2022 NACD BOARD PRACTICES AND OVERSIGHT SURVEY—ESG

Compare and Contrast Among Public and Private Companies

NACD

A FRAMEWORK FOR THE FUTURE AMERICAN BOARD

About the Survey

The *2022 NACD Board Practices and Oversight Survey—ESG* report presents results from our annual questionnaire. This report details responses from 168 private company directors and 372 public company directors on their boardroom activities to oversee ESG.

ABOUT NACD

For over 40 years, NACD has been helping boards elevate their performance and create long-term value. Our thought leadership continues to raise standards of excellence and advance board effectiveness at thousands of member organizations.

Through our insights, education, and credentialing—supported by our peer network of over 23,000 members—boards are able to make high-quality decisions on the most pressing and strategic issues facing their business today. To learn more about NACD, visit nacdonline.org.

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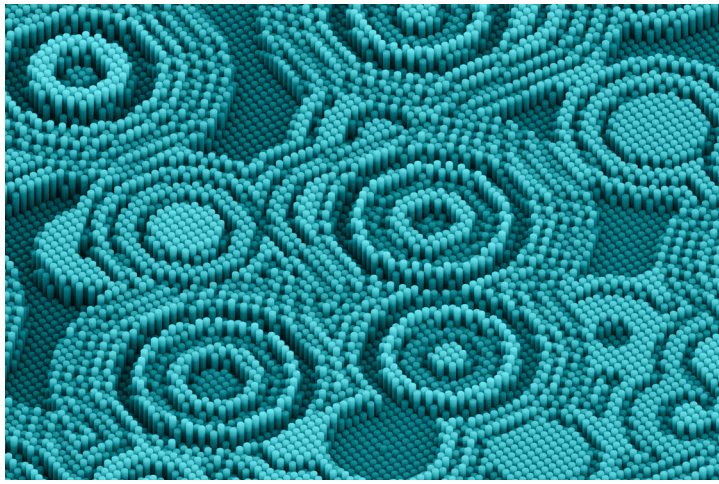
Introduction

Considering the recent environmental, social, and governance (ESG) headlines, we should collectively recall that ESG is about good business practices that take into consideration new drivers of value and risk for companies, including climate change, the competition for talent, efforts to increase diversity, and other emerging social issues.

The board has a crucial role in overseeing ESG: governance—the *G* in ESG—is the necessary but insufficient precondition for good *E* and *S* performance. Good board governance is an important catalyst for effective corporate stewardship of environmental and social issues, driving focus, accountability, and transparency, while ensuring alignment with the overall strategy and business model.

Boards need to continuously examine and question information provided by management and recognize that ESG is an enterprise-level risk that should be viewed through the lens of strategy and operations.



What is the current state of ESG oversight board practices? NACD members provided great insights that can help directors to compare and contrast ESG oversight practices in public and private companies.

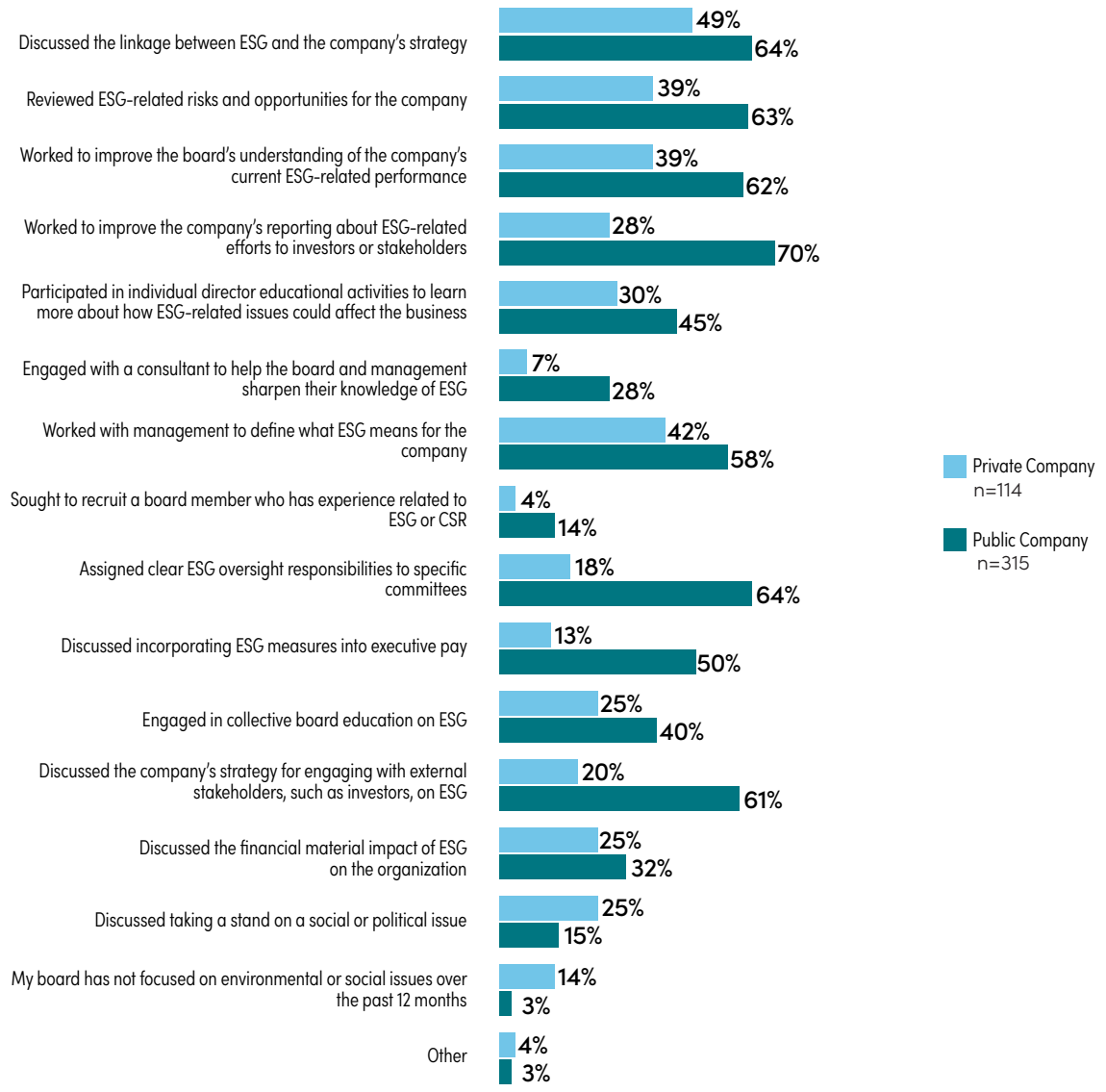
ESG practices among private companies have matured more slowly in comparison to those of their public company peers.

KEY INSIGHT: A large portion of private companies still have yet to formalize ESG procedures and practices. Absent the high-profile investor and regulatory pressure faced by public companies, 14 percent of private company respondents indicate that their board has not focused on ESG issues over the past 12 months, compared to only 3 percent of public companies. Less than half (39%) of private company respondents indicate that their board has reviewed ESG-related risks and opportunities for the company, a prerequisite for more advanced practices. As an example of the gulf between current practices at private versus public companies, 18 percent of private company respondents indicate that their board has assigned clear ESG oversight responsibilities to specific committees, compared to 64 percent of public company respondents. Interestingly, private company respondents were more likely to indicate that their board has taken a stand on a social or political issues, relative to their public company peers. Their lower profile and less distributed control may allow for alignment on such issues.

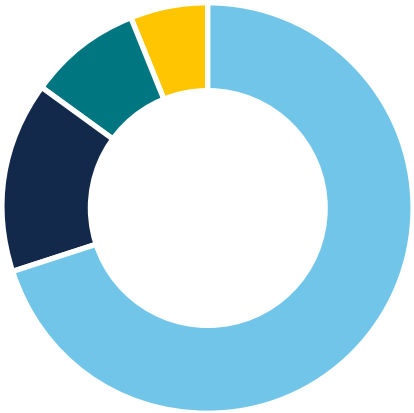
WHY IT MATTERS: As their public company peers wrestle with the lack of uniform reporting standards, privately held companies are under no such compulsion. However, ESG-related risks affect the long-term viability of many organizations, directly and indirectly. Miscues by organizations that negatively impact the environment or the societies in which they operate erode the trust of the stakeholders on whom they depend.

WHAT BOARDS SHOULD DO: Private company boards that have not already done so should conduct the high-level discussions related to ESG and their organization's strategy. If nothing else, this will put them in pole position relative to their private company peers when it comes to seizing the opportunities and navigating any risks associated with ESG.

Which of the following ESG oversight practices has your board performed over the last 12 months?



To which group has the board allocated the majority of tasks connected to the oversight of ESG?



70% The full board
15% Other
9% Nominating and governance committee
6% Executive committee

n=159

When are ESG issues addressed at board meetings?

Quarter 1	Quarter 2	Quarter 3	Quarter 4	Ad hoc	Never
26%	34%	26%	34%	48%	7%

n=149

The board has discussed taking a stand on a social or political issue in the last 12 months

Employee controlled	Family controlled	Founder controlled	Investor controlled	Mutually controlled	Other
41%	23%	13%	21%	17%	27%

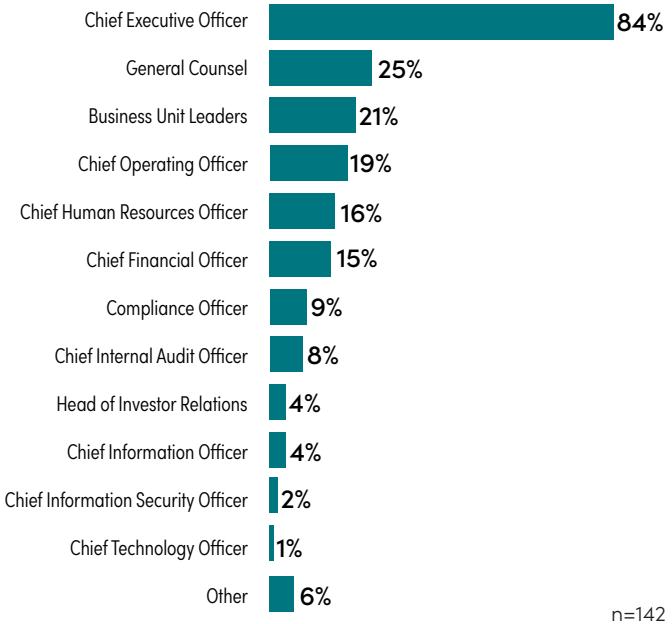
n=111

Change in Quality of ESG Information from Management

20% Much higher quality
37% Slightly higher quality
39% About the same quality
2% Slightly lower quality
2% Much lower quality

n=113

Executives Reporting to the Board on ESG



n=142

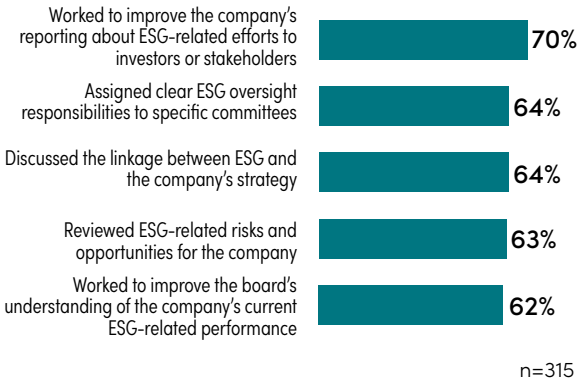
ESG Oversight is forming and norming at most boards, yet challenges remain.

KEY INSIGHT: Boards continue to formalize procedures to address ESG oversight imperatives. This includes efforts to improve board reporting (70%) and delegating ESG oversight tasks to specific committees (64%). Yet developing clear ESG priorities presents a major barrier for boards and management teams. They are steeped in an alphabet soup, starting with defining what the *E*, the *S*, and the *G* mean for their company. Many respondents indicate that defining scope (23%) and materiality (9%) with respect to ESG are among the most challenging aspects of oversight. When it comes to disclosure standards the complexity only deepens—44 percent of respondents indicate that the lack of uniform standards presents the greatest challenge to the oversight of ESG issues.

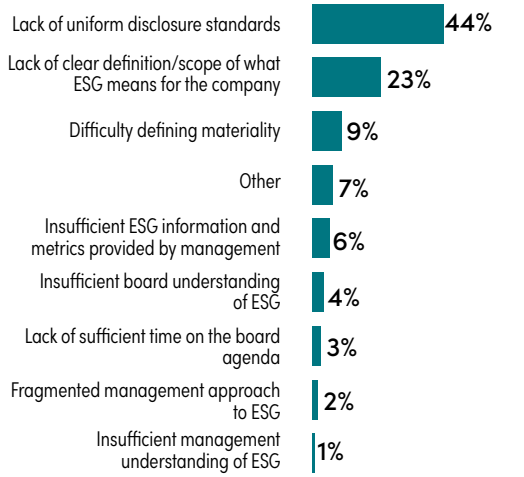
WHY IT MATTERS: There is a good deal for boards to sort out when it comes to ESG oversight. First, there is the matter of determining what ESG means for a given company. Respondents were asked to select from a list those issues that they predicted would adversely impact their company in the next 5 to 10 years. Energy management ranks highly among board concerns, particularly for those operating in the materials sector, the industrials sector, and, of course, the energy sector. Beyond this these predictions varied by industry illustrating the lack of a uniformity across organizations. Then, when it comes to the environment or climate issues, no single disclosure framework appears to have become particularly dominant. Nearly a third of respondents (32%) do not report on climate targets at all. Collectively, these issues create the risk of ESG drift, where companies and their boards can be pulled in directions that may not contribute to effective risk management and the achievement of long-term performance goals.

WHAT BOARDS SHOULD DO: Boards and management need to better define the ESG agenda for their companies, including the selection of a reporting framework that makes sense to them. Seventy-eight percent of public company respondents indicate that they have discussed the implications of SEC disclosure requirements pertaining to ESG. This is a sizable proportion, yet it implies that perhaps a quarter of boards have not explored these implications deeply. As regulator and investor expectations shift, directors should maintain awareness of these changes, and think deeply about what ESG means for their particular organization. Boards should ask their management teams to keep the board up to speed regarding any implications posed to the company by potential regulatory changes.

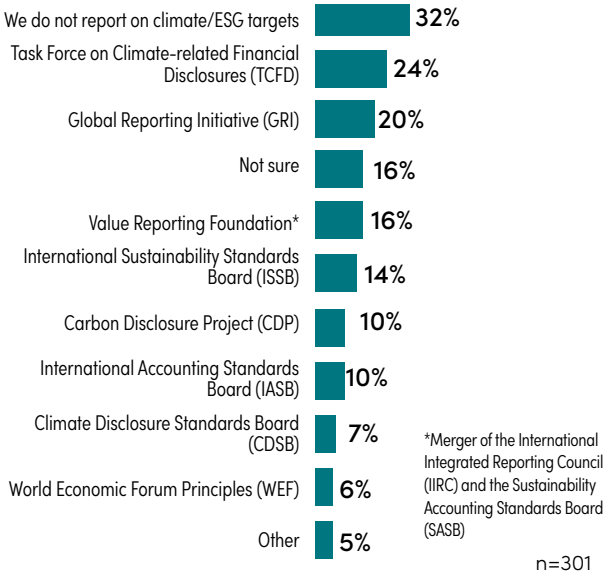
Which of the following ESG oversight practices has your board performed over the last 12 months?



What do you find most challenging in providing oversight of ESG matters?



Which climate principles and/or frameworks did your company adopt in the past two years?



To which group has the board allocated the majority of tasks connected to the oversight of ESG?

42% Nominating and governance committee
39% The full board
11% Other
9% ESG/Corporate social responsibility (CSR) committee

Percentages may be +/- 100 due to rounding

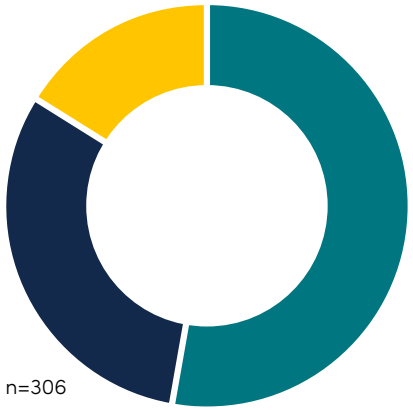
n=369

When are ESG issues addressed at board meetings?

Quarter 1	Quarter 2	Quarter 3	Quarter 4	Ad hoc	Never
51%	53%	51%	53%	29%	<1%

n=342

Change in quality of ESG information from management

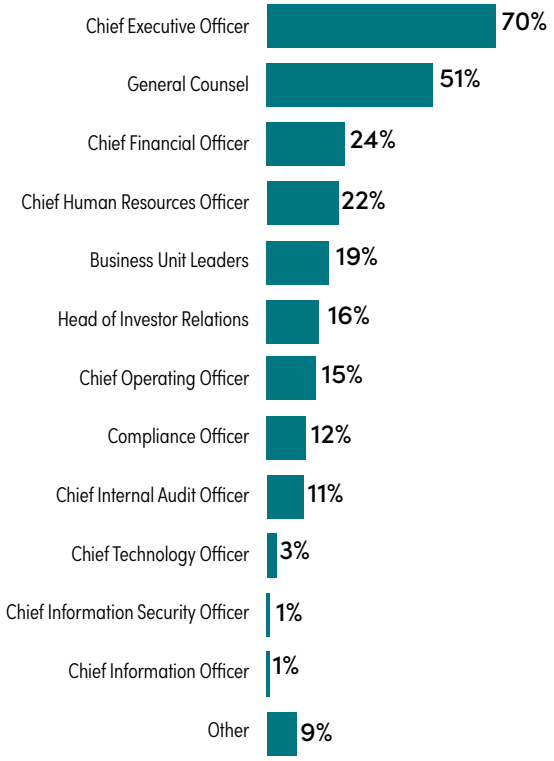


53% Much higher quality
31% Slightly higher quality
16% About the same quality
0% Slightly lower quality
0% Much lower quality

Percentages may be +/- 100 due to rounding

n=306

Executives reporting to the board on ESG



n=348

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