FOUR

Key Actions for Corporate Boards in Accelerating Sustainable Development

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Corporate boards have an essential role to play in ensuring that business executives are strategic and accountable in the way they manage their company's sustainability performance and engagement with stakeholders. The effectiveness of independent or non-executive directors, who do not run day-to-day operations or have a material financial stake in the company, is particularly important.

This chapter outlines some of the key trends driving the evolution of corporate governance that are relevant to the role of boards in governing sustainable development in the context of their own company's business operations and broader value chain. It introduces a framework for board action and recommends ways in which board directors and policymakers can help accelerate the integration of climate and other sustainability risks and opportunities into boardroom mandates and structures.

The Evolution of Corporate Sustainability Governance

The norms, rules, and regulations that determine corporate governance practices have evolved over recent decades while retaining the core concept of fiduciary duty. In the context of sustainable development, the legal interpretation and scope of fiduciary duty are evolving. This change is taking place largely in response to two systemic shifts that are underway. The first is a renewed focus on corporations' and directors' responsibilities to stakeholders, including but not limited to shareholders. The second major shift is the growing relevance of environmental, social, and governance (ESG) principles and technology-related risks and opportunities for companies in almost all industry sectors.

Variations in company ownership structure, sector, and size all affect how a board might understand stakeholders' interests and sustainability issues alongside financial returns. Good governance is key to the delivery of value creation irrespective of difference in ownership structure, that is, whether the company is a family-run firm, a small to medium-size enterprise (SME), a state-owned enterprise (SOE), or a large, publicly listed multinational corporate entity. In many regions of the world, such as Asia and South America, family firms or SMEs dominate economic activity. In others, SOEs dominate. Understanding the levers that most effectively drive changes in corporate behavior is critical, but some principles and themes are common and relevant for all boards.

The Reemergence of Stakeholder Governance

In 1973 the World Economic Forum published the Davos Manifesto, which held that "the purpose of professional management is to serve clients, shareholders, workers and employees, as well as societies, and to harmonize the different interests of the stakeholders."[1] Drawing on research by the forum's founder, Klaus Schwab, this was one of the early efforts explicitly to outline a model of stakeholder governance. In recent decades the focus of corporate boards in many jurisdictions has primarily been on meeting shareholder interests. This shareholder-primacy orientation was influenced by seminal work in the 1970s by academics such as Milton Friedman and Michael Jensen.[2] However, in many jurisdictions it is

1. Schwab (2019).
2. *HBR* (2022).

common practice rather than the letter of the law that has created a sense that shareholders are the only stakeholders that need to be considered by boards.

As a better understanding of the impact businesses have on society and the environment has evolved, the voices of other stakeholders have become increasingly important. These various stakeholders range from employees and customers to host communities, governments, and civil society organizations. In a growing number of cases, major institutional investors and shareholders themselves are calling for measurable and credible evidence of business risk management and value creation beyond purely financial performance and metrics.

More recent definitions and emerging good practice of corporate governance emphasize the importance of stakeholders in shaping and driving risk and value within companies. The role of stakeholders, both internal and external, is pivotal in determining how resources are used, conflicts are resolved, and, ultimately, how risk is managed and value is created and shared across the organization.

Hanson and others present an encompassing definition, understanding corporate governance as "the set of mechanisms used to manage the relationship among stakeholders and to determine and control the strategic direction and performance of organizations."[3] This perspective shifts the emphasis from just internal alignments to the broader dynamics of stakeholder relationships.

In addition to an increased focus on stakeholders, including but not limited to shareholders, there is also a growing emphasis on boards being more accountable for overseeing strategy and long-term value creation, not just short-term performance. Currently, most jurisdictions have some requirement for boards to consider the long-term value of their company's business activities.[4]

Growing Environmental and Social Awareness and the SDGs

Although company law and guidance on good corporate governance have not always been a barrier to boardroom discussions of the business impact—and opportunity—of considering environmental and social

3. Hanson et al. (2017), 292.
4. Mulholland and Farnworth (2022).

factors as part of business strategy, failure to assign financial value to these factors has often kept ESG discussions out of the boardroom.

The 1987 publication of *Our Common Future*, also known as the Brundtland Report, by the World Commission on Environment and Development, first introduced the concept of sustainable development.[5] The next milestone was the United Nations Conference on Environment and Development, also known as the Earth Summit, held in Rio de Janeiro in 1992, which focused on the interdependence of social, economic, and environmental factors and encouraged international cooperation in this sphere.[6] At the same time, major companies were increasing efforts to promote sustainable development, both individually and through organizations such as the International Chamber of Commerce, the World Business Council for Sustainable Development, and the UN Global Compact. By 2015, a core group of business leaders were playing a proactive role in the development of the Sustainable Development Goals (SDGs), and many leading companies had started to report publicly on their performance on sustainability measures and to make commitments to address social and environmental issues. In many cases, however, these matters did not become a priority in corporate boardrooms until they started to create financially material business risks and opportunities.

What Does Sustainable Development Mean for Corporate Governance?

Corporate boards need to understand the growing environmental and social risks and opportunities that have an impact on their financial success. The SDGs provide a useful framing for companies to use and adapt within their evolving corporate governance structures and management systems to support the delivery of the goals.

Linking Environmental and Social Issues to Financial Impact

Today, there is a plethora of frameworks designed to help businesses make sense of what the SDGs mean for them from an operational

5. WCED (1987).

6. For more on UNCED, see the website at https://www.un.org/en/conferences/environment/rio1992.

perspective.[7] Despite these developments, until recently the identification and management of environmental and social issues remained, on the whole, a management concern without significant integration into boardroom discussions in relation to corporate governance and business growth and development.

A major catalyst for change was the growing corporate awareness of the economic, financial, operational, and strategic risks of climate change. In 2006, the publication of Lord Nicholas Stern's report, *The Economics of Climate Change*, shone a light on what he called the "greatest market failure the world has ever seen." He was referring to the lack of action being taken to address climate change given that, based on his analysis, "the benefits of strong and early action far outweigh the economic costs of not acting."[8]

Organizations such as the Boston-based advocacy organization Ceres and the UN, which offered Principles for Responsible Investment (PRI), along with some institutes of directors, started to develop guidelines for corporate boards and directors to address risks to business associated with climate change and other environmental alterations.[9] The dial shifted significantly again in September 2015 when Mark Carney, then governor of the Bank of England, made his "Tragedy of the Horizon" speech in which he told his audience, "The challenges currently posed by climate change pale in significance compared with what might come."[10] The Financial Stability Board (FSB) put Mark Carney in charge of the newly created Task Force on Climate-Related Financial Disclosures (TCFD) that same year, to develop recommendations on the information that businesses and their boards needed to share with investors related to the level of risk that climate change posed to their financial performance.

With the Paris Agreement on climate change having been adopted by 196 countries at the UN's Climate Change Conference (COP21) in 2015, and with increasingly clear signals of the potential financial devastation to the global economy from the effects of climate change, publication of the final recommendations of the TCFD in June 2017 provided a significant step forward for board engagement on climate action.[11] The release of the final recommendations of the Taskforce on Nature-Related Financial

7. Demastus and Landrum (2023).
8. Stern (2006), viii.
9. See Ceres (2022) and UN (2022).
10. Carney (2015).
11. TCFD (2017).

Disclosures (TNFD) in September 2023 added a further layer of guidance on how boards and businesses can better understand their impact on nature and biodiversity and, correspondingly, the impact that the declining health of nature and biodiversity can have on business.[12] In advance of COP29, scheduled for November 2024, 320 companies have announced their intent to implement the recommendations of the TNFD.[13] This figure complements the more than 3,800 companies that are now reporting under TCFD, all requiring board-level oversight and accountability.[14]

Strengthening Stakeholder Engagement

A broad range of external stakeholders is taking an interest in and forming a view of business practices that do not take into account environmental and social impacts. Awareness of the impact human activity is having on the environment and, as a result, on people's health and livelihoods has led to substantially increased efforts on the part of nonprofit organizations (NPOs) to influence business activities, ranging from activists' campaigns or lawsuits against companies to engaging directly with businesses to improve awareness and capacity.[15] These NPOs and activists are increasingly calling for board oversight of business impacts and requesting engagement with board directors.

Alongside the need to engage with a broader set of stakeholders, boards also need to recognize and respond to the changing perspectives and expectations of existing and potential stakeholders. Notably, major institutional investors and shareholders are increasingly focused on managing ESG-related risks to their portfolios and ensuring their money is being applied to generating profits that align with long-term value creation.[16] Likewise, regulators are starting to implement mandatory corporate disclosure requirements on ESG issues, requiring increased board oversight.

Responding to Increasing Complexity

Against the backdrop of increased scientific understanding, shifting policies, and expanded stakeholder expectations, the role of board directors, especially independent or non-executive directors, has become more

12. TNFD (2023).
13. TNFD (2024).
14. FSB (2022).
15. Partelow, Winkler, and Thaler (2020); Willetts (2018), 72.
16. Samans and Nelson (2022b).

complex, sophisticated, and multidisciplinary. Changing environmental and social realities—well documented by the Stockholm Resilience Centre's work on planetary boundaries, and which map onto the SDG agenda—have become important considerations for board discussions.[17] This is happening alongside, and increasingly influencing, discussions of more traditional boardroom topics such as competition and market dynamics, corporate strategy, and enterprise risk management.[18] Understanding what this means for short-term performance, let alone the long-term future of a business, is complicated. Not all the answers are available, and therefore the judgment of board directors is increasingly important.

Corporate boards are increasingly aware of climate change and its potential impact on their business, but quantification of the impact is challenging, and in some cases data are completely lacking. Inevitably, the current approach treats climate change, and the environment more generally, in the same way as other business inputs that need quantification before suitable governance and management solutions can be designed. There is merit to this approach, and eventually metrics, measurement systems, accounting rules, and verification processes will be necessary to develop a robust approach to managing these issues, just as businesses use metrics and processes today to make financial and commercial decisions. However, the complexity of these nonfinancial issues, the speed with which the natural world is changing, and the interrelated consequences of that change create a challenge for board members, who may need to make strategic decisions in the absence of hard data. Making such decisions requires skills, experience, and habits of mind different from those of many traditional non-executive directors, who are used to making decisions based on hard facts and a more linear understanding of long-term strategy and business propositions. It requires an understanding of environmental, social, and technological trends as well as economic, financial, and political trends, potential scenarios, systems dynamics, and the often complex emerging solutions. In some cases it involves bold but considered risk-taking wherein a "fail fast" mentality can support innovation.

Taking a Long-Term View

Effective governance for sustainable development requires boards and management to take a long-term view. As Paul Polman has commented,

17. See, e.g., Richardson et al. (2023).
18. Ibid.

"Increasingly, companies are starting to understand that you need to be restorative, reparative, regenerative. And this is really what net positive leaders do. Net positive leaders take responsibility for their total impact on the world, lead with transparency, and focus on the long term."[19]

Board directors can be important stewards of this focus on the long term. In most corporations, non-executive directors have a longer-term tenure than CEOs and executive directors and therefore can afford to adopt a longer-term perspective. This is valuable in the context of decision-making with sustainability in mind. For example, the average tenure of an executive director in a UK FTSE 100 company is a little over four years, and approximately the same is true for executive directors of the U.S. S&P 500, where average tenure decreased from six to 4.8 years between 2013 and 2022.[20] By contrast, non-executive directors often serve for ten years or more.[21] In some jurisdictions, such as the UK and Australia, they are no longer considered to be independent after this period.[22]

The focus on long-term value creation is at the heart of the role of boards. This has always been the case, but becoming sustainable in its fullest sense can sometimes challenge short-term profit making, causing a clash with decisions to deliver long-term value. This conundrum is testing the mettle of boards and driving a need for a stewardship approach to corporate governance. This situation requires the board to think through a full range of increasingly complex and long-term risks and opportunities and, despite the attendant uncertainties, to choose the option most likely to deliver return on investment and value to all stakeholders in the long term while still meeting the short-term performance expectations of investors and other stakeholders.

The current moment in time may be one of the most difficult as we are in the midst of a disruptive transition that will produce winners and losers, especially in the energy and digital sectors. The potential losers often cling to business-as-usual profit-generating models and unfortunately, in some cases also try to influence political and policy agendas in their favor. More focus on the economic and scientific facts and a better understanding of the technological solutions that are viable and affordable today are critical to enable better decision-making in the boardroom. The question is

19. Polman (2023).
20. Chen (2023).
21. Barker (2023).
22. Ibid.

whether current non-executive directors are equipped for such a dramatic combination of complexity and transition, which challenges many incumbent business models that have worked for decades and creates a need for visionary leadership to prioritize long-term value creation.

Family-owned businesses may have some advantage in this respect because their boards typically think in terms of several generations. The intergenerational issues associated with climate change in particular are creating different approaches to risk-taking in the business decision-making of younger family shareholders because they anticipate bearing the brunt of climate change effects.[23]

Some multinational corporations are also thinking more explicitly about future generations and corporate purpose, particularly in the consumer products sector. However, stricter greenwashing regulations are creating increased litigation and reputational risks, where even the sustainability champions face risks if they rely too heavily on style over substance in their marketing tactics.

Evolving Good Governance Practices for Sustainability

In 2019, as a result of board-level discussions on how to implement the governance requirements of the TCFD, the World Economic Forum published a report titled *How to Set Up Effective Climate Governance on Corporate Boards*.[24] The report included a set of eight guiding principles and supporting questions that boards may want to address to strengthen their climate governance capabilities. Although directed toward climate governance, these principles are relevant for effective sustainability governance more broadly. The guiding principles are summarized in box 4.1.

The principles provide non-executive directors with a framework for their board discussions on climate and have spurred the development of peer groups around the world, which are part of an international network, the Climate Governance Initiative.[25] As of April 2024 the initiative had thirty-one chapters working in more than seventy countries and reaching

23. Bauweraerts, Arzubiaga, and Diaz-Moriana (2022); Sharma and Sharma (2021).

24. WEF (2019).

25. See the Climate Governance Initiative's web page, "What If Every Company Had a Climate Target and a Plan to Meet It?," at https://climate-governance.org/.

Box 4.1. Principles for Effective Climate Governance on Corporate Boards

In 2019, a joint team of the World Economic Forum and the audit and consulting firm PwC published a report, *How to Set Up Effective Climate Governance on Corporate Boards*. The report included the following eight guiding principles, which continue to be relevant for board-level conversations and decision-making on climate-related issues:

1. **Climate accountability:** Boards should be accountable for a company's long-term resilience regarding potential changes in the business landscape as a result of climate change.
2. **Command of the subject:** Boards should have a relevant mix of knowledge, skills, and experience to make decisions based on a strong understanding of climate-related threats and opportunities.
3. **Board structure:** Boards should determine the most effective way to integrate response to climate issues into their structures and committees.
4. **Material risk and opportunity assessment:** Boards should ensure management assesses the short-, medium-, and long-term materiality of climate-related risks and opportunities and that actions and responses are proportionate to the level of materiality.
5. **Strategic and organizational integration:** Boards should ensure climate issues systematically inform strategic investment planning and decision-making processes and are embedded in an organization's management of risk and opportunities.
6. **Incentivization:** Boards may want to consider including climate-related targets and indicators in their incentive schemes for both company executives and non-executive directors.
7. **Reporting and disclosure:** Boards should ensure the consistent and transparent disclosure of material climate-related risks, opportunities, and strategic decisions to investors and, where necessary, regulators, with the same disclosure governance as financial reporting.
8. **Exchange:** Boards should ensure regular dialogues with peers, policymakers, investors, and other stakeholders to stay informed on climate-relevant methodologies, risks, and regulatory requirements.

Source: WEF (2019).

some 100,000 members. Based at Hughes Hall, the University of Cambridge, the initiative supports ongoing capacity building and information sharing across the network to enable continuous learning and implementation of good practices. There are some interesting observations and examples of good practice emerging, as well as areas that will require boards to become more sophisticated and efficient in determining the role of independent board chairs and non-executive directors separately from the role of executive management teams. The current blurring of responsibilities is in some cases causing boards to get distracted by the details, particularly around sustainability disclosure requirements, and to allot insufficient time to strategy.

The following section outlines some of the most relevant principles and lessons for effective sustainability governance that are emerging across different jurisdictions and industries.

Focus on Material Sustainability Risks and Opportunities

A critical area of focus for any board is to understand, as far as possible, the material sustainability risks the business is facing as a result of its current business model and operations and the operations of its broader value chain. The business risks associated with climate change, biodiversity loss, social inequality, and other sustainability issues are often the top motivator for companies to take action on the SDGs. Mitigation of risk, from physical impacts to reputational damage, is a powerful driver. Adherence to evolving industry norms and standards, capturing market share, and establishing good will are additional motivators for boards to engage on these topics.[26]

Investors are going through the same process of understanding the material financial risks to their investments caused by a changing environmental and social landscape.[27] This effort at understanding is driving increased requests for data, disclosure, and transparency from companies and greater investor engagement with corporate boards on sustainability topics.

Sustainability issues need to be assessed to understand their materiality in terms of both the business's impact on the environment and society and

26. Chakravorti (2015).
27. Betti, Consolandi, and Eccles (2018).

the financial impact of environmental and social issues on the business.[28] The concept of "double materiality" has evolved from the TCFD and emerging EU requirements for disclosure. Double materiality requires companies to consider not only the impact that environmental and social issues have on the business (single materiality) but also the impacts that the company has on society and the environment.

The 2023 final recommendations of the TNFD also refer to double materiality, a key concept the board must understand to determine what actions need to be taken to mitigate risk. This double materiality approach is likely to be applied to climate and other sustainability issues in the future.

Assessing risk is critical, and successful businesses complete this task well, including by developing enterprise risk management systems, policies and processes to identify and mitigate risk. However, this is only the starting point when it comes to governing effectively for sustainable development. Risk assessment alone is not enough. Boards also need to consider the potential business opportunities created by the company addressing systemic environmental and social issues and trends or by the company mitigating risks more radically than current regulation requires or their competitors are doing. Viewing risks through an opportunity lens can enable more creative thinking about future technologies, products, services, and business models and can motivate board members who have a longer-term vision.[29]

Asking the management team questions not only about the short-term financial risks and opportunities but also about the long-term ones, based on trends in policy and public attitudes, can provide more visibility for the changes a business may need or decide to make in the short term. Awareness of such risks and opportunities can also spur innovation. As one academic has concluded, "Innovating for sustainable development is actually quite close to the processes of 'traditional' innovation."[30] Innovation and "intrapreneurship"—fostering innovation within the company, for example by sponsoring, recognizing, and incentivizing innovative approaches to achieving sustainability goals—can be an effective way for the business to transform a problem into an opportunity. This way of thinking needs to be driven from the top to succeed and to ensure a change in corporate culture, and this is an area where boards can play a more influential role.[31]

28. Khan, Serafeim, and Yoon (2015).
29. Van Tulder and van Mil (2022).
30. Chakravorti (2015).
31. Nelson, Jenkins, and Gilbert (2015).

Align Corporate Purpose and Strategy with Sustainability Goals

Even good processes that assess the sustainability risks and opportunities associated with a business can quickly become a management tool rather than a governance or strategy tool. The board needs information and tools to help directors expand curiosity, ask probing questions, and encourage discussions that support broader corporate purpose and strategy creation. Some of this information will come from management and employees. At the same time, as Bob Eccles comments, "Senior management and the board need to engage with shareholders and other stakeholders on the company's statement of purpose and its commitments to the SDGs. Through engagement, the company will learn whether it is meeting the expectations of those on whom its own long-term sustainability depends."[32]

A recent survey found that many board directors feel they are not spending enough time in meetings discussing strategy, both generally and with respect to sustainability.[33] One reason for this lacuna is the overwhelming amount of information on sustainability issues that results from risk assessment, disclosure, and reporting requirements.

Yet a core role of boards is to shape purpose and strategy, and to take a stewardship approach rather than becoming tied too closely to current management systems, norms, and ways of thinking. Boards should articulate the purpose and vision for the company and hold management and themselves accountable for delivery on that purpose and vision. Framing strategy in terms of the SDGs ensures reference to global norms and can also provide an opportunity to map out and identify business value propositions in terms of universal values. And focusing on corporate purpose and strategy requires that boards take a longer-term perspective.

The financial benefits of taking a long-term view on value creation are starting to emerge. Ariel Fromer Babcock's research indicates that "long-term companies outperform on financial metrics, including revenues, profitability, and stock price. They also fare better on several nonfinancial metrics, including job creation. As a recent study of large public companies in the United States found, from 2001 to 2014 long-term companies cumulatively grew their revenues 47 percent more on average than their shorter-term peers, with less volatility. During the same period, these long-term companies similarly outperformed on measures of economic

32. Eccles (2019).
33. BCG, INSEAD, and Heidrick & Struggles (2023).

profit, cumulatively besting peers by 80 percent, with earnings growth that was also 35 percent higher. Companies seeking the performance advantages that come from long-term thinking should have a ready partner in their corporate board."[34]

Director liabilities associated with not taking long-term risks into consideration have also begun emerging. As the World Economic Forum points out, boards are "ultimately accountable to shareholders for the long-term stewardship of the company. Accordingly, the board should be accountable for the company's long-term resilience with respect to potential shifts in the business landscape that may result from climate change. Failure to do so may constitute a breach of directors' duties."[35]

Ensure Effective Oversight and Accountability for Sustainability Performance

Developing a clear purpose and strategy based on sound analysis of sustainability risks and opportunities in the short, medium, and long term will be effective only if the strategy is implemented with clear targets, metrics, incentives, and accountabilities for delivery—and consequences for not delivering. This calls for creating appropriate structures for oversight and accountability for the board itself and between the board and management internally, and for strengthening external board and director accountability mechanisms.

At the level of the board itself, one notable development has been the establishment of sustainability committees operating alongside the more traditional audit, compensation and nominations, and governance committees. There are pros and cons to delegating sustainability oversight to a board committee. While a committee can ensure more detailed coverage of a wide range of sustainability topics than is possible with the limited time of the full board, there is the risk of key topics being siloed or sidelined from corporate strategy, planning, and capital allocation decisions. Many boards are adopting a hybrid model whereby the most material environmental and social risks and opportunities are addressed by the full board, with the

34. Babcock (2019).
35. WEF and PwC (2019).

broader range of issues and oversight and reporting requirements being addressed at the committee level.[36]

Boards are increasingly holding management teams to account for setting sustainability-related goals and targets and the company's performance on achieving these targets. To this end, boards are using such mechanisms as incorporating sustainability results into the regular reporting of financial and operational results to the board, the explicit integration of sustainability goals into business planning, strategy, and capital allocation discussions, and including progress on sustainability goals in executive compensation formulas and succession planning.

In terms of external board accountability for sustainability performance, mandatory disclosure requirements and changes in corporate law are moving in this direction. Collective and personal accountability are critical, and directors' liability is currently being tested under company law in many jurisdictions, as the work of the Columbia Law School's Sabin Center for Climate Change Law, the London School of Economics and Politics, and other institutions is showing.[37] The question is whether more needs to be done to require boards or named directors to be held legally accountable for climate or broader sustainability impacts. The lack of progress in delivering reduced emissions, for example, despite well-used monitoring, reporting, and target-setting standards, makes it clear that something needs to change.

Recommendations and Conclusion

Scientific research and evidence are providing increasingly clear information about what is happening to the environment and society. Yet the lack of broad economic and political agreement on the business and societal costs of environmental degradation and societal inequality is a key reason for the lack of progress toward achieving global goals, despite the existential risk to humanity if some of them are not reached.[38]

36. Samans and Nelson (2022a).

37. The Sabin Center's Global Climate Change Litigation database is available at https://climatecasechart.com/non-us-climate-change-litigation. The London School of Economics and Politics' database, compiled by the Grantham Research Institute on Climate Change and the Environment, is available at https://www.lse.ac.uk/granthaminstitute/legislation/.

38. Steffen et al. (2014); Richardson et al. (2023).

There is no doubt that awareness of sustainability risks and opportunities is increasing in many corporate boardrooms. The challenge for boards, and in particular chairs and non-executive directors, is to ensure that their oversight and decision-making keep up with the rapidly changing landscape. Institutional investors are also recognizing the impact of sustainability on their own fiduciary duties, and their governance is evolving in a similar way to companies' in the "real economy."[39] The need for increased board engagement with investors has never been more important, as is director engagement with a wider range of stakeholders.

The following three recommendations outline actions that corporate boards can take, both individually and collectively, to enhance their role of stewardship beyond compliance, and to engage in the next generation of SDGs, after 2030.

1. Strengthen Board-Level Sustainability Competence and Governance Structures

Almost all boards can benefit from increasing the level and diversity of their sustainability-related skills, experiences, and capabilities. Some of this improvement will emerge naturally as a younger generation of corporate executives takes on board roles, having led companies and business units over the past few decades of growing awareness and integration of sustainability risks and opportunities into core business activities. More boards are also appointing directors with subject matter expertise in the sustainability issues that are most material to their company or industry sector. At the same time, the drive for climate and sustainability competence on boards is producing a formal requirement for experience in such matters at a national and international level, through changes in stock exchange listing requirements, Institute of Directors (UK) certification programs, and company law. In Southeast Asia, for example, the Singapore Stock Exchange Group now requires that all board directors adhere to enhanced SGX sustainability reporting rules by undertaking an approved course.[40]

Through networks such as the Climate Governance Initiative, Ceres, and associations of directors, boards can access and contribute to the growing body of research, insights, and examples of how different governance

39. UN (2021).

40. The Singapore Stock Exchange's Capacity Building and Training program is available at https://www.sgx.com/sustainable-finance/capacity-building-training.

structures and models of stakeholder engagement are influencing sustainability governance. Regular board evaluations and reviews can also play a role in making progress. These evaluations can be done internally or through an independent party, such as a professional board search and advisory firm, law firm, or academic institution.

2. Support Regulations and Accounting and Incentive Mechanisms That Enhance Sustainability Governance

Boards, associations of directors, and other corporate governance networks can play a leadership role in supporting the development of regulations and accounting, disclosure, and incentive mechanisms that enhance rather than undermine sustainability governance. In some cases, these mechanisms may involve mandatory board oversight and reporting, such as the evolving disclosure requirements in the United States, Europe, Australia, and other countries, which are covered elsewhere in this volume. In other cases they may be in the form of policies that apply financial incentives for progress or disincentives for behaviors that undermine sustainability governance.

Associations of directors and their equivalent bodies and networks can support efforts to increase the evidence base for smart climate and sustainability policies and regulations. Working in partnership with institutional investor networks has the potential to be even more effective in advancing this agenda. One example is the Inevitable Policy Response (IPR) consortium and platform hosted by the Principles for Responsible Investment in partnership with others. The PRI describes the initiative as "a climate transition forecasting consortium commissioned by the PRI which aims to prepare institutional investors for the portfolio risks and opportunities associated with an acceleration of policy responses to climate change."[41] Such a platform is valuable also for board directors and corporate governance networks.

Helping to fund initiatives that either track evolving policies and incentives, or research the effectiveness of such policies and incentives, or advocate for their implementation is an area where boards and executive leadership teams can be more proactive. Examples range from networks

41. See the web page for the Inevitable Policy Response at https://www.unpri.org/sustainability-issues/climate-change/inevitable-policy-response (accessed April 28, 2024).

such as Ceres and the We Mean Business Coalition to initiatives such as the Carbon Pricing Leadership Coalition and show a growing number of academia-based sustainability policy research programs.[42]

3. Engage in Large-Scale Collaboration and Platforms That Support It

Linked to recommendation 2 is that the scale of change needed to achieve the SDGs requires the most influential companies to participate in large-scale collaboration to overcome system-level market failures and governance gaps. Boards of directors have a role to play in providing both support and oversight for the collaborative initiatives that their management teams consider to be the most likely to achieve effective outcomes and change. Some of these initiatives focus on addressing a particular set of sustainability challenges; examples here are the Forest and Climate Leaders Partnership and the Partnership for Global Infrastructure and Investment. Others bring together a critical mass of companies in a specific industry sector that is crucial to achieving progress, such as transport, energy, mining, agriculture, and the built environment.

Board engagement in this area may include helping management address the emerging challenge of anticompetition or antitrust regulation being aimed at pre-competitive industry coalitions that focus on addressing climate and other sustainability issues.[43]

Boards can also be more proactive in questioning management personnel on their participation in trade and industry associations or research programs that may be undermining or at odds with the company's publicly stated sustainability goals. A vanguard of boards and the companies they govern is now reporting publicly on affiliations with such business groups.

All of these areas ultimately come down to actualizing SDG 17—"Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development."

In conclusion, corporate boards of directors can play a vital role in strengthening the sustainability capabilities and governance of their own companies while also contributing to the broader enabling environment

42. See also Eccles and Mulliken (2021).
43. Gasparini et al. (2022).

of policies, regulations, and collaborative platforms that are needed to make good sustainability governance mainstream. It will also be essential for policymakers and regulators to respond to create the rules and frameworks necessary to provide clarity and consistency to ensure all businesses play their role.

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