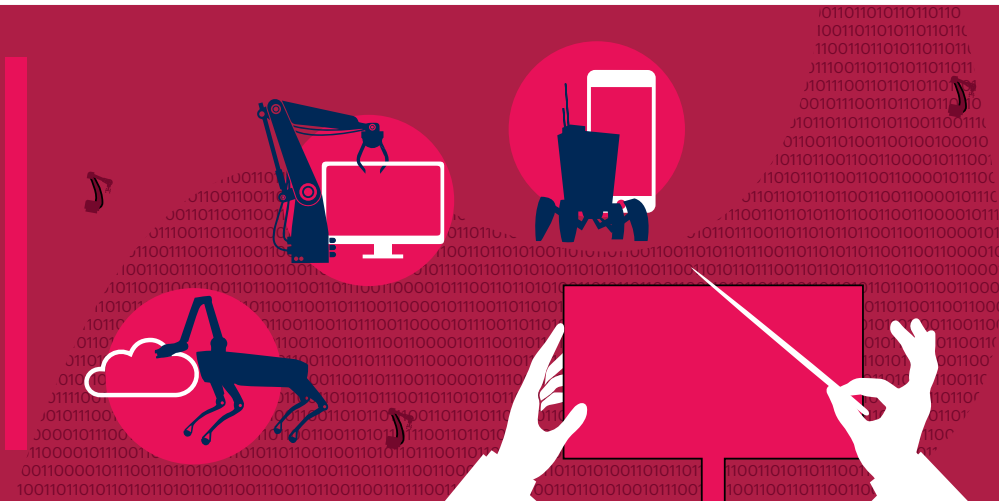


Excerpt From

Gartner Business Quarterly

Proven Guidance for C-Suite Action



How to Fortify the Board's Expertise

by Laura Cohn
with contributor James Crocker

Half of corporate boards don't have the skills their organizations need, legal leaders tell us.¹ Whether it's a lack of knowledge about digital initiatives or strategy, or a dearth of experience with HR, risk management or environmental issues, companies should take steps to fill the holes in expertise among their directors. The board must be prepared to help companies confront external issues, from a sudden advance in technology to geopolitical upheaval or cybersecurity risk.²

As corporate secretary, a general counsel (GC) should:

- Assess the skill sets of individual board members to determine where the overall group lacks critical expertise.
- Educate the board using internal or external experts.
- Consider whether the board needs restructuring (for instance, adding directors who can provide necessary background knowledge).

Example of a Board Skills Gap: ESG Issues

Just 30% of corporate boards around the world have expertise in environmental, social or governance (ESG) issues.¹

Some executives have told us that managing climate risk isn't a priority because their organizations are service providers, not manufacturing conglomerates or oil-drilling entities. But this is a mistake. Nearly 90% of industries face climate risk.²

Without the right knowledge, the board could fail to ask management the hard and necessary questions about ESG goals and strategy and the company's role in society. Such missteps could have significant consequences, especially as the United Nations warns this is a now-or-never moment to limit the most dire consequences of global warming.³

A rush of public and private action in the U.S. is the latest trend to push oversight of this issue to the top of the corporate agenda. In March, the U.S. Securities and Exchange Commission (SEC) proposed a new rule requiring firms to report on the board’s management of climate-related risks — a move that builds on climate guidelines or regulations introduced last year in the EU, the U.K., China, India and Japan.⁴ And, as of late May, the U.S. proxy season had seen investors file nearly 600 shareholder resolutions on environmental and social issues. The number of climate-related proposals rose to 113 from 85 in 2021.⁵

The SEC wants companies to disclose whether directors have relevant expertise. If the measure becomes final, each enterprise will need to define what that constitutes based on its risks and business models — and get comfortable explaining why board members do or do not have such knowledge. Organizations would also have to reveal how often directors discuss the issue.

If you fail to “build it,” investors may come and do it for you. Activist investor Engine No. 1 demonstrated this principle in 2021 by installing three directors with expertise in renewable energy to Exxon’s board.⁶

The pressure has not abated. As 2022 began, State Street Global Advisors urged large companies in the U.S., Canada, the U.K., Europe and Australia to disclose board oversight of climate-related risks and opportunities or face “voting action against directors.”⁷ Then, in March, BlackRock endorsed the addition of Wha-Jin Han, the former South Korean secretary of the environment, to the board of Samsung.⁸ More boardroom fights are likely.

Find the Skill Gaps on the Board

Most companies (92% of public corporations and 80% of private entities) do evaluate board expertise, with the GC and/or the corporate secretary or an external evaluator taking the lead. But 46% don’t take any follow-up action.⁹ That means nearly half of companies are missing an opportunity to improve board oversight in the most important areas for their organizations.

To get started, legal leaders can employ information and tools commonly in use for regulatory disclosures. For example, many public companies publish director skills matrices in their proxy statements (see Figure 1). This simple form clarifies quickly where the board as a whole is weak. It can inform the GC’s thinking about avenues for improvement.

Figure 1. Director Skills Matrix (Illustrative)

Skills and Experience	Director 1	Director 2	Director 3	Director 4	Director 5
Board of Directors Experience	✓			✓	
Industry Experience		✓			
CEO/Business Head	✓			✓	
International	✓			✓	
Human Capital Management/ Compensation			✓		
Finance/Capital Allocation		✓			✓
Financial Literacy/Accounting (Audit Committee)			✓		
Government/Public Policy	✓		✓		
Marketing/Sales			✓		✓
Environmental Science/Policy/ Regulation					✓
Academia/Education					
Risk Management			✓		
Corporate Governance		✓			
Technology/Systems					✓
Business Ethics			✓		
Real Estate		✓		✓	
Sustainability/ESG	✓				
(Custom Category)					

Source: Gartner

To go deeper, supplement the matrix with an analysis of directors' biographies for a look at the nature of their expertise.¹⁰

The steps taken by the 54% of companies that do work to fill knowledge gaps include:

- Enhancing director education efforts
- Changing the makeup of the board

Invest in Director Education

More than half of organizations don't mandate director education of any kind.¹ Of those that do, more than half tap internal sources, and about the same percentage think this is the most effective training for an issue.

It is important to carefully consider which education initiatives to offer; otherwise, the organization may waste resources. For instance, while just 8% of legal leaders view self-selected director training as the best strategy, 40% of companies reimburse directors for attending courses of their own choice. And only a small portion (2%) see online training as the top practice for building skills, but 25% of organizations provide it.¹

When it comes to our ESG example, only 17% of organizations require education for directors.¹ Looking ahead, though, 37% of legal leaders told us they planned to provide more teaching on this topic (see Figure 2).

According to Veena Ramani, research director at the nonprofit research institute FCLTGlobal,¹¹ the best way to build fluency on climate risk is to train the entire board, which is more effective than tasking a single director with staying up to speed on the issue. "At the end of the day, boards are collective decision-making entities, and one person — however knowledgeable, however articulate — does not make a "board' decision," Ramani told us.

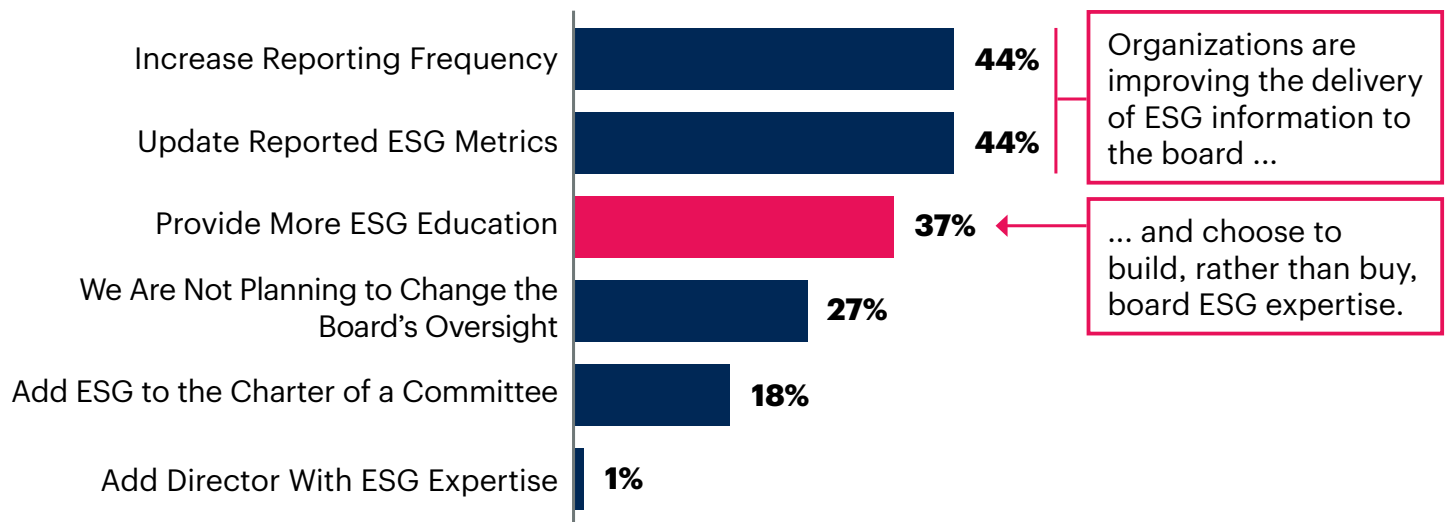
At one major sportswear manufacturer, Ramani said, business unit heads did the educating. They were required to report to the board on a rolling basis. The assignment: Explain how their business lines were working to reduce climate risk and contribute to corporate sustainability goals.

Corporate governance experts recommend companies also bring in outside experts, which is the preferred training source for just 26% of the leaders involved in board governance whom we surveyed.¹ One tip from the sustainability experts we interviewed: Hire someone with experience advising your industry. To do that, the GC should:

- Get recommendations from fellow legal leaders or an outside auditor.
- Partner with an NGO or environmental group to get ideas. Seek out those that have corporate experience or the ear of your stakeholders.

Figure 2. Planned Actions to Change the Board's Role in ESG

Percentage of Respondents



n = 124

Q. How do you plan to change the board's oversight of ESG in 2022?

Source: 2022 Gartner Corporate Governance and Board Management Benchmark Survey

Jeffrey Hollender, CEO of American Sustainable Business Network, recommends that boards seek climate training from groups such as Environmental Defense Fund and the Natural Resources Defense Council (NRDC), which have experience working with business. If this is a new endeavor, Hollender said, corporate secretaries and directors may need to set aside any reluctance to engage with advocacy groups.

“The first thing they have to do is get over their fear of bringing an environmentalist into the boardroom,” said Hollender, also the co-founder and former CEO of the natural products company Seventh Generation. “They’re used to seeing environmentalists as foes that they need to fight against rather than as partners and collaborators, and that attitude has to change.”

Companies could start small by having three or four environmentalists read their ESG reports and provide feedback before publication. It’s a good way “to begin to build a relationship with these individuals and experience the value they can bring to the business,” Hollender said. These reviewers might even be worth considering for a future seat in the boardroom.

The same principle applies to other issues. If data privacy is relevant to a company’s values and stakeholders, for instance, the GC might consider enlisting a privacy proponent to check how you’re framing the importance of privacy in your ESG report or the sustainability section of your website.

With bigger budgets, larger companies conduct external director education seminars more frequently than midsize organizations do.¹

A partial list of director seminar offerings about ESG can be found in Figure 3 (see next page).

Restructure the Board

After evaluating the board and determining that critical expertise was missing, just 25% of organizations added a new board director to fill the gap.¹²

If you decide that this route is the fastest or best way to bolster expertise, FCLTGlobal’s Ramani suggests moving beyond the traditional “former CEO” profile to seek candidates from academia and government. “Widening the aperture will also address the problem of lack of diversity,” Ramani noted.

Recruiters can help. Some, for instance, have made climate experience a priority. In the U.K., a group of 12 international search firms signed a pledge this year to use climate knowledge as a prerequisite for recruiting nonexecutive directors.¹³ The firms said they would assess candidates for the boards of U.K. companies based on their grasp of global warming and climate-related risks — and a “clear willingness” to “engage actively” on the issue.

In the longer term, Jeremy Hanson, a partner at the recruiting firm Heidrick & Struggles, told us, “Our No. 1

recommendation is: Double your investment in succession planning at the board level.” He added, “Most companies do some formal succession planning at the CEO level, but not nearly enough at the board level.”

When the GC presses for a heightened focus on succession, boards will gain the skills they need to manage shifting societal and stakeholder concerns, not to mention the seemingly endless barrage of external shocks.

¹ 2022 Gartner Corporate Governance and Board Management Benchmark Survey (n = 125). A skill an organization needs is one that was rated as important or very important. Survey respondents included legal and governance leaders from public, private and nonprofit organizations as well as government. While most public company respondents were listed on the NYSE and Nasdaq, some were listed on TSX, LSE or another exchange. Note: This survey was taken before the SEC’s March 2022 climate risk proposal came out.

² [Climate Risk — Technical Bulletin](#), Value Reporting Foundation: SASB Standards.

³ [5 Takeaways From the U.N. Report on Limiting Global Warming](#), The New York Times.

⁴ [The Enhancement and Standardization of Climate-Related Disclosures for Investors](#), U.S. Securities and Exchange Commission (PDF download).

⁵ [Climate Shareholder Resolutions Flood into Proxy Season for a Record Year](#), Fortune.

⁶ [Exxon’s Board Defeat Signals the Rise of Social-Good Activists](#), The New York Times.

⁷ [CEO’s Letter on Our 2022 Proxy Voting Agenda](#), State Street Global Advisors.

⁸ [Vote Bulletin: Samsung Electronics Co. Ltd.](#), Blackrock.

⁹ 2022 Gartner Corporate Governance and Board Management Benchmark Survey (n = 64). This survey was conducted from December 2021 through the first half of February 2022 among more than 120 legal leaders from various industries and revenue bands. At 44% of public companies, the GC and/or corporate secretary conducts the board evaluation. At 39% of public companies, the board evaluation is done by an external evaluation.

¹⁰ [Guidance for Engaging on Climate Risk Governance and Voting on Directors](#), Ceres.

¹¹ FCLT stands for “Focusing Capital on the Long Term.” To learn more, visit fcltglobal.org.

¹² 2022 Gartner Corporate Governance and Board Management Benchmark Survey (n = 68). This benchmark gathered responses from December 2021 through February 2022. It received 125 responses from general counsel and other corporate governance leaders at both public and nonpublic organizations.

¹³ [Leading Search Firms Sign Joint Declaration on Climate Capabilities in the Boardroom](#), Chapter Zero.

Figure 3. Partial List of Director Education Seminar Offerings

Institution	Sample Curriculum
Berkley Law and Ceres	Meeting sessions for “ESG: Navigating the Board’s Role” include: <ul style="list-style-type: none"> • Corporate Purpose and Fiduciary Duties • Board Governance — Committees and Expertise • Engaging With Investors • Transition Planning, Target Setting and Executive Compensation • Climate Lobbying • Disclosure
Competent Boards	Meeting sessions for “ESG Designation Program” include: <ul style="list-style-type: none"> • Using Sustainable Development Goals as a Strategic Tool • Impacts of Climate Change and Accountability for Boards • ESG Oversight and Foresight • Human Rights, Environmental Issues and Resiliency in the Supply Chain
Harvard Business School	Topics covered by “Making Corporate Boards More Effective” include: <ul style="list-style-type: none"> • Shareholder Activism and Social Responsibility • Sustainability in the Boardroom • Board Oversight of Risk and Culture
London Business School	Topics covered by “Sustainability Leadership and Corporate Responsibility” include: <ul style="list-style-type: none"> • Sustainability as a “Strategic Consideration” • How to Build Sustainability Knowledge • Understand the Four Pillars Needed to Embed a Culture of Sustainability Into Your Corporate DNA
National Association of Corporate Directors	Session includes: <ul style="list-style-type: none"> • Chairpersons’ Perspective: Shaping the Board’s Strategic Direction on Climate
NYU Stern	Topics for “Corporate Sustainability” include: <ul style="list-style-type: none"> • Sustainability for Business • Unsustainable Corporate Practices • Environmental and Social Trends • Sustainability Reporting and Certification Standards • Materiality and Stakeholder Mapping
Wharton Aresty Institute of Executive Education at the University of Pennsylvania	Topics for “Corporate Governance: Essentials for a New Business Era” include: <ul style="list-style-type: none"> • Enterprise Challenges and Risks, Including Climate Change, Job Displacement, Global Trade, Disease Epidemics and Social Responsibility • Bringing Environmental and Social Issues Into the Boardroom • Designing Political and Social Strategies

Source: Gartner

Actionable, objective insight

Position your Legal and Compliance organization for success.
Explore these additional complimentary resources and tools:



eBook

Leadership Vision: General Counsel

Make decision making easier for the organization and improve decision quality.

[Download eBook](#)



Guide

Board Briefing for Building an ESG Program

Deliver a clear and concise briefing on the first steps for building an ESG program.

[Download Guide](#)



Guide

The General Counsel's Role in Successful ESG Programs

Confidently lead ESG program development and execution.

[Download Guide](#)



Report

Board Briefing for Protection Against Cyberextortion and Ransomware

Deliver a clear and concise briefing on how to protect your organization from a cyberattack.

[Download Report](#)

Already a client?

Get access to even more resources in your client portal. [Log In](#)

Connect With Us

Get actionable, objective insight to deliver on your mission-critical priorities. Our expert guidance and tools enable faster, smarter decisions and stronger performance. Contact us to become a client:

U.S.: 1 855 811 7593

International: +44 (0) 3330 607 044

[Become a Client](#)

Access the latest edition of Gartner Business Quarterly [here](#).

Learn more about Gartner for Legal, Risk & Compliance
gartner.com/en/legal-compliance

Stay connected to the latest insights

