



**Board members see improvement opportunities in climate skills and governance within sustainability strategies**





# ESG strategy helps deliver results

Three-quarters of board members participating in our Fostering Corporate Governance and Enhancing Board Effectiveness Survey agree that a coherent environmental, social and governance (ESG) strategy with clear priorities helps create sustainable organizational value and stronger financial outcomes. Consequently, having a well-established ESG strategy can help support an organization’s [global stewardship](#) efforts. Achieving alignment with business strategy (85%) and regulatory pressure (71%) were key factors in motivating board members to prioritize ESG.

Board members anticipate that human capital and governance will continue to be the top ESG priorities over the next three years.

**Board members anticipate that human capital and governance will continue to be the top ESG priorities over the next 3 years**

Figure 1: **ESG priorities now and in three years**

|   | <br><b>Current</b> | <br><b>In 3 years</b> |
|---|--|---|
|   | <b>Top 3</b>   | <b>Top 3</b>  |
| <b>Social — human capital</b> (e.g., employee health and safety; diversity, equity and inclusion) | <b>82%</b>   | <b>79%</b>  |
| <b>Governance</b> (e.g., ethics, reporting, risks)  | <b>70%</b>   | <b>68%</b>  |
| <b>Environmental — climate</b>  | <b>52%</b>   | <b>56%</b>  |
| Social — other areas (e.g., customer, community)  | 60%  | 60%   |
| Environmental — other areas   | 28%  | 28%   |

Note: Respondents were asked to rank the five ESG priorities. Percentages reflect those that ranked it as one of the top 3 priorities.

Board members in Europe and Asia Pacific are much more likely to rank climate as a top ESG priority for their boards than board members in other markets; by contrast, board members in North America and the Middle East and Africa region are much more focused on human capital and governance.

There is an expectation among approximately six in 10 board members globally (59%), in particular those in Europe (76%) and the Middle East and Africa region (89%), that their organizations consider ESG developments and trends in every country and market where they have significant operations.

# ESG oversight will continue to be a matter for the full board

Most respondents agree that ESG oversight is primarily the responsibility of the full board, with some specific discussions delegated to the committees. Over the next three years, it is expected that this will remain true but that an increasing number of organizations will establish committees to engage in more robust discussions about ESG strategy and priorities.

Respondents that use a combination of full board and other committees expect that three in five organizations (60%) will have a stand-alone ESG, corporate social responsibility (CSR) or sustainability committee in three years, up from 45% today.

Figure 2: ESG oversight in three years



# Climate skills present as education and learning opportunities

Roughly half of respondents (48%) report that their boards currently have limited skills and expertise to provide effective oversight of the climate risks and opportunities

to which they are exposed. While it is expected this will improve over the next three years, gaps will likely persist.

Figure 3: Gaps in addressing environmental issues to persist

|   | % who lack skills |                     |                           |
|---|-------------------|---------------------|---------------------------|
|   | Currently         | Expected in 3 years | Increase of "have skills" |
| <b>Social — human capital</b> (e.g., employee health and safety; diversity, equity and inclusion) | 15%               | 4%                  | +11%                      |
| <b>Governance</b> (e.g., ethics, reporting, risks)  | 15%               | 3%                  | +12%                      |
| <b>Environmental — climate</b>  | 48%               | 18%                 | +30%                      |
| Social — other areas (e.g., customer, community)  | 26%               | 8%                  | +18%                      |
| Environmental — other areas   | 46%               | 23%                 | +23%                      |



# Governance risks are increasingly complex

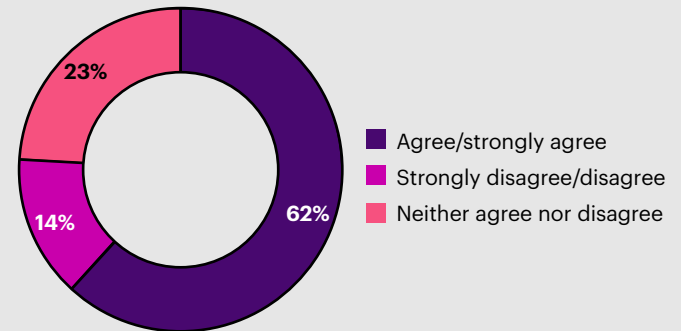
## Some board members feel more time and resources are needed in this area

Our findings highlight the need for a stronger focus on governance risks. Only approximately three in five respondents (62%) think their board has dedicated sufficient time and resources to this area.

The lack of sufficient time and resources in governance can potentially expose organizations to a range of risks. Cybersecurity and data privacy along with management succession planning are the most commonly cited governance risks. Other top risks include board effectiveness, board composition and diversity, and compliance and disclosure.

Figure 4: Room to improve in the governance area

**Our board has dedicated sufficient time and resources to discuss "governance" in the context of our ESG priorities and agenda:**



# Boards are open to third-party assessments and support to improve board effectiveness

Approximately three-quarters of board members (74%) say their current board evaluation process is effective. The most commonly cited criteria for evaluating board effectiveness is the assessment of board composition, skills and diversity.

While only roughly 10% of boards use facilitated board workshops and third-party assessments of board dynamics and culture to evaluate board effectiveness today, respondents expect the use of these assessment techniques to triple in the next three years.

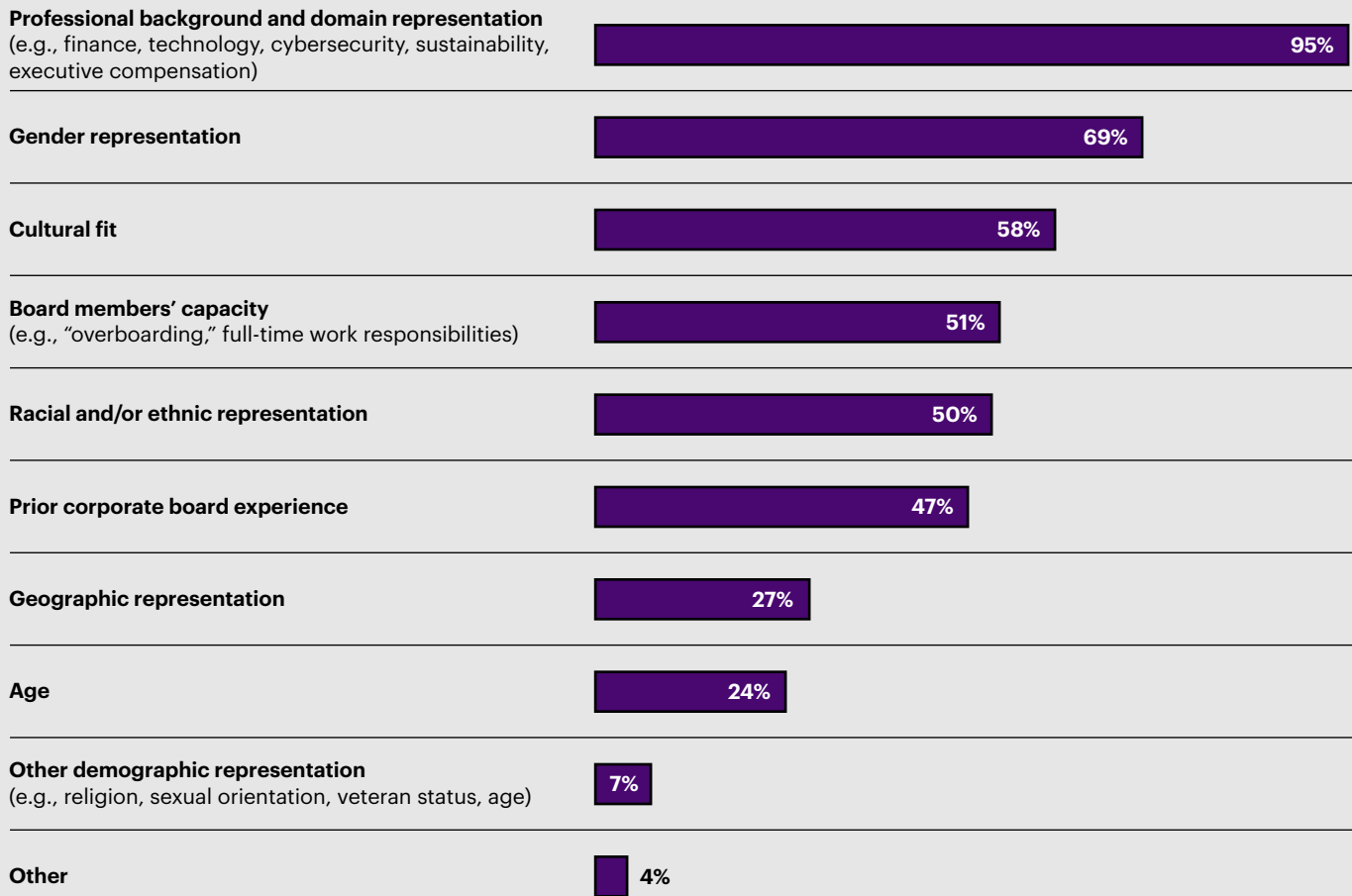
**Use of workshops and third-party assessments to evaluate board effectiveness expected to triple in next 3 years**

# Key board composition considerations

Most board members view professional background and gender representation as the most important criteria when considering board composition. In addition, roughly three in five (58%) cite cultural fit as a priority. Racial/ethnic representation in board composition (50%)

is more top-of-mind for boards in North America (67%) than in other markets (26%), largely due to demographic differences. Board members also cited “overboarding” as a potential concern when considering board selection.

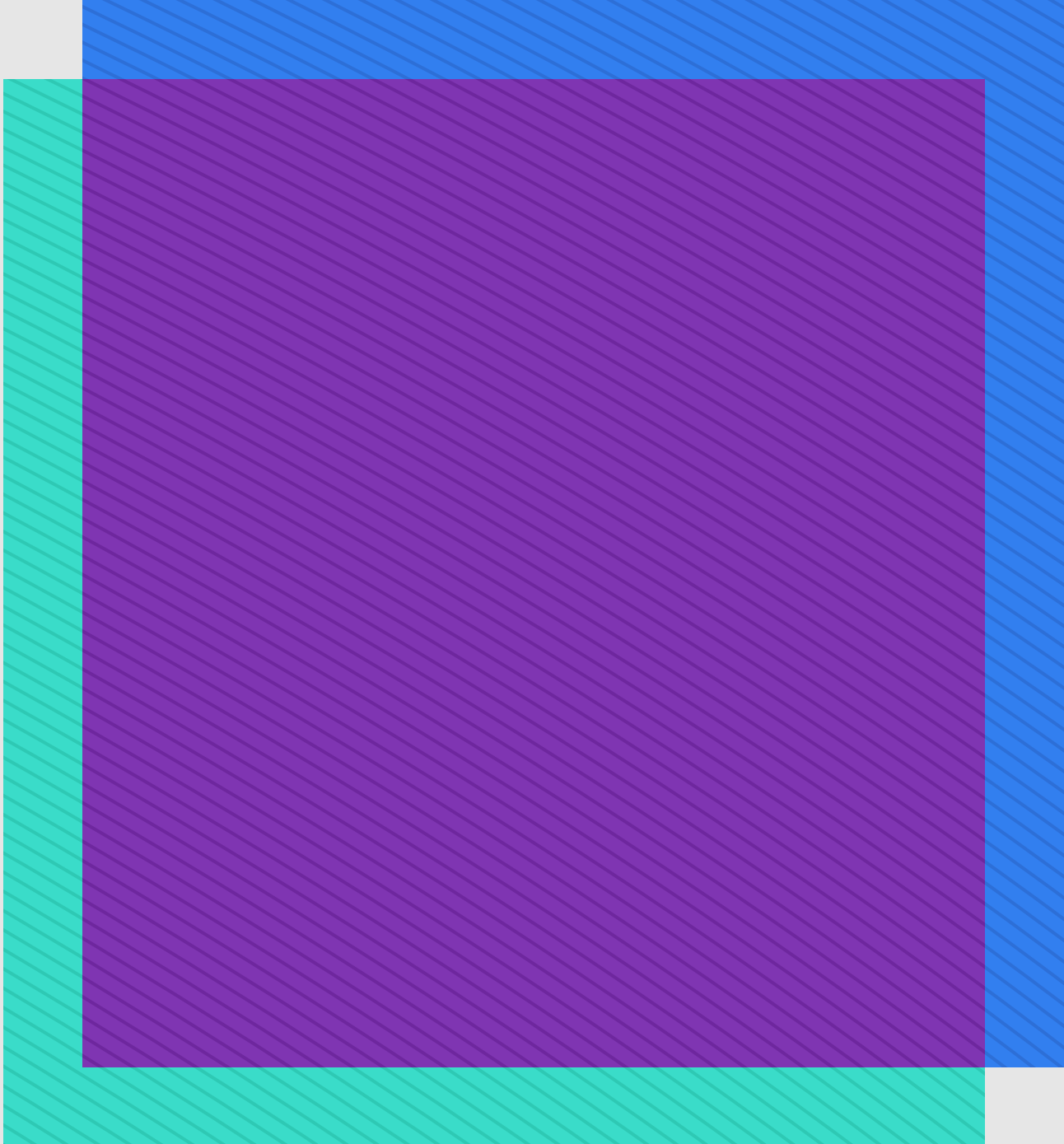
Figure 5: Factors and criteria considered for board composition



Boards regard management succession planning as a key board responsibility. Most respondents (55%) shared that their boards review the succession plan of their organizations for their entire executive leadership team, with a third (35%) reviewing the plan for the executive leadership team only and a fifth (20%) also reviewing the plan for the next level of leaders.

**About the survey:** A total of 349 board members from 44 countries across six continents participated in the Fostering Corporate Governance and Enhancing Board Effectiveness Survey, focused on boardroom dynamics related to ESG strategies and themes, conducted between February 15 and April 7, 2023.





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