Governance Insights Center

2025 update

Sustainability oversight: the corporate director's guide

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Introduction

In today's rapidly evolving corporate landscape, the intersection of environmental, social and governance (ESG) considerations with core business strategy has become a foundational pillar of board-level oversight. For directors charged with stewarding long-term enterprise value, sustainability is no longer an optional lens; it is woven into every facet of strategic decision-making, risk management and stakeholder engagement. According to PwC's research, just about half of directors (47%) include ESG issues as a regular part of the board's agenda, while a strong majority of investors (over 70%) say companies should embed ESG directly into corporate strategy. This suggests that there is room for boards to accelerate the integration of sustainability into strategy.

At its essence, effective sustainability oversight occurs when boards approach ESG factors with the same rigor and critical inquiry as traditional business drivers, whether evaluating a major capital expenditure, assessing a merger opportunity or setting executive incentives. It means probing how climate-related risks might alter asset valuations over a ten-year horizon or low-emissions equipment investments might alter operating costs over their lifetimes. It can include how emerging social expectations could reshape workforce dynamics and brand reputation in the near term. It also recognizes that sudden shifts in regulation or public policy, such as new carbon pricing mechanisms or human rights due diligence laws, can cascade through supply chains and disrupt competitive landscapes much like tariffs or trade embargoes.

While public discourse about ESG topics can be polarized, investors' interest in these issues is often grounded in years of evidence that they impact long-term performance. In practice, sustainability is not about ideology; it is about how well a company anticipates and manages factors that significantly affect its business.

To navigate this complexity, boards should reorient their oversight posture. Rather than treating sustainability as a mere compliance exercise, directors can view it as a source of competitive advantage, leveraging ESG initiatives to drive innovation and differentiation. They should push management to replace fragmented or siloed ESG efforts with integrated governance, embedding sustainability into enterprise risk management (ERM), strategy development and performance monitoring. The board's stance should encourage a proactive approach: directors can challenge management's assumptions and push for forward-looking analyses and quantifiable sustainability targets linked to business outcomes. The issues in focus in this context are dynamic, not static, topics once considered marginal (for example, data security or supply chain ethics) can quickly become critical, so boards should see that management regularly refreshes its priority issues. Finally, directors must work with management to translate ESG principles into concrete actions that enhance sustainable value creation by asking concrete questions: How will carbon pricing scenarios affect our strategy and operations? What is the ROI on our circular economy investments? Are our human capital practices attracting the next generation of talent? By taking these steps, the board guides management in transforming ESG from a reporting obligation into a strategic driver of value creation.

This updated guide is structured to help corporate boards operationalize that transformation. It provides a comprehensive roadmap — from understanding the evolving sustainability landscape to refining board structures and practices — to help anchor ESG considerations in strategic relevance, measured with rigor and governed with the foresight expected of today's corporate boards.

ESG versus sustainability

While only 7% of directors think ESG means the same thing as sustainability, we use the term "sustainability" in this guide largely interchangeably with "ESG," but with a nuance: ESG refers to the set of specific environmental, social and governance topics, whereas sustainability focuses on how those topics connect to a company's long-term resilience and value creation. In other words, ESG defines what issues are on the table; sustainability defines how those issues are managed to mitigate risks or seize opportunities for lasting business success. Directors should keep both in mind — the broad spectrum of ESG factors and the strategic lens of sustainability that turns those factors into drivers of performance.

A view of the ESG landscape

Environmental
Conserving the natural world

Climate	Pollution	Waste	Resource use
Carbon emissions	Air	Packaging	Water stress
Physical asset resilience	Water	Electronic	Energy management
	Soil	Hazardous	Biodiversity & land use
	Other	Wastewater	Other
		Other	

Social
Investing in people & relationships

Employee	Customer	Business model
Basic needs & wellness	Product safety and quality	Operations resilience
Diversity & inclusion	Selling practices	Product design & lifecycle management
Hiring & advancement	Privacy & data security	Supply chain management
Worker experience		Accessibility
		Community investment

Governance
Building trust in society

Business practices	Transparency	Leadership
Ethics	Tax	Board & management profile
Competitive behavior	Accounting	Executive pay structure
		Purpose and values
		Risk and opportunity

01

Understanding the sustainability landscape

The investor landscape — evolving expectations

Investor sentiment toward sustainability has matured, even as public debate over ESG has become more polarized. In PwC's *2024 Global Investor Survey*, more than seven in ten investors reported they would increase their investment in companies taking climate-related actions. A similar percentage also believe the companies they invest in, or cover, should take greater action to address human capital and supply chain-related issues. Many of the world's largest index managers have toned down overt messaging, yet their stewardship teams still file, or support, climate-transition and human rights proposals when they see portfolio exposure. Fixed-income markets reinforce that trend: "green" and "sustainability-linked" bonds continue to price at a small but persistent spread advantage for issuers that can document credible transition plans.

At the same time, vocal "anti-ESG" stakeholders are pressing companies to justify any sustainability initiative in purely financial terms. The practical outcome is not investor indifference but investor segmentation.

- **Mainstream global managers** (especially EU-based and Principles for Responsible Investment signatories) still want climate-risk disclosures that follow Task Force on Climate-related Financial Disclosures (TCFD) principles.
- **Select US public pension funds** and faith-based investors continue to co-file social or environmental resolutions and scrutinize board skill sets relative to their expectations.
- **Anti-ESG activists** and certain state funds threaten divestment or litigation if sustainability efforts appear "ideological."

Boards should be able to defend sustainability oversight as a matter of enterprise value, not politics. Investors are not uniform in their expectations, but proxy voting and other forms of communication suggest that they have grounded their focus on sustainability in the outcomes achieved or expected, not on theoretical constructs. Boards that oversee disciplined scenario analyses, decision-useful disclosures and clear links between sustainability and capital allocation will retain access to, and potentially lower the cost of, capital as the market evolves.

Addressing the anti-ESG perspective

In recent years, a vocal anti-ESG movement has emerged, pushing back on corporate sustainability efforts. Directors should acknowledge this perspective and understand the concerns behind it, such as arguments that focusing on ESG may distract from short-term profits or impose external agendas on the business.

It is important to distinguish this backlash from a measured, business-oriented approach to ESG topics. The board's role in sustainability oversight is rooted in fiduciary responsibility: identifying and managing risks and opportunities that affect the company's value. Addressing sustainability in terms of long-term risk mitigation and value creation may help depoliticize the issue. In practice, that means showing how the company's actions on topics like climate resilience, supply chain ethics or workforce well-being serve the company's strategic interests and shareholder value. The best and most appropriate response to anti-ESG criticism is to focus on how ESG issues impact the business and communicate how the company's sustainability actions address those impacts and create long-term value.

24%

Branded products marketed as sustainable now hold nearly 24% market share, up nine points from 2013.

Source: NYU Stern Center for Sustainable Business, *Sustainable Market Share Index™ 2024 Report,* April 2025.

The broader stakeholder landscape: societal pressures and opportunities

Beyond shareholders, a widening set of stakeholders exerts influence on corporate sustainability priorities. We expect employees, especially Millennials and Gen Z, who together are set to make up almost 80% of the global workforce by the mid-2030s, to be increasingly vocal about choosing employers whose values align with their own. This trend directly affects talent attraction and retention: companies known for genuine environmental stewardship or social responsibility often have an edge in recruiting and keeping top talent. Customers, too, reward brands that demonstrate an authentic commitment to ESG values. For example, in the consumer-packaged goods space, branded products marketed as sustainable now hold nearly 24% market share, up nine points from 2013. Consumers are using their purchasing power to support companies with strong sustainability credentials, from ethical sourcing and carbon footprint reduction to community engagement initiatives.

Communities and civil society add further layers of accountability. Local community activists and global nongovernmental organizations (NGOs) can rapidly amplify issues that affect a company's license to operate — whether by protesting a factory's environmental impact or pressuring for better labor standards in supply chains. Regulators and policymakers in many regions are also responding to public demands by introducing stricter standards on issues like pollution, human rights and transparency. For example, some jurisdictions now require companies to conduct human rights due diligence or adhere to specific climate risk disclosure rules, raising the stakes for those that fall short. However, this regulatory momentum is not uniform worldwide; while the European Union, US state governments and others are pressing forward with ESG requirements, other markets (notably the US at the federal level) have seen efforts to roll back or simplify certain mandates. This patchwork of regulations means companies must stay agile and attuned to varying requirements.

For boards, the challenge in this multifaceted stakeholder landscape is to see that the company’s sustainability narrative resonates with diverse audiences. Directors should understand how management is developing disclosures and messaging that address what each stakeholder group cares about, in language meaningful to them. That means linking ESG metrics and goals to the outcomes each constituency seeks. For instance, consider:

- Presenting carbon reduction targets not just as environmental ideals but also in terms of financial and operational implications, satisfying investors’ need for decision-useful data.
- Tying employee-related initiatives (such as health and safety improvements or workforce development programs) to employee engagement scores and productivity measures.
- Discussing community investments and social programs in terms of tangible local impact.

By mapping stakeholder priorities to measurable ESG outcomes, the board helps the company tell a cohesive sustainability story, one that builds trust, meets or manages expectations, and secures the goodwill needed for long-term success.

Focusing on what matters most

The universe of ESG topics is vast, ranging from climate change, water scarcity and biodiversity loss to workforce equity, digital privacy and supply chain ethics. Not every issue will be equally relevant or significant to each company. A critical aspect of understanding the landscape is homing in on the sustainability issues that most profoundly impact the company's ability to create long-term value. Typically, the highest-impact ESG issues share certain characteristics.

- **Quantifiable financial impact:** The issue can be directly connected to financial performance. For example, climate-related factors might drive higher insurance costs or capital expenditures (think of a manufacturing company needing to invest in flood defenses), while resource scarcity (like water shortages) could constrain production and hit revenues. If an ESG issue clearly translates into P&L effects or balance sheet risks in the near to medium term, it is likely to be a top priority for the business.
- **Reputational leverage:** The issue carries significant weight with customers, employees, regulators or other stakeholders such that a misstep could damage the brand and erode trust. Data privacy breaches, allegations of labor abuses or product safety failures are ESG issues that can swiftly lead to consumer boycotts or regulatory investigations. These reputational risks can have long-lasting effects on market value and customer loyalty, so issues with high reputational stakes demand close oversight.
- **External volatility:** The issue is subject to rapidly changing external conditions or events outside the company's direct control. Geopolitical shifts, emerging regulations or sudden technological changes can all heighten an ESG issue's significance. For instance, a new law mandating supply chain transparency or a trade embargo related to human rights can quickly elevate an issue from peripheral to urgent. High volatility issues require boards to stay vigilant and management to stay prepared with contingency plans.

Directors need to see that management is rigorously scanning the horizon to spot emerging ESG issues that meet these criteria. Leveraging expert briefings, industry benchmarks and stakeholder input helps boards anticipate which sustainability matters are rising in importance. Focusing on a manageable set of truly strategic ESG issues helps avoid "oversight dilution." Rather than trying to tackle every possible topic, the board can channel its attention and the company's resources toward the ESG areas that intersect most with financial performance and competitive positioning. This focus is not static; boards should expect to recalibrate it as conditions change. But it helps sustainability oversight remain laser-focused on what really drives long-term value.

Understanding the board's role in overseeing sustainability

A company that embeds sustainability into its core strategy is likely to be better positioned for long-term success. It is likely to spot growth opportunities in emerging ESG-related needs and manage risks more effectively when those risks are viewed through an expanded lens. As a company integrates ESG into strategy and tells its sustainability story, the board needs to think through how these efforts are implemented and overseen. Even if management is publishing sustainability metrics on the corporate website or in reports, directors should step back and assess whether the governance structures in place are adequate and whether the messaging is consistent and clear across channels. Is the company's sustainability approach tied to its stated purpose and aligned with its business strategy? Does it focus on key stakeholder priorities and address the most significant risks?

In this section, we outline the key areas of board responsibility in sustainability oversight.

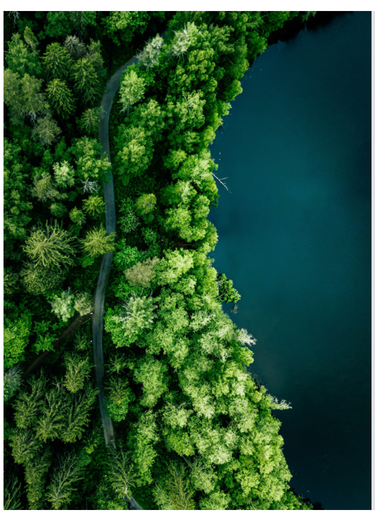
Integrating sustainability into strategic planning and decision-making

Embedding sustainability into strategy is less about creating a new planning ritual and more about widening the lens on decisions the company already makes. Boards can encourage management to treat ESG factors as core operating variables, akin to currency assumptions or raw-material costs, rather than add-ons considered after the plan is drafted. Three practices to consider are:

1. **Early-stage scenario thinking:** Before annual and multi-year plans are locked, management can model how different sustainability drivers, carbon price pathways, water scarcity forecasts and demographic shifts would affect demand, margins and asset values. Boards do not need to become experts in climate science to add value here; they simply need to ask which scenarios were tested, what the financial deltas look like and how findings have altered proposed targets or investments.

2. **Full-cost capital allocation:** When a project comes to the board for approval, directors can expect the business case to incorporate relevant sustainability impacts, both downside costs (e.g., compliance spend, transition risk) and upside benefits (e.g., energy savings, applicable tax credits, reputation-driven volume lift). A project that seems financially borderline when looking at its expected profitability may become attractive once longer-term carbon liabilities, statutory tax incentives or resource-efficiency gains are included; the reverse can also be true.
3. **Integrated performance dashboards:** After the strategy is approved, progress should be tracked. Boards increasingly ask for concise dashboards where leading sustainability indicators (e.g., emissions intensity, injury rates, supplier audit scores) sit beside revenue growth and return on capital. Seeing these metrics together changes the conversation: if a region misses an emissions target while hitting its volume goal, directors can ask what corrective plans are in place and whether capital expenditures, incentives or targets need to shift.

Finally, executive incentives complete the loop. When a portion of variable pay hinges on achieving agreed sustainability milestones — calibrated for challenges and adjusted if circumstances shift — management attention follows naturally. The way this may be achieved varies greatly and is not always visible in public disclosures. The key is not the percentage weighting but the credibility of the metric: it must be measurable, impact strategy and within management's influence.



Board considerations

- Were the sustainability scenarios used in this year's plan chosen because they are most plausible for our sector or because they were easy to model?
- Do capital project proposals show the full economic effect of climate, resource and social factors, and can we see how those adjustments change project rankings?
- Are the sustainability metrics on our enterprise dashboard and in executive incentive plans the ones that truly drive long-term value or just the ones that are easiest to measure?

Defining what is really strategic

Every company faces a long list of ESG issues, but only a handful meaningfully influence traditional financial measures like cash flows, cost of capital or margins measurably over time. The discipline of oversight is simply making sure the process of deciding which issues make up that short list is sound, then seeing that time, capital and board attention align with those priorities.

Because the timeframes and pathways in which these issues impact a company's performance can be more complicated, the process needs to use a wider aperture in two ways.

- **More complex pathways to the P&L:** Moving your energy supply toward renewables may be a cost in the near term, but a direct savings over a longer period. That same shift, however, may also have positive reputation effects among customers and employees. It also may give the company access to preferred financing through green bonds or green targeted equity funds. Similarly, reducing child labor in the supply chain may also create value across multiple dimensions.
- **Longer time horizons:** More complex pathways to the P&L may also take longer to be realized. Reputational effects are hard to quantify in the short term, as are the value of improved recruiting and retention. Being ahead of regulatory or cultural change can be incredibly valuable, but it is hard to quantify the value until the shift happens.

Because technologies, regulations and social expectations shift, the importance of an issue is dynamic. A topic can move from the periphery to the board agenda in a single news cycle (think: supply chain labor violations or AI ethics). Boards should consider conducting best-practice assessments, blending quantitative and qualitative inputs, and discussing the results regularly (usually annually).

1. **Outside-in scans:** Benchmark peers, review investor voting trends, monitor activist campaigns and track emerging regulations.
2. **Stakeholder voice:** Gather feedback from customers, employees, communities and lenders to see which issues they believe pose the greatest risk or opportunity.
3. **Financial stress tests:** Model downside and upside value under credible scenarios (e.g., $75/ton carbon price, two-week cyber outage, water use restrictions).
4. **Long-range effects:** Use of high-, medium- and low-probability outlooks over five, ten and 15 years to gather useful perspectives even though they might not provide definitive answers.

The output could be a short list of three to five "must-win" issues. Boards should see those issues echoed in capital allocation, risk registers and meeting agendas; otherwise, the exercise may be academic. Equally, if an issue drops in priority, because regulations change or technology advances, consider redirecting resources and communicating the rationale to investors.

Board considerations

- How recently did we refresh our high-impact ESG topic assessment, and does it reflect both near-term earnings impact and longer-horizon or stakeholder-driven risks?
- Can management demonstrate a clear line from each top-priority issue to specific budget items, risk mitigation actions or growth initiatives?
- When a previously "critical" issue falls down the list, do we understand and openly disclose the evidence and judgment behind reallocating resources?

Risk management and opportunity realization in an ESG context

A core duty of any board is overseeing risk. In ESG, this duty extends to seeing that management has identified, assessed and mitigated sustainability-related risks with the same thoroughness as traditional financial and operational risks. Many ESG risks are not entirely new; companies have managed environmental compliance workforce issues and similar challenges for years, but they can evolve quickly and cut across traditional risk categories. This dynamic nature means board oversight remains crucial to help management avoid being caught flat-footed by emerging issues.

One useful practice is integrating ESG "what-if" scenarios into the company's ERM framework. Directors should consider asking management to perform scenario analyses for the more important ESG risks, like stress tests used in financial planning. For example, consider climate risk: management could model impacts on the business under various global warming scenarios (e.g., 1.5°C, 2.5°C and 4°C temperature rise by 2050). What happens to our coastal facilities under more frequent extreme weather events? How might carbon pricing or emissions regulations evolve under each scenario, and what costs or constraints would those impose? If one scenario suggests a certain asset will become too expensive to insure or operate (a potential "stranded asset"), the board needs to know that before it is too late. Similarly, for social risks: what if a major supplier in a volatile region faces political upheaval or new labor laws; do we have alternatives lined up? By proactively exploring such scenarios, management can quantify potential impacts (lost revenue, increased costs, supply disruptions, etc.) and the board can then discuss whether the company's strategy is sufficiently resilient.

The output of ESG risk scenario analyses should feed back into regular risk management and strategic planning. If a scenario reveals a significant vulnerability, the board should see that reflected in the company's risk register and mitigation plans. For instance, if a severe drought scenario indicates possible supply chain disruptions for a beverage company, management's mitigation might be to diversify water sources or suppliers now. The board should see that those actions are being contemplated and, if appropriate, implemented. Essentially, major ESG risks, if any, should appear on the same dashboard as other top enterprise risks (credit, market, cyber, etc.) and management should report on how those risks are being managed.

On the other side of risk, ESG also presents opportunities for value creation, and boards should oversee management's pursuit of those opportunities. Many sustainability initiatives can reduce costs or open new markets. Energy efficiency projects, for example, may save money on utilities; developing greener products may attract new customers or allow premium pricing. Boards can request that when management proposes sustainability investments, they include a clear business case quantifying these benefits. If a $5 million investment in waste-reduction technology will save $2 million per year in materials and generates additional revenue from recycling, that is a solid return; directors should hear those calculations. Similarly, directors might ask: What is our pipeline of sustainability-driven innovation? Perhaps there are new products or services in development (say, electric versions of a machinery line, or a service model built around reuse and recycling) that could become significant growth drivers. By viewing sustainability not only as a risk to mitigate but as a source of innovation, boards encourage management to be entrepreneurial in finding competitive advantage in ESG trends.

Board considerations

- Does our risk oversight process explicitly include major ESG risks, and are they evaluated with scenario planning or stress tests?
- When an ESG risk is identified (e.g., climate, cyber, social unrest), do we see it integrated into our overall risk registers and addressed with concrete mitigation plans?
- Are we equally attentive to ESG-related opportunities as risks? For instance, do we discuss sustainability trends, like demand for green products, cost savings or new revenue and do we evaluate those with the same rigor as other investments?
- When making strategic decisions, do we consider the sustainability implications on equal footing with financial outcomes and have we agreed on time horizons that capture long-term sustainability benefits?

Strengthening ESG reporting and disclosure

In the face of stakeholder expectations, robust ESG reporting has become essential. Companies today must navigate reporting standards and frameworks, but these frameworks can act as tools to help communicate how sustainability efforts drive business value when used wisely. The ESG reporting landscape is rapidly evolving. As standards emerge (for example, California's climate disclosure requirements, the EU's Corporate Sustainability Reporting Directive (CSRD) and the IFRS's International Sustainability Standards Board Baseline (ISSB)), companies should approach reporting frameworks not only from a compliance lens but also strategically; this may help their disclosures remain useful internally and externally despite regulatory uncertainty. Different frameworks may still cater to different audiences: for instance, the ISSB standard aims to inform investors with comparable, standardized metrics, whereas voluntary sustainability reports or website disclosures might speak more to consumers, employees and communities with narrative and case studies. Alignment is key, and core metrics should be consistent across channels. However, the emphasis can differ. The board can ask: Are our disclosures addressing the questions investors most frequently ask? Do they also address the concerns of other critical stakeholders? For example, investors might focus on climate risk and governance data, while employees may want to hear about community impact. Both perspectives matter, and the company's overall reporting suite should cover them in a cohesive way.

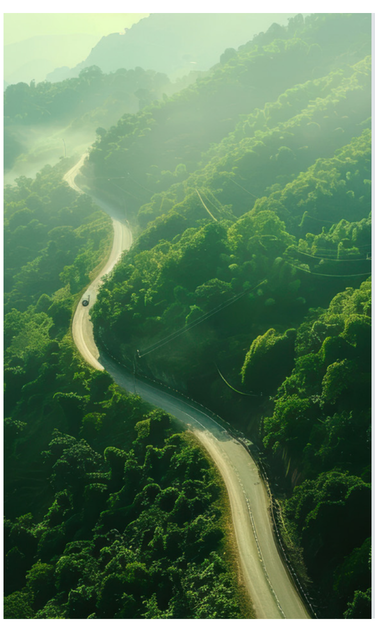
High-quality ESG reporting also rests on data integrity and, when appropriate, independent assurance. Just as financial reporting relies on solid internal controls and audits, sustainability reporting should be backed by reliable systems. A board (often via the audit committee) should confirm that management has clear ownership and controls for ESG data.

Who is accountable for the accuracy of each key metric we report (e.g., total energy consumption or employee turnover rate)? There should be established processes for collecting and validating these figures, much as financial data flows through controlled systems. Moreover, the board should consider the level of external assurance to seek for sustainability information. Not all ESG data currently gets audited. There is not a significant amount that is audited beyond that which is required, but there is a growing trend toward obtaining third-party assurance on important metrics to boost credibility and to prepare for phased-in requirements in

CSRD and other regulations. For example, if greenhouse gas emissions or workplace safety statistics are central to the company’s profile, getting an independent review or audit of those numbers may increase stakeholder trust.

Some companies opt for limited assurance on a broad set of metrics and reasonable assurance (the level of a financial audit) on a few critical ones like carbon emissions. The board should weigh the cost and benefit of assurance, when voluntary, and perhaps start with areas where inaccuracies would be most damaging to trust or compliance.

Finally, sustainability disclosures should be balanced, not cherry-picked to show only good news. Stakeholders are increasingly savvy about ESG reports that read like a public relations exercise. The board should insist on transparency about challenges and areas for improvement, not just highlights. If a target was missed (say, the company’s renewable energy use did not reach the desired percentage), the report should acknowledge it, discuss what corrective actions are being taken or explain if the target has been revised due to changing priorities. Such candor actually builds credibility. Directors can push for that balance by asking: Are we reporting the bad with the good? Are our ESG claims and metrics put into context (e.g., benchmarked against prior years or peers)? A company that openly reports its sustainability setbacks along with successes, backed by good data and tied to strategy, is likely to build trust with investors, regulators and the public. In the long run, that transparency may contribute to a stronger reputation and potentially a lower cost of capital.



Board considerations

- Do we have a clear map of all our ESG reporting requirements (mandatory and voluntary) and a strategy to meet them in a way that tells our company’s story effectively?
- Is the data we publish on sustainability as reliable as the data in our financial statements? What internal controls or audits are in place to verify ESG information?
- Are we being transparent and balanced in our sustainability communications, including discussing any setbacks or risks, so that stakeholders trust the picture we present?
- Does our reporting clearly link sustainability efforts to business strategy and long-term value creation, and are we getting feedback from investors or others that our disclosures are meeting their needs?

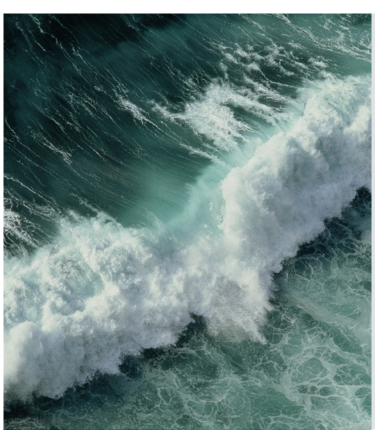
Measuring and incentivizing sustainability performance

Aspirations only matter if the board can see credible progress, so measurement and incentives must work together. The first step is to translate high-level aims (e.g., cutting emissions, improving safety, strengthening supply chain ethics) into clear, time-bound targets. Saying "reduce Scope 1 and 2 emissions by 30 percent by 2030" or "halve lost-time injuries by 2028" gives management an unambiguous finish line and lets directors track performance with the same cadence they apply to revenue or margin. When a metric drifts off course, the board should expect the same recovery narrative it would demand for a financial shortfall: what went wrong and what will change.

Progress should then appear on integrated dashboards that place sustainability indicators next to financial KPIs. When carbon intensity, injury rates or supplier-audit compliance sit alongside return on invested capital and cash flow, trade-offs surface: a business unit may be hitting volume targets while slipping on emissions, signaling the need to reallocate capital, adjust incentives or alter targets.

Accountability is reinforced when executive pay is linked to a handful of objective sustainability metrics either in qualitative or quantitative assessments. The metrics should be measurable, impact strategy and within management's control regardless of how, or even if, they show up public disclosures. The compensation committee's role is to set goals that align rewards with business outcomes, motivate the right behaviors and benchmark against peers to remain competitive.

Finally, the board should periodically stress-test its incentive design to avoid unintended consequences. If a carbon-reduction target is so steep that it could prompt cuts to productive capacity or if a supplier-audit goal encourages box-ticking over genuine remediation, directors may wish to recalibrate.



Board considerations

- Have we converted every key sustainability aim into a quantified, dated target that the board reviews as often as core financial metrics?
- Does our performance reporting place sustainability and financial KPIs on the same dashboard so directors can spot trade-offs in real time?
- Are the sustainability metrics in executive pay plans connected to the company's performance, auditable and free of incentives that could harm the business or distort priorities?

Aligning purpose, values and strategy

When trade-offs around growth, risk or sustainability become difficult, a concise purpose statement can provide a useful north star to guide the board and senior leadership to an answer that is consistent with the company's long-term plan and its core identity.

Purpose is an expression of core values: A statement of purpose, especially one that addresses ESG issues, is an expression of the company's core identity. It says to employees, customers, recruits, investors, regulators and communities: "This is who we are." And sometimes, just as importantly, "This is who we are not."

Values are the foundational beliefs from which a statement of the company's purpose and identity is created.

A company's purpose and values need to be aligned to the overall business strategy — how the company will achieve returns year after year.

Examples of values guiding actions that lead to strategic outcomes:

- A specialty chemicals company that commits to advancing technology in ways that minimize harm and maximize societal benefit may require every R&D project to pass a "sustainability gate" — a cross-functional review that assesses lifecycle environmental impact, worker safety and end-of-life circularity. By embedding sustainability criteria into its innovation pipeline, the company may avoid stranded-asset risk, outpace regulation and command premium pricing for sustainably designed products.
- A global logistics provider that commits to fostering physical, mental and financial health at work to drive performance may roll out a "Well-Being Index" tied to flexible scheduling, on-site health clinics and access to financial-literacy programs. By lowering turnover and absenteeism rates and improving well-being scores, the company may improve operational continuity and bolster its brand in a tight labor market.
- An apparel company that commits to protecting and restoring natural systems may partner with cotton co-operatives to adopt regenerative farming, rehabilitate riverbanks and wetlands around the mills and allocate a percentage of sales to fund community-led reforestation. By improving cotton yields and quality over time through healthier soils, the company may reduce its dependence on synthetic inputs and buffer against price volatility.

Purpose and values are not meant to freeze decision-making. They support making decisions that are consistent with the foundational beliefs in what makes the company function as a community.

Mapping sustainability oversight to governance structures

Given how broad and complex ESG can be, a common question is: how should the board organize itself to oversee sustainability effectively? There is no one-size-fits-all answer, but clarity of responsibilities and alignment with existing governance frameworks are paramount. Many boards have evolved their governance structures to better account for sustainability oversight, often by distributing responsibilities across committees and establishing that the board has the requisite expertise to understand the issues.

In this section, we examine how boards can structure their committees, agendas and workflows to embed sustainability into their oversight duties.

Allocating sustainability oversight responsibilities

Traditionally, boards divided oversight duties among committees such as audit, compensation and nominating/governance. As ESG issues rose in prominence, some boards initially formed dedicated "ESG" or "sustainability" committees. However, current practice among many companies is to integrate ESG oversight into existing committees in alignment with their charters, while also engaging the full board on high-level strategy. In practice, this might look like: the nominating/governance committee overseeing board-level ESG competencies and governance policies; the audit committee overseeing ESG disclosures, data quality and controls; the compensation committee overseeing the incorporation of ESG metrics into executive pay; and the full board (or a specialized risk or sustainability committee, if one exists) covering the overall ESG strategy and major issues.

For example:

- A nominating/governance committee might take the lead on evaluating what skills the board needs to effectively oversee sustainability. Does the board have directors with climate change or environmental expertise? Does it have human capital or human rights experience? Does it have cybersecurity or other relevant backgrounds? If not, that committee can incorporate those criteria into board recruitment and succession planning. It can also plan for continuing education for the board on emerging ESG topics (for instance, by scheduling expert briefings on climate science developments or new ESG regulations).
- The audit committee could extend its charter to cover key ESG reporting and controls, effectively treating important ESG metrics with similar rigor as financial metrics. This committee may oversee any external assurance processes for sustainability data and vet ESG disclosures.
- The compensation committee, as noted, could integrate sustainability goals into incentive plans, which means it needs to understand which ESG outcomes are most tied to long-term value and set pay metrics accordingly.

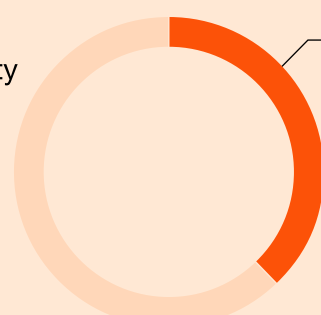
Importantly, the full board should periodically synthesize all these pieces, reviewing the overall sustainability strategy, major goals and performance, so the company's ESG message is coherent and being communicated effectively to investors and stakeholders.

It is wise to formally define these oversight responsibilities in committee charters and governance documents so that no major aspect of ESG falls through the cracks. For instance, if climate risk is among the company's most significant issues, the board should be able to answer: Which committee is responsible for climate risk mitigation and reporting? Perhaps the audit committee looks at climate-related disclosures, the risk committee (if there is one) focuses on physical and transition risk assessment, and the full board discusses strategic implications. The exact allocation can vary, but what is important is that it is deliberate and clear.

As part of allocating oversight, board composition and expertise come into focus. Investors and proxy advisory firms are increasingly scrutinizing whether boards collectively possess the necessary expertise on the company's relevant ESG issues. If a company in a high-emitting industry has no one on the board who understands environmental science or climate policy, for example, that could be seen as a weakness in oversight. The board should conduct a skills-gap analysis: list the ESG topics that significantly impact the company and see if at least one or two directors have experience in each (such as climate, workforce diversity, cybersecurity, etc.).

Executives want directors with sustainability expertise

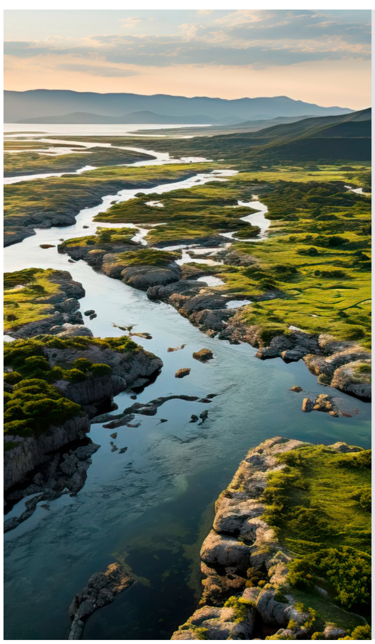
Environmental/sustainability expertise ranked #3



with 38% of executives wanting more of that expertise on their boards

Q: What top three areas of expertise should be added to your board within the next 12 months? (limit to only three)
Base: 519
Source: PwC and The Conference Board, *Board effectiveness: A survey of the C-suite,* May 2025.

Gaps can be addressed by recruiting new directors or by tapping external advisors. Boards need not, and should not, try to add directors with deep expertise in every specific area of sustainability or other strategic concerns. Often, it is difficult or impossible to find a director who is both an expert in say, cybersecurity or supply chain human rights, who also has the other qualities needed for an effective board member. And the number of issues that boards must address makes it impractical to have a board member who is an expert in all of them. Reliance on advisors, management and outsiders is a normal and often necessary part of the board's fiduciary role. In some cases, boards form external sustainability advisory panels if they lack certain expertise internally. At minimum, ongoing director education is critical. The nominating/governance committee could arrange for regular updates for directors on key ESG trends and regulations (e.g., the latest climate scenario results, new supply chain labor laws, evolving stakeholder expectations in the industry).



Board considerations

- Do our board committees collectively cover the full spectrum of ESG oversight responsibilities, and are those roles clearly documented (in charters or governance guidelines)?
- Does each committee understand its ESG-related mandate (e.g., audit committee on sustainability data and controls, compensation committee on incentives) and are those duties embedded in their work plans?
- Do we periodically review the board's composition for ESG-relevant expertise and address gaps through board recruitment or outside experts/advisors?
- How do we communicate to shareholders and stakeholders which parts of the board (or which committees) oversee key sustainability issues, so they have confidence in our oversight structure?

Achieving management accountability and cross-functional execution

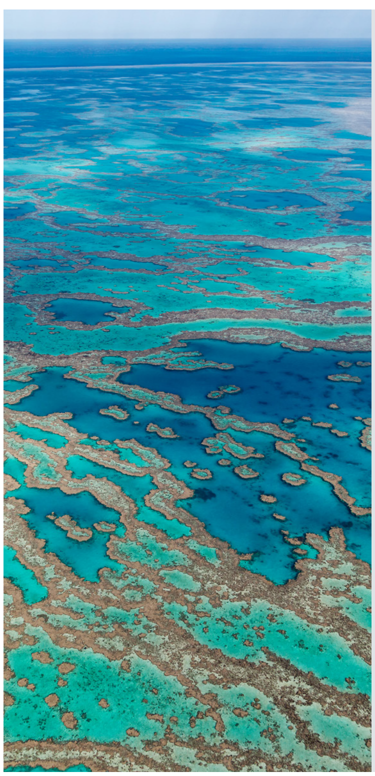
While the board oversees and guides sustainability strategy, management must execute. One governance consideration for the board is how sustainability responsibilities are structured within management and how the board interfaces with that structure. Many companies have created a chief sustainability officer (CSO) or equivalent executive role to coordinate ESG strategy across the enterprise. The board should evaluate whether having a single point of leadership for sustainability makes sense given the company's size and complexity. If there is a CSO, the board (or a relevant committee) will likely interact with that person regularly, similar to how directors interact with the CFO on financial matters or the general counsel on legal matters. Regardless of title, the CEO should assign executive-level responsibility for sustainability outcomes. The board may want to hold someone at the top levels of management accountable for driving the sustainability agenda — someone who is empowered to work across silos.

First, integrate sustainability into management goals and performance evaluations. Key operational executives (head of manufacturing, head of supply chain, head of HR, etc.) will likely have explicit ESG objectives as part of their performance goals. For example, the head of supply chain might be tasked with improving supplier labor standards or reducing logistics-related emissions, and the head of HR might be responsible for boosting employee engagement scores through inclusion and development initiatives. By embedding sustainability goals into each function, sustainability becomes part of everyone's job, not just an isolated program. Mid-level and front-line managers are also accountable for ESG outcomes in their domains.

Second, encourage cross-functional coordination on sustainability. Boards may prompt management to form a cross-functional management committee (or steering team) for ESG. Just as many companies have a risk management committee or disclosure committee, an internal sustainability committee can be very effective. This group, meeting perhaps quarterly or monthly, would include leaders from all major functions and business units to drive ESG strategy execution in a coordinated way. Such a committee breaks down information silos; for instance, the R&D team can update others on green product innovations, while the compliance or legal team shares new regulatory requirements and the tax team optimizes benefits, aligning everyone under common sustainability goals. This management committee also provides a focal point for the board to receive integrated progress updates. Directors might ask the CSO or committee chair to present an enterprise-wide sustainability update at each board meeting, aggregating progress and challenges from across the company.

Third, bake sustainability into core business processes. The board should inquire whether standard processes like capital expenditure approvals, new product development stage gates, M&A due diligence and annual budgeting all consider ESG. For example, does every new product or project go through a sustainability review (examining its sourcing, energy use and end-of-life disposal impacts)? Does the M&A due diligence checklist include ESG factors (environmental liabilities, cultural alignment, human rights issues, etc.) alongside the usual financial and legal checks? If not, there is a risk that sustainability remains an afterthought in day-to-day decisions. The board's oversight can push management to integrate these considerations into their operating playbooks so that making a business decision inherently involves evaluating its sustainability implications.

Finally, monitor and reward management's ESG performance. The board should track how well management's internal accountability is translating into tangible results. Earlier sections discussed linking executive pay to sustainability goals; from a governance perspective, directors should also receive reports on how various divisions or units are meeting their sustainability targets. If business unit A significantly cut its carbon emissions while business unit B fell short, the board may want to discuss what differed and what may be learned or adjusted. If certain managers or teams consistently excel at driving sustainability improvements, that should be noted; perhaps they can mentor others or perhaps it influences succession planning (leaders with strong ESG track records might be given greater responsibilities). Conversely, if some managers are lagging or not delivering on sustainability commitments, the board may need to support the CEO in reinforcing that this is a priority (including through performance evaluations or, if necessary, personnel changes).



Board considerations

- Has management clearly assigned executive ownership for key sustainability objectives, and do those leaders have the influence and resources to drive change across the organization?
- Is there a cross-functional management committee or equivalent that coordinates all parts of the company on ESG initiatives (so that, for example, operations, finance, HR and R&D are all aligned)?
- Are sustainability goals cascaded into business units and departments so that mid-level and front-line managers are also held accountable?
- How has management outlined the information flow for key sustainability metrics from the point of data capture through validation, consolidation, analysis and accountability?
- How does the board get visibility into management's internal progress on ESG initiatives (e.g., regular management reports or dashboards), and do we provide feedback or course-correction when execution falters?

Embedding sustainability into board agendas and culture

It is one thing to declare that the board oversees sustainability; it is another to see that it actually happens in practice throughout the board's work. One practical step is to make sustainability a regular item on the board's agenda. Rather than discussing ESG only during an annual strategy offsite or when a crisis erupts, leading boards raise relevant sustainability matters at every board meeting (or nearly every meeting) in some form.

Executives want boards to spend more time on ESG

Q. Which of the following topics should your board spend increased time on over the next 12 months? (select all that apply)
Base: 520
Source: PwC and The Conference Board, *Board effectiveness: A survey of the C-suite,* May 2025.

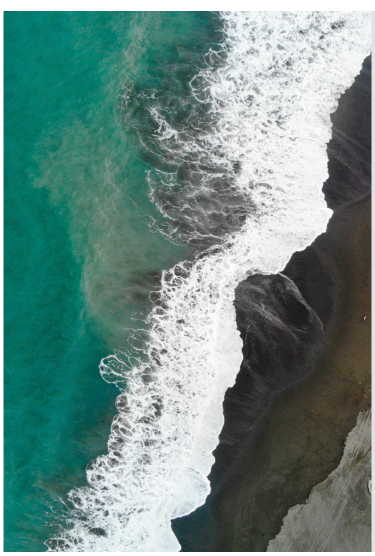
A common approach is to integrate ESG into existing agenda items. For instance, during the quarterly strategy review, the agenda could explicitly include discussion of the sustainability implications of strategic choices, so ESG is not a separate topic but embedded in the overall strategy conversation. Many boards also set aside dedicated time in meetings for updates on different facets of the sustainability strategy, rotating topics so that over a year all priority ESG areas receive attention. One meeting might include a one-hour deep dive on climate risk scenario analysis results; another might focus on human capital metrics and company culture; another on supply chain ethics and audit findings. By treating ESG topics with the same seriousness as, say, a review of a key market or new technology, the board signals their importance.

Another concrete practice is to align the board’s calendar with the company’s sustainability reporting and goal-setting cycles. If the company issues an annual sustainability or ESG report, the board (or a relevant committee) should review a draft of it before publication. If management sets new ESG targets or updates its significant-topic assessment each year, the board should time its input and oversight to coincide with those events (for example, discussing proposed new targets in advance, so directors can provide insight or ask critical questions). By synchronizing the board’s schedule with the cadence of sustainability planning and reporting, directors both demonstrate oversight and get information when it is most useful for decision-making.

Making time on the agenda also sends a cultural signal: if ESG is always squeezed into "any other business" at the tail end of meetings, management will perceive it as a secondary issue. If instead the board consistently slots ESG-related topics prominently (early on the agenda or in every meeting), it shows that sustainability is a priority. Some boards even enumerate their ESG oversight duties in the annual workplan or charter to guarantee these items are systematically covered.

The board should also periodically evaluate its own performance in ESG oversight. This can be incorporated into the annual board self-assessment. Directors might be asked to consider questions like, "Do we dedicate adequate agenda time to long-term sustainability and ESG issues?" or "Do we have sufficient understanding of the company's ESG risks and opportunities to provide effective oversight?" If the responses suggest room for improvement, the board can adjust its processes, perhaps by scheduling more frequent ESG discussions, organizing additional director education sessions on emerging sustainability issues or improving the quality of ESG information it receives from management.

In summary, make sustainability a fixture in board deliberations so it does not slip through the cracks. Over time, it becomes as ingrained as financial oversight or compliance. That is when a board can truly say it has integrated ESG into its governance DNA.



Board considerations

- Is sustainability a regular, scheduled part of our board and committee agendas, rather than an occasional add-on or afterthought? Do we have an annual calendar that specifies when we review ESG strategy, key targets and reporting?
- During our typical discussions on strategy, risk and performance, are directors consistently bringing up relevant sustainability questions and perspectives?
- Does our board evaluation process assess how well we are performing in ESG oversight, and do we take steps (training, process changes, etc.) to improve our effectiveness in this area?

Conclusion

As stakeholder expectations and global sustainability challenges intensify, boards that elevate ESG oversight from a compliance checkbox to a strategic centerpiece may unlock profound value for their companies. Through deliberate actions, anchoring purpose and values in sustainability, integrating ESG considerations into strategy and capital allocation, exercising disciplined judgment on which topics are prioritized, insisting on high-quality reporting and embedding accountability into governance structures, directors may transform sustainability from a peripheral concern into a core driver of business performance.

Effective ESG governance is not a static achievement but an iterative journey. The business environment will continue to evolve: new risks will emerge, stakeholder priorities will shift and regulatory landscapes will change. Boards must be prepared to refresh their assessments regularly, challenge management to conduct forward-looking scenario analyses and update incentive structures as needed to align with emerging sustainability objectives. In doing so, directors are likely to help their companies remain resilient and innovative. They may safeguard the enterprise against ESG-related shocks, seize opportunities in new sustainable products and markets, and strengthen trust with investors, employees, customers and communities.

Ultimately, the board's active leadership on sustainability oversight steers the company toward sustained long-term success. By treating ESG matters with the same seriousness as financial and operational issues, directors demonstrate true 21st century stewardship that positions the company to thrive while contributing positively to society and the environment. The result is likely a business that is not only profitable, but also principled and future-proof.

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