ESG and the portfolio company board

February 2022

kpmg.com/us/blc

Private capital markets are surging, inviting both wider investor interest and regulatory scrutiny. The spotlight is also bringing a focus on how private companies are approaching climate change, workplace diversity, and a variety of other environmental, social, and governance (ESG) issues that are prominent in the public company conversation. While venture capital investors, private equity firms, and family owners may define board priorities differently across their portfolios, this shifting business environment will require portfolio company directors to reassess the importance of ESG issues to company performance and consider how ESG risks and opportunities are overseen in their boardrooms.

To better understand how private company boards are responding to heightened expectations for oversight of ESG, the KPMG Board Leadership Center surveyed nearly 200 portfolio company directors who fall into three categories: executives,[1] investment professionals,[2] and outside directors.[3] We asked the directors to supplement their survey responses with write-in comments to expand on their views.

Taken together, the survey responses and write-in comments offer a glimpse into how private portfolio company boards view the importance of ESG issues to company performance, as well as the role of the board in overseeing these issues. Key takeaways include the following:

— Portfolio company directors rate ESG issues—including environmental risk and opportunity, workplace diversity, and ESG-related disclosures—significantly below the importance of the board's oversight of strategy, talent, and corporate governance. This suggests that directors generally do not view ESG issues as critical to company performance; in fact, only half say their board believes that ESG issues have an impact on their company's financial performance.

— When they are considered by the board, ESG priorities are driven by critical business issues. Among the directors surveyed, the factors having the greatest influence on ESG priorities are alignment with strategy, long-term value creation, customer expectations, and, for a small subset, moral/ethical reasons.

— Portfolio company directors have significant room to improve their understanding of the company's ESG issues, including management's approach to metrics and measurement.

— Some ESG topics are not yet dedicated board agenda items. Many directors say that ESG issues—such as climate change and its impact on the business, as well as workplace diversity, equity, and inclusion (DEI)—should be added to the board's agenda.

— To help the board to get a better handle on the company's ESG risks and opportunities, directors cite the need for more frequent updates from management, board-level training and enrichment, and clarification of the board's own priorities. They also said deeper dives on specific issues, competitive benchmarking, and employee surveys would be helpful.

Private portfolio company boards looking to expand their awareness of environmental and social issues may find that they are already focused on one critical component of the ESG conversation. Corporate culture—which 95 percent of respondents said is currently on their board's radar—is increasingly recognized as key to executing on strategy and surfacing risks. While "S" or social issues expand to community engagement, human rights, diversity, and more, culture is seen by many as a gauge for the company's ability to grow and retain talent, work with suppliers and business partners, and promote transparency. Deeper inquiry on culture—what drives employees, how they feel about products and services, whether transparency is encouraged—can help the board probe latent ESG matters and how they impact the company.

[1] Portfolio company executives include executives and founders who sit on the board, as well as general counsel and senior legal advisors for portfolio companies.

[2] Investment professionals include portfolio company directors representing investment firms and family owners.

[3] Outside directors include unaffiliated independent directors as well as operating advisors or management affiliates of an investment firm who serve as portfolio company directors.

ESG, strategy, and the long view: Five-step framework

In *ESG, strategy, and the long view,* the KPMG Board Leadership Center published a framework for board consideration of ESG factors in its oversight. To download the full framework, visit *kpmg.com/us/esgframework*.

1. Level setting
Agree on the definition of ESG and its importance to the company.

2. Assessment
Determine which ESG risks and opportunities are of strategic significance to the company.

3. Integration
Encourage integration of strategically significant issues into the business strategy.

4. Stakeholder communications
Shape the company's key ESG messages to investors and other stakeholders in the context of long-term value creation.

5. Board oversight
Ensure that the board has the right composition, structure, and processes to oversee ESG in the context of strategy and long-term value creation.

Each company will have its own mix of ESG issues, but for purposes of this paper, "ESG" encompasses those that are prominent on investors' and other stakeholders' agendas today and commonly cited in corporate responsibility and sustainability reporting:

- Climate change impact on company operations and strategy
- Carbon emissions/the company's carbon footprint
- Water and waste management
- Natural resource scarcity
- Product and worker safety
- Supply chain management
- Workplace diversity and inclusion
- Talent management
- Employee relations
- Human rights
- Health and well-being
- Labor practices
- Executive compensation
- Political contributions
- Board independence, composition, and renewal

Rising expectations for ESG oversight

Private company investors are bringing more scrutiny to how their portfolio companies are integrating ESG issues into strategy, operations, and risk management.

Over the past several years, large pension and sovereign wealth funds and global investment management firms have signed on to the Principles for Responsible Investment or aligned their investment process with the UN Sustainable Development Goals.[4] The Institutional Limited Partners Associate has guided its members to make deeper inquiries on the ESG policies at private funds and to request greater disclosure at the portfolio company level. Moreover, a consortium of private equity limited partners and general partners—including the California Public Employees' Retirement System, APG, Carlyle, and Blackstone—are working on an ESG Data Convergence Project "to advance an initial standardized set of ESG metrics and mechanism for comparative reporting" on six metrics: Scope 1 and 2 greenhouse gas emissions, renewable energy, board diversity, work-related injuries, net new hires, and employee engagement.[5]

Other factors driving these heightened expectations for portfolio company boards include increasing disclosure requirements for public companies and companies planning to go public and new regulations such as the EU Sustainable Finance Disclosure Regulation (SFDR), which compels any investment firm fundraising in Europe to detail sustainability metrics for a portfolio.[6]

Yet, based on the survey results and write-in responses, it's clear that private portfolio company boards have room for improvement in how they understand, evaluate, oversee, and incentivize their companies' progress on ESG issues. "We need to look at these issues with the same lens that we view quality, but some see it as counterproductive," said one director.

[4] "Private equity managers highlight importance of UN Sustainable Development Goals to address environmental and social challenges," Private Equity Wire, January 14, 2021.

[5] "Private equity industry establishes first-ever LP and GP partnership to standardize ESG reporting," CVC press release, September 30, 2021.

[6] "Get ready for sustainable finance disclosures," Claire Coe Smith, Private Equity International, January 31, 2021.

Ownership impacts the board view on ESG

While asset owners and investment firms are broadcasting their ESG bona fides to the market, portfolio company board oversight of environmental risks and opportunities and workplace diversity are currently viewed by directors as significantly less important than the board's core priorities—oversight of strategy, talent, and governance. However, some directors do view ESG factors as inherently linked to governance and corporate performance. "Prudent, ethical management and oversight, by their very definition, involve ESG principles," said one portfolio company director. "Get the governance right; the rest will follow," added another.

Private equity firms' efforts to enhance board oversight of ESG factors at the portfolio company level will take work. Directors for private-equity-owned companies assigned relatively less importance to board oversight of DEI, employee health and well-being, and labor practices. For example, only 45 percent of directors for private-equity-owned companies place significant importance on DEI, compared to 61 percent of directors for both venture-backed and family-owned companies. (See Question 1 in the Appendix.) "The relevance of ESG to a privately held company is unclear," said one director. "Is there more value in the event of an exit? Relevance to customers? Tracking and managing ESG is perceived as an added burden or cost in an already constrained environment."

Directors representing family-owned companies, on the other hand, place comparatively more emphasis on board oversight of employee health and well-being and labor practices. For example, 90 percent of directors at family-owned companies place significant importance on employee health and well-being, compared to 75 percent and 67 percent for venture-backed and private-equity-owned, respectively. And 73 percent of directors at family-owned companies place significant importance on workforce and supply chain labor practices, compared to 65 percent and 53 percent for venture-backed and private-equity-owned, respectively. Family-owned company directors are also more concerned about oversight of environmental risk and opportunities. "Environmental risks need to be taken seriously as they are the most threatening to the long-term sustainability of the organization."

Figure 1. Please rate the importance of board oversight of the following issues:

Reponses range from 1 (Not at all important) to 5 (Very important).

General oversight of strategy and operations, including risk management	4.7
Talent development, retention, and incentives	4.2
Corporate governance (e.g., executive compensation, corporate ethics, board diversity)	4.2
Employee health and well-being	4.1
Corporate culture	4.1
Workforce/supply-chains labor practices and safety	3.7
Workplace diversity, equity, and inclusion (DEI)	3.5
Environmental risks (e.g., emissions, natural resource utilization, waste)	3.3
Environmental opportunities (e.g., products and services, operational efficiencies)	3.3
ESG disclosure and stakeholder engagement	3.2

Results shown are average means by role. For full results, see Question 1 in the Appendix.

Strategy and long-term value drive ESG priorities

When private portfolio company boards integrate ESG priorities into their oversight, they are viewing ESG matters as critical business issues. Among a list of factors influencing ESG priorities for the board, directors identify alignment with strategy, increasing long-term value, and meeting customer expectations as the most influential. "There must be a direct link to financial and fiduciary responsibility," said one director.

Company ownership and maturity also impact the importance of ESG oversight in the boardroom. For example, 57 percent of directors for venture-backed and founder-led companies say that "alignment with the business strategy" is a top driver of ESG priorities for the board, compared to 44 percent and 43 percent for private equity and family-owned, respectively. Directors for family-owned companies say that moral/ethical reasons and meeting customer expectations are top influencers of ESG priorities for their boards. (See Question 2 in the Appendix.)

Figure 2. In your opinion, which factors have the greatest influence on ESG priorities for your board?

Alignment with the business strategy	47%
Increasing long-term corporate value	42%
Customer expectations	39%
Moral/ethical reasons	36%
Expectations of the controlling shareholder(s)	31%
Employee expectations	26%
Capital market and M&A trends	16%
Expectations of limited partners of the controlling shareholder(s)	11%
Independent directors and/or minority shareholder(s)	9%
Other	3%

Up to three responses allowed. Results shown are average percentage by role. For full results, see Question 2 in the Appendix.

Level setting is critical

Portfolio company directors have significant room to improve their overall understanding of the company's ESG issues and to engage in more strategic discussions with management. "ESG matters need to have a higher priority for everyone," said one director. In their write-in responses, several directors emphasized that board understanding and oversight of ESG issues is critical to effective enterprise risk management.

Roughly half of the directors surveyed say their board fully understands the ESG issues impacting the company. Similarly, only half say ESG issues have a financial impact. Outside directors and directors at venture-backed and founder-led companies are considerably more likely than other directors to agree that ESG issues have a financial impact. (See Question 3 in the Appendix.)

Among topics that directors say they need to get a better handle on, climate change and DEI were most frequently cited in write-in comments. "The tools for reporting on climate change are reasonably well developed, but others such as human rights and workforce issues, including DEI, are not. Reporting standards are needed," said one director.

Figure 3. To what extent do you agree with the following statements about the board's engagement on ESG issues and ESG performance management:

Reponses range from 1 (Strongly disagree) to 5 (Strongly agree).

The board understands the company's ESG priorities.	3.5
The board fully understands the ESG issues impacting the company.	3.4
The board believes ESG issues have a financial impact.	3.4
The board understands management's approach to ESG and the company's performance against relevant metrics.	3.4

Results shown are average means by role. For full results, see Question 3 in the Appendix.

Work to be done

While the board's consideration of ESG issues as part of its oversight role is informed by its discussion with management and investors, the board needs to gain comfort that it has the information needed to carry out its duties. Portfolio company directors say they are looking for more structure in their oversight of ESG factors, both in the clarification of priorities (i.e., in governance documents, committee charters) and more frequent updates from management. Ways boards can gain that comfort may include education on ESG issues and the industry-specific standards being developed, as well as the company's use of tools and services that measure and validate a variety of ESG factors, from greenhouse gas emission and carbon intensity to workplace diversity and customer and employee satisfaction.

The data suggest that director views on the work to be done to understand the company's ESG issues is influenced by company size and maturity. For example, 53 percent of directors at both smaller companies (less than $100 million in revenue) and those backed by venture capital investors listed clarification of priorities as their top mechanism for helping the board to better understand the ESG issues impacting the company. Directors at larger companies (greater than $100 million in revenue) and those backed by private equity firms said that more frequent updates from management on ESG issues would be most helpful. "We've got to clarify the expectations [for] results," said one director. (See Question 4 in the Appendix.)

Unfortunately, some prominent ESG issues have not even reached the boardroom at some companies. For example, only two-thirds of directors surveyed say they consider climate change within their oversight of strategy, operations, and risk management. Of those directors, 52 percent say that a discussion of climate risks and opportunities should be added to the board agenda.

Figure 4. In your opinion, what do you think would help your board to better understand the ESG issues impacting your company?

Clarification of priorities (i.e., in governance documents, committee charters, etc.)	43%
More frequent updates from management on ESG issues	43%
Third-party training and enrichment for the board	32%
A committee/subcommittee or individual director focused on ESG issues	27%
Regular interaction with a management ESG committee	21%
Management/company-led training for the board	18%
Other	8%

Up to three responses allowed. Results shown are average percentage by role. For full results, see Question 4 in the Appendix.

Corporate culture

Aphorisms aside, corporate culture is inextricably linked to executing on the company's strategy. Nearly all portfolio company directors surveyed say that their board considers corporate culture in their oversight. "Employees need to be fully engaged to increase the value and impact of the organization," said one director. And more than half of directors surveyed say that the board should review and discuss the results of employee surveys. Nearly a third of portfolio company directors say that corporate culture goals should be built into annual and long-term incentive compensation.

Figure 5. To what extent does your board consider corporate culture in its oversight of strategy, operations, and risk management?

To a great extent	56%
To some extent	34%
To a limited extent	5%
Not at all	4%

Results shown are average percentage by role. Number does not equal 100 percent due to rounding. For full results, see Question 5 in the Appendix.

Figure 6. Which actions do you believe make/would make your board more effective in its oversight of corporate culture?

Reviewing and discussing the results of employee surveys	55%
Adding a discussion of corporate culture to the board agenda	37%
Building corporate culture goals into annual incentives	37%
Building corporate culture goals into long-term incentive plans	33%
Regularly engaging with non-management employees	31%
Working with internal audit to develop culture metrics to report to the board	15%
Engaging a third party/advisory board to evaluate corporate culture	13%
Other	5%
None of the above	5%

Of respondents whose boards do consider corporate culture. Up to three responses allowed. Results shown are average percentage by role. For full results, see Question 6 in the Appendix.

Climate change

On average, two-thirds of portfolio company directors say their board considers the impact of climate change in its oversight; however, 52 percent of directors whose boards do consider climate change in their oversight say "adding a discussion on climate risks and opportunities to the board agenda" would make the board more effective in its oversight. (See Question 8 in the Appendix.)

For more, read *Boardroom climate competence: Getting ahead of the curve*.

Figure 7. To what extent does your board consider climate change in its oversight of strategy, operations, and risk management?

To a great extent	8%
To some extent	26%
To a limited extent	31%
Not at all	35%

Results shown are average percentage by role. For full results, see Question 7 in the Appendix.

Figure 8. Which actions do you believe make/would make your board more effective in its oversight of the company's actions related to climate change?

Adding a discussion on climate risks and opportunities to the board agenda	52%
Reviewing the environmental impact of the company's product and services	39%
Building climate/environmental goals into long-term incentive plans	31%
Requiring the company to report on Sustainability Accounting Standards Board (SASB)[7] metrics for its industry and/or follow the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD)	25%
Engaging a third party/advisory board to evaluate the company's climate risk exposure	20%
Building climate/environmental goals into annual incentives	15%
Other	2%
None of the above	11%

Of respondents whose boards do consider climate change. Up to three responses allowed. Results shown are average percentage by role. For full results, see Question 8 in the Appendix.

[7] Sustainability Account Standards Board (SASB) Standards are maintained by the Value Reporting Foundation, which announced in November 2021 that it would consolidate with the Climate Disclosure Standards Board under the IFRS Foundation to create the International Sustainability Standards Board (ISSB).

DEI

Ninety-one percent of portfolio company directors surveyed say their board considers workplace DEI in its oversight, but roughly half said only "to some extent" and a quarter responded "to a limited extent." Adding a discussion of DEI to the board agenda and evaluating the company relative to benchmark data for industry/size/geography are rated as the top actions to improve board oversight of DEI. Write-in responses indicate that oversight of DEI has the most room for improvement "because it has not traditionally been monitored by the board and lacks clear goals and objectives."

Figure 9. To what extent does your board consider workplace diversity, equity, and inclusion (DEI) in its oversight of strategy, operations, and risk management?

To a great extent	25%
To some extent	42%
To a limited extent	24%
Not at all	9%

Results shown are average percentage by role. For full results, see Question 9 in the Appendix.

Figure 10. Which actions do you believe make/would make your board more effective in its oversight of workplace DEI?

Adding a discussion of DEI to the board agenda	45%
Evaluating the company relative to benchmark data for industry/size/geography	42%
Working with human resources to develop DEI metrics to report to the board	36%
Building DEI goals into long-term incentive plans	28%
Reviewing and discussing the results of employee surveys	28%
Building DEI goals into annual incentives	27%
Engaging a third party/advisory board to assess DEI	10%
Other	4%
None of the above	10%

Of respondents whose boards do consider DEI. Up to three responses allowed. Results shown are average percentage by role. For full results, see Question 10 in the Appendix.

Final thoughts

The boardroom approach to oversight of ESG must align with business goals and enhance long-term value. Shareholders, customers, and other stakeholders are seeking to better understand how the company is evaluating, incentivizing, measuring, and overseeing its ESG-related goals, such as corporate diversity, mitigating the impact of climate change, and driving a positive culture. They also want to understand how the board is overseeing management's plans to achieve those goals. The key to this is a board focused on improving its oversight with education and better information, a management team that has effectively evaluated ESG risks and opportunities, and a dialogue between the two that places ESG factors clearly within the context of the company's strategy.

Appendix

ESG and the portfolio company board is based on 196 responses to the KPMG Board Leadership Center portfolio company board ESG survey, fielded from May to September 2021.

		Role on portfolio company board			Primary ownership			Revenue		Gender	
		Executive/ Founder	Investor	Outside director	Venture/ Founder	Private equity	Family office/Family owned	Less than $100M	$100M or greater	Male	Female
1. Please rate the importance of board oversight of the following issues: (1 – Not at all important to 5 – Very important)											
a. General oversight of strategy and operations, including risk management	1–2 (Less important)	4%	3%	1%	4%	1%	2%	1%	1%	2%	0%
	3 (Important)	11%	3%	7%	4%	8%	12%	6%	9%	5%	12%
	4–5 (More important)	85%	94%	92%	92%	91%	86%	92%	90%	92%	88%
	Mean	4.7	4.7	4.7	4.5	4.6	4.6	4.6	4.6	4.6	4.7
b. Corporate culture	1–2 (Less important)	9%	9%	5%	6%	9%	6%	5%	6%	5%	7%
	3 (Important)	20%	15%	13%	20%	15%	12%	19%	14%	15%	17%
	4–5 (More important)	70%	76%	82%	75%	76%	82%	76%	80%	79%	75%
	Mean	4.3	4.3	4.3	3.6	4.0	4.3	4.1	4.2	4.1	4.1
c. Talent development, retention, and incentives	1–2 (Less important)	6%	12%	6%	12%	7%	6%	8%	6%	7%	7%
	3 (Important)	22%	6%	9%	8%	16%	10%	13%	11%	12%	13%
	4–5 (More important)	72%	82%	84%	80%	77%	84%	79%	83%	81%	80%
	Mean	4.2	4.2	4.2	4.2	4.1	4.3	4.1	4.2	4.2	4.2
d. Corporate governance (e.g., executive compensation, corporate ethics, board diversity)	1–2 (Less important)	9%	3%	6%	8%	5%	8%	6%	5%	4%	9%
	3 (Important)	13%	15%	14%	14%	16%	12%	13%	16%	12%	16%
	4–5 (More important)	78%	82%	81%	78%	79%	80%	81%	79%	84%	75%
	Mean	4.2	4.2	4.2	4.6	4.1	4.2	4.2	4.3	4.3	4.2

		Role on portfolio company board			Primary ownership			Revenue		Gender	
		Executive/ Founder	Investor	Outside director	Venture/ Founder	Private equity	Family office/Family owned	Less than $100M	$100M or greater	Male	Female
e. Employee health and well-being	1–2 (Less important)	13%	3%	3%	6%	7%	4%	9%	4%	7%	7%
	3 (Important)	15%	15%	19%	20%	27%	6%	21%	16%	18%	19%
	4–5 (More important)	72%	82%	78%	75%	67%	90%	71%	80%	76%	74%
	Mean	4.1	4.1	4.1	3.9	3.9	4.3	4.0	4.1	4.0	4.0
f. Workforce/supply-chain labor practices and safety	1–2 (Less important)	19%	6%	16%	16%	17%	10%	17%	13%	15%	16%
	3 (Important)	30%	24%	21%	20%	29%	16%	26%	24%	24%	28%
	4–5 (More important)	52%	71%	63%	65%	53%	73%	58%	63%	60%	57%
	Mean	3.7	3.7	3.7	3.3	3.5	3.9	3.5	3.7	3.6	3.6
g. Workplace diversity, equity, and inclusion (DEI)	1–2 (Less important)	22%	26%	19%	14%	31%	16%	22%	19%	21%	14%
	3 (Important)	24%	18%	24%	25%	24%	22%	31%	18%	24%	28%
	4–5 (More important)	54%	56%	57%	61%	45%	61%	47%	63%	55%	58%
	Mean	3.6	3.6	3.6	4.0	3.3	3.7	3.4	3.7	3.5	3.8
h. Environmental opportunities (e.g., products and services, operational efficiencies)	1–2 (Less important)	28%	29%	23%	31%	36%	8%	29%	25%	30%	20%
	3 (Important)	33%	26%	25%	29%	28%	31%	24%	30%	32%	23%
	4–5 (More important)	39%	44%	52%	39%	36%	61%	46%	44%	38%	57%
	Mean	3.4	3.4	3.4	3.2	3.0	3.7	3.2	3.2	3.1	3.5
i. ESG disclosure and stakeholder engagement	1–2 (Less important)	33%	29%	29%	24%	32%	33%	36%	27%	33%	25%
	3 (Important)	24%	26%	26%	24%	31%	24%	22%	28%	29%	22%
	4–5 (More important)	43%	44%	45%	53%	37%	43%	42%	44%	38%	54%
	Mean	3.3	3.2	3.3	3.3	3.0	3.1	3.0	3.2	3.1	3.4
j. Environmental risks (e.g., emissions, natural resource utilization, waste)	1–2 (Less important)	37%	24%	27%	37%	29%	18%	36%	24%	29%	26%
	3 (Important)	13%	21%	27%	20%	24%	22%	18%	27%	31%	19%
	4–5 (More important)	50%	56%	46%	43%	47%	59%	46%	48%	41%	55%
	Mean	3.2	3.3	3.3	2.8	3.2	3.5	3.1	3.3	3.2	3.3

		Role on portfolio company board			Primary ownership			Revenue		Gender	
		Executive/ Founder	Investor	Outside director	Venture/ Founder	Private equity	Family office/Family owned	Less than $100M	$100M or greater	Male	Female
2. In your opinion, which factors have the greatest influence on ESG priorities for your board?											
Alignment with the business strategy		43%	50%	48%	57%	44%	43%	54%	43%	49%	45%
Increasing long-term corporate value		39%	41%	45%	39%	48%	33%	38%	44%	40%	45%
Customer expectations		39%	35%	42%	39%	35%	49%	40%	41%	40%	39%
Moral/ethical reasons		30%	44%	33%	31%	27%	49%	36%	35%	38%	32%
Expectations of the controlling shareholder(s)		30%	35%	28%	27%	33%	35%	26%	33%	30%	35%
Employee expectations		24%	24%	31%	27%	23%	27%	28%	31%	33%	25%
Capital market and M&A trends		22%	12%	15%	20%	19%	12%	15%	17%	14%	19%
Expectations of limited partners of the controlling shareholder(s)		9%	18%	7%	2%	20%	6%	9%	12%	11%	12%
Independent directors and/or minority shareholder(s)		7%	6%	13%	4%	11%	12%	9%	11%	9%	14%
Other		0%	3%	5%	2%	4%	0%	4%	2%	4%	0%
Up to three responses allowed.											
3. To what extent do you agree with the following statements about the board's engagement on ESG issues and ESG performance management: (1 – Strongly disagree to 5 – Strongly agree)											
a. The board understands the company's ESG priorities.	1–2 (Disagree)	20%	24%	20%	15%	23%	24%	18%	24%	20%	25%
	3 (Neutral)	29%	27%	25%	23%	28%	27%	31%	24%	32%	19%
	4–5 (Agree)	51%	48%	55%	62%	49%	49%	51%	52%	48%	57%
	Mean	3.5	3.4	3.5	3.8	3.4	3.4	3.5	3.5	3.4	3.6
b. The board fully understands the ESG issues impacting the company.	1–2 (Disagree)	27%	27%	18%	17%	24%	18%	19%	25%	25%	20%
	3 (Neutral)	27%	24%	35%	32%	28%	31%	37%	27%	31%	30%
	4–5 (Agree)	47%	48%	47%	51%	48%	51%	44%	47%	44%	49%
	Mean	3.3	3.3	3.4	3.5	3.3	3.4	3.4	3.3	3.2	3.4

		Role on portfolio company board			Primary ownership			Revenue		Gender	
		Executive/ Founder	Investor	Outside director	Venture/ Founder	Private equity	Family office/Family owned	Less than $100M	$100M or greater	Male	Female
c. The board believes ESG issues have a financial impact.	1–2 (Disagree)	27%	24%	22%	28%	23%	20%	29%	21%	21%	23%
	3 (Neutral)	31%	27%	21%	15%	28%	27%	26%	22%	26%	20%
	4–5 (Agree)	43%	48%	57%	57%	49%	53%	45%	57%	53%	57%
	Mean	3.3	3.4	3.5	3.5	3.4	3.5	3.3	3.5	3.4	3.6
d. The board understands management's approach to ESG and the company's performance against relevant metrics.	1–2 (Disagree)	24%	24%	15%	13%	24%	16%	15%	23%	21%	17%
	3 (Neutral)	31%	30%	37%	34%	27%	47%	49%	24%	35%	36%
	4–5 (Agree)	45%	45%	48%	53%	49%	38%	36%	53%	44%	46%
	Mean	3.3	3.4	3.4	3.6	3.4	3.3	3.3	3.4	3.3	3.4
4. In your opinion, what do you think would help your board to better understand the ESG issues impacting your company?											
Clarification of priorities (i.e., in governance documents, committee charters, etc.)		41%	44%	44%	53%	39%	35%	53%	41%	51%	42%
More frequent updates from management on ESG issues		35%	47%	45%	35%	53%	37%	42%	51%	48%	49%
Third-party training and enrichment for the board		31%	35%	28%	33%	28%	27%	31%	34%	27%	41%
Management/company-led training for the board		24%	15%	17%	14%	20%	22%	19%	20%	22%	19%
A committee/subcommittee or individual director focused on ESG issues		20%	29%	31%	33%	27%	24%	27%	33%	32%	33%
Regular interaction with a management ESG committee		20%	21%	23%	25%	28%	18%	23%	25%	30%	17%
Other		6%	9%	11%	8%	9%	8%	12%	8%	5%	10%
Up to three responses allowed.											

	Role on portfolio company board			Primary ownership			Revenue		Gender	
	Executive/ Founder	Investor	Outside director	Venture/ Founder	Private equity	Family office/Family owned	Less than $100M	$100M or greater	Male	Female
5. To what extent does your board consider corporate culture in its oversight of strategy, operations, and risk management?										
To a great extent	60%	45%	64%	64%	51%	60%	59%	61%	62%	59%
To some extent	32%	42%	28%	30%	36%	35%	32%	31%	32%	29%
To a limited extent	4%	6%	6%	6%	7%	2%	8%	3%	3%	7%
Not at all	4%	6%	2%	0%	7%	2%	1%	5%	3%	4%
6. Which actions do you believe make/would make your board more effective in its oversight of corporate culture?										
Reviewing and discussing the results of employee surveys	49%	61%	55%	55%	54%	45%	52%	57%	57%	52%
Adding a discussion of corporate culture to the board agenda	36%	32%	44%	45%	44%	24%	34%	47%	48%	35%
Building corporate culture goals into annual incentives	36%	42%	34%	38%	38%	36%	39%	35%	36%	38%
Building corporate culture goals into long-term incentive plans	29%	32%	36%	30%	38%	36%	42%	26%	34%	30%
Regularly engaging with non-management employees	31%	29%	34%	45%	28%	21%	35%	30%	39%	29%
Working with internal audit to develop culture metrics to report to the board	9%	26%	9%	15%	12%	10%	10%	12%	11%	12%
Engaging a third party/advisory board to evaluate corporate culture	13%	13%	12%	13%	19%	5%	8%	17%	10%	14%
Other	4%	6%	4%	4%	3%	10%	5%	3%	3%	6%
None of the above	9%	0%	5%	2%	3%	12%	6%	4%	5%	5%
Of respondents whose boards do consider corporate culture (see Question 5). Up to three responses allowed.										

	Role on portfolio company board			Primary ownership			Revenue		Gender	
	Executive/ Founder	Investor	Outside director	Venture/ Founder	Private equity	Family office/Family owned	Less than $100M	$100M or greater	Male	Female
7. To what extent does your board consider the impact of climate change in its oversight of strategy, operations, and risk management?										
To a great extent	4%	9%	11%	11%	8%	9%	10%	8%	10%	10%
To some extent	26%	18%	35%	21%	26%	41%	26%	32%	25%	38%
To a limited extent	30%	33%	30%	40%	25%	30%	36%	27%	30%	33%
Not at all	40%	39%	24%	28%	41%	20%	28%	32%	35%	19%
8. Which actions do you believe make/would make your board more effective in its oversight of the company's actions related to climate change?										
Adding a discussion on climate risks and opportunities to the board agenda	43%	55%	58%	65%	42%	50%	43%	66%	58%	55%
Reviewing the environmental impact of the company's product and services	39%	35%	44%	50%	49%	32%	43%	42%	53%	32%
Building climate/environmental goals into long-term incentive plans	25%	40%	29%	26%	33%	32%	29%	30%	34%	23%
Requiring the company to report on Sustainability Accounting Standards Board (SASB) metrics for its industry and/or follow the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD)	21%	30%	25%	29%	23%	26%	29%	22%	22%	23%
Engaging a third party/advisory board to evaluate the company's climate risk exposure	21%	15%	22%	18%	28%	15%	13%	27%	14%	29%
Building climate/environmental goals into annual incentives	11%	15%	19%	12%	19%	24%	16%	16%	14%	20%
Other	0%	0%	5%	6%	2%	3%	4%	3%	3%	4%
None of the above	21%	5%	6%	9%	14%	9%	14%	4%	10%	7%
Of respondents whose boards do consider climate change (see Question 7). Up to three responses allowed.										

	Role on portfolio company board			Primary ownership			Revenue		Gender	
	Executive/ Founder	Investor	Outside director	Venture/ Founder	Private equity	Family office/Family owned	Less than $100M	$100M or greater	Male	Female
9. To what extent does your board consider workplace diversity, equity, and inclusion (DEI) in its oversight of strategy, operations, and risk management?										
To a great extent	28%	18%	30%	28%	24%	21%	22%	32%	23%	35%
To some extent	36%	45%	43%	47%	39%	47%	42%	41%	42%	43%
To a limited extent	21%	30%	20%	19%	24%	30%	24%	20%	25%	16%
Not at all	15%	6%	7%	6%	14%	2%	12%	6%	10%	6%
10. Which actions do you believe make/would make your board more effective in its oversight of workplace diversity, equity, and inclusion (DEI)?										
Adding a discussion of DEI to the board agenda	48%	42%	46%	59%	39%	40%	42%	48%	54%	42%
Evaluating the company relative to benchmark data for industry/size/geography	48%	39%	40%	34%	46%	36%	33%	48%	41%	45%
Working with human resources to develop DEI metrics to report to the board	28%	45%	36%	39%	34%	33%	36%	34%	41%	28%
Building DEI goals into long-term incentive plans	28%	35%	21%	27%	25%	26%	29%	23%	23%	31%
Reviewing and discussing the results of employee surveys	30%	29%	24%	25%	30%	17%	25%	28%	32%	23%
Building DEI goals into annual incentives	25%	29%	27%	30%	26%	26%	29%	26%	21%	38%
Engaging a third party/advisory board to assess DEI	10%	6%	13%	9%	15%	7%	4%	16%	11%	12%
Other	3%	6%	4%	2%	7%	2%	1%	6%	4%	5%
None of the above	13%	6%	10%	5%	11%	17%	13%	8%	7%	6%
Of respondents whose boards do consider DEI (see Question 9). Up to three responses allowed.										

Survey demographics

n=196

Executive/
Founder

54

Investment
professional

34

Outside
director

108

Primary owner of portfolio company represented

Venture capital/
Founder

29%

Private
equity

43%

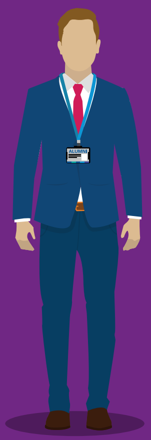
Family office/
Family owned

28%

Gender

Male

52%



Female

39%

Other/Prefer not to say

9%

Annual revenue of portfolio company

Less than $10 million

16%

$10 million to less than $50 million

14%

$500 million or greater

24%

$50 million to less than $100 million

14%

$100 million to less than $500 million

32%

Contact us

Ari I. Weinberg
Director
KPMG Board Leadership Center

David A. Brown
Executive Director
KPMG Board Leadership Center

kpmg.com/us/blc
T: 1-800-808-5764
E: us-kpmgmktblc@kpmg.com

About the KPMG Board Leadership Center
The KPMG Board Leadership Center (BLC) champions outstanding corporate governance to drive long-term value and enhance stakeholder confidence. Through an array of insights, perspectives, and programs, the BLC—which includes the KPMG Audit Committee Institute and close collaboration with other leading director organizations—promotes continuous education and improvement of public and private company governance. BLC engages with directors and business leaders on the critical issues driving board agendas—from strategy, risk, talent, and ESG, to data governance, audit quality, proxy trends, and more. Learn more at kpmg.com/us/blc.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia