

A NEW AGENDA FOR THE BOARD OF DIRECTORS

ADOPTION AND OVERSIGHT OF
CORPORATE SUSTAINABILITY



Global Compact
LEAD

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About the United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to voluntarily align their operations and strategies with ten universally-accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals, including the Millennium Development Goals. The UN Global Compact is a leadership platform for the development, implementation, and disclosure of responsible corporate policies and practices. Launched in 2000, it is largest corporate responsibility initiative in the world, with over 9,000 signatories based in 140 countries. For more information: www.unglobalcompact.org



Global Compact **LEAD**

About Global Compact LEAD

Launched in January 2011 to drive innovation and quality among participants of the UN Global Compact, Global Compact LEAD recognizes the critical need for supporting UN Global Compact participants to achieve higher levels of corporate sustainability performance - as outlined in the Global Compact's Blueprint for Corporate Sustainability Leadership. LEAD Participants share a commitment to implement the Blueprint and a willingness to lead the Global Compact with strong engagement at the local and global levels. LEAD currently has 56 participants representing all regions of the world.

Foreword

Board adoption and oversight of corporate sustainability, while on the rise in some respects, represents an area where vast improvement and gains can be achieved by companies. Improvements must be achieved if one accepts the premise that sustainability issues are material to the long-term success of the business.

This publication contains inspiration and recommendations for Boards of Directors on their role in improving the sustainability performance of the corporations they oversee. It has been developed within Global Compact LEAD, a leadership platform of 56 companies established in 2011, to drive innovation and quality among participants of the UN Global Compact.

The recommendations are based on the experiences and insights of a group of LEAD companies and academic experts that came together to discuss good and emerging practices on Board adoption and oversight of corporate sustainability. This guide includes brief descriptions of Board practices undertaken by LEAD companies with a view to inspire and encourage others, recognizing that many LEAD companies view their efforts in this realm as work in progress.

The target audience is the elected or appointed members of the organizational body which in many countries is called the Board of Directors, but may also be called the Board of Governors, the Supervisory Board or simply the Board, as example. The specific duties of Boards vary significantly across countries and jurisdictions, however they are characterized by the duty to oversee the activities of the company. Their responsibilities typically include, but are not limited to, oversight of business strategy, risk management and legal compliance as well as recruitment and compensation of the chief executive.

The focus on the role of Boards with respect to corporate sustainability does not imply a less important role for those responsible for the day-to-day management of the company. As in all other aspects of corporate life, the role of Boards is meant to complement that of executive management. But whereas the importance of CEO commitment and drive has been highlighted throughout the first decade of the UN Global Compact, discussions around the responsibilities of Boards have not been given sufficient attention, and this publication is part of an effort to correct that imbalance.

The UN Global Compact would like to acknowledge Business for Social Responsibility (BSR) for their thought leadership in support of the Global Compact LEAD Symposium on Board Adoption and Oversight, and for providing valuable input to these recommendations.

A New Agenda for the Board of Directors

Global trends like climate change and population growth, as well as hyper-transparency and growing consumer concern about the social and environmental impact of corporations, are currently profoundly reshaping the business environment. For companies to succeed in the 21st century, it becomes incumbent upon Boards to broaden their agendas to include the oversight of corporate sustainability, defined as the company's delivery of long-term value to society in financial, social, environmental and ethical terms. Board Adoption and Oversight is therefore a key element of corporate leadership as defined by the **Blueprint for Corporate Sustainability Leadership**, which was launched by the UN Global Compact in 2010 as a culmination of its first ten years of experience.

A Strategic Imperative

Since the UN Global Compact was launched in 2000, corporate consideration of human rights, labour rights, the environment and anti-corruption has evolved significantly. Initially considered as either a moral responsibility or act of benevolence, today corporate sustainability is widely recognized as a strategic imperative for business globally. It is now firmly acknowledged by researchers, investors and executives that corporate sustainability is key to **long-term profitability and viability** of most, if not all, companies.

As the sustainability agenda has been growing in importance over the past decade, it has to a large extent been driven by the intangible value that it produces in terms of corporate reputation, customer loyalty, employee retention and regulator goodwill, as examples. The need to develop greater sensitivity to sustainability issues has thus been justified by the need to build resilience and pre-empt regulatory and social pressure, as well as the importance of strengthening a company's reputation and license to operate.

Many companies have also come to realize that a strategic approach to corporate sustainability can produce very tangible results. These include more reliable availability of essential natural resources, significant efficiency gains, reduced transaction costs and access to new capital. Strategic attention to sustainability issues is also seen as a way to open new markets – as companies develop innovative products and services that meet global challenges – and as a way to generate new business opportunities – as companies adapt to the changing preferences of both business customers and consumers who increasingly factor concerns about issues such as deforestation and poverty into their purchasing decisions.

The importance of corporate sustainability to long-term profitability is underscored by the fact that many mainstream investors are now embracing the sustainability agenda. This is reflected in the UN-backed Principles for Responsible Investors (UN-PRI) initiative, which has more than 850 investment institutions as signatories with approximately US\$ 25 trillion assets under



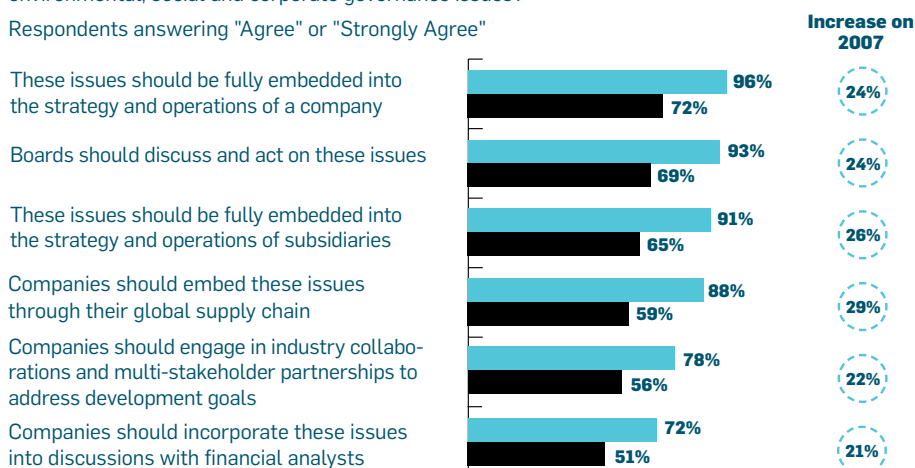
The success of **Novo Nordisk** relies on the well-being of the societies in which our company operates. That is why sustainability is a key business objective, embedded in decision-making – in the Board room, on the shop floor and in the markets. Our Board of Directors holds the organization accountable for its financial, environmental and social performance and annually reviews progress against ambitious long-term goals. These goals include delivering competitive business results, decoupling environmental impacts from production growth, and creating value to patients and society. This is achieved through development and distribution of innovative healthcare solutions, as well as advocacy and public policy initiatives to promote healthier lifestyles and global sustainable development through collaborative ventures such as the UN Global Compact.

CEO Views on Corporate Sustainability

According to the UN Global Compact – Accenture CEO study 2010 of nearly 800 CEOs, 96 percent believe that environmental, social and governance issues should be fully integrated into the strategy and operations of a company, and 93 percent of CEOs believe that Boards should discuss and act on these issues, as they are seen as essential to future success, adding profit and value to their company.

To what extent do you agree with each of the following statements about environmental, social and corporate governance issues?

Respondents answering "Agree" or "Strongly Agree"



Source: United Nations Global Compact CEO Survey 2010 (based on 766 completed responses). 2007 data from McKinsey UN Global Compact survey.

■ 2010
■ 2007

management. UN-PRI signatories are analysing corporate performance on non-financial issues as a proxy for future profitability, and coordinating among one another to create a stronger shareholder voice that calls for better management of sustainability risks and long-term value creation.

The Fiduciary Duty

In most countries and jurisdictions, Boards are considered representatives of the company's shareholders with a fiduciary duty to **protect and enhance shareholder value**. Especially in the early days of corporate sustainability, fiduciary duty to create wealth for shareholders was used to defy criticism that Boards were not duly considering the social and environmental impact of their companies, and to defend a narrow focus on profitability.

Today, legal scholars increasingly view the pursuit of sustainable business initiatives as consistent with corporate governance standards. The argument is that if sustainability issues are regarded as material to the company, the fiduciary duty to protect shareholder interests includes the duty to adopt and oversee corporate sustainability.

Some elements of a corporate sustainability strategy require companies to invest now in efforts that only in the long-term will have a significant positive impact on the company's financial performance. This ties in with the well-established notion that Boards must primarily cater to the **long-term interests** of their shareholders. Such investments are also supported by a long history of judicial rulings that allow the Board to make decisions that support the long-term interests of the corporation, even in cases where the short-term interest may be sacrificed.

The fiduciary duty to oversee corporate sustainability is increasingly reflected in the rewriting of charters for Boards and Board committees. To adapt traditional Board activities to a 21st century operating environment, Directors must integrate sustainability considerations into their guidance and oversight of business strategy and expand their oversight of legal compliance and risk management to consider sustainability issues.

As perceptions of corporate sustainability are changing, so are views on **non-shareholder interests**. Company leaders acknowledge that the support and goodwill of a variety of stakeholders – including employees, customers, suppliers, regulators and local communities in which the company operates – is critical to the long-term success of the company. For Directors with a long-term perspective, due consideration of the interests and concerns of the company's most important stakeholders makes good business sense and is consistent with the fiduciary duty. This has recently been reflected in juridical action, opening the door for corporate leaders to consider non-shareholder interests and concerns when making investment decisions. Further, it is reflected in recent initiatives to change corporate legislation in some countries, where it is being made more explicit that it is the Board's responsibility to consider non-shareholder interests, and that this is not necessarily in conflict with the primacy of shareholder value.

For Higher Sustainability Performance

The Board can be crucial to the shaping and managing of the company's sustainability agenda and can have a positive impact on its performance. Recent studies by, for example, the Conference Board and the Boston Consulting Group point to Board oversight as a **top driver** of a company's attention to sustainability.

The Board has a unique position to ensure that sustainability is integrated into the long-term business strategy and that due consideration is given to social and environmental trends that will impact the company's operations and the markets in which it operates. Similarly, incorporation of sustainability into other core functions of the Board – such as oversight of risk management, compliance and the recruitment and remuneration of the chief executive – is key to its integration into the company's strategy and operations. Thus, the role of the Board cannot be substituted by any other organizational body. Board commitment and leadership on sustainability also carries important **symbolic value** and sends a signal of priority to both employees and external stakeholders. To investors concerned with the long-term viability and profitability of the company, it is an indication that risks and opportunities are adequately dealt with at the highest level, and thus a proxy for good governance overall. Further, with the ever-shortening CEO cycles in many parts of the world, Boards can offer leadership continuity on corporate sustainability. Directors can act to ensure that progress achieved by the company is not ephemeral and that existing sustainability initiatives are not reversed with the exit of a committed CEO.



Sustainability and corporate responsibility are a long-standing tradition at **Deutsche Telekom**. As one of the first companies to join the UN Global Compact at its launch in 2000, Deutsche Telekom has been committed to the Global Compact principles for more than a decade. In 2011, we raised the bar by allocating responsibility for each of the ten Global Compact principles to individual Board members. By this, we ensure that each of the ten principles has the strongest possible ambassador who will further ensure its implementation. Deutsche Telekom was also the first DAX 30 company to establish a quota for women: by the end of 2015, 30 percent of upper and middle management positions in the company are to be filled by women. The Board itself sets an example: by May 2012, the board will fulfil the quota – despite the fact that there were no women on the Board in 2010.

Emerging Board Practice

An increasing number of companies are starting to realize the important role a Board must play and in the UN Global Compact - Accenture CEO study 2010, 75 percent of CEOs report that their Board takes an active role in considering and acting on sustainability issues.

What clearly emerges, at the general level, as best practice for Boards is **integration**. Directors must make all strategic decisions conscious of their impact on the environment and the communities in which the company operates, and with due consideration of the interests of its key stakeholders. A solid understanding of the sustainability issues and trends that affect the company's business environment must form the basis for its deliberations about business opportunities and risks.

In overseeing **risk management**, Boards should as part of an integrated approach ensure that the company considers the full spectrum of risk factors related to, for example, possible human rights violations and corruption. It should require management to factor in the potential impact these types of risks can have on the company's reputation and brand value, as well as more direct consequences on operational costs and market behaviour.

Similarly, with respect to the Board's role to ensure **compliance**, best practice is to evaluate compliance with legally binding standards including national legislation, as well as international standards, such as the Universal Declaration of Human Rights, and voluntary standards, such as the UN Global Compact's ten principles.

Sustainability Leadership

For companies committed to the UN Global Compact principles, Boards have a crucial role to play in specifically guiding and governing the overall direction, boundaries, priorities and motivation for corporate sustainability.

As a starting point, Boards should **define what sustainability means for the company**. Given the specific risks and opportunities that the company faces, the Board should identify the issues that are material to the company and single out priority issues. Further, the Board must make sure to clarify why sustainability is important to the company. This helps to get buy-in from employees and business partners who may be sceptical and to inject a sense of purpose among those responsible for the implementation.

Just as the Board sets sales targets, it should also **establish or approve targets** - both long-term and short-term - for the company's sustainability performance and include them in the business



Through the commitment of our Board of Directors (Board), executive management, and the cross-functional Sustainability Board (SDB), **Novozymes** has turned sustainability into a competitive advantage. Our Board has been a strong driver in expanding the notion of sustainability from risk and cost management to include business opportunities, as reflected in its decision to drive the world toward sustainability together with our customers. Novozymes' Board recognizes that sustainable technologies can help save raw material, reduce the use of chemicals, increase energy efficiency and improve the quality of our products for customers. With this ambition, sustainability is now more strategically used as a business driver.

strategy it oversees. Sustainability targets should be specific to the company, reflecting the issues that are deemed strategically important. Some companies establish targets linked to their ranking in some of the indexes that evaluate the sustainability performance of companies based on standard criteria, such as the Dow Jones Sustainability Index or the FTSE4Good Index. While this may seem like an attractive option, such indexes do not necessarily measure what is most important to the individual company. Rather, sustainability targets should be specific to the company's strategic priorities as determined by the Board. Some companies establish sustainability targets at two different levels – both for the sustainability performance (e.g., carbon emissions reduction or health and safety improvements) and for the impact of sustainability activities on the financial bottom line (e.g., cost savings and increased revenue).

Establishing the Right Incentives

Incorporating sustainability priorities into both the recruitment and remuneration of executives is key to integrating corporate sustainability into the strategies and operations of the company.

When **recruiting a new executive**, Boards should include in the selection criteria that the candidate have the ability to:

- Demonstrate solid understanding of the complex sustainability issues that affect the business environment;
- Commit to operate in accordance with the highest social, environmental and ethical standards;
- Provide a track record of producing excellent financial results with due consideration for the interests and concerns of different stakeholders.

For the incumbent executive, internalization of sustainability begins with **incentives** that reward long-term performance and are aligned with the sustainability priorities and targets of the company. To make sure top executives are committed to sustainability, the Board should fully integrate sustainability into the criteria used to evaluate leadership performance and must embed this criteria in their compensation packages. This will incentivize executives to make corporate sustainability a priority and, for the same reason, sends an important signal to shareholders, employees and other stakeholders.

While bonuses traditionally have been based almost exclusively on meeting short-term financial objectives, **remuneration packages** have been increasingly designed to reward corporate sustainability – led by the utilities and extractive industries. Such packages are typically based on the notion that good performance on sustainability issues today will drive profitability and company value tomorrow. Following that logic, there are two ways to incentivize good sustainability performance:

- Linking part of executive pay to stocks, bonds or escrow that are only released after 10 or 15 years, for example;
- Making a portion of the performance-based salary dependent on the realization of the short-term sustainability objectives of a company.

It is important that **performance indicators** are linked to the company's strategy and that they are designed in a way that incentivizes behaviour that creates value for the company and its stakeholders. Initially, companies tying remuneration to short-term sustainability objectives were often using generic and broad objectives, such as inclusion in the various indexes that evaluate sustainability performance of companies based on generic criteria, but it is advisable to focus on more specific issues that are material to the company and tied to priorities of the company. These could, depending on the industries and countries in which the company is operating, include targets for carbon emissions, health and safety incidents, gender diversity or sales of certain categories of sustainable products. There are also examples from the extractive



To reflect how sustainability issues have become a crucial part of the oversight practice at **Royal Dutch Shell**, the bonus remuneration of the five top executives are calculated by a scorecard in which financial results weigh 30 percent, operational aspects 50 percent, and sustainable development weighs 20 percent. Previously the sustainable development component was partly linked to Royal Dutch Shell's performance in the Dow Jones Sustainability Indexes. As of 2011, it is tied exclusively to our sustainability priorities, which are reflected in targeted measures that include safety, operational spills, energy efficiency, and use of fresh water.



At **Aviva**, the Board considers sustainability issues to be core to our business, not simply a nice-to-have intention. Our business helps customers manage the risks of everyday life and protects them long into the future and sustainability is vital to our commitment to customers. A culture of sustainability is embedded throughout the organisation and this is reinforced when our executives present annually to the Board Corporate Responsibility Committee. Aviva's executive remuneration structure is directly impacted by performance against our publicly disclosed long-term carbon reduction targets. In addition, it is based on an employee survey that includes an assessment of how responsibly we act in our communities and towards the environment, how we treat people and retain diverse talent, and whether our commitment to Corporate Responsibility is genuine.

and pharmaceutical industries of companies that identify negative criteria and, for example, do not distribute bonuses when incidents of a certain magnitude have occurred.

One of the main challenges is to find indicators that allow performance measurement in an objective and strictly fact-based manner. Companies in the early stages of integrating corporate sustainability may have difficulty establishing the necessary data. Some sustainability goals may be harder to quantify than others, resulting in the risk that performance indicators are chosen not only based on what is most material to the company, but also on what is easiest to measure. Therefore, remuneration based on corporate sustainability will often need to include some level of discretion. The Board must ensure that this discretionary element is verified and that there is independence in this process.

Once the key performance indicators have been identified, the Board must see that the targets are set sufficiently high and that the bonus levels are adequate. The most important elements being are that the remuneration scheme **rewards the right kind of behaviour** and that significant progress is required for the bonus to be released.

Incentives are obviously not only important for top executives, but should be in place for all employees with responsibilities that link to the sustainability performance of the company. While defining the details of these incentive schemes is rarely a duty of the Board, Directors should see that such systems are in place and that they align with the incentives established for top executives.

A Culture of Integrity

Companies around the world take different approaches to how they regulate employee behaviour. Some have formal and rigorous policies and procedures in place. Others rely on employees to align themselves with the business culture and a more implicit sense of what is right and wrong.

While incentives are important behavioural change drivers in a very direct way, they also carry important **symbolic value** that affects the business culture. They are strong indications for managers and employees of what is important to the organization and can instigate a broader cultural change where sustainability performance is rewarded with status and career progression.

Boards can also help establish a culture of integrity through the emphasis they place on communication about sustainability and by, for example, joining the chief executive in publicly endorsing international standards and voluntary initiatives like the UN Global Compact. Boards can also knowingly or unknowingly affect corporate culture by the way they fulfil normal duties, how they deal with tough trade-offs between short-term shareholder profit and long-term value creation, and how they relate to external stakeholders.



At **Intel**, we believe that our focus on corporate responsibility and sustainability creates value for society, Intel, and our shareholders. Over Intel's history, we have taken steps to integrate corporate responsibility practices across our business, from assigning board-level oversight responsibility, to linking a portion of all employees' – including executives – variable compensation to our environmental targets. We have set public sustainability goals for well over a decade to drive continuous improvements in energy efficiency and resource conservation, and have developed innovative programs and technology solutions to help improve the quality of education globally. These activities align with our corporate vision to create and extend computing technology to connect and enrich the lives of every person on earth.

Oversight of Implementation and Communication

To ensure the company is successful in its sustainability strategy, a Board must oversee its **implementation** and make sure management is meeting targets. As with any strategic issue, Directors should require regular updates by management, take the opportunity to ask critical questions and give direction. While this is not typically part of the formal duties of Directors, it is in many parts of the world widely understood as part of the Board's informal responsibilities consistent with the "duty of care" and the concept of stewardship.

The Board should take responsibility for the company's **communication to stakeholders** on sustainability issues, which for UN Global Compact participants includes the content of its annual Communication on Progress. Whether in a separate sustainability report or integrated into the financial reporting, Boards should take responsibility and ensure that the content is complete and fairly describes material information.

As more Boards increase oversight of the company's corporate sustainability performance, they should also formally **sign off on the company's sustainability report** before publication, which confirms that sustainability and transparency are priorities for the company. In this respect it is important to note that these reports typically do not raise the same kind of legal issues associated with financial reports, but this may be changing, as both governments and some stock exchanges are currently looking at ways to raise the bar for disclosure on corporate sustainability.

Board Composition and Structure

The ability of a Board to effectively oversee corporate sustainability depends to a large extent on its composition and structure. It is important who the Directors are and how they organize to fulfil their duties.

Securing Sustainability Talent

To provide wise counsel and meaningfully monitor actions of management, the Board must be composed of Directors who are able to understand how sustainability issues affect the company's business environment, and how societal and regulatory trends create new opportunities and risks. Directors who are knowledgeable about sustainability and its management implications are better equipped to decide on such issues and are more likely to push for corporate sustainability to become a priority in the first place.

To that end, companies can actively seek to **recruit Directors with expertise** on the subject – including executives from corporations with a track record on sustainability or topical experts coming from specialized positions in business or relevant non-business organizations. Even if there is just one Board member with relevant expertise, he or she may be able to significantly improve the quality of the Board's deliberations and, over time, improve the understanding of sustainability among other Directors. It is important that such Directors are on equal footing with the other Board members even if their profile is different.

As an alternative or complement to this recruitment strategy, companies should consider organizing **corporate sustainability training** for one or more of their Directors or even the entire Board. There are a number of noteworthy initiatives underway by business schools around the world to offer executive training specifically for Board members.

Diversity

Boards are often criticized for being comprised of too many members with similar backgrounds, education and networks. Diversity favours the exchange of ideas and ensures that multiple perspectives are represented when the Board engages in strategic discussions and makes long-term business decisions. This is confirmed by studies that prove a positive correlation between Board diversity, strategic innovation and corporate reputation.

The issue of **gender balance** is key. Despite being 50% of the population, there is an absence of women on Boards. Studies have shown that the higher the concentration of women on a Board, the more likely it is to proactively address issues of sustainability. Women bring perspectives and views which enhance governance, customer insights and stakeholder relationships that can foster innovative responses to complex issues. While women can add value to Boards individually, critical mass is better. More broadly, it has been shown that the companies where women are most strongly represented at Board or top management level are also the companies that perform best, on both organizational and financial performance.



Acciona recognizes that diversity enhances performance for global companies. Therefore, our Board of Directors is committed to promoting its own diversity, as is clearly stated in its regulations. Approximately 30 percent of Acciona's Board is comprised of female directors. This is well above reported national averages in 2010, where the average percent of female directors was 10 percent in both Spain and the United Kingdom and 16 percent in the United States.

To be at its best, a Board requires a **diversity of skills, cultures, ethnicity, age and viewpoints**. Especially for companies with a multi-regional market reach, or vital operations or suppliers in a non-domestic environment, representation of Directors with experience from relevant countries and regions may be of particular importance. Diversity acts as an end in itself – sending positive signals to internal and external stakeholders – and appears also to be a means for improving the ability of the Board to oversee corporate sustainability.

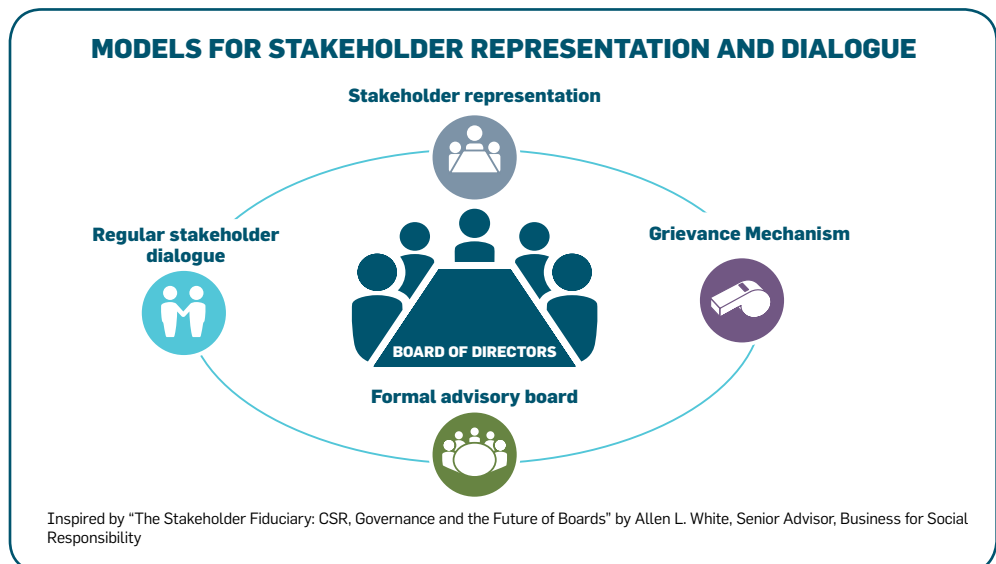
Stakeholder Representation

Consumer interest groups, environmental advocates or local community representatives, as examples, can influence the company's profitability. Directors' understanding and appreciation of non-shareholder views is increasingly seen as important. A better understanding of stakeholder views can be achieved by bringing a diversity of background and expertise to the Board, as discussed above, including members whose professional networks extend into different types of organizations. This approach, however, is viewed by some as a poor substitute for the recruitment of Directors who actually represent the interests of stakeholders – leading to the notion that Boards include Directors who represent non-shareholder interests, such as labour unions or non-governmental organizations.

While in some countries there is a long tradition of employee representation on the Board direct representation of a **variety of stakeholders** on the Board will likely continue to be an unattractive concept for most companies and may even be considered unlawful. At the same time, non-business representatives who hold current positions at established organizations (e.g., an advocacy or campaign NGO) may face conflict-of-interest issues in relation to joining a corporate Board.

Consequently, other less radical measures to bring stakeholder interests closer to the Board have evolved over the last few years. Some Boards have, for example, established a **regular dialogue** with representatives of relevant stakeholders or **grievance mechanisms** that allow people external to the company to anonymously channel their criticism directly to the Board.

Another promising trend is for companies to establish –in addition to the Board of Directors – an **Advisory Board** with representatives of different stakeholders and experts on human rights or anti-corruption, for example. While these advisors typically have no formal decision-making



power, the emergence of such Advisory Boards give promise that broader interests, even those in conflict with the short-term pursuit of profit, will be better understood and addressed by Boards of Directors in the future.

The Right Board Structure

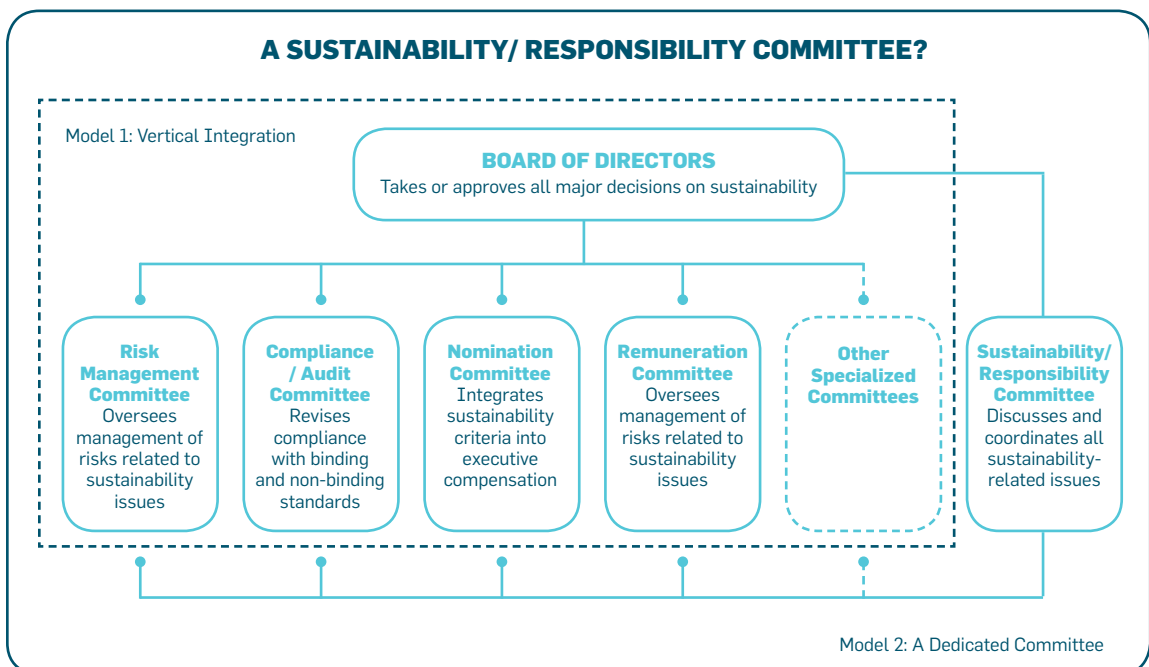
The way the Board is structured, through the establishment of standing and ad-hoc sub-committees, is important for the Board's ability to guide and oversee the company's sustainability efforts. So far, however, no single organizational model has emerged as the right one and Directors should discuss and decide on the best way to organize.

Experiences of Global Compact LEAD companies do offer a few lessons. The desirability of an **integrated approach** should be reflected in the way the Board organizes to oversee corporate sustainability. This implies that key decisions on the sustainability strategy and its integration into the general business strategy must be taken, or at least approved, by the entire Board.

Further, it is important that sustainability is integrated into the other **specialized committees** that the Board may have established – regardless of whether or not there is a special committee dedicated to sustainability. The Risk Management Committee, where one exists, should oversee the management of risks related to sustainability issues. A Compliance or Audit Committee should also review compliance with non-binding standards, such as the UN Global Compact's ten principles. Similarly, a Remuneration Committee should make sure to integrate sustainability criteria into the compensation package, whereas the Nominations Committee should weigh in sustainability knowledge and experience when evaluating potential new executives.

A Sustainability Committee?

In recent years, more and more Boards have decided to establish a specialized committee – often called a Sustainability Committee or a Corporate Responsibility Committee – delegating to it the principal responsibility for guiding and overseeing the company's activities in this area.



There are a number of reasons why companies, at least as they begin to deal with corporate sustainability, may actually benefit from the establishment of a Sustainability Committee. Most importantly, it significantly increases the amount of time that Board members can dedicate to these discussions. Further, it increases the **visibility of the Board's commitment** and sends an important signal to both internal and external stakeholders. On the other hand, the potential downsides may be that it reduces the uptake of sustainability by the entire Board and reduces integration into other functional committees.

Following are key lessons that have emerged from companies that have established a dedicated Sustainability Committee:

- Directors serving on a Sustainability Committee must carry significant weight and have a high standing on the Board. This can help ensure that decisions by the Committee are given a high priority and that it does not become a merely symbolic effort. Ideally, both the Chairman and other senior Board members are members of the committee.
- A high degree of interaction between this committee and the other specialized committees with relevant responsibilities should be ensured. To increase coordination and maximize synergies, the Chairmen or other representatives of these committees should also serve on the Sustainability Committee.

The need for a committee dedicated to sustainability may change over time. In the beginning, as the Board defines sustainability for the company and establishes targets for the first time, it may require more time for discussion among Directors than what can be allocated on the general Board agenda. Later, companies may choose to scale down the activities of that committee – leaving it merely a coordinating role – or to dissolve it altogether to allow for the entire Board and existing committees to deal with sustainability in a truly integrated fashion.

DAIMLER

Founded in 2008, **Daimler's** Corporate Sustainability Board (CSB) integrates all management processes related to sustainability. A member of the Board of Management is the director of the CSB. The CSB sets sustainability goals for Daimler and defines targets in areas such as climate protection, sustainability in supply chains, employee relations, and stakeholder and community relations. The CSB is supported by the Sustainability Office, which encompasses various teams and committees and integrates relevant functions throughout Daimler. Board level commitment to sustainability and a solid organizational structure makes Daimler effective in realizing short- and long-term sustainability goals.



A Corporate Citizenship Committee is one of five committees under the Board of Directors. Established in 2008, it aims to incorporate and exercise sustainability from a company-wide perspective. The committee challenges the company to embed sustainability principles in all business activities, to secure growth and value creation, and has been instrumental in introducing long-term perspectives in **SK Telecom's** management. The committee oversees sustainability policies and performance, serves an advisory role in policy implementation, and monitors internal and external communication. The committee meets four times a year to assure that management sees sustainability as an integral issue and it has raised the profile of sustainability internally. Externally, it distinguishes the company from industry peers, as one of the first to establish a Board committee dedicated to sustainability issues. SK Telecom and SK Energy (UNGC participant) were the only two companies which had such committees, according to the survey of 200 largest companies in Korea in 2008.

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The Ten Principles of the United Nations Global Compact

HUMAN RIGHTS

- Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2 make sure that they are not complicit in human rights abuses.

LABOUR

- Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4 the elimination of all forms of forced and compulsory labour;
- Principle 5 the effective abolition of child labour; and
- Principle 6 the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

- Principle 7 Businesses should support a precautionary approach to environmental challenges;
- Principle 8 undertake initiatives to promote greater environmental responsibility; and
- Principle 9 encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

- Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

