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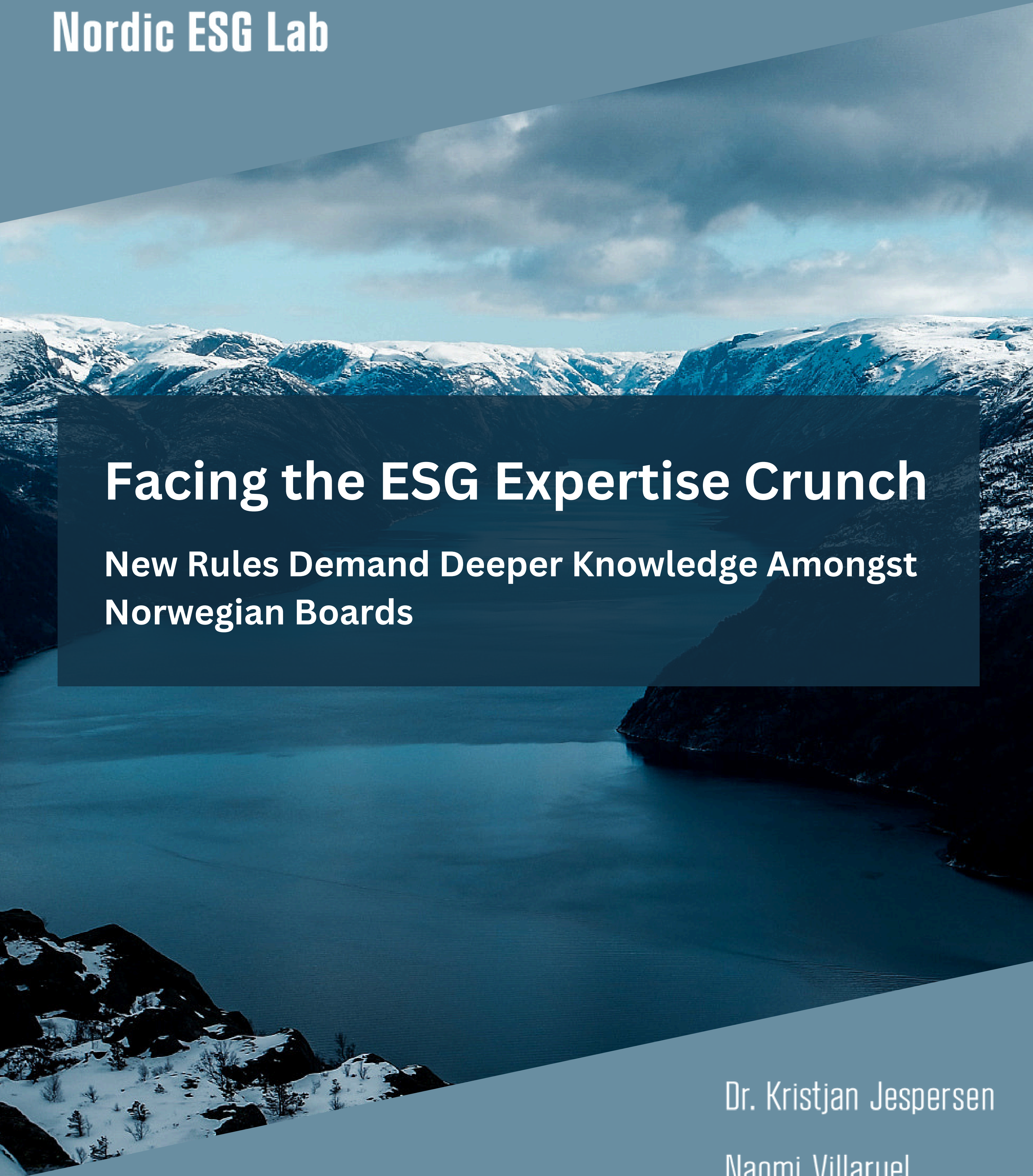

Facing the ESG Expertise Crunch

New Rules Demand Deeper Knowledge Amongst Norwegian Boards

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ACKNOWLEDGEMENTS

I would like to extend my heartfelt thanks to my student assistants, Naomi Villaruel and Walter Bachmann, for their invaluable contributions and dedication throughout the development of this report. Their hard work and insights were instrumental in bringing this project to fruition.

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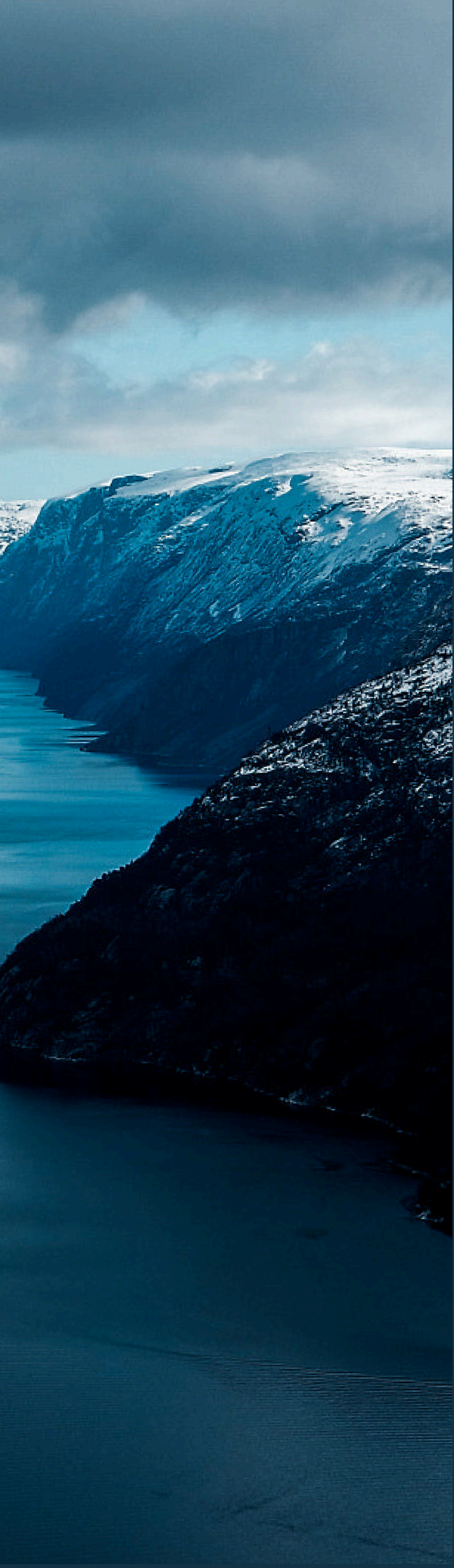


Highlights

- **ESG Expertise Gap:** Most Norwegian boards lack sustainability expertise, with 61% only meeting minimal standards. None fully align with sustainability needs.
- **Global Standards Impact:** New global standards like IFRS S1, IFRS S2, and European Sustainability Reporting Standards are pushing Norwegian boards to improve their sustainability knowledge.
- **Comparative Performance:** Norwegian boards slightly outperform other Scandinavian countries in sustainability, but still fall behind the global average in board competency.
- **Employment Challenges**: A major issue is the lack of sustainable practices experience, with 65% of boards having no professional expertise in this area, highlighting the need for better training and diversity.
- **Top Performer**: Wilh. Wilhelmsen stands out with a 34% competency score, well above the national average, showcasing the value of diverse expertise in effective governance.

Why are board ESG Competencies Important?

In today's corporate landscape, board members are steering through novel territories, propelled by the growing imperative for proficiency in sustainability. This urgency is driven by two primary forces that are reshaping the foundational aspects of corporate governance on a global scale. Initially, the evolution within a myriad of sustainability evaluation frameworks signifies a shift towards more rigorous standards and ambitious benchmarks. Such progression demands from directors a deeper engagement and adeptness in sustainability matters. Notably, the advent of global sustainability disclosure initiatives, including the International Sustainability Standards Board's (ISSB) introduction of IFRS S1 and IFRS S2, along with the European Sustainability Reporting Standards, is revolutionizing the way corporations are governed. These frameworks require a thorough disclosure of sustainability and climate-related risks and their potential impacts on financial performance, urging boards to ensure their governance structures possess the requisite knowledge to navigate these domains effectively.

The emphasis on sustainability is further heightened by the forthcoming Corporate Sustainability Due Diligence (CSDDD) directive, which mandates a clear evaluation and recognition of board and management efforts towards sustainability achievements. This directive accentuates the necessity for boards to employ robust mechanisms for assessing their contribution to sustainability goals. Additionally, the escalating regulatory landscape across various jurisdictions, including the U.S., U.K., Canada, Australia, India, Singapore, and Hong Kong, adds another layer of complexity. For example, the U.S. Securities and Exchange Commission's focus on transparent sustainability reporting[1] and California's legislative advancements in climate disclosure standards[2] underscore the demand for accountability in corporate practices related to environmental stewardship.

1 Securities and Exchange Commission. (2024). The Enhancement and Standardization of Climate-Related Disclosures for Investors. Retrieved from https://www.sec.gov/rules-regulations/2024/03/s7-10-22.

2 California Legislative Information. (2023). Assembly Bill No. 1305. Retrieved from https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202320240AB1305.

Amidst urgent imperatives, investors and corporate executives face a significant challenge: the absence of comprehensive methodologies and data to gauge a board's capacity to address the intricate spectrum of sustainability challenges today's companies encounter. The concept of "sustainability readiness" remains underexplored among board members. Key global sustainability data providers like Refinitiv, MSCI, and ISS typically assess board sustainability competence based on basic criteria such as the presence of a sustainability committee, publication of sustainability reports, or integration of sustainability metrics into compensation frameworks. While essential for board preparedness, these factors alone cannot fully measure a board's effectiveness in navigating complex sustainability policies and critical material issues impacting financial and sustainability outcomes. The true litmus test lies in directors' individual expertise, their ability to contribute essential insights, and their extensive experience in posing incisive questions, providing strategic counsel, and adeptly managing regulatory complexities. Further information on the evaluation systems and criteria can be found in the Table 1 below.

ESG evaluation systems	Evaluation Criteria
ISS ESG Governance QualityScore	• Existence and independence of sustainability commitee • Disclosure of environmental performance for incentive plans • Vote support for E&S shareholder resolutions
MSCI Corporate Governance Score	• Board independence and diversity
Sustainalytics Corporate governance company report	• Existence of various ESG policies and reporting • Existence of board member/ committee responsible for ESG oversight
LSEG ESG governance pillar scores	• ESG reporting and transparency (under CSR strategy)
Vigeo Eiris ESG score governance pillar	• A "board of directors" criteria, no deeper breakdown available
S&P Global Governance profile	• Governance structure and oversight • ESG disclosure and existence of sustainability report
Bloomberg Board Composition Scores	• Diversity, refreshment, director roles, independence
Thomson Reuters ESG data	• Existence of CSR sustainability commitee, external audit, report
Infometrics Corporate governance rating	• Board composition and functioning
Brickwork Ratings Corporate governance rating	• Board composition and effectiveness (decision-making)
Crisil Corporate governance grading	• Board performance

Table 1. Representation of the evaluation criteria of different ESG evaluation systems globally.

Employing the Optimal Instrument at the Precise Moment

The innovative assessment tool, a collaboration between Copenhagen Business School and Competent Boards, revolutionizes the evaluation of corporate directors' aptitude in sustainability governance. Leveraging publicly accessible data, this tool meticulously appraises the potential of individual board members to effectively manage sustainable business practices. It assigns a distinct score to each director, grounded on five pivotal attributes that are instrumental to exemplary sustainability leadership:

1. **The Role Score:** This metric gauges a director's competency through an analysis of their previous professional titles and roles related to sustainability, offering insight into their practical experience and leadership in the field.

2. **The Sustainability Employment Score:** It scrutinizes a director's tenure at organizations renowned for their commitment to sustainability, thus reflecting the depth of their immersion in sustainable business environments.

3. **The Committee Score:** This score evaluates a director's engagement in board committees dedicated to sustainability, highlighting their active involvement in steering sustainability initiatives.

4. **The Service Experience Score:** By examining a director's participation in relevant governing bodies, foundations, and both intergovernmental and non-governmental organizations focusing on sustainability, this score underscores their broader commitment to environmental and social governance issues.

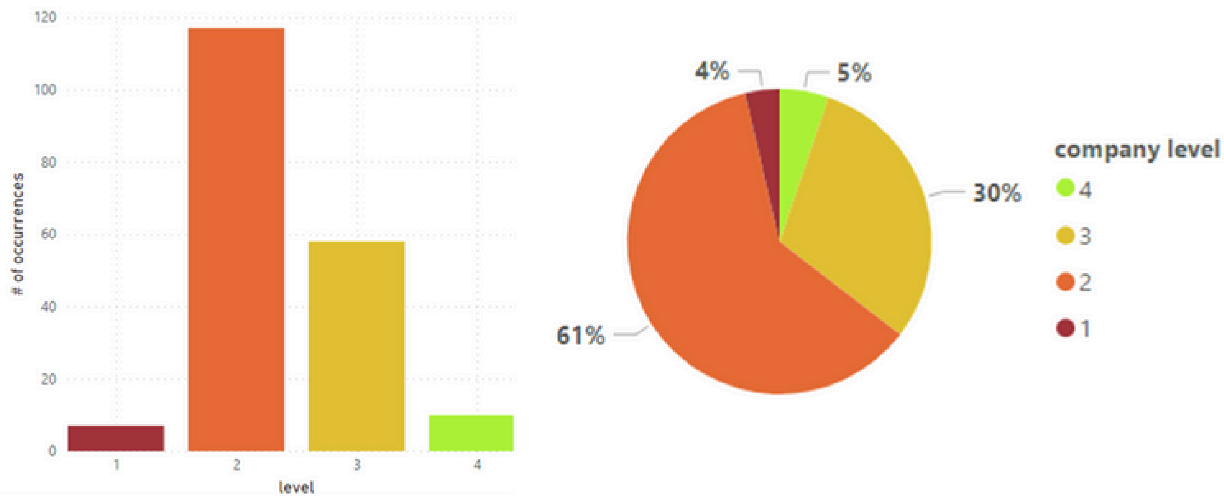
5. **The Education Score:** Leveraging academic achievements to infer a director's understanding of sustainability challenges, this score underscores the importance of formal education in shaping a director's approach to sustainability governance.

What distinguishes this tool is not just its analytical depth in evaluating individual directors' proficiency in sustainability, but its sophisticated aggregation methodology detailed in Appendix A. This approach not only assesses each director's score in isolation but also considers their influence on the board as a whole. Factors such as a director's age, tenure, and the collective distribution of sustainability expertise across the board are meticulously factored in, offering a nuanced and comprehensive view of the board's collective capability to navigate the complexities of sustainable governance.

Key Findings From the Assessment

The assessment of board members' professional acumen is achieved through an intricate synthesis of multiple dimensions: the role score, sustainability employment score, service experience score, and committee score. Parallelly, the academic dimension is captured by the education score. This metric meticulously evaluates the formal academic backgrounds of board members, with a particular emphasis on their specialization and training in domains directly applicable to their governance roles. It prioritizes the acquisition of expert knowledge and skills that are critical for fulfilling their responsibilities on the board, underscoring the value of targeted educational pathways in enhancing board members' effectiveness in oversight and decision-making within the context of their organizational duties.

Figure 1. Companies by levels



Comparison between Norway and other Scandinavian Boards.

In assessing the ESG performance of Norwegian boards, it becomes evident that there is a need for enhanced alignment between board competencies and sustainability requirements. The current landscape is characterized by a predominant ranking at level 2 out of 5, with a significant portion of the stock market reflecting this score. 61% of the stock market falling into this category. This ranking suggests that while there is some awareness and integration of ESG principles, it remains at a relatively nascent stage. The majority of companies are still in the early phases of developing robust ESG strategies that are fully integrated into their governance structures.

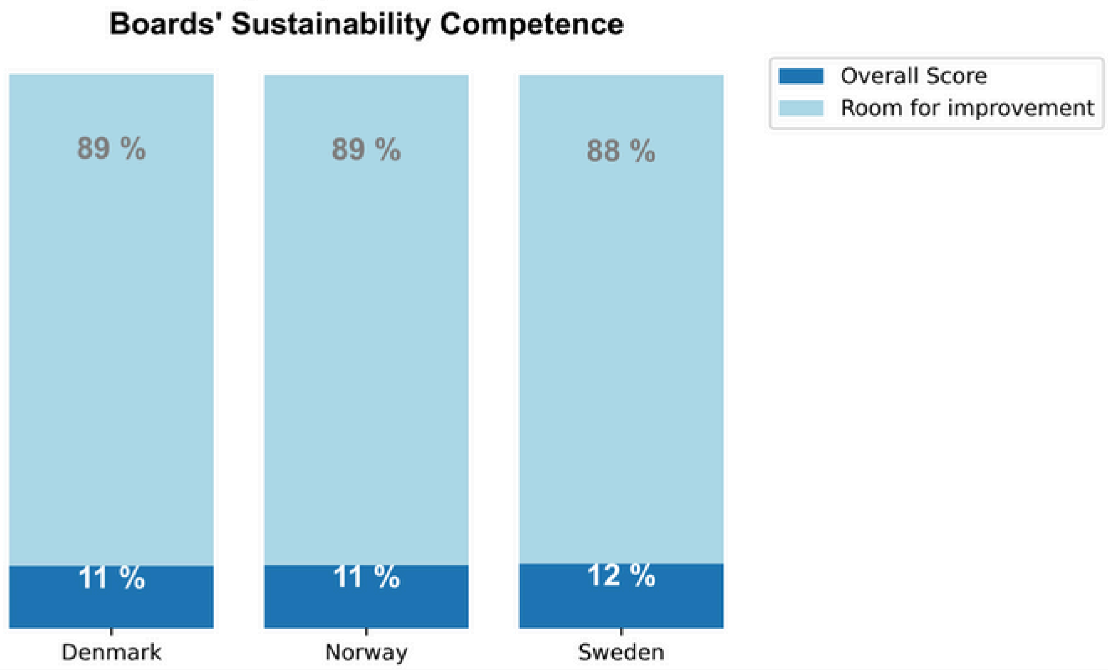
Higher Scores Indicating Improved Alignment

Despite the predominance of level 2 rankings, 35% of the Norwegian stock market achieved a score of 3 or 4. This subset of companies illustrates a degree of improved ESG board alignment, particularly based on their sectoral materiality assessment. These firms are beginning to align their board competencies more closely with their specific sustainability needs, demonstrating an awareness of the importance of ESG factors in driving long-term value.

Absence of Perfect Alignment

Notably, no companies in Norway have boards whose competencies were perfectly aligned with their sustainability needs, indicating a gap in achieving optimal ESG governance. This absence of perfect alignment underscores the challenges faced by Norwegian firms in integrating ESG considerations at the board level. It highlights the need for a strategic focus on enhancing board competencies to meet the evolving demands of sustainability.

Figure 2. Boards' Sustainability Competence



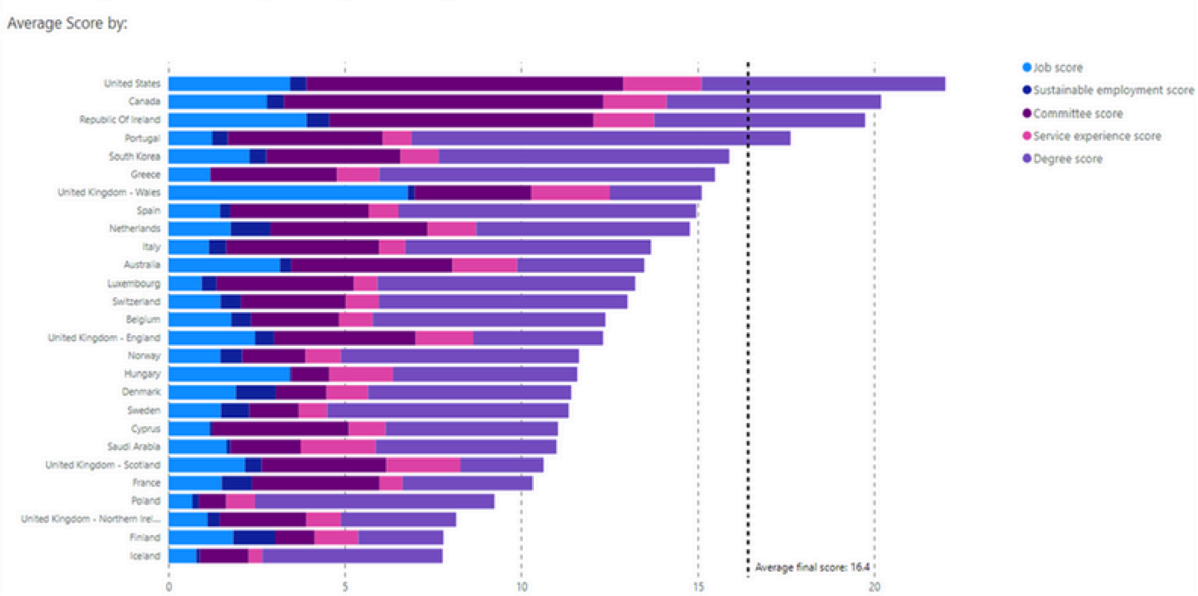
The overall score for all Scandinavian countries is made up of Professional and Academic scores. Professional score of board members is determined through a comprehensive amalgamation of various factors, including role score, sustainability employment score, service experience score, and committee score. Academic score reflects the education score. This particular score focuses on analyzing the formal education of board members in areas relevant to their board roles, placing a premium on specialized knowledge and training in fields pertinent to their governance responsibilities.

While all three Scandinavian countries have almost exactly the same overall score, the room for improvement is almost 90% across Norwegian, Swedish and Danish boards.

Comparison to other countries

Norway registers a board competency score of 12%, falling short of the average international benchmark of 16.4%. While marginally surpassing the scores of its Scandinavian peers, Sweden and Denmark, the disparity underscores a substantial opportunity for enhancement in boardroom proficiency across the region. Notably, the potential for growth in board competency exceeds 85% for all Scandinavian countries.

Figure 3 Average Board Competency Score by Professional and Academic Scores Across Countries

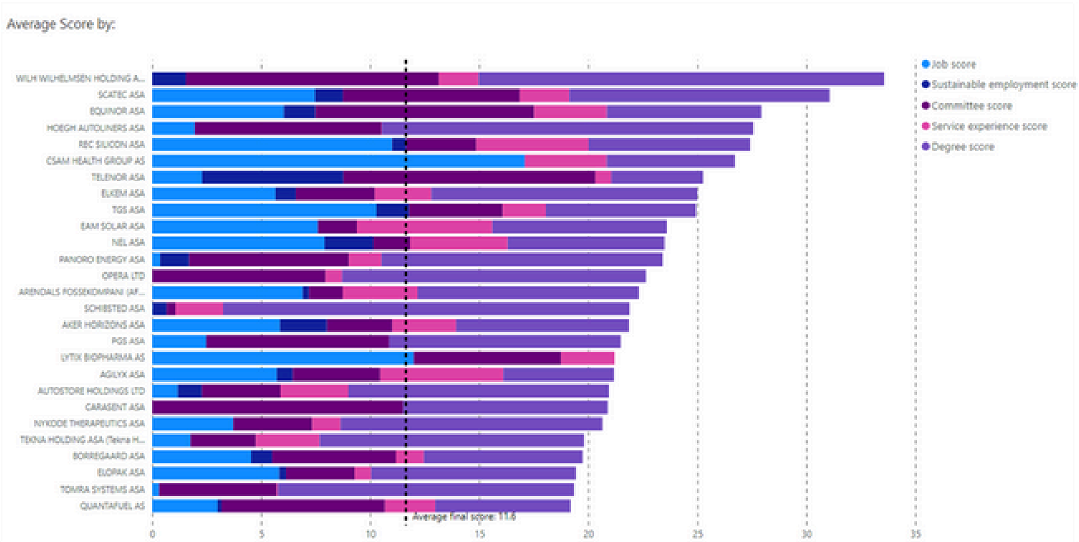


An analysis reveals that over half of the board competency score in these nations is derived from academic qualifications. This disproportionate reliance on academic credentials signals a critical need for diversification and improvement in the professional experience domain. Areas such as service experience and sustainable employment, currently the lowest scoring categories, demand particular attention to elevate overall board effectiveness and competitiveness.

Norway Best Performing Companies

In Norway, Wilh. Wilhelmsen stands at the forefront of board competency, boasting an impressive score of 34%, significantly outpacing the national average of 11.6%. This remarkable performance is attributed to the company achieving the highest scores in both degree and committee evaluations among all Norwegian firms surveyed.

Figure 4 Average Board Competency Score by Professional and Academic Scores Across Norwegian Companies



The analysis reveals that in 60% of Norwegian companies, the degree score emerges as the highest-scoring attribute for board competency. This concentration underscores a substantial opportunity for these companies to enhance other critical areas of governance.

Notably, the job score and committee score also emerge as significant drivers of board competency within Norway. These factors play a crucial role in bolstering the overall effectiveness and strategic oversight of corporate boards, highlighting the need for a more balanced and comprehensive approach to board development across the nation's corporate landscape.

The Role Score

This attribute underscores the weakest overall board performance across companies in Sweden, Norway, and Denmark, indicating a critical area for development within the region's corporate governance landscape.

In a comparative analysis, Swedish and Danish boards demonstrate slightly superior performance relative to their Norwegian counterparts. However, the difference is marginal and highlights the pervasive challenges faced by boards across all three countries.

A concerning 94% of boards in both Norway and Sweden, and 92% of Danish boards, fall short of the average performance benchmark. This widespread underperformance reveals a pressing need for strategic enhancements in board competency and effectiveness throughout the Scandinavian corporate sector. Addressing these deficiencies will be crucial for improving governance standards and ensuring that boards are equipped to meet the complex demands of modern corporate leadership. The findings suggest that companies across the region must prioritize holistic board development, encompassing not only academic and professional qualifications but also practical governance skills and sustainable business practices.

Figure 5. Role Scores of Norway, Sweden and Denmark

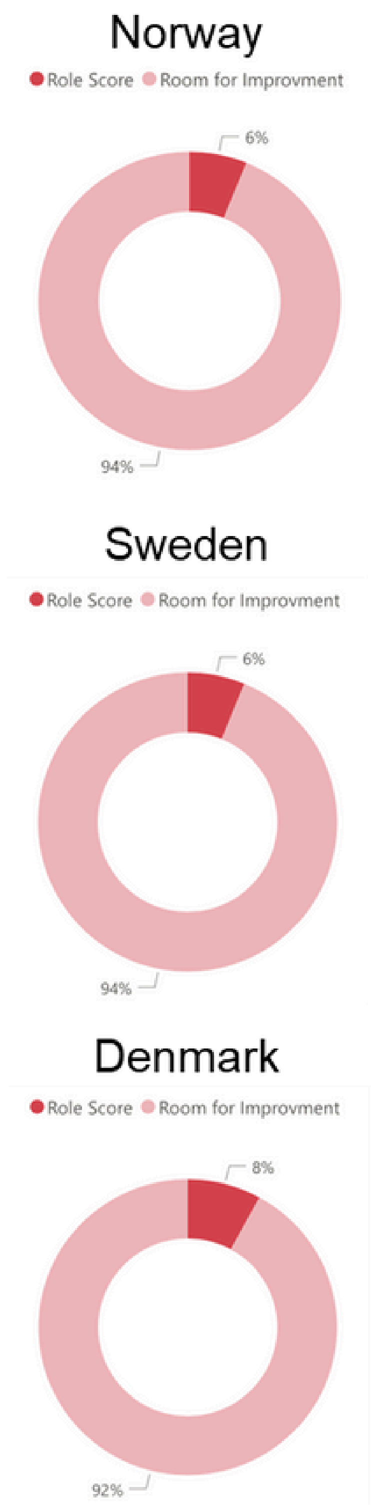


Figure 6. Role Score Distribution and Average of Denmark, Norway and Sweden

The Sustainability Employment Score

This attribute represents the lowest average board performance in Norway, highlighting a significant area of weakness in the country's corporate governance framework.

Alarmingly, 65% of Norwegian boards, 57% of Swedish boards, and 42% of Danish boards score a dismal 0 in this attribute, indicating a complete lack of relevant competency. This pervasive deficiency underscores a critical gap in boardroom expertise and points to a broader regional issue that demands urgent attention.

The stark absence of competency in this key area suggests that many Scandinavian boards are ill-equipped to navigate the complexities of modern corporate governance. This situation calls for a concerted effort to enhance board training and development programs, ensuring that directors possess the necessary skills and knowledge to fulfill their roles effectively. By addressing these deficiencies, companies can bolster their governance standards, improve strategic decision-making, and enhance overall corporate performance. The findings underscore the urgent need for a strategic overhaul in boardroom competencies across Norway, Sweden, and Denmark, aiming for a more balanced and comprehensive approach to corporate governance.

Figure 7. Sustainability Employment Scores of Norway, Sweden and Denmark

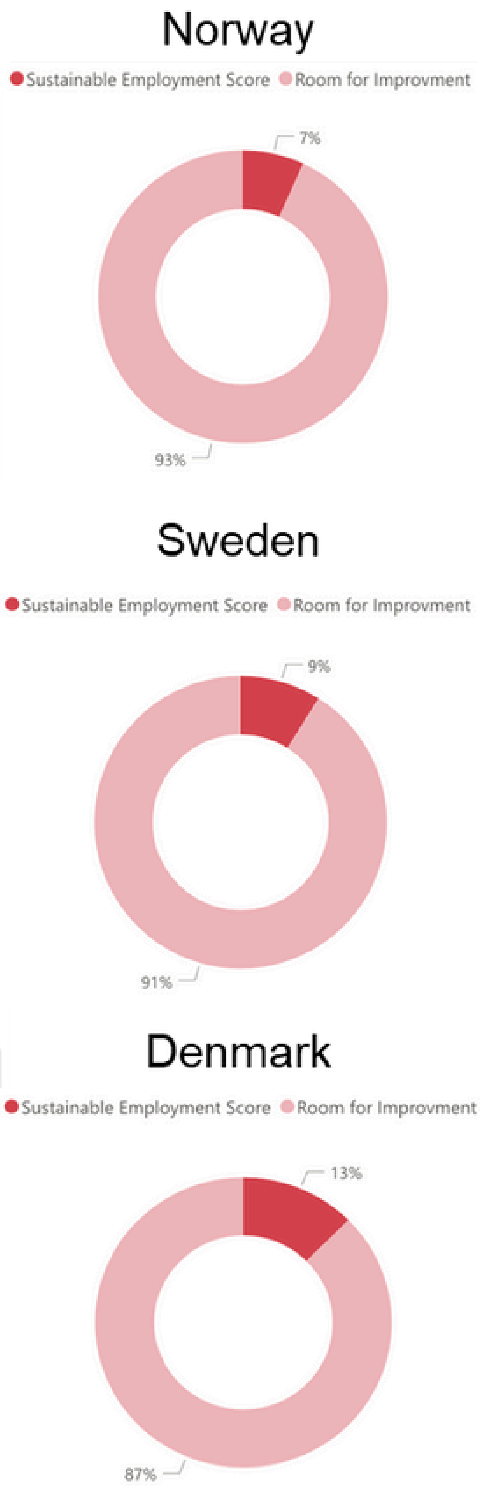


Figure 8. Role Score Distribution and Average of Denmark, Norway and Sweden

The Committee Score

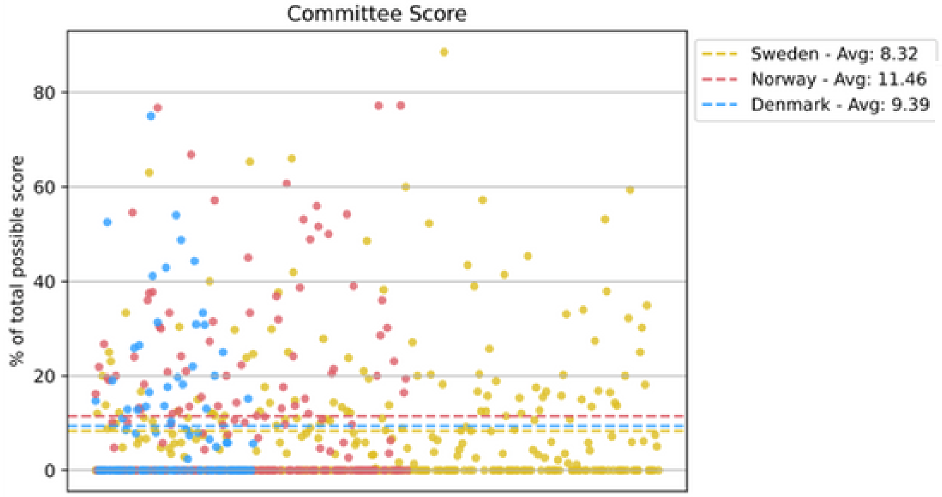
This attribute stands out as the sole area where Norwegian boards, on average, outperform their Swedish and Danish counterparts.

2% of Norwegian boards demonstrate exceptional performance in this attribute. Although limited in scope, this highlights a potential strength within Norway's corporate governance landscape that could serve as a foundation for broader improvements.

The performance in this specific area suggests that Norwegian boards may possess a unique competency that can be leveraged to enhance overall board effectiveness. The performance of the top 2% of Norwegian boards could serve as a benchmark for best practices, offering valuable insights and strategies that can be adopted by other boards within the country and across the Scandinavian region. By focusing on these high-performing attributes, Norwegian boards can set a new standard for excellence in corporate governance, driving improved outcomes and competitive advantages in the global market.

Figure 9. Committee Scores of Norway, Sweden and Denmark

Figure 10. Committee Score Distribution and Average of Denmark, Norway and Sweden



The Service Experience Score

In a marked contrast to Sweden and Denmark, no Norwegian boards achieve a performance exceeding 50% in this attribute, underscoring a significant area of concern within Norway's corporate governance framework.

An analysis reveals that 60% of Norwegian boards fall below the already modest average of 8% in this attribute. This widespread underperformance highlights a critical weakness that must be addressed to enhance the overall effectiveness and competitiveness of Norwegian boards.

The inability of any Norwegian board to surpass the 50% threshold in this key competency suggests systemic issues that require strategic interventions. Strengthening board performance in this area is essential for fostering more robust governance practices and ensuring that boards can meet the demands of an increasingly complex business environment.

Addressing this deficiency will involve targeted efforts to improve board training, diversify board composition, and implement best practices from higher-performing peers in Sweden and Denmark. By prioritizing these initiatives, Norwegian companies can work towards elevating their governance standards, thereby improving strategic oversight and long-term corporate success.

Figure 11. Service Experiences of Norway, Sweden and Denmark

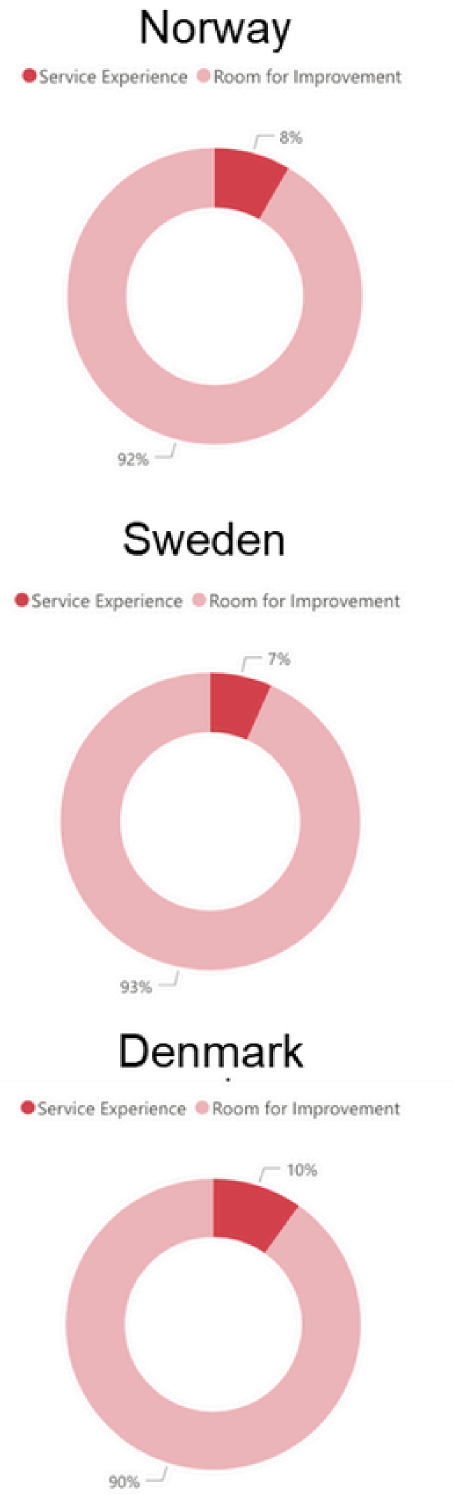
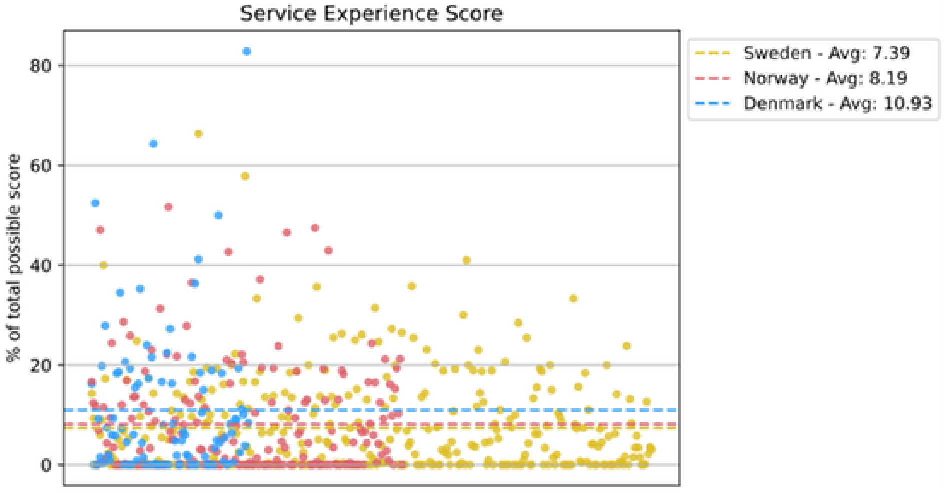


Figure 12. Service Experience Score Distribution and Average of Denmark, Norway and Sweden



The Education Score

This attribute boasts the strongest average board performance across the three Scandinavian countries, reflecting a significant area of competency within the region's corporate governance.

However, despite this high average, more than 50% of boards in Norway, Sweden, and Denmark fall short of this benchmark. This indicates that while there are areas of excellence, a substantial proportion of boards are underperforming relative to their peers. This disparity highlights the need for a more consistent adoption of best practices to elevate overall board performance across the region.

Figure 13. Degree Scores of Norway, Sweden and Denmark

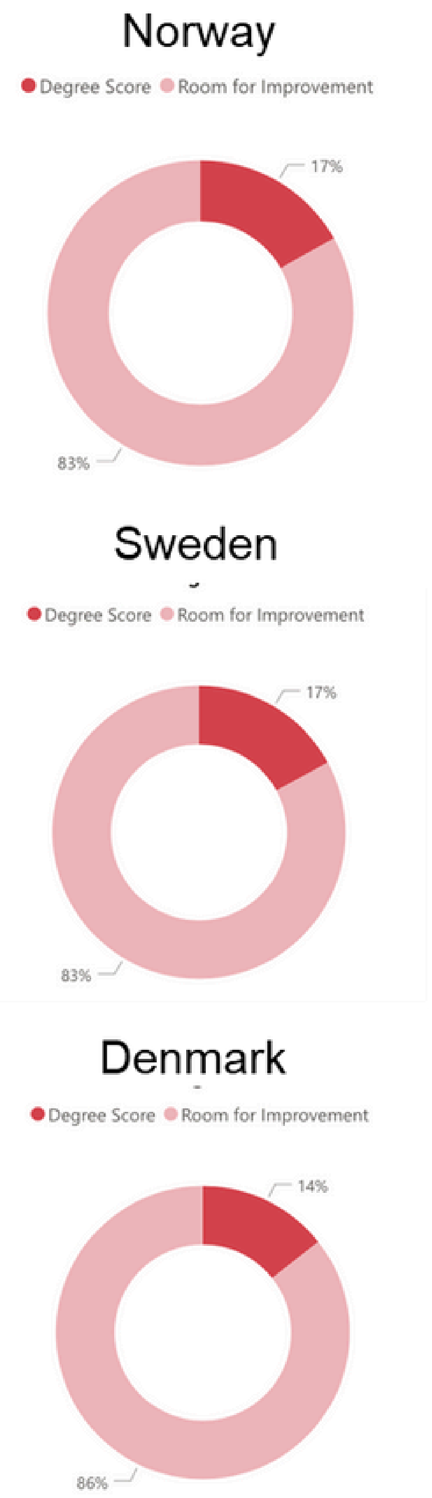
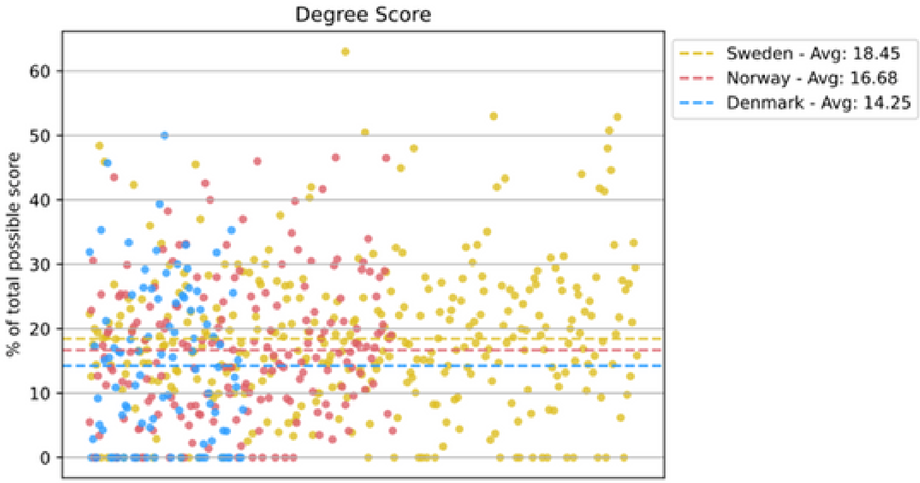


Figure 14. Degree Score Distribution and Average of Denmark, Norway and Sweden



Comparative Analysis

The evaluation of ESG (Environmental, Social, and Governance) resilience among Scandinavian boards reveals distinct patterns across Norway, Denmark, and Sweden. This section delves into the nuances of these differences, emphasizing the distribution of scores and underlying factors contributing to ESG resilience.

Norwegian Boards: A Balanced Distribution

For Norwegian boards, the ESG resilience scores exhibit a well-distributed pattern across various factors. This balanced distribution indicates that no single aspect dominates the resilience profile. The comprehensive approach adopted by Norwegian companies ensures that educational background, industry type, committee structures, and other factors collectively contribute to their ESG resilience.

Swedish Boards: Industry and Committee Influence

Swedish companies, on the other hand, derive their ESG resilience primarily from the industry in which the firm operates and the structure of their committees. This reliance on industry-specific factors indicates that Swedish boards might be tailoring their ESG strategies to fit the unique demands and challenges of their respective industries. Additionally, the role of committees within the companies plays a critical part in shaping their ESG resilience, suggesting a robust internal governance mechanism.

Danish Boards: Emphasis on Educational Background

In contrast, Danish companies show a pronounced reliance on the educational background of their board members for their ESG resilience. The scores for Danish boards are heavily influenced by the educational qualifications and training of the board members. This focus suggests that Danish firms prioritize academic and professional credentials, potentially leveraging this expertise to navigate ESG challenges effectively.

Strategic Approaches to Enhancing Board Sustainability Competency

The exploration of strategies for enhancing board sustainability competency is vital to find practical approaches for improving governance and evaluating board expertise. Strategic approaches can be sectioned into two separate categories:

Corporate Leaders: A Strategic Approach to Board Sustainability Competency

Enhancing board sustainability skills, optimizing composition, and ensuring compliance with evolving ESG requirements..

Investors, Rating Agencies, and Insurers: Enhancing Decision-Making With Clear, Applicable Insights

Providing a framework to assess board sustainability expertise, enabling transparent evaluations and better decision-making.

For Corporate Leaders: A Strategic Approach to Board Sustainability Competency

Elevating Board Sustainability Expertise

In an era where the scrutiny of corporate sustainability practices is intensifying, this tool emerges as an indispensable resource for assessing the sustainability acumen of your board. Traditionally, firms have faced challenges in effectively gauging the environmental, social, and governance (ESG) preparedness of their leadership. By offering a comprehensive overview of your board's sustainability credentials, this tool empowers you to ascertain if your board possesses the requisite capabilities to address emerging sustainability challenges confidently.

Crafting a Forward-Looking Board Composition

Leveraging detailed insights into the current sustainability and ESG expertise of your board enables you to sculpt its future composition with precision. This strategic process involves actively seeking out individuals endowed with specific skills pertinent to your sustainability objectives and enhancing the board's diversity to encompass a wide array of ESG perspectives. Such proactive composition strategy ensures your board is not only prepared to meet current sustainability demands but is also resilient and adaptable to future challenges.

Simplifying Compliance With Regulatory Demands

The complex web of regulatory expectations around sustainability reporting and governance can be daunting, requiring businesses to undertake significant governance adjustments. This tool acts as a critical enabler, simplifying the initial steps in this process by providing a clear assessment of how each director's expertise aligns with your organization's sustainability and ESG goals. Although developing a tailored framework to assess each director's specific impact is crucial, the comprehensive data offered by this tool lays a solid foundation for building an effective evaluation system, ensuring your board's capabilities are aligned with both current and future regulatory landscapes.

For Investors, Rating Agencies, and Insurers: Enhancing Decision-Making With Clear, Applicable Insights

Advancing Transparency and Universal Applicability

In the dynamic world of investment, the clamor for methods and data sets that embody transparency and have broad applicability is increasing, particularly in the realm of evaluating and disclosing sustainability initiatives and compliance. The methodology introduced here meets these demands head-on, offering a framework that is adaptable across industries while incorporating sector-specific benchmarks for assessing material issues. This strategic choice ensures that the underpinning methodological principles are transparent and easily understood, facilitating their adoption by a diverse range of stakeholders from the financial community and beyond.

Elevating ESG Evaluations

For investors, this tool offers a unique vantage point to enhance their evaluation of companies' strategies for transitioning to greener practices. Recognizing the board's critical influence in guiding such transitions is essential for evaluating the credibility of a company's strategic direction. This methodology provides investors with a nuanced understanding of whether a company possesses the board-level expertise necessary for setting realistic sustainability targets, advising on strategic shifts, and reshaping their business models to tackle the challenges of sustainability.

Optimizing Board Sustainability Expertise for Long-term Value

Looking ahead, investors can utilize this tool not only to track but also to incrementally improve the sustainability proficiency of corporate boards. This ensures the alignment and execution of long-term strategic visions. The tool enables a continuous assessment of the board's composition in terms of sustainability expertise, prompting companies to thoughtfully consider their board selection processes. By encouraging the inclusion of members with specialized knowledge and skills, investors can play a pivotal role in ensuring that boards are well-equipped to lead their companies through the complexities of sustainable transformation.

Contributor Spotlight

Dr. Kristjan Jespersen

Dr. Kristjan Jespersen stands at the forefront of Sustainable Innovation and Entrepreneurship as an Associate Professor at Copenhagen Business School (CBS) in Denmark. His illustrious career bridges academic rigor with practical applications in the realm of Environmental, Social, and Governance (ESG) and sustainability. Leading the Nordic ESG Lab, Kristjan orchestrates a cutting-edge research collective aimed at refining our understanding of ESG metrics and enhancing the dependability of data that informs responsible investment and corporate sustainability strategies.

As the architect of the ESG Minor program, he educates future finance, economics, and accounting professionals, equipping them with the nuanced understanding of ESG investing necessary to navigate the evolving demands of the business landscape. Kristjan's influence extends beyond academia, contributing to the creation of a global framework designed to combat EU-driven deforestation, reflecting his deep commitment to environmental stewardship.

His expertise also benefits the students of premier U.S. MBA programs and participants in CBS Executive Education and Danish Technical University (DTU) courses, making him a pivotal figure in shaping the next generation of business leaders. Transitioning seamlessly between academia and industry, Kristjan serves as an ESG Advisor for Loh-Gronager Partners, where he spearheads the integration of ESG principles into corporate strategy and operations. His consultancy work further extends to multinational corporations, offering strategic guidance on ESG and sustainability initiatives.

Holding a PhD from Copenhagen Business School with a focus on Payments for Ecosystem Services (PES) and Conservation Finance (CF), Kristjan's academic and professional journey underscores his role as a vanguard in the sustainability domain. His contributions not only advance academic understanding but also drive practical change, positioning him as a key influencer in fostering corporate responsibility and sustainable business practices.

Naomi Villaruel

Naomi holds a Bachelor of Commerce & Accounting degree from the University of Galway in Ireland where she completed an internship at KPMG Dublin.

She furthered her expertise as an ESG & Business Development Associate at Nossa Data, an ESG Reporting SaaS startup in London, where she assisted companies with their non-financial reporting and disclosures.

This year Naomi is commencing a Master's degree in Environment & Resource Management specializing in Ecosystem Services & Biodiversity at Vrije University in Amsterdam.

Walter Bachmann

Walter Bachmann is an ESG Research Assistant at Nordic ESG Lab and a master's student in Finance and Investments at Copenhagen Business School. He holds a bachelor's degree in International Business Administration from Tallinn University of Technology, graduating with First Class Honors.

Before joining Nordic ESG Lab, Walter worked as an M&A Analyst at LNP Corporate Finance, where he actively participated in deals from start to finish. He is proficient in developing complex financial and valuation models, as well as creating investor and client presentation materials.

This year, Walter is focusing on sustainability by pursuing a minor in ESG at Copenhagen Business School. He is also actively involved in Oikos Copenhagen, a student-led initiative promoting collaboration for a sustainable future.

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