Research report

Towards a Sustainability Mindset: How Boards Organise Oversight and Governance of Corporate Responsibility

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"Running corporations has become more complex with multiple demands on time so you have to have specialist capability and have a committee of the board to handle detail. There isn't time for most boards to be able to undertake that sort of heavy lifting and so what I see is committees covering those sorts of activities being elevated to parity with the more traditional committees of audit, risk, remuneration."

John Varley, Non-Executive Director of Astra Xeneca and Rio-Tinto

FOREWORD

Although this report's title focuses on the oversight and governance of corporate responsibility within the boardroom, the sub-plot throughout is really about leadership.

At a time when confidence in business and the markets is at a low which matches only the 1920's, and which is exacerbated by a prolonged recession, the market needs business leaders who can balance an ever growing list of short term pressures with long term sustainable value creation. Leaders who understand that to gain the full benefits of a corporate responsibility strategy, it has to be at least back to back, if not completely integral, to their business strategy. And we know that this kind of leadership needs to be exercised in the boardroom as a whole, not just guided by one or two individuals.

Through my involvement in Business in the Community, I'm fortunate enough to have seen this kind of leadership at work in a number of organisations but, as this report highlights, it's not a given across all major listed and non-listed companies in the UK.

The report identifies various governance structures that have been established to create the necessary oversight to help bridge corporate responsibility and business strategy but despite these structures it concludes that not all boards appear to be organised for success, nor do they appear to see corporate responsibility and sustainability as a core business discipline, and many have yet to adopt what the report calls a Sustainability Mindset.

This mindset is defined as "A collectively held view that long-term value-creation requires the company to embrace the risks and opportunities of sustainable development; and that the board is simultaneously a mentor and monitor, a steward and an auditor, of management's commitment to corporate responsibility and sustainability".

The report also suggests that there may be a gap in the skills and experience needed by some board members to be able to contribute to material deliberations in this arena.

So the report proposes a shift in thinking and makes a number of recommendations to address this gap. My hope is that member companies of Business in the Community will take the lead in adopting these recommendations and thus encourage all to create companies that are economically, socially and environmentally sustainable.

Phil Hodkinson, non-executive director, BT, Resolution and Travelex

"The Best practice governance model is a way of ensuring there's a framework that delivers sustainability. Fundamentally, governance is about sustainability. It's about this balance between profitable growth and wealth creation, environment impact and your impact on society. That is why governance exists, to my mind. But that might be a very holistic view of it all, because I don't think the right thing is just to focus on performance. A focus on performance does not make for sustainable enterprise if performance is just about profitability."

Paul Drechsler, Chairman and Chief Executive of Wates, and Senior Independent Non-Executive Director, Filtrona

EXECUTIVE SUMMARY

This is a joint report by the Doughty Centre for Corporate Responsibility, Cranfield School of Management and Business in the Community (BITC). It is both a summary of quantitative and qualitative research undertaken during 2012 into how boards organise oversight and governance of Corporate Responsibility; and a think-piece commentary inviting discussion and debate within and amongst corporate boards about how to improve oversight and governance in future.

The report examines how FTSE 100 companies and companies completing the BITC Corporate Responsibility Index (CRI) organise board oversight and governance of commitments to corporate responsibility and sustainability.

Our research suggests that most large, UK-headquartered companies do now have some form of board oversight of their commitment to corporate responsibility and sustainability. The report identifies a number of different models: a formal, dedicated CR /Sustainability (or similarly titled) committee of the board consisting exclusively of board members; a mixed CR Committee – which includes at least one Board member, as well as senior executives who are not board members; reserved - where issues of corporate responsibility and sustainability are addressed by the board as a whole, and there is no delegation to a board committee; Lead Board Member(s) – one or more board members are publicly designated as the lead director for CR and sustainability or for a particular aspect; a Below-board CR Committee which includes only non-Board members; or an explicit extension of the remit of an existing committee of the Board. Each model in isolation has advantages and disadvantages. In practice, these models are generally not mutually exclusive: some companies employ several of these models simultaneously A significant number of boards are now assisted by panels of sustainability experts and / or by stakeholder advisory groups.

Given the current stage of Corporate Responsibility (CR) maturity generally, however, it seems that some specific oversight mechanism beyond discussion at the main board is needed now and for the foreseeable future. In addition, there are implications for the work of existing board committees such as Audit & Risk and Remuneration.

With the increasing importance of corporate responsibility and sustainability for companies, boards may wish to consider the implications for their Board Skills Matrix (Generic and Specific); and for the recruitment, induction, continuous professional development (CPD) and appraisal (individual and collective) of directors. Anecdotally, there appears to be considerable variation in the professionalism and sophistication with which boards perform board oversight and governance of commitments to corporate responsibility and sustainability, in areas such as the quality of information flows to and from the board

For many companies and boards, however, there is still a critical mind-set shift that has to occur. Specifically, the shift from the idea of boards as mentors **or** monitors, stewards **or** auditors, to mentors **and** monitors, stewards **and** auditors[1]. And a second shift from the idea of corporate responsibility as being about risk mitigation to the recognition that to be truly embedded, it has to become both risk mitigation and opportunity maximisation,

The board sustainability mindset, therefore, can be defined as:

A collectively held view that long-term value-creation requires the company to embrace the risks and opportunities of sustainable development; and that the board are simultaneously mentors **and** monitors, stewards **and** auditors of the management in their commitment to corporate responsibility and sustainability.

Our qualitative research suggests that corporate responsibility and sustainability leadership and stewardship currently tends to come from the chairman or CEO or another board member, rather than yet being a collective mind-set of the board as a whole.

The central recommendation of the report is, therefore, that individual boards need to assess whether they have a Sustainability Mindset and, if not, identify how to create one.

Further recommendations cover periodic reviews of governance models used; the Board Skills Matrix; incorporating sustainability in search briefs for new board members, induction, Continuous Professional Development and board appraisals; and contributing to follow-up studies to elicit further and more in-depth good practice examples.

There is also a “Twenty Questions” Checklist for directors; and suggestions for Company Secretaries.

RESEARCH OVERVIEW

The research involved desk-research using the Boardex database (the on-line, business intelligence service which consolidates public domain information concerning the board of directors and senior management of publicly quoted and large private companies), company websites and CR reports; and, where relevant, CRI submissions, to establish how each member of the FTSE 100 and Corporate Responsibility Index (CRI)[2] participating companies organise their board oversight and governance of corporate responsibility and sustainability.

Desk research was followed by in-depth individual interviews with eight executive and non-executive directors. Interviews were free-flowing, but loosely followed a pre-circulated list of questions. See appendix 2. Interviews were transcribed but conducted on the basis of non-attribution, unless subsequent approval was given to use specific quotes. Where, therefore, quotes are attributed to individuals, they have been explicitly cleared by the interviewee. In addition, findings were debated at a round-table, with several lead NEDs for CR and sustainability and a Company Secretary, chaired by Phil Hodkinson, Senior Independent Director of Resolution in Oct 2012. See appendix 3 for further information.

NOTE ON TERMINOLOGY

We recognise that there are many perspectives on the terms "CSR," "Corporate {Social} Responsibility," 'Corporate Citizenship" "Responsible business {practices}" "ESG {Environmental, Social & Governance} performance" and Corporate Sustainability.

We use Corporate Responsibility to mean the responsibility that an enterprise exercises for its social, environmental and economic (SEE) impacts[3]. Companies at higher stages of corporate responsibility maturity are committing to corporate sustainability, which involves managing both SEE risks and opportunities for long-term value-creation, such that "nine billion people will be able to live reasonably well by mid-century within the constraints of One Planet."[4] In this report, we refer predominantly to "corporate responsibility and sustainability," except where we are quoting others, when we use their language.

INTRODUCTION

This report presents research undertaken by the Doughty Centre for Corporate Responsibility with Business in the Community during 2012 into how UK-headquartered companies organise board oversight and governance of corporate responsibility and sustainability

In well-run companies, boards approve and regularly review strategy, assess performance on implementation of the strategy, hold the executive to account and mentor, ensure effective succession-planning for themselves and senior management, and set overall values and culture.

Boards, therefore, should be critical to embedding corporate responsibility and sustainability (CR&S). This has been recognised by CEOs of companies committed to CR, interviewed in the 2010 Accenture / UN Global Compact CEOs' survey. 93% of CEOs say boards should discuss and act on issues of social, environmental and governance performance (up from 69% in a similar survey in 2007). In the same survey, 75% say their boards are discussing sustainability and CR (versus 45% in 2007 – one of the steepest increases in activity that the survey shows). In the Accenture/UNGC survey, 96% of the CEO respondents believed that environmental, social and governance issues should be "fully embedded into the strategy and operations of a company" and 81% felt that they had already done this in their organisations. However, as Peter Lacy from Accenture, the author of the 2007 and 2010 surveys, has subsequently commented in Ethical Corporation magazine, business leaders may not yet fully appreciate the business transformation that sustainability requires.

"From my own experience covering more than a decade of working with many of the leading companies in the world on this agenda, at a guess, I would say that less than 1% or 2% could honestly say that they have fully integrated sustainability into strategy and operations, and those companies – the real true north innovators and leaders – probably wouldn't make the claim because they know what it means and that it's a journey of continuous improvement and renewal."[5]

CEOs may, therefore, hold a genuine but exaggerated sense of how far they have yet embedded sustainability – including into corporate governance – because they are yet to appreciate the true extent of the change to business and business models that sustainable development requires.

1. CORPORATE GOVERNANCE IN THEORY & PRACTICE

Over the past twenty years, since the publication of the Cadbury Report in 1992, there has been greatly increased focus on corporate governance. Subsequent reports (Greenbury, Hampel, Turnbull, Higgs, Myners, Walker) have led to codification of best practice, in several iterations of a Combined Code of Corporate Governance, now the UK Corporate Governance Code 2012. This adopts a principles-based approach in the sense that it provides general guidelines of best practice, with a "comply or explain" proviso where boards choose to ignore a particular provision. Good corporate governance emphasises that the board is collectively responsible for the long-term success of the company; for approving corporate strategy; monitoring progress against strategy; providing independent challenge and counsel to the executive; setting senior management compensation; ensuring robust succession-planning including for the board itself and the appointment and, where necessary, removal of the CEO. The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives; and it is the ultimate custodian of corporate values and culture: for "the way we do business around here."

As a result particularly of the work of the late Sir Derek Higgs who also played a major role in BITC, there is now strong emphasis, in thinking about what is good corporate governance, on recruitment, induction and CPD of non-executives; and on the board undertaking a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

However, separate research from Cranfield School of Management highlights that good corporate governance theory is not easy to implement in practice. A series of international surveys of over 3,000 board directors has identified NEDs as 'out of touch[6]'. For example, 85% of British NEDs were not able to clearly state what are the role, purpose and value of their colleagues on the board. Equally, the same surveys on each and every measure of board performance, found that the full time managers who sat on boards down-rated their NED colleagues' contribution and performance by some 40%. In effect, the managers who run the business found it difficult to identify what value the NEDs on the board provided[7]. Dominic Barton, Global Managing Partner of McKinsey & Co suggested in the March 2011 edition of the Harvard Business Review that "only 43% of the non-executive directors of public companies believe they significantly influence strategy."[8]

Of paramount importance, therefore, is to attend to the leadership of the board. The message from research is that little is accomplished until the board operates as a high performing team, drawing together the capabilities of all board members. Unfortunately, according to the Cranfield research just quoted, only approximately 20% of boards emerge as operating as fully functional entities.

2. THE GOVERNANCE OF RESPONSIBILITY – EXTENDING THE CLASSIC ROLES OF THE BOARD

We define the governance of corporate responsibility as:

The formal processes established by the board of a company to ensure the governance and oversight of the company's responsibilities for its Social, Environmental and Economic impacts; and for any specific sustainability commitments that a company has made.

Corporate Responsibility could be construed as extending the traditional board roles.

1. Approving and reviewing strategy in the context of identifying and managing the company's material Social, Environmental and Economic Impacts.

Boards and Senior Management Teams need to be able to articulate what corporate sustainability means for their business, and how improving the ESG performance of their business will enhance the drivers of long-term value-creation. They need to ensure that corporate strategy is robust in the face of the food-water-energy security nexus; and is consistent with a world in which 9 billion people can live well, within the limits of one planet by mid-century. Boards and senior management teams need to clarify whether their philosophy of corporate responsibility & sustainability is to be risk-mitigator or also an opportunity-maximiser.

2. Checking on implementation of agreed strategy, regularly examining most material sustainability risks to strategy and ensuring effective risk-mitigation: "To interrogate the issues."

Boards need to consider whether the risks from poor management of their environmental, social, economic impacts are part of Corporate Risk Register; whether Internal Audit is instructed to see poor management of environmental, social, economic impacts as potential risks to be monitored; and whether these are regularly tracked as part of board discussions of corporate risk[9].

3. Setting remuneration of CEO and the Senior Management team.

Boards will need to consider whether compensation is effectively incorporating and taking into account material sustainability targets.

4. Ensuring good succession-planning for board itself and for senior management team.

Boards will need to consider whether succession-planning and talent development is sufficiently focused on the mind-set, behaviours and skills needed to define and implement corporate strategy incorporating sustainability and consistently with corporate responsibility?

5. Maintaining good corporate governance.

Is the ability to handle corporate responsibility and sustainability as integral to overall corporate strategy, included within annual board appraisals: collective and individual?

Having considered how Corporate Responsibility might involve refinement of thinking and practice in corporate governance, we now turn to current practice in UK boardrooms in the organisation of oversight and governance of corporate responsibility and sustainability under four main headings: (i) how boards organise themselves (committee structures, lead non-executive directors etc.; pros and cons of different models; implications for existing board committees; and the use of external advisory groups of stakeholders and / or sustainability experts); (ii) the recruitment, induction, CPD and appraisal of non-executive directors; (iii) information to and from the board around corporate responsibility and sustainability; and (iv) the role of the board in 'setting the tone' on corporate responsibility and sustainability.

3. RESEARCH FINDINGS

a) Different models for board overview and governance today

Analysis of the FTSE100 and Corporate Responsibility Index top performing companies 2012 suggests a number of different models for board oversight and governance of corporate responsibility and sustainability. These are:

1. Formal dedicated CR /Sustainability or similarly titled committee of the Board – where all the members are board members (this may include some Executives if they are also Board members): in 2012, National Grid replaced their existing Risk & Responsibility Board Committee with a new committee, chaired by Philip Aiken, for Safety, Environmental and Health. Also in 2012, Tesco created a board-level Corporate Responsibility Committee.

2. Mixed CR Committee – which includes at least one Board member, as well as senior executives who are not board members: at Thames Water, the Health, Safety and Environment Committee advises the Board on any significant matters relating to corporate responsibility and sustainability (CRS). It consists of both non-executive directors and operational directors.

3. Reserved to Board – there is an explicit statement that issues of corporate responsibility and sustainability are addressed by the board as a whole, and there is no delegation to a board committee: this is the approach of Shire, for example.

4. Lead Board Member(s) – a board member (usually a non-executive director) is publicly designated as the lead director for CR and sustainability (a variation is where several board members are each given a lead responsibility for a particular aspect of CR and sustainability such as Climate Change or Health & Well-being): AstraZeneca' for example, has a lead Independent NED for Corporate Responsibility.

5. Below-board CR Committee includes only non-Board members (ex CEO): Legal & General's Corporate Responsibility Committee is chaired by the Group CEO and includes other executives.

6. Explicit extension of the remit of an existing committee of the Board such as Audit & Risk – all the members of this committee are Board members (which may include Executives if they are also Board members) e.g. Burberry Group.

7. Company makes no provision – no company fell into this category and this is, therefore, left out of the subsequent analysis.

In practice, these models are not generally, mutually exclusive: some companies employ several of these models simultaneously. This may involve a specific board committee as well as regular, full board discussion, extended remit of an existing committee (usually Audit and Risk), and a more operational committee below the board. Figure 1 shows the various methods could be BT.

Figure 1: Oversight and Governance at BT

The **Committee for Sustainable and Responsible Business** (CSRB) is chaired by Sir Michael Rake (BT chairman) and sets the corporate responsible and sustainable business strategy for BT group globally (including wholly owned subsidiaries) with input and recommendations from executive management for **approval by the Board**. It includes two non-executive directors: Phil Hodkinson, Jasmine Whitbread and three independent members: Baroness Margaret Jay, Lord Michael Hastings, Dame Ellen MacArthur, as well as key executives. The committee has close links with BT's **Leadership Advisory Panel** (the Panel). Jonathan Porritt (chair of the Panel) attends CSRB annually.

Gavin Patterson, CEO BT Retail and BT's CR sponsor, is a member of the CRSB. He also chairs the **Responsible and Sustainable business leadership team** - responsible for delivering CR strategy and monitoring performance. CEO, Ian Livingston, is the **Boardroom champion for Health and safety** and has overall responsibility for health and safety performance across BT Group.
The **Operating Committee** (OC), the key management committee, has collective responsibility for running the group's business. This includes agreeing on issues not reserved for the Board, and determining group policy on CSR, environment, ethics and business practice, employment and health and safety standards.

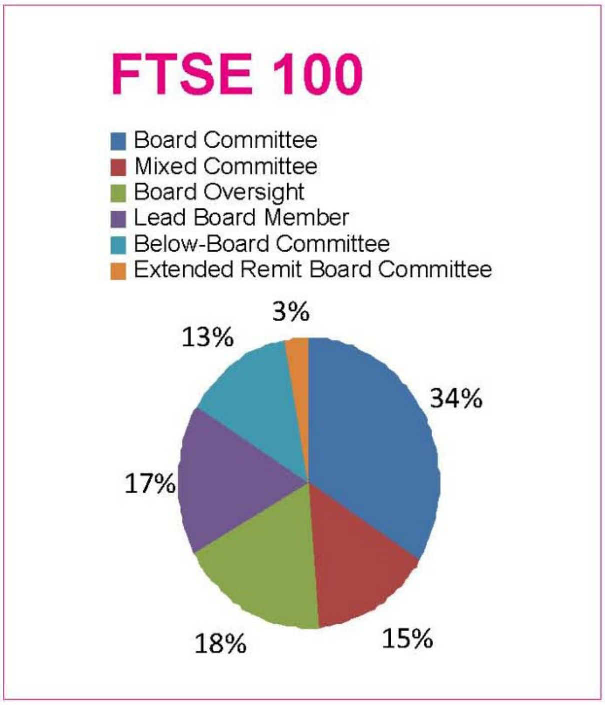
The board committee is supported by three leadership teams: **Our Responsible and Sustainable business leadership team**, this team is responsible for delivering our strategy and monitoring our performance. **Our Sustainability leadership team**. This team defines the vision for, and monitors, our environmental and sustainability performance. Our **Community Investment leadership team**. The team is responsible for focusing and aligning employee engagement and community investment activities and monitoring progress.

Practice seems to be evolving, sometimes quite rapidly. We have seen, for example, how board oversight and governance models described in a 2011 CRI submission have changed according to the latest CR report or corporate website description. The following statistics, therefore, are a snapshot in autumn 2012. They are based on our interpretation of how the company describes board oversight and governance of corporate responsibility and sustainability; and what appears to be the main model in use in that company.

One practical difficulty in making such assessments is that whilst many companies are admirably transparent and informative about their governance and oversight of corporate responsibility and sustainability, membership of their board committees, terms of reference, details of experts groups or stakeholder panels (where they have them), just as they do for Audit and Risk, REMCOs and other board committees, this is not universally the case. In particular, we have struggled with some CR committees chaired by the CEO, where the membership has either not been clear or from the company's own description, it has been hard to decide whether the CEO is there serving as a board member or as an executive. Unless clearly positioned as part of board oversight and governance, we have defined these committees as 'below the board'.

Seeking first to analyse what appears to be the predominant form of board governance in use in each of the FTSE, almost half (49%) use a dedicated board committee, composed either exclusively of board members (34%) or a mixed committee with some board members and some non-board members (15%). Just under one fifth (18%) reserve discussions to the board as a whole; 17% rely on a lead board member; 13% on a committee immediately below the main board and 3% have extended the remit of an existing board committee.

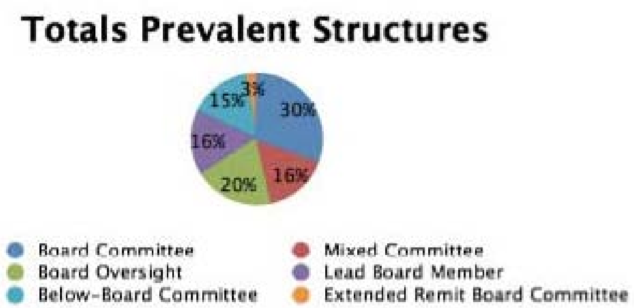
Figure 2



Sources: Boardex, BITC CR Index submissions, Company CR reports and corporate websites

Amongst the FTSE and the 38 non-FTSE Corporate Responsibility Index Platinum and Platinum Plus companies.

Figure 3



These UK results are broadly similar to international practice. In a UN Global Compact survey 2010, the three models that are encountered most frequently amongst their signatory member companies are: (1) tasking the entire Board with oversight, (2) creating new committees dedicated exclusively to sustainability, and (3) using existing committees that assume responsibility for sustainability as one aspect of their activities .

In practice, these models are not generally, mutually exclusive: some companies employ several of these models simultaneously. Thus, at Marks & Spencer, the **Board** completes a Group Risk Profile every six months. Key social and environmental risks such as climate change are assessed separately but are generally considered to be contributory factors to wider business risks related to the M&S brand, reputation and operational and supply chain continuity. Failure to implement Plan A is now deemed a material reputational risk and, therefore, reviewed regularly by the Audit Committee.

The **How We Do Business Executive Committee** is chaired by Chief Executive Officer (CEO) Marc Bolland and includes all Executive Directors. It meets every two months to provide leadership and ensure alignment with their wider business strategy. The CEO provides a formal update to the full Board at least once a year. The How We Do Business Executive Committee is supported by a monthly Operating Committee responsible for ensuring that social and environmental issues are integrated consistently into everyday activities. The **How We Do Business Operating Committee** regularly reviews progress against Plan A commitments and considers the development of measurements and management of risk.

An external Advisory Board is helping M&S to develop the next stage of Plan A beyond 2015. This group is jointly chaired by the CEO and Jonathon Porritt. This group is jointly chaired by the CEO and Jonathon Porritt. It meets every six months. Martha Lane Fox, **non-executive director**, is member of this group. Regular **Plan A briefings**, chaired by the Chief Executive, are held for external stakeholders. Current performance is presented and stakeholders have the opportunity to question senior management and make recommendations.

Looking at all the governance mechanisms in use in the FTSE:

Board Committee	38
Mixed Committee	15
Board Oversight	79
Lead Board Member	30
Below-Board Committee	61
Extended Remit Board Committee	32
	255

i. Potential Advantages & Disadvantages of Different Models of Governance of Corporate Responsibility[11]

Each governance model, in isolation, will have advantages and disadvantages. Boards need to consider which combination of governance models will be most appropriate in their company's particular circumstances, and for the culture of their board and senior management team.

Table 1: Advantages and Disadvantages of each model

Structure	Potential advantages	Potential disadvantages
Dedicated board CR (or sustainability or similar) committee	Sends clear signals internally & externally about seriousness with which company treats subject	Risks reinforcing silo mentality
Mixed CR committee of NED and non-board executives	Effective link between strategy and implementation	May confuse roles between non-executive and executive functions
CR is reserved to main board	If board experienced and properly trained in CR and Sustainability, and consciously consider CR &S dimensions of every discussion, ensures holistic approach	If board not experienced and trained, may not surface ESG issues sufficiently
Lead NED for CR / sustainability	Offers a focal point for CR&S on board	But depends on authority and credibility of that individual
Executive CR committee reporting in to board through chair, CEO or lead NED	Ensures operational awareness	May mean board divorced from issues
CR is part of extended remit of existing board committee such as Audit and Risk or Reputation	Ensures greater likelihood of joined-up strategy and implementation	CR may struggle for attention within an existing with a well-established annual work agenda and heavy workload such as the Audit Committee
Organisation makes no provision for explicit provision for governance of CR	If ESG impacts are genuinely considered in each board discussion, can improve decision-making	Given ESG risks and unexploited opportunities most companies face, having no specific structure at this stage of CR maturity may be short-sighted and problematic

Obviously, all the FTSE and most of the Corporate Responsibility Index companies are listed companies. Most of our 1:1 interviews were with NEDs from non-listed companies, including family-owned businesses. Whilst our sample was small, and the question of corporate ownership / structure was not part of the current research, we hypothesise that achieving a Sustainability Mindset may be easier in family-owned businesses, private equity-owned, mutuals, employee-shared owned, or other unlisted companies. We suggest that this is because the tensions between short-termist shareholder-value and longer-term, sustained shared value creation may be more easily managed in non-listed companies with very different investor relationships.

In practice, we suspect longer-term, that the particular board structure is less important than the mind-set with which the board approaches sustainability. In the short to medium-term, there is probably value both in a board committee (whether extending the remit of one of the existing committees or a separate sustainability committee) and regular discussion in the full board.

As the UN Global Compact report says:

"The breadth of challenges requires both means of oversight. Where there is no full Board oversight, several things fail to happen:

a) Sustainability issues are not addressed in annual meetings and annual reports;

b) No criteria or performance measures are set.

At the same time, sustainability subcommittees of the Board can be effective because they will meet and deliberate for longer periods of time, and then distil information for the full board."

We share this view and that of Aron Cramer, CEO of the corporate responsibility coalition Business for Social Responsibility (BSR), who has written:

"Ideally, dedicated board committees would be seen as redundant in a decade's time... but they might be needed now to catalyse the transition."[12]

ii. Stakeholder Advisory Groups and Experts' panels

A significant number of companies supplement board structures with formal, standing or ad-hoc, stakeholder-engagement mechanisms – including in some cases, a stakeholder and / or external sustainability experts panel to advise the board and / or the CEO and SMT. 28 of the 138 FTSE and non-FTSE CRI companies (18% of FTSE companies) report some form of experts advisory group and 49 of the 138 FTSE and non-FTSE CRI companies (33% of FTSE companies) have some form of stakeholder panel.

These may be stakeholder advisory groups or panels consisting solely of external stakeholders or joint management-stakeholder committees (JMSC), i.e. formal bodies that consist of a number of company representatives as well as internal/external stakeholders that meet regularly. Stakeholder Advisory Groups may be defined as "Where representatives of one or more stakeholder groups are consulted by the company either on a specific topic or on a variety of issues facing the business."

By contrast, an Experts Panel is composed of a mix of individuals: some having broad sustainability expertise, whilst other panellists have industry and / or issue-specific expertise and experience. Again, definitions quickly blur: RWE Npower have the CEOs of a number of national charities advising on fuel poverty on a "Customer Stakeholder Council": is this more accurately defined as an expert panel or a stakeholder advisory group?

At Unilever, the board, the board CR committee and the executive have a number of sustainability advisory panels including an external group of five "independently minded – experts who guide and critique the development of our strategy." They are: Ma Jun – Water specialist and Founder Director of the Institute of Public and Environmental Affairs (IPEA), China; Malini Mehra – Founder and CEO of the Centre for Social Markets, India; Jonathon Porritt – Founder Director of Forum for the Future, UK; and Tiahoga Ruge – Director General of the Mexican government's Centre for Education and Training for Sustainable Development.

Kingfisher's B&Q operated a Youth Board of 17-18 year-old volunteers for one year 2011-12, in co-operation with the Ellen MacArthur Foundation. Their brief was to investigate how to transform the business so that it would become sustainable. Each Youth Board member was twinned with and mentored by one of B&Q's own board members for the duration of their time with us. Youth Board members presented to around 400 senior executives at Retail Week Conference in London, as well as to the entire B&Q board and Dame Ellen MacArthur.

Table 2: Stakeholder Panels

General	**National Grid** – Stakeholder Panel (3 year) **Pearson –** Stakeholder Dialogue (one time) **Reed Elsevier** – Stakeholder Session	**BT –** Leadership Advisory Panel **Kingfisher –** Stakeholder Panel **M&S –** Plan A Briefings
Specific issue	**Sainsbury –** Stakeholder review of project implementation **BskyB –** Sky Forum **Centrica –** Project Advisory Committee	**Sainsbury –** Expert Nutritional Panel **United Utilities –** Conservation, access and recreation advisory committee **Tesco –** Review of community strategy
	Ad hoc	**Standing**

Discussion between five individuals[13] with wide experience of serving on experts' panels and corporate advisory groups, have refined some Critical Success Factors for ensuring the effectiveness and value-added contribution of such panels for companies. See table 3 overleaf.

Frequency of meetings of experts' panels varies, but 2-4 p.a. seems common, sometimes supplemented with ad-hoc meetings with board and/or CEO and SMT to look at future trends and strategy.

Companies without such an advisory group of external experts, may wish to consider if there is advantage in establishing one; if so, what format would be most appropriate; if such a panel already exists, whether it is the best structure, and whether the board and SMT make the most effective use of the panel

Table 3: Critical Success Factors for Expert Groups

Critical Success Factors
For such panels to work, amongst the critical success factors are: **Basic 'terms of engagement'** • There is a good chemistry between the external panel members. • The panel discussions are chaired by someone whom the panelists trust, though that can be from either inside or outside the company. • Non-disclosure Agreements are signed by panel members, at least in some cases, but they are not sworn to silence. External conversations provide useful testing of the evolving thinking, not just a wider set of communication channels. • Membership terms are agreed at the outset, and certainly should not be open-ended, but equally members have enough time to build up a good understanding of the business over time. **Communication and access** • The panel has direct access to, and regular contact with, the CEO and senior management (including those other than the "usual suspects" for corporate responsibility, such as the Finance Director and Marketing Director) and Board. The panel is trusted by them and listened to as a "critical friend". It can be helpful to identify panel members with specific stakeholder relationships in order to deepen understanding of particular issues. • There are at least occasional briefings by younger/less senior people from the company and there are visits to relevant parts of the business, particularly where the company is a global player. • The panel is free, and encouraged, to give its advice on any aspect of the business and may do so without waiting to be asked for its opinion. • Panel members have the option to have sessions on their own, with no involvement from the company. **Sustainability at the heart of business management** • The panel treats the purpose and values of the company as a key point of reference for its work, and where necessary, challenges the board of the company if these are not clearly or consistently stated. • The panel resists all attempts to treat responsibility and sustainability as separate compartments and constantly checks to ensure that it is contributing to the "mainstreaming" of these issues. • The panel is supplied with benchmark data on competitors in relevant areas of their performance. • The panel is briefed regularly by the CEO and senior management on business performance and on the critical issues facing the business. The more 'upfront' the briefings can be, the better it is. If all a panel gets is a briefing about something that is already completely done and dusted, then it's far less valuable than being part of a discussion before decisions have been taken. • The panel is engaged with both short term and longer-term strategic issues. It helps for individual panel members to concentrate on one or two "hobby-horses" that they push with the company very hard. Some panels have their noses too much to the grindstone of the daily preoccupations, and don't spend enough time looking further ahead. **Expert advice provided and respected** • The panel gives relevant, timely, substantive and well-informed advice which is recognised as leading-edge and highly relevant to the business by the senior management and board. • The panel's advice is regularly (obviously not always) followed by the board; and • In all cases, there is transparency and accountability in the process – in other words, what was it that the panel did which led onto a decision, one way or the other, so that one can actually see how this works through in practice.

iii. Implications of commitment to Corporate Responsibility for the remit and work of existing board committees

As section 2 above indicated, whatever CR governance structure is favoured, a commitment to corporate responsibility and sustainability creates an added dimension for boards: embedding sustainability within overall strategy, overseeing specific sustainability initiatives and approving major sustainability public commitments; and, therefore, for the remit and work of existing board committees.

AUDIT AND RISK COMMITTEE: how will regular work to keep the Corporate Risk Register up-to-date adapt to the need for a more comprehensive definition of material future risks to the company, which embraces environmental, social and economic impacts and issues? How is the overall work programme of the Internal Audit function agreed where there is a CR committee as well as an Audit & Risk Committee?

REMUNERATION COMMITTEE: how will the performance of senior executives on sustainability be appraised, what Key Performance Indicators will be used and how will this long-term performance be reflected in executive compensation including bonuses?

NOMINATIONS COMMITTEE: how will understanding of how sustainability effects the future of the business be reflected in the generic and specific skills matrix and, therefore, in the mandate to head-hunters and the criteria for appointment of new board members?

STRATEGY / BUSINESS DEVELOPMENT COMMITTEE: How does commitment to sustainability change overall corporate strategy and the relative attractiveness of different business projects?

INVESTMENT COMMITTEE (or equivalent where it e*xists):* how will sustainability factors be incorporated in all corporate investment criteria, and how will specific sustainability investment proposals be appraised – will this be to the same or enhanced evaluation?

b) Recruitment, induction, CPD and appraisal of directors

At the outset of the study, we wondered if it would be helpful to expand the typical board Skills Matrix more explicitly to reference corporate responsibility and sustainability, and developed possible additions: see table.

Using a Board Skills Assessment Matrix can assist in accurately depicting each director's, as well as the board's overall strengths when it comes to skills, expertise and experience. By using the matrix, board members can identify and isolate which specific skills and expertise new board members should possess. Table 4 summarises potential amendments to a Boards Skill Matrix to incorporate corporate responsibility and sustainability.

Table 4: Additions to Board Skills Matrix

Additions to Board Skills Matrix

Generic skills – all board members should have:

- Basic awareness of sustainable development and how it affects the organisation
- Basic understanding of what is corporate sustainability and responsibility
- Ability to identify at a high level the most material ESG impacts of the organisation
- Understanding of how poor ESG performance can create reputational and other risks
- Ability to articulate how corporate sustainability and responsibility relates to the purpose and strategy of the organisation
- Understanding of sustainable development / CR trends generally and as they affect the industry and their impact on the company;
- Understand the company's business case for sustainability: how improving the management of Social, Environmental and Economic impacts can contribute to the drivers of long-term value creation such as the ability to attract and retain talent, and stimulate innovation.

Specialist skills within board skills matrix

I.e. amongst directors, there should be at least one director with skills/experience of:

- How organisations seek to embed corporate sustainability and responsibility
- Familiarity with some of the main organisations and individuals working in the corporate sustainability and responsibility field
- Understanding of public commitments on corporate sustainability and responsibility and how to design appropriate public commitments for the organisation
- Experience of board oversight of corporate sustainability and responsibility and how to measure and report
- Ability to make good use of stakeholder advice to advise the board

"Looking back over many years in business, one thing that I think could be developed further as a skill is the art of resolving ethical dilemmas. Business leaders frequently face dilemmas but by and large are poor at firstly recognising them and secondly then being able to resolve them."

Phil Hodkinson, Non-Executive Director, BT, Resolution and Travelex

Insofar as interviewees commented on the suggested amendments to a Skills Matrix, views were mixed. Some concurred. Others emphasised mindset and characteristics such as courage, insight, ethics, ability to influence and to understand different stakeholders, and to ¨hear different voices."
Nominations committees of boards may consider whether basic awareness of sustainability should be included as a specification for all new board members

and that in-depth sustainability knowledge is included in the essential skills matrix amongst the board members as a whole.

Sustainability and what it means for the board appears to becoming part of induction, and continuous professional development. Some boards include thinkers on corporate responsibility and sustainability like Jonathan Porritt and John Elkington as part of board away-days and strategy review sessions; and encourage NEDs to do regular site visits around the company, to understand issues at first-hand.

United Utilities includes two younger employees on their CR committee, and invites board members who are not part of the CR committee, in turn, to attend one of the committee meetings.

Sainsbury's board members receive training/regular briefings on relevant CR issues: CR Dinners held several times a year provide opportunity for Board members and senior management with specific responsibility for CR to engage with key stakeholders. Attendees (comprising NGOs, senior government representatives and leading CR experts), are invited to discuss issues and challenge the business on issues relating to each of Sainbury's five CR principles. The dinners thus provide highly relevant training to senior management and board members from leading edge experts and external stakeholders. Specific CR training needs may be addressed in a number of ways, including experience-based learning through engagement with relevant external stakeholders.

How the board and individual directors handle corporate responsibility and sustainability issues should be part of the regular appraisals of board effectiveness that good governance generally requires chairs and directors to do at least annually (both for assessment of individual directors' and collective board effectiveness).

Anglo-American board members have a responsibility for Sustainable Development - and their performance is reviewed annually against that responsibility.

A series of searching, open questions such as the Twenty Questions in Appendix 1, can provide a structured process for identifying business-critical issues.

c) Information flows to and from the Board

An important prerequisite to secure systematic involvement of Boards in the sustainability agenda of the company is upgrading reporting mechanisms to "capture materiality" - that is, the tangible impact of the company's social and environmental commitments on financial and economic performance.

"Unless the company produces metrics and material evidence on non-financial aspects of performance, the Board will not have a solid base to incorporate those concerns into its risk assessment or performance oversight. Plainly said, if there is no report to the Board on the financial aspects of non-financial concerns, Boards will not have much to think about."[14] Any company that claims to take corporate responsibility and sustainability seriously will have identified the most material Social, Environmental and Economic impacts that it has and will be focused on those. Further assistance is likely to come as the Sustainability Accounting Standards Board[15] starts to publish sectoral standards that can be used for reporting on the nonfinancial portion of an integrated report. (Health Care in the fourth quarter of 2012, followed in 2013 by Financials (Q1), Technology & Communications (Q2), Non-Renewable Resources (Q3), and Transportation (Q4))[16].

Boards need to incorporate sustainability into their regular assessments of risk – but should also be pushing hard for evidence of how it is being factored into new business development and innovation. They need to revisit what are the principles on which they aspire to do business, and what they expect from their employees and agents in terms of business behaviour.

d) Setting the tone: culture and values

At the heart of all the interviews conducted for this project, was the concept that the values and culture of the organisation drives the extent to which boards and NEDs can and do address both the sustainability of the business as an economic unit and in terms of social and environmental impact. This, above all else, seems to dictate the structure of board committees and the responsibilities of boards. The interviewees had a lot to say on this, and all used different language, such as the 'Unipart way' or 'it's just our culture'. A key role of boards and non-executives particularly is therefore, understanding this culture and the impact it has on their approach to sustainability.

"We should not call it CSR, this is about the business: whether responsible practices are an integral part of the business model".

Phil Hodkinson, Non-Executive Director, BT, Resolution and Travelex

"What you want is a values driven business and the non-executives you should be looking for are non-executives who sign up to the company's values. …Unipart has a very clear mission statement and set of values that we developed twenty five years ago which have guided the way in which we work with all our stakeholders and its fashionable now to talk about environmental responsibility and health and safety, it has always been on Unipart's agenda, we've always been concerned that we have safe places for our people and stakeholders to work, it's a basic moral requirement. Eliminating waste is a way of improving your competitiveness, and improves our competitiveness and enables the company to grow…. Our mission requires us to be a company in which our stakeholders are keen to participate. So what does that mean? It means you want all of your stakeholders to stay for life so if our employees are going to stay for life, we are going to have to train them to stay relevant forever. If our customers are going to stay for life we have to make sure we give them such outstanding service at such competitive cost with continued innovation, so there is no motivation to go anywhere else. If our suppliers are going to stay with us for life we need to ensure that they can produce products and services that are so good we don't have to go anywhere else. If we are going to have a community in which we can do business we have to be sure they're not devastated, otherwise how can they pay for our products? Our community schools need to turn out people, who can read, write, do arithmetic and have a passion to learn otherwise how can we compete? If you do all of those things really well then you should produce fair enduring long term returns for your shareholders."

John Neill, Executive Chairman, Unipart Group of Companies

"…the value of the board is challenge for the executive. I would also hope the board provides support for the executive as well, you quite often forget that (support) role in boards. Investors tend to forget it and always ask for a challenge but actually it is an important role if you go through difficult times. The board has to understand the business and it has to understand the business drivers – the strategy, the risks - so that you almost instinctively get to know when a business is going towards perhaps a difficult area. So it is not just challenging and asking the difficult questions but it is also being there and saying well what can I do to support the executive?"

Helen Mahy, Non-Executive Director of Stagecoach Group plc and formerly Company Secretary and General Counsel of National Grid plc.

"KPMG has a set of core values, there are seven core values and within those seven core values is one which says we are committed to our communities and that's expressed as using the quality and skills of KPMG's people to advance change on the complex issues that are affecting the world and affecting the communities. Then it's spelt out in considerable detail, in our Global Code of Conduct, which is not a code of conduct for corporate responsibility, it is a code of conduct for how our auditors, tax advisors and business consultants will behave and how they should conduct their business affairs. Built into that is the paralleling between the place of KPMG's networks, clients, communities and people; they are absolutely integral in order to live a KPMG commitment that provides responsible business engagement."

Lord Hastings of Scarisbrick, Global Head of Citizenship and Diversity, KMPG and Independent Member, British Telecom Committee for Responsible and Sustainable Business

"I am on the board of a FTSE 30 company and safety & environmental awareness are absolutely fundamental to the way in which it does its business. It is symbolised by every board meeting starting with a briefing on safety, and the chief executive's report to every board meeting starting with a commentary on how we have been doing in the areas of looking after our employees and of protecting the environment. So safety is very consciously elevated to the top position in his report. The intention is to signal, both substantively and symbolically, that safety and shareholder value are very closely linked."
John Varley, Non-Executive Director of Astra Xeneca and Rio-Tinto

Our qualitative research suggests that corporate responsibility and sustainability leadership and stewardship currently tends to come from the chairman or CEO or another board member, rather than yet being a collective mind-set of the board as a whole.

For many companies and boards, however, there is still a critical mind-set shift that has to occur. Specifically, the shift from the idea of boards as mentors or monitors, stewards or auditors, to mentors and monitors, stewards and auditors[17]. And a second shift from the idea of corporate responsibility as being about risk mitigation to the recognition that to be truly embedded, it has to become both risk mitigation and opportunity maximisation.

It is not surprising that this either/or mind-set prevails within companies when it comes to corporate responsibility and sustainability. This polarity of 'mentors or monitors, stewards or auditors,' has dominated corporate governance literature for several decades. Whilst there are operational improvements to the practicalities of board oversight of a company's commitment to corporate responsibility and sustainability, the crucial change is this mind-set shift amongst the board and senior management team, to emphasise that the board are mentors and monitors, stewards and auditors, for corporate responsibility and sustainability.

Similarly, whilst concepts of corporate responsibility and sustainability have become more common in recent years, companies in practice remain at very varied stages of corporate responsibility maturity; and the idea that the commitment to corporate responsibility and sustainability should be a driver of and consequence from an opportunity-maximisation strategy remains relatively new.

Corporate responsibility and sustainability goes across everything. There is an analogy with change-management: it can be the equivalent of appointing a Change-Management director and thinking that they will take charge of change and the rest of the organisation does not need to worry about it! Corporate Sustainability has to become like finance: it would be a very foolish NED who does not understand the basics of finance and the finances of the business on whose board he or she serves.

We might, therefore, express the Board Sustainability Mindset as a two by two matrix where one axis represents the attitude to governance, and the other axis represents attitude towards sustainability.

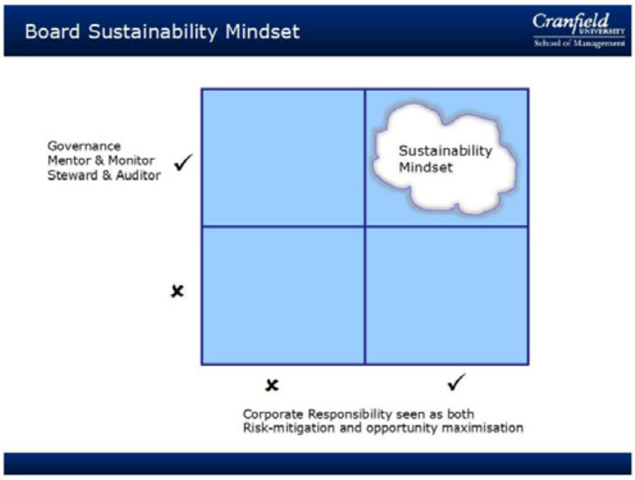


Figure 4: Board Sustainability Mindset

The board sustainability mindset, therefore, can be defined as:

A collectively held view that long-term value-creation requires the company to embrace the risks and opportunities of sustainable development; and that the board are simultaneously mentors **and** monitors, stewards **and** auditors of the management in their commitment to corporate responsibility and sustainability.

Achieving this Sustainability mind-set shift cannot be legislated. It can only occur through sustained and open dialogue amongst the board and senior management team, until there is this consensus about the centrality of sustainability for long-term business survival and success. In practice, as companies are at different stages of corporate responsibility maturity. Depending on the current stage of maturity: there are different board engagement techniques that a chairman or CEO or Chief Sustainability director might employ

Some boards have used discussion of future scenarios, or participation in an external initiative such as *BITC's Visioning the Future – Transforming Business programme*, or a corporate crisis (their own or in another company) to trigger such a mindset shift.

If such a mind-set shift occurs, there are a number of good practices which will enhance board effectiveness.

Without the mind-set shift, the collective good practice identified through our research may bring marginal, positive impact, but will not transform the organisation's culture and practice

Interviewees also emphasised the importance of using more accessible language and the power of story-telling; and of praising and promoting behaviours that model how the board wants employees to behave.

Boards can also increase the future board talent pool by encouraging high-flyers within their organisation to get board experience through serving on the board of a charity, NGO, social enterprise, social landlord or public sector board; and by providing mentoring and training for them to do so effectively.

FURTHER RESEARCH

There are several areas where we believe further, more in-depth research would be valuable. These include:

a. What are the most effective forms of CPD and collective board development in order to create a shared Sustainability Mindset?
b. What is good practice in the appraisal of individual directors and of boards collectively on their handling of corporate responsibility and sustainability?
c. Which companies are particularly effective in information flows to and from their board about corporate responsibility and sustainability, and why?
d. What is good practice in relationships between a Chief Sustainability Officer (or equivalent direct report to a CEO) and their board, and specialist corporate responsibility and sustainability board committee?
e. What makes an effective corporate responsibility and sustainability board committee, and how do boards and specialist corporate responsibility and sustainability board committees make the most effective use of panels of sustainability experts?
f. Which REMCOs (Remuneration Committees) are particularly effective in incorporating corporate responsibility and sustainability performance metrics into senior executive compensation packages, and why?

BITC and the Doughty Centre for Corporate Responsibility welcome inquiries from organisations interested in helping to progress further research on these topics. Contact details are at the end of the report.

RECOMMENDATIONS TO BOARDS

On the basis of research to date, it is recommended that that as a priority boards should:

1. Assess whether they have a Sustainability Mindset and, if not, identify how to help create this;
2. Periodically evaluate whether their current model for board oversight and governance is fit for purpose; and whether existing board committees are effectively incorporating corporate responsibility and sustainability within their remit;
3. Review their Board Skills Matrix and whether this reflects the company's commitment to corporate responsibility and sustainability; and ensure that executive search firms appointed to identify potential new board members are including a mindset for corporate responsibility and sustainability within their brief;
4. Ensure that corporate responsibility and sustainability is effectively incorporated into induction and CPD for board members; and in the annual appraisals of board effectiveness and consider promoting the Twenty Questions for directors in appendix 1;
5. Make sure they are making full use of the expertise of directors who are also serving on the board of CR coalitions such as BITC and the World Business Council for Sustainable Development; and contribute to the future talent pool of non-executives by ensuring that high-flying employees are encouraged and supported to serve on NGO and public sector boards to build their experience
6. Be explicit on corporate websites and in annual reports, about the Terms of Reference (TOR) and membership of their corporate responsibility and sustainability committees in the way they publish the membership of their Audit & Risk, REMCO and Nominations Committees;
7. Support further research to help identify and disseminate emerging good practice around different aspects of board oversight and governance of corporate responsibility and sustainability.

CONCLUSION

Boards play a critical role in the long-term success of a company. As corporate responsibility and sustainability become business-critical issues, it is imperative that board members understand their role in providing effective oversight and governance of commitments to corporate responsibility and sustainability, and are properly equipped to carry this out.

APPENDIX 1: Twenty questions – checklist for directors

The following Twenty Questions checklist may serve as an aide-memoire for non-executive directors wishing to contribute to effective board oversight and governance of corporate responsibility and sustainability for the company / companies on whose board they sit:

1. Have we made a public commitment to sustainability and if so, what is this?
2. Have we linked our commitment to sustainability to our business purpose and strategy, and is this reflected in executive compensation and bonus criteria?
3. Is sustainability embedded within corporate values and culture?
4. Are senior executives committed to sustainability, and comfortable & credible in leading on that commitment?
5. Do we have effective board oversight of sustainability?
6. Does the company recruit, induct, train, appraise, reward, promote and take difficult decisions using the corporate values?
7. Does the Risk Register incorporate risks and opportunities associated with social and environmental and economic impacts?
8. Does the board regularly assess the company's environmental and economic impacts?
9. Does the company have a process regularly to review emerging sustainability issues and surface them at board level?
10. When did the board last have an open forward discussion about Responsible Business and Sustainability issues and the implications for its business?
11. Does the company have clear targets on sustainability and is it clear who has direct accountability for each target?
12. Is there a Big, hairy audacious goal[18] for corporate responsibility and sustainability such as Marks & Spencer's Plan A, Unilever's Sustainable Living Plan, Kingfisher's Net Positive, carbon or water neutrality or Cradle-to-cradle[19] manufacturing?
13. Is board discussion of sustainability already aligned with board discussion of its annual Business Performance Review and its own Key Performance Indicators?
14. When did the board last discuss the company's Talent Development Strategy and is capacity to understand and deliver on Responsible Business and Sustainability an integral part of that strategy?
15. Does the company publish a Responsible Business and Sustainability Report – if so, did a board member as well as the CEO or Chairman sign it off?
16. Is this reporting linked to the Prince of Wales Accounting for Sustainability and / or Integrated Reporting / Global Reporting Initiative?
17. Does understanding of Responsible Business and Sustainability figure on the list of desired skills / areas of expertise for one or more of the NED?
18. Is corporate responsibility and sustainability included within induction of new board members?
19. Is corporate responsibility and sustainability part of CPD for board members?
20. Does board effectiveness on corporate responsibility and sustainability feature explicitly in annual board appraisals (individual and collective)?[20]

APPENDIX 2:
Checklist for Company Secretaries

Whilst our research has focused on directors, we recognise the crucial role that Company Secretaries play in corporate governance and in ensuring the effective operation of boards. The following checklist may assist company secretaries in helping their boards to achieve a Sustainability Mindset and thus, more effective board oversight and governance of corporate responsibility and sustainability.

- How effective overall is my board's oversight and governance of corporate responsibility and sustainability on a scale of 1-5?
- Does the board have a Sustainability mindset?
- If not, what culturally are the best ways of helping the board to acquire such a mindset?
- On a high-low matrix of Skill/will where would I place each director?
- What are the best tactics for those with low skill/will?
- Are there specific questions in the annual board appraisals designed to elicit insights into board effectiveness for oversight and governance of corporate responsibility and sustainability?
- Would a sustainability experts group to advise the board and senior management team be useful and acceptable?
- Can we use our corporate memberships in organisations like BITC to help to improve board understanding and effectiveness?
- On a scale of 1-5, how effective are board discussions about corporate responsibility and sustainability, and the corporate responsibility and sustainability implications of any decision? Frequency, length, depth?
- Where are the blockages to effective debate and how can these best be tackled?
- What is the quality of board briefings about corporate responsibility and sustainability?
- How can induction and CPD of directors be more effective in raising skill/will on corporate responsibility and sustainability?
- Does the board need to update its Board Skills Matrix?

APPENDIX 3:
Research methodology

(A) QUANTITATIVE RESEARCH

Data collection was performed exclusively on publicly available resources. These include BoardEx, Companies' websites, Sustainability reports[21], Annual Reports, CR committees TOR and Boards TOR.

Thanks to an agreement with Business in the Community (BITC), such information was also integrated by data found in the CR Index (CRI); however only CRI Questionnaire completed between 2011 and 2012 were included. We decided to restrict our research only to these two years as earlier submissions could have described an outdated governance structure; in fact we have found that CRI submissions typically report data which refers to the previous FY[22] while websites (even if less detailed) offer more up-to-date information. This criterion has allowed a total of 25 CRI submissions to be included in the analysis and complement data found from other sources.

Analysis

- BoardEx

For each company we looked at the presence of a dedicated CR Committee of the Board but also at Board members with specific responsibility for CR. Each company was screened for a standing committee which included in its denomination one of the following terms:

a. Compliance
b. Corporate Accountability
c. Environment
d. Ethics
e. Health
f. Regulatory
g. Responsibility
h. Safety
i. Sustainability

In addition to these terms some companies have created CR-related committees with ad-hoc names. In some cases these refer to the terminology used in the corporate CR strategy (ex. Big Picture committee, How we do business committee, etc).

- Company website, Sustainability report, Annual report, CR committee TOR and Board TOR

These sources were scanned thoroughly in the sequence as listed in the title. For ex. if no info related to CR governance was found in the website we turned to the Sustainability report then to the Annual report and so forth[23].

- CRI Submission[24]

The whole submission was searched for terms related to the governing structures. A systematic search of the document was run by entering in the search box of the reading software terms related to three main categories as follows:

Structures	Scope
Board	Any relevant info regarding the Board
Non-Executive*	Any relevant info regarding NEDs
Overse*	Structure

Stakeholder Expertise	Scope
Stakeholder*	Consultation with stakeholders
Advi*	External advice
Coalition*	External advice
Consult*	External advice
Mentor*	External advice
Expert*	External advice
NGO	External advice
Panel*	Stakeholder Panels

Info from and to the board	Scope
Value	Value transmission
KPI	Targets set by the board
Overse*	Timing of reporting

Presentation of findings

A vignette for each FTSE 100 company was constructed accordingly to the information found. This includes a synthetic diagram offering a visual representation and a brief text which offers a more detailed summary of the general structure.

Information referring to managerial structures was included only if in direct relation with the board/board members (ex. Divisional CR director reporting directly to the board), otherwise such information was excluded from the vignette.

The following structures emerged from the analysis:

1. Board Committee - all Board members including Execs if Board members
2. Mixed Committee - includes a Board member (non-exec) and senior execs
3. Board Oversight - collegial responsibility no delegation to sub-committee
4. Lead Board Member
5. Below-board Committee - includes only non Board members
6. Extended remit of existing sub-committee of the Board

These structure are not exclusive to each other, in fact the majority of FTSE100 present more than one structure at the same time; however each company was assigned a 'prevalent' one accordingly to the weight given to a particular structure[25].

Stakeholder panels were categorised under four typologies accordingly to the duration of the remit (Standing vs. Ad-hoc) and specificity issues considered (General vs. Specific):

1. Standing - General
2. Standing - Specific
3. Ad-hoc - General
4. Ad-hoc - Specific

Limitations

The reliance on secondary publicly available data and the lack of a mandatory and uniform framework of disclosure on CR governance, could have affected our findings. However, we are quite confident that the insight acquired through triangulation of different sources can (partially) offset this limitation. Nevertheless the representations of the findings are limited.

This is also true in terms of geography and size of businesses covered. In fact, the FTSE100 are medium-large businesses and despite many of them having operations and offices worldwide they are mainly UK businesses.

Finally, the content analysis undertaken may suffer of limitations caused by the personal interpretation of the researchers.

(B) QUALITIATIVE RESEARCH

A number of experienced NEDs involved with BITC had expressed a willingness to co-operate with leadership-related research. In spring 2012, therefore, these individuals were circulated with information about the governance research and an interview requested.

Interviews took place during summer 2012, and were conducted either by Prof David Grayson CBE or Prof Andrew Kakabadse, with Katherine Sharp from BITC. Interviewees were sent questions in advance, interviews were recorded and conducted on the basis that any quotations attributed to them, would be cleared prior to publication.

OUTLINE QUESTIONS
Governance of CR – Proposed Questions

(1)
a. How does the Board ensure there is oversight of responsible business issues?
b. Board skills matrix:

- How does your Board equip itself with the skills to exercise oversight on social and environmental expectations, risks and opportunities?
- Does CR/sustainability feature explicitly on the board Skills Matrix?
- Has there been any board discussion about board competency for dealing with CR/sustainability?
- Has there been any board CR/sustainability training?
- Has there been any discussion about such training being needed?
- Has the Nominations Committee considered CR/sustainability experience in the required/desirable expertise for new NEDs?
- What do you think of the proposed Skills Matrix? (Appendix 2)
- What do you think your board colleagues would say about the proposed Skills Matrix?

(2)
The difficult CR/ Sustainability issues coming to the board and the challenges involved in dealing with these issues.

- Can you describe a difficult CR/sustainability issue that came to the board recently?
- What made it difficult?
- Was the decision made with reference to the company's public commitment to CR/sustainability?
- In your experience, what are the problems boards face when discussing CR/sustainability?

(3)
The strategy-implementation gap

- What are the tension points in the structure of the organisation that inhibit or act as a blockage to CR and sustainability implementation?
- What is the reality of CR/sustainability application and how does the board know whether CR/sustainability initiatives are being pursued as intended? Is there deviation from the strategy that has been agreed?

(4)
Thinking about non Executives on your Board

- What oversight role do they play?
- Are responsible business issues and sustainability challenges a requirement of that role?
- What are your views on the role that Non-Executive Directors should play in this respect?

(5)
In understanding the context in which the business operates.

- How long term does the Board look? 1- 5 years, 5 – 10 years, 10+ years?
- How does it or doesn't this feed into current business models?
- Do you consider that sustainability and responsibility issues are sufficiently integrated into business management such that you are able to include performance in remuneration decisions? (Bring in models such as the balanced scorecard and remuneration divided across financial and non-financial goals).

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APPENDIX 4:
Authors and Researchers

Report Authors

Prof David Grayson CBE

David joined Cranfield School of Management as director of the then new Doughty Centre for Corporate Responsibility in April 2007, after a thirty year career as a social entrepreneur and campaigner for responsible business, diversity, and small business development. This included the chairmanship of the UK's National Disability Council and several other government bodies, as well as serving as a joint managing-director of Business in the Community. He was a visiting Senior Fellow at the CSR Initiative of the Kennedy School of Government, Harvard 2006-10. His books include: "Corporate Responsibility Coalitions: the Past, Present and Future of alliances for Sustainable Capitalism" (Stanford University Press and Greenleaf 2013), co-authored with Jane Nelson; "Cranfield on Corporate Sustainability" (Greenleaf 2012)co-edited with Nadine Exter; "Corporate Social Opportunity: Seven Steps to make Corporate Social Responsibility work for your business" (Greenleaf - 2004) and "Everybody's Business: Managing risks and opportunities in today's global society" (Dorling Kindserley 2001) - both co-authored with Adrian Hodges.

Prof Andrew Kakabadse

Andrew is Professor of International Management Development at Cranfield University's School of Management, co-editor of the Journal of Management Development and Corporate Governance: The International Journal of Business in Society, and editorial board member of the Journal of Managerial Psychology and the Leadership and Organisation Development Journal. He holds a number of international Visiting Professorships and Fellowships, and he has published 39 books, over 230 articles and 18 monographs. His books include: “Bilderberg People Elite Power and Consensus in World Affairs” (2011, Routledge); “Global Boards One Desire, Many Realities” (2009, Palgrave Macmillan); “Leading the Board: The Six Disciplines of World Class Chairmen” (2007, Palgrave Macmillan). Andrew has been ranked in the 2011 Thinkers50, the listing of the world’s top 50 business thinkers. Current areas of interest focus on improving the performance of top executives and top executive teams, excellence in consultancy practice, leadership, corporate governance, conflict resolution and international relations. He has databases covering 17 nations and many thousands of private/public/third sector organisations. Andrew is currently embarked on a major world study of boardroom effectiveness and governance practice. He was awarded a £2 million research grant to examine Governance and Leadership in the private sector and with governments.

Together, David and Andrew run Cranfield’s Non-Executive Director executive development programme for new and aspiring NEDs. Both are named in the Top 100 Thought Leaders for Trustworthy Business Behaviour. The list was produced by Trust Across America (TAA) and the Centre for Sustainability & Excellence (CSE), and recognises individuals from the private sector, academia and non-profit entities who are making outstanding contributions in championing business, social and environmental change, in a transparent and justifiable way.

BITC Project Management

The governance of CR project was initiated by Charlotte Turner, then Research Director for Business in the Community and has been led for BITC by Katherine Sharp Account Manager.

Desk Research

Analysis of the FTSE and BITC CRI submissions was conducted by Mattia Anesa, Researcher with the Doughty Centre for Corporate Responsibility.

ABOUT BUSINESS IN THE COMMUNITY AND THE DOUGHTY CENTRE FOR CORPORATE RESPONSIBILITY

Business in the Community is a business-led charity focused on promoting responsible business practice. BITC asks members to work together to transform communities by tackling issues where business can make a real difference. It offers members practical support to help them to integrate responsible business practices wherever they operate.
www.bitc.org.uk

The Doughty Centre for Corporate Responsibility is a centre within Cranfield School of Management dedicated to teaching, researching, and influencing the practice of responsible business. It works to empower current and future managers with the knowledge, skills, and desire to lead responsible, sustainably managed organisations. The ethos of the Centre is to work with faculty across management disciplines, as part of the School's collective focus on ‘knowledge into action;” and to involve business partners in the design and delivery of Centre work.
www.doughtycentre.info

Business in the Community and the Doughty Centre have collaborated on several projects including:

A History of BITC

http://www.bitc.org.uk/about_bitc/our_history/our_jubilee_year/

The Business Case for Responsible Business

http://www.bitc.org.uk/resources/publications/the_business_case.htm

Endnotes

1. Historically, this duality of board roles was recognised e.g. see Jensen, M.C. & Meckling, W.H. 1976, "Theory of the firm: Managerial behavior, agency costs and ownership structure", Journal of Financial Economics, vol. 3, no. 4, pp. 305-360.

   Donaldson, T. & Preston, L.E. 1995, "The stakeholder theory of the corporation: Concepts, evidence", The Academy of Management Review, vol. 20, no. 1, pp. 65. It is only relatively recently, in response to corporate scandals, that more emphasis has been placed on the auditor, monitor role.

2. Developed in consultation with business leaders the CR Index which was launched in 2002. In addition to being an exercise in transparency the CRI was created as a robust tool to help companies systematically measure, manage and integrate responsible business practice. It takes the form of an online survey and companies follow a self-assessment process intended to help them identify both the strengths in their management and performance and gaps, where future progress can be made. Companies follow a self-assessment process intended to help them identify both the strengths in their management and performance and gaps, where future progress can be made. Business in the Community believes that self-assessment is the starting point for action and improvement. All submissions must be signed off at main board level to ensure director-level commitment to the veracity of the responses to the survey. Business in the Community reviews submissions to ensure consistency and reliability, both between and within company submissions./www.bitc.org.uk/cr_index/about_the_cr_index/index.html
3. EU Commission Communication on CSR Oct 2011 http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index_en.htm
4. The World Business Council for Sustainable Development's new working definition of sustainable development, 2012 www.wbcsd.org
5. Where is 'true north' for sustainable business? Business needs to accelerate the shift from incremental to transformational change, Peter Lacy, Ethical Corporation Oct 2012.
6. Kakabadse, A.P. (2012) presentation to the DP World Board, 18 December, Dubai.
7. ibid
8. Capitalism for the Long Term, Dominic Barton, Harvard Business Review March 2011.
9. The Doughty Centre's "How to Identify a Company's Major Impacts – and Manage Them," Doughty Centre How-to Guide No. 7, Mandy Cormack, June 2012 provides practical advice on how to scope the most material impacts.
10. "Retooling the Boardroom for the 21st Century," panel discussion at U.S. Global Compact Network Symposium, San Francisco, 19 October 2009. 40. U.S. Network Symposium.
11. Source: expanded from Kakabadse & Grayson, Embedding the governance of responsibility in the business of the board, Chapter 4 in Cranfield on Corporate Sustainability, Greenleaf Publishing (2012).
12. Giving Sustainability a Seat in the Boardroom, Aron Cramer, BSR, GreenBiz April 20, 2011.
13. Dame Julia Cleverdon DCVO CBE, John Elkington, Mark Goyder, David Grayson CBE and Sir Jonathon Porritt.
14. U.S. Network Symposium, "Summary of Key Points," 18 October 2009 quoted in Moving Upwards.
15. www.sasb.org
16. Toby Webb's Smarter Business Blog": "Five questions for Harvard's Bob Eccles on integrated reporting: An exclusive Q&A" 5 Oct 2012.
17. See endnote 1
18. Collins and Porras, Built to Last (1994).
19. http://www.mcdonough.com/cradle_to_cradle.htm
20. Expanded from Kakabadse & Grayson, Embedding the governance of responsibility in the business of the board, Chapter 4 in Cranfield on Corporate Sustainability, Greenleaf Publishing (2012).
21. "Sustainability" refers to any standing and non-financial report. The term sustainability is often substituted with CR, CSR and Citizenship (list is not exhaustive).
22. In certain cases submissions from 2012 covered both 2011 and 2010 FYs.
23. Please note that not all the FTSE100 produce all the sources listed.
24. Only for BITC members which completed a CRI submission between 2011 and 2012.
25. At researcher's discretion after triangulating and interpreting data.

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