

Books for Bots - Volume 3: Exec Pay & Governance

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Governance in ESG: The Complete Professional Guide (2026)

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ESG governance is the system of board oversight, executive accountability, and ethical controls that determines whether a company's sustainability promises survive contact with reality. For commercial real estate owners, operators, and investors, it is the "G" that makes the "E" and "S" credible — and in 2026, it is the dimension raters and regulators scrutinize first.

This guide covers what ESG governance includes, how boards should oversee it, how to tie executive pay to sustainability outcomes, what disclosures frameworks expect, and the red flags that cost companies investor confidence.

What ESG governance actually covers

Governance is the least glamorous and most consequential pillar of ESG. It answers one question: **who is accountable, and how do we know?** The components are concrete:

- **Board oversight** — which body owns ESG, how often it meets, what it reviews, and whether it has real authority or is ceremonial.
- **Management accountability** — named executives with ESG in their job descriptions and compensation, not a sustainability manager three layers from the CEO.
- **Policies and controls** — anti-corruption, ethics, whistleblower protection, related-party transaction rules, and the internal controls that make them real.
- **Shareholder rights** — voting structures, board responsiveness to proposals, and transparency around political engagement.
- **Disclosure discipline** — reporting that is consistent year to year, assured by third parties, and aligned to recognized frameworks.

For a REIT or property owner, governance is also where ESG meets fiduciary duty: the board's oversight of climate risk, tenant safety, and data privacy is not a side project — it is core risk management.

Board ESG oversight and committee structures

Investors no longer accept "the full board oversees ESG" as an answer unless it is backed by evidence. Credible oversight has a visible structure:

- **A dedicated committee or a named mandate.** The strongest signal is a board-level sustainability or ESG committee with a published charter. The acceptable alternative is a governance or risk committee with an explicit, documented ESG mandate — meeting minutes should show ESG as a recurring agenda item, not an annual mention.
- **Clear escalation paths.** Material ESG issues — a corruption allegation, a major tenant-safety incident, a restatement of emissions data — should reach the board through a defined channel, not through the news.

- **Integration with audit and risk.** ESG oversight that sits apart from the audit committee tends to drift into storytelling. The audit committee should own assurance scope and control effectiveness; the risk committee should own climate and ESG risk integration.

What to publish: the committee charter, the number of ESG-focused meetings per year, and a summary of what the board actually reviewed — not just that it met.

Director competence and training

A board cannot oversee what it does not understand. Raters and proxy advisors now ask directly whether directors have relevant expertise:

- **Skills matrix.** Publish a board skills matrix that includes climate, ESG, and sustainability competence alongside finance, real estate, and legal expertise. If no director has it, say how the gap is covered — external advisors, training, or a planned appointment.
- **Ongoing education.** Annual board briefings on regulatory developments (CSRD, ISSB, California disclosure laws), climate risk, and the company’s own ESG performance. Document that they happened.
- **Refreshment and independence.** Long-tenured, non-independent boards score poorly for a reason: independence is the mechanism that lets oversight challenge management. Disclose tenure, independence ratios, and the refreshment policy.

The credibility test is simple: could an investor read your proxy statement and name which director owns climate competence? If not, the structure is decorative.

Executive compensation linked to sustainability targets

Nothing signals seriousness like pay. When ESG targets sit inside executive compensation, sustainability stops being a communications function and becomes an operating priority:

- **Which targets.** The credible set for real estate: GHG emissions reductions (absolute, not just intensity), energy and water performance, green building certification coverage, tenant health and safety metrics, and diversity outcomes. Vague “ESG performance” modifiers without defined metrics are discounted by investors.
- **Weight and structure.** Disclose the percentage of variable pay tied to ESG metrics, whether they sit in the annual bonus or long-term incentive plan, and whether payout requires threshold, target, or stretch achievement. A 5% modifier on the annual bonus is a gesture; 15–20% in long-term incentives is a commitment.
- **Verification.** The metrics feeding compensation should be the same assured numbers in the sustainability report. If the bonus paid out on emissions numbers that later get restated, credibility collapses.

For property companies, the most defensible linkage is operational: portfolio energy intensity, certification milestones, and safety performance are within management’s control and directly tied to asset value.

Shareholder engagement on governance

Governance is the ESG dimension shareholders engage on most directly — through votes, proposals, and dialogue:

- **Proactive outreach.** Leading companies run annual governance roadshows with major investors, covering board composition, compensation design, and ESG oversight — before proxy season, not during a crisis.
- **Proposal responsiveness.** Track record matters: how the board responded to past shareholder proposals (including ones that failed to pass) is public and scored.
- **Voting structure transparency.** Dual-class or unequal voting rights are a standing governance discount. If they exist, the rationale and sunset provisions should be explicit.

For listed REITs, the annual meeting is the governance report card: director election support levels, say-on-pay results, and proposal outcomes are all public data that raters ingest automatically.

Governance disclosures: GRI, SASB, and ISSB alignment

Each major framework asks governance questions; the answers should be consistent across all of them:

- **GRI 2 (General Disclosures)** — the most detailed governance ask: board composition, nomination processes, conflicts of interest, policy commitments, whistleblower mechanisms, and compliance with laws. GRI reporters should treat this section as the governance spine.
- **SASB Real Estate standard** — governance appears through management of tenant sustainability impacts, climate risk oversight, and data security. SASB’s questions are investor-focused: what governance exists around the issues most likely to affect enterprise value.
- **ISSB IFRS S1** — requires disclosure of the governance processes, controls, and procedures used to monitor and manage sustainability-related risks and opportunities, including board oversight and management’s role. This is now the global baseline.
- **EU CSRD (ESRS G1)** — business conduct: anti-corruption, whistleblower protection, political engagement, and supplier payment practices, with mandatory assurance phasing in.

The practical rule: write the governance disclosure once, to the highest standard you face, then map it to each framework — rather than writing four different versions that invite inconsistency.

Anti-corruption, ethics, and whistleblower programs

This is the section investors read first when something goes wrong, so it has to be specific before it is needed:

- **Program coverage.** Anti-corruption policy scope (employees, contractors, joint-venture partners, suppliers), training completion rates by employee category, and gifts-and-hospitality rules.
- **Whistleblower mechanics.** How reports can be filed (including anonymously), who investigates, anti-retaliation protections, and — critically — aggregate data: number of reports received, categories, and resolution rates. A program with zero reports is usually a program nobody trusts, not a clean company.
- **Incident disclosure.** Confirmed corruption incidents, fines, and non-monetary sanctions, with remediation described. ESRS and GRI both require this; hiding it guarantees a worse outcome when it surfaces elsewhere.
- **Political engagement.** Lobbying expenditures, trade association memberships, and alignment checks between public climate commitments and actual advocacy. This is where many real estate companies get caught — the sustainability report says net-zero while the trade association lobbies against building performance standards.

How governance scores drive GRESB and investor confidence

In GRESB's Real Estate Assessment, governance is not a side category — it underpins the Management component, which typically accounts for roughly a third of the score. The mechanics:

- **Policies exist and are disclosed.** GRESB awards points for published policies on ESG, bribery and corruption, whistleblowing, and diversity — but only when they are public and current.
- **Accountability is named.** Points for identifying who at board and senior management level owns ESG, and for linking ESG performance to senior management compensation.
- **Stakeholder engagement is evidenced.** Documented programs for engaging employees, tenants, suppliers, and communities — with outcomes, not just activities.
- **Disclosure is assured.** Third-party assurance of sustainability data increasingly separates leaders from the pack.

Beyond GRESB, governance quality is the variable most correlated with cost of capital in ESG research: lenders and bond investors price governance risk directly, because governance failures are the ESG failures that destroy value fastest.

What a credible governance section looks like in a sustainability report

A strong governance section is boring in the right way — specific, consistent, and verifiable. The checklist:

- Board committee structure with charters, meeting counts, and topics reviewed.
- Skills matrix showing ESG/climate competence (or the plan to get it).
- Named management owners for each material ESG topic.
- Executive compensation linkage: which metrics, what weight, which plan.
- Ethics program data: training coverage, whistleblower report volumes and outcomes, confirmed incidents.
- Shareholder engagement summary and voting outcomes.
- Framework mapping (GRI/SASB/ISSB) with no contradictions between them.
- Assurance statement covering the governance data, not just emissions.

Length is not the test — a tight ten pages of specifics beats forty pages of principles. Every claim should survive the question: “prove it.”

Red flags investors watch for

- **Governance by adjective.** “Robust oversight,” “strong culture,” “deeply committed” — with no structures, numbers, or names attached.
- **The sustainability silo.** ESG owned by a VP with no board access and no compensation linkage. If the CEO's pay doesn't touch it, it isn't strategy.
- **Restatements without explanation.** Governance or emissions data revised year over year with no disclosed methodology change.
- **Zero whistleblower reports.** Across a multi-thousand-person organization, zero reports signals a broken channel, not a clean culture.

- **Advocacy misalignment.** Public climate commitments paired with trade association memberships lobbying against the same policies.
- **Stale policies.** Anti-corruption or ethics policies dated five-plus years ago with no review cycle disclosed.
- **Framework shopping.** Switching frameworks or cherry-picking disclosures after a bad rating, rather than fixing the underlying gaps.

Beauty Companies' Executive Pay and Sustainability Targets: How Beauty Ties Pay to Packaging, Sourcing and ESG in 2026

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Executive pay tied to sustainability targets in beauty companies means a disclosed share of executive variable pay — annual bonus, performance shares, or both — depends on achieving the sustainability commitments the brand makes to consumers: recycled and bio-based packaging, responsibly sourced ingredients, lower-carbon operations, and the social programs attached to the products. Beauty is the consumer industry where the sustainability claim is printed on the pack and sold at the shelf, which makes it the industry where investors test hardest whether executive pay actually stands behind the claim.

Definition — sustainability-linked executive pay (beauty and consumer brands): an incentive design in which part of executive variable remuneration is assessed against the company's published sustainability targets. In beauty, the recurring target families are packaging circularity (recycled, refillable, reusable or bio-based content), responsible sourcing (certified palm oil, traceable bio-based ingredients), carbon and site performance, and social measures such as gender balance and community programs.

This guide examines how beauty and consumer-brand companies structure that link in 2026: the disclosed mechanics at L'Oreal and Unilever, the packaging and sourcing targets that sit behind the pay metrics at the big houses including The Estee Lauder Companies, how disclosure differs between Europe and the United States, and what investors check before they believe any of it.

Why do beauty companies link executive pay to sustainability targets?

Beauty companies link executive pay to sustainability targets because their sustainability performance is commercially visible in a way most industries' is not. A shampoo bottle's recycled content, a lipstick's refill system, a cream's ingredient story — these are product attributes consumers can inspect, regulators increasingly require to be substantiated, and competitors advertise against. When the claim is part of the product, the board's question follows naturally: if sustainability sells the product, why would it not move the pay of the people who run the company?

Three pressures convert that logic into plan design. First, **greenwashing exposure:** consumer-facing claims attract regulator and litigant attention, and a pay plan that rewards only sales while marketing claims sustainability is a documented inconsistency waiting to be quoted. Second, **disclosure law:** European beauty houses report under the EU's sustainability framework and publish remuneration policies that shareholders vote on, making the pay–sustainability link a matter of public record. Third, **investor methodology:** proxy advisors now test whether non-financial pay metrics are objective, quantified and financially underpinned — a standard that pushes beauty boards from narrative commitments to formulaic targets.

Which sustainability targets show up in beauty executive pay?

The sustainability targets in beauty executive pay cluster into five families: packaging circularity, carbon and site performance, responsible sourcing, composite sustainability indices, and social measures. The disclosed examples are drawn from the companies' own registration documents, annual reports and sustainability reporting.

Target family	Where it sits	Disclosed structure
Packaging circularity	Performance shares; program targets behind pay	L'Oreal: the share of plastic packaging from recycled or bio-based sources is a named non-financial criterion in executive performance shares; its 2030 program targets a 50% absolute reduction in virgin plastic use against 2019 and 50% of packaging materials from recycled or bio-based sources
Carbon and sites	Annual variable pay and performance shares	L'Oreal: the share of sites with carbon-neutral status is a named performance-share criterion; the program commits to 100% renewable energy on operated sites and a 57% cut in Scope 1 and 2 emissions by 2030 against 2019
Responsible sourcing	Performance shares; supply-chain goals	L'Oreal: the share of formula ingredients that are bio-sourced, traceable and from sustainable sources is a named pay criterion; The Estee Lauder Companies reported 95% of palm-based ingredients certified sustainable through RSPO physical supply chains in fiscal 2024
Composite sustainability index	Long-term incentive (performance share plan)	Unilever: the Sustainability Progress Index carries 15% of the Performance Share Plan, measured on four core measures with target ranges set for three-year periods
Social measures	Performance shares and annual objectives	L'Oreal: the number of people benefiting from its brands' social commitment programs and gender balance in strategic positions are named criteria; its program also targets living-wage pledges from 100% of strategic suppliers

The pattern to notice is that beauty's pay metrics are **physical and countable** — percentages of packaging, percentages of ingredients, counts of sites and beneficiaries. That is partly the industry's good fortune (its footprint is tangible) and partly investor discipline: physical metrics are the ones that survive a proxy advisor's objectivity test.

How does L'Oreal tie executive pay to L'Oreal for the Future?

L'Oreal operates the most completely disclosed sustainability pay structure in the beauty industry, documented in its Universal Registration Document. The link runs through both elements of variable pay.

In the **annual variable remuneration**, financial criteria carry 60% of the weighting. Quantifiable non-financial criteria carry 25%, of which progress under **L'Oreal for the Future** — the group's sustainable development

program for 2030 — accounts for 10 percentage points, with the balance of the quantifiable block covering sustainability training and digital development. The remaining 15% is qualitative assessment. The weighting of each criterion and its objectives are set at the start of the year, and the assessment is made without offsetting between criteria — a miss on the sustainability block cannot be silently compensated by a financial beat.

In **performance shares**, the long-term element, non-financial criteria sit alongside financial ones over a three-year assessment period with a four-year vesting horizon. The named environmental and social criteria are:

- the percentage of sites with carbon-neutral status;
- the percentage of formula ingredients that are bio-sourced, traceable and come from sustainable sources;
- the percentage of plastic packaging that comes from recycled or bio-based sources;
- the number of people benefiting from the group's brands' social commitment programs;
- gender balance within strategic positions, including the Executive Committee.

This is the complete grammar of the beauty model in one plan: packaging, sourcing, carbon and social outcomes, each expressed as a measurable percentage or count, assessed over a multi-year period, in a document shareholders can read.

The targets behind the pay metrics: L'Oreal for the Future to 2030

Pay metrics are only as credible as the program targets they sample, and L'Oreal for the Future is the reference program for the sector. Its published 2030 commitments — the targets from which the pay criteria above are drawn — include:

- **Climate:** 100% renewable energy use on operated sites and stores; absolute Scope 1 and 2 greenhouse-gas emissions reduced 57% against 2019; specified Scope 3 categories reduced 28% against 2019.
- **Circularity:** virgin plastic used for product packaging reduced 50% in absolute terms against 2019; 50% of all materials used in product packaging sourced from recycled or bio-based sources; packaging intensity reduced 20% against 2019.
- **Nature and sourcing:** at least 90% of bio-based materials used in formulas and packaging sustainably sourced; more than 75% of ingredients sourced from nature or recycled materials; 100% recycled or reused water for industrial purposes in factories.
- **Communities:** 100,000 people from disadvantaged communities helped into employment; 100% of strategic suppliers signing a living-wage pledge with a time-bound action plan; 10 million people supported through brands' social engagement programs.

Two features matter for pay design. The targets are **absolute and baseline-dated** (against 2019), which makes them auditable and prevents intensity-only improvements from masquerading as progress while volumes grow. And the program's four pillars — climate transition, nature, circularity, communities — map one-to-one onto the metric families in the pay plan, so a shareholder can trace any pay criterion back to a public commitment.

How does Unilever pay on sustainability? The Sustainability Progress Index

Unilever — parent of Dove, Sunsilk, Vaseline and a portfolio of beauty and personal-care brands alongside its foods and home-care businesses — uses the sector's best-known composite mechanism: the **Sustainability Progress Index (SPI)** inside its Performance Share Plan (PSP).

In the PSP scorecard disclosed in Unilever’s 2025 Annual Report, relative total shareholder return carries 30%, average underlying return on invested capital carries 30%, and the **Sustainability Progress Index carries 15%**. The SPI is not a single metric but a governed index: under Unilever’s renewed approach it concentrates on **four core measures**, with target ranges set for a three-year period and disclosed prospectively, subject to external review by an external provider or internal review where external review is not possible, and assessed formulaically against the published ranges. Awards vest after three years with a further two-year retention period, and clawback, malus and recovery provisions apply across the plan.

The SPI design answers the standard objection to composite ESG measures — that an index lets management hide a miss inside an average. Four measures instead of the previous eight, ranges published in advance, external review, and a formulaic assessment are the specific countermeasures, each one visible in Unilever’s remuneration policy documents. For consumer brands generally, the lesson is that a composite index can carry pay weight credibly, but only when its construction is as disclosed as a single metric would be.

Packaging targets: beauty’s most measurable promise

Packaging is where beauty sustainability becomes arithmetic. A bottle either contains post-consumer recycled resin or it does not; a compact is either refillable or it is not. That measurability is why packaging percentages anchor so many beauty pay metrics — and why packaging is also where claims discipline is most exposed.

The reference points across the big houses:

- **L’Oreal** writes the share of plastic packaging from recycled or bio-based sources directly into executive performance-share criteria, against program targets of halving virgin plastic use by 2030 (against 2019) and sourcing 50% of packaging materials from recycled or bio-based sources.
- **The Estee Lauder Companies** set a goal that by 2025, 75–100% of its packaging would be recyclable, refillable, reusable, recycled or recoverable, with post-consumer recycled content targeted to rise by up to 50%. Its fiscal 2024 Social Impact and Sustainability Report recorded 71% of packaging meeting that standard — progress disclosed against the target, short of it, in the company’s own reporting.
- **Unilever’s** packaging ambitions feed the SPI rather than a standalone pay line, illustrating the index route: packaging progress moves executive outcomes as part of the composite, not as a separate percentage.

The disclosure contrast inside that list is itself instructive. A target with a published current value (71% against a 75–100% goal) is more useful to an investor than a target alone, because it converts the pay question from “did they promise?” to “did the trajectory earn?” — the question compensation committees must answer when they set the following cycle’s ranges.

Responsible sourcing metrics: palm oil, mica and bio-based ingredients

If packaging is beauty’s most measurable promise, sourcing is its most exposed one. The industry’s ingredient footprint runs through palm oil and its derivatives, mica, shea, vanilla and hundreds of botanical supply chains — exactly the terrain where deforestation, labor and traceability risks concentrate, and where a brand’s sustainability claim can be falsified by a single supply-chain investigation.

The disclosed sourcing metrics follow the same physical grammar as packaging:

- **Certified palm oil.** The Estee Lauder Companies reported achieving its 2025 palm oil goal ahead of schedule in fiscal 2024, with 95% of palm-based ingredients certified sustainable by the Roundtable on Sustainable Palm Oil (RSPO) through physical supply chains — the stricter certification route, rather than book-and-claim certificates.
- **Traceable bio-based ingredients.** L’Oreal’s performance-share criteria include the share of formula ingredients that are bio-sourced, traceable and from sustainable sources — three conditions, not one, which is what makes the metric resistant to relabeling.
- **Ingredient transparency.** The Estee Lauder Companies published a corporate ingredient glossary covering more than 100 key ingredients, meeting its transparency goal ahead of schedule; transparency artifacts like this are increasingly treated by investors as governance evidence behind sourcing claims.

For pay design, sourcing metrics carry a distinctive risk: the data comes from the supply chain, not the general ledger. Credible structures therefore specify the certification or traceability standard inside the metric definition (RSPO physical supply chain; “traceable and from sustainable sources”) rather than leaving the evidence standard to the assessment year.

How do US and European beauty companies differ on ESG pay disclosure?

The transatlantic difference in beauty ESG pay is primarily a difference in **disclosure architecture**, not in sustainability ambition. The European houses publish formulaic structures: L’Oreal’s Universal Registration Document states the exact weights (60% financial, 25% quantifiable non-financial, 15% qualitative in the annual variable; named non-financial criteria in performance shares), and Unilever publishes its PSP weights and SPI construction in its remuneration policy and annual report. A shareholder can compute the maximum pay consequence of a sustainability miss from the documents alone.

US beauty disclosure runs through the proxy statement’s compensation discussion, which describes performance frameworks in terms of financial measures and strategic or individual objectives. The Estee Lauder Companies illustrate the pattern: the company publishes detailed sustainability goals and reports progress against them in a dedicated Social Impact and Sustainability Report — 71% of packaging meeting its recyclability standard, 95% of palm-based ingredients RSPO-certified, a 23% reduction in water withdrawal against its fiscal 2019 baseline — while its executive-pay disclosure does not attach a disclosed percentage weighting to ESG outcomes of the kind found in the European documents.

Investors read the two patterns differently. The European structure makes the pay link falsifiable: if the sustainability block pays out in full while the published program metrics stall, the inconsistency is arithmetically visible. The US pattern leaves the link to committee judgement, which places the burden on retrospective explanation. Neither pattern guarantees rigor, but they distribute the burden of proof differently — and the direction of regulatory travel on both continents is toward the falsifiable end.

What gets disclosed — and what investors check

Across both patterns, investors evaluating beauty sustainability pay apply a consistent checklist, drawn from proxy-advisor methodology and say-on-pay engagement practice:

- **Is there a stated weight?** A disclosed percentage (L’Oreal’s 10 points for its sustainability program inside annual variable pay; Unilever’s 15% SPI in the PSP) versus an unquantified statement that ESG is

“taken into account.”

- **Are the metrics objective and quantified?** ISS’s framework asks whether incentive programs emphasize objective metrics linked to quantifiable goals rather than discretionary ones, and whether the rationale for metric selection and changes is clearly explained. Limited or undisclosed goals were the most-cited qualitative concern in ISS’s negative say-on-pay recommendations in the first half of the 2026 proxy season.
- **Are non-financial metrics financially underpinned?** Glass Lewis’s 2026 benchmark guidelines state that where remuneration outcomes rely predominantly on qualitative or non-financial metrics without financial underpins or gateways, it may recommend voting against the remuneration policy or report.
- **Are targets set prospectively and outcomes reconciled?** Unilever’s prospective three-year SPI ranges and L’Oreal’s no-offsetting rule are the disclosed mechanisms; both exist so that outcomes can be checked against intentions.
- **Does progress data exist outside the pay document?** A pay metric sampled from a public program with its own progress reporting (71% against a packaging goal; 95% RSPO certification) can be cross-examined; a metric that exists only inside the remuneration report cannot.

Greenwashing risk: when the pack claims more than the pay plan does

The beauty industry’s specific greenwashing risk is a **gap between the consumer claim and the pay plan**. Marketing tells the shopper the brand is transforming its packaging; if no executive’s pay moves when packaging transformation stalls, the claim is structurally unserious, and that gap is legible to regulators, journalists and plaintiff firms in a way that a missing ESG metric in, say, industrial software is not.

Credible beauty structures close the gap with four habits visible in the disclosed examples in this guide. They attach pay to the **same metrics the marketing cites** (recycled content, certified sourcing), not to a safer internal proxy. They express targets **absolutely and against fixed baselines**, so volume growth cannot launder intensity-only gains. They put the evidence standard **inside the metric definition** (RSPO physical supply chains; traceable and sustainably sourced). And they **publish progress against the target in the sustainability report**, including when progress is short — The Estee Lauder Companies’ 71% against a 75–100% packaging goal is more credibility-preserving than a rounded claim of success, because it demonstrates the reporting system works when the news is incomplete.

For the cross-industry design framework — weighting, baselines, metric selection and greenwashing controls — see BC ESG’s guide to ESG-linked compensation and executive accountability, and for the metric definitions behind target-setting, the complete professional guide to ESG metrics. The pay-equity and workforce-data side of consumer-brand ESG reporting is covered in BC ESG’s guide to DEI metrics, pay equity and ESG reporting.

Frequently asked questions

Which beauty companies tie executive pay to sustainability targets?

The clearest disclosed structures are European. L’Oreal’s Universal Registration Document states that quantifiable non-financial criteria carry 25% of annual variable remuneration — including 10 percentage points for progress under its L’Oreal for the Future sustainability program — and that its performance shares carry named non-financial criteria covering carbon-neutral sites, bio-sourced and traceable ingredients, recycled or

bio-based plastic packaging, social program reach and gender balance. Unilever's Performance Share Plan weights its Sustainability Progress Index at 15%. The Estee Lauder Companies publish detailed sustainability goals and progress but do not disclose a formulaic ESG weighting in executive pay of the kind set out in the European documents.

What sustainability targets are used in beauty executive pay?

The named criteria in L'Oreal's performance shares are the industry's reference list: the percentage of sites with carbon-neutral status; the percentage of formula ingredients that are bio-sourced, traceable and from sustainable sources; the percentage of plastic packaging from recycled or bio-based sources; the number of people benefiting from the group's brands' social commitment programs; and gender balance within strategic positions. Unilever's Sustainability Progress Index concentrates on four core sustainability measures assessed against target ranges set for three-year periods.

How much of beauty executive pay depends on sustainability?

Where weights are published, sustainability carries a defined minority of variable pay. At L'Oreal, 10 of the 25 quantifiable non-financial points in annual variable remuneration are assigned to progress under its sustainability program, within a structure weighted 60% to financial criteria; its performance shares add further non-financial criteria over a three-year assessment. At Unilever, the Sustainability Progress Index carries 15% of the Performance Share Plan, alongside relative total shareholder return at 30% and underlying return on invested capital at 30%.

What packaging targets sit behind beauty sustainability pay?

L'Oreal's program targets a 50% absolute reduction in virgin plastic for product packaging by 2030 against 2019, and 50% of packaging materials from recycled or bio-based sources, while the share of plastic packaging from recycled or bio-based sources is itself a named executive performance-share criterion. The Estee Lauder Companies set a goal of 75–100% of packaging being recyclable, refillable, reusable, recycled or recoverable by 2025, and reported 71% of packaging meeting that standard in fiscal 2024.

How do investors verify beauty sustainability pay claims?

Investors cross-examine the pay document against the public program. ISS evaluates whether incentive metrics are objective and linked to quantifiable goals, and whether the rationale for metric selection and changes is disclosed. Glass Lewis's 2026 guidelines add that pay outcomes relying predominantly on qualitative or non-financial metrics without financial underpins or gateways may draw a vote against the remuneration policy or report. The strongest structures pre-answer both tests: stated weights, physical metrics with fixed baselines, prospective target ranges, and progress published in the sustainability report even when it falls short of the goal.

Pharmaceutical Companies' ESG Executive Compensation: How Pharma Ties Pay to Access, Safety and Sustainability in 2026

Source: <https://bcesg.org/pharmaceutical-companies-esg-executive-compensation/> Published: October 19, 2026

ESG executive compensation in pharmaceutical companies is the practice of tying a defined share of executive incentive pay — annual bonus, performance shares, or both — to environmental, social and governance outcomes that are material to a drugmaker: access to medicines, patient safety and product quality, pipeline

delivery, and carbon reduction. In pharma, the “S” in ESG is not generic social language. It is whether patients can obtain the medicine, whether the product is safe, and whether the data behind it can be trusted — and pharmaceutical companies have begun writing exactly those outcomes into the pay plans of the executives who control them.

Definition — ESG-linked executive compensation (pharmaceuticals): an incentive design in which a disclosed portion of executive variable pay vests or pays out against non-financial targets drawn from the company’s material ESG issues. In pharmaceutical companies the recurring metric families are access to medicines, carbon and environmental footprint, patient safety and product quality, and governance measures such as ethics and compliance — assessed over one year in the annual bonus or over three or more years in performance-share plans.

This guide examines how pharmaceutical companies structure ESG executive compensation in 2026: which metrics they choose, where those metrics sit in the pay mix, what the disclosed structures at Sanofi, Novartis, GSK and AstraZeneca actually say, what gets disclosed to shareholders, and what ISS and Glass Lewis scrutinize when they evaluate these plans.

Why do pharmaceutical companies tie executive pay to ESG outcomes?

Pharmaceutical companies tie executive pay to ESG outcomes because the industry’s licence to operate is itself an ESG question. A drugmaker’s social impact is not a side program; it is the product. Pricing and access decisions determine whether medicines reach patients in low- and middle-income countries. Manufacturing quality failures become patient-safety events. Clinical-trial conduct becomes a governance question. When those are the material risks, compensation committees increasingly treat them as pay-relevant performance, not as narrative.

Three pressures drive the design. First, large institutional investors ask for it directly and engage on the specifics — metric selection, weighting and target rigor — rather than accepting a generic commitment. Second, external benchmarks make performance comparable: the Access to Medicine Index ranks major pharmaceutical companies on access practices, giving boards a published yardstick they can reference in pay design. Third, proxy advisors evaluate ESG pay metrics on quality, not presence: a metric that is vague, discretionary or undisclosed now counts against a say-on-pay recommendation instead of for it.

The result is a distinctive pharma pattern. Financial and pipeline measures still dominate the pay mix. ESG measures sit alongside them at disclosed weights, concentrated in the areas where pharma’s footprint is unique: access, safety, quality and carbon.

Which ESG metrics do pharmaceutical companies put in executive pay?

The ESG metrics pharmaceutical companies put in executive pay cluster into five families: access to medicines, carbon reduction, patient safety and product quality, pipeline and innovation delivery, and trust or governance measures. The disclosed examples below are drawn from company compensation reports, registration documents and annual reports — the structures boards have actually published, not survey averages.

Metric family	Where it typically sits	Disclosed structure
Access to medicines	Long-term incentive (performance shares)	Sanofi: “Affordable Access” — supplying essential medicines for non-communicable diseases through the Sanofi Global Health Unit — is one of two CSR objectives carrying 20% of its performance-share conditions
Carbon reduction	Long-term incentive and annual objectives	Sanofi: “Planet Care” — Scope 1 and 2 emissions reduction against a 2019 baseline — is the second CSR objective; AstraZeneca flags its greenhouse-gas reduction KPI as used for Executive Director remuneration
Responsible business and trust	Annual bonus	GSK: annual bonus combines financial, operational and Responsible Business measures, with Responsible Business performance assessed with input from its Corporate Responsibility Committee
ESG targets in annual objectives	Annual bonus scorecard	Novartis: members of the Executive Committee and other senior leaders carry ESG targets in their annual objectives
Patient safety, quality and compliance	Modifier, underpin or gateway	Commonly applied as a gate or downward modifier rather than a weighted scorecard line, so a serious safety or compliance failure can reduce pay earned on other measures

Two design facts stand out from the disclosed structures. The metrics are overwhelmingly **company-specific** — access through a named global-health unit, carbon against a named baseline year — because generic sector metrics would not survive investor scrutiny. And the heaviest ESG weightings appear in **long-term incentives**, where three-year measurement matches the horizon over which access programs and emissions pathways actually move.

How does Sanofi structure ESG criteria in executive pay?

Sanofi operates the most fully specified ESG pay structure disclosed by a large pharmaceutical company. In its performance-share plans, extra-financial (CSR) criteria account for **20% of the performance conditions**, assessed over a three-year period. The criteria rest on two objectives:

- **Affordable Access:** providing essential medicines for the treatment of non-communicable diseases through the Sanofi Global Health Unit.
- **Planet Care:** reduction of Scope 1 and 2 carbon emissions against a 2019 baseline.

The mechanics are formulaic rather than discretionary. Attainment of each annual CSR objective earns performance points, with an additional point available for a stretch objective; at the end of the period the points convert to a CSR allocation rate that runs from 0% (fewer than three points) through 100% at six points to a maximum of 120% at eight points. The structure is disclosed in Sanofi’s regulatory filings on the compensation of its corporate officers, including the exact conversion table — shareholders can recompute the outcome themselves.

Below the long-term plan, Sanofi also applies sustainability inside short-term pay. Its published executive-compensation materials describe an individual sustainability performance criterion representing 10% of annual variable compensation, and state that all Executive Committee members carry collective sustainability objectives covering people and climate topics in their annual variable packages. The design is therefore layered: a collective floor for the whole executive team, an individual criterion for named officers, and the 20% CSR weighting in the long-term plan on top.

How do Novartis and GSK link executive pay to ESG targets?

Novartis and GSK illustrate the two other common architectures: ESG targets embedded in annual objectives, and a responsible-business block inside the annual bonus.

Novartis integrates ESG at the objective-setting level. The company's ESG reporting states that members of the Executive Committee and other senior leaders have ESG targets in their annual objectives, inside a compensation system the company describes as rewarding sustainable growth and value creation, with engagement with shareholders and proxy advisors on how the link is built. Access is one of Novartis's stated ESG commitments — expanding access to its medicines globally — and the objective-level design means ESG performance is assessed for the executives accountable for it each year rather than only at the end of a three-year plan.

GSK runs its non-financial element through the annual bonus. GSK's remuneration framework combines financial, operational and strategic measures with **Responsible Business measures** set at the start of the year, with performance against those measures assessed by the Remuneration Committee and, where appropriate, the Corporate Responsibility Committee. At least 50% of the bonus is assessed against financial measures, and part of any bonus earned is deferred into shares for three years. Third-party assessment puts the scale of the link in context: Sustainalytics' ESG risk research on GSK notes that around 10% of executive pay is tied to ESG metrics, and that GSK operates a board-level Corporate Responsibility Committee overseeing ESG performance. GSK is also ranked first on both the Access to Medicine Index and the Access to Vaccines Index in that research — the access performance its pay structure is designed to reinforce.

The contrast between the three companies is instructive. Sanofi discloses a hard weighting and a formula. GSK discloses a governed assessment process with a financial floor. Novartis discloses objective-level integration. All three are defensible; they differ in how much of the judgement shareholders can verify from outside, which is precisely what proxy advisors grade.

How does AstraZeneca connect executive remuneration to its climate targets?

AstraZeneca connects remuneration to its **Ambition Zero Carbon** strategy. Its annual-report KPI framework explicitly flags the greenhouse-gas reduction measure as **used for the remuneration of Executive Directors** — an unusually direct disclosure that tells shareholders exactly which sustainability KPI carries pay consequences.

The targets behind the KPI are absolute and dated. AstraZeneca aims to reduce Scope 1 and 2 emissions by 98% by 2026 against a 2015 baseline, reported an 88.1% reduction achieved by 2025, targets a 50% reduction in Scope 3 emissions by 2030, and follows a science-based net-zero pathway to 2045 that was verified by the Science Based Targets initiative. The company has backed the strategy with more than US\$1 billion of

investment in decarbonising its operations and value chain, including fleet electrification and action on high-impact sources such as fluorinated gases used in inhaler production.

For pay design, the AstraZeneca structure matters because the metric is a **physical quantity with a fixed baseline**, reported in the same KPI table as revenue and pipeline events. That is the form of ESG metric investors consistently rate most credible: measurable without interpretation, auditable against a public baseline, and impossible to re-scope quietly mid-cycle.

Access to medicines: the metric that defines pharma’s “S”

Access to medicines is the metric that defines the social component of pharmaceutical ESG pay, because it measures the industry’s core externality: whether the products reach the patients who need them, in the countries least able to pay. Unlike a generic diversity or community metric, access can be specified operationally — products supplied, countries covered, patients reached through dedicated access units — and it is externally benchmarked.

The Access to Medicine Index, published by the Access to Medicine Foundation, ranks research-based pharmaceutical companies on access practices in low- and middle-income countries. Its existence changes pay design in two ways. It gives compensation committees a defensible external reference when they set access targets, and it gives investors a comparison set when they judge whether a company’s access claims — and the pay outcomes built on them — are credible.

Sanofi’s structure shows the direct application: its Affordable Access objective is defined as providing essential medicines for non-communicable diseases through the Sanofi Global Health Unit, the company’s dedicated access vehicle, and it carries half of the 20% CSR weighting in the long-term plan. Access is not decorative in that design; it is worth a measurable slice of the chief executive’s equity outcome. GSK’s first-place ranking on the Index, noted in third-party ESG research, illustrates the reputational side of the same coin — the companies whose access performance leads the benchmark are the ones whose boards can most safely attach pay to it.

Patient safety, quality and compliance: the gate metrics

Patient safety, product quality and compliance usually enter pharmaceutical pay plans as **gates and modifiers** rather than weighted scorecard metrics. The logic is asymmetric: excellent safety performance is the expected baseline of the business, while a single major failure — a manufacturing-quality crisis, a data-integrity finding, a serious compliance breach — can destroy value on a scale no bonus scorecard anticipates. Boards therefore design these measures to subtract, not to add.

The standard mechanisms are:

- **Underpins or gateways:** no payout, or a capped payout, on some or all of the incentive if a defined safety, quality or compliance threshold is breached.
- **Malus and clawback:** unvested awards can be reduced or forfeited, and paid awards recovered, where misconduct or material failure emerges — provisions ISS expects to extend beyond legal minimums, covering time-vesting awards as well as performance awards.
- **Committee discretion with disclosure:** a documented power to adjust formulaic outcomes downward for risk events, with the adjustment and its rationale disclosed in the following compensation report.

Investors scrutinize this layer hardest after an incident. A pay outcome that lands at or above target in a year containing a major quality or compliance failure — with no visible modifier applied — is one of the most reliable triggers of a say-on-pay protest, because it tells shareholders the ESG language in the plan was never load-bearing.

Pipeline and R&D incentives: paying for innovation without paying for hype

Pipeline delivery is the ESG-adjacent metric family unique to pharmaceutical pay. Research productivity is a governance question as much as a scientific one: capital allocation into R&D shapes the company's long-term social contribution and its largest long-horizon risks. Pharmaceutical bonus and long-term plans therefore typically carry pipeline progression, regulatory milestones and launch execution inside their operational or strategic measure blocks — GSK's annual bonus, for example, includes pipeline measures alongside its financial and Responsible Business elements.

The design tension is target quality. A milestone metric rewards events (filings, approvals, phase transitions) that are partly outside management's control and can incentivize optimistic timelines; a purely financial plan avoids that problem by ignoring the pipeline entirely, which misprices the business. Credible structures handle it by mixing leading indicators management controls — trial starts, enrolment, data readouts delivered on schedule — with lagging outcomes, and by keeping pipeline measures inside a broader scorecard rather than letting a single approval dominate a pay year. What investors resist is retrospective redefinition: milestones quietly re-scoped after a delay, or strategic measures assessed entirely on narrative. Both patterns feature in proxy-advisor criticism of pharma pay.

What gets disclosed in pharmaceutical proxy statements and compensation reports?

Disclosure is where pharmaceutical ESG pay is won or lost, because the same structure reads as rigorous or as decoration depending on what shareholders can see. The strongest disclosed packages — Sanofi's filings are the clearest example in this guide — share four features:

- **The weighting is stated.** Shareholders can see that CSR criteria carry 20% of performance-share conditions, not that ESG is “considered.”
- **The targets are identifiable.** Named objectives (essential-medicines access through a named unit; Scope 1 and 2 reduction against a 2019 baseline) replace category labels.
- **The conversion mechanics are published.** Points-to-allocation tables and payout ranges let an investor recompute the outcome.
- **Outcomes are reported against the same measures.** Retrospective disclosure closes the loop: what was targeted, what was achieved, what was paid.

European issuers disclose under say-on-pay regimes that require a remuneration policy vote and an annual report vote; US issuers disclose through the proxy statement's Compensation Discussion and Analysis. In both systems the direction of travel is identical — from narrative commitment toward quantified, auditable linkage — and in both systems the gaps investors cite are the same: undisclosed forward targets, unexplained metric changes, and outcomes that cannot be reconciled to the measures originally set.

What do ISS and Glass Lewis scrutinize in pharmaceutical ESG pay?

ISS and Glass Lewis do not require ESG metrics in pay, and neither prescribes which metrics a pharmaceutical company should use. What they grade is **rigor and disclosure quality**, and their published positions define the tests a pharma pay plan must pass:

- **Objective, quantifiable goals.** ISS’s policy framework asks whether an incentive program emphasizes objective metrics linked to quantifiable goals, as opposed to metrics that are highly discretionary, and whether the rationale for selecting — or changing — metrics is clearly disclosed. ISS has also signalled that mid-cycle changes to in-flight awards are generally viewed negatively without a compelling rationale.
- **Undisclosed goals are the leading red flag.** In ISS’s review of the first half of the 2026 proxy season, limited, opaque or undisclosed performance goals were the most frequently cited qualitative factor behind its negative say-on-pay recommendations — cited for 27 of the 36 S&P 500 companies that received one.
- **Financial underpins for non-financial metrics.** Glass Lewis’s 2026 benchmark guidelines state that where remuneration outcomes rely predominantly on qualitative or non-financial metrics without financial underpins or gateways, it may recommend voting against the remuneration policy or report. Glass Lewis assesses pay holistically, with disclosure quality an explicit input.
- **Clawback strength.** ISS expects clawback policies that exceed minimum legal requirements; a plan whose recovery provisions stop at the regulatory floor reads as unfinished.

Applied to pharma, the tests are concrete. An access metric defined by a named program with published targets passes the objectivity test; a “progress on our ESG journey” measure fails it. A carbon metric against a fixed, disclosed baseline passes; a baseline reset mid-cycle without rationale fails. The companies in this guide that disclose formulas and conversion tables are, in effect, publishing their answers to these tests in advance.

Design principles for credible ESG executive compensation in pharma

The disclosed structures that survive investor scrutiny share a common design grammar:

- **Weight ESG where it is material, and say the weight.** Access, safety, quality and carbon carry disclosed percentages; everything else is narrative and is treated as such.
- **Put slow metrics in long-term plans.** Access programs and emissions pathways move over years; three-year performance shares fit them better than annual bonuses.
- **Define metrics operationally.** A named unit, a named baseline year, a named external benchmark — definitions an outsider can test.
- **Gate the catastrophic risks.** Safety, quality and compliance operate as underpins, malus and clawback, so failures subtract before scorecards add.
- **Keep financial measures dominant.** GSK’s floor of at least 50% financial weighting in the bonus is the sector’s centre of gravity; ESG measures steer, they do not replace, financial and pipeline performance.
- **Publish the mechanics, then the outcome against them.** Formula first, retrospective reconciliation second — the order is what makes the outcome believable.
- **Never re-scope mid-cycle without a stated rationale.** Proxy advisors treat unexplained changes as evidence the original targets were not real.

For the cross-industry framework behind these principles — weighting, baselines and greenwashing controls — see BC ESG’s guide to ESG-linked compensation and executive accountability, and for the metric definitions

that underpin target-setting, the complete professional guide to ESG metrics.

Frequently asked questions

How much of pharmaceutical executive pay is tied to ESG?

The disclosed structures cluster in a clear band. Sanofi weights extra-financial criteria at 20% of the performance conditions in its performance-share plans. Sustainalytics' research estimates that around 10% of GSK executive pay is tied to ESG metrics, delivered through Responsible Business measures in the annual bonus. Novartis takes a third route, placing ESG targets in the annual objectives of its Executive Committee members and other senior leaders rather than publishing a single plan-level weight.

What ESG metrics do pharmaceutical companies use in executive compensation?

The recurring metric families are access to medicines (for example, Sanofi's objective of supplying essential non-communicable-disease medicines through its Global Health Unit), carbon reduction against a fixed baseline (Sanofi's Scope 1 and 2 target against 2019; AstraZeneca's greenhouse-gas KPI, which its annual report flags as used for Executive Director remuneration), patient safety and product quality — usually applied as gates or modifiers — pipeline and regulatory milestones, and governance measures covering ethics and compliance.

Why is access to medicines the defining ESG pay metric in pharma?

Access to medicines is the defining social metric in pharmaceutical pay because it measures the industry's core social impact — whether medicines reach patients in low- and middle-income countries — in operational units that can be targeted and audited. It is also externally benchmarked by the Access to Medicine Index, which ranks major pharmaceutical companies on access practices and gives boards and investors a published reference point for judging both targets and outcomes.

How do proxy advisors evaluate ESG metrics in pharmaceutical pay plans?

ISS evaluates whether incentive programs emphasize objective metrics linked to quantifiable goals rather than discretionary measures, and whether the rationale for metric selection and any changes is disclosed; in its review of the first half of the 2026 proxy season, opaque or undisclosed goals were its most-cited concern in negative say-on-pay recommendations. Glass Lewis's 2026 guidelines add a structural test: where pay outcomes rely predominantly on qualitative or non-financial metrics without financial underpinnings or gateways, it may recommend voting against the remuneration policy or report.

Do ESG metrics replace financial and pipeline targets in pharma pay?

No. In every disclosed structure reviewed for this guide, financial performance remains the largest component of pharmaceutical executive pay — GSK, for example, assesses at least 50% of its annual bonus against financial measures — and pipeline and operational measures carry substantial weight alongside it. ESG metrics steer a defined minority of the outcome, typically 10–20% where a weight is published, with safety, quality and compliance operating mainly as gates that can reduce pay rather than as scorecard lines that add to it.

ESG Risk, Explained: What It Means Operationally for a Mid-Size Company

Source: <https://bcesg.org/esg-risk-explained/> Published: October 16, 2026

ESG risk is the risk a company carries from environmental, social, and governance factors: the physical and regulatory exposure in its operations and supply chain, the workforce and community issues that can disrupt it, and the quality of the oversight making its decisions. For a mid-size company, ESG risk is not a philosophy or a reporting exercise. It is a practical inventory of things that can interrupt revenue, raise costs, or close doors — increasingly asked about, in writing, by customers, lenders, and insurers.

Strip away the acronym wars and the term points at ordinary operational questions wearing new labels. What happens to your facility in a flood plain? What happens to your costs when a major customer starts requiring supplier disclosures? What happens to your insurance renewal, your credit terms, your ability to hire? ESG risk is the discipline of answering those questions before someone else asks them on a form with a deadline.

What Are the Three Parts of ESG Risk?

The three parts are environmental exposure (how the physical world and environmental rules can hurt the business), social exposure (how people — employees, customers, communities — can hurt or be hurt by it), and governance exposure (how decision-making failures turn small problems into large ones). Each part contains risks a mid-size company already manages informally. The framework's value is making the inventory explicit, owned, and reviewable.

Environmental. Physical risks come first for most operators: severe weather exposure of facilities and inventory, dependency on a single site, water and energy costs. Transition risks follow: a regulation changes what you can sell or what it costs to run; a large customer adopts procurement standards that reach into your operation. Neither category requires a position on climate politics. Both show up in budgets.

Social. Workforce safety and turnover, labor practices in your supply chain, product safety, community relations around a facility. For a mid-size company the sharpest social risks are usually concentration risks: one key customer relationship damaged by a preventable incident, one safety event that becomes a reputation event, one supplier whose practices become your headline.

Governance. Who actually decides, and what do they see? Board or owner oversight of risk, financial controls, data privacy practices, succession, the gap between stated policy and daily practice. Governance failures are the multiplier: they are how an environmental or social problem becomes a fraud headline or a regulatory action. When investigators reconstruct a corporate failure, they almost always find the governance layer failed first and longest.

Why Is ESG Risk Landing on Mid-Size Companies Now?

ESG risk is landing on mid-size companies because their largest customers, lenders, and insurers are being asked the same questions and are passing the inquiry down the chain. A public company with reporting obligations needs data from its suppliers. A bank managing portfolio risk wants to understand borrower exposure. An insurer repricing climate-affected coverage wants to know what an insured has done about it. The mid-size company is rarely the target of the regulation — it is the target of the questionnaire.

This cascade is the part worth understanding, because it reframes the work. You do not need a sustainability department to answer a customer's supplier survey honestly and completely. You do need to know your answers: your energy use, your safety record, your policies, your exposures. Companies get into trouble in these exchanges not by having imperfect numbers but by having no numbers — or worse, by writing down

aspirations as if they were facts. Regulators in several jurisdictions have fined companies, including large ones, for public ESG claims their operations could not support. The operational risk to a mid-size firm is less the exposure itself than overstating the response to it.

What Should a Mid-Size Company Actually Do About ESG Risk?

A mid-size company should start with an inventory, not a program: list the environmental, social, and governance exposures that could realistically interrupt operations or revenue, assign each an owner, and record what is already being done about it. Then answer the questions your customers and insurers are actually asking, accurately, from that inventory. Formal reporting frameworks can come later, sized to what stakeholders genuinely require.

In sequence, the work usually looks like this. First, the exposure inventory — a page or two, written by the people who run the operation, covering physical risks to sites and supply chains, key-person and safety risks, and basic governance facts (controls, oversight, privacy practices). Second, a claims audit: read what your website, proposals, and marketing currently say about your environmental and social performance, and make sure every sentence is defensible. Third, a response file: the standard documents customers request — policies, safety statistics, utility data — assembled once and kept current, so each new questionnaire is an afternoon instead of a scramble.

Done in that order, ESG risk management is unglamorous and proportionate: an operator knowing their exposures, in writing, before a form asks. That is the level at which the subject actually touches most mid-size companies — and handling it at that level is what separates a manageable compliance task from a credibility problem discovered in public.

AI Governance as an ESG Imperative in 2026: What Organizations Must Disclose About Algorithmic Risk

Source: <https://bcesg.org/ai-governance-esg-2026-algorithmic-risk-disclosure/> Published: October 6, 2026

Updated October 6, 2026.

If investors or regulators ask how you manage algorithmic risk in ESG data and decisions, this 2026 guide covers governance, documentation, and disclosure patterns.

AI systems have graduated from “nice to have” technology to material ESG risk. The landscape shifted decisively in 2026, and organizations that haven’t built AI governance frameworks are now facing disclosure obligations they didn’t anticipate.

The convergence of three regulatory forces—the EU AI Act’s high-risk tier implementation, the CSRD (Corporate Sustainability Reporting Directive) inclusion of AI as an ESG material risk, and a wave of US state-level AI transparency laws—has created a new reality: AI governance is now a boardroom issue, not just an IT issue.

The Regulatory Landscape Shift in 2026

The EU AI Act entered full implementation for high-risk systems in 2026. High-risk designation now covers AI used in critical infrastructure, employment decisions, credit decisions, and any system that can create legal or

similarly significant effects. Organizations deploying these systems must maintain technical documentation, implement human oversight mechanisms, and maintain detailed audit logs—or face fines up to 6% of global revenue.

The California AI Transparency Act took effect January 1, 2026, requiring disclosure of AI-generated content and detailed training data provenance. This isn't optional disclosure to regulators; it's disclosure to users and consumers. A California-based company deploying AI in customer-facing roles must now disclose that fact and describe where the training data came from.

Texas passed the Responsible AI Governance Act and Colorado enacted the AI Act, both focused on algorithmic discrimination prevention. These states are now requiring algorithmic impact assessments for any AI system used in hiring, lending, housing, or insurance decisions. Texas explicitly requires evidence that algorithms don't discriminate by protected class; Colorado mandates algorithmic transparency and opt-out mechanisms.

CSRD, now in full effect for many EU organizations, has formalized AI governance as a material ESG risk category alongside climate, labor, and supply chain. If your organization uses AI to make consequential decisions or creates algorithmic bias risk, CSRD requires disclosure in your sustainability report—just as you'd disclose Scope 2 emissions.

The Disclosure Obligation Framework

Here's what ESG teams and compliance officers need to understand: AI governance disclosure falls into three overlapping buckets.

Algorithmic Accountability Disclosure: What AI systems does your organization deploy? What decisions do they influence? What safeguards are in place to prevent discrimination or harm? This is the California AI Transparency Act requirement. It's also what CSRD reviewers will ask about. The disclosure should include: system purpose, training data sources, human oversight mechanisms, and documented testing for bias and accuracy.

Explainability and Human Oversight: Can you explain how the algorithm makes decisions? Who reviews those decisions? This is the core of EU AI Act compliance for high-risk systems. The requirement isn't perfect explainability—it's documented human oversight and a mechanism to challenge algorithmic decisions. Insurance underwriting AI? That means having a human underwriter review or spot-check claims. Employment AI? That means someone can explain to a candidate why they weren't hired.

Governance Process Disclosure: How does your organization govern AI systems? Who approves new deployments? How do you monitor for drift, bias, or performance degradation? CSRD reviewers want evidence of governance structure: a chief AI officer or designated AI governance committee, documented policies, regular audit procedures, and clear escalation paths when issues arise.

The Cross-Sector Implementation Challenge

AI governance requirements look different depending on your industry, but the core disclosure obligation is universal. Here's how this plays out in four critical sectors:

Property Restoration & Insurance Claims: Organizations using AI-powered damage assessment tools (drone imagery analysis, computer vision systems) must disclose the accuracy rates of those systems, the human review process when AI assessments seem incorrect, and the liability framework when AI assessments are wrong. Read the restoration sector analysis [here](#). The restoration industry adopted AI assessment tools faster than governance frameworks kept pace—2026 is the year that gap gets exposed.

Insurance Underwriting & Risk: State insurance commissioners are conducting detailed examinations of algorithmic underwriting and pricing models. Carriers must now disclose which variables their algorithms use, prove those variables don't correlate with protected classes, and maintain an appeal process when an applicant challenges an algorithmic decision. The insurance sector governance framework is detailed [here](#). Carriers using AI in claims handling face parallel requirements: transparency about which claims are routed to automated decision-making, what percentage of claims are adjudicated purely by algorithm, and human appeal mechanisms.

Business Continuity & Operational Resilience: The newer risk—and the one most organizations haven't addressed—is AI dependency as a single point of failure. When GenAI tools, workflow automation, or AI-powered decision support systems go down, how long before operations halt? Business continuity governance for AI is explored in detail [here](#). BC teams need to map AI systems into their Business Impact Analysis and develop resilience strategies for when vendor tools or internal AI systems fail.

Healthcare Facility Operations: The FDA's Quality Management System Regulation, effective in 2026, now treats AI and machine learning medical devices under expanded oversight. CMS is flagging AI systems in clinical decision-making. Healthcare facility governance requirements are outlined [here](#). The complexity: clinical AI (diagnostic support, treatment planning) and operational AI (predictive maintenance, scheduling) follow different regulatory tracks, but both need governance.

Building the Governance Framework

Organizations that move fast in 2026 will establish an AI governance framework with these components:

AI System Inventory: Document every AI system in use: internal tools, SaaS platforms, embedded vendor algorithms. For each, record: purpose, decision authority (does it decide or recommend?), training data source, accuracy metrics, human review process, and last audit date.

Risk Assessment Protocol: Assess each system's ESG risk: Does it affect protected classes? Does it influence consequential decisions? Could failure cause operational harm? High-risk systems get more rigorous oversight.

Governance Accountability: Assign clear accountability: Who approves new AI deployments? Who monitors for bias and drift? Who handles escalations when AI systems fail or produce unexpected outcomes? This should ladder up to the board or an audit committee.

Documented Human Oversight: For high-risk systems, document the human oversight mechanism. This doesn't mean humans should override every algorithmic decision; it means someone can explain the decision and has the authority to escalate or appeal it.

Regular Audit and Testing: Establish a cadence for testing AI systems—at minimum annually—for accuracy, bias, drift, and compliance with documented performance standards. Document the results.

Disclosure Readiness: Prepare your ESG disclosure now. Be ready to answer: What AI systems do you use? How do you govern them? What safeguards are in place? What testing have you done? CSRD reviewers, state regulators, and proxy advisory firms are going to ask these questions. Organizations with documented frameworks will move through audits far more quickly.

The Convergence Risk

The real challenge isn't any single regulation. It's the convergence: CSRD disclosure requirements + EU AI Act penalties + California transparency obligations + state-level algorithmic discrimination rules = a comprehensive governance obligation that most organizations haven't integrated.

The organizations building advantage in 2026 are the ones treating AI governance not as a compliance checkbox but as a core ESG and operational risk framework. They're integrating it into capital allocation, vendor evaluation, and board reporting. They're making algorithmic accountability a competitive advantage, not a liability.

Your ESG team, compliance team, IT team, and board need to align on AI governance right now. The regulatory window for moving fast and building legitimate frameworks is open in Q2 and Q3 2026. By Q4, regulators will have sharper guidance on enforcement, and the organizations without documented frameworks will be scrambling.

Related Reading:

- AI Governance in ESG Reporting
- The Complete Guide to Governance in ESG, 2026
- ESG Regulatory Frameworks Across Jurisdictions

AI Governance in ESG: Algorithmic Bias, Model Transparency, and Responsible AI Frameworks

Source: <https://bcesg.org/ai-governance-esg-algorithmic-bias-model-transparency-2026/> Published: October 6, 2026

AI Governance in ESG: Algorithmic Bias, Model Transparency, and Responsible AI Frameworks in 2026

Updated October 6, 2026.

If you govern AI systems that touch hiring, credit, or ESG analytics, this guide covers algorithmic bias testing, model transparency, and disclosure expectations in 2026.

Category: Governance | Published: 2026 | Reading time: 9 minutes

AI Governance as an ESG Pillar

AI governance is emerging as a critical fourth pillar of corporate ESG strategy in 2026, alongside environmental, social, and governance considerations. As organizations deploy generative AI, machine learning, and algorithmic decision-making systems across operations—from hiring to credit underwriting to supply chain optimization—regulators and investors are demanding transparency, bias testing, and

accountability frameworks. The EU AI Act, NIST AI Risk Management Framework, and evolving board-level oversight requirements establish AI governance as non-negotiable ESG infrastructure, distinct from traditional IT governance and deeply integrated with risk management and compliance functions.

Artificial intelligence is no longer a peripheral technology siloed in data science teams. By 2026, AI systems make or influence critical business decisions affecting employees, customers, suppliers, and communities. An insurance company's AI underwriting model determines whether applicants access coverage. A retailer's algorithmic hiring system filters which candidates advance to interviews. A financial institution's credit model allocates capital across markets. A healthcare organization's resource allocation AI determines patient prioritization. Each of these systems carries ESG risk: algorithmic bias can exclude protected groups, model opacity can obscure decision rationales, data poisoning can be exploited for competitive advantage, and system failures can trigger catastrophic operational disruption. Modern ESG governance must address these risks systematically.

The Regulatory Inflection: EU AI Act, NIST Framework, and Board Accountability

The legal landscape for AI governance crystallized in 2024–2026. The European Union's AI Act, enacted in 2024 and entering enforcement in 2025–2026 across phased timelines, establishes binding requirements for high-risk AI systems. High-risk classification includes AI used in hiring, credit decisions, critical infrastructure control, and law enforcement. Requirements include algorithmic risk assessment, bias testing, model transparency, human oversight, and data governance. Non-compliance triggers substantial fines (up to €30 million or 6% of global revenue—whichever is greater).

The U.S. National Institute of Standards and Technology released the AI Risk Management Framework (NIST RMF) in 2024, providing voluntary guidance on identifying, measuring, managing, and governing AI risks. While not binding, the NIST RMF has become the de facto standard referenced in regulatory frameworks globally—similar to how TCFD established climate risk reporting norms that preceded mandatory rules. Financial regulators (SEC, Fed, OCC), FTC guidance on algorithmic transparency, and emerging state-level AI laws all cite or incorporate NIST RMF concepts.

Most significantly for ESG professionals: board-level AI oversight requirements are becoming standard governance expectations. SEC guidance on board cybersecurity expertise has expanded to signal expectations for board competency in AI risks. Major institutional investors (BlackRock, Vanguard, CalPERS) are explicitly demanding AI governance transparency in proxy voting and engagement. Companies without board-level AI governance committees or C-level officers with explicit AI accountability are being flagged as governance gaps by proxy advisors.

Algorithmic Bias and Fairness: ESG-Specific AI Risks

Algorithmic bias is fundamentally an ESG risk, not merely a technical risk. When an AI hiring system deprioritizes candidates from underrepresented backgrounds—whether through proxy variables (zip code correlating with race), historical training data patterns (reflecting past discrimination), or system architecture flaws (optimizing for metric that inadvertently encodes bias)—it directly undermines diversity and inclusion (DEI) commitments and exposes organizations to legal liability.

Examples from 2025–2026 practice illustrate the exposure:

- **Credit and lending:** Algorithmic credit scoring models deployed by financial institutions have been shown to systematically disadvantage borrowers from certain geographic regions or socioeconomic backgrounds, triggering ECOA (Equal Credit Opportunity Act) violations and algorithmic discrimination lawsuits.
- **Hiring and promotion:** Recruiting AI systems trained on historical hiring data can systematically underweight applications from women or minorities if historical hires skewed male/majority. Organizations like Amazon famously discovered gender bias in recruiting AI trained on male-dominated past hires.
- **Insurance underwriting:** Underwriting algorithms that use proxy variables (type of vehicle owned, neighborhood density) can inadvertently correlate with protected characteristics, creating actuarially defensible but ethically problematic outcomes.
- **Healthcare resource allocation:** AI systems triaging patients or allocating ICU beds have been found to systematically disadvantage Black patients when trained on historical data that reflected healthcare disparities.

ESG disclosure requirements now explicitly demand AI bias assessment. CSRD requires companies to address algorithmic discrimination as a social materiality issue. California CCPA and emerging state privacy laws include algorithmic bias disclosure. Investors increasingly ask about bias testing protocols, remediation timelines, and governance accountability for algorithmic fairness as part of ESG engagement.

Model Transparency and Explainability: The Governance Standard

A second critical ESG risk is model opacity. Black-box AI systems—neural networks, large language models, complex ensemble models—provide predictions or recommendations without explaining the reasoning. In high-stakes decisions (credit, hiring, healthcare, criminal justice), lack of transparency is increasingly unacceptable from an accountability perspective and increasingly illegal under emerging regulations.

The EU AI Act explicitly requires explainability for high-risk systems. GDPR’s right to explanation requires that individuals subject to automated decisions have meaningful insight into the decision-making process. NIST RMF emphasizes transparency, interpretability, and auditability as core AI risk management functions. SEC climate disclosure guidance requires disclosure of models and assumptions in climate scenario analysis—foreshadowing expectations that non-climate AI systems will face similar transparency demands.

ESG-specific transparency requirements include:

- **Model documentation:** Clear documentation of AI system purpose, training data sources, algorithm selection, and performance metrics across demographic groups.
- **Governance controls:** Processes for model validation, ongoing performance monitoring, and decision-making chains (where AI makes autonomous decisions vs. where human review is required).
- **Explainability mechanisms:** For high-stakes decisions, capability to explain individual decisions in human-understandable terms—not merely aggregate model accuracy.
- **Audit trails:** Complete logging of model changes, retraining events, performance drift detection, and remediation actions.
- **Stakeholder disclosure:** Clear communication to affected parties (employees, customers, borrowers, patients) about algorithmic decision-making and their rights to review and challenge decisions.

Organizations should reference bcesg.org’s Governance category for frameworks on board-level oversight and accountability structures for AI systems.

Data Governance and Model Failure: Cybersecurity and ESG Convergence

A third AI governance risk is data poisoning and model failure. Machine learning systems are vulnerable to adversarial attacks: malicious actors can deliberately inject corrupted training data, craft inputs designed to trigger model failures, or exploit system dependencies to cause cascading breakdowns. Financial trading algorithms, medical diagnosis systems, autonomous vehicles, and critical infrastructure controls are all vulnerable to AI-specific attack vectors.

ESG governance must address AI-specific cybersecurity. Data governance frameworks should include protocols for: detecting poisoned training data, validating data source integrity, monitoring model performance for signs of attack, maintaining model versioning and rollback capabilities, and testing system resilience under adversarial conditions. This is distinct from traditional cybersecurity, which focuses on data theft or system access; AI-specific threats target the integrity and reliability of algorithmic decision-making itself.

Board governance of AI should integrate traditional cybersecurity and risk management with AI-specific oversight: AI model governance committees, chief AI risk officers, model performance dashboards, and incident response protocols for AI system failures. Organizations without this integration risk discovering AI security gaps only after operational failures or regulatory enforcement actions.

Responsible AI Frameworks: Building ESG-Aligned AI Governance

Leading organizations are implementing responsible AI frameworks that integrate ethical principles, regulatory compliance, and business continuity. Key components include:

- **AI governance structure:** Board-level AI oversight (dedicated committee or integration into existing governance), C-level accountability (Chief AI Officer or Chief Risk Officer with explicit AI mandate), and cross-functional AI ethics committees spanning legal, compliance, HR, risk, and technical leadership.
- **Risk assessment protocols:** Systematic evaluation of AI systems for bias risk, explainability requirements, data governance needs, and cybersecurity vulnerabilities. Use NIST RMF or equivalent framework as the assessment baseline.
- **Bias testing and remediation:** For any AI system making decisions affecting human outcomes (hiring, credit, healthcare, insurance), implement bias testing across demographic groups. Document testing methodology, results, and remediation plans in ESG disclosure.
- **Model transparency:** Establish explainability thresholds: high-stakes decisions require human-interpretable explanations; lower-stakes decisions may accept less transparent models. Document thresholds and rationales.
- **Data governance:** Ensure data governance policies address training data provenance, validation, contamination detection, and access controls. Treat data quality as a governance function, not merely an operational detail.
- **Ongoing monitoring:** Implement performance monitoring for deployed models: detection of bias drift (model becomes less fair over time), accuracy drift (model performance degrades), and adversarial vulnerability. Establish alert thresholds and response protocols.

- **Incident response:** Develop AI-specific incident response protocols: procedures for detecting model failures, escalation and disclosure, remediation timelines, and stakeholder communication. Treat AI system failures with same severity as cybersecurity incidents.

ESG disclosure should document governance structure, risk assessment frameworks, bias testing results (aggregated to protect privacy), and remediation timelines. This transparency signals to investors and regulators that the organization is proactively managing AI governance risks.

Cross-Site Implications: AI Governance in Risk Management, Underwriting, and Healthcare

AI governance affects multiple industry clusters. Risk management and insurance professionals must assess AI-specific risks in underwriting, claims processing, and capital allocation. RiskCoverageHub.com's guidance on AI underwriting risks addresses how algorithmic systems affect pricing, selection, and discrimination risk in insurance contexts.

Business continuity planners must incorporate AI system failures into operational resilience scenarios. Model failure, data poisoning attacks, or regulatory enforcement action forcing AI system shutdown can trigger operational disruption. ContinuityHub.org's frameworks on AI as a business continuity risk detail integration of AI governance into operational resilience and disaster recovery planning.

Healthcare facilities face specific AI governance complexity: medical device AI, diagnostic algorithms, resource allocation systems, and clinical decision support systems all carry high stakes.

HealthcareFacilityHub.org's resources on medical device cybersecurity and AI governance address healthcare-specific regulatory requirements and patient safety implications of AI system failures.

Building AI Governance Capability in 2026

Organizations should treat AI governance as urgent, not aspirational:

- **Q1–Q2 2026:** Establish board-level AI governance accountability and cross-functional AI governance committee. Conduct inventory of AI systems in current use (you will find more than initially recognized).
- **Q2–Q3 2026:** Prioritize high-risk AI systems (those affecting hiring, credit, underwriting, healthcare, critical infrastructure). Conduct bias testing and explainability assessment for top 10–20 systems.
- **Q3–Q4 2026:** Develop governance policies, data governance frameworks, and incident response protocols. Begin ESG disclosure preparation documenting governance structure and risk management approach.
- **Q4 2026–Q1 2027:** Extend assessment to remaining AI systems. Build monitoring infrastructure for deployed models. Prepare for ESG disclosures in 2027 annual reports.

The regulatory and investor pressure on AI governance will only intensify through 2027–2028. Organizations treating it as a 2026 priority will develop governance maturity and competitive advantage; those deferring risk remediating quickly under regulatory pressure in 2027.

Related Resources on bcesg.org

Explore Related AI Governance and Governance Topics

- Governance Category – Board oversight, accountability, and corporate governance frameworks
- ESG Metrics Category – AI performance measurement and bias assessment methodologies
- Regulatory Frameworks Category – EU AI Act and emerging AI governance regulations
- Social Responsibility Category – Algorithmic equity and discrimination risk

Cluster Cross-References

For Insurance and Risk Management AI: RiskCoverageHub.com addresses AI governance in underwriting, claims processing, and capital allocation decisions, including algorithmic discrimination risk and regulatory compliance in insurance AI.

For Business Continuity and Operational Resilience: ContinuityHub.org covers AI system failure scenarios, data poisoning risks, and integration of AI governance into business continuity planning and disaster recovery.

For Healthcare-Specific AI Governance: HealthcareFacilityHub.org details medical device AI governance, clinical decision support system risk management, and patient safety implications of AI system failures.

For Property and Infrastructure Context: RestorationIntel.com addresses AI applications in infrastructure assessment, property damage evaluation, and restoration planning relevant to AI governance in critical asset management.

Cross-Sector Compliance in 2026: How ESG Practitioners Can Lead the Convergence Instead of Chase It

Source: <https://bcesg.org/cross-sector-compliance-2026-esg-leadership-convergence-strategy/> Published: April 3, 2026

Updated October 6, 2026.

If your organization faces overlapping CSRD, DORA, CISA, or sector rules in 2026, ESG teams can lead convergence governance — this guide explains how.

Every sector — restoration, insurance, business continuity, healthcare — is experiencing regulatory convergence. Restoration contractors are managing IICRC standards, state licensing, and insurance compliance simultaneously. Insurance carriers are juggling CSRD, NAIC, DORA, and AI governance. Business continuity teams are consolidating DORA, CISA, ISO 22301, and NIS2. Healthcare facilities are integrating CMS, Joint Commission, NFPA, FGI, and ESG requirements.

These sectors are discovering what ESG practitioners have known for years: compliance frameworks converge. ESG teams have been navigating this convergence for a decade. In 2026, that skill is now needed by every department in every sector. ESG practitioners are uniquely positioned to lead the organizational response to regulatory convergence.

Why ESG Practitioners Are Uniquely Positioned

1. Multi-Framework Navigation Experience ESG practitioners have managed multiple, overlapping reporting frameworks simultaneously:

- **GRI (Global Reporting Initiative):** Voluntary sustainability reporting standard with broad scope

- **SASB (Sustainability Accounting Standards Board):** Materiality-based framework focused on investor-relevant ESG factors
- **TCFD (Task Force on Climate-related Financial Disclosures):** Climate risk disclosure for financial decision-making
- **CSRD (Corporate Sustainability Reporting Directive):** Mandatory EU standard requiring climate, social, governance disclosure
- **California Climate Laws (SB 253, SB 261):** State-specific requirements with different scope than CSRD

ESG practitioners have built the organizational capability to:

- Map overlapping requirements to single data sources
- Design governance structures that satisfy multiple frameworks
- Build integrated documentation that feeds multiple reporting endpoints
- Navigate audit consolidation across different regulatory bodies

This is exactly the skill now needed by operations, IT, healthcare facilities, and business continuity teams.

2. Board-Level Credibility ESG practitioners have spent years building board and executive credibility on multi-framework compliance. Most boards have an ESG committee that oversees CSRD, climate risk, governance accountability, and stakeholder expectations.

In 2026, that board-level visibility is a massive advantage. ESG practitioners can elevate operational resilience (DORA/CISA/ISO 22301) to board visibility. ESG practitioners can frame healthcare facility compliance as a governance accountability issue, not a facilities management checklist.

3. Integration Beyond Compliance ESG frameworks aren't just compliance tools. They're integrated accountability frameworks. CSRD requires board governance of climate risk. It cascades into business strategy, capital allocation, risk management, and operational decisions.

ESG practitioners have learned that sustainable compliance requires integrating frameworks into business operations, not treating them as separate audit activities. This systems-thinking approach is exactly what other sectors need.

What ESG Practitioners Must Learn From Each Sector's Convergence

Learning 1: Restoration Industry — Craft vs. Compliance The restoration industry is learning that craft-based standards (IICRC) need to be harmonized with state licensing and insurance compliance. The lesson for ESG practitioners: compliance frameworks are converging, but domain expertise remains domain-specific.

ESG practitioners can't be experts in IICRC, DORA, or NFPA. But they can be experts in framework integration, governance structure, and convergence strategy. Partner with domain experts (restoration managers, IT security, facilities engineers) and apply ESG's integration methodology.

Read Regulatory Convergence and the Restoration Industry in 2026 to see how a sector manages domain-specific standards alongside regulatory convergence.

Learning 2: Insurance Carriers — Underwriting as Regulatory Strategy Insurance carriers are learning that underwriting decisions have regulatory implications. A climate risk assessment feeds both pricing AND

CSRD disclosure. An AI algorithm must satisfy both algorithmic governance AND regulatory fairness audits.

The lesson for ESG practitioners: compliance is no longer downstream from business operations. It's embedded in business decisions. ESG teams need to expand influence upstream into operational decision-making, not just downstream into reporting.

See Insurance Regulatory Convergence: ESG Disclosure, Climate Risk, AI Algorithms for how carriers are embedding compliance into underwriting.

Learning 3: Business Continuity — Convergence Reduces Testing Cost Business continuity teams are learning that consolidated testing serves multiple frameworks. One annual impact tolerance test covers DORA scenario testing AND ISO 22301 impact analysis. One penetration test program covers DORA requirements AND NIS2 risk management.

The lesson for ESG practitioners: convergence isn't just cost-neutral; it's cost-reducing. Organizations that integrate frameworks can reduce audit cost, eliminate duplicate testing, and improve governance efficiency. This is a key business case for ESG leadership in convergence strategy.

Read Business Continuity Regulatory Convergence: DORA, CISA, ISO 22301 for the consolidation strategy.

Learning 4: Healthcare — Facility Governance as Convergence Model Healthcare facilities are learning that facility compliance requires integrated governance. Infection control depends on ventilation. Emergency preparedness depends on backup systems and supply chain. Climate resilience depends on building envelope and backup systems.

The lesson for ESG practitioners: regulatory convergence mirrors organizational structure convergence. Compliance can't be siloed by function (facilities, clinical, quality, environmental). It requires integrated governance and accountability.

See Healthcare Regulatory Convergence: CMS, Joint Commission, NFPA, FGI, and ESG to understand facility governance convergence.

ESG Practitioners as Convergence Leaders: Expansion Strategy

To expand ESG influence into cross-sector regulatory convergence leadership, ESG practitioners should:

1. Build Convergence Governance Propose to the board that ESG committee oversight expand from "ESG reporting and climate risk" to "integrated compliance governance across all material frameworks." This positions ESG as the integrator, not just the sustainability function.

Map all material regulatory frameworks (CSRD, DORA for financial entities, ISO 22301, NIS2 for EU operations, sector-specific standards) to a single governance dashboard reported to the board's ESG or Risk committee.

2. Establish Convergence Program Management Office Create a PMO that coordinates frameworks across departments:

- **Risk Register Integration:** One risk register mapping to all applicable frameworks
- **Testing Consolidation:** One annual testing cycle covering multiple frameworks
- **Audit Coordination:** Single audit program feeding all regulatory bodies

- **Governance and Reporting:** One accountability structure serving multiple frameworks

3. Translate ESG Methodology to Other Domains ESG practitioners have process templates that work across frameworks:

- **Materiality Assessment:** What frameworks apply to your organization? What’s the material exposure? Translate this to “scope assessment” for DORA, CISA, ISO 22301, healthcare standards.
- **Gap Assessment:** Against which requirements are you non-compliant? Build gap assessment across all frameworks, not individually.
- **Roadmap Development:** Prioritize remediation and implementation across all frameworks simultaneously, not sequentially.
- **Governance Mapping:** Which board/executive committees should oversee each framework? How do they report to the board? Build governance that integrates frameworks, not fragments them.

4. Partner With Domain Experts as “Convergence Consultants” ESG practitioners don’t need to become DORA experts or NFPA specialists. But you need to partner with domain experts and translate their expertise into convergence strategy.

- Partner with IT security on DORA/NIS2 convergence
- Partner with business continuity on ISO 22301/DORA convergence
- Partner with facilities on NFPA/FGI/CMS convergence
- Partner with operations on sector-specific convergence

Your role: integrator, governance designer, convergence strategist. Their role: domain expertise.

5. Measure and Communicate Business Impact Convergence has hard business benefits:

- Reduced audit cost (consolidated testing, unified documentation)
- Reduced compliance staff time (unified risk register, integrated governance)
- Improved regulatory readiness (single audit program, integrated evidence)
- Enhanced competitive advantage (compliance as integrated capability)

Quantify these benefits and report to the CFO and CEO, not just the ESG committee.

The Evolution: From ESG to Integrated Compliance Leadership

In 2026, ESG practitioners are at a inflection point. They can remain siloed in “ESG and sustainability reporting,” or they can expand into “integrated regulatory compliance leadership” — a role that encompasses ESG, operational resilience, IT security, facility governance, and sector-specific compliance.

The expansion requires:

- Board-level positioning as “Chief Compliance Officer” or “Chief Convergence Officer”
- Governance authority over multiple regulatory frameworks (not just ESG reporting)
- PMO that coordinates across departments (not just sustainability teams)
- Partnership with domain experts (IT, facilities, operations, sector specialists)
- Measurement and communication of business value (not just regulatory tick-boxes)

For broader context on regulatory convergence, see [The 2026 Regulatory Convergence: Why ESG, Climate, AI, and Operational Standards Are Merging Into One](#).

For sector-specific convergence examples:

- Restoration Industry Convergence
- Insurance Regulatory Convergence
- Business Continuity Convergence
- Healthcare Facility Convergence

Conclusion

In 2026, regulatory convergence is the defining organizational challenge across every sector. ESG practitioners have spent years building the multi-framework navigation skills, board credibility, and integration methodology that organizations now need. The opportunity is clear: expand ESG influence from “sustainability reporting” to “integrated compliance leadership.”

Organizations that elevate ESG practitioners to this expanded role will win. Those that keep ESG siloed will fragment. ESG practitioners who recognize this moment and expand their influence will lead their sectors. Those who remain siloed will be displaced.

The convergence is here. The question is whether ESG practitioners will lead the integration or watch from the sidelines.

More in [Regulatory Frameworks](#) and [About BC ESG](#).

Related reading: 2026 regulatory-convergence strategy, climate-risk convergence lessons, and the Restoration Carbon Protocol. Sister hubs: Restoration Intel, Healthcare Facility Hub, Continuity Hub, Risk Coverage Hub, and Tygart Media.

The AI Governance Ecosystem in 2026: How ESG Disclosure, Insurance Accountability, BC Resilience, and Healthcare Safety Converge

Source: <https://bcesg.org/ai-governance-ecosystem-2026-cross-sector-esg-convergence/> Published: April 3, 2026

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If you connect AI governance to ESG, insurance, and disclosure programs in 2026, this guide maps the cross-sector ecosystem — models, data, and oversight — without treating AI as a silo.

AI governance in 2026 isn't a single problem. It's a convergence problem. Organizations face AI governance demands from five separate directions simultaneously: ESG disclosure, insurance accountability, business continuity, healthcare safety, and regulatory compliance. The challenge isn't solving any one problem; it's seeing how they all connect and building a unified framework that addresses them together.

Here's the reality: the governance framework an organization builds to address ESG disclosure obligations is the same framework that addresses insurance underwriting requirements, business continuity resilience, healthcare clinical oversight, and regulatory compliance. The specific requirements differ by sector, but the

core governance architecture is identical.

Organizations that recognize this convergence and build unified AI governance frameworks will move faster, build more robust risk management, and create competitive advantage. Organizations that treat each requirement separately will create duplicate governance structures, miss cross-sector insights, and waste resources.

The Four Convergence Points

Point 1: Algorithmic Accountability and Disclosure

ESG practitioners need to disclose algorithmic accountability to investors and regulators. Insurance regulators need to audit algorithmic fairness in underwriting. Healthcare facilities need to demonstrate clinician oversight of AI recommendations. Business continuity teams need to understand which workflows depend on AI. The common thread: accountability. Who is responsible when algorithms fail or discriminate?

The governance answer is the same across sectors: document what algorithms you use, how you validate them, what safeguards are in place, and who is accountable. ESG reports that demand this transparency enable insurance compliance. Documentation that satisfies regulators enables healthcare patient safety governance. Inventory that serves BC planning identifies AI dependency.

Organizations building unified algorithmic accountability frameworks—documenting AI systems, validation protocols, and human oversight mechanisms—satisfy all four requirements simultaneously.

Point 2: Bias Testing and Fairness Assurance

This is where the convergence becomes tangible. CSRD requires disclosure of algorithmic bias risk. Insurance regulators require testing for discriminatory outcomes in underwriting. Healthcare regulators require testing for bias in clinical AI. Business continuity teams need to understand whether AI systems have failure modes that disproportionately affect certain populations.

The methodology is consistent across sectors: systematic testing of algorithms against protected classes (race, gender, age, disability status) to identify disparate impact. Testing protocols that work for insurance underwriting also work for clinical AI. Documentation that satisfies insurance examiners also satisfies healthcare auditors.

Organizations that establish unified bias testing protocols—annual testing for racial, gender, and age correlation across all AI systems—satisfy ESG, insurance, and healthcare requirements with a single governance discipline.

Point 3: Resilience and Failure Planning

Business continuity teams worry about what happens when AI systems fail. Restoration contractors worry about what happens when drone assessment AI misses damage. Insurance carriers worry about claims handling when AI systems produce wrong outputs. Healthcare facilities worry about clinical care when AI diagnostic systems fail.

The governance answer is identical: map failure scenarios, define acceptable downtime, and build recovery strategies. Business continuity frameworks for AI dependency directly inform restoration liability protocols. Insurance claims handling governance draws from BC resilience thinking. Healthcare patient safety protocols

incorporate AI failure scenarios from BC planning.

Organizations that develop failure scenario planning for business continuity automatically address insurance claims risk, restoration contractor liability, and healthcare patient safety.

Point 4: Human Oversight and Explainability

EU AI Act requires human oversight for high-risk algorithms. CSRD demands explainability for consequential decisions. Insurance regulators want evidence that underwriting decisions can be appealed to humans. Restoration contractors need to understand assessment methodologies. Healthcare regulations require clinician review of AI recommendations.

The requirement is consistent: AI systems that make or influence consequential decisions need human oversight, human review capability, and explainability mechanisms. The specific implementation differs slightly by context (insurance appeal mechanisms are structured differently than healthcare clinical review), but the core governance principle is the same.

Organizations that establish unified human oversight frameworks—clear decision authority, documented review processes, appeal mechanisms—satisfy ESG, insurance, restoration, and healthcare requirements with integrated governance.

The Unified AI Governance Architecture

Here's what organizations should build in 2026 to address all four convergence points:

1. AI System Inventory and Classification

Comprehensive documentation of every AI system in use:

- System name and purpose
- Decision authority (does it decide or recommend?)
- Sector applicability (ESG/insurance/restoration/BC/healthcare)
- Training data sources and dates
- Model type and architecture
- Accuracy metrics
- Validation testing completed and dates
- Human oversight mechanism
- Last bias testing and results

This single inventory satisfies ESG disclosure (what systems do we use?), insurance audits (show us your algorithms), restoration liability (how does assessment work?), BC planning (which workflows depend on AI?), and healthcare governance (what clinical AI systems are deployed?).

2. Risk Assessment Matrix

For each AI system, assess risk across four dimensions:

ESG Risk: Does this system affect protected classes? Could failure cause reputational harm? Does it enable disclosure to investors and regulators?

Insurance/Liability Risk: Could algorithmic error lead to customer harm, underpayment, or underwriting discrimination? What's the financial exposure?

Operational Risk: Is this a critical workflow? What happens if the system fails? What's the recovery time?

Healthcare/Safety Risk: Does this system influence clinical decisions? Could error lead to patient harm? What safeguards are in place?

High-risk systems across any dimension get elevated governance: mandatory bias testing, human oversight documentation, annual audit.

3. Unified Bias Testing and Fairness Protocol

Annual testing of all high-risk AI systems for correlation with protected classes. Standard methodology across all sectors: identify protected class variables (race, gender, age, disability), gather demographic data on system inputs and outputs, run statistical analysis for disparate impact, document results, identify remediation if needed.

The same testing satisfies:

- CSRD disclosure (we test for algorithmic bias and found...)
- Insurance regulatory audit (here's our bias testing documentation)
- Healthcare clinical governance (our diagnostic AI doesn't bias against any demographic group)
- BC resilience (if this AI fails, impact is consistent across populations)

4. Human Oversight and Appeal Framework

For each AI system that influences consequential decisions, document:

- Who has authority to make the final decision (algorithm recommends, human decides)
- How does the human understand the recommendation?
- What's the escalation path if human disagrees?
- How are appeal/challenge decisions handled?
- What percentage of decisions are overridden by humans? (Monitoring indicator)

This single framework satisfies:

- EU AI Act high-risk requirements (human oversight documented)
- Insurance regulatory requirements (appeals process for underwriting decisions)
- Healthcare patient safety (clinician oversight of AI recommendations)
- Restoration accountability (documented assessment review process)
- ESG disclosure (governance demonstrating human accountability)

5. Ongoing Monitoring and Audit

Quarterly monitoring of AI system performance: accuracy, bias drift, human override rates, adverse events. Annual comprehensive audit of all high-risk systems. Board reporting on AI governance status quarterly.

This monitoring satisfies:

- CSRD disclosure (evidence of active governance and oversight)
- Insurance regulatory expectation (post-market surveillance for algorithmic systems)
- Healthcare FDA QMSR post-market surveillance requirements
- BC planning (early warning of AI system degradation)

The Cross-Sector Learning Opportunity

The deeper insight: organizations operating in multiple sectors can leverage governance from one sector to strengthen others. An insurance carrier that builds rigorous bias testing for underwriting algorithms gains frameworks applicable to their claims AI. A healthcare system that documents clinical AI oversight can apply those principles to operational AI. A business continuity team that maps AI dependencies gains insights applicable to enterprise risk management.

Insurance regulators' guidance on algorithmic fairness informs healthcare approaches to clinical AI bias. Healthcare clinical governance frameworks inform business continuity human oversight protocols. ESG disclosure requirements drive transparency standards applicable across sectors.

The opportunity: don't build five separate governance frameworks. Build one unified AI governance system, adapted for sector-specific requirements, but with shared principles, shared audit protocols, and shared learning.

The Competitive Advantage Timeline

Organizations that recognize this convergence and move decisively in Q2-Q3 2026 will have advantage:

Q2 2026: Build unified AI system inventory and risk assessment matrix.

Q3 2026: Establish bias testing protocol and complete first round of testing across all high-risk systems.

Q4 2026: Implement human oversight documentation and appeal/escalation procedures. Begin board reporting on AI governance status.

2027: Steady-state governance: annual bias testing, quarterly monitoring, ongoing audit, board reporting.

By 2027, these organizations will be able to move smoothly through ESG audits, insurance regulatory examinations, healthcare surveys, and business continuity reviews. They'll have unified governance that satisfies all requirements. Organizations building separate frameworks for each sector will be running audits and reviews continuously, constantly rediscovering the same governance principles in different contexts.

The Integration Framework

AI governance in 2026 isn't about having the perfect algorithm. It's about having the robust governance framework that enables accountability, ensures fairness, builds resilience, and communicates clearly about risk.

The organizations winning are the ones treating AI governance as a unified strategic imperative. They're building governance systems that satisfy ESG, insurance, healthcare, and business continuity requirements

simultaneously. They're elevating AI governance to the board. They're measuring and monitoring. They're transparent about what works and what fails.

AI governance is becoming the new operational imperative—not because regulators demand it, but because organizations that build it genuinely understand their AI dependencies and can manage risk better.

Related Reading:

- AI Governance in ESG Reporting
- AI Governance in Property Restoration
- AI Governance in Insurance
- AI Dependency as a Business Continuity Risk
- AI Governance in Healthcare Facilities

ESG-Linked Compensation and Executive Accountability: Tying Pay to Sustainability Performance in 2026

Source: <https://bcesg.org/esg-linked-compensation-executive-accountability-sustainability-2026/> Published: April 1, 2026

ESG-Linked Compensation and Executive Accountability: 2026 Best Practices

ESG-Linked Compensation and Executive Accountability: 2026 Best Practices

Category: ESG Metrics | Published: 2026 | Updated October 6, 2026 | Reading time: 8 minutes

ESG-Linked Executive Compensation

ESG-linked compensation ties executive incentive pay—bonuses, equity awards, or long-term incentive plans—to achievement of ESG targets. By 2026, this practice has evolved from a marginal governance innovation to a mainstream institutional expectation. Over 70% of S&P 500 companies now incorporate ESG metrics into executive compensation, up from approximately 10% a decade prior. However, significant measurement, design, and accountability challenges persist: Which ESG metrics matter most? What are appropriate weighting schemes? How do organizations avoid greenwashing in compensation design? How do investors assess whether ESG compensation truly drives behavioral change or merely performative compliance?

The integration of ESG metrics into executive compensation represents a critical lever for translating ESG commitments from aspirational statements into accountability mechanisms. When executive compensation depends on ESG performance, the incentive structure aligns leadership interests with stakeholder expectations. However, poorly designed ESG compensation schemes can backfire: they may reward incremental progress on immaterial ESG metrics, inadvertently incentivize gaming of measurement systems, or create perverse incentives (e.g., cutting safety spending to hit EBITDA targets used in compensation calculations).

The Growth and Investor Pressure Driving ESG-Linked Compensation

ESG-linked executive compensation has accelerated dramatically since 2020. In 2016, fewer than 15% of S&P 500 companies tied compensation to ESG metrics; by 2026, this figure exceeds 70%. The shift reflects three drivers:

Investor engagement: Major institutional investors (BlackRock, Vanguard, State Street, CalPERS) have explicitly demanded ESG-linked compensation as evidence of management accountability. Proxy voting has increasingly incorporated ESG compensation design as a governance assessment metric. Companies without ESG-linked compensation face higher scrutiny in proxy contests and investor engagement dialogues.

Stakeholder pressure: Employees, particularly in tech and professional services, have demanded that ESG commitments be reinforced through executive incentives. The disconnect between CEO climate commitments and compensation tied to quarterly earnings has become a focal point for employee activism and stakeholder criticism.

Regulatory signaling: SEC guidance on executive compensation disclosure, CSRD requirements for governance and executive accountability, and emerging state-level director liability laws have signaled regulatory expectations that ESG performance be formally integrated into compensation governance.

By 2026, the question has shifted from “Should ESG be in executive compensation?” to “Is your ESG compensation design genuinely accountability-driving or merely performative?” This shift reflects maturation: organizations implementing ESG compensation are moving beyond simple check-box inclusion toward rigorous design ensuring true performance linkage.

Measurement Challenges: Which Metrics, What Weighting, What Baselines?

The central challenge in ESG-linked compensation is metric selection and measurement rigor. Traditional financial compensation (tied to revenue growth, EBITDA, return on equity) has standardized measurement: audited financials, clear definitions, comparable metrics across firms. ESG metrics lack this standardization, creating measurement complexity:

Scope and boundary issues: Should carbon reduction targets include Scope 1, 2, and 3 emissions, or only Scope 1 and 2? Should diversity metrics count headcount percentages or advancement pipeline development? These boundary choices dramatically affect whether targets are achievable and comparable across peers. Organizations must make these choices explicit and defensible.

Baseline and target-setting: For financial metrics, baselines are historical performance; targets are typically incremental improvements or competitive benchmarks. ESG targets are often more complex: absolute reduction targets (carbon to net-zero by 2050) vs. intensity targets (carbon per dollar of revenue) vs. efficiency improvements (percentage reduction) all imply different measurement approaches and comparability challenges.

Time horizons and volatility: Financial compensation often uses annual or multi-year vesting. ESG metrics are often subject to longer-term trends and external shocks: climate targets are 2030–2050 horizon; diversity pipeline development takes years; supply chain resilience is affected by geopolitical disruption. Compensation vesting must align with realistic ESG achievement timelines.

Materiality alignment: Not all ESG metrics are equally material to a company. For a financial services firm, climate risk governance and systemic financial risk management are material; for a retail company, supply

chain labor practices and environmental impact are material; for a healthcare firm, patient safety and healthcare equity are material. ESG compensation should weight metrics by materiality, not treat all ESG metrics as equally important.

Peer comparability: Without standardized ESG metrics, comparing executive ESG performance across firms is difficult. A company claiming 30% carbon reduction is not comparable to a peer claiming 50% unless baselines, scope, and calculation methodologies are identical. ESG compensation design should reference peer approaches and explain divergences.

Design Principles for Effective ESG-Linked Compensation

Leading organizations follow a set of design principles for ESG compensation that ensure accountability while avoiding gaming and greenwashing:

- 1. Material ESG metrics only:** Link compensation to ESG metrics that are material to the business and stakeholder expectations. For a fossil fuel company, this might be energy transition roadmap execution and carbon intensity reduction. For a tech company, it might be data privacy, algorithmic bias remediation, and supply chain labor standards. For a healthcare company, it might be healthcare equity, patient safety, and pharmaceutical pricing accountability. Use materiality assessments (double materiality under CSRD, investor materiality for investor-facing disclosure) to justify metric selection.
- 2. Balanced weighting:** Avoid treating ESG as token weight in compensation (e.g., 5% of bonus tied to vague “sustainability progress”). Leading organizations weight material ESG metrics at 15–30% of variable compensation, creating genuine incentive impact while maintaining focus on financial performance. Weighting should reflect relative materiality: carbon reduction might be 10% if material to the industry; DEI might be 15% if core to organizational strategy and talent risk; governance metrics might be 5% if well-established baseline practices.
- 3. Stretch targets with accountability:** ESG targets should be ambitious enough to require genuine management effort but achievable under normal operating conditions. Targets should include both leading indicators (process metrics) and lagging indicators (outcome metrics). For carbon, this might be: leading indicator—renewable energy procurement pathway; lagging indicator—absolute carbon reduction. For diversity, this might be: leading indicator—diverse candidate pipeline expansion; lagging indicator—demographic representation in leadership. Compensation payouts should reflect achievement of both types.
- 4. Alignment with external reporting:** ESG compensation metrics should align with ESG metrics disclosed externally (in ESG reports, regulatory filings, investor disclosures). This creates internal accountability and ensures that compensation isn’t driving different metrics than external disclosure. A company can’t claim external carbon neutrality commitments while internally compensating executives for any carbon reduction, regardless of baseline or baseline.
- 5. Third-party validation:** For high-stakes ESG metrics, consider third-party assurance or verification. External assurance on carbon accounting (if carbon is material to compensation), diversity metrics verification (if DEI is compensation-linked), or governance assessment (if board-level oversight is metric-linked) adds credibility and reduces risk of manipulation or gaming.

6. Malus and clawback provisions: ESG compensation should include clawback provisions if ESG targets are achieved through unethical means or if disclosed ESG metrics are later restated. If a company achieves carbon targets by closing operations (meeting targets through reduction in scope rather than efficiency improvements), this represents gaming that compensation should not reward. Clawback provisions create accountability for the integrity of ESG achievement, not merely the metrics themselves.

Avoiding Greenwashing in ESG Compensation Design

The risk of greenwashing in ESG compensation is substantial. Organizations can design compensation that appears to reward ESG performance while actually incentivizing minimal progress or even contrary outcomes. Examples of greenwashing in compensation:

- **Gaming materiality:** Selecting “ESG” metrics that are trivial or non-material, then claiming ESG accountability. Example: compensating executives for “employee volunteer hours in environmental initiatives” while carbon intensity increases. The metric is technically ESG but immaterial to environmental impact.
- **Unambitious baselines:** Setting ESG targets that are easily achievable based on existing trends, requiring no meaningful management change. Example: target 3% diversity increase when baseline historical diversity improvement is 5% annually. The target is below historical trajectory and creates no incremental incentive.
- **Metric gaming:** Achieving reported metrics through accounting choices rather than genuine improvement. Example: carbon reduction through asset sales/outsourcing (reducing reported Scope 1 by transferring to vendor), not through efficiency. The metric is met but environmental impact is unchanged or worsened.
- **Weighting dilution:** Including ESG metrics in compensation at such low weighting (e.g., 2% of bonus) that they create negligible incentive. The appearance of ESG compensation without material impact on executive decision-making.
- **Disconnect from governance:** ESG compensation metrics that don’t align with board oversight or risk management structures, creating inconsistency between compensation incentives and governance accountability.

Organizations should avoid these greenwashing patterns by: (1) ensuring material metrics are selected; (2) setting ambitious but achievable targets; (3) using third-party verification; (4) aligning metrics with governance structures and external disclosure; and (5) implementing strong clawback provisions for integrity violations.

Sectoral and Role-Specific Compensation Design

Effective ESG compensation varies by sector and executive role. A financial services firm might emphasize climate risk governance and systemic financial risk management in CEO compensation; a retail firm might emphasize supply chain labor standards and environmental impact; a healthcare firm might emphasize healthcare equity and patient safety. Within organizations, roles matter: a CFO’s ESG compensation might emphasize financial risk integration; a Chief Sustainability Officer might emphasize operational implementation; a CEO might emphasize stakeholder engagement and governance.

Organizations should design ESG compensation that reflects sectoral materiality and role specificity, not uniform across all executives. This creates accountability aligned with actual decision-making authority and organizational impact.

Transparency and Disclosure: ESG Compensation in Proxy Statements and ESG Reports

ESG compensation design must be transparent. Proxy statements (SEC proxy filings, equivalent in other jurisdictions) should clearly disclose: which ESG metrics are compensation-linked, weighting, targets, achievement results, and any changes to metrics year-over-year. ESG reports should disclose compensation design philosophy, metric selection rationale, third-party verification (if applicable), and historical achievement trends.

This transparency serves two purposes: it enables investors and stakeholders to assess whether ESG compensation is genuine accountability or greenwashing, and it creates reputational incentive for organizations to maintain integrity in ESG metric achievement.

Integration with Broader Governance and Risk Management

ESG-linked compensation is most effective when integrated with governance and risk management structures. Compensation committees should include members with ESG expertise or access to ESG expertise. Board-level ESG or sustainability committees should oversee both ESG strategy and ESG compensation design, ensuring alignment. Risk management frameworks should identify whether ESG compensation creates any perverse incentives (e.g., safety spending reductions to improve financial metrics used in compensation). [bcesg.org](https://www.bcesg.org)'s Governance resources provide frameworks for board oversight and accountability structures supporting integrated ESG governance.

Cross-Site Implications: Executive Accountability and Operational Resilience

ESG-linked compensation affects organizational resilience and operational risk management. When executive compensation is tied to ESG targets, it creates accountability for operational decisions affecting resilience: supply chain risk management, cybersecurity and data governance, business continuity planning, and risk management. [ContinuityHub.org](https://www.continuityhub.org)'s operational resilience frameworks detail how ESG compensation design affects executive accountability for business continuity and disaster recovery investment.

Similarly, [RiskCoverageHub.com](https://www.riskcoveragehub.com)'s risk management guidance addresses how ESG-linked compensation affects executive decision-making in insurance underwriting, capital allocation, and risk transfer strategies. In healthcare, [HealthcareFacilityHub.org](https://www.healthcarefacilityhub.org)'s resources on executive accountability cover how compensation design affects facility operations, supply chain management, and stakeholder engagement in healthcare contexts.

2026 Best Practices: Building Credible ESG Compensation

Organizations implementing or revising ESG-linked compensation in 2026 should follow this approach:

- **Assess materiality (Q1 2026):** Conduct materiality assessment (CSRD-aligned or investor-focused) to identify which ESG metrics are material to stakeholders and business strategy. Prioritize top 3–5 metrics for compensation linkage.

- **Design targets and metrics (Q1–Q2 2026):** Set ambitious but achievable targets aligned with external commitments and strategy. Define measurement methodologies, baselines, and calculation processes. Ensure alignment with disclosure metrics.
- **Develop governance structure (Q2 2026):** Ensure compensation committee has ESG expertise or access to ESG guidance. Establish board-level oversight of ESG compensation design and achievement. Define roles and accountability.
- **Implement third-party validation (Q2–Q3 2026):** For material ESG metrics (carbon, diversity, governance), consider external verification or assurance. This adds credibility and reduces gaming risk.
- **Disclose in proxy and ESG reporting (Q3–Q4 2026):** Clearly disclose ESG compensation design, metrics, targets, and achievement in proxy statements and ESG reports. Explain materiality rationale and governance structure.
- **Monitor and adjust (ongoing 2026+):** Track executive achievement of ESG targets. Monitor for gaming or metric manipulation. Adjust metrics or targets as business and stakeholder expectations evolve.

ESG-linked compensation is no longer optional governance best practice; it is increasingly expected by investors and regulators. Organizations with credible, well-designed ESG compensation will attract talent, investor capital, and stakeholder support; those with greenwashing compensation risk regulatory and reputational harm.

Related Resources on bcesg.org

Explore Related ESG Metrics and Compensation Topics

- ESG Metrics Category – Measurement standards, materiality assessment, and performance metrics
- Governance Category – Board oversight, executive accountability, and compensation structures
- Stakeholder Engagement Category – Investor relations and accountability mechanisms
- Sustainability Reporting Category – Disclosure transparency and ESG communication

Cluster Cross-References

For Operational Resilience and Accountability: ContinuityHub.org addresses how executive compensation structures affect investment in business continuity, operational resilience, and risk management infrastructure—connecting ESG accountability to organizational resilience.

For Insurance and Risk Management Accountability: RiskCoverageHub.com covers how compensation design affects executive decision-making in underwriting, capital allocation, and risk transfer—critical for financial institutions with ESG-linked compensation.

For Healthcare Executive Accountability: HealthcareFacilityHub.org details how compensation design affects healthcare facility operations, supply chain management, patient safety, and stakeholder engagement—connecting executive incentives to healthcare outcomes.

For Property and Restoration Context: RestorationIntel.com addresses operational resilience and recovery planning, relevant to how executive compensation structures affect investment in resilience infrastructure and disaster preparedness.

Industry editions of this guide

The framework above is applied industry by industry in two companion guides. Pharmaceutical companies’ ESG executive compensation examines how drugmakers tie pay to access to medicines, patient safety and carbon — including the disclosed structures at Sanofi, Novartis, GSK and AstraZeneca. Beauty companies’ executive pay and sustainability targets examines how beauty and consumer brands tie pay to packaging, sourcing and sustainability targets — including the disclosed structures at L’Oreal and Unilever.

Governance: Expert Video Analysis

Source: <https://bcesg.org/video-governance/> Published: March 18, 2026

Home > Governance > Video: ESG Oversight: The Corporate Director’s Guide

ESG Oversight: The Corporate Director’s Guide

Channel: Inside Today's Boardrooms

Duration: 13:15 | **Views:** 2K | **Published:** May 18, 2021

Relevance Score: 60/100

Why This Matters for ESG Professionals

For sustainability and ESG professionals, deep understanding of governance frameworks and implementation strategies directly impacts organizational credibility, stakeholder trust, regulatory compliance, and competitive positioning. Companies that master these practices gain access to lower-cost capital, attract top talent, improve operational efficiency, and build resilience against emerging regulatory and market risks.

Key Moments in This Video

Time	Topic	What You’ll Learn
3:18	Introduction	Learn more at 3:18
6:36	Key Concepts	Learn more at 6:36
9:54	Framework Basics	Learn more at 9:54

Governance

Board structure, leadership accountability, executive compensation alignment, shareholder rights, ethics/compliance systems, and risk management practices ensuring responsible corporate decision-making.

Learn more: [GRI Standards](#) | [ISSB](#) | [SASB](#)

Key Takeaways

- Board composition diversity (gender, race, professional background, tenure) correlates with better strategic decisions, innovation, and risk management; homogeneous boards underperform.
- Executive compensation tied to ESG metrics (not just financial) incentivizes long-term sustainability. Companies linking bonus/equity vesting to climate/DEI goals see faster progress.

- Audit committee expertise in emerging risks (cyber, climate, supply chain resilience) essential; gaps in board knowledge about material risks lead to governance failures and regulatory action.
- Shareholder rights to nominate directors and vote on major decisions drive accountability. Majority voting policies and annual elections strengthen governance more than staggered boards.
- 2026 governance trend: Boards increasingly establish dedicated ESG/sustainability committees; integrated risk oversight spanning traditional + ESG risks yields better organizational resilience.

Expert Analysis: Governance in 2026

The governance landscape in 2026 has matured significantly with standardization and mandatory regulatory requirements reshaping corporate practices globally. The convergence of GRI, SASB, ISSB, and TCFD frameworks toward integrated reporting standards enables organizations to achieve transparency goals more efficiently while meeting investor and regulatory expectations.

Market leaders implementing governance programs as core business strategy (not compliance checkbox) demonstrate measurable financial benefits: lower cost of capital, improved operational efficiency, reduced regulatory risk, and enhanced stakeholder engagement. Companies with substantiated, assured governance performance outperform peers in capital markets valuation by 15-25% on average.

The regulatory environment continues tightening: mandatory climate disclosure for large corporations, mandatory human rights due diligence in EU/Canada, pay equity reporting requirements, and supply chain transparency mandates create compliance imperatives alongside competitive advantage opportunities. Organizations already implementing robust governance and disclosure adapt faster to new requirements and maintain stakeholder trust through transparent communication of progress and challenges.

Industry Standards & Regulatory References

Standard	Governing Body	What It Covers
ISSB S1 Standard	International Sustainability Standards Board	Governance-related sustainability-related financial information
GRI Standards 200/400	Global Reporting Initiative	Economic and governance topics
COSO Framework	Committee of Sponsoring Organizations	Internal control and enterprise risk management
SEC Corporate Governance Rules	U.S. Securities and Exchange Commission	Board composition, independence, and shareholder rights

Related Reading on BCESG

- Governance Guide
- ESG Best Practices
- Reporting Frameworks

Cross-Cluster Resources

- Risk Coverage Hub – ESG Reporting
- Continuity Hub – Resilience Planning

- Sustainability Resource Hub – Frameworks

Key Terms Glossary

Materiality Assessment identifying which ESG issues have material impact on business performance and stakeholder decision-making Double Materiality Analysis considering both company impact on stakeholders/environment AND stakeholder impact on company GRI Standards Global Reporting Initiative framework for comprehensive sustainability reporting across environmental, social, economic topics ISSB Standards International Sustainability Standards Board framework establishing global baseline for climate and sustainability disclosure Third-Party Assurance Independent verification of reported ESG metrics and data quality by external auditors

Frequently Asked Questions

What frameworks should our organization use for governance reporting?

Start with GRI universal standards as the comprehensive baseline, then add industry-specific SASB metrics and TCFD/ISSB standards as applicable. The goal is integrated, double-materiality-informed reporting connecting to business strategy and value creation.

How do we identify material governance issues?

Conduct materiality assessment surveying investors, employees, customers, communities, and other stakeholders to identify most impactful issues. Plot findings on 2×2 matrix (business impact vs. stakeholder concern) to prioritize board-level governance.

What are the consequences of non-compliance with governance regulations?

EU CSRD non-compliance can result in fines up to 5% annual revenue; SEC climate rule violations expose companies to enforcement action and shareholder litigation. Beyond legal/financial penalties, non-compliance risks capital access, institutional investor divestment, and reputational damage.

How should we integrate governance into strategy and governance?

Board-level ESG committee oversight, executive compensation tied to ESG metrics, cross-functional governance structure, integration with risk management, and transparent reporting to stakeholders creates accountability and drives sustainable value creation.

This watch page was generated for BCESG.org. Video sourced from YouTube. All external links are for reference and education purposes.

For professional governance guidance and strategy support, consult certified ESG consultants and advisors in your region.

Investor ESG Engagement: Proxy Voting, Shareholder Proposals, and Active Ownership Strategy

Source: <https://bcesg.org/investor-esg-engagement-proxy-voting-shareholder-proposals-active-ownership/>

Published: March 18, 2026

Home > Stakeholder Engagement > Investor ESG Engagement

Investor ESG Engagement: Proxy Voting, Shareholder Proposals, and Active Ownership Strategy

Updated October 6, 2026.

If you manage ESG for a public company or investor relations team, this guide covers proxy voting, shareholder proposals, and active ownership tactics investors use in 2026.

Investor ESG Engagement Definition: Investor ESG engagement encompasses all mechanisms through which shareholders influence company ESG performance, including proxy voting, shareholder proposals, direct company dialogue, and active ownership strategies. The 2025 proxy season witnessed record ESG-related shareholder proposals, establishing investor engagement as a critical stakeholder channel influencing corporate ESG strategy and board composition.

The Investor Engagement Landscape

Investors have become increasingly powerful ESG stakeholders. With trillions of dollars of assets under management globally, major asset managers and pension funds use their shareholder rights to influence company ESG performance. This investor engagement has evolved from marginal activism to mainstream capital allocation practice.

The 2025 proxy season demonstrated the maturation of investor ESG engagement. Record numbers of ESG-related shareholder proposals addressed climate change, board diversity, supply chain practices, and governance issues. Major asset managers including BlackRock, Vanguard, and State Street launched coordinated engagement campaigns on material ESG issues. This trend is expected to continue and intensify in 2026.

Proxy Voting as an ESG Engagement Mechanism

Understanding Proxy Voting

Proxy voting enables shareholders unable to attend annual shareholder meetings to vote on matters requiring shareholder approval. Proxy voting covers:

- **Board elections:** Election of directors with independent and diverse boards favored
- **Executive compensation:** Say-on-pay votes and compensation structure approval
- **Shareholder proposals:** Votes on environmental, social, and governance proposals
- **Merger and acquisition:** Approval of significant corporate transactions
- **Charter amendments:** Changes to corporate governance structure

Proxy Voting Advisors and Their Role

Proxy voting advisors like ISS (Institutional Shareholder Services) and Glass Lewis provide voting recommendations to institutional investors, significantly influencing proxy voting outcomes:

- **Research and analysis:** ISS and Glass Lewis analyze voting proposals using proprietary methodologies
- **Voting recommendations:** Advisors recommend voting for or against proposals based on their analysis

- **Influence magnitude:** Approximately 30-50% of institutional investors follow advisor recommendations at least partially
- **ESG emphasis:** Both advisors increasingly weight ESG factors in board recommendations
- **Accountability:** ISS and Glass Lewis face growing scrutiny regarding their ESG criteria and methodologies

Investor Proxy Voting Priorities 2025-2026

Recent proxy seasons demonstrated investor focus on:

- **Board diversity:** Gender and ethnic diversity, board independence, ESG expertise
- **Climate change:** Climate strategy, emissions reduction targets, governance of climate risks
- **Executive compensation linkage:** Pay tied to ESG metrics, not just financial results
- **Supply chain practices:** Labor standards, environmental management, supply chain transparency
- **Governance quality:** Board independence, committee structure, shareholder rights
- **Risk management:** Enterprise risk management, emerging risk identification and management

Shareholder Proposals as ESG Engagement Tools

2025 Proxy Season: Record ESG Shareholder Proposals

2025 Proxy Season Statistics:

- Record number of ESG-related shareholder proposals
- Climate-related proposals dominated shareholder voting
- Board diversity proposals gained broad investor support
- Supply chain and labor practice proposals increased significantly
- Pay equity and living wage proposals emerged as new focus area
- Multiple coordinated investor campaigns on strategic ESG issues

Shareholder Proposal Mechanics

Shareholder proposals are requests for company action submitted by shareholders meeting ownership and holding requirements. Mechanics include:

- **Ownership requirement:** Typically shareholder must own \$2,000 in stock for at least one year
- **Submission process:** Proposals submitted to company and SEC for 2,000+ word statement
- **Company response:** Companies can oppose proposals, negotiate amendments, or support proposals
- **Proxy statement:** Proposals included in proxy materials sent to all shareholders
- **Shareholder vote:** Shareholders vote on proposals at annual meeting

Common ESG Shareholder Proposal Topics (2025)

Climate Change and Emissions Reduction

- Setting science-based emissions reduction targets
- Adopting Paris-aligned transition plans
- Disclosing Scope 3 emissions and supply chain climate impacts

- Phasing out fossil fuel exposure or coal divestment

Board Diversity and Governance

- Increasing gender and ethnic diversity on boards
- Setting diversity targets with accountability mechanisms
- Establishing specialized ESG committees
- Requiring ESG expertise in director selection

Pay Equity and Living Wages

- Conducting pay equity audits and disclosure
- Setting living wage standards across operations and supply chain
- Linking executive compensation to diversity and wage equity metrics
- Disclosing pay ratio analysis

Supply Chain Responsibility

- Enhanced supply chain auditing and compliance
- Supplier code of conduct with enforcement mechanisms
- Disclosure of supply chain labor and environmental practices
- Third-party verification of supply chain claims

Human Rights and Community Impact

- Human rights due diligence and impact assessments
- Community consultation and benefit-sharing
- Indigenous rights and land rights protection
- Grievance mechanisms for affected stakeholders

Corporate Response Strategies to Shareholder Proposals

Proactive Strategy: Pre-Proposal Engagement

Leading companies engage investors before proposals are submitted:

- Regular investor dialogue on ESG topics
- Transparency regarding ESG strategy and progress
- Engagement with shareholder activists addressing concerns
- Early signal of company willingness to address major concerns

Negotiation Strategy: Proposal Amendment

When proposals are submitted, companies may negotiate modifications:

- Working with proponents to refine language and scope
- Achieving practical improvements while modifying extreme proposals
- Withdrawing proposals after company commits to voluntary action

- Demonstrating responsiveness to shareholder concerns

Defense Strategy: Opposition with Commitment

Companies may oppose proposals while committing to voluntary action:

- Demonstrating existing commitment to proposal topic
- Proposing alternative approach aligned with company strategy
- Committing to third-party verification or reporting
- Establishing timeline for implementation

Engagement Following Shareholder Vote

Regardless of vote outcome, companies benefit from robust shareholder engagement post-vote:

- Understanding investor voting rationale and concerns
- Implementing commitments made during engagement process
- Regular progress reporting to engaged shareholders
- Demonstrating responsiveness for future proposals

Active Ownership Strategies

Direct Company Engagement

Beyond proxy voting and formal proposals, institutional investors engage companies directly on ESG topics:

- **Investor meetings:** Regular meetings with company management and boards on ESG issues
- **Collaborative engagement:** Multiple investors coordinating on material ESG topics
- **Engagement platforms:** Organized platforms enabling investor coordination (e.g., Ceres Investor Network)
- **Public statements:** Joint investor statements on material ESG topics influencing policy
- **Capital allocation leverage:** Threat or implementation of divestment linked to ESG performance

Investor Coalitions and Coordinated Campaigns

Leading asset managers and pension funds coordinate on material ESG issues:

- **Climate Action 100+:** Investor coalition addressing climate change at major emitters
- **Ceres Investor Network:** Coalition addressing environmental sustainability issues
- **Interfaith Center on Corporate Responsibility:** Faith-based investor coalition on ESG issues
- **Investor initiatives:** Coordinated campaigns on supply chain, pay equity, board diversity

Investment Product Development

Investors increasingly embed ESG engagement in investment products:

- **ESG-focused funds:** Investment products with active ESG engagement strategies
- **Impact investing:** Investments targeting specific ESG outcomes (climate, social impact)

- **Screening strategies:** Negative screening (excluding poor ESG performers) and positive screening (favoring ESG leaders)
- **Engagement mandates:** Explicit engagement metrics and targets integrated into fund prospectuses

Corporate Response Framework

Building Investor Relations for ESG

Companies should build dedicated investor relations capacity for ESG engagement:

- **ESG investor relations resource:** Dedicated team member or function managing investor ESG engagement
- **Investor education:** Regular webinars and materials educating investors on company ESG strategy
- **Responsive communication:** Timely responses to investor ESG inquiries and requests
- **Engagement tracking:** Documentation of investor ESG concerns and company responses

Board and Management Engagement

Effective investor engagement requires board and management support:

- **Board education:** Regular board briefings on investor ESG priorities and engagement
- **Management accountability:** Board oversight of investor engagement and response strategies
- **Executive participation:** CEO and relevant executives participating in investor meetings
- **Compensation linkage:** Executive compensation reflecting investor ESG feedback and performance

Transparency and Disclosure

Transparent disclosure reduces investor uncertainty and engagement pressure:

- **ESG disclosure:** Comprehensive disclosure of ESG strategy, risks, metrics, and progress
- **Integrated reporting:** Connect ESG to financial performance and value creation
- **Framework alignment:** Disclosure aligned with GRI, ISSB, CSRD, and other frameworks
- **Third-party assurance:** Verification of disclosed ESG metrics enhancing credibility

Frequently Asked Questions

Q: What is the difference between proxy voting and shareholder proposals?

Proxy voting enables shareholders to vote on matters required to be brought to shareholder meetings (elections, compensation, other proposals). Shareholder proposals are specific ESG or governance requests submitted by shareholders. Companies respond to proposals in proxy materials, and shareholders vote on them. Proxy votes on directors and compensation are annual; shareholder proposals are variable based on investor activism.

Q: How much influence do proxy voting advisors have?

Proxy voting advisors like ISS and Glass Lewis are highly influential, with major institutional investors following their recommendations for 30-50% of votes. However, largest asset managers increasingly develop independent voting policies and recommendations, reducing advisor influence. Companies engaging major

shareholders directly can influence their votes more effectively than advisor recommendations alone.

Q: Should companies oppose or support shareholder proposals?

Companies should evaluate each proposal on merits and strategic alignment. Best practice often involves direct engagement with proponents to understand concerns and negotiate modifications. For proposals addressing material issues aligned with company strategy, supporting or committing to voluntary action demonstrates responsiveness. For proposals misaligned with strategy, opposition with clear alternatives may be appropriate.

Q: What are the consequences of ignoring investor ESG engagement?

Ignoring investor engagement creates several risks: shareholder proposals pass imposing costly changes, governance/diversity deficits lead to director voting against, executive compensation votes fail, capital costs increase due to ESG risk premium, and proxy contests may be initiated to change board composition. Engaged companies avoid these escalations through proactive dialogue.

Q: How should companies respond to activist shareholders?

Companies should engage constructively with activist shareholders, understand their specific concerns, and respond substantively. Many activist campaigns can be resolved through dialogue demonstrating board responsiveness to legitimate concerns. Escalation through proxy contests or divestment threats should be avoided through meaningful engagement and demonstrated progress on agreed actions.

Related Resources

- Multi-Stakeholder Materiality: Identifying and Prioritizing ESG Issues
- Double Materiality Assessment and Stakeholder Mapping
- Employee ESG Engagement and Purpose-Driven Culture

About this article: Published by BC ESG on March 18, 2026. This article provides guidance on investor ESG engagement mechanisms, proxy voting strategies, and shareholder proposal response frameworks. Content reflects 2025 proxy season developments and industry best practices current as of 2026.

Inclusive Governance: Board Diversity, Representation Targets, and Accountability Frameworks

Source: <https://bcesg.org/inclusive-governance-board-diversity-representation-accountability/> Published: March 18, 2026

Inclusive Governance: Board Diversity, Representation Targets, and Accountability Frameworks

Home > DEI > Inclusive Governance

Inclusive Governance: Board Diversity, Representation Targets, and Accountability Frameworks

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Definition: Inclusive governance integrates diversity and inclusion principles into corporate leadership structures, decision-making processes, and accountability mechanisms. It encompasses board composition

diversity (gender, ethnicity, age, professional background, sector experience), executive team representation, director nomination and selection practices that actively source underrepresented talent, succession planning ensuring leadership pipeline diversity, and governance mechanisms (board committees, disclosure requirements, stakeholder engagement) ensuring accountability for inclusion outcomes. Research demonstrates that diverse boards exhibit better risk management, enhanced strategic decision-making, and improved financial performance; inclusive governance enables these benefits while fulfilling stakeholder expectations and regulatory requirements in jurisdictions mandating board diversity (EU, NASDAQ, California, UK, Australia).

The Business Case for Board Diversity

Decision Quality and Risk Management

Academic and industry research consistently demonstrates that cognitively diverse boards make higher-quality strategic decisions, identify risks earlier, and exercise more rigorous oversight. Homogeneous boards—dominated by similar demographic profiles, educational backgrounds, and professional experiences—exhibit groupthink, miss dissenting perspectives, and provide inadequate challenge to management. Diverse boards integrate multiple viewpoints, strengthen debate quality, and reach more robust decisions. McKinsey research (2023) found that companies in the top quartile for gender diversity on executive teams outperformed median companies by 25% on profitability; those in ethnic diversity top quartile outperformed by 36%.

Strategic Positioning and Market Access

Diverse leadership better understands diverse customer bases and can identify market opportunities. Boards lacking gender and ethnic diversity may miss product innovation opportunities, overlook emerging markets, or fail to understand customer needs of underrepresented demographics. Inclusive leadership enables authenticity in diverse market engagement.

Reputation and Stakeholder Engagement

Investors, employees, and customers increasingly expect inclusive leadership as a signal of organizational values and risk management. Organizations with diverse boards report stronger employee retention, enhanced brand reputation, and reduced regulatory/reputational risk. Conversely, leadership perceived as homogeneous faces activism, customer pressure, and talent recruitment challenges.

Board Diversity: Composition and Targets

Gender Diversity

Gender diversity in boardrooms has progressed substantially but remains below parity in most markets. The EU Gender Directive (2022) mandates 40% women in EU listed company boards by 2025 (extended to 2026 for flexibility). NASDAQ rules (2021) require one woman on the board for smaller companies, and multiple women proportionate to board size for larger companies. California's board diversity law (2018-2023) required women on boards; a 2022 court challenge has created uncertainty around enforcement. The UK Corporate Governance Code recommends 40% women on FTSE 350 boards. Target achievement varies: companies with explicit targets and accountability reach 30-40% women; those without targets average 20-25%. Effective progression requires director recruitment from professional pipelines, succession planning, and board refreshment cycles incorporating women candidates.

Ethnic and Cultural Diversity

Ethnic diversity in boardrooms lags gender diversity significantly. The EU Gender Directive includes subsidiary requirements for underrepresented gender; ethnic diversity requirements remain voluntary and emerging. NASDAQ rules reference “Diverse” candidates without mandating specific categories, creating ambiguity. UK governance guidance encourages ethnic diversity but lacks specific mandates. In practice, ethnic diversity on US and UK boards averages 15-20% despite these populations representing 25-40% of working-age populations. Effective targets would specify underrepresented ethnic groups and establish board representation closer to population/labor force availability—e.g., “30% directors from underrepresented ethnic minorities by 2030.”

Professional Background and Sector Diversity

Beyond demographics, boards benefit from diversity of professional experience—technology, ESG, international operations, supply chain, digital transformation expertise. Directors with narrow experience (financial services, decades in single company) may overlook strategic threats and opportunities. Best practice includes intentional director recruitment balancing industry experts with adjacent-industry backgrounds and functional diversity (operations, technology, sustainability, human capital expertise).

Age and Tenure Diversity

Many boards exhibit aging director populations with lengthy tenures, creating groupthink and missing contemporary perspectives. Best practices include mandatory retirement ages (70-72) encouraging board refreshment, term limits (8-10 years) enabling new director recruitment, and intentional recruitment of directors aged 40-55 bringing mid-career expertise and different generational perspectives.

NASDAQ Board Diversity Rules: Status and Regulatory Landscape (2026)

NASDAQ rules (effective 2023) require listed companies to disclose board diversity statistics and establish diversity representation targets. Specific requirements:

- At least one director identifying as female (or, for largest companies, multiple women proportionate to board size)
- At least one director identifying as member of underrepresented minority or LGBTQ+
- Annual disclosure of board composition by gender, ethnicity, age, and LGBTQ+ status
- Exemptions available for smaller companies, but non-exempt companies must comply or provide explanation

In 2024, courts upheld NASDAQ rules against legal challenges, affirming regulatory authority to impose board diversity requirements. However, ongoing political uncertainty and state-level litigation (particularly in conservative jurisdictions) creates volatility. Some states have passed laws prohibiting DEI-based board quotas, creating operational tensions for national companies navigating conflicting state laws. For 2026 planning, organizations should anticipate NASDAQ rules remaining in effect while monitoring legal developments in contested states.

Director Nomination and Selection Practices

Recruitment and Talent Pipeline Development

Achieving board diversity requires intentional director recruitment practices. Traditional approaches—identifying candidates through personal networks, leveraging sitting director recommendations—tend to perpetuate homogeneity. Best practices include:

- **Diverse Nominating Committee:** Ensure board nominating/governance committee includes directors from underrepresented groups who advocate for diverse candidate sourcing
- **Executive Search Firms with Diversity Specialization:** Engage recruiters with proven track records identifying diverse director candidates and holding them accountable for diverse candidate slates
- **Candidate Requirement Flexibility:** Define board candidate requirements clearly but flexibly—publicly-listed company CEO experience or CFO background shouldn't be absolute requirements if other strategic experience satisfies board needs
- **Emerging Leaders Programs:** Develop internal programs identifying high-potential directors from underrepresented groups; provide board experience, professional development, and mentoring to prepare future board candidates
- **Diverse Candidate Slate Mandates:** Require nominating committees to present diverse candidate slates (e.g., at least 50% female candidates, representation of underrepresented minorities) before presenting final recommendations to board

Candidate Assessment and Selection Criteria

Assessment should balance experience requirements with openness to non-traditional backgrounds. Criteria should include:

- Strategic experience and expertise addressing board gaps (technology, ESG, emerging markets, supply chain)
- Proven track record in complex organizations with accountability for results
- Board-level perspective and engagement (willingness to spend time, ask challenging questions, participate constructively in debate)
- Complementarity with existing board members (adding new perspectives, expertise gaps, demographics)
- Time commitment and availability to serve with excellence

Selection criteria should explicitly include diversity contributions—assessing how candidate adds to board diversity and brings underrepresented perspectives.

Executive Leadership and Succession Planning

C-Suite Representation

Board diversity without executive leadership diversity creates perception of tokenism and limits actual decision-making influence. Organizations should establish executive representation targets—e.g., 40% women in direct reports to CEO, 30% underrepresented minorities in senior leadership by 2030. This requires succession planning ensuring pipeline of diverse talent for critical roles, development and mentoring programs accelerating advancement of underrepresented leaders, and accountability mechanisms ensuring progress.

CEO Succession and Board Leadership

Many boards fail to develop diverse CEO succession pipelines, perpetuating male-dominated C-suite. Best practice includes explicit commitment to considering diverse external CEO candidates alongside internal pipeline, board-led development of diverse executive talent, and willingness to promote CEOs from non-traditional backgrounds (different industries, smaller companies, emerging markets). Similarly, board chair and lead independent director roles should rotate among diverse board members, signaling that leadership roles are accessible to all.

Accountability Mechanisms and Governance

Board Committees and DEI Oversight

Some organizations establish separate DEI committees; others integrate DEI accountability into existing committees (nominating/governance, compensation, audit). Best practice assigns primary accountability to nominating/governance committee, which should:

- Establish board diversity targets and monitor progress quarterly
- Set executive diversity targets and track progress through compensation committee
- Review board recruitment processes for diversity effectiveness
- Oversee workplace diversity, inclusion, and belonging programs
- Ensure comprehensive DEI disclosures in annual proxy statements

Compensation and Performance Linkage

Organizations increasingly link executive compensation to diversity and inclusion outcomes. Examples include tying 5-10% of executive bonus to achieving DEI targets (board diversity, pay equity progress, employee engagement in diversity surveys). This creates financial accountability and prioritization of DEI initiatives alongside traditional financial and operational metrics.

Public Disclosure and Transparency

Transparent public reporting of board diversity (by gender, ethnicity, age, professional background), executive diversity, representation targets, and progress toward targets creates accountability and enables investor/employee assessment. Many companies publish annual proxy statements disclosing board diversity, though disclosure detail and comparability varies widely. Best practice includes disaggregated reporting enabling identification of progress and persistent gaps.

Industry Best Practices and Implementation Roadmap

Board Self-Assessment

Conduct independent board evaluation assessing current diversity composition, strategic gaps, director recruitment practices, and accountability mechanisms. Identify specific improvement opportunities.

Establish Measurable Targets

Set explicit, time-bound representation targets (e.g., “50% women on board by 2026,” “25% underrepresented minorities in senior leadership by 2028”) with board-level accountability for achievement.

Redesign Director Recruitment

Implement diverse candidate sourcing (executive search, diverse slate requirements, professional networks), assessment criteria balancing requirements with openness to non-traditional backgrounds, and nominating committee engagement in diverse candidate evaluation.

Develop Executive Pipeline

Establish succession planning, emerging leaders programs, mentoring and sponsorship initiatives, and stretch assignments preparing diverse talent for executive roles.

Establish Accountability

Link compensation to DEI outcomes, establish board committee oversight, implement quarterly progress monitoring, and provide board-level escalation and decision authority.

Transparent Reporting

Publish board diversity disclosures, executive representation, targets, and progress in annual proxy statements and ESG reports.

Related Content:

- DEI Metrics and Measurement: Workforce Data, Pay Equity Analysis, and ESG Reporting Requirements
- Supplier Diversity Programs: Economic Inclusion, Certification, and Procurement Strategy
- DEI in ESG: The Complete Professional Guide (2026)

Frequently Asked Questions

Q: What specific business outcomes result from board diversity?

A: Research demonstrates that diverse boards make higher-quality decisions, identify risks earlier, exercise more rigorous oversight, and improve financial performance. McKinsey (2023) found companies in gender diversity top quartile outperform by 25% on profitability; ethnic diversity top quartile outperform by 36%. Diversity contributes to cognitive diversity, dissenting perspectives, and robust debate—outcomes linked to superior strategic decision-making and risk management.

Q: What are current board diversity requirements for NASDAQ-listed companies?

A: NASDAQ rules (effective 2023) require at least one female director and at least one director from an underrepresented minority or LGBTQ+. Companies must disclose board composition by gender, ethnicity, age, and LGBTQ+ status. In 2024, courts upheld NASDAQ rules against legal challenges. However, political uncertainty and state-level litigation create volatility. Organizations should anticipate rules remaining in effect through 2026 while monitoring legal developments.

Q: How should organizations design effective director recruitment processes to achieve diversity targets?

A: Best practices include: (1) Nominating committee with diverse membership advocating for diverse sourcing; (2) Executive search firms specializing in diversity recruitment holding them accountable for diverse candidate slates; (3) Clear but flexible candidate requirements avoiding unnecessary restrictions; (4) Diverse candidate slate mandates requiring 50%+ female and minority candidates; (5) Assessment criteria explicitly including diversity contributions; (6) Professional networks and emerging leaders programs developing diverse future directors.

Q: How do organizations ensure inclusive governance extends beyond board to executive leadership?

A: Board diversity without executive leadership diversity creates tokenism and limits influence. Organizations should: (1) Establish explicit C-suite representation targets (40% women, 30% underrepresented minorities by 2030); (2) Develop diverse CEO succession pipelines; (3) Implement mentoring/sponsorship programs accelerating advancement; (4) Assign executive diversity accountability to compensation committee with bonus linkage; (5) Rotate board chair/lead roles among diverse directors signaling accessibility of leadership.

Q: How should boards establish and monitor diversity accountability?

A: Assign primary accountability to nominating/governance committee, which should: (1) Establish targets and monitor quarterly progress; (2) Review director recruitment process effectiveness; (3) Link executive compensation to DEI targets; (4) Oversee transparency and public disclosure; (5) Ensure succession planning includes diversity; (6) Report to full board. Board chair should prioritize diversity in board agendas and discussions. This integration into formal governance structures ensures accountability equivalent to financial/operational metrics.

Q: What is the timeline and regulatory status of global board diversity requirements in 2026?

A: The EU Gender Directive mandates 40% women on listed company boards by 2026 (extended from 2025). NASDAQ rules remain in effect (affirmed by courts in 2024) requiring gender and ethnic diversity. California's law faced court challenges with uncertain enforcement. UK governance code encourages but doesn't mandate diversity. Australia requires disclosure. Global trend is toward mandatory board diversity; organizations should anticipate stricter requirements over next 5 years, particularly for gender and ethnic representation.

Anti-Corruption and Business Ethics: FCPA, UK Bribery Act, and ESG Governance Frameworks

Source: <https://bcesg.org/anti-corruption-business-ethics-fcpa-uk-bribery-act-esg-governance/> Published: March 18, 2026

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Anti-Corruption and Business Ethics: FCPA, UK Bribery Act, and ESG Governance Frameworks

Updated October 6, 2026.

If anti-corruption and ethics sit in your ESG governance stack, this guide connects FCPA, UK Bribery Act, and board oversight to disclosure and assurance workflows.

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Definition: Anti-corruption and business ethics governance encompasses the organizational systems, policies, and practices designed to prevent, detect, and remediate violations of anti-bribery laws (including the US Foreign Corrupt Practices Act and UK Bribery Act), conflicts of interest, fraud, and other unethical conduct. In the ESG context, this represents the “G” in governance and is increasingly material to corporate reputation, regulatory compliance, and investor confidence.

Introduction: The ESG Imperative for Ethical Governance

Anti-corruption and business ethics have evolved from compliance issues to core ESG governance matters. In 2026, investors, regulators, and stakeholders expect robust frameworks that extend beyond legal minimum standards to embrace ethical leadership and integrity. High-profile enforcement actions by the US Department of Justice, the UK Serious Fraud Office, and regulators globally demonstrate that corruption risks are material to shareholder returns and corporate sustainability.

This guide addresses the intersection of anti-corruption compliance frameworks (FCPA, UK Bribery Act, SOX) and modern ESG governance requirements, providing practical guidance for board-level oversight, risk assessment, and disclosure.

Regulatory Framework: FCPA, UK Bribery Act, and Related Laws

US Foreign Corrupt Practices Act (FCPA)

The FCPA (1977) remains the most aggressively enforced anti-corruption statute globally. Key provisions:

Anti-Bribery Provisions

- **Prohibition:** US persons and companies (and those acting on their behalf) are prohibited from offering, promising, or authorizing payments or items of value to foreign officials to obtain business advantages
- **Scope:** Applies to direct payments and “anything of value,” including gifts, travel, entertainment, and consulting fees
- **Scienter:** Violation requires knowledge or conscious avoidance (not mere negligence)
- **Penalties:** Civil penalties up to \$10,000+ per violation; criminal penalties including imprisonment (up to 5 years) and fines (up to \$2M+ per entity)

Accounting and Books/Records Provisions

- **Requirement:** Companies must maintain accurate books and records and establish internal controls reasonably designed to prevent FCPA violations
- **Scope:** Extends beyond FCPA bribes to any fraudulent or deceptive schemes affecting financial records
- **Third-Party Conduct:** Companies are liable for corrupt conduct of agents, consultants, distributors, and joint venture partners

UK Bribery Act 2010

The UK Bribery Act is often considered stricter than the FCPA. Key distinctions:

Four Offences

Offence	Definition	Penalties
General Bribery (Section 1)	Offering, promising, or giving anything of value to another person intending to influence their actions/omissions	Up to 10 years imprisonment; unlimited fines
Receiving Bribes (Section 2)	Requesting, agreeing to receive, or accepting anything of value intending to breach trust or perform functions improperly	Up to 10 years imprisonment; unlimited fines

Offence	Definition	Penalties
Bribing Foreign Officials (Section 3)	Offering, promising, or giving anything of value to foreign officials to obtain business advantage	Up to 10 years imprisonment; unlimited fines
Corporate Liability (Section 7)	Commercial organizations are liable if associated persons commit bribery in connection with business operations (regardless of benefit to organization)	Unlimited fines

Key Distinction: Section 7 Corporate Liability

The UK Bribery Act uniquely imposes strict liability on commercial organizations for bribery committed by “associated persons” (employees, agents, consultants) unless the company can prove it had “adequate procedures” to prevent bribery. This reversed burden of proof is more stringent than the FCPA.

Other Anti-Corruption Regimes

- **OECD Convention on Combating Bribery of Foreign Public Officials:** 45+ countries are signatories; provides framework for coordinated enforcement
- **UN Convention Against Corruption:** 188 signatories; requires countries to establish anti-corruption frameworks and mutual legal assistance
- **Canadian Corruption of Foreign Public Officials Act (CFPOA):** Mirrors FCPA provisions; applies to Canadian persons and entities
- **Australian Criminal Code:** Section 70.2 prohibits foreign bribery; applies to Australian corporations globally
- **Singapore Prevention of Corruption Act:** Covers both foreign and domestic corruption; stringent enforcement

Board-Level Anti-Corruption Governance

Board Oversight Responsibilities

Boards should establish clear governance structures for anti-corruption oversight:

- **Committee Assignment:** Typically Audit Committee oversees anti-corruption; alternatively, dedicated Compliance Committee or ESG Committee
- **Policy Approval:** Board-level approval of anti-corruption policies, code of conduct, and ethics framework
- **Risk Assessment:** Regular board review of corruption risk assessment, particularly for high-risk geographies and business activities
- **Investigation Oversight:** Board-level or committee oversight of significant ethics investigations and remediation
- **Performance Monitoring:** Quarterly updates on ethics hotline reports, training completion rates, and policy violations

Executive Leadership Accountability

Effective anti-corruption governance requires explicit executive accountability:

- **Chief Compliance Officer (or Chief Ethics Officer):** Dedicated executive with board access, independent reporting line, and adequate resources
- **Compliance Scorecard:** Inclusion of ethics/compliance metrics in executive performance evaluations and compensation decisions
- **Tone at the Top:** CEO and senior executives visibly champion ethical culture; consequences for ethical violations apply at all levels
- **Board Communication:** Regular direct communication between Chief Compliance Officer and board/audit committee (at least quarterly)

Anti-Corruption Compliance Program: Minimum Best Practices

Code of Conduct and Anti-Corruption Policy

Comprehensive documentation should include:

- **Gifts and Entertainment:** Clear guidance on permitted vs. prohibited gifts; threshold amounts (typically \$50-250 depending on geography)
- **Hospitality and Travel:** Standards for business meals, conference attendance, and travel arrangements
- **Facilitation Payments:** Prohibition of small payments for routine government functions (distinct from FCPA defense, but UK Bribery Act offense)
- **Political and Charitable Contributions:** Governance framework to prevent corrupt intent in political donations or charity partnerships
- **Anti-Retaliation:** Protection for whistleblowers and those who raise concerns in good faith
- **Third-Party Compliance:** Vendors, consultants, and distributors must comply with same anti-corruption standards

Risk Assessment and Due Diligence

Systematic approaches to corruption risk management:

Third-Party Due Diligence

- **Agents and Consultants:** Pre-engagement screening of consultants, distributors, and joint venture partners in high-risk jurisdictions
- **Database Screening:** Verification against government sanctions lists (OFAC, EU sanctions), PEP (Politically Exposed Person) databases, and adverse media
- **Enhanced Due Diligence:** For high-risk counterparties, on-site visits, reference checks, and background investigation of beneficial owners
- **Ongoing Monitoring:** Annual re-screening of third parties; alerts for changes in business profile or adverse events

Transaction and Activity Risk Assessment

- **High-Risk Countries:** Special scrutiny for transactions in jurisdictions with high perceived corruption (using TI Corruption Perception Index or similar)

- **High-Risk Activities:** Licensing approvals, customs clearance, permit issuance, and procurement where government discretion is involved
- **Unusual Transaction Characteristics:** Red flags include round-dollar amounts, cash payments, transactions routed through offshore entities, or unusually high fees

Training and Awareness

- **Mandatory Training:** Annual anti-corruption and business ethics training for all employees (minimum 60-90 minutes)
- **Role-Specific Training:** Enhanced training for sales, procurement, government relations, and finance roles with higher corruption risk exposure
- **Third-Party Training:** Mandatory training for agents, consultants, distributors in high-risk jurisdictions
- **Board Training:** Annual anti-corruption updates for directors covering regulatory changes and case studies
- **Certification:** Employee certification of code of conduct compliance (documenting acknowledgment and understanding)

Monitoring and Incident Response

Ethics Hotline and Reporting Mechanisms

- **Anonymous Reporting Channel:** Confidential, independently-operated ethics hotline available to all employees and third parties
- **Multiple Channels:** Complement hotline with email reporting, management escalation, and ombudsperson
- **No Retaliation Policy:** Clear non-retaliation assurances and documented protections for good-faith reporters
- **Tracking and Closure:** Systematic documentation of all reports, investigations, and remediation actions

Investigation and Remediation

- **Standardized Process:** Clear procedures for initiating investigations, gathering evidence, interviewing subjects, and documenting findings
- **Independence:** Internal investigations conducted by compliance team or external counsel; separation from business unit under investigation
- **Remediation:** Escalation procedures for substantiated violations; consequences ranging from warnings to termination
- **Board Reporting:** Quarterly updates to board/audit committee on all open investigations and substantiated violations

ESG Governance Integration: Anti-Corruption as Governance (G)

Anti-Corruption Metrics and KPIs

ESG reporting frameworks require disclosure of anti-corruption governance metrics:

- **Compliance Training Completion Rate:** % of employees who completed annual anti-corruption training (target: 95%+)
- **Third-Party Due Diligence Coverage:** % of agents/consultants/distributors subjected to pre-engagement due diligence
- **Code of Conduct Violations:** Number and category of substantiated ethics violations; discipline actions taken
- **Ethics Hotline Reports:** Number of reports received; % investigated within 30 days; resolution timeframe
- **Whistleblower Protection Cases:** Number of retaliation reports; remediation actions

Alignment with ESG Reporting Standards

GRI Standards

- **GRI 205: Anti-Corruption** (formerly GRI 205): Requires disclosure of anti-corruption policies, governance, training, and incidents
- **GRI 406: Child Labor, Forced Labor** (Social dimension): Overlap with anti-corruption; modern slavery risk assessment

ISSB Standards

- **ISSB S2 (Social Capital):** Governance and policies to prevent corruption; ethics and integrity metrics
- **Financial Impact:** Disclose material risks from corruption-related regulatory actions or reputational harm

CSRD/ESRS

- **EU Corporate Sustainability Reporting Directive:** Double materiality assessment should include anti-corruption/ethics as material topic
- **ESRS G1 (Governance):** Explicit requirements for disclosure of anti-corruption governance and business ethics

Board Competency: Anti-Corruption Expertise

Board skills assessment should include:

- At least one director with legal, compliance, or regulatory expertise
- Understanding of FCPA, UK Bribery Act, and applicable anti-corruption regimes in company's operating jurisdictions
- Knowledge of sanctions and export control regimes (OFAC, EU sanctions, denial lists)
- Familiarity with contemporary enforcement trends (DOJ, SFO, Securities and Exchange Commission)

Enforcement Trends and Case Studies

Recent High-Profile Enforcement Actions

Notable cases illustrate regulatory priorities and risk management lessons:

- **UK SFO Cases (2023-2026):** Multiple significant bribery convictions demonstrate heightened UK enforcement post-2020; international cooperation expanding
- **DOJ FCPA Enforcement:** Average penalties \$10-100M+; increased focus on individual prosecutions of executives and consultants
- **Sanctions Violations:** Overlap between FCPA and OFAC violations (e.g., dealing with sanctioned entities through intermediaries)
- **Internal Fraud/Embezzlement:** “Books and Records” enforcement extends to management fraud and embezzlement (beyond foreign bribery)

Implementation Roadmap: Building an Effective Anti-Corruption Program

Phase 1: Assessment and Strategy (Months 1-3)

- Conduct compliance risk assessment identifying high-risk geographies, business activities, and third-party relationships
- Audit current anti-corruption policies and procedures against FCPA, UK Bribery Act, and best practices
- Assess maturity of third-party due diligence processes and monitoring
- Evaluate ethics hotline and investigation capabilities
- Develop remediation roadmap and governance framework

Phase 2: Policy and Governance (Months 3-6)

- Update anti-corruption policy and code of conduct; obtain board approval
- Establish or strengthen Chief Compliance Officer role and reporting lines
- Define committee (Audit or Ethics) oversight responsibilities; establish reporting protocols
- Develop comprehensive third-party due diligence procedures and documentation standards
- Establish ethics hotline and investigation procedures

Phase 3: Capability Build (Months 6-9)

- Develop and deliver anti-corruption training program; mandatory for all employees
- Implement third-party screening system; begin pre-engagement due diligence for new relationships
- Conduct re-screening of existing third parties in high-risk jurisdictions
- Deploy ethics hotline; communicate to all employees and third parties
- Conduct internal investigation case training for compliance team and legal

Phase 4: Monitoring and Reporting (Months 9+, ongoing)

- Establish quarterly board/audit committee reporting on ethics metrics and incidents
- Develop ESG reporting disclosures aligned with GRI, ISSB, and CSRD/ESRS standards
- Conduct annual compliance risk assessment and update risk profile
- Annual refresher training for all employees; role-specific training for high-risk roles
- Periodic third-party re-screening and monitoring (at least annually)

Integration with Other Governance Frameworks

Anti-corruption governance intersects with broader ESG governance:

- Board ESG Oversight — board committee structures and fiduciary duty perspective
- Executive Compensation and ESG — linkage of compensation to ethics and compliance performance
- ISSB Implementation — governance and ethics disclosures in sustainability reporting

Frequently Asked Questions

What is the difference between FCPA and UK Bribery Act liability?

The FCPA applies to US persons and companies offering bribes to foreign officials. The UK Bribery Act is broader: it covers general bribery (any person/entity, not just officials) and imposes strict corporate liability unless the company can prove “adequate procedures” to prevent bribery. This reversed burden of proof is a key distinction. Both apply extraterritorially to companies operating globally.

Are facilitation payments allowed under the FCPA?

The FCPA includes a narrow exception for facilitation payments for routine government functions (e.g., utility connection, passport processing). However, the UK Bribery Act has no facilitation payments exception—all payments intended to influence government action are prohibited. Best practice is to prohibit facilitation payments entirely under both regimes.

What is “adequate procedures” under the UK Bribery Act Section 7?

The SFO has published guidance on adequate procedures, which should include: risk assessment, due diligence, clear policies, training, reporting/escalation, and monitoring. The procedures must be proportionate to the nature and extent of the company’s business and corruption risks. No single approach fits all companies, but the compliance program should demonstrate systematic effort to prevent bribery by associated persons.

How should boards monitor anti-corruption risks?

Boards should receive quarterly updates on: ethics hotline reports/cases, substantiated violations and disciplinary actions, third-party due diligence coverage, training completion rates, and significant investigations. The Audit Committee or Ethics Committee should oversee the Chief Compliance Officer directly and receive unfiltered reporting on material risks and incidents.

What are the consequences of FCPA or UK Bribery Act violations?

FCPA criminal penalties include imprisonment (up to 5 years) and fines (up to \$2M+ per entity). UK Bribery Act penalties include unlimited fines for organizations and up to 10 years imprisonment for individuals. Recent enforcement actions show average penalties of \$10-100M+ for large organizations. Beyond direct penalties, violations result in reputational damage, regulatory scrutiny, increased compliance obligations, and deferred prosecution agreements requiring extensive monitoring.

How is anti-corruption governance disclosed in ESG reports?

GRI 205 (Anti-Corruption) requires disclosure of policies, governance processes, due diligence, training completion rates, and substantiated corruption incidents. ISSB S2 and CSRD/ESRS require governance and

ethics disclosures. Disclose number of ethics violations, training participation, third-party due diligence coverage, and whistleblower protections. Be transparent about governance structures and board oversight mechanisms.

Conclusion

Anti-corruption and business ethics governance are now central to ESG frameworks and investor expectations. Companies must implement comprehensive compliance programs addressing FCPA and UK Bribery Act requirements, embed robust board-level oversight, and systematically manage corruption risks through due diligence, training, monitoring, and investigation. Transparency in ESG reporting, alignment with GRI and ISSB standards, and demonstrated executive accountability strengthen both compliance posture and stakeholder confidence in ethical governance.

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Executive Compensation and ESG: Linking Pay to Sustainability Targets and Performance Metrics

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Board ESG Oversight: Committee Structures, Director Competence, and Fiduciary Duty

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