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Sustainability in the Spotlight: **The Balancing Act of ESG**

June 2024

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Contents

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About the Report

Is sustainability strategy ready to deliver?

This year, sustainability in the corporate world has been defined by flux. The debate in the U.S. around ESG (environmental, social and governance) remains fierce. The global issues that ESG aims to address — climate change, human rights and equity, among others — are enormous and only becoming more complex. This is because, in its broadest definition, ESG reflects a set of objectives common to all companies — from managing risk to playing a role in addressing societal issues to identifying opportunities for growth and value creation. The corporate will and effort to address these opportunities and challenges seems to be growing, not shrinking.

The third annual global *Sustainability in the Spotlight* survey, conducted by Spencer Stuart and the Diligent Institute, asked public and private company directors across industries and geographies about their companies' sustainability strategies and oversight. We also asked respondents to provide their perspectives on and involvement in defining their organization's ESG vision and strategy, as well as their role in overseeing results. Toward this end, we sought directors' answers to the following questions:

- **Organizational vision:** Which of the major issues on the sustainability agenda are most important to their organizations? Where does ESG provide the greatest value? Where do their ambitions for ESG lie?
- **Strategic focus and integration:** Which stakeholders drive ESG strategy and action? What ESG goals and metrics are in place? What are the biggest obstacles to ESG? Has ESG backlash affected their organizations? How is regulation affecting ESG action? How will their ESG strategies change in the next five years?
- **Board oversight:** Has the board's responsibility for ESG oversight shifted in the past year? What level of priority does the board assign to ESG? Who reports to the board on ESG? What insights are needed to enhance oversight?

Methodology

Diligent Institute and Spencer Stuart surveyed 801 board members in March 2024. The respondents span public, private and pre-IPO organizations across 14 industries.[1] U.S.-based companies account for 42% of the respondents; 36% represent companies based in the European Union or the U.K. (hereafter referred to as "Europe"); and the remainder represent companies based elsewhere across the globe. The Appendix contains a full demographic breakdown.

This report contains global analysis, as well as regional breakdowns comparing responses from board directors of companies based in North America (the United States and Canada), Europe and the Asia/Pacific region. It also compares the sustainability perspectives and activities of boards in public and private companies. Note that, throughout, totals may not sum to 100% due to rounding and respondents being able to select multiple options.

1. We did not ask respondents for company names, so the survey may not represent 801 unique organizations.

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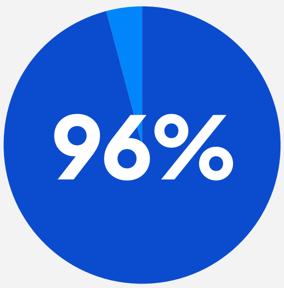
Key Findings



Directors who expect a continued or stronger focus on ESG in the next five years.

When asked to list the three most important ESG issues for their organization:

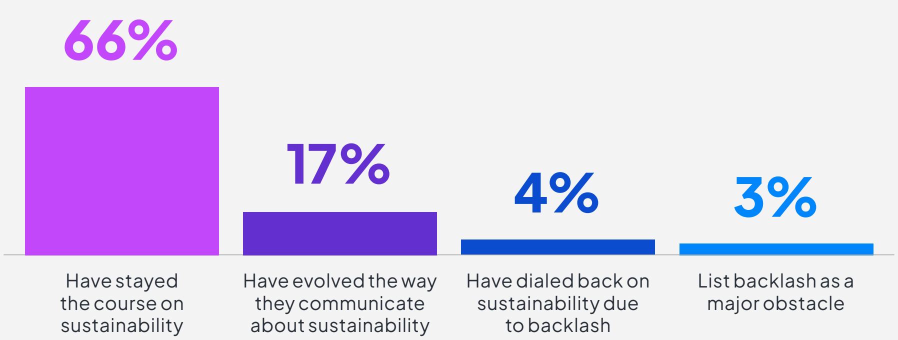
63% cited diversity, equity and inclusion (DEI)

59% cited climate change

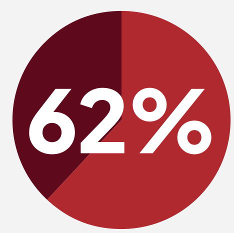
The biggest obstacle to ESG strategy development and integration:

24% of respondents cited Internal competition

Response to ESG backlash

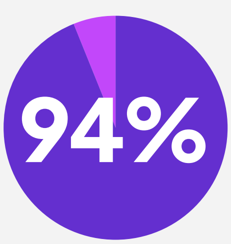


Greater transparency



Directors responding to ESG regulation by enhancing their filings and disclosures.

ESG goals and metrics are being woven into the organizational fabric



Respondents have an ESG metric or goal in at least one area of their business.

Boards want more insight into ESG-driven growth opportunities

46% want more insight around identifying sustainability opportunities

42% want more clarity around how ESG goals connect to business strategy

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Results & Analysis

Organizational Vision

This year's survey reveals that few boards and companies are backing away from their ESG visions and ambitions. Instead, directors are asking for more specificity concerning the material issues facing their organizations and the risks and opportunities that accompany them in the quest for ESG strategies that offer a better balance of risk mitigation and opportunity management.

DEI is a top priority

Despite headlines proclaiming the end of ESG as a moniker, organizations are embracing it as a more comprehensive descriptor for a set of initiatives that extend beyond climate change and other environmental concerns. Indeed, most of our respondents (56%) still use the term "ESG" to describe their efforts versus "sustainability" (44%).

Reflecting the broad scope of ESG, 63% of this year's respondents told us that diversity and inclusion is the sustainability issue that is most important to achieving their organization's business strategy. Climate change remains a high-priority issue, but slightly fewer respondents (59%) named it as one of the top three sustainability issues most important to their organizations. Resource use rounds out the top three issues, with 40% of respondents choosing this option.

When we parsed these results by region, we found that the prevalence of DEI is driven largely by companies based in North America. Respondents from organizations based in Europe and Asia Pacific (APAC) are slightly more likely to call out climate change as a top sustainability issue. Climate change also maintained a slight edge over DEI as the top issue among respondents from private companies, who reported a more diverse set of top three issues than did public companies.

DEI, climate change and resource use are the three most important sustainability issues affecting business strategy

Top sustainability issues

63%	**Diversity & inclusion**
59%	**Climate change**
40%	**Resource use (inc. water)**
35%	**Supplier and third-party conduct**
31%	**Circular economy/recycling**
30%	**Human/labor rights, working conditions**
9%	**Other**
7%	**Biodiversity loss**
2%	**None**

Note: Respondents were asked to select the top three most important ESG issues for their organizations.

Top sustainability issues by region and company type

	North America	Europe	Asia/ Pacific	Public	Private
None	3%	1%	1%	1%	4%
Biodiversity loss	5%	9%	8%	7%	8%
Circular economy/recycling	27%	38%	30%	31%	33%
Climate change	50%	69%	68%	63%	52%
Diversity & inclusion	64%	62%	63%	70%	51%
Human/labor rights, working conditions	30%	31%	30%	26%	38%
Resource use (inc. water)	42%	38%	41%	41%	39%
Supplier and third-party conduct	38%	31%	32%	33%	39%
Other (please specify)	10%	8%	10%	10%	8%

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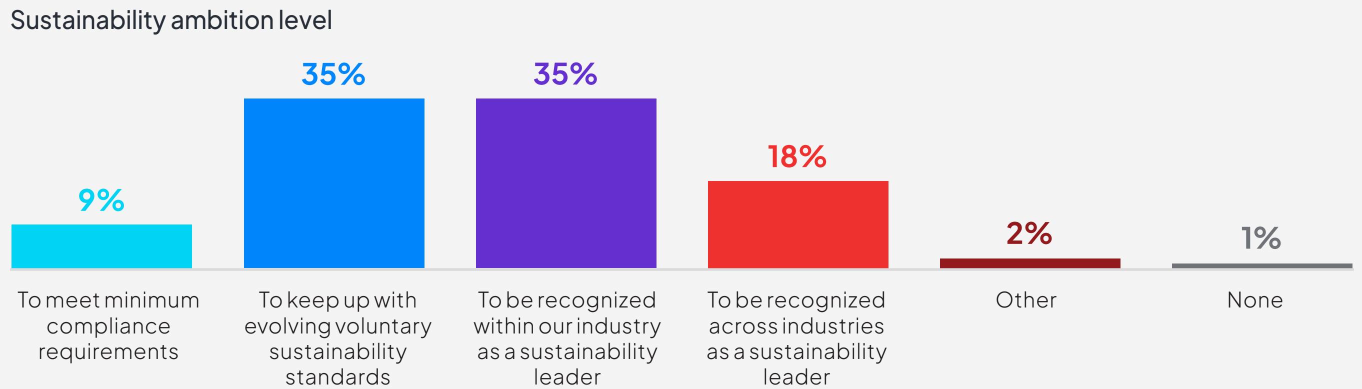
Bold ESG aspirations

Boards and companies have not only prioritized ESG, but they also have lofty ambitions for their ESG strategies. More than half of our respondents (53%) say that their companies aspire to be seen as sustainability leaders within their industries or in the business community at large. Just over a third more (35%) are focused on keeping up with evolving voluntary standards. Fewer than 10% of respondents report that their companies are content to fulfill minimum regulatory and legal standards for ESG. This suggests that the competitive bar for ESG performance is going to get higher and higher: Today's leadership position is likely to be tomorrow's table stakes.

Our regional analysis shows that European and APAC companies are more likely to aspire to sustainability leadership within the global business community. North American companies are more likely to have lower ambitions, with a higher percentage of directors reporting that they aspire to leadership within their industry or that they aspire to keep up with voluntary standards. Public companies also tend to have higher-level ambitions than do private companies.

More than half of companies aspire to be sustainability leaders in their industry or across industries



Sustainability ambition level by region and company type

	North America	Europe	Asia/Pacific	Public	Private
To be recognized across industries as a sustainability leader	12%	26%	25%	19%	17%
To be recognized within our industry as a sustainability leader	29%	42%	39%	39%	27%
To keep up with evolving voluntary sustainability standards	43%	27%	28%	33%	39%
To meet minimum compliance requirements	13%	3%	4%	7%	12%
Other	3%	2%	1%	2%	4%
None	1%	0%	1%	0%	1%

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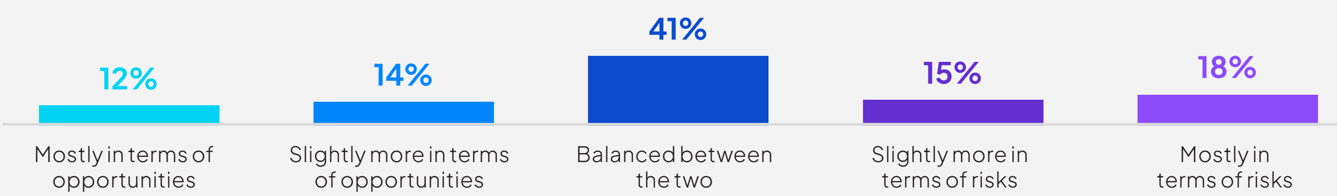
A balanced vision

Organizations are less likely to view sustainability in terms of opportunity than they were in 2023, and more likely to take a risk lens. Only 26% of directors said that their companies thought about ESG more in terms of opportunities than risks, compared with 40% in 2023. Conversely, a third (33%) — versus 25% in 2023 — placed a greater emphasis on sustainability risk. A plurality of respondents aim to find a balance between the risk and growth perspectives (41% in 2024 versus 35% in 2023).

The shift toward a greater emphasis on risk management per se and as a component in the ESG mix is evident across the survey's respondents. Respondents from all regions are more focused on risk mitigation than they reported last year. Even in Europe, where growth opportunities still define the primary approach to ESG, the emphasis on risk has risen.

Most companies (41%) adopt an approach to ESG that encompasses both risk mitigation and value creation

Sustainability risk versus opportunity



The risk trend may be the most prominent result of the ESG backlash, which brought with it the realization that even those actions undertaken with the best intentions come with risks. This idea is supported by the responses of directors when we asked them to pinpoint the value provided by their ESG initiatives. Almost two-thirds of them named ESG as a primary source of reputational capital — the top choice. Nearly 60% named attracting talent and just over half of the respondents named satisfying customer expectations (52%) as the primary sources of value. New revenue opportunities ranked fifth, garnering only 26% of the responses.

Reputation, talent attraction and customer expectations are the top three sources of value derived from ESG

Where does sustainability strategy provide value?

62%	58%	52%	40%	26%	15%	10%	6%
Reputation	Talent attraction and retention	Customer expectations	Risk mitigation	New revenue opportunities	Access to capital	Cost reduction	Cost of capital

Note: Respondents were asked to select the top three areas in which their sustainability strategy provides value to the organization.

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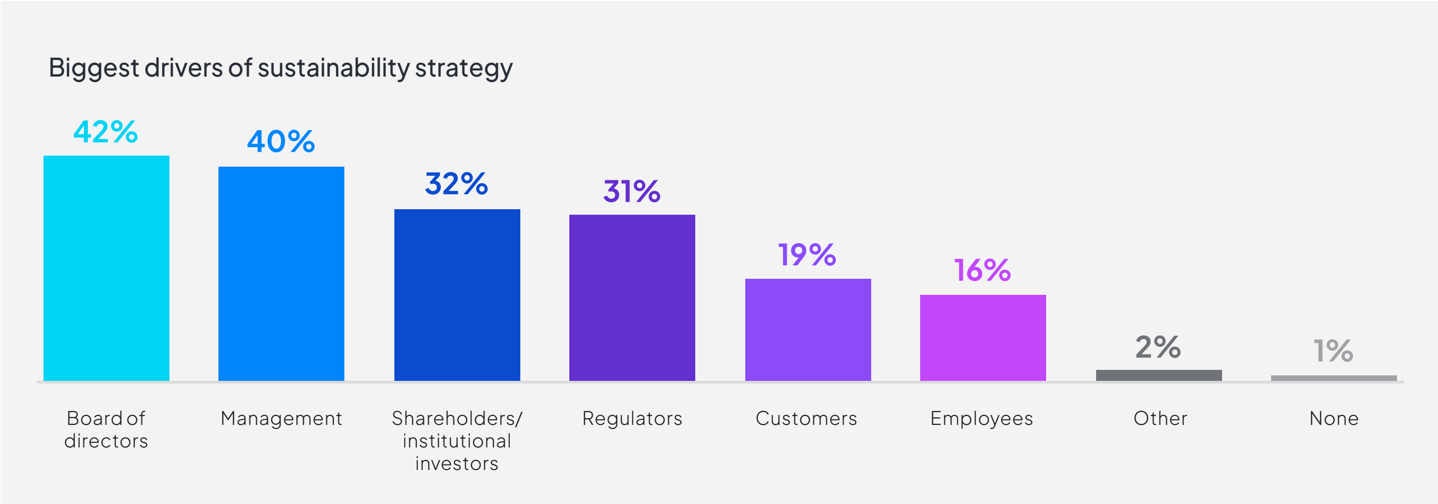
Strategic Focus and Integration

This year's survey reveals that ESG strategies are proceeding apace. Directors tell us that, for the most part, boards and management are driving ESG strategy, no substantial obstacles stand in their way, and ESG metrics and targets are increasingly being woven into their organizations. Moreover, directors do not anticipate shifting away from existing ESG strategies for the foreseeable future.

Boards and management drive ESG

Anyone who has witnessed the willingness of business leaders to spearhead sustainability initiatives at the United Nations, the World Economic Forum, and other global venues will not be surprised to learn that directors in our survey point to boards and management as the most prominent drivers of ESG strategy in their organizations. Regulators and shareholders are named less frequently (by 31% and 32% of respondents, respectively). Given the fact that directors see ESG delivering significant value in the highly competitive market for talent, it is more surprising that only 16% of the respondents named employees as drivers of ESG strategy.

Directors see the impetus for ESG coming from the top



Note: Respondents were asked to select the top two drivers of sustainability at their organization.

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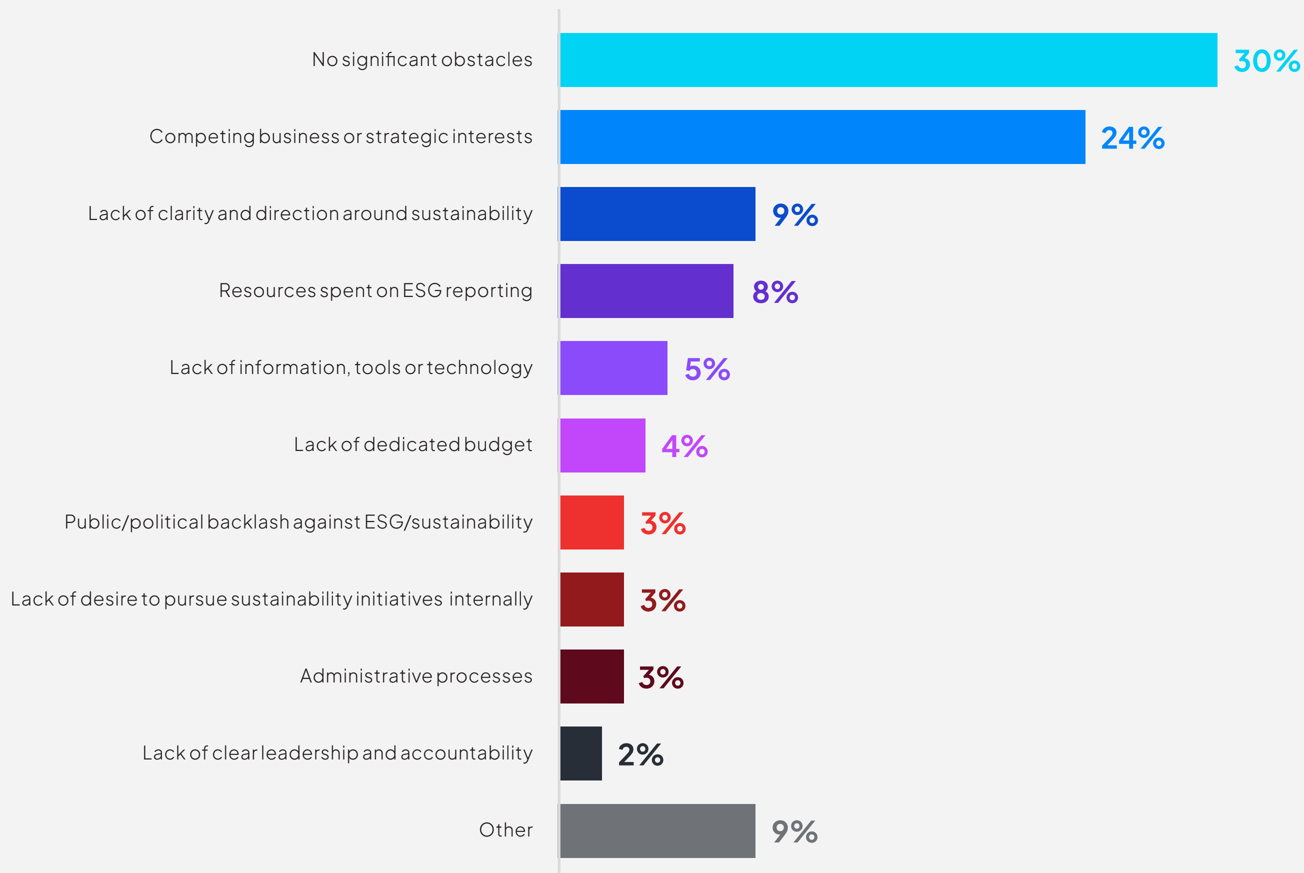
The obstacles are internal

The largest obstacle to ESG is not external, but internal. Almost a quarter of the survey's respondents named competing business or strategic interests within their own organizations as the largest obstacle to executing on an ESG strategy. The internal competition for resources and time is more prevalent in North American companies than in Europe or APAC.

Other than internal constraints, the respondents point to only minor obstacles to ESG strategies. Nearly a third of them said that there were no obstacles at all to developing and implementing their organizations' ESG strategy.

There are obstacles to developing and maintaining a successfully integrated and effective sustainability strategy, but none are overwhelming

Biggest sustainability strategy obstacles



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Biggest sustainability strategy obstacles by region and company type

	North America	Europe	Asia/Pacific
Administrative processes	1%	7%	1%
Competing business or strategic interests	28%	21%	17%
Lack of dedicated budget	3%	4%	0%
Lack of clear leadership and accountability	1%	4%	4%
Lack of clarity and direction around what sustainability means for the company	9%	7%	11%
Lack of desire to pursue sustainability initiatives internally	4%	3%	3%
Lack of information, tools or technology	3%	6%	10%
Resources spent on ESG reporting requirements and/or voluntary disclosures	8%	9%	4%
Public/political backlash against ESG/sustainability	4%	3%	0%
No significant obstacles	29%	28%	35%
Other	9%	8%	14%

Even the ESG backlash, especially prominent in the United States, is only a minor bump in the road. Only 3% of respondents named it as a major ESG obstacle (a slight increase over 2% in 2023). When asked about the effects of the backlash, only 4% said that it had caused their organizations to abandon or dial back ESG efforts. The largest effect is greenhushing: 17% of the respondents said that their organizations reduced ESG publicity, in essence flying the same route under the radar.

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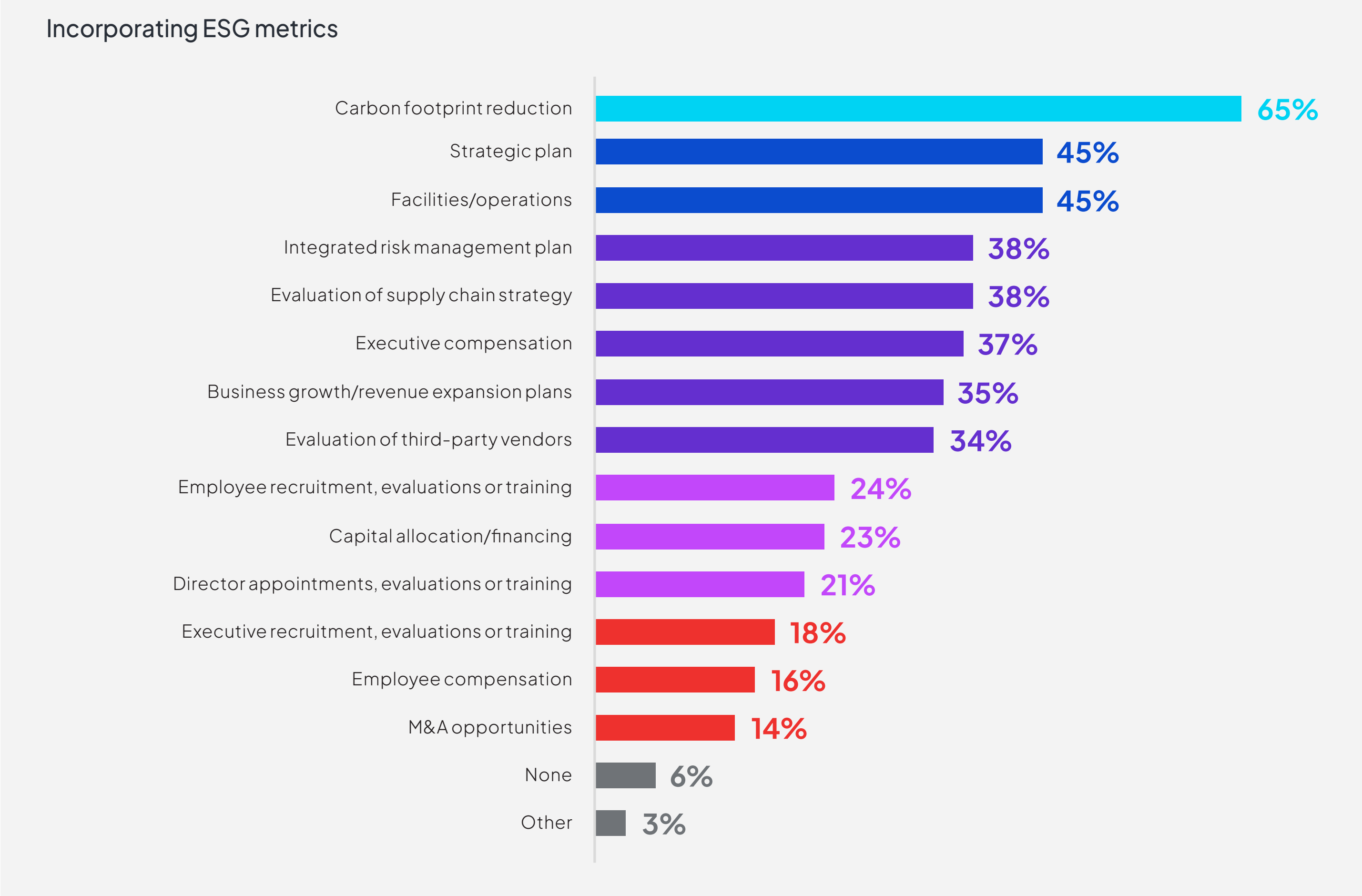
Expanding integration

Given that what gets measured gets managed, it is significant that the use of ESG metrics is on a steady rise throughout organizations. The most used ESG metrics cited by respondents are related to carbon footprints (cited by 65% of respondents), followed by the organization's strategic plan (45%) and facilities and operations (45%).

The reported use of metrics is slightly higher this year than last across the board, indicating that ESG is being woven into the organizational fabric ever more extensively. More significantly, the percentage of respondents reporting that their organizations do not use ESG metrics has fallen from 10% in 2023 to 6% in 2024. It seems clear that ESG is increasingly becoming an established facet of "how we do business" in more and more organizations.

Regionally, European companies are leading the way in the use of ESG metrics, with North American companies lagging both European and APAC companies. Public companies are leading private companies in adoption.

European companies outstrip North American companies in ESG metric adoption, especially in carbon footprint reduction, strategic plans and executive compensation



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Incorporation of ESG metrics by region and company type

	North America	Europe	Asia/Pacific	Public	Private
Business growth/revenue expansion plans	31%	39%	44%	38%	29%
Carbon footprint reduction	52%	82%	72%	75%	46%
Capital allocation/financing	17%	30%	34%	28%	14%
Director appointments, evaluations or training	20%	23%	18%	24%	17%
Employee recruitment, evaluations or training	22%	26%	21%	26%	19%
Executive recruitment, evaluations or training	18%	20%	13%	20%	16%
Executive compensation	28%	53%	35%	49%	16%
Employee compensation	13%	22%	18%	21%	9%
Evaluation of third-party vendors	27%	41%	48%	40%	23%
Evaluation of supply chain strategy	32%	44%	52%	45%	26%
Facilities/operations	43%	46%	54%	49%	37%
Integrated risk management plan	30%	49%	42%	45%	26%
M&A opportunities	11%	17%	21%	16%	11%
Strategic plan	36%	57%	51%	46%	44%
Other	3%	4%	6%	3%	4%
None	10%	1%	6%	3%	11%

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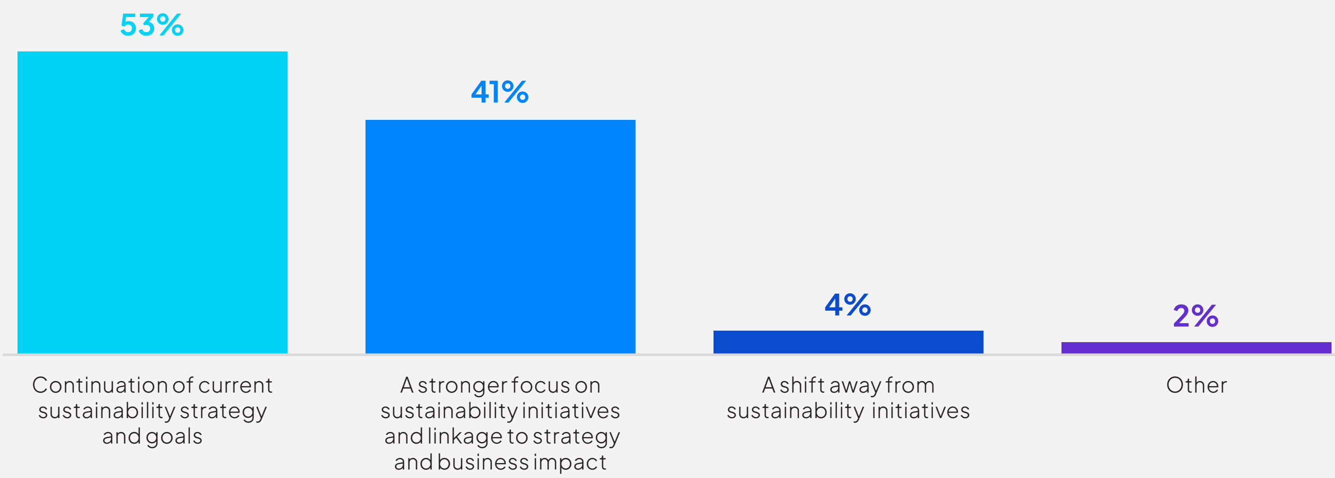
Staying the course

Directors do not anticipate major reappraisals to their organizations' current ESG strategies in the next five years. When we asked survey respondents how they envisioned the future of their ESG strategies, more than 90% of them predicted a continuation of their current goals or the adoption of enhancements that build on current strategies. Only 4% of the respondents predicted a shift away from the current strategy.

Regional analysis reveals that respondents from North America were more likely to predict a shift away from current strategies by a few percentage points (7% in North America versus less than 1% in Europe and 3% in APAC). European and APAC respondents were more likely to predict increases in current focus than North American respondents (53% in Europe and 44% in APAC versus 30% in North America). Directors of public companies were more likely to predict strategic continuity than directors in private companies.

Almost all directors predict a continued or strengthened focus on ESG

How do you envision your organization's sustainability efforts changing over the next five years?



ESG strategy predictions by region and company type

	North America	Europe	Asia/Pacific	Public	Private
A stronger focus on sustainability initiatives and linkage to strategy and business impact	30%	53%	44%	39%	44%
Continuation of current sustainability strategy and goals	60%	45%	52%	57%	45%
A shift away from sustainability initiatives	7%	1%	3%	3%	7%
Other	3%	1%	1%	2%	4%

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Board Oversight

This year's survey confirms that ESG oversight has become an established board function. Sustainability in all its forms is a significant priority for directors and, for the most part, ESG oversight is built into the structure of boards. Directors are seeking more transparency into ESG in response to regulatory demands and they are seeking out more insights to become better stewards of their organizations' ESG efforts.

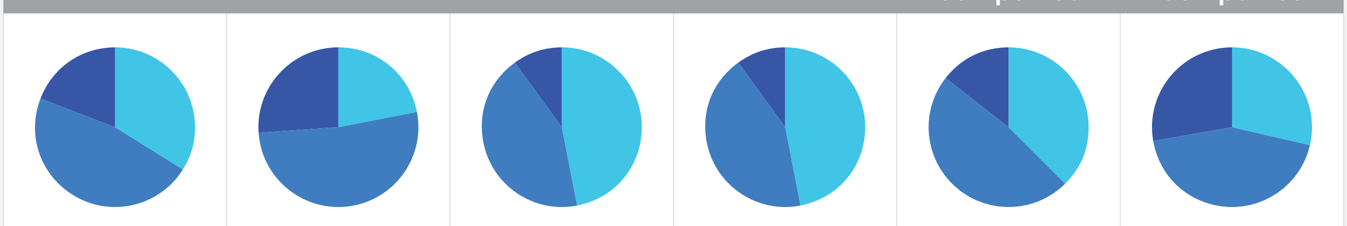
A board priority

The survey respondents peg ESG as a mid-level priority to high-priority issue for most boards. Nearly half (47%) say it is a mid-level priority and a third identify it as a high-level priority. Less than 20% of respondents say ESG is a low-priority issue for their boards.

Regionally, ESG priority skews to the high side of board concerns in APAC (51%) and Europe (46%). Among North America respondents, only 22% named it as a high-level concern versus 52% who named it as a mid-level concern. Meanwhile, for public companies, only 14% placed ESG toward the bottom of the board's priorities, half the percentage of private companies that did so, at 28%.

More than 80% of directors peg ESG as a mid- to high-level board priority

Where do sustainability issues fall on the board's priority list



	Global	North America	Europe	Asia/Pacific	Public companies	Private companies
Near the top of the board's priorities	34%	22%	48%	51%	37%	29%
Somewhere in the middle of the board's priorities	47%	52%	44%	37%	47%	44%
Towards the bottom of the board's priorities	19%	26%	10%	13%	14%	28%

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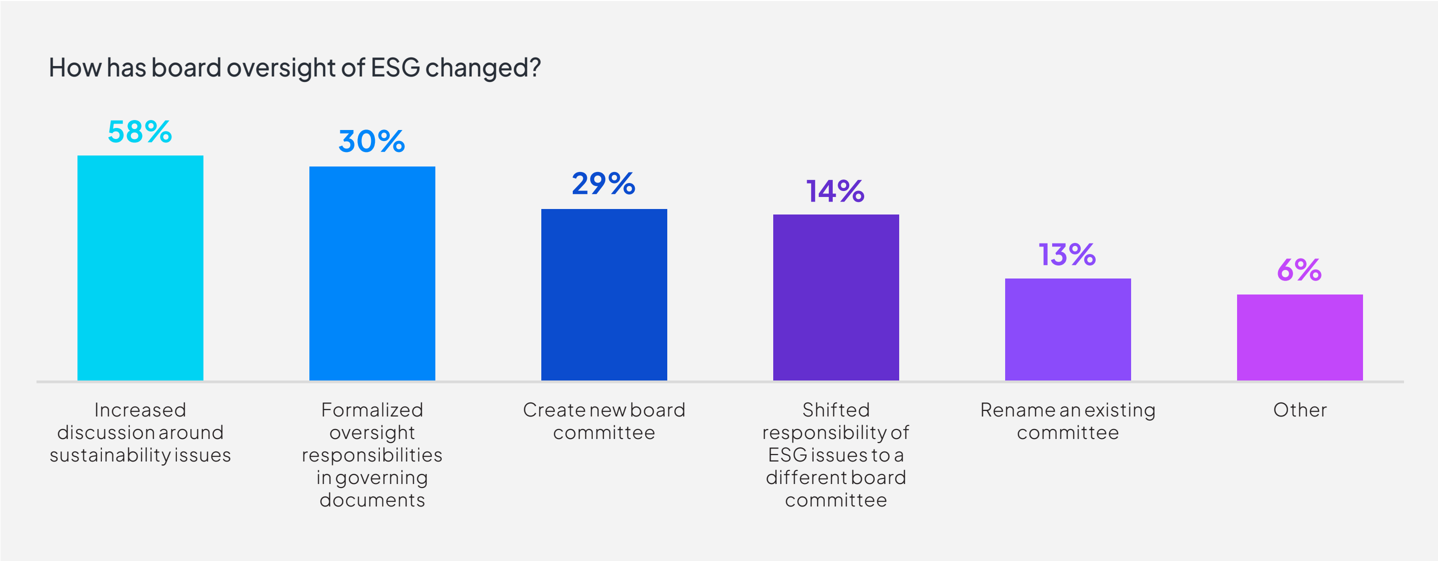
Oversight structures continue to develop

The majority of our respondents (62%) say that the ESG oversight structure within their boards is unchanged since 2023. Just under a third of respondents say that the oversight structure has changed in the last year. Where changes have occurred, 58% of respondents say that ESG has been assigned a larger role in board and committee discussion meetings; 29% say that a new board committee or sub-committee has been established to increase oversight; and 30% say that they have formalized ESG oversight in the board's governing documents. All of this suggests that ESG oversight is becoming a more permanent feature in boardrooms.

When ESG oversight structures continue to develop on boards, ESG gets more attention



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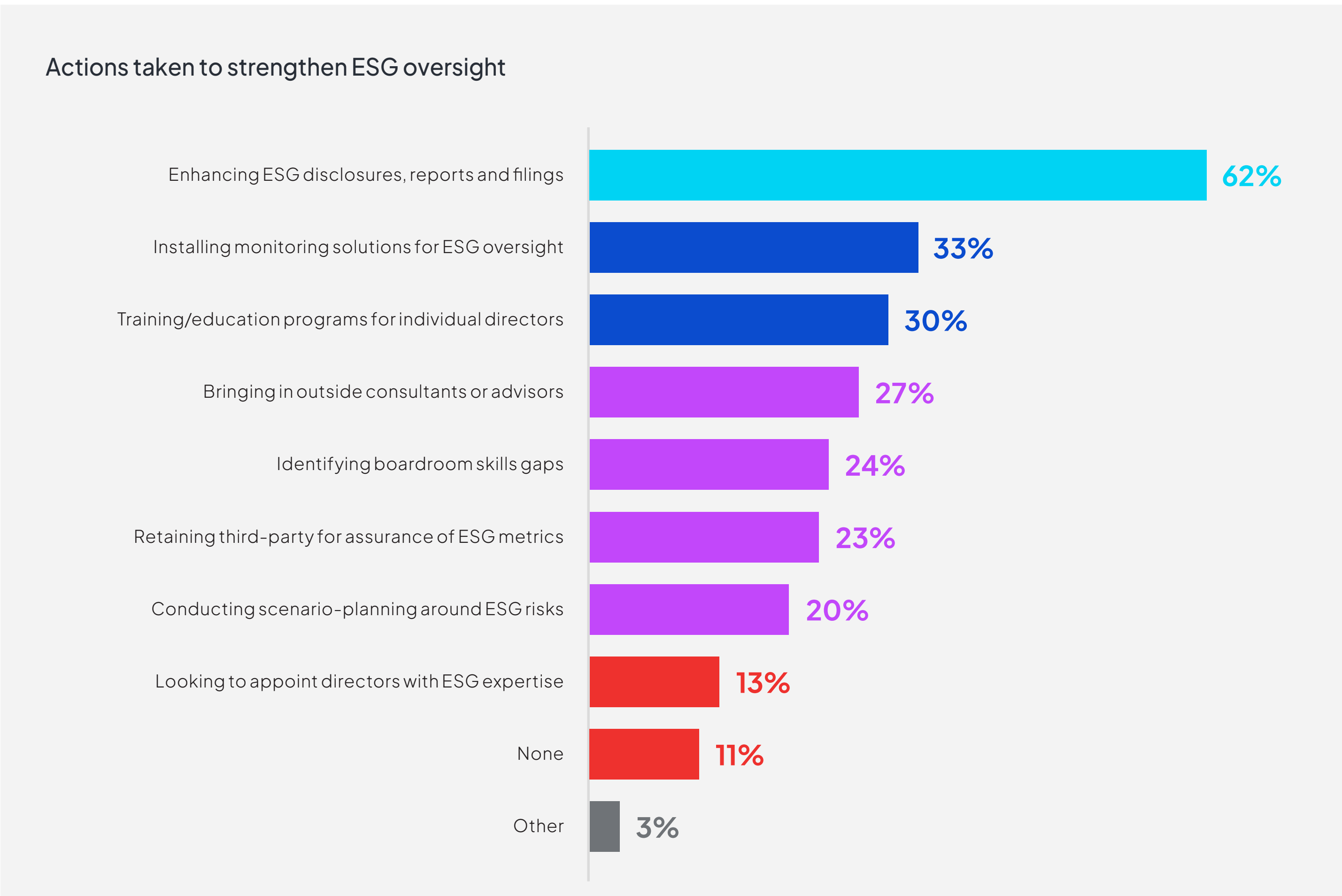
Seeking greater transparency

A large majority of boards and companies (89%) are taking action on ESG in response to regulation. Most of this action is related to transparency: 62% of respondents say their organizations are enhancing ESG disclosures, reports and filings. A substantial number of respondents report that there are also efforts to improve the board's ability to oversee ESG. A third of respondents say that solutions enabling the board's ability to monitor ESG are being put into place, and 30% say that directors are being educated regarding ESG issues.

Regionally, boards of European companies are more likely than those in North America to be acting on ESG, at 96% versus 84%. Public company boards are also more likely to be taking action than are private company boards: While a fifth (21%) of private company respondents indicated that they aren't taking action in light of ESG regulations, only 5% of public company directors responded similarly. Across the board, public company respondents were more likely to be taking each action listed compared to their private company counterparts.

More than 60% of directors say their organizations are enhancing ESG transparency



Note: Respondents were asked to select all that apply.

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Actions taken to strengthen ESG oversight by region and company type

	North America	Europe	Asia/Pacific	Public	Private
Identifying boardroom skills gaps	22%	29%	25%	26%	22%
Installing monitoring solutions for ESG oversight	26%	42%	38%	39%	23%
Enhancing ESG disclosures, reports and filings	55%	71%	73%	76%	37%
Looking to appoint directors with ESG expertise	11%	16%	15%	14%	11%
Conducting scenario-planning around ESG risks	14%	24%	34%	21%	18%
Training/education programs for individual directors or the full board	24%	40%	24%	34%	23%
Bringing in outside consultants or advisors	23%	32%	28%	30%	22%
Retaining third party for assurance of ESG metrics	18%	28%	32%	30%	10%
Other	5%	2%	1%	3%	3%
None	16%	4%	13%	5%	21%

Note: Respondents were asked to select all that apply.

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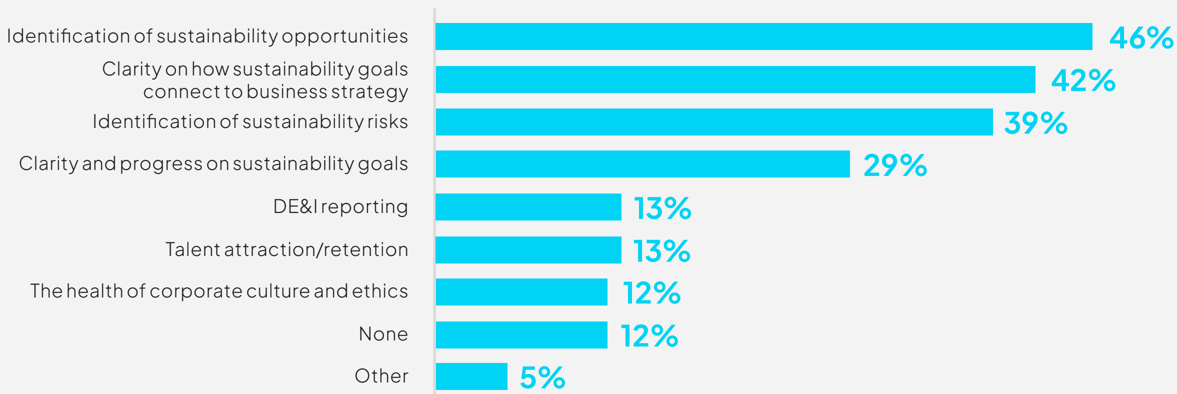
More insight needed to surface value potential

Directors everywhere are seeking greater insight into every aspect of ESG — a strong sign that they recognize the importance of sustainability oversight as a board function. Nearly half of respondents (46%) are looking for insights into the potential growth opportunities of ESG. Nearly as many (42%) are seeking more clarity into how sustainability goals are connected to business strategy, and 39% are looking for insights regarding sustainability risks. Only 12% of the respondents believe that their boards have all the information needed to effectively oversee their organizations' ESG activities.

Directors are looking for more insight regarding ESG risks, growth opportunities and connection to business strategy

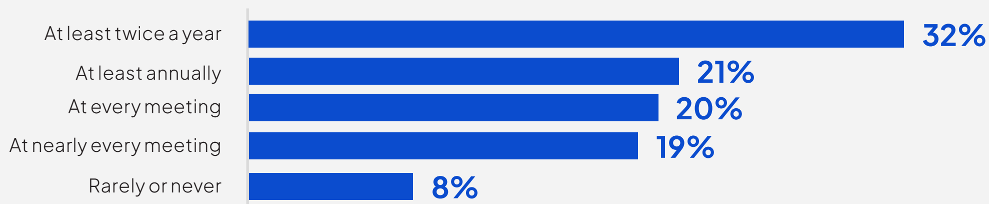
Where does the board need better ESG insights?



Note: Respondents were asked to select all that apply.

Oversight Structure

How frequently does your board evaluate progress on sustainability goals?



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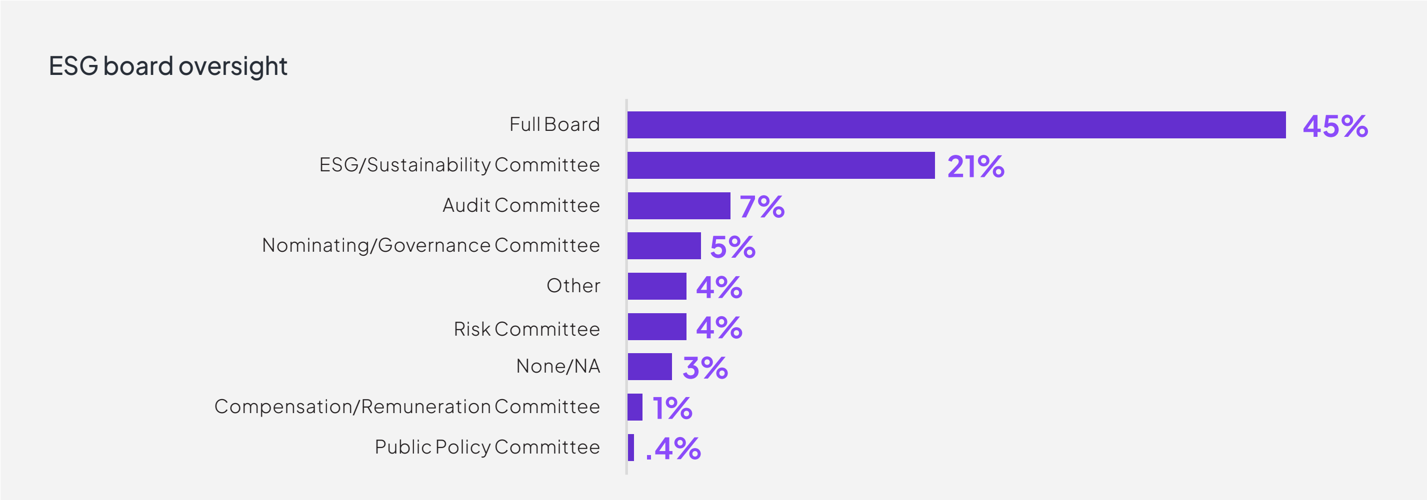

Note: Respondents were asked to select up to three roles.

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Conclusion

This year's *Sustainability in the Spotlight* survey reveals that companies overall remain committed to ESG and are undeterred by the backlash against it. Directors report that the ESG ambitions of the organizations they oversee are high — even though some may be slightly less likely to publicize them — and that they are bullish on the prospects of achieving their ESG strategies.

In line with this strong commitment, directors are seeking the insights needed to fine-tune ESG strategies — ensuring that they mitigate risks *and* capture growth opportunities. Moreover, board oversight structures for ESG continue to evolve, and ESG metrics and reporting continue to become more expansive and integrated into their organizations.

There continue to be some significant differences in how ESG is perceived and pursued between different regions and between public and private companies. By and large, European companies tend to be ahead of North American companies in terms of ESG, and public companies tend to be ahead of private companies. But even as ESG efforts and targets morph, the appetite for pursuing and achieving them among boards and organizations around the world is strong.

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Related Resources

We hope you enjoyed this report! Curious to learn more? Check out these related research and programs from Diligent Institute and Spencer Stuart:

- 2023 Sustainability in the Spotlight report: Diligent Institute and Spencer Stuart's second annual survey of directors on ESG strategy and oversight.
- Diligent Institute Certifications: Diligent Institute offers certificate programs designed to equip board directors and executives with the skills and knowledge needed to address the most pressing modern governance challenges and opportunities — including certifications in Climate Leadership and Human Capital, Compensation and Culture.
- Diligent Market Intelligence 2024 ESG report: What do investors want when it comes to corporate action on ESG? Issuers are set to be held accountable for emissions reporting on a global scale, with regulators, standard setters and investors alike calling for mandatory Scope 3 reporting. Read the full report to learn more.
- Spencer Stuart Board Indexes: Our Board Indexes provide a comprehensive view of governance practices among leading public corporations in various countries, localities and industries.
- Spencer Stuart Board Governance Trends: Spencer Stuart has long played an active role in corporate governance by exploring key concerns of boards and innovative solutions to the challenges they face.
- Boards Around the World: A Changing Landscape: Find out how boards of public companies around the world compare in terms of diversity, composition and more.
- License to Transform: Spencer Stuart's 2023 Survey of Sustainability Leaders: Spencer Stuart's latest annual report on sustainability leadership and functions examines the changing role of the Chief Sustainability Officer and proposes key questions to help them and their teams implement the transformation they've been given.
- Sustainability Stocktake: How CEOs Can Turn Vision into Value: There is much work to be done to ensure sustainability becomes a major source of value creation. Here's how CEOs can set up their Chief Sustainability Officers for resiliency and success in a turbulent context.

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Appendix — Survey Demographics

Note for all – totals may not add to 100% due to rounding

Board Type		
Public/listed company	65%	518
Pre-IPO Company	5%	40
Other private company	30%	243
	Total respondents	**801**

Board Role		
Committee Chair	26%	208
Independent Director	19%	156
Non-Executive Director	17%	138
Board Chair	17%	137
Executive Director	9%	71
Lead or Senior Independent Director	6%	48
Board Vice Chair	3%	26
Other	2%	17
	Total respondents	**801**

Role if Executive Director or other		
CEO	53%	47
CFO	10%	9
Sustainability/ESG	6%	5
Legal function	2%	2
Corporate Secretary	5%	4
COO	3%	3
CHRO	1%	1
Business Unit Lead	7%	6
Other	13%	11
	Total respondents	**88**

Annual Revenue (USD)		
Less than 300 million	23%	186
300 million to 1.9 billion	32%	259
2 to 9.9 billion	27%	214
10+ billion	18%	142
	Total respondents	**801**

Committee Representation		
None	6%	47
Audit	54%	429
Compensation/Remuneration	49%	396
Nominating/Governance	44%	354
Ethics	4%	35
Executive	17%	139
Finance	12%	98
Innovation	5%	39
Public Policy	3%	24
Risk	16%	126
Sustainability/ESG	25%	203
Technology	9%	72
Other	11%	89
	Total respondents	**801**

Industry Breakdown (Global Industry Classification Standard)		
Charity/non-profit	2%	19
Communication Services	1%	11
Construction/Property	6%	47
Consumer Discretionary	9%	71
Consumer Staples	4%	29
Energy and resources	11%	86
Financial Services	18%	145
Healthcare and life sciences	9%	72
Industrials	15%	122
Information Technology	8%	68
Manufacturing (including Pharma)	7%	58
Materials	2%	17
Professional Services	4%	34
Utilities	3%	22
	Total respondents	**801**

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Headquarters Location		
United States	42.3%	337
United Kingdom	8.8%	70
Australia	3.0%	24
Bangladesh	0.1%	1
Belgium	1.6%	13
Brazil	0.1%	1
Canada	9.2%	73
Chile	0.3%	2
China	1.6%	13
Czech Republic	0.1%	1
Denmark	0.8%	6
Egypt	0.3%	2
Finland	0.1%	1
France	2.4%	19
Germany	2.0%	16
Hungary	0.1%	1
India	1.6%	13
Ireland {Republic}	1.3%	10
Israel	0.3%	2
Italy	4.0%	32
Luxembourg	0.3%	2
Malaysia	0.1%	1
Mexico	0.6%	5
Netherlands	4.3%	34
New Zealand	0.1%	1
Singapore	1.9%	15
South Africa	0.3%	2
South Korea	0.1%	1
Spain	5.8%	46
Sweden	1.3%	10
Switzerland	3.8%	30
Thailand	0.1%	1
Turkey	1.1%	9
United Arab Emirates	0.1%	1
Vietnam	0.1%	1
	Total respondents	**796**

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Acknowledgments

This report was compiled by the Diligent Institute research team and Diligent data analysts in partnership with Spencer Stuart's board practice.

Diligent Institute

Diligent Institute informs, educates and connects leaders to champion governance excellence. We provide original, cutting-edge research on the most pressing issues in corporate governance, certifications and educational programs that equip leaders with the knowledge and credentials needed to guide their organizations through existential challenges, and peer networks that convene directors and corporate executives to share best practices and insights.

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