Structure, Capability, or Credentials?

Board Governance and the Type of Corporate Sustainability Action

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Introduction

Sustainability has moved from the margins of corporate strategy to its centre. Investors increasingly weigh environmental, social and governance performance when allocating capital, regulators are expanding sustainability disclosure requirements, and consumers pay closer attention to how companies behave. In response, firms now publish sustainability reports, commit to emissions targets and promote their environmental credentials prominently.

This pressure, however, creates an incentive that runs in two directions. It can push firms to change how they operate, but it can equally push them to communicate commitment without changing underlying practice. This gap between what a company says and what it does is known as *greenwashing*. Because public communication is far less costly than operational change, firms facing pressure to appear sustainable may find it easier to talk than to act.

For investors, regulators and the wider public, this raises an important question: how can genuine sustainability efforts be distinguished from symbolic ones? A related question concerns the source of the difference. Within a firm, who determines whether sustainability commitments become substantive change?

This research focuses on the board of directors, the body at the top of a company's governance structure, and asks whether the composition and organisation of the board shape the type of sustainability action a firm pursues.

Why the board of directors matters

The board of directors is a small group, typically around ten individuals, responsible for overseeing a company on behalf of its shareholders. It approves strategy, allocates major resources, oversees what the company discloses to the public and holds senior management to account. These responsibilities place the board at the point where sustainability commitments are either translated into plans, budgets and systems, or left as statements of intent.

Policymakers and investors have increasingly recognised this role. Firms face growing pressure

to assign formal responsibility for sustainability at board level, and many have responded in one of two ways: by appointing directors with sustainability-related backgrounds, or by establishing dedicated board sustainability committees. Despite the prevalence of these reforms, there is limited evidence on which board characteristics actually lead firms towards substantive sustainability. Existing research has largely examined how boards relate to broad outcomes such as sustainability ratings or emissions levels, rather than to the *type* of sustainability activity firms undertake. This study addresses that gap.

Distinguishing symbolic from substantive action

Measuring the difference between symbolic and substantive sustainability requires a way of classifying what firms actually do. This study draws on a framework developed by the Leonardo Centre on Business for Society at Imperial College Business School, which classifies each sustainability initiative a company undertakes into one of three categories, ordered by how deeply sustainability is integrated into the firm's operations.

Table 1: Three categories of corporate sustainability action

Category	Typical activities	Depth of integration
Advocacy	Public statements, pledges, campaigns and stakeholder engagement	Communicates commitment; does not necessarily change practice
Preparation	Setting standards, measuring impact, building reporting systems, assigning internal responsibility	Builds the internal foundations for change
Transformation	Changes to products, production processes and physical assets	Alters what the firm makes and how it operates

Advocacy is not inherently problematic. Communication is a legitimate part of corporate activity, and public commitments can create accountability. The concern arises when advocacy dominates a firm's sustainability effort without progressing towards preparation or transformation. Preparation represents the less visible but essential groundwork that makes operational change possible, while transformation represents that change itself.

Rather than counting the total number of initiatives, this study examines their composition: the share of a firm's sustainability effort allocated to each category. Across the sample, advocacy accounts for roughly half of all initiatives, with the remainder divided approximately equally between preparation and transformation. A shift in composition away from advocacy and towards preparation indicates a firm moving from communication towards substantive groundwork.

Two competing explanations

Two perspectives offer different accounts of what kind of board encourages substantive sustainability.

The first emphasises **sustainability-specific expertise**. On this view, firms become more substantive when their boards include directors with direct sustainability experience: individuals who have held sustainability roles, served on sustainability committees at other firms, or led environmental and charitable organisations. This reasoning underpins many current reform proposals and shapes how investors and rating agencies interpret board composition, where sustainability credentials are often read as a signal of genuine commitment.

The second emphasises **general board capability and structure**. On this view, what matters is not any individual director's sustainability background but the overall quality and organisation of the board. Directors with broad careers spanning multiple industries and roles, strong educational backgrounds, and a diversity of perspectives (across gender, age and experience) may be better equipped to scrutinise complex problems of any kind, including sustainability. A dedicated sustainability committee adds a formal structure through which targets, measurement and reporting can be overseen on a continuing basis.

Both perspectives are grounded in established theories of corporate governance, and both are plausible. Their implications, however, differ considerably. If the first is correct, firms should prioritise recruiting sustainability specialists. If the second is correct, firms should focus on building capable, diverse and well-structured boards, and investors should treat individual sustainability credentials with greater caution.

Data and approach

The analysis combines three large datasets. The Leonardo Centre's GOLDEN for Sustainability database classifies the sustainability initiatives of thousands of firms into the three categories described above. BoardEx provides detailed information on individual directors, including their career histories, education, gender, age and prior roles. Compustat supplies financial information such as firm size, profitability and leverage.

Combined, these sources yield close to 10,000 firm-year observations covering 2,240 large North American companies between 2014 and 2024. For each firm in each year, the data record the composition of the board and the distribution of the firm's sustainability initiatives across advocacy, preparation and transformation.

Statistical models were used to examine whether differences in board characteristics are associated with differences in the composition of sustainability activity. These models account for factors that might otherwise distort the comparison, including firm size, profitability, industry and year, so that firms are compared on a like-for-like basis.

A second, more demanding test was also applied. Rather than comparing different firms with one another, it compares each firm with itself over time. If a firm's sustainability composition changes after its board changes, this provides considerably stronger evidence of a genuine board effect, because the firm's underlying culture, history and other stable characteristics are held constant. Many relationships that appear when comparing across firms do not survive this test, which makes it a useful check on which findings are most credible.

Findings

Overall, the evidence supports the second explanation: general board capability and structure, rather than sustainability-specific credentials, are associated with a shift from symbolic towards substantive sustainability.

General board capability

Firms whose directors have broader career experience and higher educational attainment allocate a smaller share of their sustainability effort to advocacy and a larger share to preparation. Directors who have worked across a range of industries, positions and organisations appear to bring practical knowledge relevant to building systems and processes, which is precisely what preparation involves. The effects are modest in magnitude, at around one percentage point of a firm's initiatives for each standard deviation increase in board capability, but they are consistent across multiple measures.

Sustainability committees

Firms with a dedicated board sustainability committee likewise show less advocacy and more preparation. This is consistent with the committee's function: it provides a standing forum responsible for setting targets, monitoring progress and overseeing reporting, the activities that constitute preparation. Such committees remain relatively uncommon, present in only around one in six firm-years in the sample.

Board gender composition

The proportion of women on the board is associated with a greater share of preparation, and this is the only relationship in the study that remains significant when each firm is compared with itself over time. When a firm increases the representation of women on its board, its own sustainability composition subsequently shifts towards preparation. This does not establish that gender alone drives the change, since women directors may also bring distinct professional backgrounds and perspectives. It does, however, constitute the strongest evidence in the study that a board characteristic influences firm behaviour.

Sustainability-specific credentials

In contrast, directors' sustainability credentials, including prior sustainability roles, seats on other firms' sustainability committees and charitable leadership, show no consistent association with more substantive sustainability.

Firms with a larger number of sustainability-experienced directors in fact show a higher share of advocacy, and this pattern disappears entirely when firms are compared with themselves over time. The most plausible interpretation is reverse causality. Firms that already place strong emphasis on their sustainability image may be more inclined to appoint directors with sustainability credentials, in part because such appointments are themselves visible signals of

commitment. On this reading, credentials reflect a communication-oriented strategy rather than a driver of substantive change.

The limits of board influence

None of the board characteristics examined is associated with transformation, the deepest form of sustainability action. Boards appear to influence the balance between communication and internal preparation, but not whether firms proceed to change their products and operations. Transformation may depend on factors beyond the board's direct influence, such as technological feasibility, cost, regulation and competitive pressure.

Implications

These findings carry implications for several audiences.

For firms, the results suggest that substantive sustainability is better supported by building a capable board overall, with broad experience, diverse perspectives and clear structures for oversight, than by appointing individual sustainability specialists. A specialist director on a board that lacks the breadth or structure to act on their expertise may have limited influence.

For investors and rating agencies, which frequently treat directors' sustainability credentials as evidence of commitment, the findings counsel caution. Such credentials appear to be a weak, and potentially misleading, signal. Observable features such as the presence of a dedicated committee and the breadth and diversity of the board offer a more informative indication of whether a firm is building genuine sustainability capacity.

For policymakers, who are increasingly encouraging sustainability expertise at board level, the findings suggest that the overall composition and organisation of the board may matter at least as much as the presence of a designated expert.

More broadly, the results offer a practical lens for evaluating corporate sustainability claims. Public commitments and high-profile appointments are less informative than evidence of internal groundwork: whether a firm measures its impact, has established reporting systems and has assigned clear responsibility. These are the indicators of an organisation preparing for substantive change.

Limitations

Several limitations should be acknowledged.

First, with the exception of the gender result, the findings are drawn primarily from comparisons across firms and therefore represent associations rather than established causal effects. Firms select their own directors, and the same underlying factors may shape both board composition and sustainability strategy.

Second, the sample consists largely of large North American companies, which limits how far the findings can be generalised to smaller firms or other regions.

Third, the analysis examines the composition of sustainability activity rather than its overall level. A firm could shift its composition towards preparation while reducing its total sustainability effort.

Finally, directors' sustainability experience was identified through keyword searches of job titles and backgrounds. This approach may miss expertise acquired through education or less explicitly labelled roles, and a more refined measure could reveal effects not detected here.

Future research could address these limitations by examining specific board appointments in greater detail, applying methods designed to isolate causal effects, and extending the analysis to other regions and firm types.

Conclusion

As firms face mounting pressure to demonstrate meaningful sustainability, boards are increasingly expected to lead that effort. This research suggests that the shift from communication towards substantive groundwork is associated less with directors' sustainability credentials than with the broader capability, diversity and structure of the board. Board gender composition stands out as the clearest instance of a characteristic that changes firm behaviour over time.

The absence of a consistent effect for sustainability credentials, and their association with greater advocacy, serves as a reminder that signals of commitment are not equivalent to commitment itself. That distinction applies to the firms that make sustainability claims, and equally to the boards that govern them.

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Further reading

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