SUSTAINABILITY

Board Administration of ESG Responsibilities

By Rosie Newman and Jake Strassner

In response to changes in the expectations and focus of institutional investors, securities disclosure rules, and society at large, many companies are seeking to formalize board-level oversight of environmental, social, and governance (ESG) programs. Given the broad number of topics covered under ESG, one of the first questions a board might ask is: Where does ESG oversight fit? For some companies, it is at the full-board level. For others, it is at the committee level. But if at the committee level, companies must decide which committee—an existing committee (e.g., nominating and corporate governance or compensation) or a newly formed committee (e.g., public policy or sustainability).

At many companies, the social aspects of ESG programs have fallen to the compensation committee, with that committee taking broader oversight and review of human capital management and diversity, equity, and inclusion issues. This broader oversight affects a variety of factors, ranging from the committee's name and charter responsibilities to meeting agendas. In some cases, these changes are intended to align with an increase in the committee's scope that has already happened, and in other cases as a planned addition to the committee's regular purview, in recognition of the growing importance to the business of these critical areas.

CHANGES TO THE COMMITTEE MANDATE

The most important part of the shift in committee oversight is an expansion of the committee's mandate. Most corporate boards review their charters annually, and we have seen the addition of a variety of items and responsibilities, such as the following:

- **EXECUTIVE SUCCESSION (57% OF FORTUNE 100 COMPANIES, ACCORDING TO MERIDIAN ANALYSIS):** Assess and review the company's senior management succession programs, including emergency and long-term plans for the CEO and the CEO's direct reports.
- **DIVERSITY AND INCLUSION (55%):** Review the company's diversity, equity, and inclusion programs.
- **CULTURE (18%):** Review the company's human capital strategy and organizational culture, and assess the alignment with the company's strategy.
- **TRAINING AND DEVELOPMENT (37%), RECRUITMENT (28%), AND RETENTION (31%):** Receive periodic reports from management on human resource programs and practices, including the status of employee training, development, and retention, and workforce planning and recruitment.

CHANGES TO THE COMMITTEE NAME

Primarily as a symbol of a more fundamental change, many compensation committees are changing their name to reflect their broader scope. Only 40 percent of Fortune 100 compensation committees are simply called the "compensation committee." Some of the alternative names include a focus on development (19%), human resources (14%), management (12%), and leadership (9%); some of these names include compensation and leadership development; compensation and talent; and compensation, management development, and succession.

The change in name can send a strong external signal that the board and the company have increased their focus on broader human capital issues, but it is not a necessary element of an expansion of the committee's oversight role.

CHANGES TO THE ANNUAL COMMITTEE WORK PLAN

After changing the committee mandate, many companies assess when and how the new responsibilities flow through to the annual committee work plan. Any new responsibilities should be added to the annual meeting schedule to ensure that they are covered. It is a best practice to have at least one meeting (typically in spring or summer, for calendar year-end companies), at which important but not urgent matters can be reviewed and discussed by the committee. This meeting might also include agenda items focused on the committee's expanded role, such as updates on diversity and inclusion status; progress on human capital initiatives; succession planning; and reports on talent development, employee wellness, or employee engagement. D


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