BOARD OVERSIGHT OF ENVIRONMENTAL AND SOCIAL ISSUES:
AN ANALYSIS OF CURRENT NORTH AMERICAN PRACTICE

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Foreword

The case for board-level oversight of environmental and social issues has been building for many years, as company stakeholders—from investors and customers to employees and communities—increasingly expect businesses of all kinds to operate sustainably. Attention to these issues has grown with recent, high-profile disasters at Toyota, Massey Energy, and BP, which have had devastating consequences for customers, workers, and the environment, as well as for the companies’ reputations. Many observers have been asking what role boards of directors should play in assessing social and environmental risks—and also in identifying major sustainability-related opportunities.

Moreover, governance of corporate responsibility and sustainability challenges is even more salient at a time when the importance of environmental and social risks is being acknowledged and addressed to varying extents by most large companies in almost every industry. Yet, even as the recognition of environmental and social risk factors becomes increasingly mainstream, this study demonstrates the varying degrees to which these risks command the sharp and consistent focus of corporate boards.

A number of organizations have contributed valuable research and opinion papers on these questions, including the Conference Boards of the U.S. and Canada, CERES, and the Committee for Economic Development. However, to our knowledge no one has yet conducted a survey assessing the prevalence of board oversight of environmental and social affairs in a broad North American universe. Calvert and The Corporate Library decided to undertake this project together because of our firms’ complementary strengths.

Calvert is one of the largest families of U.S. mutual funds dedicated to sustainable and responsible investment. Drawing on our extensive research covering virtually every major public company and industry in Corporate America, Calvert has for years filed shareholder resolutions and conducted dialogue with senior management to strengthen corporate governance and focus on environmental and social factors that bear on investment performance. The Corporate Library, for over a decade, has built and maintained one of the most extensive repositories of North American governance information, including detailed committee and director data, and currently offers governance ratings on over 3,000 public companies. Its researchers have extensive knowledge of governance practices and an understanding of many complexities of board functioning. Together, we were able to provide an assessment of environmental and social governance at U.S. firms that is both broad and deep, and that provides new information to the field.
Our survey shows that board oversight for environmental or social issues appears to exist at substantial numbers of large U.S. companies (65% of the S&P 100, and nearly a fifth of the Russell 1000). However, the practice appears to be much less common at smaller companies. Even where oversight exists, moreover, it often appears insufficient to integrate fully environmental and social factors into a company’s strategic planning and operations. All too often, boards still appear to view these issues in soft philanthropic or marketing terms, rather than as hard, fundamental business risks or competitive advantages. In some cases, however, committee charters are being developed that suggest a new and more nuanced approach to social and environmental sustainability.

Much more work remains to be done to understand the impact of board-level governance of environmental and social affairs. Key factors to explore include the methods of interaction between board committees and senior management, as well as the types of experience that best equip board members to oversee these issues. However, a survey like this one is an important first step in illuminating what oversight structures and practices currently exist at the largest North American public companies. We hope that it will serve as a contribution to the current debate over the appropriate focus, roles, and responsibilities of boards of directors in this new era of responsibility and sustainability.

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Table of Contents

6 Executive Summary
8 The Rationale for Board Oversight of Environmental and Social Factors, and Methodological Concerns
10 Committee Names in the Russell 3000
14 S&P 100 Detailed Committee Analysis
26 S&P 100: Committee Practices & Demographics
28 Key Findings & Recommendations
Executive Summary

In recent years, many investors concerned with environmental and social issues have urged companies to implement board-level oversight of these matters as they relate to their businesses. Little empirical research exists, however, on the extent to which companies have done so. This report examines publicly available data, including the names and charters of board committees and director demographics, in order to assess the current prevalence and nature of board-level oversight of environmental and social issues at North American companies. (Collectively, social and environmental issues are often referred to as “corporate responsibility” or “sustainability,” and this report follows common practice by using these terms interchangeably.)

A study of committee names in the Russell 3000 shows that only 8% have a name that suggests oversight of environmental and social matters, with larger companies being much more likely to do so: 18% of the Russell 1000 companies have such a committee, compared to only 4% of Russell 2000 firms. As might be expected, these committees are more prevalent in sectors with high environmental or labor-related impacts.

In addition, an analysis of all committee charters at S&P 100 firms shows that 65% of these firms provide for sustainability oversight through at least one committee, with high-impact sectors again more likely to have such committees. In a third of the cases, the committee concerned is a standard key committee (such as a Nominating or Audit committee) which has no specific corporate responsibility-related word in its name. This finding illustrates that board responsibility for sustainability issues is more prevalent in the universe than committee names alone would indicate.

However, even when charters explicitly mention corporate responsibility issues, they tend to stress the review and monitoring of policies and management systems. While this is a valuable and important task, it is only a starting point for thorough oversight of social and environmental issues. Fewer than half of these committees require their directors to make forward-looking recommendations about sustainability trends, strategies, or targets; only about a quarter are responsible for environmental and social risk management; and even smaller numbers involve boards in oversight of corporate responsibility-related stakeholder engagement, incident readiness, or reporting. In terms of specific issues referenced in the S&P 100 committee charters, the environment is mentioned most frequently, with community relations, health and safety, and diversity also appearing often, but human rights receiving less attention.

Next, a study of the director demographics at the S&P 100 committees with environmental and social oversight demonstrates that these directors are similar to their S&P 100 peers in age and tenure. However, directors on these committees differ from the wider pool in that they are disproportionately female: 25% of the committee members are women, compared to 18% of all S&P 100 directors. The significance of this finding is undetermined, and warrants further study.
In sum, the research suggests that while a substantial number of large-cap North American firms have adopted some form of board oversight for sustainability, many companies – even those which espouse a commitment to environmental and social matters in public statements or reports – have yet to embrace the practice. In addition, even where it has begun, board responsibility for corporate responsibility often does not extend to true strategic planning and risk management. As a result, sustainable and responsible investors are likely to continue to press companies to improve board oversight of social and environmental issues in the years ahead.

The first section of the report presents the main arguments for board oversight of sustainability, and explains the methodology we used to explore its prevalence. The second section presents the results of our study of Russell 3000 committee names; the third discusses our analysis of S&P 100 companies with sustainability oversight; and the fourth investigates committee demographics. A fifth section concludes with a review of key findings and recommendations.
The Rationale for Board Oversight of Environmental and Social Factors, and Methodological Concerns

The question of whether boards of directors should have responsibility for corporate sustainability matters is sometimes debated. Some critics of the idea argue that social and environmental issues are by their nature managerial and operational issues which makes them inefficient for the board to address. However, many investors have come to believe that these issues have implications for capital investments, corporate strategy, brand and reputation. From this perspective, boards of directors are the appropriate bodies to provide long-term perspective and guidance on these matters, and the absence of board responsibility can raise questions about whether a company is managing these factors appropriately. Conversely, board-level oversight of corporate responsibility can set a meaningful “tone at the top” and provide investors and other stakeholders with a deeper understanding of how the company assesses its challenges and prioritizes issues relevant to its success.

Other opponents of this type of board oversight have suggested that it could lead directors to prioritize the interests of communities, employees, or other stakeholders above those of shareholders, to whom directors owe a fiduciary duty. In fact, however, state law typically assigns directors a fiduciary duty to the company itself, not its shareholders. While the effect on shareholder value is one important measure of how the company’s affairs have been managed, it is not the only one and indeed, can itself be a matter for debate. For example, in a merger or other major transaction where a board must choose between several courses of action, one of them might serve to maximize returns to a shareholder with a one- or two-year time horizon, while an alternative appears preferable for those who intend to hold the company for 5 or 10 years. In sum, boards of directors have a broad mandate to promote the welfare of the company, which many investors believe can be served by careful attention to corporate responsibility and sustainability matters.

The question of how often and how well U.S. company boards are currently addressing environmental and social issues cannot be fully answered on the basis of public information – a statement that is true of most aspects of board functioning. For a variety of reasons, conversations in the boardroom may be more or less insightful, rigorous and thorough than a company’s disclosures would lead one to expect. In addition, companies sometimes describe a certain level of board oversight in one forum – for example, a sustainability report – but fail to mention it in their SEC filings, raising questions about the formality of that commitment. Conversely, a proxy statement’s assertion that a board considers sustainability issues is no guarantee that in practice, they are addressed thoughtfully by the directors in question. Finally, it is likely that at least some boards have integrated considerations of environmental and social matters into their general deliberations, without formally defining them as “corporate responsibility issues” for which particular directors are responsible.

Nevertheless, we believe that the names companies choose to give their committees, and the charters they write for those committees, are important indicators of the companies’ level of seriousness with regard to board-level corporate responsibility and sustainability oversight. For this reason, we first conducted a broad survey of committee names at Russell 3000 companies, to identify those containing terms related to sustainability matters. Next we examined committee charters for a smaller sample of companies – the S&P 100 – to see how many specifically referenced corporate responsibility issues, and how board responsibility for them was described. Finally, we analyzed demographic data for the directors serving on the S&P 100 committees with sustainability oversight, to ascertain whether and how they differed from the director pool at large.

It was beyond the scope of this study to analyze companies’ performance on environmental and social issues, or to speculate on the ways that board structures of various kinds may enhance it. To be sure, it is clear that
the formal assignment of board oversight is not in itself sufficient to ensure good governance. As high-profile examples like Massey Energy and BP demonstrate, some companies have experienced disasters related to employee safety and environmental protection, despite having board committees responsible for these issues. However, the difficulty of effectively connecting board-level intentions to ground-level events is not unique to corporate sustainability issues, but is a problem in corporate governance generally. (An oft-noted example is the prevalence of risk committees at financial firms that so spectacularly failed to manage risk in the years preceding the 2008 crisis.) Much more research is needed in order to understand how companies can best design board oversight, in conjunction with management structures, in a way that improves environmental and social outcomes.

Similarly, our study did not investigate or speculate about either the reasons the committees under examination were formed or the intentions of boards or management teams with regard to corporate responsibility governance. Some committees in the study have existed for many years, while others have been recently formed, perhaps in response to controversies or shareholder activism. Some companies that mention sustainability governance in their committee charters and names have been the subject of significant criticism for their social and environmental performance, and opinions may vary about the extent to which their written statements represent practical commitments to environmental and social improvement. Again, further research may be warranted into the ways these governance structures come into being, the role that engagement with shareholders or other stakeholders may play, and the effectiveness of board-level corporate responsibility oversight once established.
Committee Names in the Russell 3000

Committee Name Categorization

This section of our report surveys the names of nearly 11,000 board committees in place at Russell 3000 companies as of May 2010, to identify how many contained words suggesting responsibility for social or environmental issues.

Data was available for 2,939 Russell 3000 companies as of May 2010. Of these companies, studied, 246, or 8%, had a committee which included a corporate responsibility-related word in the committee name. Because some companies had more than one such committee (11 companies have two such committees and one company, Occidental Petroleum, had three), there are a total of 259 committees included in our data set.

We compiled our list by reading through all the committee names, in order to see how companies might be addressing social or environmental issues. (We did not proceed by conducting keyword searches for particular terms, since doing so might have led us to miss some of the words actually in use.) Committees containing the following terms were included in our data set: Social Responsibility (or related phrases such as Sustainability or Corporate Responsibility), Diversity, Environment, Ethics, Nuclear, Public Policy (and related formulations such as Public Affairs or Public Issues), Quality, Safety, Shareholder Relations (and similar terms such as Investor Relations and Shareholder Value). We decided to exclude from our data set Human Resources and Compensation committees without other sustainability-related words in their names, since many of them are likely to focus primarily on compensation policy and recruitment for high-level executives. We also created a “Miscellaneous” category to capture committees containing less-frequently-seen words that are not in the list above, but that did suggest a social or environmental aspect to the committee’s work (for example, words as “disclosure,” “charitable giving,” and “labor”). Finally, the “Multi-Issue—Other” category includes both some committees tasked with evaluating several specific issues (e.g., “Disclosure and Ethics”) and some whose names suggest a broader corporate responsibility mandate (e.g., “Public Policy and Corporate Responsibility”).

As shown in the table to the right, the most common type of committee in the data set has a general name such as Social Responsibility Committee. Other common, and similarly broadly-named, committees include Public Policy Committees and committees using the three words Safety, Health and Environment (in some order). Committees focused on one CSR-related issue (e.g., Diversity, Quality) are less common.

Seventeen percent of these committees were key board committees (i.e., Audit, Compensation, or Nominating and/or Corporate Governance) that had sustainability-related terms included in their names: for example, a “Governance, Nominating and Social Responsibility Committee” or “Audit and Public Policy Committee.” The remaining 83% were other types of committees with corporate

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1 The Russell indices are reconstituted in midsummer and the number of their constituents of companies in them falls throughout the year as companies are acquired or delisted.

responsibility-related names (e.g., the Safety, Health and Environment Committee or the Corporate Responsibility Committee). It was beyond the scope of this study to determine the history of companies’ decisions to create these committee structures (for example, to investigate when, and speculate about why, some companies may have added an environmental or social term to a preexisting committee’s name). We also did not attempt to explore which method might be more effective in ensuring corporate responsibility and sustainability oversight; however, arguments can be made on both sides. On the one hand, adding such responsibilities to an already overloaded Audit Committee could lessen the amount of attention the issues receive; on the other, these issues may get more visibility if they are elevated to the most powerful committees. Further exploration of this distinction may be a direction for further research.

**Company Size Analysis**

When we break down the Russell 3000 into its sub-indices, we find that the larger companies comprising the Russell 1000 are more likely to have a committee whose name suggests sustainability oversight than are the smaller Russell 2000 companies. Specifically, 18% of the companies in the Russell 1000 have a corporate responsibility-related committee, while only 4% of the Russell 2000 companies have such a committee.

A similar pattern emerges when we look at the companies by S&P index. Only 4% of the S&P Small Cap companies studied have a committee in the data set and only 9% of the S&P Mid Cap companies do. However, 28% of the S&P 500 companies have a corporate responsibility-related committee. This may be due to increased public and shareholder scrutiny of the larger companies, which often leads them to initiate governance trends that later become common practice.

Moreover, the prevalence of different categories of committees differ significantly by company size, as measured by S&P index. Some of these variations may be due to sector weights in a given S&P index (since, as explained below, certain committee types are more common in certain sectors). However, in general, it is clear that larger companies are more likely to have committees with names that more broadly address sustainability issues, such as Social Responsibility or Public Policy. The smaller companies are more likely to have committees with a more specific focus, such as Quality or Ethics.
Sector Analysis

The sector with the most sustainability-related committees is the Consumer, Non-Cyclical sector. Of the 246 companies in this portion of our study, 22% are in the Consumer, Non-Cyclical sector. Other sectors with a high proportion of the companies studied are Financials and Utilities, as shown in the following chart. (The Bloomberg classification system was used for our sector analysis.)

However, the proportion of the Russell 3000 index comprised of each sector must be taken into consideration when assessing the prevalence of practices among the Russell 3000 companies. So, for example, while Consumer, Non-Cyclical is the sector with the most companies with the committees in the data set, this can likely be explained by the fact that the Russell 3000 index is heavily weighted toward this sector. On the other hand, while Financial companies make up 21% of the Russell 3000 companies, they only represent 13% of the 246 companies with corporate responsibility-related committees. Other sectors which are less likely to have a committee in question compared to their weighting in the Russell 3000 index are the Technology and Communications sectors. On the other hand, companies in the Energy and Basic Materials sectors are better represented among the group of companies with such committees compared to their weighting in the Russell 3000.

The key message here is not surprising: boards of companies in the fields which traditionally have been scrutinized for their negative impact on the environment and poor labor practices – those in the Energy, Basic Materials and Utilities sectors – are more likely to have committees with terms related to corporate responsibility and sustainability in the name, while companies in fields which may have fewer concerns of this kind – those in the Technology, Communications and Financial sectors – are less likely to address environmental and social matters with a board committee focused on the issue.

Looking at the data in a different way further supports these findings; we see that high proportions of the companies in certain sectors have sustainability-related committees. For example, more than one-third (34%, or 33 of 96) of the companies in the Utilities sector in the Russell 3000 have a committee with a corporate responsibility-related word in the name. Similarly, one quarter (25%, or 28 of 111) of the Russell 3000 companies in the Basic Materials sector have such a committee. In contrast, only 5% (or 31 of 605) of the Russell 3000 companies in the Financial sector have a corporate responsibility-related committee.
As might be expected, the prevalence of committees in different subject-matter areas also varies greatly with the sector of the company. For example, the chart below shows that the companies with committees addressing Safety, Health & Environment are often those in the Basic Materials and Energy sectors. Not surprisingly, special board committees dedicated to Nuclear issues are found in the Utilities sector. Consistent with their need to preserve their public image and customer-facing focus, Consumer Cyclical companies are most likely to have a broad committee dedicated to Diversity issues or Social Responsibility issues in general.

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>Total Count with corporate responsibility-related committee</th>
<th>Total Count in R3000</th>
<th>% of R3000 in Sector which have corporate responsibility-related committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>FINANCIAL</td>
<td>31</td>
<td>605</td>
<td>5%</td>
</tr>
<tr>
<td>INDUSTRIAL</td>
<td>28</td>
<td>410</td>
<td>7%</td>
</tr>
<tr>
<td>CONSUMER, NON-CYCLICAL</td>
<td>53</td>
<td>644</td>
<td>8%</td>
</tr>
<tr>
<td>CONSUMER, CYCLICAL</td>
<td>29</td>
<td>382</td>
<td>8%</td>
</tr>
<tr>
<td>COMMUNICATIONS</td>
<td>13</td>
<td>244</td>
<td>5%</td>
</tr>
<tr>
<td>TECHNOLOGY</td>
<td>8</td>
<td>271</td>
<td>3%</td>
</tr>
<tr>
<td>UTILITIES</td>
<td>33</td>
<td>96</td>
<td>34%</td>
</tr>
<tr>
<td>BASIC MATERIALS</td>
<td>28</td>
<td>111</td>
<td>25%</td>
</tr>
<tr>
<td>ENERGY</td>
<td>23</td>
<td>172</td>
<td>13%</td>
</tr>
</tbody>
</table>

246 2935

*There are four companies in the Diversified sector in the Russell 3000, but none have the committees in question.

Figure 4 - Comparison of Name Categories by Sector

CSR Committees at Russell 3000 Companies
S&P 100 Detailed Committee Analysis

In this section of the report, we present the results of a close examination of the board committees in place at S&P 100 companies as of August 2010. This in-depth analysis was conducted for the purpose of identifying all committees that have responsibility for environmental and social matters at these companies, whether or not a related word was found in the committee name. In order to determine if a committee has responsibility for oversight of these issues, committee descriptions and charters were reviewed in detail. As the definition of corporate responsibility and sustainability varies by company, consideration was given to each instance in which a committee charter indicated oversight of any of the following issues:

- sustainability
- corporate responsibility
- corporate citizenship
- environment
- human rights
- safety
- health
- social
- community

We also reviewed the specific functions the committee is tasked with performing, as well as the specific subject matter of the issues it is required to oversee. In the sections below, we include company examples in order to highlight some of the language companies use to describe various aspects of board oversight. As noted in Section I above, well-developed corporate responsibility statements of this kind may or may not correlate with overall environmental and social performance; but they provide useful illustrations of the ways some boards of directors are approaching these issues.

Committee Analysis

A majority (65%) of the S&P 100 explicitly provide for board oversight of corporate responsibility through a board committee charter, though the scope and depth of that oversight varies significantly.

As discussed previously, there are multiple ways in which companies include oversight of sustainability issues at the board level. A number of companies have delegated this responsibility to specialized committees, and others have this oversight deep in governance or compensation committee charters with small mentions of issues such as environment or diversity. Overall, more than half (65%) of the S&P 100 have a board committee with varying levels of responsibilities related to corporate responsibility issues. Six of these companies (American Electric Power Company, Bank of New York Mellon, Colgate-Palmolive, Occidental Petroleum, Time Warner and Wells Fargo) have two committees and one company (Exelon Corporation) has three committees which address these issues, so there are 73 committees in this analysis.

These committees were categorized as follows:
1. “Key – Not In Title”: A key board committee (i.e., Audit, Compensation, Risk or Nominating and/or Corporate Governance) which was identified from its charter or description as addressing sustainability issues, but which does not include a related word in the committee name.

2. “Key – In Title”: A key board committee (i.e., Audit, Compensation, Risk or Nominating and/or Corporate Governance) which also includes a corporate responsibility-related word in the name of the committee.

3. “Special”: A committee other than a key committee which has a corporate responsibility-related name.

As the chart to the left illustrates, having a special committee for these issues is the approach taken most often. Forty-seven of the 73 committees in this section of the study were non-key or special committees which included one or more corporate responsibility-related word in their name. (Companies such as HJ Heinz, McDonald’s, and Nike, specifically mention “corporate responsibility,” “social responsibility,” “sustainability,” or “corporate social responsibility” in their committee names, and others mention a range of sustainability topics.) The remaining 26 committees were key committees—primarily Nominating and Corporate Governance Committees—which duties include oversight of environmental and social matters (without this necessarily being reflected in the name of the committee). For example, Pfizer’s Corporate Governance Committee charter includes oversight of traditional board composition issues but also includes a mandate to “maintain an informed status on Company issues related to corporate social responsibility, public policy and philanthropy, and the Company’s participation and visibility as a global corporate citizen.”

The committees in the “Special” category were further organized into sub-categories based on the sustainability issues which are the focus of the committee, and using the same topics as in the Russell 3000 committee name analysis presented in Section II of this report above. As shown in the chart to the right, a large portion of the special committees studied for this portion of the analysis are Public Policy committees. Also, in keeping with previous findings, the broader Social Responsibility category is common among the larger companies in the S&P 100.

Figure 5 - CSR Committee Categories

Figure 6 - Special CSR Committee Issue Categories

47 Special CSR Committees at S&P 100 Companies
In sum, companies are taking different approaches to the adoption of board-level oversight of environmental and social matters. As noted in Section II of this report above, it is currently unclear whether these issues receive more attention if they are included in the purview of a key committee or when they are assigned to a special committee. However, our analysis did show that committees with a corporate responsibility-related word in their names – whether that committee was a key committee or a special committee – generally have more comprehensive oversight of corporate responsibility elements and issues than key committees whose charters give them oversight responsibility, but whose names do not include a sustainability-related word. Committees with sustainability terms in their names had oversight of twice as many corporate responsibility elements and 1.5 times as many issues, on average, than companies without such terms in committee names. To be sure, there are exceptions to this finding, such as Weyerhaeuser, which has fairly broad oversight through its Corporate Governance Committee, and US Bancorp and DuPont, which do not define the oversight of their boards’ committees expansively, despite using corporate responsibility-related words in their committee names.

**Board Oversight of Corporate Responsibility and Sustainability Elements**

While our review found that 65 of the S&P 100 companies have some level of corporate responsibility-related oversight, we also found, according to their charters, most boards of directors are focused on the basic elements of corporate sustainability such as policies and compliance. Over 90% (60 of 65) of the boards have committees that review and monitor compliance with corporate responsibility policies and management systems. We believe this level of oversight is necessary, but is not sufficient to demonstrate full understanding of the implications of environmental and social matters for a company’s operations. As shown in the chart below and the bullets that follow, board consideration of other factors quickly falls off from the high level of corporate responsibility policies oversight. This raises questions about how carefully boards are monitoring environmental and social matters and whether these issues are considered to be important to the overall success of the firm.

**Corporate Responsibility Factors that Boards Assess and the Relevance of Each to Boards**

- Policies- Over 90% (60 of 65) of boards review and monitor compliance with corporate responsibility policies and management systems. This is an important element of board oversight and a foundationally necessary building block as companies establish governance of environmental and social matters. However, much more is required of boards to ensure that management is including these issues in day-to-day operations and decisions across the company.

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2 The set of corporate responsibility and sustainability elements we reviewed was informed by "The Role of the Board of Directors in Corporate Social Responsibility" Conference Board of Canada, June 2008.
• Trends- Less than 50% (30 of 65) of boards monitor and provide recommendations on public policy, consumer, stakeholder, corporate, and general public trends, issues, and developments that could affect the company. Explicit oversight of corporate responsibility trends is essential because it helps the board fulfill its role as the primary steward of the long term success of the company. The board can also help to make sure that management is identifying opportunities and moving to take advantage of them.

• Strategy and Performance- Thirty-eight percent (25 of 65) of boards review and recommend corporate responsibility and sustainability strategies and plans; provide guidance to management on objectives and targets; and provide oversight and guidance on performance/progress. Board oversight of corporate responsibility strategy helps to ensure that the company has identified its most material sustainability issues and has developed a rational plan for managing them. Board monitoring of performance is an important indication of accountability and helps to hold management to established corporate responsibility objectives and public goals.

• Risk Management- Twenty-seven percent (18 of 65) of boards monitor and oversee sustainability risk management plans and review effectiveness of issue identification and management. Companies that manage risk effectively through the building and testing of environmental and social programs can avoid disruptions that at best distract from business operations and at worst lead to squandered reputations, lawsuits, or major compliance penalties.

• Stakeholder Engagement- Less than 20% (11 of 65) of boards review and monitor stakeholder relations; and consider opportunities for direct stakeholder input into board committee deliberations. This is important because direct interaction with stakeholders or monitoring of stakeholder views can help to broaden board members’ perspectives on challenges the company is facing potentially leading to new insights on business strategy. While boards must rely on management for most of the information about the company, having access to independent sources of information is important.

• Corporate Responsibility Report- Only 14% (9 of 65) of boards determine overall scope of, provide input on, and recommend board adoption of corporate responsibility reporting. Board oversight of this reporting is valuable because it is typically the most authoritative public statement on the company’s sustainability priorities, progress, and challenges. The corporate responsibility report is not only a reflection of where the company is, but it helps to define where the company is going and hence is an appropriate subject matter for the board. It is also an important indicator of accountability, as the board would have oversight of the public metrics and data the company is publishing.

• Incident Management- Ten percent (7 of 65) of boards review environmental and social incidents and remedial actions and monitor crisis readiness and emergency plans. While crisis management is the responsibility of the management team, the board ought to seek information on lessons learned during the response process. Further, the board should monitor reputational and legal issues related to any crisis and may even play a role in communications to assure key stakeholders that they are helping direct company resources to the solution. Finally, the board must make sure that management has established the appropriate internal systems to avoid any recurrence.

• Corporate Responsibility and Sustainability Assessment- Only 8% (5 of 65) of boards review and make recommendations on the environmental and social impacts of major business decisions. This is the least monitored aspect of corporate responsibility among the companies we reviewed, yet is a leading practice as it represents true integration of corporate responsibility into a company’s long-term planning and strategy. Baxter International and Ford Motor Company are among the few companies where the board considers the sustainability implications of significant operational changes.
As the chart to the right shows, many S&P 100 boards only monitor or consider one of the seven elements of corporate responsibility and sustainability oversight that we reviewed. Only 20% of companies with board oversight review policies, trends, and strategy/performance. Less than 10% cover policies, trends, strategy/performance, and risk management. The companies that have explicit oversight of these four basic corporate responsibility factors are Amgen Inc, Chevron Corp, ConocoPhillips, Kraft Foods Inc, Merck & Co Inc, and Weyerhaeuser Co.

**Board Oversight of Corporate Responsibility Issues**

This section of the report focuses on S&P 100 board oversight of specific environmental and social issues. To determine this oversight, we analyzed board committee charters for their specific mention of the corporate responsibility issues included in the chart below, and discussed further in the paragraphs that follow. Coverage of specific issues indicates a board’s recognition of the importance and materiality of the issue(s) to a company’s operations. This analysis helps differentiate companies that broadly speak about board oversight of these issues from those that identify their key material impacts. In short, inclusion of specific corporate responsibility issues within board committee charters demonstrates greater transparency and accountability and sends a clear message regarding which issues management and employees should be most closely managing.

**Environment:** Environment is the primary issue specifically mentioned by S&P 100 companies with board oversight of sustainability issues. Approximately 74% (48 of 65) of the companies in the data set cite environment within their board charters. In fact, three sectors lead the way with the broadest board coverage of this issue. The entire Utilities and Basic Materials sectors have board oversight of environmental issues. The Industrial and Financials sectors, including companies such as General Electric and American Express, come in second at 86%. The Consumer, Cyclical sector comes in last with less than 50% of the companies ensuring board oversight of environment issues.

Among the many corporate responsibility issues that boards cover, it comes as no surprise that environment is the most referenced. This is indicative of the broad acceptance that environmental factors are material to corporate performance. In fact, four companies – Halliburton, Occidental Petroleum, DuPont, and Dow Chemical – include the term environment as part of their board committee name. Further, there are instances where companies identify environment as a material issue to the company, but fail to specifically cite environment as part of the board’s mandate or responsibility. For example, in Target Corp’s 2009 Corporate Responsibility Report, the company states: “Our research shows that being a responsible steward of the environment is one of the most important issues that defines Target’s corporate reputation.” Unfortunately there is no indication that Target’s Corporate Responsibility Committee monitors the company’s environmental impact or work.
Community: Overall, community represents the second leading issue monitored by corporate boards. Note that for this study, community is not defined as philanthropy or corporate giving, but rather a company’s direct impact and possible interactions with surrounding communities given its operations. Nearly half (45%) of the 65 companies in the S&P 100 with some level of board oversight of environmental and social issues, mention community impacts within their committee charters. The Financial and Industrial sectors lead the way with board responsibility of this issue. Unfortunately, none of the companies in the Utilities sector reference community considerations in their committee charters and the sector as a whole stands out as a laggard.

Monsanto’s Public Policy and Corporate Responsibility Committee Charter:

- Review and monitor the performance of the Company as it affects communities, customers, other key stakeholders and the environment. Hold periodic meetings with stakeholders to understand external perspectives.

- Oversee the management of risks related to the Company’s interactions with communities, customers, other key stakeholders and the environment, including risks related to reputation.

The irony of the Utilities’ poor score is that the industry has come a long way on community issues. These companies often pride themselves on integrating community and stakeholders into their operations, but none of them cite community as part of board committee responsibilities. Entergy, for example, is a leader in harnessing the goodwill of the community and integrating community concerns post-Katrina, yet they have not explicitly integrated this accountability up to the Board. Considering the role these companies play in their communities and the critical importance of community support for the firms’ operations the lack of board oversight here is noteworthy.

Health and Safety: Health and safety have very similar levels of board oversight among the 65 companies with specific sustainability responsibilities. Safety considerations slightly edge out health, with 40% of the companies noting safety in board committee charters and health being cited by 37%. With respect to employee health considerations, the Utilities and Energy sectors are the leaders with 75% of boards mentioning health. The Utilities and Industrial companies have the most inclusion of safety concerns at the board-level. The laggards were identical for both health and safety with the Technology, Communications and Financial sectors having no specified board oversight of either health or safety issues.

Since the main products of Energy companies are combustible and potentially explosive and employees often work in dangerous environments, it is critical that energy companies manage their health and safety risks. While the sector as a whole tends to include oversight of both health and safety, two companies, Schlumberger and Williams Companies, do not have any board responsibility of health or safety. Williams’ Corporate Responsibility reports indicates that the Board’s Nominating and Governance Committee “oversees the Environmental, Health and Safety Function,” however, there is no explicit reference to environment, health or safety in the board charter.
**Diversity:** Diversity is the third most frequently cited issue among the companies in this data set. Approximately 43% (28 of 65) of the companies monitor employee diversity according to their committee charters. In the Communications sector, which includes companies such as AT&T and Time Warner, 75% of the boards have diversity oversight. The Technology sector is the clear laggard with only one company, IBM, referencing diversity as part of board responsibility.

Coca-Cola Company is a solid example of board oversight of diversity issues through its Public Issues and Diversity Review Committee. In fact, Coca-Cola is the only company that has the term diversity in a board committee name.

**Human Rights:** Human rights are at the bottom of the issue list with the least level of board-level oversight among the S&P 100 companies in this data set. Only 11% (7 of 65) of the companies reference or cite human rights in committee charters. In fact, only four sectors include any level of oversight of this issue – Financials at 29%, Consumer, Non-Cyclical at 20%, and Basic Materials and Energy at 17% and 13%, respectively. The remaining five sectors – Technology, Industrial, Consumer Cyclical, Utilities and Communication – have no oversight or reference to human rights within their board charters.

The most detailed oversight of human rights comes from Freeport-McMoRan Copper and Gold, a large extractives company with operations across the globe. According to the company’s Public Policy Committee charter, “The Committee will periodically review and update the Company’s Human Rights Policy, and will receive regular reports from the Company’s Human Rights Compliance Officer regarding ongoing compliance programs relating to the policy and any reports of possible human rights violations. The Committee will also review the results of each annual employee certification regarding compliance with the policy.” In contrast, the other board charters typically reference human rights in some variation of reviewing human rights policies within companies and/or monitoring those issues.

In general, these results raise questions as to why the issue of human rights is given such a low level of oversight by S&P 100 corporate boards.

**Social:** Finally, we reviewed committee charters for the term “social.” We found that 40% of companies in question cite oversight of social issues. Both of the Consumer sectors and the Technology sector have the highest level of oversight, with Communications coming in close behind. Interestingly, there was a huge gap between the leaders and laggards. There was no mention of oversight of social issues by any of the companies within the Industrial and Utilities sectors.

While the term social is often synonymous with other terms such as health, safety, diversity, and community that were analyzed separately in committee charters, it is not presumed the meaning was always the same. For example, in the Consumer, Non-Cyclical sector, Baxter International, Colgate-Palmolive, HJ Heinz, and Kraft Foods cite social in their board committee charters and also have oversight of at least three of the other related issues. This suggests that companies may interpret social as other factors not assessed in this review.
**Sector Analysis**

Next, we analyzed S&P 100 board coverage of environmental and social issues by sector for the purposes of understanding if different sectors were more likely to include sustainability oversight and to determine which companies were lagging their sector peers in adopting board coverage of these issues. The chart below shows both the number of S&P 100 companies within each sector and the prevalence of oversight of corporate responsibility and sustainability within those companies.

All of the S&P 100 companies in the Utilities and Basic Materials sectors have coverage of these issues at the board level. It should be noted though, that both of these sectors are the smallest within the S&P 100 and this may not be indicative of the broader sector. The Communications and Financials sectors are laggards with respect to sustainability oversight at the board-level. Only 4 of 11, or 36%, of the companies in the Communications sector include these commitments at the board-level. (Note that the methodology here differs from that used in Section II above on Russell 3000 committee name categorization. In Section II, we present the percentages of corporate responsibility-related committees that are found at companies in each sector. We then compare these numbers to each sector’s weight in the index in order to see where the committees are overrepresented. Here, we present the percentage of companies in each sector that have at least one corporate responsibility-related committee.)

The tables below provide a snapshot of the S&P 100 broken down by sector and indicate whether each company includes oversight of environmental and social matters in a board committee charter.

<table>
<thead>
<tr>
<th>Basic Materials</th>
<th>Alcoa Inc</th>
<th>Yes</th>
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<tr>
<td>DOW Dow Chemical Co</td>
<td>Yes</td>
<td></td>
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<td>DD El Du Pont de Nemours &amp; Co</td>
<td>Yes</td>
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<tr>
<td>FCX Freeport-McMoRan Copper &amp; Gold Inc</td>
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<td>MON Monsanto Co</td>
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<td>WY Weyerhaeuser Co</td>
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Every company in the Basic Materials sector includes some level of board sustainability oversight. Given the environmental and social impacts of these companies, we are not surprised to see this commitment and oversight by the sector. The approaches within the sector vary, though environmental management is a high priority with companies such as DuPont which has an Environmental Policy Committee. The sector focuses on risk management and policy as the primary tools of their oversight. Weyerhaeuser stands out among this sector for having explicit coverage of sustainability policies, trends, strategies and performance, and risk management. The company is one of just a handful in the S&P 100 to have board oversight of all four of those elements, which it has located in its Corporate Governance and Compensation Committee. Another interesting element of Weyerhaeuser’s board oversight is an explicit statement in that committee’s charter that refers environmental issues with potential financial materiality to the Audit Committee.
The Communications sector has the lowest level of board oversight with only AT&T, Time Warner, Qualcomm, and Verizon including issues such as environment, community, and diversity within committee charters. Some companies may engage their board on corporate responsibility and sustainability issues without specifying this oversight within committee charters. An example here is Cisco Systems, where its 2009 report mentions that the Board of Directors is involved in oversight of sustainability issues, though a review of their committee charters demonstrates that the company has failed to assign these responsibilities to any one committee, which is an important indication of accountability.

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<th>Communications</th>
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In the Consumer, Cyclical sector a majority (70%) of boards oversee environmental and social practices. This sector’s approach tends to focus on reviewing policies, performance strategies, and plans. For example, McDonald’s mentions that its Corporate Responsibility Committee is to “act in an advisory capacity to the Board of Directors and management with respect to policies and strategies that affect the Company’s role and its reputation as a socially responsible organization.” This sector also includes the highest proportion of stand-alone sustainability-focused board committees with Ford's Sustainability Committee, and McDonald’s, Nike, and Target each designating a Corporate Responsibility Committee. Further, Nike and McDonald’s boards monitor stakeholder engagement and assess the environmental and social impacts of major business decisions.

<table>
<thead>
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<th>Consumer, Cyclical</th>
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<td>CVS</td>
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**Charter of the Corporate Responsibility Committee**

The Corporate Responsibility Committee shall be composed of at least two members of the Board of Directors. The Committee shall review NIKE’s significant activities and policies regarding labor and environmental practices, community affairs, charitable and foundation activities, diversity and equal opportunity, and environmental and sustainability initiatives, and make recommendations to the Board of Directors.

More specifically, the responsibility and duties of the Corporate Responsibility Committee shall include:

1. Review the activities of the NIKE Foundation and community involvement by NIKE on a regular basis.
2. Review and provide guidance to management on environmental impact, and sustainability issues.
3. Review, provide guidance to management, and report to the Board of Directors on NIKE’s labor practices, and review reports of the NIKE’s internal labor and environmental compliance audits.
4. Review, provide guidance to management, and report to the Board of Directors regarding the involvement of significant corporate responsibility issues in major business decisions, to protect NIKE’s valuable goodwill, and human and intellectual capital.
5. Review and report to the Board of Directors regarding NIKE’s engagement of environmental or labor auditors, and NIKE’s work with industry organizations and non-governmental organizations concerning corporate responsibility.
6. Review and make recommendations to management on reporting to shareholders and other communities regarding corporate responsibility activities.
7. Perform such other duties and functions as may, from time to time, be assigned to the Committee by the Board.
The Consumer, Non-Cyclical sector is the largest and makes up nearly a quarter of the overall S&P 100. The sector is representative of a variety of industries including healthcare, cosmetics, food, and pharmaceutical companies. As there is a wide range of industry represented, there are a series of sustainability issues covered. A majority of these companies refer to general oversight of environmental and social issues; however a few companies including Colgate-Palmolive, HJ Heinz, and Kraft Foods specifically mention oversight of human rights. More than half of the companies in the Consumer, Non-Cyclical sector have board oversight of trends and risk management and a third monitor stakeholder engagement. Given the fact that many of these companies produce products that are literally ingested by people this focus on risk is understandable. The prevalence of board focus on public policy and consumer trends is also appropriate given the potential for rapid changes in food and pharmaceutical safety regulations and shifting consumer tastes.

In the Energy sector, we see that nearly all of the companies with the exception of Devon and National Oilwell Varco have board oversight of corporate responsibility and sustainability issues. For an industry with such high impacts, it is critical that boards oversee issues such as environment, health, and safety. Though, as the BP oil spill of the Spring and Summer of 2010 revealed, simply having board oversight is not enough. Boards must ask tough questions about the levels of risk management in place before a crisis occurs. Only 2 of 9 companies describe sustainability risk management as part of the board’s role and only one of nine boards oversees incident management.

In the Financials sector, slightly less than half of the boards include oversight of sustainability issues. While sustainability issues are not currently as high profile in this sector as its dramatic failures of financial risk management, issues such as community engagement and workplace practices do have a material impact on these companies and as such should be dealt with at the board-level. The link between the board’s role in setting compensation policy for senior management, environmental and social matters, and the recent financial crisis may be revealing. Notable companies without coverage here include Bank of America and Morgan Stanley. JP Morgan Chase stands out for a thorough description of its Public Responsibility Committee’s activities in the 2009 Corporate Responsibility Report.
In the *Industrial* sector, exactly half of the companies include board oversight, all of which include coverage of corporate responsibility policies. However, none of them have stated oversight of sustainability reporting nor do any formally review the environmental and social impacts of major business decisions. General Electric stands out in the sector for the most comprehensive coverage including describing the board’s oversight of sustainability issues and its related governance framework in its 2009 Citizenship Report.

<table>
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<tr>
<th>Industrial</th>
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<tr>
<td>CAT</td>
<td>Caterpillar Inc</td>
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<td>GD</td>
<td>General Dynamics Corp</td>
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<td>GE</td>
<td>General Electric Co</td>
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<td>HON</td>
<td>Honeywell International Inc</td>
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<td>LMT</td>
<td>Lockheed Martin Corp</td>
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<td>RTN</td>
<td>Raytheon Co</td>
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<td>UTX</td>
<td>United Technologies Corp</td>
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<td>MMM</td>
<td>3M Co</td>
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<td>BA</td>
<td>Boeing Co</td>
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<td>FDX</td>
<td>FedEx Corp</td>
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<tr>
<td>NSC</td>
<td>Norfolk Southern Corp</td>
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<tr>
<td>UPS</td>
<td>United Parcel Service Inc</td>
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Nearly the entire *Technology* sector has board oversight of sustainability, the only exceptions being Apple, Oracle, and Xerox. In March of 2010 after engagement by Harrington Investments Intel’s board modified its Corporate Governance and Nominating Committee’s oversight of sustainability issues and notably the board sought a legal opinion that stated that under Delaware corporate law directors have a fiduciary duty to monitor corporate responsibility issues and performance.

<table>
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<th>Technology</th>
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<td>DELL</td>
<td>Dell Inc</td>
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<td>HPQ</td>
<td>Hewlett-Packard Co</td>
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<td>International Business Machines Corp</td>
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<td>TXN</td>
<td>Texas Instruments Inc</td>
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<td>AAPL</td>
<td>Apple Inc</td>
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<td>ORCL</td>
<td>Oracle Corp</td>
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<td>XRX</td>
<td>Xerox Corp</td>
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**Excerpt from letter in 2009 Citizenship Report from Sam Nunn, Committee Chair, Public Responsibilities Committee and Member, GE Board of Directors:**

“Our public policy committee’s engagement with GE’s leadership focuses not only on its plans and actions, but also on how these plans are executed, particularly when reviewing compliance, safety, environmental, human rights, and other risks and opportunities. Our committee is reassured by management’s commitment to ethics, integrity and sustainability in its plans and execution, by management’s recognition that this commitment must be part of the GE culture, and by management’s commitment to deliver on expectations, including healthymagination and expanded ecomagination objectives.

Most importantly, our board is reassured by the GE team’s understanding that we do not have all the answers — that there is room for improvement, and that this improvement depends on engagement and dialogue with others. Our committee is confident that our GE team, led by Jeff Immelt, Brackett Denniston, and Bob Corcoran, fully understand that we must listen to learn and to lead. This report reflects this understanding and this continued GE commitment.”
Every company within the Utilities sector includes some level of sustainability oversight. Issues such as safety and environment are material risks for this sector and we are pleased to see each of these companies incorporate them into board oversight. American Electric Power’s Nuclear Oversight Committee monitors safety, waste and environmental policy, performance and more for the nuclear power generating assets of the company. Yet beyond monitoring the company’s sustainability report, the board does not appear to have oversight of environmental and social factors for the rest of the company’s operations, including its coal and natural gas/oil fired power plants, which provide most of the company’s generating capacity. In contrast Southern Company’s related board committee oversight extends to “significant operating segments, including nuclear operations, power generation and transmission facilities.”

The key message here is not surprising. As noted above in our discussion of the Russell 3000, companies in the fields which traditionally have been scrutinized for their negative impact on the environment and poor labor practices – those in the Energy, Basic Materials and Utilities sectors – are more likely to have board committees with corporate responsibility-related words in the name. That correlation also exists in the S&P 100, where these sectors have the highest proportion of companies with explicit board oversight. Meanwhile, companies in fields which may not have such concerns – those in the Technology, Communications and Financial sectors – are less likely to address environmental and social impacts through a board committee focused on these issues.
**S&P 100: Committee Practices & Demographics**

As noted in our introduction, it is not possible on the basis of public documents to ascertain what actually goes on in a boardroom, and so the quality of board oversight of sustainability matters at the companies with these committees remains an open question. However, in this section we sought to examine some of the data that can provide an indication of how these committees operate in practice.

We first analyzed the size of the committees and the frequency of the committee’s meetings. In general, the optimal size for a board committee is between three and six members. With fewer than three committee members, the board may not benefit from the focus and attention of enough members to thoroughly address the issues at hand; with too many members, the committee may lose focus and likely will not allow for an effective use of the members’ time and expertise. The S&P 100 committees with responsibility of environmental and social matters generally fall within this range: committee size ranges from 1 to 10 members, with an average of five. More than half (56%) of the committees studied have either four or five members.

Generally, it is common for a committee to meet each time the board gets together for a board meeting. At the least, committees should meet quarterly to ensure that the issues they are tasked with overseeing are being addressed appropriately. Here too, the corporate responsibility committees at S&P 100 companies comply with standard practice: The number of meetings held by the committees in our study in the most recently reported year ranged 1 to 11 meetings, with an average of five.

**Committee Member Demographics**

In terms of age and tenure, the directors serving on the S&P 100 corporate responsibility committees are typical of the director pool for those companies generally.

There are 322 directors serving on the 73 committees included in this study. Twenty-eight of these directors serve on two committees studied and six directors serve on three committees studied. Therefore, the total number of directorships studied is 362.¹

The average age among the directorships studied is 64 years. This is slightly older than the average age of all 1,191 directors serving on the S&P 100 companies studied, which is 62 years. The average age of directors serving on all companies in the Russell 3000 index is 61 years.

On average, the directors serving on these corporate responsibility-related committees have been on the board for 9 years. This compares to an 8-year average tenure among directors serving on all S&P 100 companies. The average tenure of directors serving on all companies in the Russell 3000 index is also 8 years.

**Women on Corporate Responsibility-Related Committees**

A study of the gender of the directors serving on the corporate responsibility-related committees of the S&P 100 boards reveals that one-quarter (25%) of the 322 directors serving on these committees at S&P 100 companies are female. This is notably higher than the 18% of the 1,191 directors serving on S&P 100 companies who are women.

¹The demographics statistics presented include the duplicates for those directors who serve on multiple committees, unless otherwise noted.
When we further examine the service of the female directors on the committees under study, we find that female directors are more likely to serve on more than one of these committees than are male directors. There are 34 directors in this portion of our study who serve on more than one corporate responsibility-related committee. Of these 34 people, 12 (or 35%) are women. In other words, among the relatively few people who serve on more than one corporate responsibility-related committee, more than one-third are women, although only a quarter of the director group under study is female.

Moreover, among the companies that have a woman on a committee in this data set, many have either more than one woman on that committee or have more than one corporate responsibility committee, each with a female director. Specifically, 27 of the 65 companies studied had more than one woman/committee combination (i.e., either: 1) one woman on two or more committees or 2) more than one committee with at least one woman serving on each).

The findings regarding the prevalence of women on corporate responsibility-related committees suggest many directions for further study. First, it would be valuable to examine the statistical significance of these findings, and to see whether similar results are found after replicating our S&P 100 study for a larger group of companies (for example, the S&P 500). It might also be useful to break the gender results down by sector or industry to identify patterns: for example, are the committees in question more prevalent at companies in industries which tend, for a variety of reasons, to have more female directors? If female overrepresentation appears to persist even when taking industry into account, learning more about the creation of the committees, and the biographies of the directors involved, might also help explain any female overrepresentation. For example, is there a higher representation of women on these committees because women are more likely to have experience in corporate responsibility positions? If this is the case, are the women selected for board service due to their corporate responsibility and sustainability-related experience and then placed on an existing committee, or do the women with the relevant experience suggest or facilitate the creation of such a committee after having joined the board? These are questions for further research.
Key Findings & Recommendations

As the financial materiality of environmental and social matters continues to gain widespread acceptance, boards of directors are increasingly taking on responsibility to oversee their companies’ risks and opportunities in these areas. However, the current study indicates that much remains to be done to encourage more frequent implementation of board-level responsibility for sustainability and to increase the sophistication of boards’ oversight where it already exists. In addition, much more research is needed into the ways various boards approach governance, and the effectiveness of these approaches in terms of performance. The following are recommendations for future research and investor engagement.

Research

• The governance-performance link for environmental and social matters
  As with so many issues in corporate governance, the key question is whether a particular governance practice or policy shows a correlation with positive results in the area it is designed to address. It would be instructive to study board oversight of environmental and social issues in conjunction with particular companies’ or industries’ handling of these matters, either with regard to particular issues or more generally.

• Committee characteristics
  More research could be done to investigate the prevalence of key committees (such as Audit or Governance) whose charters give them oversight of corporate responsibility and sustainability although their names do not. It would also be interesting to study the degree to which key committees, whether or not they have a corporate responsibility-related word in their names, differ in effectiveness from committees specializing in sustainability issues.

• Director biographies
  Our study did not examine director biographies. It would be useful to explore the backgrounds of directors on corporate responsibility-related committees, and how they differ from those of the director pool at large. Further research might also look at nominating committee charters to see whether boards include environmental and/or social experience as a factor in director candidate searches.

• Women’s role
  Our study suggests that women directors may be overrepresented on corporate responsibility-related committees, but more research would be needed to ascertain why it might be the case and what the implications of this finding may be.

• Corporate Sustainability and Compensation
  An additional avenue for further research is whether sustainability metrics are incorporated in the process of designing CEO compensation (a key board responsibility) at boards that also have a committee overseeing environmental and social issues. Setting executive compensation is one the most important means the board of directors has to guide management and therefore a board focused on sustainability performance may want to link such performance to compensation incentives.
Investors

• Investors should urge companies of all sizes to establish board oversight of environmental and social issues

As they do for other key governance issues, investors should pay attention to board responsibility for environmental and social issues. Investors should not limit their inquires and recommendations for board responsibility of these issues to Russell 1000 companies only, but should press all companies for implementation of similar oversight. The results of this report indicate a large difference in board oversight of sustainability issues between the Russell 1000 companies and the Russell 2000 companies. There also tends to be a similar trend in overall sustainability reporting, with Russell 1000 companies disclosing far more information. Perhaps there is a correlation between board oversight and overall reporting? While Russell 2000 companies are smaller, they face many of the same sustainability risks as Russell 1000 companies.

• Encourage expansion of existing corporate responsibility and sustainability commitments to include director involvement

Many of the companies we reviewed have compelling letters from the Board Chair or CEO in their sustainability reports on the importance of corporate responsibility and sustainability to the business. Yet, often in spite of these strong statements, there is a lack of clearly-stated oversight of the intersection of the business, governance, and sustainability issues from the board of directors. This could be reflected in a description of a corporate responsibility governance framework showing the responsibilities and reporting structures from the board to senior management to other key sustainability and operations positions, and of course it could be described in board committee charters.

• Encourage detailed disclosure of boards’ approach to environmental and social matters

Currently, there is very little information on how companies are integrating oversight and management of environmental and social risks and opportunities at the board-level. Investors are often limited to disclosures in sustainability reports where we often are told that boards are involved in the process. However, it is important that investors and other parties are able to truly understand how boards manage these issues. We believe companies could disclose information regarding the impact their board has had on their corporate responsibility policies and/or programs and the type of data they are supplying to the board. Instead – as is often the case with other governance issues as well – we are often left with boiler plate disclosures that just mention the existence of board oversight.

If a commitment to corporate responsibility oversight is not made through a specific written mandate, investors cannot be sure that in times of CEO or other key board/management transitions that the commitment to oversight will continue. By amending committee responsibilities to specifically include oversight of environmental and social issues, companies are publicly committing themselves to management and oversight of these issues, providing an important element of accountability.

• Request information on director nominations and appointments

As the importance of board oversight of sustainability issues is increasingly accepted, boards may want to consider adding expertise and experience on particular environmental and social issues to the set of factors they consider when selecting board candidates. Investors, equipped with proxy access rights may also consider related experience when nominating candidates for board seats. Boards could also
disclose the qualifications and characteristics that lead certain directors to be appointed to corporate responsibility-related committees, and could consider providing training to help directors perform their oversight roles more effectively.

• Request discussion of materiality

While our findings do conclude that a majority of S&P 100 companies mention environmental and social issues within their committee charters, we still do not have evidence that this majority is actually focusing on the issues most material to their operations. There is some uniformity around the Utilities and Industrial sectors where all companies mention health and safety as key issues their board oversees. However, with so few companies actually specifying what the Board’s oversight of these issues includes, it is nearly impossible to hold boards accountable for the key environmental and social risks of their company.

Environmental and social data disclosures are of growing importance to a wide range of stakeholders. It seems very few companies ensure that the Board manages corporate responsibility-related disclosures the same way in which they would oversee a company’s financial disclosures. As investors’ definition of materiality continues to expand, Boards need to be engaged in discussions surrounding the collection and accuracy of this information.
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