UNIVERSITY OF CAMBRIDGE
INSTITUTE FOR SUSTAINABILITY LEADERSHIP

Business Briefing

TRANSFORMATIONAL LEADERSHIP

Future of Boards

Final Report: Summary and Synthesis

Phase 1: Part 4

DLA PIPER

About the University of Cambridge Institute for Sustainability Leadership (CISL)

CISL is an impact-led institute within the University of Cambridge that activates leadership globally to transform economies for people, nature and climate. Through its global network and hubs in Cambridge, Cape Town and Brussels, CISL works with leaders and innovators across business, finance and government to accelerate action for a sustainable future.

Trusted since 1988 for its rigour and pioneering commitment to learning and collaboration, the Institute creates safe spaces to challenge and support those with the power to act.

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Acknowledgements

Our thanks to those who contributed to this work through interviews and response to surveys.

Our thanks to the following members of CISL and DLA Piper for their input and support:

Chris Alliott, Jaime Biffa, Richard Calland, Jean-Pierre Douglas-Henry, Chloe Froggatt, Lindsay Hooper, Suraj Mashru, Kelly Sporn, Alex Tamlyn, Rachel Taylor, Eliot Whittington, Adele Williams

Citing this report

Please refer to this publication as: University of Cambridge Institute for Sustainability Leadership (CISL). (2023). Final Report: Summary and Synthesis (Phase 1, Part 4)

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Summary Report

Executive Summary

Corporate boards are facing growing pressure and scrutiny from investors, regulators and markets from new disclosure requirements, as well as performance expectations around managing both climate and nature-related risks, and their impact on society.

The traditional one-dimensional goal of maximising returns for shareholders is increasingly at odds with the continuation of a viable future for people and planet, or the ability of a business to thrive long term.

There is a critical opportunity to reappraise the role, structure, membership and operations of the board.

The Future of Boards research programme seeks to answer the following questions:

- What are the emerging trends or changes influencing board practice and the wider legislative environment around the world?
- How aligned are these trends, and their drivers, with a sustainable future?
- What are the practical implications for boards?

We found seven legal trends that directly relate to sustainability; three big picture board trends; and 12 emerging trends in board practice (see Figure 1).

We argue that the alignment of these trends with a sustainable future will depend on what approach or 'logic' a company takes to sustainability concerns:

BAU CSR

Business-as-Usual (BAU) Corporate Social Responsibility (CSR): focus on short-term shareholder financial value maximisation; and a primarily self-interested motivation.

ESV

Enlightened Shareholder Value (ESV): focus on creating long-term shareholder financial value, recognising the importance of operating within accepted environmental and social limits.

PDO

Purpose-driven: a clear purpose which defines the company's reason to exist as an optimal strategic contribution to the long-term wellbeing of all people and planet while operating within accepted environmental and social limits. Profitability is a vital means to achieve this, not an end in itself.

We conclude that a board that is fit for the future:

1. Operates proactively in a dynamic and complex context with a clear sense of its roles and responsibilities.
2. Anticipates and helps shape the rapidly changing legal and regulatory landscape around sustainability.
3. Ensures that its composition, capability, culture and dynamics are fit for purpose.
4. Aligns its purpose with its strategic decision-making, supported by effective materiality assessments, use of appropriate data and engagement with stakeholders.

We argue that a move from a reactive BAU CSR logic to ESV logic will support more future-oriented practice in each of the above areas, through proactively anticipating significant trends and pressures, and being better positioned to navigate associated risks and harness opportunities for long-term value creation. It is boards with a Purpose-driven logic, however, that align fundamental value-creation goals with a sustainable future, that are likely to be most fit for the future in pursuing thriving societies and environments that in turn provide the optimum conditions for business, the economy and life on earth to flourish in the long term.

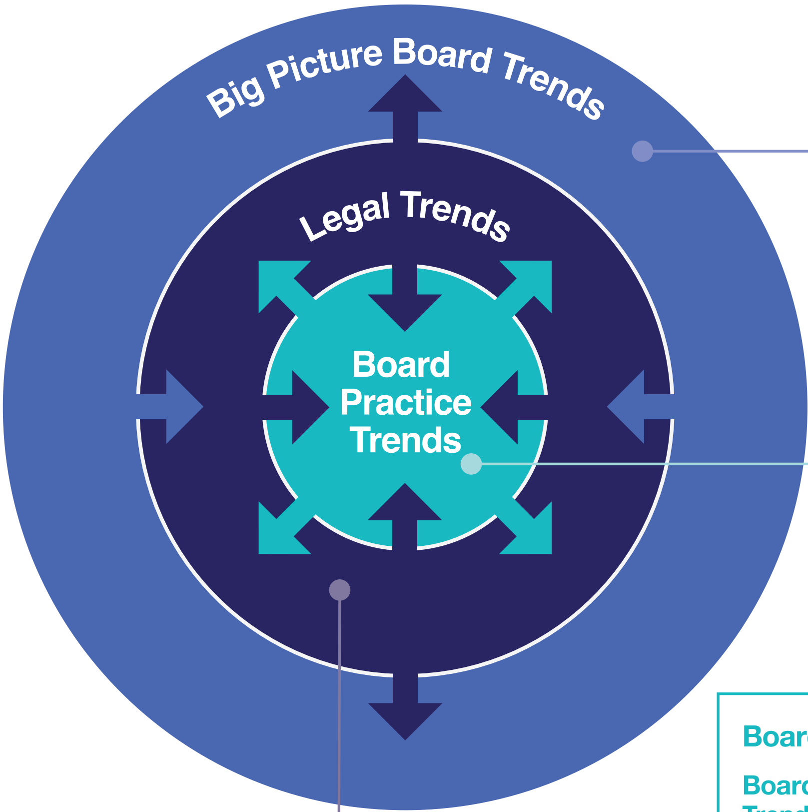
Pursuing such a future will take foresight, courage, ambition, wisdom and perseverance, not least because existing approaches are entrenched and normalised. In other words, this is a leadership agenda. Its realisation will require individual and collective leadership by business boards, by investors and funders, by policymakers, and by other stakeholders. Our research suggests that this is the moment for each of these actors to step up and take leadership.

This report summarises findings from Phase 1 of our research, including a set of 20 pivotal questions for boards to use as a tool to help them prepare for the future. It combines key insights from three detailed reports on our research to date. The second Phase of work is in progress and will be published next year in The Future of Boards series.

More details on: Report 1 Report 2 Report 3

Please use the back arrow to return to this report.

Figure 1: The key trends identified in this research



Big Picture Trends

Trend 1: Growing emphasis on ESG and sustainability factors, which have impacts on boards and regulatory compliance
Trend 2: Increased cumulative pressure on board practice resulting from complex and diverse external pressures, and expanding areas of board oversight.
Trend 3: Rising trend towards an enhanced role of the board and broadening scope of governance.

Legal Trends

Trend 4: Corporate governance codes and stewardship codes embrace sustainability principles.
Trend 5: Sustainability reporting and disclosure requirements are moving from corporate voluntary self-regulation towards mandatory legal frameworks.
Trend 6: Sustainability risks have created new litigation and liability risks.
Trend 7: Increasing stakeholder pressure to clarify the fiduciary duties of boards and make them consistent with sustainability considerations.
Trend 8: Legislators and regulators are increasingly adopting board diversity requirements.
Trend 9: Supply chain due diligence requirements are gaining momentum.
Trend 10: States are enacting innovative corporate forms that bring private and public benefit together.

Board Practice Trends

Board composition and membership

Trend 11: Boardrooms are slowly becoming more diverse.
Trend 12: Number of strictly independent non-executive directors is rising.
Trend 13: Discussions on appropriate board structures are on the rise, including an increase in the number of sustainability sub-committees.
Trend 14: Increasing attention is being paid to board dynamics and board evaluations.
Trend 15: Increasing desire for wider skills and knowledge on boards, and more human and collegiate leadership skills

Purpose, strategy, materiality and reporting

Trend 16: Increasing discussion around purpose at board level, but with some confusion over how it is understood, and limited evidence that it is systematically driving strategy.
Trend 17: Increase in strategic engagement by boards, and indications of more integration of sustainability issues and purpose, but the general approach remains through information provision.
Trend 18: Increase in the use of and discussion about materiality assessments by boards.
Trend 19: Some indication that boards are slowly seeing sustainability and ESG (and integrated) reporting, and the data collection underpinning it, as part of overall strategy development, and not just as a compliance requirement.

Stakeholder engagement

Trend 20: Stable and high level of intent by boards to engage with shareholders and wider investors, with indications of an increase in shareholder relations beyond AGMs.
Trend 21: Growing narrative around the benefits and most appropriate ways to engage stakeholders by boards, as well as an increase in stated corporate stakeholder engagement.
Trend 22: Slow and emergent signs of increasing innovation in how boards engage with non-financial stakeholders.

2/ Key questions for the board

To help boards make use of this interim report to guide their thinking and practice, the trends and their potential implications have been converted into a set of key questions for boards. By considering these questions, boards can begin to prepare and use their leadership to help shift their companies, shape public legislation and influence markets towards a sustainable future.[1]

Sustainability environment, legislation and regulation: do you fully understand the context?

1. Is your board prepared for the increased focus on ESG and sustainability? Does your board understand global sustainability risks and opportunities, and how your company impacts on and is impacted by them?
2. Are you on top of the new sustainability legislation, soft laws and stakeholder expectations in your jurisdiction (including on diversity, supply chains, and other likely changes)? Are you aware of, and can you navigate, the risks of greenwashing?
3. Have you considered the implications in terms of corporate governance? For example, do you fully understand governance and stewardship codes?
4. Are you taking proactive leadership for your company's sustainability impact and accepting accountability? Will you go beyond compliance and lead the agenda to help shape the external environment – for example, by engaging with other businesses collaboratively, or with policymakers, so as to leverage new opportunities?

The role of the company and board: why do you exist as a company and as a board?

5. Are you clear about why your company exists? Do you have a clear, meaningful and authentic purpose that outlines your unique strategic contribution to the world through your business success? Are you aware of, and can you navigate, the risks of purpose-washing, that is using purpose as a marketing tool, without truly embedding a clear, authentic, sustainable purpose into the core of the business?
6. Have you clarified the current scope of your fiduciary duty? What information do you track to ensure you are looking after the best long-term interests of your company? Does your scope extend beyond shareholder interests?
7. Have you clarified the role and accountability of your board vis-à-vis the executive and how the two can communicate effectively to work together in service of a sustainable future through business success?

Strategy, reporting and materiality: how are you making strategic decisions?

8. Does your strategy align with your purpose, doing no harm to the resources it relies on integrating sustainability at its core?
9. Are you clear how you understand materiality? What are the material risks/opportunities for your business and how do they impact on the wider world?
10. Do you have robust ways of measuring and collecting data, and monitoring your environmental and social sustainability performance across the business?

11 Do you track sustainability risks to your business on your risk register and do you have a clear proactive plan for mitigation (for people, nature and climate)?

Stakeholder engagement and impact: who has a voice outside of the board?

12 How are you managing your supply chains with respect to sustainability issues, for example tracking your scope 1, 2 and 3 emissions, and supplier labour practices?

13 Which stakeholder perspectives do you consider in your decision-making and why? Are these the right ones? How might you innovate to engage more fully with stakeholders in service of a sustainable future through your business success?

Board composition and structure: who sits on the board and where?

14 Do you have diversity of people (age, gender, culture, ethnicity, nationality, professional experience and social background) and diversity of thought (in terms of worldview and cognitive approach) at your board table to make truly informed and effective decisions? Is everyone meaningfully involved when decisions are made?

15 Do you have truly independent directors around the table, and are they heard?

16 Do your board and sub-committee structure and reporting lines optimise your focus and effectiveness so that you can deliver sustainable solutions and impact?

17 Are the size of your board and the time its members are expected to invest adequate to respond to all the current challenges you are facing and provide what is needed to align with a sustainable future? How could you make better use of technology to reduce the work and cognitive load of board members so that they can be more effective decision-makers?

Board individuals and dynamics: is your board working well?

18 Does your board have the right individual and collective leadership capabilities including skills, knowledge and experience to support sustainable outcomes through business success? Is your recruitment, training and development, succession planning and input by external advisors, effectively impacting these aspects? How can you further develop your board effectiveness?

19 Do you have an open and honest culture where the board is safe to share concerns and build team understanding and shared resilience?

20 Does the culture and dynamic of your board encourage challenging and self-reflective conversations to enable effective decision-making (and avoid ‘groupthink’)? Do you regularly review the performance of the board on this basis?

3/ About the research

The Future of Boards Research Study by the University of Cambridge Institute for Sustainability Leadership (CISL), in partnership with the global law firm DLA Piper, explores key trends in how board practice and the wider legislative environment are changing around the world; how aligned with a sustainable future these trends and drivers in board practice are likely to be; and the practical implications for boards.

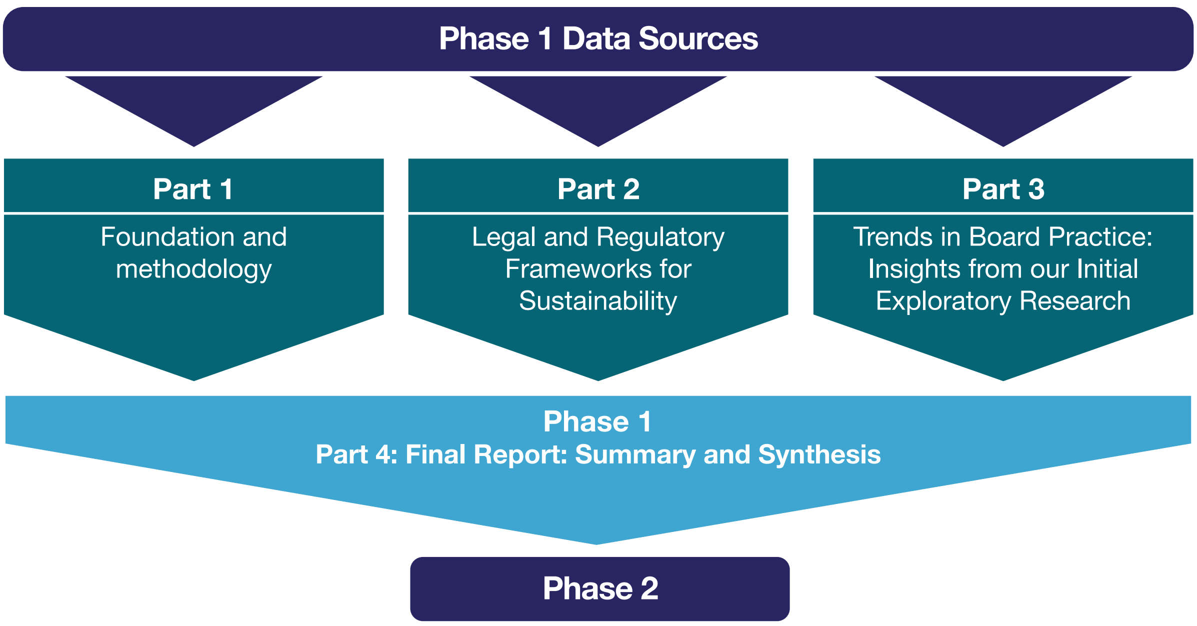
We are carrying out the research in two phases. Phase 1 explores the evolving and emerging trends in board practices and capabilities, and the related legislative and regulatory context, using a range of primary and secondary data sources. Phase 2 will further explore and evaluate selected key findings from Phase 1 in greater detail.

This research has been designed to offer practical support to boards in understanding, navigating and responding to the different observable trends in legal frameworks, board practice, board structure and stakeholder engagement that are facing them. Additionally, it evaluates the extent to which these trends are likely to impact the ability of a board to align business success with sustainability outcomes, and positively contribute to a thriving future for all.

This final report brings together the key findings from Phase 1. The full background to the research, methodology and detailed findings are reported in each of the first three 'Technical Reports'. This information is hyperlinked throughout this report, (you can use the back arrow to return to this report), for those who want to explore the evidence base in detail.

The research is being carried out with funding from, and in conjunction with, the global law firm DLA Piper, which is assisting CISL in identifying sources of data and gathering insights from multiple locations around the world. DLA Piper is also providing guidance and advice as the project progresses. It is important to note that while DLA Piper has funded this work, intellectual stewardship lies with CISL.

Figure 2: The research reports in Phase 1



Click on graphic for the full reports

Figure 3: The data sources used to inform Phase 1 research expert interviews

Phase 1 Data Sources	
Primary Data	**Secondary Data**
Global trends survey	Refinitiv Eikon Global Companies Database
Global legal questionnaire in 11 jurisdictions	Selected academic and practitioner sources
Expert interviews	

3.1. Why now – context for the research

Businesses, while providing one of the primary ways in which people's wants and needs are met, are also central to creating the grand challenges facing the world today, from climate change to biodiversity loss, or excessive inequalities in wealth, income and opportunity. Additionally, these challenges now pose substantial risks for businesses themselves.

Increasingly, business boards are under pressure, not only to respond effectively to these external risks, but also to understand and respond to stakeholder expectations, while remaining commercially viable in the short and long term. These challenges are further exacerbated by increasingly tense and volatile global politics.

Within this rapidly evolving context, difficult questions arise about the appropriate role and effective functioning of the board as the key body (or bodies) responsible for governance, in other words, the direction, oversight and accountability of an organisation.[2] The purpose of this research is to enable boards to accelerate their understanding and progress towards a sustainable future, one in which everyone's wellbeing is optimised, supported by healthy social and environmental systems. Our insights and comments are also designed to provoke further discussion and research.

More details

3.2. Approach and methodology

Trends in board practice occur across many levels. On the basis of existing literature and insights, we decided to focus on four key domains:

- legal frameworks in a range of jurisdictions (both 'hard' law – legislation and case law, as well as 'soft' law – codes of conduct and guidelines) which shape and underpin board practice that directly relates to sustainability
- board practice, including purpose, materiality, strategy and reporting
- board membership, structure, individuals and dynamics
- stakeholder engagement.

For the purposes of this research, a **trend** is understood as the general direction in which something is developing or changing. Some trends are strong where there is evidence of significant change, others are emergent, where there are some indications of change.

Although this governance challenge affects all kinds of organisations, this research focuses primarily on large public or privately owned shareholder companies.

A **private company** is defined here as a legal entity with independent legal personality, limited liability, share capital, limited transferability of shares, delegated management and investor ownership.

A **public company** is defined as a limited liability company that offers shares to the general public.

We explore the trends through a combination of primary and secondary research, using multiple techniques – from questionnaires and interviews to literature reviews and analysis (see Figure 3) – to better understand these trends, their drivers, trajectory and pace of change.

The 11 jurisdictions included in the global legal questionnaire were: Australia, China, Colombia, Hong Kong, Japan, the Netherlands, Singapore, South Africa, Sweden, the United Arab Emirates (UAE) and the United Kingdom

(England and Wales). We also examined legal developments in the United States (specifically the state of Delaware) and relevant legal changes in EU law, as an example of a supranational jurisdiction.

More details

Framework used for sustainability analysis

In identifying a range of trends likely to have significant implications for the role and practice of the board – now and in the future – we recognise that different companies and their boards are likely to respond to these trends in practice in a range of ways. We will explore these differences further in Phase 2 of this research. To help evaluate these different responses, we have devised three approaches/logics which communicate the different ways in which a business might respond to this rapidly changing context. These logics, listed below, particularly focus on the degree to which the business aligns its commercial success with a sustainable future. This relative balance is an issue of growing interest to companies in light of regulatory changes, societal expectations, a volatile operating context and business risks and opportunities. We have considered the 22 trends identified in relation to the three business logics below:

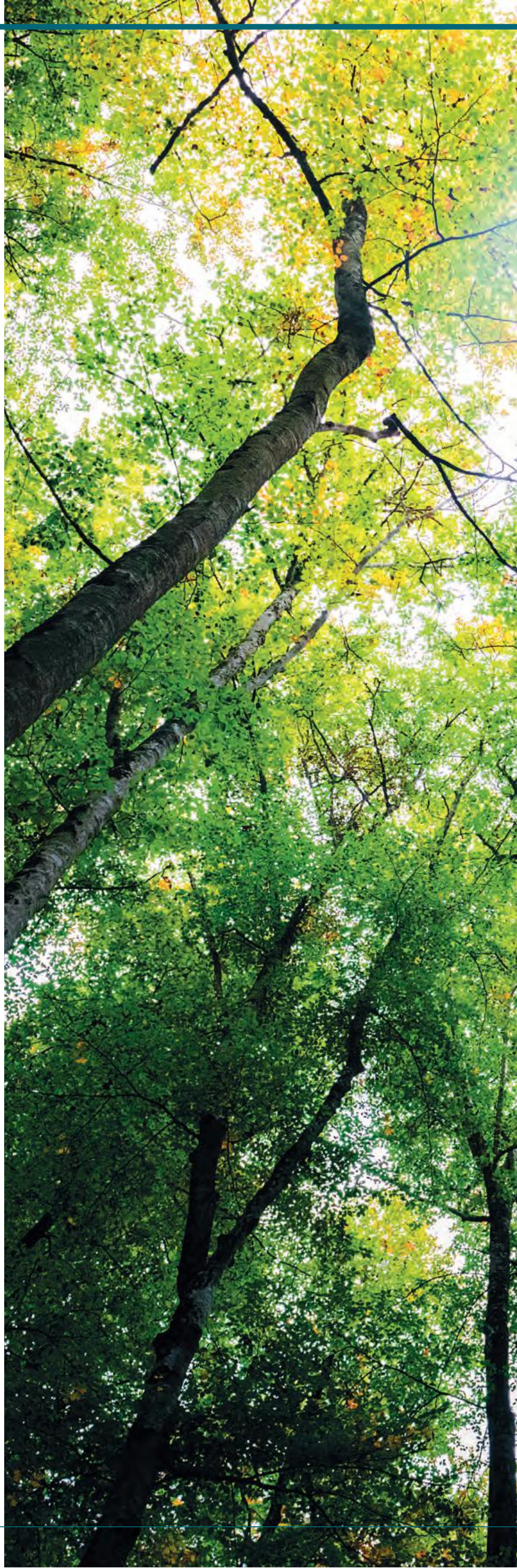
BAU CSR **Business-as-Usual (BAU) Corporate Social Responsibility (CSR):** focus on short-term shareholder financial value maximisation; primarily self-interested motivation.

ESV **Enlightened Shareholder Value (ESV):** focus on creation of long-term shareholder financial value; recognises the importance of operating within accepted environmental and social limits.

PDO **Purpose-driven (organisation):** has a clear purpose which defines the company's reason to exist as an optimal strategic contribution to the long-term wellbeing of all people and planet, achieved in a way that assures the health of social, environmental and economic systems, stakeholders and capitals, and with profitability being a vital means to achieve the purpose.

These logics are not intended to pigeon-hole organisations, but rather to help boards by providing stretch and ambition in terms of their alignment with a sustainable future, provoking challenging questions about the current business mindset, values, priorities and ways of working.

More details



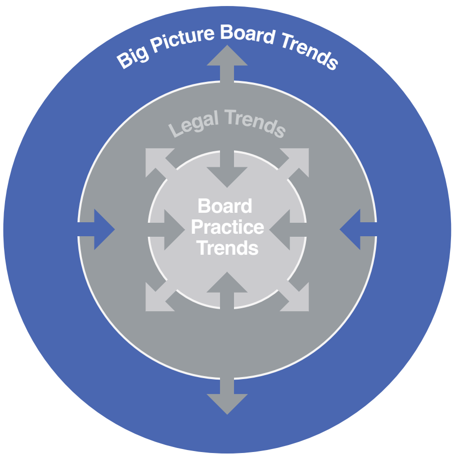
4/ Key insights from the research:

Becoming a board that is fit for the future

By applying the sustainability analysis framework to consider how companies might respond to the trends, we identified *four key characteristics* of the board that is fit for the future.

1. **Operates proactively in a dynamic and complex context with a clear sense of its roles and responsibilities.**
2. **Anticipates and helps shape the rapidly changing legal and regulatory landscape around sustainability.**
3. **Ensures that its composition, capability, culture and dynamics are fit for purpose.**
4. **Aligns its purpose with its strategic decision-making, supported by effective materiality assessments, use of appropriate data and engagement with stakeholders.**

Each of the 22 trends identified fit within one of these four characteristics:



1. Operates proactively in a dynamic and complex context with a clear sense of its roles and responsibilities (trends 1-3)

Our research confirmed what many boards are acutely aware of. There is increased cumulative pressure on boards which has arisen from a volatile, uncertain, complex and ambiguous (VUCA) operating context; expanding areas of board oversight; increased prominence and discussion about the role of the board; and growing scrutiny of board performance. More specifically, there is an increased emphasis on Environment, Social and Governance (ESG) and broader sustainability impacts, particularly climate and nature. These factors contribute to an increased number of potentially material risks and opportunities which boards need to consider. This background creates significant pressures on board time and capacity, from the sheer number and nature of the issues necessary to consider. It can also impact on the nature of board decision-making, as a result of the complexity and potential trade-offs inherent in many decisions.

There are no easy answers to the weight of responsibility and pressure currently felt by boards. The responses however of different boards to the trends identified will likely be shaped by the underpinning logic regarding sustainability.

BAU CSR Some boards will be tempted to hunker down, keeping ESG and sustainability concerns at the periphery, engaging in ad hoc or reactive CSR activities in order to protect reputation and the social licence to maximise short-term profits, rather than systemically and proactively addressing environmental or social risks.

ESV Others will make a deliberate effort to integrate sustainability as a longer-term strategic consideration into decisions, shifting their business models and strategy to invest in the health of critical social and natural systems, as a means of maximising financial performance or survival in the long term, and creating more agile and adaptive responses to ongoing change.

PDO Boards with a Purpose-driven logic will seize the opportunity to unite around a shared and meaningful reason to exist that aligns the fundamental value-creation goal of the company with a sustainable future, while also ensuring that no harm is done to underpinning social and environmental systems. As a result, they will be in a stronger place to overcome many of the tensions, challenges and drags on innovation that organisations currently face, have a clear sense of their role and responsibilities, a broader and more strategic perspective, and a framework for making high-level and fundamental decisions about the future direction and operations of the company.

2. Anticipates and helps shape the rapidly changing legal and regulatory landscape around sustainability (trends 4-10)

One of the key drivers for the growing attention on ESG and sustainability factors for boards is the rapidly evolving legal and regulatory context. This is itself driven by policymakers in response to international agreements including the Paris Agreement and concerns about macro-economic stability from the Financial Stability Board. At the same time, there are changing societal expectations around good governance and pressure from a range of stakeholders including investors, civil society, non-governmental organisations (NGOs) and the international community. Mounting stakeholder pressure to clarify the fiduciary duties of boards, and make them consistent with sustainability considerations, is leading to increased scrutiny of the concept of 'shareholder primacy'. Soft law instruments such as corporate governance and stewardship codes are embracing sustainability principles, while corporate voluntary self-regulation in the area of sustainability reporting is becoming increasingly codified within mandatory legal frameworks. At the same time, supply chain due diligence requirements are gaining momentum, and legislators and regulators are increasingly adopting board diversity requirements. Some countries or states are even enacting innovative corporate forms that bring private and public benefit together.

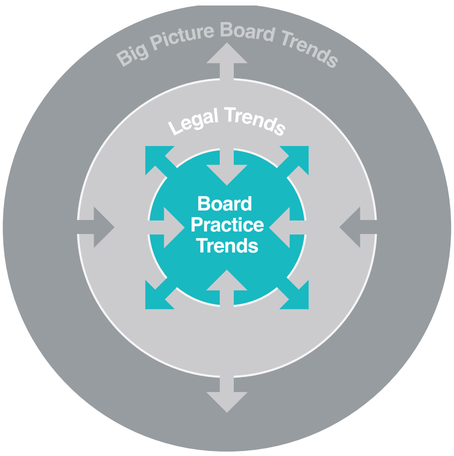
Such changes have significant implications for boards, not least in expanding their responsibility, and scope of activity, with greater demands being placed on their oversight capabilities. Moreover, stakeholders (financial and non-financial) are being empowered to better assess risks, allocate capital and hold companies accountable, changing the broader ecosystem within which boards operate. However, the landscape is complex and inconsistent. Different dynamics can pull in different directions within different contexts. Some of these tensions have been accompanied by increasing politicisation and polarisation, leading to resistance to the general movement of trends such as a widened fiduciary duty, in certain jurisdictions. There has also been a related increase in litigation risk. While litigation is mostly used to enforce commitments to corporate sustainability, with both companies and individuals exposed to legal action, other actors are using it to preserve the status quo and deter boards' sustainability behaviour.

As a result of these challenges, a range of approaches is likely to be evident among boards.

BAU CSR Some boards will remain preoccupied with short-term risk reduction, engaging in reactive compliance and box-ticking on sustainability issues in response to regulatory changes, disconnected from strategic decision-making.

ESV Other boards are likely to use changing sustainability legal requirements as benchmarks to underpin business practices and enhance performance, risk management, ability to take advantage of new opportunities, and stakeholder (including investor) relationships.

PDO Boards with a Purpose-driven logic will welcome legislative innovation as a validation of their approach and philosophy, and actively help shape the developing norms and standards in order to level the playing field in which they operate. Litigation risk could come from both the sustainability and anti-sustainability lobbies, but strong risk oversight mechanisms and alignment between stated aspirations and practices will likely help navigate the complex world of legal risk and stakeholder expectations.



3. Ensures that its composition, capability, culture and dynamics are fit for purpose (trends 11-15)

Change is happening in the composition and structure of boardrooms, driven at least partly by the changing legal and regulatory landscape. This area of board membership, structure, dynamics and skills is what has become known as the ‘black box’ of how boards actually function. It covers emerging trends in relation to who sits on boards; how these individuals behave and inter-relate; and how boards organise themselves in order to address different issues.

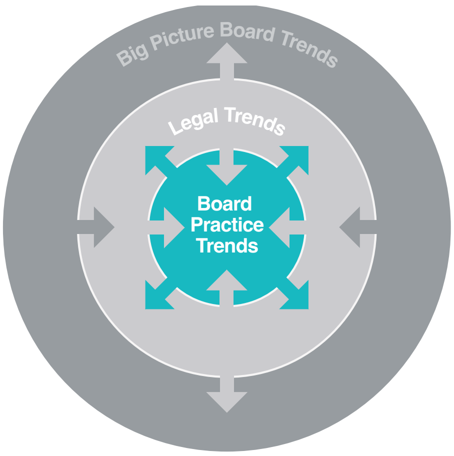
Boardrooms are slowly becoming more diverse. However, these trends vary by geography and demography, with some aspects, such as cultural and cognitive diversity, disability, background, age and experience, lacking in attention and progress. The number of strictly independent non-executive directors as a proportion of the board is rising, as are debates about appropriate board structure, and an evidenced increase in the number of sustainability sub-committees. Alongside these more structural elements, increasing attention is being paid to board dynamics and culture, reflected in what appears to be increasing numbers of board evaluations, and a growing interest in the importance and role of the chair. There is an increasing desirability for wider skills and knowledge on boards, as well as more human and relational leadership capabilities, although with recognition that the supply of such capabilities needs to grow.

While these changes affect most boards to some degree, different approaches to how sustainability is integrated into the business are likely to result in very different attitudes to such changes.

BAU CSR Some boards will respond with a compliance mentality to diversity quotas, trends in sub-committees and the need for wider skills and knowledge – without engaging with the underlying substance of why these might benefit board functioning.

ESV Other boards will welcome the potential for more constructive board dynamics and open, inclusive and independent decision-making (supported by the chair and board evaluations) in order to better understand the broader dependencies and dynamic systems affecting the company and its long-term financial success.

PDO Boards with a Purpose-driven logic will ensure that the composition, capability, culture and dynamics of the board serve the organisation’s purpose (within sustainable parameters), enabling every remit, function and individual to play its part in aligning business success with positive sustainability outcomes. They will also develop a shared capacity for collaborative, inclusive and independent decision-making; and seek to attract and nurture the best talent to create a rich and diverse knowledge base, using transformational leadership capabilities and interpersonal skills to achieve real impact.



4. Aligns its purpose with its strategic decision-making, supported by effective materiality assessments, use of appropriate data and engagement with stakeholders (trends 16-22)

Organisational purpose, strategy, materiality, reporting and stakeholder engagement are strongly inter-related. Material considerations, for example, inform what is and should be disclosed, and organisational purpose is the over-riding objective that guides any strategy development. The different kinds of information that are collected by an organisation to inform its internal processes, as well as strategy design, can also be used to assess whether an organisation is indeed fulfilling its purpose, in the way intended, and communicate the findings to stakeholders. Stakeholder engagement, including with shareholders and investors, is a crucial part of materiality and reporting considerations, as well as their knowledge being invaluable to effective strategy-building. This is also a fast-moving area. For example, the concepts of 'materiality' and 'purpose' are changing rapidly in order to better align companies with sustainability outcomes, as are changes in what is reported and disclosed. One key insight from our interviews was that board members themselves seem to be unclear about what to do in this evolving situation. Their responses suggest that we are in a time of rapid change in thought leadership and good practice, but one which is also creating a lot of confusion.

Responses to this evolution will again depend on a company's orientation.

BAU CSR Some boards will engage with purpose as a public relations (PR) or marketing tool, as a means to enhance short-term profit maximisation, for example to improve reputation or customer/staff retention. Materiality will be narrowly defined to only include sustainability issues that are material to the short-term bottom line, with reporting being seen as compliance, rather than inputting into company strategy, and something to which the board adopts a reactive position. Stakeholder engagement will see financial shareholders as the priority, with engagement only likely if this clearly contributes to protecting and enhancing short-term financial returns.

ESV Others will use the language of purpose to the extent that it aligns with long-term financial returns for shareholders. They will see value in materiality assessments to better understand risks and opportunities and provide a multi-faceted view of the company's performance to aid business success. Stakeholder engagement will be proactive to head off problematic issues before they escalate, and involve direct engagement if this will make a difference to the company's long-term success.

PDO Boards with a Purpose-driven logic will have purpose (the fundamental reason for existence) as the blueprint to integrate sustainability into every part of the organisation, serving as the basis from which to evaluate strategic options and outcomes. Profitability is a means to achieve the purpose and meet the expectations of different stakeholders. Materiality assessments will check if the purpose of the company is the optimal strategic contribution the company can make to long-term wellbeing for all. That purpose will be used to inform decision-making and all business policies. The business also will work with stakeholders, not just to avoid risk, but also to co-create collaborative solutions to achieve its purpose.

5/ Taking leadership

Aligning commercial success with a sustainable future will take foresight, courage, ambition, wisdom and perseverance, not least because it requires moving beyond business as usual which has become entrenched and normalised. In other words, this is a *leadership agenda*, and this is the very moment for such leadership. The intent of this report will strengthen the case, help boards proactively get 'fit for the future' and build further critical momentum for real change.

During Phase 1 of our research, we have identified 22 trends that are currently influencing or are likely to influence board practice and have pointed to the potential implications for boards. To help boards to better understand this landscape and navigate future shifts we have created a set of 20 pivotal questions for boards to use as a tool to facilitate discussion and prepare strategically.

We have analysed the 22 trends using a framework of three business approaches to see how these trends may influence board practice in service of a sustainable future. We have reached the conclusion that the board that is fit for the future will:

- operate proactively in a dynamic and complex context through a clear sense of its roles and responsibilities
- anticipate and help shape the rapidly changing legal and regulatory landscape explicitly around sustainability
- ensure that its composition, capability, culture and dynamics are fit for purpose
- align its purpose and strategic decision-making, supported by effective materiality assessment, use of information and engagement with stakeholders.

Leadership actions for boards

We therefore ask boards and board members to engage with our research and key questions for boards, to help them gain clarity on what it is to govern in their context, and to ensure that those actors they rely on to support them are also aware of what good governance looks like and requires[3]. They should:

- have a point of view on what it means to govern in a way that both maximises the potential of the business and contributes to a sustainable future
- understand that they operate in a context where planetary boundaries and societal challenges can disrupt economies and cause social unrest, therefore putting at risk the potential of the company to deliver realistic and long-term financial returns and value to all their stakeholders
- be able to articulate the purpose of the organisation, its strategic contribution and the positive future impact it will have on society, the economy and the environment
- be honest about the assumptions underpinning the existence of the company and be aware of how they shape decisions, with clarity over what might need to change in order to deliver business success, resilience and positive societal and environmental impact
- understand what is needed to ensure that the board's decision-making is fit for the future – is it the personal and collective leadership style of board members, how to develop appropriate mindsets and capabilities, board dynamics, the need to create more effective governance systems, or how to appropriately engage stakeholders?
- commit to personal and collective leadership as a board, to make the changes needed to bridge the identified gaps and take action.

Leadership actions for investors and fund managers

We ask investors and fund managers to embrace the challenge and opportunity of creating a sustainable present and future for people and planet, by providing appropriate flows of capital into business, and by creating the right incentives to enable boards to act both sustainably and with purpose, rather than, for example, limiting their action through short-term requirements for high returns, or through a lack of standardised reporting requirements.

Leadership actions for policymakers

We ask policymakers and other key stakeholders to shape the legal and wider policy landscape so that it drives and supports sustainable change by influencing market conditions and creating a level playing field to support boards in achieving their purpose sustainably.

Phase 2 of this research programme will explore what is actually happening in practice in response to a number of the key trends identified in Phase 1, and what boards think might help them navigate the challenges ahead. We will use the 22 trends identified here as a starting point to ask board directors: how these trends are showing up in practice for them; what gets in the way of positive progress; and what might support and enable transition to a more effective approach going forward. Using this deeper insight from practice across a range of business and geographical contexts, together with focused roundtables, we will be able to build on this accumulating knowledge to offer practical recommendations for boards looking to be fit for the future.

We invite you to get involved in the next phase of our research and share your board practice and ideas for positive change. This is a critical time to engage. By being part of this conversation you will contribute not only to creating the conditions for a positive future for your business, but also for all human life on earth.

Synthesis Report

This report is the synthesis of the detailed work found in Technical Reports 1, 2 and 3.

6/ Key trends identified

In this section we highlight each trend identified from the research, illustrated by selected key facts or quotes from the evidence base collected for the research. (You can access further information by clicking the associated hyperlinks to the Technical Reports.) We then consider the question: 'So what does this mean for boards?', and include a set of suggested implications for board practice that have emerged at this interim stage of our research.

We found seven legal trends that directly relate to sustainability; three big picture board trends; and 12 emerging trends in board practice, see figure 4.

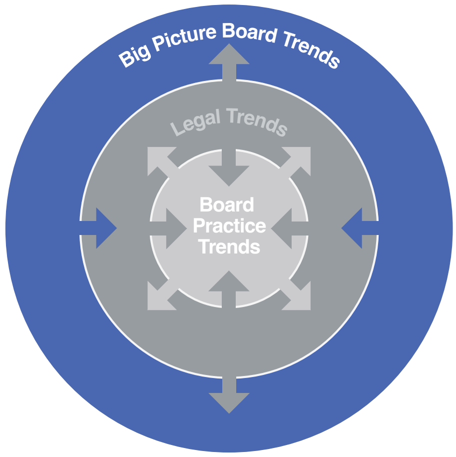
6.1. Big picture trends affecting boards

Several global trends were identified that influence board practice, across all areas of research, as well as jurisdictions, and wider geographies.

Trend 1: Growing emphasis on ESG and sustainability factors, which have impacts on boards and regulatory compliance.

Several sources of data, including over two-thirds of our expert interviews, analysis of selected conference proceedings, and additional survey data gathered by professional bodies, identified an increased focus on ESG and sustainability factors as one of the prominent trends facing boards in recent years. This was seen particularly in relation to the need for reporting, and compliance with new legislation and regulations. This trend was noted in multiple jurisdictions, although climate remained the dominant focus rather than broader nature-related or social dimensions of sustainability. Within such a trend, a number of different responses were noted, from the trend towards an anti-ESG backlash in some jurisdictions, to ambivalence regarding whether sustainability is indeed core to board members' roles alongside traditional concerns, to those who recognised ESG and sustainability issues as real material risks and opportunities for business.

"What I think people perceive to be quite long-term consequences are now becoming quite tangible in the short to medium term … I think the magnitude and the extent of specific acute climate related incidents like significant flooding affecting people's supply chain directly – that's starting to be felt quite acutely in consequences now … And I think that will accelerate us towards the tipping point where people start to think: "actually I have to make a fundamental pivot in my organizational approach … because this is going to impact me while I'm still sitting in the boardroom."
(Expert interviewee)



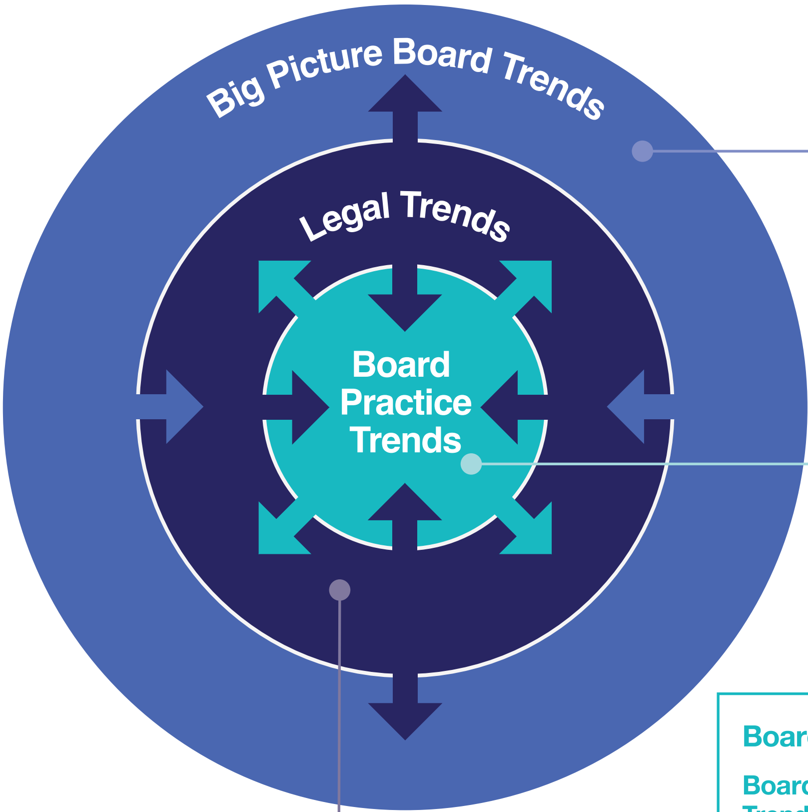
"[There is] a mix of appetite among board members about how much they want to get into [sustainability]. Some not so much. They don't see it as really their role … And I would say it's still quite divided. You still have some people who [say] very firmly: 'We look at the financials and that's our role as stewards', whereas other people do see a broader role."
(Expert interviewee)

Implications for boards

- Boards are increasingly expected to engage with and oversee ESG risks, and embrace new opportunities for the business.
- There is a need for boards to ensure robust ESG reporting and disclosure practices and to establish appropriate metrics, monitoring frameworks and third-party audit systems.
- Boards may require reassessments of their own composition and capabilities to ensure effective oversight.
- Boards are likely to benefit from moving from a compliance mindset to proactive board leadership on ESG performance.

More details

Figure 4: The key trends identified in this research



Big Picture Trends

Trend 1: Growing emphasis on ESG and sustainability factors, which have impacts on boards and regulatory compliance
Trend 2: Increased cumulative pressure on board practice resulting from complex and diverse external pressures, and expanding areas of board oversight.
Trend 3: Rising trend towards an enhanced role of the board and broadening scope of governance.

Legal Trends

Trend 4: Corporate governance codes and stewardship codes embrace sustainability principles.
Trend 5: Sustainability reporting and disclosure requirements are moving from corporate voluntary self-regulation towards mandatory legal frameworks.
Trend 6: Sustainability risks have created new litigation and liability risks.
Trend 7: Increasing stakeholder pressure to clarify the fiduciary duties of boards and make them consistent with sustainability considerations.
Trend 8: Legislators and regulators are increasingly adopting board diversity requirements.
Trend 9: Supply chain due diligence requirements are gaining momentum.
Trend 10: States are enacting innovative corporate forms that bring private and public benefit together.

Board Practice Trends

Board composition and membership

Trend 11: Boardrooms are slowly becoming more diverse.
Trend 12: Number of strictly independent non-executive directors is rising.
Trend 13: Discussions on appropriate board structures are on the rise, including an increase in the number of sustainability sub-committees.
Trend 14: Increasing attention is being paid to board dynamics and board evaluations.
Trend 15: Increasing desire for wider skills and knowledge on boards, and more human and collegiate leadership skills

Purpose, strategy, materiality and reporting

Trend 16: Increasing discussion around purpose at board level, but with some confusion over how it is understood, and limited evidence that it is systematically driving strategy.
Trend 17: Increase in strategic engagement by boards, and indications of more integration of sustainability issues and purpose, but the general approach remains through information provision.
Trend 18: Increase in the use of and discussion about materiality assessments by boards.
Trend 19: Some indication that boards are slowly seeing sustainability and ESG (and integrated) reporting, and the data collection underpinning it, as part of overall strategy development, and not just as a compliance requirement.

Stakeholder engagement

Trend 20: Stable and high level of intent by boards to engage with shareholders and wider investors, with indications of an increase in shareholder relations beyond AGMs.
Trend 21: Growing narrative around the benefits and most appropriate ways to engage stakeholders by boards, as well as an increase in stated corporate stakeholder engagement.
Trend 22: Slow and emergent signs of increasing innovation in how boards engage with non-financial stakeholders.

Trend 2: Increased cumulative pressure on board practice resulting from complex and diverse external pressures, and expanding areas of board oversight.

The next most important issue facing boards, raised by over **half of the interviewees**, was the complexity and perceived increase in external pressures (arising from, for example, the global COVID pandemic, geopolitical risks, digital and cybersecurity, artificial intelligence (AI) and cost of living). This trend was frequently summarised as that of operating within a VUCA (volatile, uncertain, complex and ambiguous) environment.[4] This operating context has a potentially significant impact on both board time in terms of the sheer number of issues to consider, and board decision-making, arising from the complexity, uncertainty and higher stakes inherent in many decisions.

"There is a polycrisis going on … layers of crisis which are environmental, climatic, social and economic but also increasingly political or geopolitical … a kind of perfect storm … which is brewing outside. I think most of the boards and organisations I'm seeing, and working with, are detecting that. What they're doing about it, I think, is a different question … I think they're struggling. I think they are really struggling to say, how do we handle this complexity as a board?" **(Expert interviewee)**

Implications for boards

- To make best use of limited time, boards should be focused on staying abreast of macro trends capable of impacting on the business and on social and environmental wellbeing.
- Boards will need to direct their energy towards mid- and long-term time horizons as well as focusing on short-term survival.
- Boards may need to increase the number of board members; create more specialised board structures; and search for more diverse skills among directors to secure access to expertise in emerging areas (for example, in technology, sustainability, or risk management).
- Boards will require more comprehensive monitoring and control mechanisms, clear reporting lines, effective data collection and streamlined information flows on material issues.

More details

Trend 3: Rising trend towards an enhanced role of the board and broadening scope of governance.

There was an emergent view from the expert interviews, our Global Trends Survey and other data sources from professional bodies that at a fundamental level, boards were taking their roles more seriously with an increased focus on performance and effectiveness. There was evidence that boards were more engaged with the wider social and environmental context beyond the immediate financials, although this was a mixed picture. It was also noted, however, that further clarity was needed on what governance actually entails, what good practice looks like (with ISO 37000 cited as a useful development) and the role of the board relative to executive management, all in a context of increased intensity of work and time commitment. These practicalities of governance and how they play out in practice depends on the stage of development of the company, speed of growth, sector, and whether it is public or private.

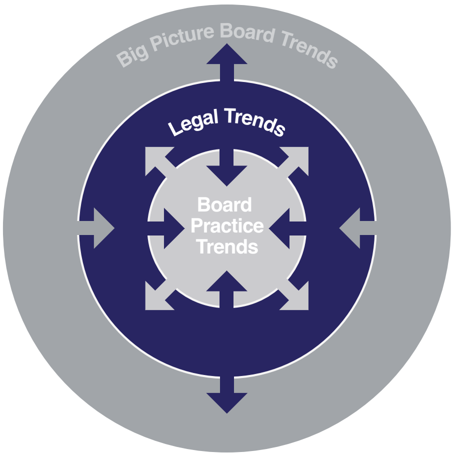
"They're taking it very seriously ... The level of professionalism … around the world is increasing … What would have been acceptable 20 years ago, 10 years ago, even 5 years ago is no longer acceptable."
(Expert interviewee)

"[There has been] … a positive effect in terms of the role of a board … which is more future oriented and thinking about how to prepare for the future and less on oversight and control … But also, there has been the demand of time dedication from boards to the company."
(Expert interviewee)

Implications for boards

- Boards will need to move away from a narrow focus on financial risks towards a greater acknowledgement of the interplay between financial viability and sustainability risks.
- The increase in the practical responsibilities of boards goes along with a need to shift from being reactive to more proactive board leadership of the company.
- Boards need to balance and negotiate increasing – and sometimes contradictory – stakeholder demands.
- There needs to be enhanced collaboration between management and external stakeholders, but also proactive management to reduce friction when board activities encroach on those of executive management.
- Boards need to acknowledge and creatively address the mismatch between what is required of governance and the availability of board time.
- There needs to be more focus on the evaluation of board performance.

More details



6.2. Trends in legal and regulatory frameworks for sustainability

Evolving trends in both 'hard' law (legislation and case law) and 'soft' law (codes of conduct and guidelines) that directly relate to sustainability have some of the most significant effects on board structure, decision-making, processes and priorities. It in effect provides the framework within which boards and companies operate.

To explore trends in this area, we therefore focused primarily on those cross-cutting areas of law that govern *all* dimensions of sustainability, mainly across 13 selected jurisdictions in different geographies, not just particular issues that are part of sustainability, such as employment practices, or circular economy policies. This approach enables us to investigate the limitations – or indeed permissions – that corporate and financial law frameworks put on the formation, management and conduct of companies.

Trend 4: Corporate governance codes and stewardship codes embrace sustainability principles.

Over the past five years, countries from varied legal backgrounds have updated their corporate governance and stewardship codes to include more sustainability-related provisions. These tools not only signal to boards that it is permissible to pursue corporate sustainability but also increasingly encourage boards to align corporate success with sustainability outcomes. They reflect shifting expectations of stakeholders, who increasingly see fiduciary duties as encompassing sustainability stewardship. As these soft law tools operate on a 'comply-or-explain' principle, their effectiveness largely hinges on the degree to which first movers will be rewarded by regulators and markets and the costs of the status quo will increase.

This trend is being fuelled by greater regulatory expectations regarding the role of investors in promoting responsible ownership. These factors have amplified the pressure to promote good corporate governance and stewardship principles. Industry associations and stock exchanges have also stepped up their efforts to promote better corporate governance practices, striking a middle way between self-regulation and state regulation. Furthermore, some institutional investors have become more vocal advocates of sustainability stewardship. While in many jurisdictions corporate governance regulation was born in the publicly traded space, there is a healthy growing recognition that limiting governance in this way is not logical or helpful for the future, for example the Wates Principles in the UK.[5]

KEY FACTS

Netherlands: The revised Corporate Governance Code defines a company as "a long-term alliance between the various stakeholders of the company", stating that "the management board and the supervisory board have responsibility for weighing up these interests".[6] The Code also stipulates that "long-term sustainability is the key consideration when, determining strategy and making decisions", calling for the consideration of stakeholders' interests and environmental and social factors in strategy formulation.[7]

UAE: Although corporate governance codes typically apply to listed companies, the UAE introduced corporate governance codes for small and medium-sized enterprises (SMEs) to improve their governance.[8]

UK: The UK Stewardship Code defines the ultimate goal of stewardship as to create "long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society".

KEY FACTS

Japan: The Stewardship Code, known as the *Principles for Responsible Institutional Investors*, requires institutional investors to monitor investee companies to promote their sustainable growth, have a voting policy designed to contribute to the sustainable growth of investee companies, and develop skills and resources needed to engage with the companies and make business judgements consistent with sustainability considerations.[9]

Implications for boards

- The codes provide new benchmarks against which to measure board behaviour.
- Although regulation does not change directors' duties as a matter of hard law, boards should consider reframing their board duties in terms of creating long-term sustainable value for all stakeholders, with a view to this behaviour becoming 'normal' and codified into hard law over time.
- Boards can expect the – sometimes conflicting – expectations of boards which arise from corporate governance and stewardship codes to create a more fluid operating environment and multiply litigation risks.
- Boards will likely need to engage more with investors and investment managers on ESG themes.
- Boards will likely require new capabilities, board structures and more representative and diverse membership to meet new governance standards.

More details

Trend 5: Sustainability reporting and disclosure requirements are moving from corporate voluntary self-regulation towards mandatory legal frameworks.

Regulators are filling gaps in what had previously been voluntary sustainability reporting initiatives through the adoption of increasingly mandatory sustainability disclosure requirements into law. This development responds to stakeholder demands for credible, comparable and consistent information on sustainability risks and performance. Alongside country-level initiatives, there is also a rapid trend towards the regional harmonisation of sustainability-related reporting standards at the EU level. Although the sustainability disclosure landscape remains fragmented, there are also signs of global convergence in disclosure standards, as evidenced by the increasing number of countries mandating Task Force on Climate-related Financial Disclosures (TCFD)-aligned climate risk disclosures and the adoption in June 2023 of the International Sustainability Standards Board's inaugural global sustainability disclosure standards. In the future, more standardised and mandatory requirements, third-party assurance systems and stronger penalty provisions might be added to ensure enforceability and conformity with agreed standards.

The trend is propelled by stakeholder demands for access to consistent and comparable sustainability information. In response, regulatory harmonisation is expected to combat greenwashing, enhance the comparability of disclosures, help market players estimate the costs and opportunities of sustainability-related risks, and empower stakeholders to hold companies accountable. Furthermore, the trend is driven by increasing multi-stakeholder co-operation on sustainability disclosure, which has accelerated the global harmonisation of sustainability disclosure standards, such as those developed by the International Sustainability Standards Board (ISSB).

KEY FACTS

UK: The UK was one of the world's first countries to make the recommendations of the TCFD compulsory for certain large companies, requiring eligible entities to incorporate TCFD-aligned climate disclosures in their annual reports.

KEY FACTS

EU: In January 2023, the EU's Corporate Sustainability Reporting Directive (CSRD) entered into force. The CSRD follows the 'double materiality' principle, requiring reporting entities to disclose both how sustainability issues impact them, as well as how the reporting entity affects sustainability matters. The directive also introduced mandatory third-party assurance, and requires reporting entities to publish a Paris Agreement-aligned plan in compliance with the targets enshrined in the European Climate Law, as well as to establish, monitor and report on clear sustainability targets and processes.

UK: Data and rating agencies are also under increased regulatory scrutiny due to their role as providers of ESG-related services to the financial industry. In November 2022, the UK Financial Conduct Authority announced a taskforce Code of Conduct for Environmental Social and Governance (ESG) data and ratings providers to improve the transparency and credibility of the market for ESG data and ratings.

Implications for boards

- Boards will maintain discretion around deciding which risks are material to the business, but require adequate resource allocation for due diligence, internal control systems and third-party assurance.
- Boards will likely benefit from making sustainability disclosures and materiality assessments valuable tools for decision-making, rather than treating them purely as box-ticking exercises.

Relatedly, boards will likely need to:

- shift from reporting sustainability performance to strategically acting on sustainability data
- redesign their organisational structures around sustainability rather than treat the latter as a compliance, PR, or investor-relations issue
- recognise that sustainability disclosures might influence cost of capital, company valuation and mergers and acquisitions (M&A) transactions, and stakeholder relationships
- be aware that increased disclosures can lead to greater personal and collective liability risks.

More details

Trend 6: Sustainability risks have created new litigation and liability risks.

Litigation is becoming a key arena where the future of corporate sustainability is adjudicated, with direct impact on boards. Although wider sustainability-themed cases are rapidly multiplying, climate litigation is currently the most contentious area. This trend is predominantly happening in Western countries, being largely shaped by the legal cultures and the level of civil society activism within each jurisdiction.

Sustainability-related lawsuits have worked in opposing ways. Although some litigants resort to the courts to enforce sustainability requirements, litigation is also being used to overturn ESG legislation. Sustainability-related litigation will likely become greater in scale, scope and complexity, driven by more prescriptive regulations, stronger enforcement practices, divisive investor sentiment and public demands for more corporate accountability.

This trend is being driven by the proliferation of sustainability-related legislation and international guidelines, which expose boards and individual directors to liability risks. Additionally, NGOs increasingly take judicial action to combat sustainability impact-washing through courts. Furthermore, anti-ESG sentiment further multiplies litigation risks, as some claimants seek to block or reverse sustainability-related regulations and investment practices.

KEY FACTS

Key fact: Between 2015 and 2022, more than 1,200 climate-related lawsuits were filed worldwide, around a quarter of which were between 2020 and 2022.

The common legal grounds for action involving corporations are:

- tort law and the reinterpretation of the 'duty of care' as giving rise to a corporate duty to cut emissions and comply with the Paris Agreement
- breach of directors' fiduciary duties and the requirement to integrate climate policies, targets and metrics into corporate operations and decision-making, and personal responsibility of officers and directors for failing to manage climate-related risks
- greenwashing, unsubstantiated or misleading sustainability claims and failure to adhere to climate regulation or voluntary corporate sustainability commitments and climate pledges
- human rights violations and the requirement of corporations to participate actively in respecting human rights and conducting continuous evaluations of the impact of company activities on human rights
- breach of sustainability disclosure obligations.

Implications for boards

- Boards need to recognise that the conflicting expectations of boards render the operating environment more fluid and multiply litigation risks, with non-financial risk oversight becoming more salient.
- Boards also need to balance the further integration of sustainability concerns across the company with the views of some shareholders who might oppose such practices.
- Because of the danger that board members can become individual targets of litigation, these liability risks might deter some candidates from seeking to sit on boards.
- The board should ensure that internal systems are redesigned to bring together what have previously been fractured informational flows about sustainability risks.

More details

Trend 7: Increasing stakeholder pressure to clarify the fiduciary duties of boards and make them consistent with sustainability considerations.

Although there are few legal changes in fiduciary duties across our sample of jurisdictions, there is growing pressure to clarify or redefine boards' duties regarding material sustainability issues. The law of most jurisdictions in our sample suggests that directors owe their interests to the company itself, rather than directly to shareholders. However, the permissibility afforded to boards in making sustainability-driven decisions that could potentially hurt shareholders' financial interests remains a contentious issue. Any future renegotiation of the latitude of board duties will likely be determined by the extent to which sustainability-related factors are seen as material to the interests of the ultimate beneficiaries.

This trend is driven by regulatory changes around corporate accountability and sustainable finance that increasingly call on boards to account for sustainability-related risks. Furthermore, there is pressure from the legal and academic discourse, international organisations and civil society actors to embed sustainability in directors' fiduciary duties. Some actors in financial markets, such as institutional investors and activist shareholders, also advocate a greater latitude for fiduciary duties to move beyond driving shareholder profit.

KEY FACTS

South Africa: South Africa experimented with legal innovations, such as in Section 72 of the South African Companies Act, which requires certain companies to appoint a Social and Ethics Committee to oversee activities related to social, environmental, consumer, labour and employment issues, raise the board's attention regarding these issues and report them to shareholders.

EU: The proposed Directive on Corporate Sustainability Due Diligence is seen as a significant attempt to harmonise some aspects of directors' duties in European large and 'high impact' sector companies. Article 25 of the draft Directive introduces a general obligation of duty of care, affirming that directors must consider the consequences of their decisions for sustainability matters (including human rights, climate change and environmental consequences) and across time horizons (short, medium and long term). Any breach of this enlarged duty of care – as defined by the proposal – would lead to the application of domestic provisions for breaches of directors' duties. Furthermore, the proposed Directive affirms that directors are responsible for putting in place, and overseeing, the implementation of sustainability due diligence policy, and its integration into all corporate policies. As of July 2023, the final text of the Directive was being negotiated in the trilogues.

KEY FACTS

South Africa: The South African Pension Funds Act states that, upon investing in an asset, the fund and its boards must "consider any factors which may materially affect the sustainable long-term performance of the asset including, but not limited to, those of an environmental, social and governance character".[10]

Implications for boards

- Boards should recognise that ideological differences, particularly in some jurisdictions, are intensifying the politicisation of fiduciary duties.
- The complexity, gaps and ambivalences created by changing fiduciary duties create more compliance and liability risks for board members.

Boards are advised to:

- focus on distinguishing between pecuniary versus non-pecuniary interests and navigating the competing interpretations of 'materiality'
- recognise that individual directors' reappointments are partially contingent on shareholders' views on a director's sustainability stance
- be aware that fiduciary mandates are increasingly being challenged by shareholder activism.

More details

Trend 8: Legislators and regulators are increasingly adopting board diversity requirements.

In the last five years, boardroom diversity has increasingly shifted from corporate self-regulation to legislated quotas, with about 20 countries adopting gender quota laws for corporate boards by 2022. Stock exchange listing rules and corporate governance codes are also increasingly promoting diversity. Board representation quotas enshrined in law vary from at least one member of the under-represented gender on company boards (eg Pakistan, UAE) to at least 40 per cent allocated to the under-represented gender (eg Norway, Iceland, EU). Apart from equity considerations, regulatory prescriptions on board diversity are seen as a way to change board dynamics. However, other diversity criteria, such as experience, age, or skills do not figure prominently in legal changes. Mandatory board quotas create opposition in some countries, occasionally giving rise to litigation claims and repealed laws.

The trend is fuelled by a greater cultural push for female representation in the corporate world in more jurisdictions. There is also enhanced scrutiny of board composition from regulators, proxy advisors, NGOs and governance rating agencies. Meanwhile, diversity-related demands from some activist investors and asset managers have become more pronounced.

KEY FACTS

Hong Kong: In 2021, the Stock Exchange of Hong Kong (SEHK) also revised listing rules to mandate all companies listed on the SEHK to have at least one woman on the board, creating over 1,000 vacant board seats to be filled by women.[11] There is mounting stakeholder pressure on other stock exchanges to take proactive action to enhance the representation of women on boards.

EU: The EU adopted in 2022 a Directive mandating listed companies to appoint at least 40 per cent women on their non-executive boards, or 33 per cent women in their executive and non-executive roles by mid-2026.

Implications for boards

- Boards will need to evaluate their diversity ratios to animate board dynamics and create more representation across key criteria (eg skills, gender, experience, or age).
- Board appointment procedures will likely require more diversity criteria in succession planning (as well as talent pipelines to secure that diversity).
- Equally, boards will need to consider diversity recruitment in the nomination/governance committees.

More details

Trend 9: Supply chain due diligence requirements are gaining momentum.

Companies are increasingly required to ensure the integrity of their supply chains. Recent legislation is increasingly no longer demanding just disclosure but also substantive action on preventing and mitigating adverse impacts in supply chains. Hence, acting in the best interests of a company increasingly calls for boards to develop adequate oversight systems to address supply chain risks. Effective supply chain management serves not just as a protective measure against potential liabilities and public reprimands, but also as a catalyst for value generation that can inform efficient resource allocation, streamline operations, improve supplier relationships and manage risks. Considering that, generally, supply chain regulations have an extraterritorial reach, the trend is likely to spread rapidly and have effect also in countries not directly regulating the issue.

This trend is partly driven by policymakers in response to international frameworks. For example, the EU Sustainable Finance Action Plan is a response to a commitment to implementing the Paris Agreement and the United Nations Sustainable Development Goals (UNSDGs) into European policy, committed to looking at sustainable supply chains. It is also driven by demands for corporate transparency and stakeholder scrutiny of the adverse sustainability impacts of international supply chains, in the aftermath of corporate scandals involving environmental harm or human rights violations. In response, there is growing pressure from the international community and organisations to align supply chain practices with human rights and environmental standards.

KEY *FACTS*

France: In 2017, France was the first country to adopt a broad cross-sectoral duty of vigilance, which requires all large French companies to undertake human rights and environmental due diligence with respect to their subsidiaries, contractors and suppliers.[12,13] The law also requires large companies to implement and publish a vigilance plan developed in consultation with trade unions, following the UN Guiding Principles on Business and Human Rights. The law introduced civil liability for the behaviour of both direct and indirect suppliers. Companies breaching the law are subject to fines of up to EUR10 million.

KEY *FACTS*

EU: At the EU level, a pending directive stipulates that large companies and companies operating in high-impact sectors have to comply with due diligence obligations to prevent, mitigate, end or minimise the adverse impacts that have been identified.[14,15] They have to additionally implement a corrective and preventive action plan with a clear timeline of actions and relevant impact measurement indicators.[16] Moreover, the proposed directive requires companies to make all the necessary investments to support the achievement of sustainability targets and other requirements of their policy.[17] Those who are negatively affected by harmful supply chain practices would have access to remedies. The proposal recognises civil liability in case of failure of a company to comply with due diligence obligations and provides for public enforcement mechanisms.

Implications for boards

- Boards will need to recognise the impact of company actions across the supply chain and system extending the legal boundaries of companies.
- There are risks and costs arising from transactions, or contracts suspended, for failing due diligence.
- There is therefore a need for boards to enhance their supply chain oversight capabilities, which are crucial for managing the legal risks arising from supply chain practices.
- There is also a need for boards to adopt increased accountability, setting the right tone at the top, and ensuring that reliable data on supplier practices is communicated and acted on throughout the organisation.
- There will be a related need for boards to see that their due diligence systems are upgraded, as well as contractor policies, codes of conduct, disclosure channels, accountability mechanisms and escalation processes, in order to manage supply chain risks.
- Boards may need to also consider ‘onshoring’ critical operations to bring supply chain activities under closer management control.

More details

Trend 10: States are enacting innovative corporate forms that bring private and public benefit together.

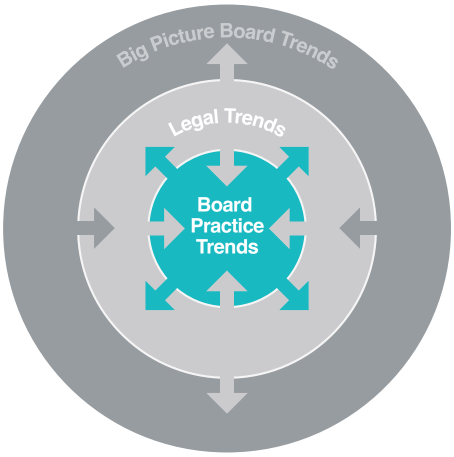
Various forms of 'benefit corporation' statutes can be increasingly found in a range of jurisdictions, including the US, Italy, Colombia, Ecuador, Peru, Uruguay, Canada (British Columbia) and Spain. In France, mission companies – sociétés à mission – fulfil a similar function. These innovative corporate forms allow companies to consider societal and environmental impacts alongside profitability, legally protecting this broader view of corporate purpose. Boards of such companies have an expanded set of fiduciary duties, as they are obligated not only to protect shareholders' interests but also to consider the impacts of their decisions on a broader range of stakeholders. Yet, regulatory and practical guidance on prioritising these stakeholders remains sparse. Benefit corporations are likely to remain a niche corporate form.

The diffusion of benefit corporations has been driven partly by cultural trends towards so-called 'stakeholder capitalism', the lobbying efforts of B Lab, a non-profit organisation, and stakeholder demands to counteract presumed 'impact-washing' practices of traditional corporations by formalising in company law a corporate form with higher accountability standards.

Implications for boards

- Boards have more discretion than generally understood in law to consider multi-stakeholder interests and the public benefit.
- Boards can be ahead of the game by challenging the traditional understanding of directors' duties by using B Corp certification, or the use of contractual enhancements via directors' service agreements and articles of association, ahead of any changes in the primary legislation regarding the scope of fiduciary duties.
- The new legal models available in some jurisdictions protect board members from liability for failing to maximise shareholder returns.
- If taking on, or considering such new models, boards will need to consider the contextual challenges in arbitrating competing stakeholder interests and public benefit within benefit corporations, and other multi-stakeholder models.
- Additionally, boards will need to recognise that there will need to be new ways of measuring success, and new checks and balances on managerial power as a result of the different governance model.
- Boards considering available options to them should also be aware that there is debate around whether benefit corporations could reinforce the view that sustainability is the preserve of such organisations. This unintentionally creates a split between these entities and mainstream corporations which must also address sustainability.

More details



6.3. Board membership, structure, dynamics and skills

Board membership

Change is happening in the composition and structure of boardrooms, driven at least partly by the changing legal and regulatory landscape. This area of board membership, structure, dynamics and skills is what has become known as the 'black box' of how boards actually function. This section aims to open this lid, and cover emerging trends in relation to who sits on boards; how these individuals behave and inter-relate; and how boards organise themselves in order to address different issues. It includes the people themselves (their demographics, background, experience, skills and capabilities), formal board structures (such as sub-committees), as well as the emergent 'personalities' and dynamics of boards that arise from their collective interactions.

We found data on two trends that are not changing, but impact directly on the capacity of boards to address sustainability issues. These are that the number of people sitting on boards internationally is static at around nine, although varying from 6 to 11 geographically. And in the case of board tenure, data indicates a relative stability at around seven years, with some geographical variability. In the light of the other changing trends, both these areas may need to be revisited.

Trend 11: Boardrooms are slowly becoming more diverse.

There is evidence of a slow increase in the overall diversity of the board. However, trends vary by geography, and different demographics (for example gender or ethnicity) are progressing at varying speeds. It also appears that far less attention is being paid to other aspects of diversity such as cultural and cognitive diversity, social status or class, education, disability, age or experience. There is growing data from consultancies and professional bodies suggesting that diversity can improve group dynamics, decision-making and ultimately performance. However, superficial quota satisfying, with tokenism and lack of attention to managing effective group dynamics to ensure members are heard, can lead to discontent and ineffective communication.

This trend appears to be driven by the legal and regulatory environment; equity considerations, influenced by increased public sentiment accelerated by the Black Lives Matter movement; and the recognition of the benefits of diversity for creating an effective board with diversity of thought and decision-making.

"Our institutions need to better reflect society, and I think we're going to see that in the boardroom."
(Expert interviewee)

"What's evolving now in addition to ethnic diversity is diversity of perspective. Right…which is very good. So just because someone is ethnically diverse, if they went to the same school and group in the same neighbourhood as the CEO, is that really a different perspective? ... The perspective diversity is a new thing for sure." **(Expert interviewee)**

Looking in more detail, there are increasing numbers of women on boards, but the rate is slow, and there is wide geographical variation.

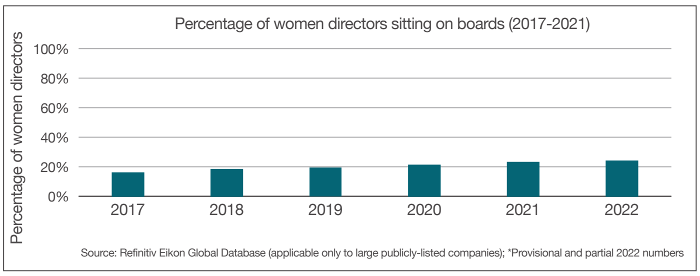


Figure 5: Percentage of women directors sitting on boards (2017–2021)

There is also increased representation of ethnic minorities on the boards of publicly listed companies, albeit slow, and from a low base. And the number of board directors from countries other than that in which a company is headquartered (as one measure of cultural diversity) is static globally but varies by geography and sector.

Implications for boards

- Boards may find greater diversity to be a safeguard against 'groupthink', bringing diversity of perspective and thought to decision-making.
- Boards should reframe diversity away from tokenistic quota-filling to seeing it as a strategic resource to be leveraged for more effective oversight and decision-making.
- Boards need to consider broader diversity criteria (eg culture, age, class, experience), as well as diversifying their sources of information, and the ways of thinking, underlying board decisions.
- Board members may experience greater risk of interpersonal challenges, less cohesive collaboration and slower decision-making as a result of such changing dynamics.
- The importance of the role of board chair becomes even greater with enhanced diversity, in mediating competing perspectives and enabling inclusive decision-making.

More details

Trend 12: The number of strictly independent non-executive directors is rising.

The data shows there is a trend globally towards gradually increasing numbers of strictly independent non-executive directors (NEDs) on boards accounting for around half of board membership worldwide. Secondary data sources suggest that the presence of NEDs strengthens boards as a result of their independence, making them better able to scrutinise and counter tendencies towards short-termism from either management or shareholders, influencing the group dynamics and culture of independence for better decision-making.

This trend has mostly arisen from the impact of corporate governance and stewardship codes as well as good board practice for sound decision-making to avoid over influence by those with their own best interest. Another driver is the need to increase breadth of knowledge, experience and skills, or 'board capital', since NEDs offer boards more diverse resources based on their external experiences, networks, life experience and specific functional skills. One of the challenges is the currently limited pool from which to recruit appropriate NEDs.

"All boards are taking meaningful steps to increase diversity, but it will take some years for a deep pool of diverse NED talent to emerge. Finding ways to support and develop this is important." **(Expert interviewee)**

Implications for boards

- Board independence is widely accepted as a benchmark of good corporate governance, enabling more constructive board dynamics and less risk of groupthink.
- Boards need, however, to ensure that independence is not merely a formal status but a 'habit of mind', which enables people to probe key assumptions or the usual way to do things.
- Boards should also foster a sense of belonging and psychological safety to enable board members to support and challenge each other.
- In order to ensure appropriate independence, there is a need to manage potential 'over-boarding' (people sitting on too many boards at the same time).
- Boards need to be aware that independence on boards depends on nomination policy, which may mean that nomination decisions may be influenced by powerful shareholders.

More details

Board structures

Trend 13: Discussions on appropriate board structures are on the rise, including an increase in the number of sustainability sub-committees.

There seems to be a growing debate about how to structure boards and sub-committees, with a trend towards increasing numbers of sustainability-related sub-committees, albeit with some concern expressed over their effectiveness in driving sustainability practices.

Board structure is under scrutiny as designing appropriate board structures becomes increasingly important. Data in Figure 6 shows a relatively rapid increase in the number of sustainability-related sub-committees among listed companies. However, the extent to which these sub-committees are adopted varies significantly across geographic regions, as indicated in Figure 7. The Refinitiv Eikon sector data shows the lowest activity is in the 'Health care' sector (23 per cent), and the highest in 'Utilities' (68 per cent).

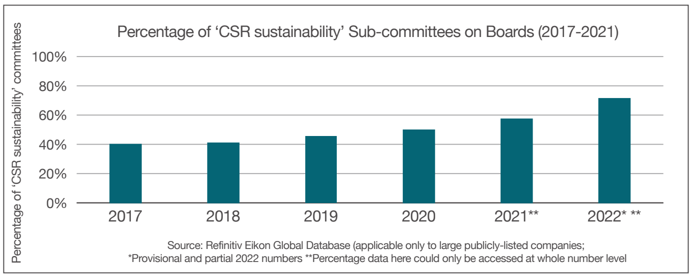


Figure 6: Percentage of 'CSR sustainability' sub-committees on boards (2017–2021)

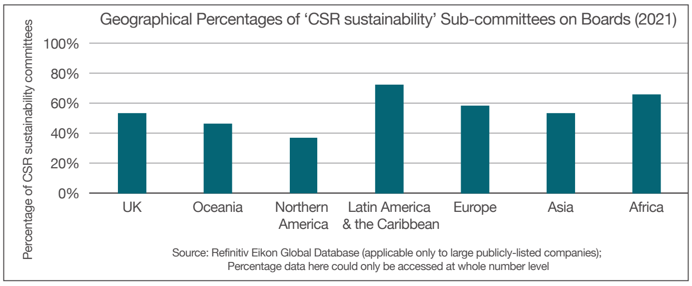


Figure 7: Geographical percentage of 'CSR sustainability' sub-committees on boards (2021)

The rise of sustainability sub-committees is likely to continue to grow as a result of the need to respond to corporate governance and investor governance frameworks, and as ESG and sustainability issues become more important to investors, and to wider stakeholders. How they interface between the board and the executive to influence decision-making is crucial to their effectiveness.

Regarding other board committees, although our data shows a relatively static trend in the percentage of nomination committees over the past five years (the 86 per cent figure for 2022 is only indicative) – the increasing importance surrounding the nomination function suggests it is likely to increase, or at least be maintained, as a way to ensure a diverse board is capable of addressing current and future challenges. Secondary data shows that the impact of the nomination committee will depend on effective interaction (relating to the division of function and the terms of reference) within the board, and its empowerment from the main board to realise its aims, otherwise it may continue to be nominal rather than effective. It is also increasingly likely to be scrutinised by investors, who will vote against a board if they think it is falling short.

Audit committees are being consistently maintained at a high level globally, except for Latin America where the presence of audit committees is relatively lower. While audit committees remain fairly static in number, there are also changing skills and responsibilities required of them.

Implications for boards

- Boards will need to create adaptable board structures that are responsive to the evolving landscape.
- Boards should also recognise the potential governance benefits arising from knowledge specialisation, stronger diligence and board accountability, as well as the benefits of restructuring boards in order to free up time for more strategic engagement.
- There is, however, a need for boards to recognise the risk of specialist sub-committees impairing communication flows, and creating silos and decision bottlenecks.
- Such sub-committees require clear committee-level mandates to embed sustainability considerations into broader organisational structures and processes.
- The outputs of such sub-committees should be integrated into board decision-making and company strategy.
- In addition to a clear mandate, the sub-committee needs to have an appropriate composition to ensure maximum-impact succession plans and working procedures, as well as ensure that guidelines enable cross-committee collaboration.
- Boards will also need to be aware that there is ongoing debate about where compliance and reporting should sit within the organisation and how it should report up to the board without conflicting advice, for example, via the finance, legal, or sustainability functions – all of which could be conflicted.

More details

Board dynamics

Trend 14: Increasing attention is being paid to board dynamics and board evaluations.

There is growing awareness of the importance of board dynamics (one of the most significant themes emerging in the Global Trends Survey), a trend which is also reflected in what appears to be increasing numbers of board evaluations.

"…there's more attention paid to … team building with the board … I think that's really important to work effectively … I've seen a little bit more space for discussion, not always, but the boards that work more effectively, there's more discussion time…" **(Expert interviewee)**

There are indications that some boards are slowly evolving to become more independent, inclusive and collegial, although this trend appears to be culturally and geographically variable. There is also a slowly rising number of companies having a written policy and/or practical intention concerning the independence of their boards.

Nevertheless, board independence extends beyond mere formal status. It is also a mindset characterised by a willingness to challenge business-as-usual, ask difficult questions, and be willing to confront engrained norms, power dynamics and assumptions. Aligned with the growing emphasis on board independence, there is also an increasing trend towards separating the roles of the chair and CEO, and simultaneously, the presence of CEOs on boards is slightly decreasing. Our findings also suggest that the skills of the board chair are emerging as a key driver in shaping and influencing board dynamics.

One of the key drivers for the growing awareness and scrutiny of board dynamics has been a series of high-profile governance failures, which have drawn attention to why seemingly robust governance arrangements have failed to perform.[18]

Implications for boards

- By increasing attention on board dynamics, boards will need to recognise that this focus also spotlights power dynamics, authority bias, groupthink, confirmation bias and sticking to the status quo.
- Additionally, board independence is not merely determined by the number of NEDs but by the actual behaviours and actions of board members.
- Boards should consider doing evaluations which include consideration and improvement of board dynamics and culture, enabling the diffusion of best governance practices and sound decision-making.
- Evaluations can also enable a greater focus on what counts as performance, and assessment of the desired objectives against which effectiveness is evaluated.
- Boards will need to recognise that it can be difficult to nurture thoughtful board dynamics in the face of immediate pressures and increased complexity.
- There is therefore greater scrutiny of, and expectations of, board chairs as catalysts of constructive board culture, dynamics and decision making.
- Relatedly, boards need to transition from just representing diversity to leveraging diverse backgrounds, mindsets and perspectives to invigorate board dynamics, and with the steer of the chair ensuring that everyone is heard, and sound decisions are made.

More details

Individual skills and interpersonal capabilities

Trend 15: Increasing desire for wider skills and knowledge on boards, and more human and collegiate leadership skills.

There is increasing attention being paid to the need for a wider range of individual and collective leadership skills, knowledge and interpersonal capabilities in the boardroom, as well as growing appreciation of more inclusive and relational leadership capabilities.[19] However, there are also concerns that these additional skills and enhanced capabilities are not being developed or recruited in practice to any great extent.

Evidence also indicates a rising demand for capabilities that transcend traditional business or financial expertise. Such skills include:

- the ability to connect and collaborate
- taking a systems perspective (ie understand the connections, interdependencies and impact within and beyond the organisation)
- the ability to see and represent others' perspectives
- having relevant networks and connections
- multi-issue expertise that matches the desired board capabilities needed by the company
- experience of organisational transformation

"It's someone who understands how to integrate a sustainability programme across an organisation and to frame it as a business value creation exercise, not a functional necessity or requirement, right?" **(Expert interviewee)**

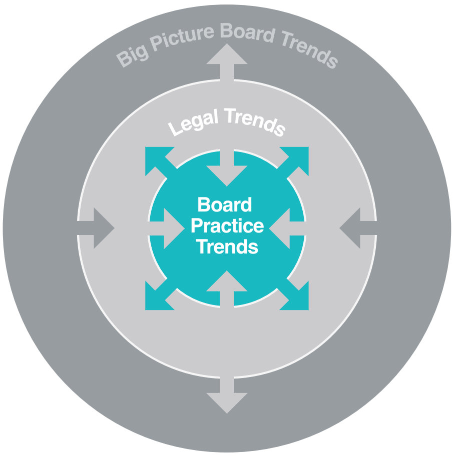
These shifts in requirements suggest a growing need to refresh the board by recruiting new board members who bring a wider range of skills that can effectively respond to the evolving needs of the organisation, and by developing and upskilling existing board members. Among these evolving dynamics, the role of the board chair is again of utmost importance.

"Many people who sit on boards are people who have successfully run businesses and have successfully driven change and made a big difference. But they've made that difference in yesterday's world." **(Expert interviewee)**

Implications for boards

- Boards will need to ensure that they are well rounded and composed of directors with cross-cutting skills complemented by expert development, as well as advice from specialists in relevant fields.
- Boards will also need to recognise the importance of ensuring that individuals with complementary skills generate self-reinforcing group dynamics which boost cohesiveness and foster collaboration.
- There is also a need for boards to encourage collaborative mindsets and cultivate cohesive board dynamics to unlock the full potential of diverse perspectives and skills.
- Boards can create a pipeline and succession plan of diverse talent to nurture future board members with diverse skill sets.

More details



6.4. Purpose, strategy, materiality and disclosure

The concepts of 'materiality' and 'purpose' have evolved to better align companies with sustainability outcomes (although this is partly driven by the potential financial impact of sustainability issues), and are relevant also to the changes in what is reported and disclosed.

A core question is therefore the extent to which boards are responding to, and adopting, these different understandings, and incorporating them into strategy, and the implications and challenges of doing so. Materiality, for example, may or may not be linked with sustainability, depending how it is understood and defined, and its use (both in terms of what is deemed material and then how the information collected is used) may in turn be shaped by the underlying sustainability logic adopted by the business (in other words, whether it has a BAU/CSR, ESV or Purpose-driven approach).

One overall insight from our interviews was that board members themselves seem to be unclear about what to do in this evolving situation. Their responses suggest that we are in a time of rapid change in thought leadership and good practice, but one which is also creating a lot of confusion.

Trend 16: Increasing discussion around purpose at board level, but with some confusion over how it is understood, and limited evidence that it is systematically driving strategy.

The interviewee responses revealed a lack of clarity on the role of the board versus management with respect to purpose, how to create a board-level consensus, and how to translate it into operational priorities and organisational change.

However, several areas of relative consensus emerged:

- the board should be involved in the creation of the purpose, and the realisation of related strategy
- there should be alignment between the board's and the CEO's vision of purpose
- it is important to hold the executive to account for the enactment of purpose.

"I think the articulation of purpose … should be embedded in the strategy of the company, and that strategy is driven by the top management. It's overseen by the board or supported by the board in its creation. But fundamentally it's something that CEOs and top leadership do." **(Expert interviewee)**

"Where I see some of the companies who have done this very, very well, it's been because there has been a strong alignment between the CEO's vision for the purpose of their company, how they're articulating that, and strong alignment with the board … They understand the trade-offs having such a purpose would entail. And then the board is right behind the CEO in support of that strategy, which is the ideal world scenario … The board also provides input on what the purpose should be … I think your role is to make sure that you enable, or have the right checks and balances, to make sure that everything that the company is doing is well aligned with the purpose." **(Expert interviewee)**

Implications for boards

- Boards should ensure that they clearly understand the different approaches to sustainability (CSR, ESV, Purpose-driven), and the drivers for, and practical implications of, these approaches.
- Boards will also need to shift their temporal outlook from a narrow focus on short-term gains to longer-term imperatives.
- Additionally, boards will need to recognise that the areas of non-financial risk oversight are expanding; and ensure that their strategic focus includes value drivers that go beyond financial return.
- A focus on purpose can lead to invigorated board-level dynamics by accommodating a broader representation of investor, workforce, societal and consumer perspectives within boardroom decision-making.

More details

Trend 17: Increase in strategic engagement by boards, and indications of more integration of sustainability issues and purpose, but the general approach remains through information provision.

'Strategy' and 'strategy formation' were mentioned by over a third of interviewees. Overall, they felt that there was an increasing move towards more engagement by the board with strategic decision-making.

"Strategy is being much more focused upon by boards. They're spending more time on strategy, and I'm seeing that particularly in terms of strategy retreats … typically now one or two days … [with] management and the board members. And when I do board evaluations, without any doubt, what all of the directors will say, and all of the management will say: 'We should spend more of our time on strategy'."
(Expert interviewee)

It is evident that purpose has not yet had a systematic influence on strategy, exposing a disconnect between the current discussions around purpose and its effective integration into strategy formation and decision-making. Boards are, however, displaying a growing commitment to strategic engagement. There are additional indications of the greater inclusion of sustainability issues within board discussions. The predominant approach continues to revolve around information provision and acquisition, indicating room for further progress.

Implications for boards

- Boards should become more involved in strategic engagement, strategic planning, and the consideration of the risks and opportunities involved in strategy formulation and the metrics which they prioritise for evaluating success.
- To enable this greater focus on strategic priorities, there is a need for boards to consider systematically how they balance their priorities within limited board time.

More details

Trend 18: Increase in the use of and discussion about materiality assessments by boards.

Materiality assessments are systematic processes to identify and prioritise ESG and sustainability issues that a company might be affected by, either directly or indirectly via the company's effect on those issues.[20]

Boards are increasingly using materiality assessments and engaging in related discussions, although it is difficult to identify any move towards the use of 'double' or 'impact' materiality, away from 'single', or even just 'financial' materiality. In addition, the influence of board-level materiality assessments on strategy appears limited.

It seems from the interviews with our experts that board members are generally responding to regulatory and legislative requirements – in other words compliance – and trying to work out the easiest way to proceed.

"I think when it comes to materiality it's happening for the simple reason that suddenly I need to sign off on some of this disclosure." **(Expert interviewee)**

Implications for boards

- Boards should see materiality assessments as part of a suite of analytic assets to inform strategy and balance short-term gains and long-term sustainability. Prudent businesses should also be considering scenario analysis and other forms of forward-looking modelling.
- Materiality assessments also make visible the trade-offs involved in decision-making and their impact on stakeholders, and might influence capital allocation if boards decide to mitigate potentially disruptive risks at the expense of short-term gains.
- Boards will need to ensure more targeted and proactive stakeholder engagement and analysis of future trends, using for example scenario analysis, to inform materiality assessments.
- Boards should recognise that a more focused attention on materiality can catalyse the re-evaluation of corporate success, spotlight new value drivers, and revise the appropriate metrics of corporate performance. It might even prompt the rethinking of business models to unlock hidden commercial opportunities arising from sustainability.
- Boards will, however, also need to be aware of and consider conflicting approaches to materiality in mandatory standards, when they are determining their approach to materiality.

More details

Trend 19: Some indication that boards are slowly seeing sustainability and ESG (and integrated) reporting, and the data collection underpinning it, as part of overall strategy development, and not just as a compliance requirement.

This recognition signifies a gradual shift towards acknowledging the strategic value of sustainability reporting for business goals.

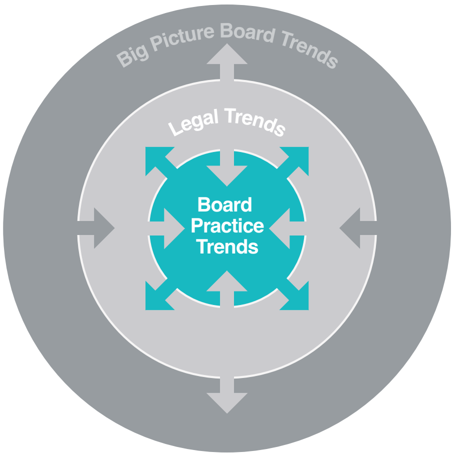
However, there are key challenges identified by several interviews, for example the excessive focus on compliance due to the extent of the disclosure requirements, and concern that too much reporting compliance can push out strategy and innovation. Also, the uneven playing field between listed and unlisted companies resulting from the focus of legislators on the former market, since it tends to represent the largest companies, as well as the lack of standardisation of different jurisdictions.

"There's the very immediate – What we're going to do on net zero? How are we going to get there? ….And then there's the much more long- term: what does this really mean for our organisation, ……? I sense a shift more into that, but I think it's still slow moving from that compliance mindset more into that really true looking forward mindset."
(Expert interviewee)

Implications for boards

- Boards will need to recognise that achieving progress on a particular sustainability metric may require resource reallocation, re-engineering business processes, revising internal procedures, re-designing employment roles, or even undertaking a broader organisational overhaul.
- Boards will also need to consider where compliance and reporting should best sit within the organisation for maximum effect, and how the organisation should report to the board without conflicting advice, for example, from the finance, legal, or sustainability functions.
- In order to ensure adequate data collection, the use of data methodology due diligence, internal control and governance, and third-party assurance systems, may need to be ensured by the board.
- To carry out this role, boards will need to consider the need for capacity-building and new pools of expertise, or even new board structures to oversee non-financial reporting.
- Boards will also need to recognise that potential legal or reputational liabilities arise from green- or purpose-washing, cherry-picking, box-ticking and tokenism

More details



6.5. Stakeholder engagement

Stakeholder engagement is slowly evolving.

Trend 20: Stable and high level of intent by boards to engage with shareholders and wider investors.

Boards are demonstrating a consistent and intense commitment to engage with shareholders and investors, and with indications of increased shareholder relations beyond AGMs. However, there seem to be emerging tensions between board members and shareholders, particularly institutional investors.

Nearly all expert interviewees mentioned that stakeholder engagement by boards, including and beyond shareholders, is important, but that slow progress is being made.

KEY *FACTS*

The Global Trends Survey indicated mixed responses about the pace of change for stakeholder engagement. Of the 12 areas covered in the survey, stakeholder engagement was ranked 7th fastest changing, so not a leading area.

The data on stakeholder engagement in the Refinitiv Eikon Global Database varies across geography, with the lowest level in Africa at 52 per cent and the highest in the UK at 93 per cent. It measures those companies that have a policy to facilitate shareholder engagement, although a key problem with this data is that it does not specify if it is the senior management or board members who are responsible for creating and supporting this engagement. There is also a possible bias towards data which reflects engagement at AGMs, rather than ongoing dialogue.

Table 1: Data on stakeholder engagement

Geography	Percentage of companies
Africa	52
Asia	81
Europe	72
Latin America and the Caribbean	47
Northern America	92
Oceania	89
UK	93

Source: Refinitiv Eikon Global Database (applicable only to large publicly listed companies)

Implications for boards

- Boards should be careful about prioritising board-level engagement with shareholders over other stakeholders, since this may erode trust and support from non-financial stakeholders with potential risks arising from activism, which can expose businesses to litigation and reputational risk.
- Boards will also need to maintain good relationships between the board and investors in order to avoid board attention being diverted away from their core governance responsibilities and increasing the risk of proxy battles and shareholder activism.

More details

Trend 21: Growing narrative around the benefits and most appropriate ways to engage stakeholders by boards, as well as an increase in stated corporate stakeholder engagement.

Although there is an increase in stated corporate stakeholder engagement, practical implementation remains largely centred on financial stakeholders, primarily shareholders. As the exercise of shareholder governance rights is frequently outsourced to proxy advisors, board members increasingly interact with third-party corporate governance specialists rather than directly with fund managers, adding a layer of intermediation to shareholder engagement activities. Proxy advisors, who provide advice and recommendations about voting to shareholders, are therefore a key driver of this trend.

The recognition and engagement of stakeholders by companies and boards, beyond shareholders, is being mandated or encouraged through new regulation, and codes of governance or stewardship practice around the world as outlined in **Phase 1: Part 2**. It is also being enabled by a wider interpretation and embedding of a company's fiduciary duty beyond the financial best interest of shareholders. Additionally, there are other more indirect policy levers such as those encouraging asset managers to engage actively in stewardship.

Other drivers include the level of international rhetoric around 'stakeholder capitalism' by prominent international bodies such as the World Economic Forum, as well as the creation of international principles and guidelines to better incorporate stakeholders within governance. There is also an increasing focus in public policy on supply chain interactions, which is also likely to require business to engage with different stakeholders.[21]

The general feeling among our interviewees was that there was a slow increase in engagement with wider stakeholders.

It's happening more frequently, but it's still not a standard process." **(Expert interviewee)**

"I haven't noticed anything particular yet … It doesn't feel as if this is an issue yet that has landed with boards … all the ones I'm aware of are not yet in a systematic way of thinking about what stakeholder engagement means in terms of their responsibilities." **(Expert interviewee)**

Implications for boards

- Boards will need to clarify the division of labour with regard to stakeholder engagement between management and boards.
- Boards will need to be aware of the influence of proxy advisors and how to navigate this.
- Boards should also recognise that multi-stakeholder engagement can spark innovation by identifying unseen operational inefficiencies, unmet customer needs and untapped markets.
- Stakeholder engagement also plays a crucial function in materiality assessments and sustainability reporting, both as sources of input and as monitoring agents.
- There is also a risk of stakeholders politicising boards, as different stakeholder groups try to influence corporate decisions to support their preferences.
- Boards should avoid appeasing multiple constituencies with contradictory demands and interests since this might lead to intractable trade-offs.

More details

Trend 22: Slow and emergent signs of increasing innovation in how boards engage with non-financial stakeholders.

Moving beyond a compliance approach to engage with stakeholders means determining exactly how stakeholders should be engaged; whether different mechanisms are more or less appropriate or effective for different stakeholder groups, and the relative responsibilities of the board and management. The more innovative examples identified were often instigated by management. This finding was supported by interviewees who also referred to other approaches such as community meetings with indigenous communities; employee councils; stakeholder councils; and in some cases longer-term relationships between a company and a stakeholder, for example a major environmental NGO.

Implications for boards

- Boards will likely benefit from developing innovative methods to engage with a wide range of stakeholders to foster synergies between them, allowing boards to leverage partnerships, anticipate change and amplify their impact in multiple ways.

More details

7/ Aligning business success with a sustainable future

As part of our analysis, we looked at each of the trends through the lens of three business approaches to sustainability to see how they might influence practice in each approach. As explained earlier, the three business approaches/logics have been referred to as Business-as-Usual Corporate Social Responsibility (BAU/CSR); Enlightened Shareholder Value (ESV); and Purpose-driven. This enables us to draw tentative reflections on how these trends might play out differently depending on the approach, or logic, that a company and its board adopts vis-à-vis sustainability challenges or opportunities.

7.1. The sustainability framework for analysis

Board decisions are shaped by the ultimate goal of the business, and by the law, with the two being intertwined. However, how legal advice is applied, and how boards act beyond what the law dictates, is based on the core worldviews held by board members about what value they think the business exists to produce, for whom and in what way. Through the governance system the board adopts, these different worldviews become embedded in the company culture. They are both intangible (for example, norms and customs) and tangible (for example, policies and processes). These systemic responses underpin the rationale or 'business case' for action that the company does or does not take. Pressure from stakeholders, including internal pressure, about how the organisation 'ought' to act is filtered through these worldviews and resulting culture. If no clear 'business case' can be found then action simply will not happen, or will not be sustained for long.

The three approaches or 'logics' that CISL has identified underpin which actions do or do not have a rational basis for investment.[22 23] They require different types of 'board excellence' in order to perform optimally. These board behaviours in turn influence how far and how fast a board is able to align with a sustainable future. We use these three different approaches to sustainability as the basis for a sustainability framework which helps us make sense of the trends we observe and how they might influence practice, ahead of Phase 2 of this work, which will focus on the impact of key trends on actual practice.

BAU CSR

Business-as-Usual (BAU) Corporate Social Responsibility (CSR) (short-term profit driven)
Many boards respond to stakeholder pressure because it exerts a threat to driving the business's short-term profit. In other words, they try to keep up with the rapidly changing legislative environment and expectations, and show that change is happening in order to gain and keep favour with important stakeholders that are increasingly demanding it. For these boards, their responses to unsustainable outcomes become, in effect, a game of 'cat-and-mouse', to reduce threats to their short-term financial profits. The result is a series of ad hoc CSR activities. These are often limited to attempts to look good, and hence protect the reputation and social licence necessary to maximise profits, rather than to systemically address environmental or social risks or proactively create wellbeing outcomes. A board driven by this approach would not be able to justify continued investment in a sustainability initiative if there was no continuing threat to their short-term profit motivation.

Approach to sustainability	Criteria
Business-as-Usual (BAU) Corporate Social Responsibility (CSR)	• focus on short-term shareholder financial value maximisation • limited and unsystematic responses to societal and stakeholder pressure to limit negative environmental and social impacts. Action is based on relieving pressure from influential stakeholders and ultimately protecting short-term profit • strong rules-based and compliance mindset • primarily a self-interested motivation (short-term)

ESV

Enlightened Shareholder Value (ESV) (long-term profit driven)
Other boards more clearly understand that their company's ability to optimise profits in anything but the short term is threatened unless they shift their business strategy and models to operate within the healthy thresholds of the multiple sources of value they are dependent on. Hence, these 'enlightened' boards can see the risks and opportunities posed by the broader system. They can make the business case for investing in the health of a wide range of capitals (beyond just financial), the social and environmental systems that underpin them, and the stakeholders who enable access to these resources. They also see the benefit of advocating wider system change (for example, through changes in laws, regulations, or wider industry or societal norms to 'level the playing field'). For these companies, ESG is not just a PR exercise but a way of gaining vital information about the sustainability of their companies and improving their governance of them, although the ultimate motivation is to maximise financial performance or survival in the long term.

Approach to sustainability	Criteria
Enlightened Shareholder Value (ESV)	• aims to create long-term shareholder financial value • recognises the importance of operating within accepted environmental and social thresholds. Natural, social and human capitals are stewarded; stocks and flows of these capitals are accounted for; and benefits are allocated to ensure healthy stakeholders, including the environment • concerned with double materiality – external influences on financial income, and the impact of the organisation on the environment and wider society because of its impact on long-term financial performance (impact materiality) • varying levels of systemic response, from limited and partial (for example, targets for CO2 emissions only), to explicitly aiming to operate within all accepted environmental and social thresholds (eg all Sustainable Development Goals or all social and environmental elements outlined in Doughnut Economics[24]) • primarily a self-interested motivation (long-term)

PDO

Purpose-driven

These boards understand that businesses can be enterprises that innovate to help the economy achieve collective long-term wellbeing (sustainability). They have carefully considered the very reason for their company's existence, and recognise that, rather than optimising financial returns for investors, in either the short or the long term, their key task is to innovate solutions to enhance long-term wellbeing, and to do this within healthy system thresholds.

This 'purpose' is much more than just a shallow purpose or a brand positioning statement. Whether or not it is summarised in a statement, this meaningful reason to exist sits at the heart of all strategy and decision-making, aligning internal and external operations with sustainability. This is, however, not done at the expense of a sound market position and financial management, both of which are critical to ensuring that the company has the short- and long-term financial resources to deliver on its purpose. This meaningful and clear strategic goal is engaging for stakeholders and helps overcome many of the tensions, challenges and drags on innovation that organisations are currently facing.[25]

Like ESV, it stewards the natural, human and social capitals on which it depends, as well as caring for stakeholders. But it goes beyond that approach to redefine the *fundamental value-creation goal* of the company so that the organisation is fully aligned with a sustainable future.

Approach to sustainability	Criteria
Purpose-driven	• has a clearly defined purpose which defines its reason to exist as an optimal strategic contribution to the equitable long-term wellbeing of people and planet • while all stakeholders are therefore the ultimate beneficiary, the organisational purpose acts as a strategic filter to direct all actions of the company towards ambitious impacts or to the benefit of sub-stakeholder groups • the purpose informs all value-creation goals and operational parameters. These parameters ensure action within social norms and scientific consensus, in a way that ensures the health of stakeholders, wider society and the environment. This approach is necessary to achieve the purpose, and/or may be the object of the purpose (as opposed to the reason to exist being to maximise financial value for members/shareholders) • the purpose is achieved within accepted environmental and social thresholds, and therefore natural, social and human capitals are stewarded, stocks and flows of these capitals are accounted for, and benefits are allocated to ensure healthy stakeholders, including the environment • shareholders are seen as one of a number of core stakeholders, and profitability is seen as a vital means to achieve the purpose • primarily an externally directed 'other' orientation, with self-interest of the business as a means to that end

More details

7.2. Sustainability analysis of trends using the three business logics (BAU/CSR, ESV, PD)

We set out below some likely broad implications for sustainability for the three approaches/logics, with specific reference to the trends we have explored. Further details can be found in Appendix 1.

Business-as-Usual (BAU)/Corporate Social Responsibility (CSR)

Legal trends

Boards of BAU/CSR-driven companies may see the adoption of sustainability principles in governance and stewardship codes as more of a box-ticking exercise, and the move to mandatory reporting and supply chain due diligence as an additional cost burden and compliance practice that the executive needs to deal with. These issues do not influence boards' strategic decision-making. Such boards are likely to prioritise short-term risk reduction, and may be vulnerable to litigation claims, for example, as a result of supply chain environmental and labour issues. If they find that competitors benefit from innovative corporate forms bringing public and private benefits together, they may follow suit to benefit from the reputational impact in service of continual short-term profit maximisation.

Board membership, skills and behaviour

Board membership is optimised to achieve short-term financial returns and hence may not be diverse, suffering from power imbalances and groupthink, with members having a similar profile of skills and experience. This similarity could hinder constructive debates about sustainability risks and opportunities. They may have sustainability sub-committees for compliance reasons, and to de-risk the growing pressure on the board to report on sustainability issues, but the outputs would be unlikely to integrate into strategic decision-making.

Purpose, strategy, materiality and reporting

Boards might engage with purpose as a means to enhance short-term profit maximisation, for example to improve reputation, productivity, or customer and staff retention. Purpose implementation would likely be placed within PR, marketing and communications functions and not be fundamentally integrated into the underlying business model. Materiality assessments likely focus on issues that are material to the short-term bottom line rather than longer-term sustainability risks and opportunities, thereby exposing companies to future risks and missed opportunities. Reporting is seen from a compliance perspective, rather than inputting into company strategy, and is something to which the board adopts a reactive position.

Stakeholder engagement

Boards are more likely to engage with stakeholders if this clearly contributes to protecting and enhancing short-term financial returns, seeing financial shareholders as the priority.

Enlightened Shareholder Value

Legal trends

Boards of ESV companies are likely to use governance and stewardship codes and principles as benchmarks to underpin business practices and enhance performance, risk management and stakeholder – including investor – relationships. Data collection and reporting may be an integral part of strategic decision-making to monitor risks and opportunities and help build deeper relationships with stakeholders. However, cross-border ESV businesses will still need to navigate the multiplicity of mandatory reporting requirements, with the regulatory divergence that this can bring. For more information on this see Phase 1: Part 2 .

Increased momentum in supply chain due diligence may drive further improvements in their risk management, and collaboration with suppliers may enable the pursuit of new opportunities to achieve a competitive edge. These codes may be beneficial to ESV companies since they help to level up market conditions.

In terms of litigation risk, such boards may be better protected as they are more likely to have stronger risk oversight mechanisms on sustainability-related risk and more focus on how sustainability factors can affect their long-term shareholder value. In addition to the range of sustainability-related litigation risks that BAU/CSR businesses are exposed to, however, ESV companies may also be exposed to shareholder discontent arising from short-term orientated investors.

Board membership, skills and behaviour

In ESV companies, board diversity brings multiple perspectives, and is likely to be seen positively as a catalyst of more constructive board dynamics and decision-making. Such boards will be motivated to ensure they better understand the broader dependencies and dynamic systems affecting the company, and its long-term financial success. They are likely to support this diversity through board evaluations, and having an effective chair who encourages open, independent, inclusive, dynamic and sound decision-making.

In order to achieve this broader knowledge and understanding around sustainability risks and opportunities, the board may create a sustainability sub-committee. Its effectiveness depends on whether or not it acts as a catalyst to alter board-level decisions and embed strategic changes in the business.

Purpose, strategy, materiality and reporting

While the language of purpose may well be used with some success by such boards, it is likely only to be to the extent that it aligns with long-term financial returns for shareholders as an end in itself rather than as a means to contribute ultimately towards long-term wellbeing for people and planet. Boards are likely to see value in materiality assessments to better understand risks and opportunities, and provide a multi-faceted view of the company's performance to aid business success.

Stakeholder engagement

Boards are likely to encourage a proactive approach to stakeholder engagement to head off problematic issues before they escalate, or to engage directly with them if their contribution will make a difference to the company's long-term success.

Purpose-driven

Legal trends

Boards of Purpose-driven companies will actively help shape norms and standards, seeking to level the playing field and address some of the challenges that every business faces when it comes to regulatory divergence. Stewardship and governance codes will validate and further guide their practice, and communicate their commitment and actions to stakeholders. Data collection and reporting is integral to the business model to aid decision-making alongside other forward-looking analytical tools, and is a tool to demonstrate and drive sustainability performance and change across their sector. In contexts where fiduciary duties are clarified to align with sustainability outcomes, this will validate their existing approach and philosophy, and help level the playing field in which they operate.

By embedding sustainability-related purposes at the core of their business, together with strong risk oversight mechanisms, Purpose-driven businesses are more likely to have alignment between their stated aspirations and their practices, thus reducing some of their exposure to litigation risk.

However, it is worth noting that by operating against the prevailing BAU logic, they may be exposed to greater ligation risk from some investors.

Board membership, skills and behaviour

Boards of Purpose-driven companies will ensure that their composition, capability, culture and dynamics serve the organisation's purpose, enabling every remit, function and individual to play its part in aligning business success with positive sustainability outcomes. Purpose-driven companies value and practise board diversity beyond the regulatory baseline, fostering equity and inclusivity in decision-making and ensuring that diverse voices are genuinely heard and respected. As with ESV, board membership reflects the variety of individual and collective leadership capabilities, skills and experience required to better understand their broader dependencies and dynamic systems within which they operate. Dedicated sustainability sub-committees may or may not exist, since the board and reporting structure is set up to support strategic consideration of sustainability issues across all remits and functions. Boards operating with this logic exhibit more collaborative, inclusive and independent decision-making. They are supported by a strong chair, and purpose-aligned evaluations. Such boards look to recruit and nurture the best talent to create a rich and diverse knowledge base, with transformational leadership capabilities and interpersonal skills to achieve real impact.

Purpose, strategy, materiality and reporting

For Purpose-driven boards, purpose (the fundamental reason for their existence), is the blueprint to integrate sustainability into every part of the organisation. It is deeply embedded in its strategic framework, and serves as the basis with which to evaluate strategic options and outcomes. Such boards seek and require profitability to achieve the purpose of the organisation and meet the expectations of stakeholders. They use materiality assessments to understand and manage key risks and opportunities, and to ascertain and check whether the purpose (or goal) of the company is the optimal strategic contribution the firm can make to long-term wellbeing for all. This may make their methodological approach to materiality more developed, although such businesses will still need to consider competing mandatory standards and the need to use forward-looking analytical tools.

Stakeholder engagement

Boards engage with stakeholders to co-create solutions and to problem solve collaboratively to achieve the company's purpose within healthy financial, natural, human, social and manufactured capitals, and social and environmental systems.

8/ Conclusion

The world is changing rapidly and in fundamental ways. Boards will be buffered by the reverberation of social and environmental trends, and they can opt to respond in a reactive, piecemeal way to new compliance issues once they become law or a governance norm, or they can proactively design their board practices to match this rapidly impending future and to help shape it rather than be shaped by it.

During Phase 1 of our research, we have identified 22 trends that are currently influencing or are likely to influence board practice and have pointed to the potential implications for boards. To help boards to better understand the landscape and navigate future shifts we have created a set of 20 pivotal questions for boards to use as a tool to facilitate discussion and prepare strategically.

We have analysed these trends using a framework of three business approaches to see how these trends may influence board practice in service of a sustainable future. We have reached the conclusion that the board that is fit for the future will:

- operate proactively in a dynamic and complex context through a clear sense of its roles and responsibilities
- anticipate and help shape the rapidly changing legal and regulatory landscape explicitly around sustainability
- ensure that its composition, capability, culture and dynamics are fit for purpose
- align its purpose and strategic decision-making, supported by effective materiality assessment, use of information and engagement with stakeholders.

Phase 2 of this research programme will explore what is actually happening in practice in response to a number of the key trends identified in Phase 1, and what boards think might help them navigate the challenges ahead. We will use the 22 trends identified here as a starting point to ask board directors: how these trends are showing up in practice for them; what gets in the way of positive progress; and what might support and enable transition to a more effective approach going forward. Using this deeper insight from practice across a range of business and geographical contexts, together with focused roundtables, we will be able to build on this accumulating knowledge to offer practical recommendations for boards looking to be fit for the future.

We invite you to get involved in the next phase of our research and share your board practice and ideas for positive change. This is a critical time to engage. By being part of this conversation you will contribute not only to creating the conditions for a positive future for your business, but also for all human life on earth.

9/ Appendix

Appendix 1: Mapping the trends identified onto the three business logics.

Trend	Business-as-Usual (BAU/ CSR) logic	ESV logic	Purpose-driven logic
Corporate governance codes and stewardship codes embrace sustainability principles	BAU/CSR-driven companies would likely choose either to opt out of becoming signatories to these codes or treat them as a checklist to be fulfilled, focusing on compliance box-ticking.	For ESV-driven companies, these codes would often validate what they are already doing in practice. They would likely use the principles as benchmarks against which to align business practices and corporate governance, and enhance business performance, risk management and investor relations.	Purpose-driven companies would have an incentive to go beyond the minimum requirements set by these codes, experimenting with innovative governance structures and seeking to actively shape industry norms and standards, as well as using these codes as guides for shaping their practices and as tools for communicating their commitment and actions to stakeholders.
Sustainability reporting from voluntary to mandatory	For BAU/CSR-driven companies, sustainability reporting might be seen as an additional compliance burden and a cost rather than an investment in corporate sustainability. It would normally be disconnected from strategic decision-making or even from board oversight – instead being wholly devolved to executives. Disclosures might also be selectively used to improve reputation with some strategic stakeholders.	For ESV-driven companies, sustainability reporting would likely be seen as a useful strategic decision-making tool rather than a compliance duty, integrating a range of additional voluntary metrics to keep track of sustainability performance, monitor risks and enhance new opportunities to ensure long-term shareholder returns. Reporting would also likely be seen as important for building deeper relationships with stakeholders.	For Purpose-driven companies, sustainability reporting would be integral to their business model and a core part of organisational decision-making. Reporting would likely be an important relationship-building tool, allowing them to demonstrate their commitment to purpose, engage with like-minded stakeholders, improve sustainability performance and drive change in their industry.

Trend	Business-as-Usual (BAU/ CSR) logic	ESV logic	Purpose-driven logic
Increased litigation risk	BAU/CSR-driven companies would prioritise short-term risk reduction and seek to avoid decisions that could make the company or individuals vulnerable. With litigation pulling strongly in different directions however, this could lead to conflicting drivers and potential immobilisation. In terms of actual exposure, they might avoid certain litigation, but would be vulnerable to claims around environmental harm and precarious labour relations. This would lead to increased scrutiny from regulators, investors and the public, potentially leading to long-term reputational damage.	ESV-driven companies would have strong risk oversight mechanisms, recognising that sustainability factors can affect their long-term shareholder value. They would therefore be more proactive in managing related liability risks and building adequate safeguards. In terms of actual exposure, they might be protected due to their focus on good corporate governance and risk management, but may be more exposed to shareholder discontent from short-term oriented investors.	Alongside strong risk oversight mechanisms, Purpose-driven companies would be strongly incentivised to embed ethical principles across business operations, as any legal dispute suggesting a disconnect between their social or environmental aspirations and their actual practices could profoundly damage their reputation. In pulling against the prevailing BAU logic, they may be exposed to greater ligation risk from certain investors but would have the clarity of direction to navigate such risks.
Clarification of fiduciary duties consistent with sustainability considerations	It is not clear yet how BAU/ CSR-driven companies might be affected by this trend. The legal expansion of fiduciary duties could represent a significant shift in approach, imposing new responsibilities that might require a reassessment of strategy and risk management to incorporate sustainability factors.	ESV-driven companies would recognise the long-term self-interest to the company of incorporating sustainability considerations and investing in stakeholders. The formal clarification of fiduciary duties to include sustainability factors might be seen as an affirmation of their approach.	Purpose-driven companies would already have a reason to exist that aligns with a sustainable future, so the clarification of fiduciary duties to include or prioritise sustainability considerations would validate their existing philosophy and practices. It would also help to remove practical and cultural frictions between the company and the perceived or actual 'norm' of the role of business in society.

Trend	Business-as-Usual (BAU/ CSR) logic	ESV logic	Purpose-driven logic
Legislators are increasingly adopting board diversity requirements	BAU/CSR-driven companies would likely have had overly homogenous boards because this can be more efficient for making short-term risk-related decisions. Trends towards diversity would therefore be challenging, requiring a review of their board nomination practices. In the absence of board diversity being seen as valuable for protecting the short-term financial position, board diversity would likely be driven by a quota-filling approach, therefore increasing reputational risk.	ESV-driven companies would likely recognise board diversity as a catalyst of more constructive board dynamics and decision-making, including access to more system-wide information that could protect and enhance the wide range of assets (including stakeholders) that the company depends on. Such companies would likely already be taking steps towards improving board diversity. Diversity quotas might affirm current practices and possibly set a standard that they already meet or exceed.	Purpose-driven companies would likely already value and practise board diversity beyond the regulatory baseline. Depending on their purpose, they might be concerned with fostering equity and inclusivity at the decision-making table, and ensuring that diverse voices are genuinely heard and respected as an end goal in and of itself.
Supply chain due diligence gaining momentum	These regulations would likely be perceived as another costly administrative burden by BAU/CSR-driven companies, as they may require new systems for supply chain oversight. Over time however, BAU/CSR companies could find that more sustainable supply chains might lead to a stronger base of future-proof suppliers.	These requirements would likely be perceived by ESV-driven companies as a reinforcement of current practices and a driver for further improvements in their supply chain risk management. The requirements may also help them achieve a competitive edge by further motivating collaboration with suppliers to develop new opportunities.	Purpose-driven companies would already place a high emphasis on ensuring their supply chains reflect their purpose and operate within system thresholds. Therefore, this trend would validate their existing approach, help level the playing field and improve the resilience of supply chains more generally, helping them deepen their impact throughout the supply chain.
States enacting innovative corporate forms to bring public and private benefit together	This shift in the legal norms of what business is about may provoke BAU/CSR boards to more clearly justify their assumptions about why prioritising short-term financial returns is the right approach. Where peer companies take advantage of these new corporate forms and appear to gain favour with stakeholders, there may be an incentive to follow suit to take advantage of the same reputational benefits.	While ESV-driven companies would focus on financial income as the main goal, for those seeking to move towards a purpose-driven goal, these new corporate forms may be seen as a transition step. By further formalising the ability to consider the interests of a far broader range of stakeholders, these legal structures may also reduce potential frictions with shareholders who might have a more short-term financial perspective. Hence, they could provide more headroom to maximise long-term shareholder value.	These corporate forms could provide a formal framework that aligns with the mission of Purpose-driven companies but, for some, the hybridity (formalising profit AND purpose as dual priorities) may be seen as counter-productive. The new forms could serve as the legal validation of the company's purpose, providing legal protection for directors, competitive differentiation, and facilitating ESG-labelled fundraising.

Trend	Business-as-Usual (BAU/ CSR) logic	ESV logic	Purpose-driven logic
Board membership	Boards of BAU/CSR-driven companies would be optimised for the overriding pursuit of short-term financial returns, and board members would have been selected based on their perceived ability to achieve this. Because the characteristics associated with driving this type of success are more traditionally associated with a certain type of person, such boards are likely to be less diverse and the pressure to become more diverse would be harder to respond to. Diversity may not result in openly shared new insights that change board decisions.	Boards of ESV-driven companies are likely to be motivated to alter the membership of the board as a way to better understand the broader dependencies and dynamic systems affecting the company. Such boards would likely recognise the value of multiple perspectives and mindsets to devise strategy that is focused on contributing to protecting or enhancing stakeholder health and the fundamental social and environmental capital on which business activity is based.	As with ESV-driven companies, boards of Purpose-driven companies would be motivated to alter membership as a way to better understand the broader dependencies and dynamic systems affecting and affected by the company. Additionally, they will seek board members who have expertise and insight regarding the specific purpose that the organisation seeks to achieve.
Board structure (particularly sustainability committees)	Sustainability (or ESG) committees may be employed by BAU/CSR-driven boards as a way to contain and de-risk the growing pressure for boards to report on sustainability issues and be seen to be overseeing the issue adequately. Terms of preferential investment secured by the company may also require this level of attention. As the remit of the committee would likely be compliance or reputational based however, the committee may not penetrate the strategic decision-making of the board.	ESV boards may employ a sustainability committee as a way of ensuring adequate time, attention and expertise is focused on understanding and addressing the broader dependencies and dynamic systems impacting the company. The effectiveness of this sub-committee would depend on whether or not it is acting as a catalyst to alter board-level decisions and embed change in the business.	Purpose-driven companies would have given sustained attention to the design of both the organisation and the board that best enabled achievement of the purpose and its consequent sustainability outcomes. Where dedicated committees existed to enable focused attention (eg specific expertise and attention to the changing scientific consensus on sustainability thresholds), this would be to support every strategic consideration across all remits and functions aligning with the company's purpose and with achieving this purpose within healthy thresholds.

Trend	Business-as-Usual (BAU/ CSR) logic	ESV logic	Purpose-driven logic
Board dynamics	An increased focus on board dynamics means that boards may come under increased scrutiny in future years. Any board could become victim to unhealthy group dynamics based on individual members, which is why the role of the chair is critical. However, a BAU/CSR board could have greater potential for power imbalances and groupthink, arising from the more homogenous boardroom composition that likely results from focused prioritisation of short-term financial returns. This could hinder open dialogue and constructive debate on a whole range of matters, including responding to sustainability risks and opportunities. In the wake of increased attention being paid to board dynamics and board evaluations, if such board dynamics were to be found deficient, they may attract the associated reputational risks.	The extent that the risks of degraded non-financial capitals, stakeholders and social and environmental systems are understood by board members may influence how far they are willing to speak freely about their views and to genuinely listen to new perspectives that fall outside of traditional board considerations. Hence, ESV-driven boards could demonstrate a move towards a more independent and inclusive dynamic, if supported well by the chair, around all decision-making including sustainability impacts and opportunities. Such a dynamic would also place a board in good stead to benefit from the increased prevalence of evaluations.	For Purpose-driven companies, as the purpose is anchored to optimising for the long-term good of people and planet, it is more likely that this 'other-serving' and urgent goal would allow individual board members to transcend individuals' fears and interests. Therefore, boards operating with this logic could exhibit more collaborative, inclusive and independent decision-making, if supported well by the chair. Again, such a dynamic would also place a board in good stead to benefit from evaluations, assuming those evaluations are aligned to the purpose.
Individual skills and interpersonal capabilities	BAU/CSR-driven companies would likely find the need to increase their ESG oversight and reporting skills to improve oversight of compliance duties in this area or risk increasing regulatory scrutiny. This would likely remain at the level needed to stay compliant and competent in the eyes of stakeholders however, rather than motivating upskilling in sustainability more generally, or altering interpersonal styles. This could come at the expense of attracting board members with leading-edge expertise and insight.	For ESV-driven companies, the recognition of the serious risk posed by the degraded health of the resources, systems and stakeholders the company is dependent on would likely expose gaps and deficiencies in skills and interpersonal approaches. The level and speed of effort to progress and attract suitable talent would depend on the extent to which the board understands the broad nature of the risks and opportunities faced.	Purpose-driven boards, or those committed to making the transition to being so, would be aware of the need for a level of transformational leadership skills and strengths beyond those needed for ESV, ie the skills to understand how to operate within healthy resources, stakeholders and system thresholds. This is because purpose requires leadership to actively transform (and then sustain) and align the internal and external context. They would therefore be looking to recruit and nurture the best available talent with a rich and diverse knowledge base, individual leadership capabilities and interpersonal skills, and would be best placed to attract those looking to deploy such talent to achieve real impact.

Trend	Business-as-Usual (BAU/ CSR) logic	ESV logic	Purpose-driven logic
Purpose	If BAU/CSR-driven boards engage with purpose, it would be as a means to enhance short-term financial returns. This may include seeking reputational benefits or otherwise increasing the support of stakeholders, for example improving the productivity and retention of staff, without fundamentally altering the underlying business model or strategic direction. Implementation of the purpose would usually be centred within corporate PR, marketing or communication functions. There would be a very high risk of 'purpose-washing' for boards in this logic moving with this trend.	For ESV-driven companies, the language of purpose might be utilised but would be more about harnessing long-term financial returns creation for shareholders. Ultimately, the use of purpose would be revealed as hollow because trade-offs between shareholder value and purpose would likely be ultimately skewed in favour of the former. Therefore, there would be a high risk of 'purpose-washing' for boards operating exclusively in this logic.	For Purpose-driven boards, purpose would be used as the blueprint for integrating sustainability into every facet of the organisation. Purpose in these firms would not be an add-on, but the fundamental reason for their existence. While these companies would seek and require profitability to achieve the purpose and meet the expectations of stakeholders, they would not harness profits in a way that undermined their broader purpose, or the resources, stakeholders and systems that purpose relies on. Such companies would therefore represent the leading edge of the 'purpose' transition.
Strategy	Boards driven by a BAU/ CSR logic would likely find it hard to demonstrate strategic engagement because there is no inherent rationale to bringing sustainability issues from the periphery to the core, unless this protects or enhances short-term financial returns or the precursors to this. There is the risk therefore that strategic decisions could be short-term and myopic, and ill-equipped to respond to the sustainability-related risks and opportunities with material impact for the company in the future.	For ESV-driven companies, strategic deliberations by the board would include contextual information about areas of non-financial (as well as financial) risks that are material to long-term financial returns. There would also be a motivation for focusing board attention on the symbiotic feedback loops between strategic decisions and risk oversight. Yet strategic decisions would be focused on optimising for financial returns, and sustainability gains that may require more creative approaches are likely to be missed. Trade-offs would continue to preference financial returns over sustainability outcomes.	Purpose-driven boards would ensure that the company's purpose is deeply embedded in its strategic framework, serving as the basis of evaluating strategic options and outcomes. Integrated decision-making could be used to assess strategic matters, not only based on ensuring the health of financial stocks and flows and the health of all other capitals, stakeholders and wider systems, but also on their consistency with the organisation's purpose. This would provide a clear and meaningful basis for strategic decision-making oriented to long-term value creation for both the company and wider society.

Trend	Business-as-Usual (BAU/ CSR) logic	ESV logic	Purpose-driven logic
Materiality	BAU/CSR-driven companies would likely follow the trend of increasing voluntary use of materiality assessments, but the criteria used to create these assessments would likely focus on matters that are material to the firms' short-term financial return: for example the current competitive context, the material interests of powerful stakeholders, and external sustainability challenges to the extent they are judged to pose a threat to short-term financial interest. Longer-term and potentially more complex or resource-intensive sustainability issues, the non-financial material concerns of shareholders, or the concerns of less visible stakeholders would more likely be overlooked or deemed irrelevant to core strategy decisions, potentially exposing such companies to future risks and missed opportunities.	ESV-driven companies would likely see great value in increased use of materiality assessments in order to understand better the risks and opportunities for increasing the quality and resilience of stakeholders, financial and non-financial capitals, and social and environmental systems. These assessments would likely provide a more multifaceted view of the company's performance and risks that could influence long-term financial returns beyond mere ESG reporting requirements.	Like boards of ESV-driven companies, boards of Purpose-driven firms would likely use materiality assessments to understand and manage key risks to firm-level resources (including financial), stakeholders and underlying systems. These boards, however, would likely go further in seeking to understand the impact the company has on the broader system that supports their purpose and the ultimate goal of long-term wellbeing for all (sustainability). Further, they would likely use materiality assessment to ascertain and check whether the pinnacle goal of the company (its purpose) is the optimal strategic contribution the firm can make to long-term wellbeing for all.

Trend	Business-as-Usual (BAU/ CSR) logic	ESV logic	Purpose-driven logic
Reporting	Boards operating under a BAU/CSR logic would likely take compliance with reporting legislation seriously but would fail to appreciate the use of the information unless it was clearly related to protecting or enhancing short-term financial returns. For this reason, these boards are likely to push back at trends to increase reporting requirements, only comply to the minimum extent needed and may not proactively invest in information systems to utilise the data strategically.	These boards would embrace sustainability reporting as a strategic tool that can contribute to long-term financial returns. Boards would likely use sustainability reporting to identify and manage sustainability risks and opportunities, communicate with material stakeholders and build long-term relationships to the extent these could be justified to support long-term financial returns. Because they are genuinely concerned to repair the health of their dependencies, they would push reporting beyond the partial and mostly relative ESG requirements and seek to understand and report on the full suite of dependencies (eg all SDGs or all factors in Doughnut Economics). They would be motivated to lobby for further legal change to support this.	As with ESV companies, boards of Purpose-driven firms would go beyond the partial range of ESG matters currently required to encompass all impacts on capitals, stakeholders and broader systems as well as actively lobbying for this to be incorporated into law. Further, these boards would be using innovative reporting systems to oversee, account for and make decisions about how the company's activities achieve the company purpose. Hence, sustainability reporting would serve as a key tool to achieve accountability, track purpose performance within healthy dependencies, establish the effective need of strategy and inspire stakeholders to rally behind it.
Stakeholder engagement	In a BAU/CSR-driven company, stakeholder engagement would likely only reflect what is demanded by powerful stakeholders. Hence, the approach taken by these boards would likely be reactive, engaging with stakeholders where a rationale to protect and enhance short-term financial returns is clear, eg in the wake of a crisis where a response is demanded. Publicity-driven activities with stakeholders (or shareholders) might be another engagement strategy. Shareholder engagement may be strong but contained to meeting their short-term financial or strategic demands. Such companies and their boards could therefore reinforce a short-term and myopic approach to strategy development.	ESV-driven boards would likely engage with stakeholders on an ongoing basis, to anticipate and address issues before they escalate, not just in response to problems or pressures. They might also seek input from a broader range of stakeholders whose power, insights or relation to the company might contribute to the company's long-term financial returns.	Beyond the approach taken by boards of ESV-driven firms, Purpose-driven boards would likely engage with stakeholders in co-creating solutions and collaborative problem-solving to achieve the organisation's purpose within the thresholds of healthy capitals, stakeholders and social and environmental systems. Therefore, these boards would draw on stakeholders' views, not only to mitigate risks (including achieving healthy finances and expected shareholder returns), but also to understand if they are making the intended difference.

Endnotes

1 ‘Sustainable future’ is understood as per the definition “A state of the global system, including environmental, social and economic aspects, in which the needs of the present are met without compromising the ability of future generations to meet their own needs.” ISO, ISO 37000:2021 *Governance of organizations – Guidance* (ISO, 2021), https://committee.iso.org/ISO_37000_Governance.

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11 Bruce Einhorn and Kiuyan Wong, “New Hong Kong Rules Will Create 1300 Board Seats for Women,” Bloomberg, July 26, 2022, https://www.bloomberg.com/news/articles/2022-07-26/new-hong-kong-rules-will-create-1-300-more-board-seats-for-women?leadSource=uverify%20wall.

12 France, Law no. 2017-399 of 27 March 2017 relative to the duty of vigilance (in French), https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000034290626.

13 The law applies to companies with over 5,000 employees in France and over 10,000 in the world.

14 Large EU limited liability companies: Group 1: +/- 9,400 companies – 500+ employees and net EUR150 million+ turnover worldwide. Group 2: +/- 3,400 companies in high-impact sectors – 250+ employees and net EUR40+ million turnover worldwide, and operating in defined high-impact sectors, eg textiles, agriculture, extraction of minerals. Non-EU companies: +/- 2,600 companies in Group 1 and +/- 1,400 in Group 2 – Third country companies active in the EU with turnover threshold aligned with Group 1 and 2, generated in the EU. Source: “Corporate sustainability due diligence: Fostering sustainability in corporate governance and management systems,” European Commission, 2022, https://commission.europa.eu/business-economy-euro/doing-business-eu/corporate-sustainability-due-diligence_en.

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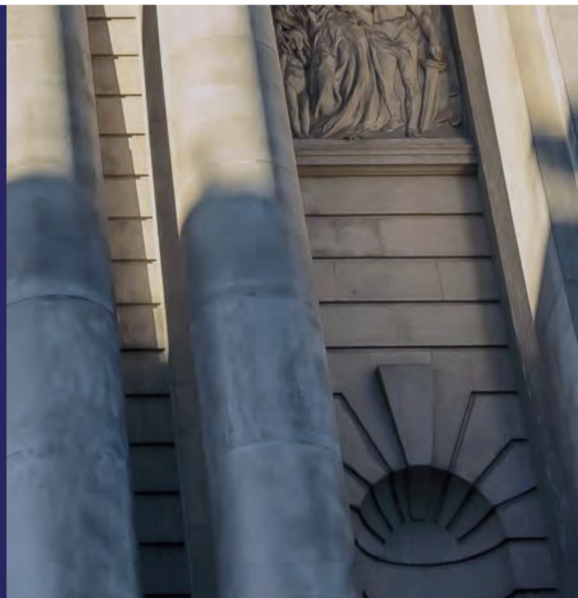

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