

The NomCo Chair's View on Sustainability



Sustainability is increasingly becoming part of the corporate lexicon, finding a home in strategic plans, shareholder communications, and investment proposals. It's not greenwashing, it's a growing awareness that companies don't need to sacrifice profits to take action that improves the world – and in fact, *doing good* helps companies *do well*. It is no surprise that as this issue grows in importance, it is becoming a bigger and bigger part of the boardroom agenda.

Russell Reynolds Associates recently launched an in-depth study of nominations and governance committee (NomCo) chairs, including surveying 147 chairs from leading companies across industries and around the world (see methodology note for demographic details). NomCo chairs hold a unique leadership role on the board, influencing everything from who becomes CEO, to who joins the board, and which directors hold leadership positions. Sustainability was one of many subjects these board leaders talked to us about. Here are three big takeaways from what they told us:

52%

consider sustainability oversight part of their mandate

and yet

74%

provide sustainability oversight

Sustainability is Viewed as a Corporate Issue, not a Board Issue:



When NomCo chairs were asked to rank their responsibilities to the board in terms of relevance, **just 52 percent listed ESG oversight (including sustainability) in their top three. At the same time, when asked the same question about providing oversight to the company's sustainability efforts, 74 percent included the topic.** There is a clear disconnect in the eyes of these committee chairs who don't yet seem to recognize the role that the committee can play in sustainability. Yet they do recognize the importance of the issue broadly: When asked to rank the importance of the issue relative to previous years, ESG oversight was ranked most important, and also making near term progress on the issue was flagged as an area of concern. This could indicate that boards recognize they must do something, but don't know what that something is.

Of 12 board priorities, NomCo chairs ranked ESG as number

5 in Americas

9 in Europe

10 in Asia-Pacific

Different Regions Have Vastly Different Priorities:



Interestingly, there was tremendous regional variation in how the NomCo chair views sustainability. Asked to rank the relevance of a dozen different internal efforts, **NomCo chairs in the Americas listed ESG oversight as number 5, but it dropped down significantly in other regions - number 9 Europe and number 10 in Asia Pacific.** There could be many reasons for this, including a stronger management focus on sustainability in Europe and APAC which leaves the board comfortable without needing to be involved. Alternatively, it could be the case that companies in these regions have advanced beyond “sustainability as an independent topic to manage,” to “sustainability as an issue naturally embedded in all that we do.”

63%

see sustainability as a critical leadership competency for board directors

77%

see sustainability as a critical leadership competency for senior executives

Sustainability is Becoming a Leadership Competency:



Sustainability is increasingly seen as a critical leadership competency, with NomCo chairs saying it was important or extremely important in the selection of board directors (63 percent) and senior executives (77 percent).

Both these numbers are on the rise: Fifty-two percent of respondents said this was more important now than in past years for board directors, and 58 percent said the same about senior executives.

Sustainability is clearly becoming an important topic in the corner office and the boardroom, impacting not only what companies do and how they do it, but who leads them. That board leaders increasingly consider sustainability important when selecting directors and executives indicates that an emphasis on doing good alongside doing well will become the new standard for measuring corporate performance.

Methodology

Russell Reynolds Associates surveyed 147 NomCo chairs in December 2020. In the case of a respondent who served as the chair of two or more NomCos, they responded on behalf of the NomCo they had chaired the longest. The companies they served were based in 19 countries, including the United States (37 percent), United Kingdom (20 percent), Canada (12 percent), Australia (10 percent), and France (3 percent). The largest industries represented included industrial and natural resources (25 percent), financial services (17 percent), technology (16 percent), and healthcare and consumer (both 14 percent). Eighty-eight percent are publicly traded. Fifty-one percent reported annual revenue exceeding \$1 billion.

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