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Boards Better Prepared in 2024 for Tackling Financial Material Sustainability Issues but Major Weaknesses Persist

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NYU STERN CENTER FOR SUSTAINABLE BUSINESS

The NYU Stern Center for Sustainable Business (CSB) prepares individuals and organizations with the knowledge, skills, and tools needed to embed social and environmental sustainability into core business strategy. In doing so, businesses reduce risk; create competitive advantage; develop innovative services, products, and processes; while improving financial performance and creating value for society. CSB implements its mission through activities in Education, Research, and Engagement.

BOARD SUSTAINABILITY CREDENTIALS AND ENGAGEMENT GROWS (2018-2023)

Five years ago, our research at NYU Stern Center for Sustainable Business found U.S. public boards not fit for purpose – very few had the background and credentials necessary to provide oversight on materially financial ESG topics such as climate, employee welfare, good financial hygiene, and cybersecurity. Today we find that while boards are still woefully underprepared in certain areas, there has been some important progress.

Our initial review of board member ESG credentials of all 1188 board members on the Fortune 100 in 2018 identified 29% that had one or more relevant ESG credentials. In 2023, that number jumped to 43% from the 1161 board members now sitting on Fortune 100 boards! The growth came in Environment, which nearly doubled, and Governance, which nearly tripled. Social, which was by far the best represented category in 2018, remained close to flat in 2023, while maintaining its place as the area with the most board experience. In addition, all but one company, Publix, has at least one ESG credentialed board member today (versus McKesson, Energy Transfer LP (formerly Energy Transfer Equity), CHS, and Charter Communications with zero ESG-credentialed board members in 2018).

The biggest growth in ESG credential sub-categories came in a few areas: for "S" diversity, equity and inclusion; for "G" cybersecurity and accounting oversight. For "E" climate change and sustainable business.

We also saw many more companies add ESG/sustainability committees, accelerating from 22 in 2018 to 89 in 2023. Interestingly, the social media/telecommunications/entertainment companies Alphabet (seven ESG-credentialed board members), Apple (eight), Meta (five), Comcast (one), and Walt Disney (six) do not have ESG/sustainability committees. The others with no ESG committee are Berkshire Hathaway (four ESG-credentialed board members), Energy Transfer (two), Publix (zero), UPS (six), and State Farm Insurance (five).

Over the last few years there has been a push to diversify U.S. boards and while, unfortunately, there is not a good way for us to easily assess the status of most underrepresented minorities on boards, we were able to look at male versus female members and found female board members represented just 25% of the total in 2018; five years later they clocked in at 34%. We also looked at ESG credentials by gender to see if that played a role in the overall growth of ESG credentials and it did, but both genders improved so this was not solely a side-effect of bringing more women on boards. In 2018, 24% of men had ESG credentials, which increased to 36% in 2023. For women, 40% had ESG credentials in 2018; in 2023 that increased to 56%.

Why ESG Matters to Boards

Knowing the right questions to ask management on material ESG issues has become an important part of a board's role. New regulation in Europe and North America and in many parts of the world is requiring more robust ESG reporting and disclosure for which companies are liable. In addition, we are seeing a growing number of lawsuits against companies that have contributed to climate change, engaged in greenwashing, mistreated their employees, had human rights abuses in their supply chains, and so on.

But sustainability is not confined to compliance. Increasingly, there are significant risks to maintaining a business as usual approach as well as business opportunities to be gained from integrating sustainability strategies into business strategy. For example, NYU Stern CSB research has found that sustainability

marketed consumer packaged goods are growing at twice the rate of conventional products at a 28% premium on average and that sustainable brands have more consumer "stickiness" than conventional. We have been following the data for 10 years and have seen all CPG categories continue to grow sustainable market share, while some categories such as dairy and yogurt have more than 60% sustainability share with more than a 30% average premium. CPG companies with sustainable sourcing programs have great opportunities to tap into this consumer demand. They also may lose market share if they don't.

For industries such as transportation, energy, utilities, real estate, climate change will impact the business severely, and boards without relevant expertise may miss major risks and opportunities. Financial services industries have ESG risk and opportunity associated with their investments. The insurance sector will be especially affected – whether it's through severe weather impacts for property and casualty firms or impacts on human health for health insurance companies. Manufacturing firms are heavily dependent on water and energy inputs and generate a lot of waste. Regulation and lawsuits will increase their cost of doing business (and in some cases they may lose their license to operate in water-scarce locations for example) and thus need to get out in front of the issues. Retail and fast food restaurants struggle to attract and keep talent and the financial cost of that attrition is extremely high.

NYU Stern CSB research into the Return on Sustainability Investment (ROSI) in a variety of different sectors finds that sustainability can drive better financial performance through unlocking one or more of nine drivers: innovation, operational efficiency, sales and marketing, customer loyalty, free media, risk mitigation, talent management, supplier relations and stakeholder relations. For example, circular economy approaches create operational efficiency because less virgin inputs are needed and there are fewer waste disposal costs, innovation benefits are unlocked due to the processes, services, and products created, customer loyalty and sales and marketing benefits accrue as younger generations in particular are eager for these type of solutions, as are corporate clients who need to reduce their sustainability footprint, and it can improve supply chain resiliency by bringing the (upcycled/recycled) inputs closer to home. For one automotive company, we found that reusing 2.5% of old car parts, selling 10% to recycling markets and then paying to dispose of the rest netted them $100M annually as a result of reduced input and waste disposal costs as well as recycling revenues.

Deep Dive Into ESG Credentials by Topic

Environmental Credentials

Environmental credentials more than doubled from 69 in 2018 to 153 in 2023. At more than one in every ten board members (12% with a relevant E credential), that seems relatively impressive, until we look closer. In 2018, only 3 board members had climate credentials; in 2023 that number surged to 22, but it remains a far cry from what is needed as climate change has a material impact on almost all companies. Another topic of material importance to many companies is water quality and quantity and that has not moved at all – two board members in 2018 and 2023 have expertise in water. Two areas that grew significantly were members with expertise in renewable energy/energy efficiency (14 to 43) and expertise in sustainable business generally (10 to 49). The presence of ESG/impact investors also grew from four to eight on the environmental side and from one to seven on the social side, for a total of 15 investors with ESG credentials (an area we think is likely to grow). Most importantly, as we will discuss later, we find some misalignment in that companies in industries with major environmental challenges and opportunities do not always have someone on their board who understands those issues.

Governance Credentials

Governance credentials nearly tripled in 2023, from 66 to 180. We had been surprised in 2018 to see such a low number of governance credentials as this is a critical area for board oversight. We saw board expertise in cybersecurity increase from just eight board members to 50, so this was clearly a recruiting priority based on the material cybersecurity risks that companies and their customers are facing. We also found that board members with deep accounting oversight expertise increased from 31 to 71 (e.g. Financial Accounting Standards trustee, International Integrated Reporting Council board member, corporate senior internal auditor) and those with deep governance expertise (e.g. public policy and regulatory expertise) grew from two to 29.

Social Credentials

Board members were more likely to have social credentials in both 2018 and 2023 than environmental or governance credentials, but the gap closed considerably in 2023, as the total remained relatively flat, growing from 247 to 253. The biggest area of growth was with board members who have a background in workplace diversity-- from 60 to 108 board members. This is the most significant area of ESG board expertise with 9% of all board members having DEI credentials -- ranging from being trustees of groups such as Catalyst and the Latino Board Members Association, to managing affinity groups in their organizations. Another area of growth (from nine to 24) was the number of non-profit CEOs-- non-profit CEOs have both organizational management expertise and topical ESG expertise. As in 2018, we continue to be concerned in 2023 that board members have next to no worker-related credentials. There were no board members who had experience in workplace safety, benefits, or unions. There were a handful (seven) who had a background in labor relations. This is a major weakness in a period when companies are competing for talent, and younger workers are looking for purpose and more flexible working conditions, and unions are gaining traction.

TABLE 1 (ESG Credentials by Topic 2018 vs 2023)

S Categories	2023 % with Relevent Credentials		2018 % with Relevent Credentials	
Workplace diversity	9.30%	108	5.05%	60
Economic/community development	2.41%	28	1.09%	13
Health challenges/Advocacy	2.07%	24	1.85%	22
Nonprofit C- Suite	2.07%	24	0.76%	9
CSR/ESG	1.81%	21	1.52%	18
Health care	0.78%	9	3.45%	41
Sustainable Development	0.78%	9	0.51%	6
Civil and human rights	0.60%	7	1.52%	18
Labor Relations	0.60%	7	1.01%	12
ESG investing	0.60%	7	0.08%	1
Youth	0.26%	3	1.18%	14
Philanthropy	0.17%	2	0.76%	9
Public Policy	0.17%	2	0.34%	4
Affordable Housing	0.17%	2	0.25%	3
Adult education	0.00%	0	0.76%	9
Media/arts	0.00%	0	0.34%	4
Nutrition	0.00%	0	0.17%	2
Workplace safety	0.00%	0	0.08%	1
Peace	0.00%	0	0.00%	0

E Categories	2023 % with Relevent Credentials		2018 % with Relevent Credentials	
Sustainable business	4.22%	49	0.84%	10
Renewable Energy	3.70%	43	1.18%	14
Climate	1.89%	22	0.25%	3
Conservation/nature	1.21%	14	1.18%	14
Environmental protection	1.21%	14	0.51%	6
ESG investing	0.69%	8	0.34%	4
Water	0.17%	2	0.17%	2
Environmental law	0.09%	1	0.51%	6
Sustainable development	0.00%	0	0.84%	10

G Categories	2023 % with Relevent Credentials		2018 % with Relevent Credentials	
Accounting oversight/experts	6.1%	71	2.6%	31
Cyber/telecomm security	4.3%	50	0.7%	8
Governance	2.5%	29	0.2%	2
Risk	0.9%	11	0.4%	5
Regulatory body	0.8%	9	1.0%	12
Fiduciary/director responsibility	0.7%	8	0.3%	4
Corporate ethics/corruption/professional responsibility	0.2%	2	0.3%	4
Advertising standards	0.0%	0	0.0%	0

Industry Trends in Board Credentials

We reviewed ESG credentials by industry sector as well. The Sustainable Accounting Standards Board (SASB), has identified ESG issues that provide material financial risk by sector, so we were interested to explore if ESG board credentials vary by sectors.

There were significant changes from 2018 to 2023. In 2018, for example, we found that Health Care: Pharmaceuticals, Biotechnology & Life Sciences; Utilities; Consumer Staples: Household & Personal Products; and Telecommunication Services had the highest percentage of board members with relevant

ESG credentials at 55, 50, 46 and 46% respectively. In 2023, Materials (83%), Telecommunications Services (65%), Consumer: Food, Beverage and Tobacco (61%) and Consumer Staples: Household & Personal Products (52%) had the highest levels of relevant ESG credentials. Telecommunications Services and Consumer Staples: Household & Personal Products stayed in the top four. In 2023, Health Care: Pharmaceuticals, Biotechnology & Life Sciences had 50%; Utilities dropped dramatically to 22%.

When we dig deeper, we see that some sectors have improved the balance of relevant credentials. For example, in 2018, while Health Care: Pharmaceuticals, Biotechnology & Life Sciences had 41 members with S credentials, only five had health related credentials. In 2023, that number had increased to 16 (14 in health challenges/advocacy and 2 in health care). And, despite the significant environmental footprint (energy, water, waste) in 2018 this sector had zero board members with E expertise – they now have 13! On governance issues (opioids, biotech, drug access) there was even more dramatic improvement -- 30 (up from two in 2018) had governance credentials.

The sectors with the lowest ESG relevant representation in 2023 were Utilities (22%), Communication Services; Media & Entertainment (23%), Consumer Discretionary; Consumer Durables & Apparel (29%) and Financials: Insurance at 30%.

In Communications: Media and Entertainment, which has growing issues around data privacy, cyber security, and fake news, among other material governance issues, only four of 35 had governance credentials, and in Consumer Discretionary: Retailing, where employee turnover and productivity is a material issue, only eight of 46 had social credentials.

Some industries with material environmental issues do not reflect that materiality on their boards. Utilities, which have huge environmental risks ranging from extreme weather destroying their infrastructure to regulatory frameworks calling for decarbonization to pollution, have zero board members with environmental credentials. Health Care: Health Care Equipment & Services which has a large energy, waste and water footprint had only three of 32 board members with environmental credentials. In Industrials: Transportation, which has significant environmental challenges (climate change resiliency, energy use, changing regulatory environment on carbon), there was only five of 52 with environmental credentials. On the positive side, that is up from 2018, when only one of 66 had environmental credentials.

Financials: Insurance has material risk in environmental risk exposure, and incorporation of ESG into investment management, as well policies related to incentivizing sustainable behavior according to SASB (health, safety, environment) yet only nine members of 122 had relevant E credentials. Property/Casualty insurers have major risks related to climate change in terms of extreme weather affecting their clients' property as we saw in California, Florida and Texas recently. In fact, some regions have become uninsurable. Life insurance, disability insurance, and other forms of health insurance will also be affected by changing illness and mortality rates as hotter weather, new diseases, etc. create more health challenges.

While governance issues are material to all sectors, they are especially material for finance. SASB ranks data security and business ethics as financially material issues for the sector. In 2018, Financials had poor performance on governance, but have made progress in the last five years. Financials: In 2018, banks had 7 board members with G credentials, which increased to 18 members in 2023 (10 linked to accounting oversight, five Cyber/telecon security, two risk, and one governance). Financial Services had 6 members in 2028, which nearly doubled to 10 members in 2023. Banks and Financial Services also have a growing focus on environmental issues such as climate change, which can have an impact on

their investments. Yet Banks only had three board members (of 80) with E credentials and Financial Services only had four (of 61).

A Deep Dive Into A Few Select Companies

Virtually all Fortune 100 companies are well known brands, which increases regulatory, investor, civil society and public scrutiny and the downside of ESG missteps. Looking at a few companies with material ESG exposure, we see a wide range of approaches.

Good Practice:

In 2018, Dow Chemical stood out as a leader with six strategy-relevant ESG credentialed board members. In 2023, it continues to build board expertise in alignment with its ESG exposures. To address its material environmental risks (e.g. materials, energy, water, climate) Dow now has six board members with relevant "E" credentials (up from three) with expertise in renewables, climate, clean air and water tech, plastics reduction, nature/biodiversity, and sustainable finance. It has eight board members with S credentials (in workplace diversity, sustainable development, non-profit management) up from one in 2018. It has one board member with G credentials, down from two in 2018, with expertise in accounting and financial reporting. It also has an ESG committee and a MSCI rating of AA (a leader) and a Sustainalytics rating of 22.5 (medium risk).

Improving:

Amazon, which has material governance (e.g. customer privacy, cyber security), social (e.g. employee diversity, health and safety, retention) and environmental (e.g. packaging waste, energy, climate) had just two board members with relevant credentials in 2018. In 2023, five board members have ESG credentials; two with environmental credentials (one of whom also has governance credentials) one additional with governance credentials (specifically in cybersecurity) and two with social credentials. They are missing board members with expertise in circularity and waste, customer privacy, DEI, and employee relations amongst other topics. Amazon had no ESG committee in 2018; it has one in 2023 and its MSCI rating is A (medium performer) and its Sustainalytics rating is 30.5 (high risk).

In 2018, McKesson, which has been sued by various states as contributing to the opioid crisis, and has material E (energy, materials, water), social (access to medicines, ethical clinical trials), and governance (misleading advertising, doctor "incentives") issues, had zero board members with any relevant ESG credentials on their board. In 2023, they had made considerable progress: they had two board members with E credentials (in renewable energy and sustainable business), three with S credentials (in workplace diversity, health care advocacy and civil rights) and three with G credentials (telecommunications security, accounting, and corporate law). They had no ESG committee in 2018; they have one in 2023 and their MSCI rating is BBB (poor performer) and their Sustainalytics rating is 15.2 (low risk) – conflicting scores. McKesson provides an interesting case of a board that clearly did not pay attention to creating stakeholder value and that, after a major crisis, was reinvigorated by a board with far more diversity and relevant expertise.

In 2018, Liberty Mutual (property and casualty insurance), despite significant climate risk exposure, had no board members with climate credentials, though two were affiliated with energy companies. In response to the growing strategic importance of climate change for their sector, in 2023 they had three board members with climate, low carbon transition and renewable energy credentials. They have two board members with social credentials in sustainable business and health care advocacy and no board members with governance credentials (the lack of cybersecurity expertise stands out). In 2018, they did not have an ESG committee; today they do. Their Sustainalytics rating is a 20.5.

Poor Performers and their Competitors

Supermarkets

Supermarkets have many material ESG issues to manage, ranging from employee productivity and retention, to DEI, to climate and packaging impacts of their operations and supply chain. They also serve consumers whose tastes are changing to embrace more nutritious and sustainable foods. **Publix Supermarkets was the only Fortune 100 company with zero board members with ESG credentials!** It has no ESG committee and no ESG rating. Albertsons also underperformed with just one ESG-credentialed board member (workplace diversity and accounting credentials). They do have an ESG committee and a Sustainalytics rating of 32.5 (high risk) and a MSCI rating of BBB. In contrast, Kroger has six board members with ESG credentials, in sustainable packaging, workplace diversity and accounting oversight, amongst other topics. It has an ESG committee, an MSCI rating of AA and a Sustainalytics rating of 21.3. Walmart also has six board members with ESG expertise (most in workplace diversity and accounting oversight with one in environmental protection). They have an ESG committee, a Sustainalytics rating of 25.3 and a MSCI rating of BBB. While this is correlation, not causality, it is interesting to note that Walmart and Kroger have had decent stock performance, while Albertsons, less so. Publix is a privately held company.

Banks and Financial Services

Banks and financial services have material ESG issues to manage, from cyber security, accounting oversight and risk management, to ethical business, to DEI in the upper ranks, to environmental challenges associated with their investments and operations. They also are offering new ESG and impact investing products as part of their business development. JP Morgan stands out as the bank with the fewest ESG-credentialed board members, with one having workplace diversity credentials and another financial accounting standards board credentials. The bank has an ESG committee and a Sustainalytics rating of 29.3 and a MSCI rating of A. In contrast, Citi has eight ESG-credentialed board members with workplace diversity, auditing/accounting and cybersecurity credentials, an ESG committee, and a Sustainalytics rating of 29.2 and a MSCI rating of A. Morgan Stanley has seven ESG-credentialed board members with expertise in workplace diversity, ESG investing, CSR, accounting and risk management, an ESG committee, and a Sustainalytics rating of 24.6 and a MSCI rating of AA. Bank of America has six ESG-credentialed board members with expertise in renewable energy, workplace diversity and accounting and risk oversight. BoA has an ESG committee, and a Sustainalytics rating of 28.3 and a MSCI rating of A. Goldman Sachs has eight ESG-credentialed board members with expertise in sustainable finance, climate, workplace pay equity, cyber security and accounting and risk oversight, an ESG committee, and a Sustainalytics rating of 24 and a MSCI rating of A.

Aviation

American Airlines has only one board member with ESG credentials-- in workplace diversity. It has an ESG committee and a Sustainalytics rating of 26.4. United, by contrast, has a number of board members with ESG credentials – seven with "S" (workplace diversity, sustainable business, employee relations) and two in "G" (cyber security, accounting oversight). United has an ESG committee and a Sustainalytics rating of 28.7. However, neither airline has a board member with expertise in climate/low carbon transition which is a huge miss given the global focus on carbon reduction in aviation.

Delta has five ESG-credentialed board members, with expertise in climate, carbon offsets and workplace diversity (but no expertise in governance). Delta has an ESG committee, a MSCI rating of AA and a Sustainalytics rating of 29.7.

Other Poor Performers

Telecommunications

While the Telecommunications industry has several material ESG risks/opportunities, according to SASB, such as Environmental Footprint of Operations, Data Privacy, Data Security, Product End-of-Life Management, Managing Systemic Risks from Technology Disruptions, and Competitive Behavior & Open Internet, the Fortune 100 telecommunications that are platform companies (Comcast and Charter Communications) do not seem to have gotten the message. Comcast has one nonprofit CEO (of the Philadelphia Children's Hospital) on the board, no ESG committee, and a MSCI rating of BBB and a Sustainalytics rating of 23.1. Charter Communications has one board member with expertise in sustainable development, no ESG committee, a Sustainalytics rating of 24.7 and a MSCI rating of BBB. On the other hand, the more traditional phone companies Verizon Communications has six board members with ESG credentials – all with "G" credentials in cyber security, accounting and risk oversight, and public policy/regulation-- an ESG committee, a MSCI rating of AA and a Sustainalytics rating of 18.7. ADD AT&T and Walt Disney?

TJX (retailer) also has only one ESG-credentialed board member (labor relations). It has an ESG committee, a MSCI rating of A and a Sustainalytics rating of 14.4 (low risk).

The three companies above arguably have relatively low to medium ESG risk, but the companies that follow have significant environmental risks that it does not seem they are managing at the board level. Enterprise Products (a mid-stream energy services company) has only one ESG-credentialed board member of 14 (expertise in renewables and governance). It has an ESG committee and a Sustainalytics rating of 21.5. Its website talks about energy "addition" (adding additional energy sources but not getting rid of fossil fuels) being a strategy rather than energy transition and its own GhG emissions have increased. We see no evidence of the organization planning for the coming low carbon transition. The StoneX Group has only one ESG-credentialed board of nine (employee relations expertise). It does have an ESG committee and a Sustainalytics rating of 37.7 (high risk). StoneX Group is a financial services firm that manages commodity trading (agriculture, metals, fertilizer, etc.) and risk management for clients, amongst other topics, and it is striking that they have no focus on ESG risk on the board or on their corporate website given that natural resource based commodities are under immense strain from both environmental (climate change, water scarcity) and social (human rights violation, labor exploitation, negative health impacts) causes.

Insights into Whether Boards Have the "Right" ESG Credentials

Even if boards look like they have good representation in terms of ESG credentials overall, do they in fact have the right credentials? In other words, if the company has significant climate exposure, has someone on the board with an E credentials, say, water, but no one with a climate credential, is that a weakness?

Let's look at the energy sector, which arguably needs board members who have insight into climate change and the coming low carbon transition. The sector has 37 board members of 124 in total with "E" credentials. Twenty-one have credentials in renewable energy and seven in sustainable business. However, only ONE has expertise in climate. And, only ONE has expertise in ESG investing, which is where a lot of pressure is coming from on managing climate risk. On the social side, 18 of 124 members have "S" credentials. Eight have diversity credentials. However, there are ZERO board members with credentials in workplace safety and only ONE in labor relations, and this is a sector with significant workplace safety issues as well as challenges recruiting and retaining employees. The sector has 19

board members with "G" credentials, primarily in accounting oversight and governance broadly, but only two in cybersecurity and only one in ethics.

Looking deeper into Health Care: Pharmaceuticals, Biotechnology & Life Sciences, we see 13 of 139 have "E" credentials, with five enjoying sustainable business credentials. However, this industry is energy and water intensive (health care is responsible for 8% of greenhouse gas emissions in the U.S.), and zero board members have climate expertise, though two have renewable energy expertise and one has water expertise. On the social side, 41 of 139 have "S" credentials, with 12 in diversity and 14 in health challenges/advocacy – both topics are material for this sector. Zero board members have expertise in labor relations or workplace safety, and this industry is challenged to find enough labor and also has workplace safety challenges. Finally, 30 have "G" credentials, with 13 in accounting oversight and eight in cybersecurity – again both material for the sector.

ESG Committee Correlated with Better ESG Ratings

On average, companies with an ESG committee had higher ratings than companies that did not have ESG committees. In 2023, companies with an ESG committee had an average S&P Sustainability score of 39.6, whereas companies without an ESG score had a score of 27.1, a 12.5 difference. Companies with an ESG committee had an average Sustainalytics score of 22.3, whereas companies without an ESG score had a score of 20.8. This trend was also evident in 2018 even though in the US 100 List, there were only 22 firms that had an ESG board committee. Compared with 2018, 64 companies from Fortune's US Top 100 List added an ESG board committee.

Data Ratings

We have included the MSCI and Sustainalytics ratings above to explore whether there is any correlation with Board credentials and governance. In some cases, only a Sustainalytics rating was available. Unfortunately, as is common with ESG ratings, in many cases the two scores disagree. For Sustainalytics, scores under 10 are negligible risk, 10-20 is low risk, 20-30 medium ESG risk, 30-40 high risk, 40+ severe risk. For MSCI, AAA and AA means ESG leadership, all Bs and A are medium performance, and everything else is poor performance. We do not see any consistent correlation between ESG-board credentials and ESG ratings and we also see that companies in the same sectors tend to cluster, with banks having similar scoring, for example, regardless of real differences amongst them.

Methodology

The research sources were company bios, Bloomberg bios and 10Ks. The list of the Fortune 100 was as of mid-2023. We researched all organizations listed in the bios with whom the board members had had an affiliation and as potential credentials if they were a "national" or "international" organization and if they had a significant role "i.e. board member or adviser." Under the first cut, 780 of 1161 board members (67%) had nominal ESG credentials. This seems extremely high, and it is, until we look more closely at the type and relevance of those credentials. We initially defined ESG credentials generously, including credentials such as serving on an inner-city youth education board, even though it had no direct relevance for the social issues of the company. When assessed for relevance, the numbers dropped to 43% (501 members with some double counting as 80 board members had two or more ESG credentials). Most of the non-relevant credentials were in the social sphere for people active in youth or adult education (not related to the company's business), philanthropy, economic development or health care, when the organizational mission or activity had no bearing on the business of the company. In other words, adult or youth education that aims to provide a talent pipeline from disadvantaged communities for the company/industry would be included but board membership in Boys and Girls

Clubs which is more generalized support would not be included. Health care expertise that could be applied to a company's employees or health care expertise on challenges such as cancer when serving on the board of a health care company would be included. Serving on a hospital board when one is a board member in an industry where that is not relevant, such as energy, would not be included.

The list of categories of ESG credentials we tracked are in Table 1.

Conclusion

Sustainability is material to company performance today and board members have a fiduciary duty to understand the risks opportunities presented by ESG topics for their company and ensure that management is employing best practice to manage those topics.

Having a full-time ESG/sustainability committee to ensure adequate attention to the topics is a critical step and it is positive to see that most Fortune 100 companies today have ESG committees. In addition, it is terrific to see the greater inclusion of board members with robust ESG credentials. However, in looking at sectors and companies more closely, it is clear that most do not understand the strategic nature of the material issues for their sector and the risks and opportunities they present as often the board ESG credentials do not line up with those company-specific issues. The most concerning blind spots are the lack of climate, water, and biodiversity credentials for the "E" and the lack of worker voice/labor relations credentials on the "S."

Management and board leadership should be aligning board credentials, training, and committees with the most material sustainability issues they need to manage (such as climate change in the energy sector), in the same way they align with other critical needs related to industry background and skills such as marketing and business development.