Better boards for a better world

The successful board and CEO must focus on sustainability — an effort that should be supported by an ably qualified board committee.

By Alice Korngold

Social, economic, and environmental forces present the most formidable threats and the greatest opportunities for your company to grow shareholder value in the 21st century. Corporations in the consumer, information technology, industrial, materials, and energy sectors are at risk due to the increasing loss and degradation of natural resources. Companies may face labor shortages, or resistance from communities and stakeholders that can hamper operations, increase costs, and reduce output. On the flip side, businesses in all sectors, including financial, can mitigate risks, reduce costs, and increase profits by helping to solve the world's most daunting problems, such as education and workforce development, gender inequality, ecosystems loss, food insecurity, health care needs, and human rights abuses.

A company's prosperity depends on the board of directors, together with the CEO, envisioning the company's greatest potential in the context of the world's most pressing problems. The successful board and CEO must focus on sustainability and corporate responsibility. This effort should be supported by a board committee.

What's driving corporate responsibility?

Your company needs to care about sustainability and corporate responsibility because these are important to investors, consumers, and employees. "The world of investment is changing: asset owners and managers are becoming increasingly aware of the potential risk and value impact of environmental, social, and governance (ESG) factors, and their potential effect on an investment profile," advises MSCI, a leading provider of investment decision support tools to over 6,000 clients worldwide, ranging from large pension plans to boutique hedge funds.

When it comes to consumers, Nielsen reports that 55% will pay more for products and services provided by companies that are committed to positive social and environmental impact. The propensity to buy socially responsible brands is strongest in emerging markets, where 3 billion people will enter the middle class by 2020. "This [consumer] behavior is on the rise and it provides opportunities for meaningful impact in

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our communities, in addition to helping to grow share for brands," according to Nielsen.

Evidence also shows that employees are motivated to perform at higher levels for companies that demonstrate their commitment to improving the communities where they live and work. Socially responsible businesses are at an advantage in recruiting and retaining the most desirable employees.

Companies recognize the importance of having board committees for audit, governance/nominating, and compensation. Yet, even though sustainability forces will drive shareholder value, research by Harvard Business School Professor Lynn Paine finds only 10% of U.S. public company boards have a committee dedicated solely to corporate responsibility or sustainability ("CR committees"). And only 27% out of 613 of the largest global corporations studied by environmental research organizations Ceres and Sustainalytics have a board committee with formal oversight responsibility for social and environmental sustainability issues.

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Let's look at the companies at the forefront that do have CR committees, how they describe their roles and responsibilities, and how your company can establish a committee that will truly advance your company.

The role of the CR committee

The roles of CR committees vary somewhat depending on the company's industry. A chemical company like Dow, for example, emphasizes health and safety, while McDonald's includes mention of employment and diversity in its committee description. Usually meeting around four times a year, most CR committees have the following basic elements:

1. Assisting the board of directors in fulfilling its oversight responsibilities for the company's sustainability and corporate responsibility policies and performance, including processes to ensure compliance with applicable laws and regulations and programs to manage risks.

2. Identifying and monitoring social, political, economic and environmental trends that may have a significant impact on the company's business activities and performance.

3. Reviewing with management the capabilities of the company in relation to its corporate strategies, plans, and innovation, and its external competitiveness.

4. Acting as a sounding board and providing guidance and recommendations to the business on how best to handle internal issues raised by management and external developments.

5. Reporting periodically to the board of directors on sustainability and corporate responsibility matters affecting the company.

6. Providing oversight for public reporting on sustainability and corporate responsibility.

See accompanying exhibit for additional insight into the responsibilities of CR committees. (Disclosure: I have performed client services for Dow Chemical Co. subsequent to the submission of the original manuscript for this article.)

For companies seeking to grow shareholder value, it is highly recommended that:

• The CR committee be charged with innovation, opportunity, and external competitiveness, just as much as risk mitigation.

• The CR committee report to and engage with the full board at least once a year if not more.

On the matter of innovation, for example, Dow's committee includes the following: "Review with management of the Company, the science and technology capabilities of the Company in all phases of its activities in relation to its corporate strategies and plans and its external competitiveness."

Board talent with suitable qualifications

The CR committee is only as effective as the people who serve. The committee should include at least two nonexecutive directors who have the breadth and depth of insight into the economic, social, and environmental factors that have the greatest impact on the company.

At GlaxoSmithKline — a science-led global health care company — the corporate social responsibility committee is comprised of five nonexecutive directors from at least three countries, including two women. The five directors have backgrounds in business, economics, political science, medical science, organic chemistry, and mathematics. They've been CEOs of companies and medical centers, and directors of public companies and nonprofits, including academic, scientific, and medical research institutions.

For a company to maximize its sustainability opportunities, the entire board — not just the CR committee — must be comprised of people with suitable qualifications. Evidence from

Exhibit: Focusing the Board on Sustainability

Company	Name of Board Committee	Non-executive Director Members	Frequency of Meetings	Selected Responsibilities [excerpted from the corporate descriptions]
Alcoa	Public Issues Committee	At least three	At least 2x/year	• To provide guidance on matters relating to the company's corporate social responsibility, including but not limited to good corporate citizenship, environmental sustainability, health and safety and social issues • To oversee and monitor the company's policies and practices to ensure alignment with the company's vision and values • To advise the board and management on significant public issues that are pertinent to the company and its stakeholders
Dow Chemical	Environment, Health, Safety & Technology	At least three	As appropriate	• Review the status of the Company's EH&S and sustainability policies and performance, including processes to ensure compliance with applicable laws and regulations and programs to manage risks • Review and provide input to the Company on the management of current and emerging EH&S and sustainability issues • Report periodically to the Board of Directors on EH&S and sustainability matters affecting the Company
Glaxo SmithKline	Corporate Responsibility	At least three	At least 4x/year	• To review GSK's policies and practices in anticipating and managing external issues that have the potential to seriously impact upon the Company's business and reputation. This will include consideration of progress reports on GSK's Corporate Responsibility (CR) commitments • To have oversight of the views of the external stakeholders • To have oversight and approve GSK's annual Corporate Responsibility Report
Johnson & Johnson	Science, Technology & Sustainability	At least three	At least 3x/year	• Monitor and review the overall strategy, direction and effectiveness of the Company's research and development • Review the Company's policies, programs and practices on environment, health, safety and sustainability • Assist the Board in identifying and comprehending significant emerging science and technology policy and public health issues and trends that may impact the Company's overall business strategy
Nike	Corporate Responsibility & Sustainability	At least three	From time to time as determined by the committee	• Review and provide guidance to management on sustainability issues and impacts, and the integration of sustainability into NIKE's business, including innovation, product design, manufacturing and sourcing, and operations • Review, provide guidance to management, and report to the Board on sustainability (including labor practices) within NIKE's supply chain, and review reports of NIKE's sustainability audits • Review and provide guidance to management regarding NIKE's work with industry organizations and nongovernmental organizations concerning corporate responsibility
Unilever	Corporate Responsibility	At least three	At least 4x/year	• Identifying and reviewing those external developments which are likely to have significant influence upon Unilever's reputation and/or its ability to conduct its business appropriately as a good corporate citizen • Reviewing and providing input to the Company on the management of current and emerging sustainability matters affecting the Company and providing external and independent oversight and guidance on the environmental and social impact of how Unilever conducts its business • Ensuring that the appropriate communications policies are in place and working effectively to build and protect Unilever's reputation internally and externally
Wells Fargo	Corporate Responsibility	At least three	At least 3x/year	• Oversee the Company's policies, programs, and strategies regarding social responsibility matters of significance to the Company and the public at large, including the Company's community development and reinvestment activities and performance, fair and responsible lending, government relations, support of charitable organizations, and environmental issues • Monitor the Company's relationships with external stakeholders regarding significant social responsibility matters, and advise the Board of Directors and management on strategies that affect the Company's role and reputation as a socially responsible organization • Monitor the Company's reputation generally, including with customers

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a number of studies demonstrates that companies with more diverse boards generate a higher return on equity. Additionally, more gender-diverse boards have fewer cases of bribery, fraud, shareholder lawsuits, and other governance-related controversies.

"Investors are increasingly factoring in considerations about both the depth and the breadth of directors' experience, individually and collectively as a team. In particular, we see institutional investors making more systematic efforts to assess the implications of two types of factors on company performance: industry expertise of individual board members and diversity of perspectives across the full board," notes MSCI in its *2015 ESG Trends to Watch* report.

> CREATING A CHIEF SUSTAINABILITY OFFICER POSITION WOULD PUT YOUR COMPANY AT THE FOREFRONT.

Given the expanding middle class, primarily from developing countries, and that women will control 75% of discretionary spending in the next five years, today's boards need to be updated. S&P 500 boards are comprised of 82% men, who are an average age of 63 — older, in fact, than the average age 10 years ago. (At 63, most board members were first exposed to the Web at the age of 40.) Yet directors of non-U.S. origin account for only 8.6% of board members of the top 200 S&P 500 companies; minorities account for 15% of all directors. Women account for just under 18% of the total number of directors.

Companies that seek to grow shareholder value are shifting their board composition to become better qualified to operate in a dynamic global marketplace.

If your company is to maximize opportunities, the best recommendation is to establish the position of chief sustainability officer (CSO) to work directly for the CEO and with the CR committee. This way, you will ensure that sustainability and innovation become integral to the corporate strategy throughout the company, including through stakeholder engagement. Creating a CSO position would put your company at the forefront. In a recent study, only 36 publicly traded companies in the U.S. were identified as having a CSO position.

You might also invite additional officers to the CR committee meetings. These would include the chief marketing and communications officers, the chief legal officer, and the chief auditor.

The right focus

Multinational corporations have the vast resources, global footprints, and market incentives to solve the world's most daunting problems. And a number of companies are leading the way in helping to find solutions to mitigate the damage of climate change; move hundreds of millions of people out of poverty; foster education, including for girls and women; provide health care, including saving the lives of millions of children under the age of five; and advance human rights. These companies are finding that global problem solving is good for business and good for the world. It simply takes the right people and the right focus to make this happen. ■

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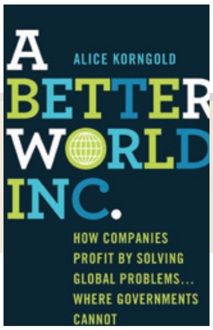

Copies of *A Better World, Inc.: How Companies Profit by Solving Global Problems… Where Governments Cannot* (Palgrave Macmillan, 2014), by Alice Korngold, are available for purchase at www.amazon.com.