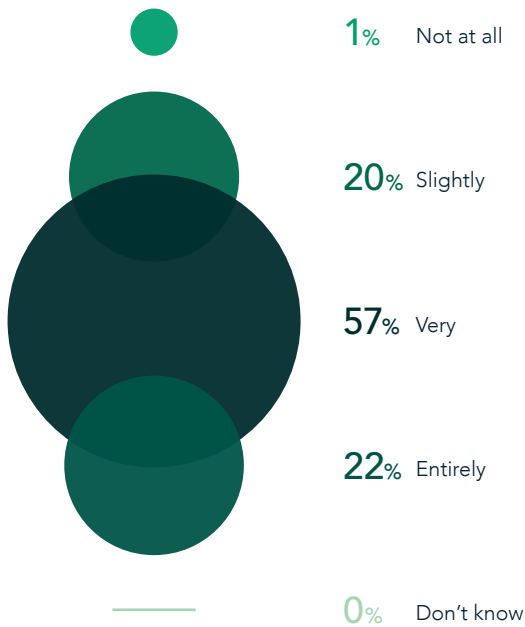
Directors in our survey were generally satisfied with their insight on the strategic risks and opportunities sustainability presents, but far fewer were confident in their knowledge about execution.

A strong majority (79%) said their board has a very or entirely clear understanding of the strategic opportunities and risks sustainability presents—but only 29% completely agreed that they have sufficient knowledge to effectively challenge management on sustainability plans and ambitions and exercise oversight on their execution.

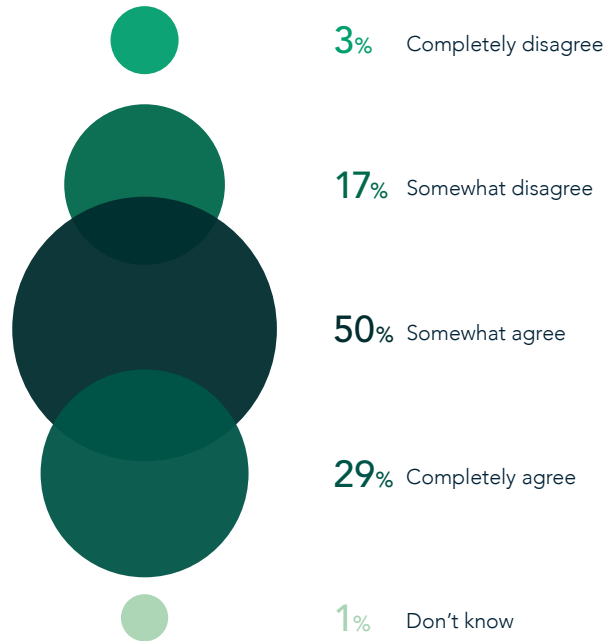


Directors understand risks and opportunities but are less comfortable challenging execution

79% confirm a thorough understanding of strategic risks and opportunities...



...but only 29% feel knowledgeable enough to challenge or monitor execution











Source: BCG, INSEAD, and Heidrick & Struggles survey of corporate directors, 2023, n = 879

The knowledge gap is substantial across nearly every sector, though it is smallest by far in energy, where 44% of directors completely agreed that they have sufficient executional knowledge.

The knowledge challenge may be exacerbated by the wide range of sustainability issues facing companies today. Our survey found that the top three priority ESG issues vary significantly by industry.

Priority ESG issues, by industry

■ Environmental
 ■ Social
 ■ Governance

| Industry | Priority 1 | Priority 2 | Priority 3 |
|---|----------------------------------|--------------------------------------|--|
|  Consumer | Diversity, equity, and inclusion | Raw material scarcity | Pollution and waste Employee engagement |
|  Industrial goods | Carbon emissions | Environment as competitive advantage | Pollution and waste |
|  Energy | Carbon emissions | Environment as competitive advantage | Public policy and regulations Climate change vulnerabilities Health and safety |
|  Technology, media, & telecommunications | Employee engagement | Carbon emissions | Product liability Environment as competitive advantage Climate change vulnerabilities Social as competitive advantage Diversity, equity, and inclusion |
|  Financial institutions | Climate change vulnerabilities | Financing environmental impact | Diversity, equity, and inclusion Employee engagement |
|  Materials | Water stress | Carbon emissions | Health and safety Climate change vulnerabilities |
|  Healthcare | Health and safety | Employee engagement | Diversity, equity, and inclusion |
|  Utilities | Carbon emissions | Public policy and regulations | Climate change vulnerabilities |

Source: BCG, INSEAD, and Heidrick & Struggles survey of corporate directors, 2023, n = 879

When asked about their most important sources of information to support strategic reflection both in sustainability and beyond, updates from management topped the list, followed by occasional updates from external experts.

Boards rely heavily on internal company sources for information

Question: What are the most important sources of information for your strategic reflections as a board?

Updates from management



Occasional updates from external experts



Occasional board development and educational activities



Task force of board members and executives



We have the right people on the board to deal with it ourselves



Outside experts independently hired by the board



Permanent (or semi-permanent) external advisors



Permanent (or semi-permanent) internal advisors



Source: BCG, INSEAD, and Heidrick & Struggles survey of corporate directors, 2023, n = 879

As it relates to sustainability specifically, most board members said they spend sufficient time on reports from the executive team, reviewing reporting, and reviewing progress toward goals. And a slim majority said the same about time spent discussing risks and opportunities. But the same cannot be said for time the board spent on reports from external sources: some 62% report the board did not spend sufficient time hearing directly from or reading material from outside experts.

The value of outside perspectives came up again and again in our roundtable discussions as well. One participant in the Houston roundtable, for example, detailed how their board has spent a significant amount of time over the past

few years expanding the knowledge of directors on critical trends, ensuring that outside experts are brought in to share insights and viewpoints the board might not ordinarily hear. A participant in the Brussels discussion noted that in terms of competencies, ESG should be regarded the same as financial reporting—requiring ongoing education not only of a few board members but of the board as a whole.

The push for expanded insight on sustainability, however, is not yet leading to major changes in board composition. A slim majority—less than 15%—of respondents said that sustainability knowledge and experience was fully integrated into non-executive director searches.

Research on incoming board members in leading markets around the world has found that the share of incoming directors with sustainability expertise remains low.² This may be because of the many other priorities boards also have to balance when refreshing their composition, because there is a lack of potential board members who have substantial operational experience in sustainability-intense industries, or because, in many cases, boards can find other ways of bringing in specific technical expertise, such as forming advisory boards or engaging external experts to advise the board.³ It is notable here that, again, some energy companies are exceptions—for example, in having climatologists sit on their boards.

Sustainability is still not fully integrated into board selection criteria

Question: How is knowledge and/or experience with sustainability currently integrated into the board’s selection criteria?

Not at all
 Slightly
 Mostly
 Fully
 Don't know

Competency matrix



Selection criteria in non-executive director search



Selection criteria in CEO search



Source: BCG, INSEAD, and Heidrick & Struggles survey of corporate directors, 2023, n = 879

2. For more on the directors appointed in 2022 to boards around the world, see *Board Monitor 2023*, Heidrick & Struggles, heidrick.com

3. Ron Soonieus, *Designing Sustainability Governance: Board Structures and Practices for Better ESG Performance*, INSEAD, 2022, insead.edu.

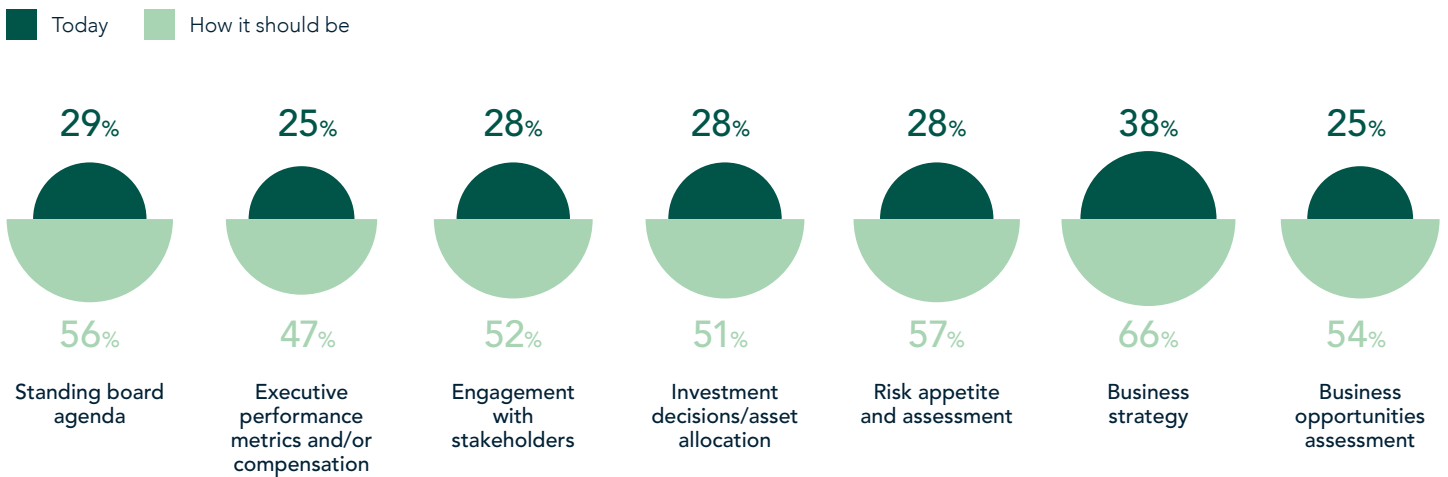
Integrating sustainability into the business

Directors see room for improvement when it comes to integrating sustainability into decision making across the whole business. We asked respondents the extent to which sustainability considerations are currently integrated into the board agenda, stakeholder engagement, investment decisions, risk, business strategy, and assessment of business opportunities—and what the optimal degree of integration should be.

The greatest share—66%—said that sustainability considerations should be fully integrated into business strategy. But just 38% said that is the case today. And although roughly half also said that sustainability should be entirely integrated into the board agenda and investment decisions and asset allocation, less than 30% reported that is happening currently.

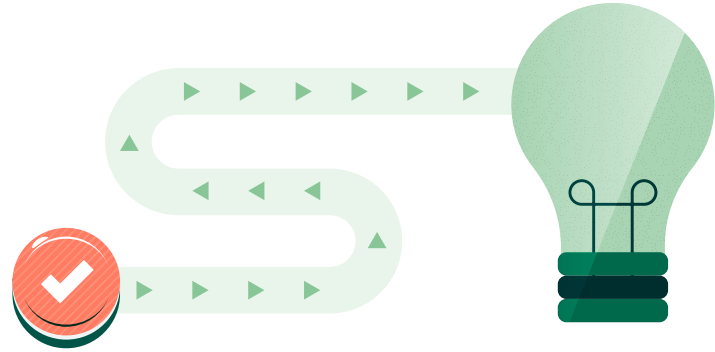
Directors believe sustainability should be more integrated across the board agenda

How respondents assess integration of sustainability issue in their company’s operational areas today versus how it should be



Source: BCG, INSEAD, and Heidrick & Struggles survey of corporate directors, 2023, n = 879

When we asked directors what was blocking them from spending meaningful time on strategic thinking about sustainability, more than 72% cited the need to devote time to non-sustainability-related, high-priority topics. Other factors included the lack of knowledge about long-term implications of sustainability and the need for short-term sustainability matters to take priority.



Other topics are crowding out time for strategic thinking

Question: What are the biggest obstacles preventing your board from spending time on strategic reflections on sustainability and potential future shocks?



Source: BCG, INSEAD, and Heidrick & Struggles survey of corporate directors, 2023, n = 879

The bandwidth and time issues for directors are hardly surprising. After all, in addition to the powerful forces driving a shift toward sustainability, directors must also simultaneously stay on top of myriad traditional issues and responsibilities, including oversight of company financials and succession planning. As one director noted when asked what the greatest challenge was for directors over the next decade: “Balancing the effort on activities such as complex reporting with the need to devote time to developing strategy that addresses the opportunity—not just the threat—posed by sustainability.”

While directors are largely aware of long-term trends and potential business changes within and beyond sustainability, they express less ability and confidence in understanding future shocks and how those can be turned into competitive advantage.

For example, only 34% strongly agreed that the company has a clear understanding of how long-term trends will affect the way, and how much, value is created. An even smaller share strongly agreed that the company has a view of how the business should change or that the company understands

where future shocks to the business may come, either within or beyond sustainability. Perhaps most concerning is the fact that most companies do not seem to have the capacity to track weak signals that would indicate change, and they lack plans to turn shocks into competitive advantage.

That finding—along with some others—was notably different for a subset of directors in our survey who perceive a larger effect on financial performance today and an outright risk to the business in the future. (See sidebar, “Boards on the leading edge.”)

Less clarity about future shocks

Strongly disagree
 Somewhat disagree
 Somewhat agree
 Strongly agree
 Don't know

The company has...

Clear understanding of long-term trends/value



Clear view of how the business should change



Confidence in understanding future shocks



Sufficient capability to scan for weak signals



Plan to turn shocks into competitive advantage

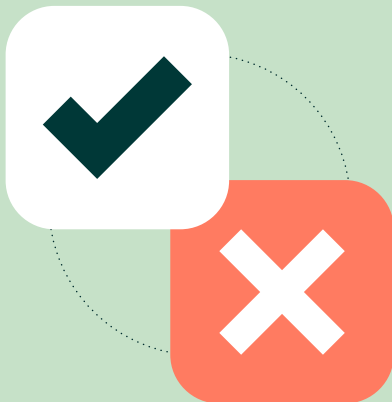


Note: Numbers may not sum to 100%, because of rounding.
 Source: BCG, INSEAD, and Heidrick & Struggles survey of corporate directors, 2023, n = 879

Boards on the leading edge

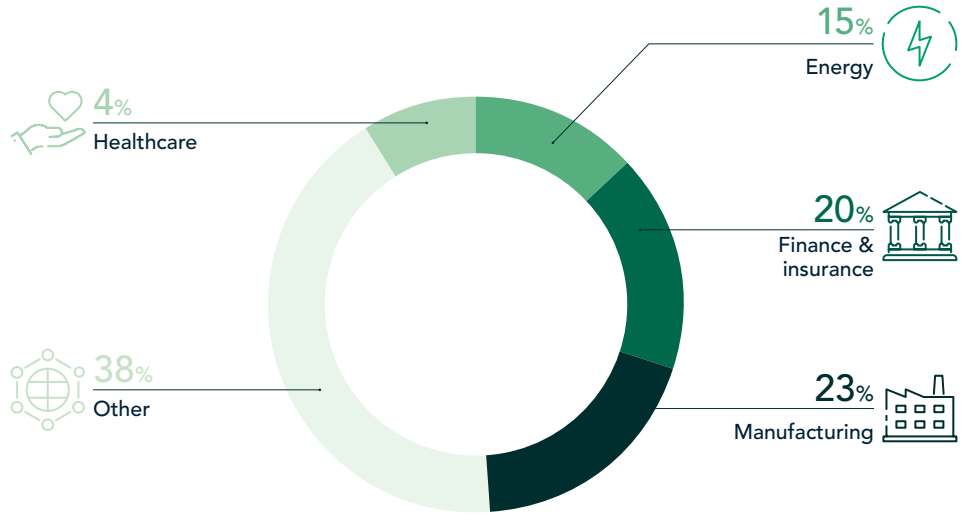
For some companies, the impact of sustainability on the business is not a future issue—it is a major factor today. We took a close look at how directors for these leading-edge companies operate.

This group, 74 in total, answered that sustainability was having a very or entirely large financial impact on the business today (32% of total survey respondents) and reported that sustainability is a threat to either the company’s medium and long-term survival (13%) or financial results (10%). It’s particularly interesting that these directors largely do not come from regions where climate and sustainability have been public concerns for a long time or from sectors, such as energy, that have been under pressure longer.

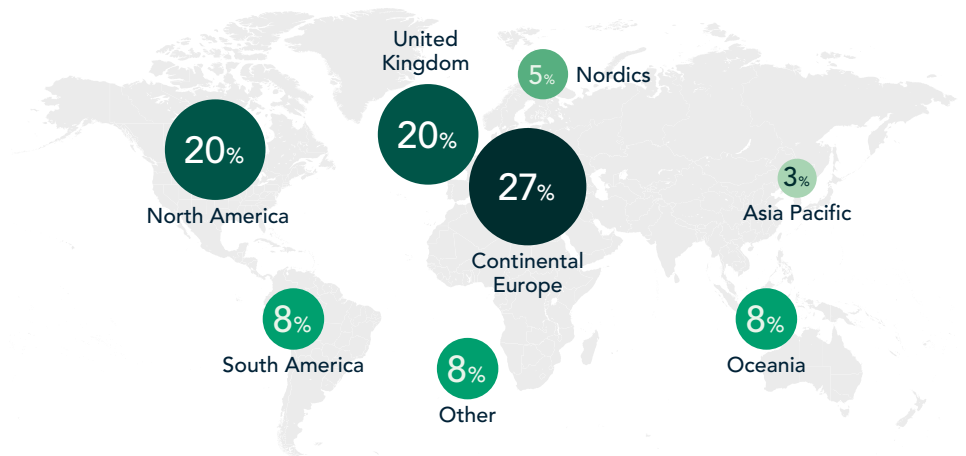


Companies on the leading edge

Sector



Region



Note: Numbers may not sum to 100%, because of rounding.
Source: BCG, INSEAD, and Heidrick & Struggles survey of corporate directors, 2023, n = 74

This group of directors said they devote more time to strategy in general. Some 59% of directors at these leading-edge companies said they spend a lot or a great deal of time evaluating the company's long-term strategic risks and opportunities, versus 49% of all respondents.



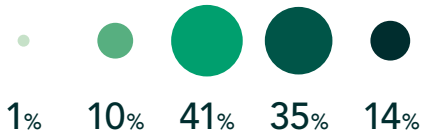
Directors at leading-edge companies devote more time to strategic risks and opportunities

Share of time spent by the board on key activities

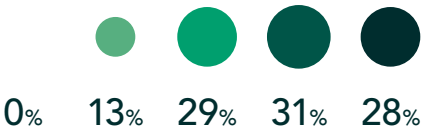
None at all A little A moderate amount A lot A great deal

Evaluating the company's long-term strategic risks and opportunities

All respondents

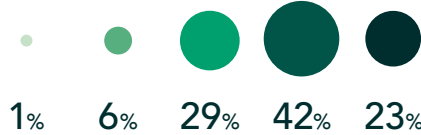


Leading-edge companies

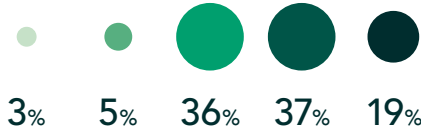


Evaluating the company's business (unit) portfolio

All respondents

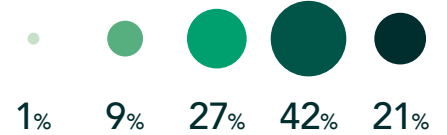


Leading-edge companies

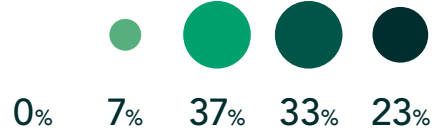


Evaluating long-term profitability outlook of the existing business and/or product portfolio

All respondents

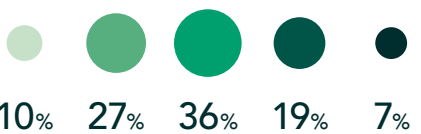


Leading-edge companies

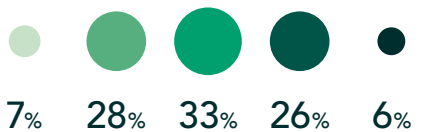


Anticipating and mitigating supply chain disruptions

All respondents

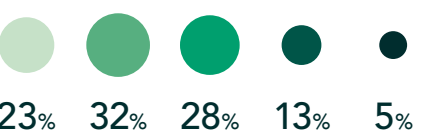


Leading-edge companies

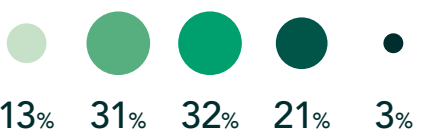


Anticipating and mitigating resource scarcity (i.e. water scarcity, crop failure, labor)

All respondents

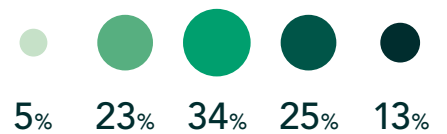


Leading-edge companies

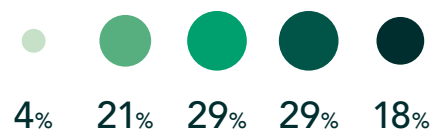


Anticipating new financial and/or regulatory reporting

All respondents



Leading-edge companies

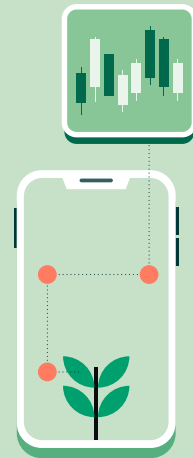


Note: Numbers may not sum to 100%, because of rounding.

Source: BCG, INSEAD, and Heidrick & Struggles survey of corporate directors, 2023, n = 879 (all respondents) and n = 74 (leading-edge companies)

In addition, a higher share of directors from the leading-edge companies (49%) strongly agreed they had a clear understanding of long-term trends in and beyond sustainability than the overall group (34%).

These findings reflect that these boards are likely more informed on details overall, and, as a result, they seem to have deeper knowledge on execution as well as strategy. At the same time, they seem to be more aware than other respondents of how quickly conditions can change.



Directors at leading-edge companies have greater understanding of long-term trends

Strongly disagree
 Somewhat disagree
 Somewhat agree
 Strongly agree
 Don't know

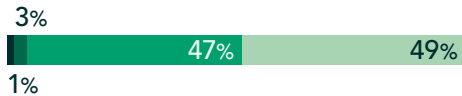
The company has...

Clear understanding of long-term trends/value

All respondents



Leading-edge companies



Clear view of how the business should change

All respondents



Leading-edge companies



Confidence in understanding future shocks

All respondents



Leading-edge companies



Sufficient capability to scan for weak signals

All respondents



Leading-edge companies



Plan to turn shocks into competitive advantage

All respondents



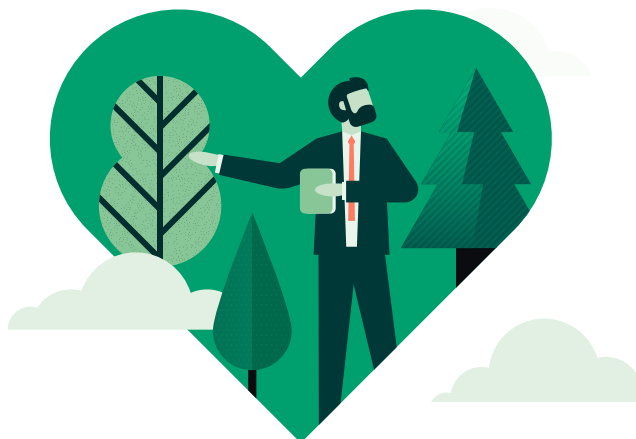
Leading-edge companies



Note: Numbers may not sum to 100%, because of rounding.

Source: BCG, INSEAD, and Heidrick & Struggles survey of corporate directors, 2023, n = 879 (all respondents) and n = 74 (leading-edge companies)

Putting sustainability at the heart



In our previous survey, the results of which we published in 2022, we asked respondents what area they would like to see explored in depth in our upcoming work—and the most common response was focusing on how boards can effectively embed sustainability into the overall company strategy. The fact that, as noted earlier, two-thirds of respondents to this survey said they think sustainability considerations should be fully integrated into their company’s business strategy underscores the importance of the issue. And our roundtable discussions and our work with boards shed further light on why only 38% of directors report that those considerations are actually integrated into the strategy.

Some point out that sustainability is too often considered separately from other issues the board is dealing with, such as AI risks and opportunities, inflation, or geopolitical shifts. One director summed up the challenge: “I’m most concerned by the risk that sustainability becomes an issue in its own right—separated from [other] strategic considerations and financial consequences.”

In addition, directors also noted that strategy discussions are typically focused on a three- to five-year time horizon and risk shortchanging the necessity

of addressing longer-term climate and sustainability risks and other trends.

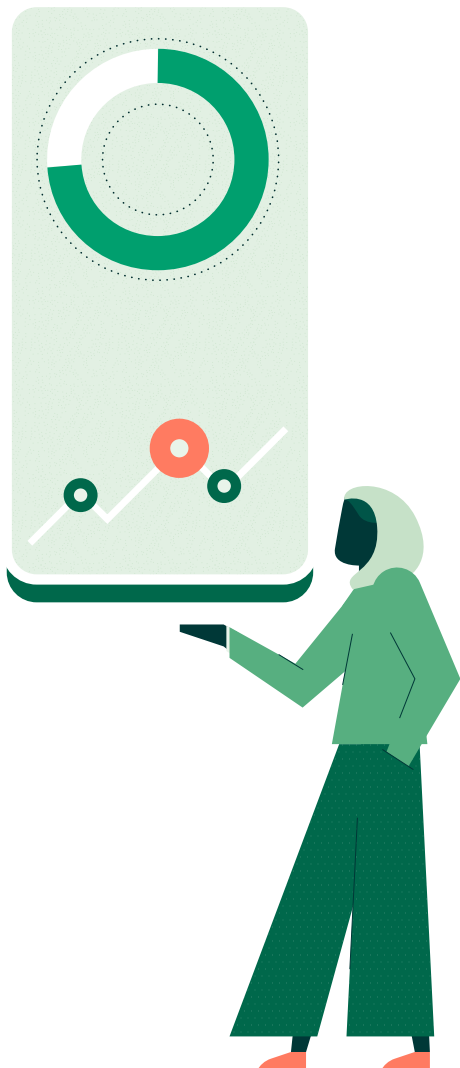
Ultimately, the complexity of the challenges, the need for deep deliberation by the board, and the speed at which change is happening make many of the directors we spoke with more inclined to wait and see as much as possible. However, “if you look at what competitors are doing, you are never shaping [the future], only following,” one director told us. But, they added, “to drive competitive advantage, you must have the courage to lead the way.”

There are, of course, exceptions to the general hesitancy. Directors of asset-heavy companies and companies with long business cycles, such as aerospace companies, are more accustomed to thinking about strategy over a much longer time horizon. As one aerospace director explained: “Today we are designing airplanes that will only go into production in 10 years or so. Our clients will then want to use these aircraft for at least a few decades. If we want to be competitive, we need to thoroughly understand how that future world will look.” Furthermore, directors at these companies noted that such forward-looking discussions involve the full board—not just a subset of directors.

Meanwhile, other companies are not content to be fast followers and instead are leading the way. Among them are a chemicals company that actively changed its product formulas to eliminate potentially harmful components—not because it was forced to by current regulation but because it addressed stakeholder concerns and possible future regulatory action. And a number of food manufacturers are changing their business ecosystem to make it more sustainable over the long-term, both for crop producers and for their own businesses.

These examples highlight boards’ opportunity to position the companies they govern for resilience and success by taking a much longer-term view of climate change and sustainability trends and by pushing to fully integrate those trends, in conjunction with other long-term trends, into strategy. Certainly, that is no small feat. But our conversations with directors across regions and industries have revealed that sharpening governance, digging deeper on the sustainability issues in conjunction with other issues facing the company, and modeling strong personal leadership can enable boards to rise to the challenge.

Sharpening governance



The current environment is one that demands a reevaluation of the composition of the board, its focus, and its transparency.

First, boards have an opportunity to drive a refreshment of their membership, whether through bringing on new directors as other members retire or replacing some directors preemptively. As we noted in our previous report, adding effective board members means finding people with a mix of business and sustainability knowledge that is rare and, given boards' other priorities, can be hard for many boards to prioritize. However, we are seeing forward-looking boards move away from reactive refreshment processes that seek to fill vacancies as they come up and toward succession planning that is based on the strategic direction of their organizations. These boards instead build relationships with people who could meet anticipated needs long before these people may be asked to join a board, and think holistically about the long-term as part of each board placement. Some board compensation metrics may also need to change, as more boards shift their focus from shorter to longer terms.

Second, as our survey results highlighted, directors have been looking to expand their own knowledge on these fast-moving topics, and particularly seeking more information from independent and external experts. This is likely because of both the relative lack of directors who are deep experts on sustainability as well as the fast-increasing scope and materiality of sustainability and other long-term trends. Of course, boards should develop a long-term agenda for educating their members on new and upcoming issues through tactics such as including a range of presentations from executives and external experts on the board agenda and the formation of advisory boards

as issues become more material.

Third, it is clear from the data that boards want sustainability to have a larger role on their agenda. Our roundtable discussions suggest that the focus of that time should shift, with more focus on the long-term. "Boards should spend 20% of their time on today, 20% on tomorrow, and 60% on the day after tomorrow," one participant noted. "Instead, I see most spending 40% on today and 60% on yesterday."

One step to advance that goal is to delegate more routine and operational activities to committees—including detailed monitoring of metrics central to performance and reporting requirements. That can allow the full board to carve out more time for in-depth assessment of the big picture, including strategy.

Fourth, boards in general will also need to improve disclosure around everything from the selection of board members to the evaluation of director performance and replacement to changes in board processes and focus. Such transparency on board composition and practices provides a powerful sign of the board's commitment, can drive meaningful and productive conversations about the company's direction, and make investors and other stakeholders more patient. If boards do not share such information, they increase the likelihood that activists will mobilize to drive necessary change from the outside. This possibility will become more acute as stronger regulations come into effect in many regions and as policies such as the universal proxy card in the United States (which requires companies to put all shareholder motions on a single proxy card, making it easier for all shareholders to vote on all motions) become more widespread and increase the focus on the actions of boards as a whole and those of individual directors.

Digging deep on the issues

As boards grapple with these changes, it is critical that they move beyond general, high-level discussion and dig deep to fully understand how the world is changing and how that will impact their business, their role, and society at large.

In our work, we see four areas in which boards should more deeply engage with management.

1 Setting strategic ambition

The first area involves setting strategic ambition. The cumulative demands and scale of new and renewed technologies, infrastructures, facilities, and resources required to drive a successful climate and sustainability transformation are widely underestimated today. Not only have expert forecasts consistently underestimated the adoption rates and cost declines of greener technologies, but nonlinear and disruptive change will break the bounds of historical trends, violate well-cultivated managerial instincts, and spill across company and industry boundaries. Consequently, to ensure they do not set too modest a strategic ambition, boards need to challenge management intensely to go well beyond the obvious, beyond the edges of the company and industry, and reimagine their ambition to achieve peak value and impact.

2 Addressing the prospect of scarcity

The second area is addressing the prospect of scarcity for critical inputs in order to have sustainable operations and offerings. Climate change and sustainability transformations will

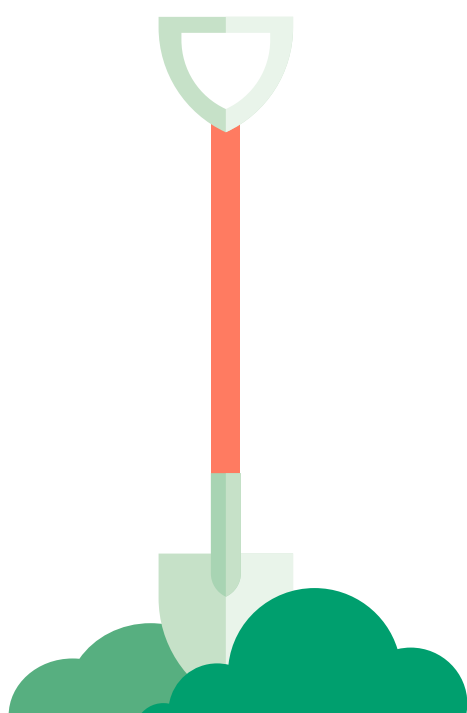
create scarcities of talent, resources, capacities, skills, technologies, and operating rights—a risk that is often unrecognized and that can impact the feasibility and profitability of even the best-laid plans. Boards that understand these dynamics can help the companies they govern assess those scarcities and seize opportunities to address them through strategic investments, business expansions, portfolio changes, and regulatory adjustments.

3 Seizing opportunities

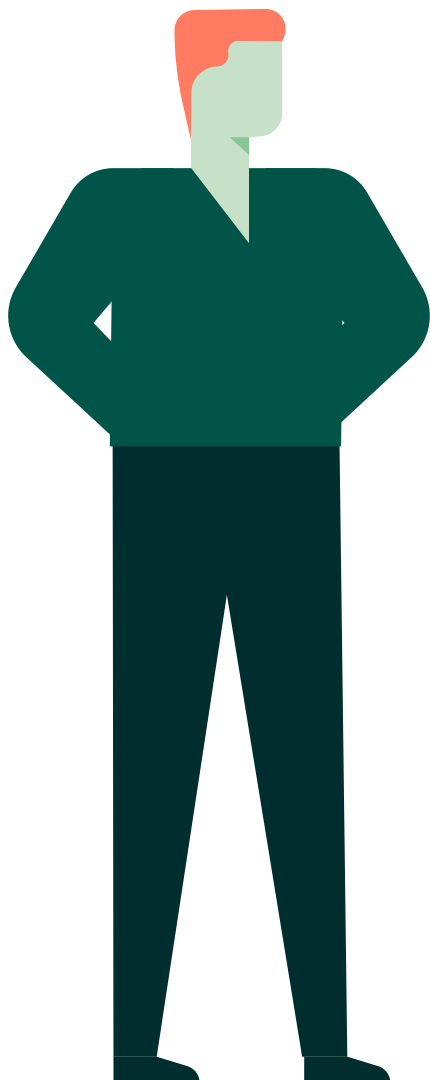
The third area requires seizing the opportunity of the role that business ecosystems will play. Most climate and sustainability transformations cut across the value chain and industry sectors and therefore demand changes to the business ecosystem that can drive cross-sector innovation, scale new technologies, structure and deploy transition solutions, work around missing market infrastructure, and compensate for scarcities. And, in many industries, competing business ecosystems will use new modes of public, private, and capital collaboration to advantage their participants and raise barriers for others. Directors can play a critical role in helping companies assess and shape their business ecosystems.

4 Enabling transformation at speed

The fourth area is enabling the speed at which the company must transform itself to capture competitive advantage from the broader climate and sustainability transition across their supply chains, operations, and business portfolio.



Modeling strong personal leadership



Strong personal leadership in the boardroom is more important than ever. Directors who excel in this area tend to do two things.

First, directors on forward-looking boards build sufficient confidence in their strategy and decision making to make hard choices with the longer term in mind and transparently explain why those choices were made to any and all stakeholders. Building a sustainable business is not about tinkering on the edges or looking for compromises that try to satisfy all stakeholders. In many cases, it is a complex transformation that will touch every aspect of the business, requiring choices and prioritization that include deciding which stakeholder demands cannot be fully met. And the transformation will need to move ahead with some significant unknowns and uncertainty remaining, with constant review and adjustment. In this reality, directors are called upon to “break the ties,” providing clear guidance on the tough choices faced by management.

Second, board members who excel lead and govern across the boundaries that divide stakeholders and society at large by focusing on bridging the divisions that inevitably emerge from making such choices. This requires

listening, considering, and engaging consistently and effectively with groups that have a variety of viewpoints on critical issues. Doing so will ensure the board has a broad perspective when it does make decisions.

For example, we have found through our discussions with global energy directors that many global oil and gas boards and CEOs are bridging boundaries by both providing more affordable, plentiful, and reliable energy while also dramatically reducing greenhouse gas (GHG) emissions and creating shareholder value. Some energy companies are making massive investments in technologies such as air carbon capture and carbon capture, usage, and storage (CCUS), and many expect their low-carbon business to generate earnings similar to their oil and gas production business in coming decades. Furthermore, the CCUS applied technology is leveraged by industrial customers such as cement, steel, natural gas, and ethanol producers to dramatically reduce their GHG emissions, essentially creating a multiplier effect across sectors. Such a dual strategy of doing something for shareholders and something for the world is a model in the energy and other hard-to-abate industrial sectors.

Conclusion



The scope of the board director today is more challenging than it has been at any time in recent history. Yet this is also a time of great opportunity. Companies—and, by extension, the boards that lead them—can play a critical role in addressing some of the most consequential issues facing society while also building durable, competitive advantage. As directors step up to this role, they may want to do a gut check, asking themselves questions such as the following:

- What future do we want for this organization?
- Are we as a board spending too much time looking backward instead of forward?
- Are we managing for risk or regret?
- Do we want to oversee a company that is focused on risk management when it comes to sustainability—or is seizing opportunities and building competitive advantage?

- Are we being realistic, pragmatic, and sober minded about the complexities of these issues, the high stakes, and the tough decisions we need to make?
- What is our contribution going to be to this organization and the global community at large, and what is our legacy?
- Are we building organizational capabilities to navigate the uncertain future and potential shifts?

In the end, real change is driven by competence, character, courage, and the resilience to follow through on the choices that have been made.

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