UNIVERSITY OF CAMBRIDGE | CISL Cambridge Institute for Sustainability Leadership

Executive Summary



Future of Boards

From Box-Ticking to Sustainable Value Creation

The Use of Relevant Impact Data and Wider Information in Strategic Decision-Making



DLA PIPER

The University of Cambridge Institute for Sustainability Leadership

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About the research

Why now – context for the research

The Future of Boards research has been a two-year collaboration between the University of Cambridge Institute for Sustainability Leadership (CISL) and the global law firm DLA Piper, exploring how business boards are responding to growing pressure and scrutiny from stakeholders and investors to manage both climate and nature-related risks, as well as their impact on people.

We carried out the work in two phases.

Phase 1: Future of Boards research identified 22 trends affecting company boards, including the increase in sustainability-related legislation and soft law across a range of jurisdictions around the world. It also assessed these trends for their likely impact on creating a more sustainable world for people and planet. The work was published in 4 reports:



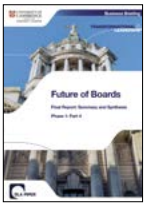
Part 1: Foundation and Methodology, sets out the context, rationale, theoretical underpinning and business logics used for analysis in the study, as well as the research design of this two -year project.



Part 2: Legal and Regulatory Frameworks for Sustainability, explores the changing legal context associated with sustainability, the underlying drivers and the practical implications for corporate boards (technical report).



Part 3: Trends in Board Practice: Insights from our Initial Exploratory Research, explores trends in board practice, including those in response to the evolving legislative context and wider pressures to achieve sustainability outcomes (technical report).



Part 4: Summary and Synthesis Report for Business, provides both a synthesis of the detailed findings from parts 1,2,3 and a summary of the key facts, and their potential implications for boards. (business briefing). To help boards better understand the landscape and navigate future shifts, it includes a set of 20 pivotal questions for boards to use as a tool to facilitate discussion and prepare strategically.

Phase 2 Future of Boards research explores several key findings identified in Phase in greater detail to understand the impact and implications for boards in terms of delivering business success that contributes towards a sustainable future for people and planet. The work is published in three reports:



The Rise and Influence of Investor Stewardship (business briefing), presents the executive summary and key findings from the research including 12 key questions for boards and 12 key questions for asset managers to use as a tool to facilitate discussion and action.



The Rise and Influence of Investor Stewardship (technical report), explores the stewardship activities of asset managers and their influence on boards in terms of driving sustainable value creation.



From Box Ticking to Sustainable Value Creation (executive summary), provides a brief summary of the use of relevant impact data and wider information in strategic decision making.



From Box Ticking to Sustainable Value Creation (technical report), explores the use of relevant impact data and wider information in strategic decision making (summary and research data), including 20 key questions for boards to use as a tool to facilitate discussion and action.

Executive summary of insights

Phase 1 of the Future of Boards research suggested that sustainability impact data is often being collected primarily to fulfil legislative compliance requirements, or the needs of stakeholders such as clients, shareholders, or other finance providers. This 'box-ticking' mentality contrasts with an approach that harnesses this data – alongside wider sustainability-related information such as trends in regulation, environmental change, social trends, or customer sentiments – to better understand sustainability impacts, risks and opportunities. This analysis can then be used by company boards to create a long-term integrated strategy that realises positive value for stakeholders, the environment and wider society – in other words, 'sustainable value creation'.

The drivers for this greater alignment of business activity and the sustainability needs of people and planet are not simply the moral argument that this is the 'right thing to do', but are more existential. Mounting evidence suggests that boards need to proactively address sustainability risks and opportunities in order to survive and thrive, both in the short and long term.

To better understand what is happening, we gathered a broad range of insights from board members and advisers. The results highlight examples of emerging good practice, as well as challenges that may reduce the ability of a board to access and effectively use sustainability-related data and wider information.

These insights also suggest areas for further investigation and action, and have been used to create a checklist of 20 questions that boards can ask themselves in order to continue, maintain, or enhance their sustainability journey.

What we found

Evolving good practice

Insights from 12 food sector company boards that are leading the way in various aspects of sustainability suggest that they:

- use sustainability impact data, and wider information, to inform their strategic direction and decision-making
- do not reluctantly comply with sustainability-related reporting legislation, and other reporting requirements, but rather see them as useful tools to incorporate wider sustainability impacts into their thinking, beyond their core mission
- receive, and are further exploring, 'decision-useful' sustainability impact data, alongside financial metrics
- use data and information sources beyond those required for compliance; innovate new metrics; and/or work with higher education and other partners to create new knowledge to inform strategic decision-making
- harness stakeholder information and ideas, and horizon scan for sustainability trends or opportunities.

Additional insights emerged into how these boards maintain a long-term focus on creating positive sustainability outcomes in the face of competing short-term, and often financial, pressures:

- address sustainability factors as a full board, not only in separate committees
- make sustainability core to the value proposition of the business to design out trade-offs
- have shareholders or other investors who share similar values
- design governance and ownership structures to better 'lock in' a sustainability mission or purpose, and limit the ability of shareholders to privilege short-term returns over sustainability impact.

Despite these examples of good practice, these companies also identified a range of challenges to creating an effective board and wider governance.

Challenges

Alongside the food sector research, we additionally conducted further interviews with board members and advisers from a broad range of sectors, geographies and stages of the sustainability journey. The results reinforced the wider relevance of the positive board behaviours and actions identified above, and also identified additional and widespread challenges which can make it difficult for boards to fully integrate sustainability impact data and wider information including:

- ***pressures from a volatile, uncertain, complex and ambiguous (VUCA) operating environment***, as well as the expectations of some finance providers and shareholders, can result in a short-term survival focus and, as a result, limit the space for sustainability-related innovation, long-term sustainability-related decision-making or business model transformation
- ***heavy compliance burdens*** that may distract from strategic thinking and risk assessment
- ***a board mindset that does not recognise, or fully understand, sustainability risks and opportunities*** as well as limited ability to effectively interrogate complex, and often uncertain, sustainability-related data and wider information
- ***challenges with data access, trust, assurance and synthesis*** into 'decision-useful' insights and implications; as well as data and information gaps, particularly in relation to sectoral data standards
- ***immature frameworks to support and enable strategic decision-making*** that integrate financial and sustainability data and wider information.

More specifically, there are:

- ***particular constraints for small and medium-sized enterprises (SMEs)*** arising from limited time, resources and knowledge, as well as their perceived lack of influence over the expectations and strategy of larger clients, which may limit their ability to innovate sustainability solutions
- ***governance and information challenges for purpose-led start-ups.*** These reportedly arise from limited time and resources to access and effectively use sustainability impact data and wider information; or knowledge of how to evolve their board composition and wider governance model over time to effectively support their purpose, and integrated strategy.



Ways forward

Further thinking about purpose, governance and ownership:

- revisit the company purpose or mission statement to ensure it incorporates appropriate sustainability dimensions or implications, which can inform strategic direction
- engage with investors who are aligned in their commitment to long-term sustainable value creation
- consider more radical options of changing legal form, governance arrangements, or ownership models in order to either 'lock-in' a sustainability-related mission or purpose, or ensure that the ownership structure is more likely to enable longer-term sustainable value creation.

Improve the board's ability to absorb and reflect on sustainability-related data and wider information:

- develop further understanding of material sustainability issues, as well as the nature, assurance, and relative reliability, of different kinds of data and wider information
- increase collaboration and peer learning between board members from different and related companies and organisations to understand what works
- create space in board meetings for more blue-sky thinking, scenario planning and thought experiments to support radical disruption in products or services, or the business model
- have an appropriate number of independent non-executive directors (NEDs) from a wide range of backgrounds, experiences and geographies to provide different perspectives
- ensure that NEDs have the time and personal skills to effectively challenge, and are engaged early in, the strategy development process
- develop the board role in horizon scanning or 'strategic foresight', and bring in wider perspectives through, for example, a formal sustainability advisory board or panel, or external experts
- consider how the company secretary's role (or equivalent) could evolve so that boards receive 'decision-useful' and verified sustainability impact data and wider information.



Improve sustainability impact data access, presentation and use:

- have clear sustainability-related key performance indicators (KPIs), and make use of comprehensive dashboards
- consider creating bespoke sustainability metrics to enable decision-making, and evidence value creation, where current reporting standards are lacking
- oversee the development, and use, of decision-making frameworks that enable integration and comparison of environmental, social and financial value
- explore the role of digital technology and artificial intelligence (AI) to enable sense-making and scenario planning, while also recognising the inherent biases and limitations of AI
- develop ways to directly surface and address hard choices and trade-offs which involve sustainability-related factors over both the short and long term, and be transparent about the decisions made.

Engage in pre-competitive collaboration within sectors and supply chains to support comparable sustainability-related data collection frameworks and metrics, and resolve sustainability challenges.

Further consideration of SME constraints:

- provide guidance and positive case studies to harness sustainability data and wider information to support innovation in products, services or business models
- greater focus and guidelines on supply chain journeys to, for example, net zero; and which also recognise the innovation and needs of smaller companies that are already 'ahead of the game'
- greater research is required to shape regulation, government policy and procurement, and international reporting frameworks to support SMEs on their sustainability journey.

Develop a supportive ecosystem of advice and finance for purpose-driven start-ups, with particular attention to:

- how the board role and composition could evolve during the start-up journey
- collaborative ways to support sustainability-related data collection and wider information to support strategic development
- considering the most appropriate legal model, governance and ownership structure to maintain and develop purpose and impact over the long term.

Snapshot of key facts from a survey with UK Institute of Directors members, July 2024

- **A majority (61.5 per cent) of board members surveyed believed that the integration of sustainability risks and opportunities is essential to the delivery of their company's profitability.**

Looking separately at the incorporation of risks or opportunities:

- **60.1 per cent agreed that they incorporate sustainability/environmental, social and governance (ESG) risks into their overall corporate strategic decision-making.** Of those that do not, but are considering doing so in the future, the figure is 20.8 per cent, and for those that do not, and are not considering doing so in the future, 18.4 per cent.
- **58.2 per cent agreed that they incorporate sustainability opportunities into their overall corporate strategic decision-making.** 22 per cent do not, but are considering doing so in the future. 18.5 per cent do not, and are not considering doing so in the future.

The similarity between these two responses challenges the widely held assumption that boards focus far more on sustainability-related risks, than on opportunities and innovation.

- **Most board members (63.8 per cent) have not heard of the Taskforce on Nature-related Financial Disclosures (TNFD).** 20 per cent of those people who had heard of the TNFD think it is irrelevant for them. 13.2 per cent are considering adopting it in the future, and 3.1 per cent already do so.

Questions for boards

To help boards assess their own thinking and practice, the insights in this report have been translated into 20 key questions. By considering these questions, boards can use their leadership to help direct their companies, shape supportive government legislation, and influence markets towards a more sustainable future.

Setting the scene

1. Do you, or how do you, incorporate sustainability impacts, risks and opportunities when setting the strategic direction of your organisation?
2. Does your purpose or mission statement indicate the sustainability-related value you bring to society? Do you need to spend time revisiting your purpose?
3. Do you include sustainability aspects comprehensively in your risk register?
4. How does your overall governance and ownership model support and enable the realisation of your purpose?
5. How can you ensure and improve greater similarity of purpose with your investors, or clients?
6. How do you, or could you, provide a more effective and complementary role to the executive in terms of horizon scanning and strategic foresight on sustainability risks and opportunities, and other external trends?

Accessing and using the right data and wider information to inform strategic decision-making

7. What sustainability-related impact data do you need? Are you receiving it in a format that best enables you to make strategic decisions? Is it effectively integrated with your financial data?
8. What wider information, say, on sustainability-relevant trends do you need? How could you get this?
9. Do you focus predominantly on climate-related issues, or are you thinking about wider social and environmental risks and opportunities?
10. Does the impact data you receive indicate its source? Are you assured that it is consistently produced and verified?
11. Are the right company departments and people in your company responsible for bringing you quality-assured sustainability impact data, and related insights?



12 How do you access and consider data and wider information about your impacts and dependencies on stakeholders, as well as their needs and concerns, and/or jointly consider ideas about how you could move forward?

13 Have you considered having an advisory board, or using external experts, to support your consideration of material sustainability issues?

14 How do you assess complex decisions or options, which include sustainability dimensions? Are you getting access to sufficient data to make well-informed decisions, based on reliable analysis of any potential trade-offs?

15 Could greater use of digitalisation, visualisation, and use of AI enable your sustainability impact data to be decision-useful, and/or help sense-check your decision-making processes? How would you guard against any inaccuracies, or bias, in the use of AI results?

16 How do you create space for blue-sky thinking about new sustainability-related innovation opportunities, or impending threats to your access to resources, or capital?

Increasing the board's ability to understand and effectively use sustainability-related impact data and wider information

17 Does your board need to develop further understanding of material sustainability issues, as well as the nature, and relative reliability of assurance, of sustainability impact data and wider information?

18 Do you have the optimal number and diversity of independent NEDs, with the right expertise?

19 Does your board chair, culture and available time enable and allow a good level of challenge by board members?

20 How could you, as individual board members, or as a group, network and/or collaborate with peers on boards from different sectors and business models to increase your awareness of what does and does not work in accessing and using data to realise sustainable value creation?



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