Board Diversity, and ESG Integration in Light of Climate Governance

Case Study: BHP's Board Composition,*(Based on 2021 Annual Report, pp. 82–83)*

Governance lies in **Board structure , Diversity , effectiveness and Independence in:**

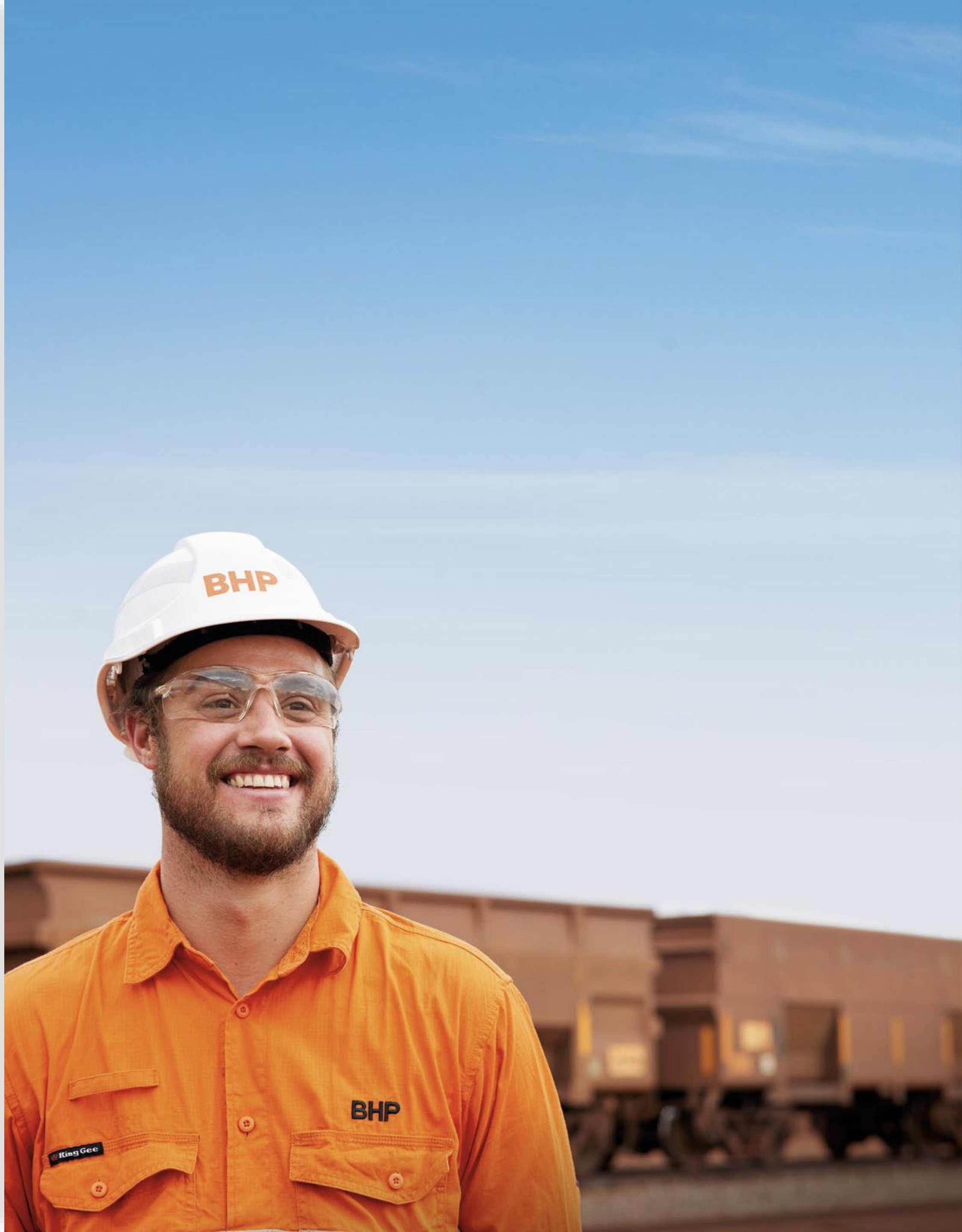
- Governance is having right people with relevant skills and experience around the boardroom
- Having right culture in the boardroom, so that everyone can contribute effectively in the boardroom debate
- BHP is annual report has disclosure on their board skill and diversity
- Board is required to meet unexpected departures of people from the court
- This case study a classic example that one skill set where the in-depth understanding of the subject is required is **climate change** and this has been highlighted specifically in this disclosure mentioned in the case study
- Directors are not expected to be scientist and don't need to be in dealing the business complexities of the issues around the climate change, so such disclosures as notified are encouraging for the other companies to follow _   Case Study
- In this Carbon Constrained world companies need judicious investment when climate change is a burning issue, so some directors should have education and training of the climate change
- Constant skill upgradation of Board : Chapter Zero -a global grouping and compassing more than 70 countries is a form of a director to help build their skills on climate change.
- Needless to mention that regular training and upgradation of skill is required.

What Diversity means here

- Many types of diversities are needed in the board to be successful
    - Diversity of thought
    - Diversity, gender, race, age, culture
    - Diversity of nationality, economic background, and experience aim is to avoid group thing in the boardroom
    - A number of markets now have Kota for female directors and most of them are moving with an expectation that at least 30% of the public company. Director should be woman. This has been deviated in many countries in the past, but what is the actual status?????

Company Overview

- **Founded**: 1885
- **Headquarters**: Melbourne, Australia
- **CEO**: Mike Henry (since January 2020)
- **Chairman**: Ken MacKenzie(Canadian)
- **Employees**: Approximately 34,000 (as of 2021)
- **Stock Listings**: Australian Securities Exchange (ASX), with secondary listings on the London Stock Exchange (LSE) and Johannesburg Stock Exchange (JSE)



Global Operations

BHP operates across several continents, with major mining and processing operations in:

•**Australia**: Iron ore in the Pilbara region, coal in Queensland and New South Wales

•**Chile**: Copper mining at Escondida and Spence mines

•**Brazil**: Joint venture in Samarco (iron ore)

•**Canada**: Potash development projects

•**United States**: Former oil and gas assets, divested in 2021IBISWorld

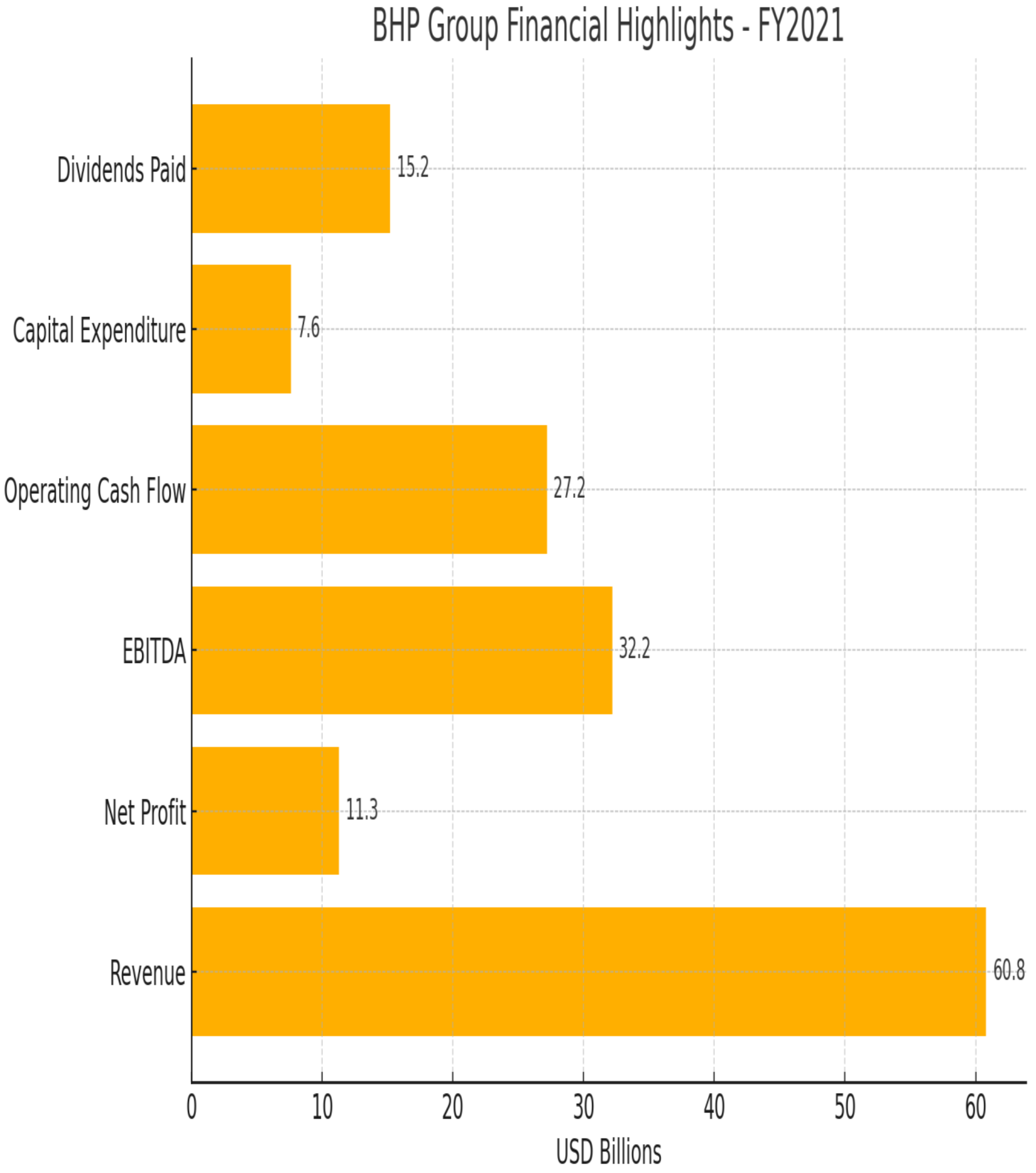
Financial Highlights (FY2021)

•**Revenue**: USD 60.8 billion

•**Net Profit**: USD 11.3 billion

•**Primary Commodities**:

- Iron Ore: 57% of revenue
- Copper: 26%
- Coal: 8%
- Oil & Gas: 6%
- Nickel and others: 3%cosely tied to global commodity prices and demand, particularly from major markets like China, which accounts for a significant portion of its revenue



Case study

BHP is Governed by a unified Board and Executive Leadership Team, BHP operates under a corporate constitution that empowers the Board with responsibility

for strategic oversight,	risk management,	sustainability performance	including issues related to climate change and ESG.

The company's governance structure emphasizes ethical conduct, long-term value creation, and transparency, aligning with global standards like the **ICGN Global Governance Principles**.

- Page 82-83 ---annual report

Extract from BHP Annual Report 2021 – Pages 82–83

2.1.7 Director Skills, Experience, and Attributes

The Board recognizes the importance of having a diverse range of skills, experience, and attributes to effectively oversee the company's strategy and operations.

The following skills matrix outlines the collective competencies of the Board:

- **Mining and Resources Industry Experience**: Extensive experience in the mining and resources sector, providing insights into industry dynamics and challenges.
- **Health, Safety, Environment, and Community (HSEC)**: Expertise in managing HSEC matters, ensuring the company upholds its commitment to sustainable and responsible operations.
- **Climate Change and Sustainability**: Knowledge and experience in addressing climate change risks and opportunities, aligning with global sustainability goals.
- **Finance and Risk Management**: Strong financial acumen and risk management capabilities to oversee the company's financial health and risk profile.
- **Governance and Regulatory**: Understanding of governance frameworks and regulatory environments to ensure compliance and ethical conduct.
- **International Business**: Experience in international markets, aiding in the navigation of global business complexities.
- **Technology and Innovation**: Insight into technological advancements and innovation strategies to drive the company's growth and efficiency.

Analysis from BHP Annual Report 2021 :Board Diversity

The Board is committed to diversity and inclusion, recognizing that a diverse Board enhances decision-making and performance. As of 30 June 2021

Gender Diversity: The Board comprises 30% women, reflecting a commitment to gender balance.

Tenure: The average tenure of Non-Executive Directors is 5.2 years, balancing fresh perspectives with continuity.

Geographical Diversity: Directors hail from various regions, bringing a global perspective to the Board's deliberations.

Independence

All Non-Executive Directors are considered independent, ensuring objective oversight and minimizing potential conflicts of interest.

Analysis from BHP Annual Report 2021:

Comprehensive Skills Matrix: The report details a skills matrix encompassing areas such as climate change, sustainability, risk management, and digital transformation. This demonstrates BHP’s commitment to aligning board competencies with strategic priorities.

Emphasis on Independence: All Non-Executive Directors are considered independent, ensuring objective oversight and decision-making.

Diversity and Inclusion: The board exhibits gender diversity, with multiple female directors, and includes members from various cultural and professional backgrounds, promoting a range of perspectives.

Tenure Distribution: While the board includes a mix of tenures, a more balanced distribution could enhance the infusion of fresh perspectives while retaining institutional knowledge.

Depth of Climate Expertise: Although climate change is identified as a key skill, the report lacks detailed information on the specific climate-related experience of individual directors. Given the significance of climate risks, more explicit disclosures would be beneficial.

Analysis continues

Investors increasingly prioritize board composition as a critical factor in assessing a company's governance quality

Relevance of Skills: Boards should possess expertise aligned with the company's strategic challenges, such as climate change, digital innovation, and geopolitical risks.

Diversity of Thought: A diverse board is better equipped to understand and respond to the needs of a broad stakeholder base, enhancing decision-making and risk oversight.

Effective Oversight: Independent directors play a vital role in challenging management, ensuring accountability, and safeguarding shareholder interests.

The International Corporate Governance Network (ICGN) underscores these points, advocating for boards to have a balance of skills, experience, and diversity to effectively oversee ESG matters.

Reference to ICGN Global Governance Principles

The **International Corporate Governance Network (ICGN)** recommends that boards:

- Possess **collective competence** in key areas including ESG;
- Have policies ensuring **diverse and inclusive composition**;
- Regularly assess board **effectiveness, skills, and tenure balance**;
- Oversee **sustainability matters** as part of fiduciary responsibility.
- BHP’s disclosure aligns with these principles by explicitly stating how their board diversity (both in demographics and skills) supports the company’s climate goals, stakeholder trust, and long-term sustainability.

What are ICGN global governance principles?

Key Principles:

Board Responsibilities: Boards should act in good faith, with due care and loyalty, to promote the company's long-term success, balancing shareholder interests with those of other stakeholders.ICGN

Leadership and Independence: Clear delineation between board and executive roles is essential, with a majority of independent directors to ensure unbiased oversight.

Composition and Appointment: Boards should comprise a diverse mix of skills, experiences, and perspectives, with transparent nomination and election processes.

Corporate Culture: Boards are responsible for fostering an ethical culture aligned with the company's values and long-term strategy.

Risk Oversight: Boards should establish robust risk management frameworks to identify, assess, and mitigate risks, including those related to ESG factors.

Remuneration: Executive compensation should align with long-term performance and shareholder interests, promoting sustainable value creation.

Reporting and Audit: Companies should provide transparent, comprehensive, and integrated reporting, including material ESG disclosures, to inform stakeholders.

General Meetings: Shareholders should have the opportunity to participate meaningfully in general meetings, with timely access to relevant information.

Shareholder Rights: Shareholders should have equitable rights and the ability to influence significant corporate decisions.

Institutional Investors: Investors are encouraged to exercise their ownership rights responsibly, engaging with companies to promote good governance and long-term value.

These principles serve as a global benchmark for corporate governance, adaptable to various legal and cultural contexts. They are intended to be applied flexibly, considering the specific circumstances of individual companies and markets. Financial Services Agen

ICGN principles bring questions about the independence of the board /individual

- If the individual in the board had been executive of the company or a subsidiary, if there was appropriate gap between the employment and joining the board
- If he has received any incentive, pay from the company or receives any additional fee to the director fee
- Its close family ties with any of the companies, advisor, directors, and senior management
- Any cross direct ships or significant links with other directors through involvement in other companies or bodies
- If he is a significant shareholder in the company, or is an officer or otherwise associated with the significant shareholder
- Director of the company for a long enough period that is independence may might have been compromised

MOTIVE- Transparent /Ethical approach

The intent of the ICGN and global principle is very similar to what we have in India

- an independent individual

It is not very different from what is being practiced in India under the domain of a Company Act 2013.

- Every year there is a procedure of giving such declaration by all independent directors or directors of the company almost in the nearly same format as has been mentioned in the ICGN irrespective of the fact the company listed or not

Theoretical Foundation: Importance of Board Diversity in Corporate Governance

- A healthy and effective board is one that brings together

a broad spectrum of skills, backgrounds, tenures, and perspectives.

Board diversity, including gender, cultural, geographical, and experiential diversity-**critical governance factor** contributing to better decision- making and risk oversight.

According to the **ICGN Global Governance Principles**, board composition should reflect a balance of skills and diversity to ensure robust governance, mitigate groupthink, and enhance accountability to stakeholders.

- **In this context, diversity is not a mere checkbox, but a key driver of resilience, innovation, and sustainability-focused leadership.**

Why Skills and Tenure Matter for ESG Oversight

Board skills in areas such as **climate science, ESG risk, regulatory frameworks, and sustainable finance** are essential for informed decision-making on climate-related issues. At BHP, this has translated into the appointment of directors with backgrounds in **environmental policy, mining sustainability, and global economics**—ensuring that climate transition risks and opportunities are assessed with rigor.

Tenure diversity is equally important. While experienced directors provide historical continuity and industry knowledge, newer members often bring fresh perspectives, emerging governance trends, and technological insights. A **staggered board tenure**, such as that seen in BHP's case, ensures a healthy rotation without abrupt loss of institutional knowledge—enhancing both adaptability and stability in ESG strategy.

Role of Independent Directors

Independent directors are essential in providing unbiased oversight and mitigating conflicts of interest. Their responsibilities include:

- **Strategic Guidance**: Contributing to the development and evaluation of corporate strategy, including ESG initiatives.AngloGold Ashanti
- **Risk Management**: Overseeing risk assessment processes, particularly concerning environmental and social risks.
- **Stakeholder Engagement**: Ensuring that the interests of all stakeholders, including shareholders, employees, and communities, are considered in board decisions.
- BHP's emphasis on board independence aligns with these principles, fostering robust governance practices.

BHP – Well Structured Board

Board members bring experience from a range of sectors, including resources, energy, finance, technology, and public policy management, and other independent advisors

This potential implication of a climate change in the P, edit its operational capacity as well as understand the nature of the debit

Their board has also taken measures to ensure the cisions are informed for the climate change, science, and expert advisers

oard is also taking input f the management and other independent advisor. In addition, rporate responsibility is also one of the measures.

Board Tenure and Diversity

Tenure: -

- 0 to 3 years- 58%
- 3 to 6 years- 33%

Region of nationality:

- Australia -42%
- Europe and UK 33%
- North America, 25%

Gender diversity

- Female 33%
- Male 67%

Diversity of gender : Global Overview vs India’s status

- **Global**

- **Board Representation**: As of 2024, women hold approximately 27.3% of board seats in large and mid-cap companies worldwide, according to MSCI's All Country World Index .MSCI+1MSCI+1
- **Regional Leaders**: Countries like France (45.5%) and the UK (43.3%) have surpassed the 30% benchmark, largely due to proactive policies and advocacy efforts .Altrata
- **Executive Roles**: Despite progress in board representation, women occupy only 6% of CEO positions globally .IFC

IN **India's Status**

- **Board Representation**: In 2024, women constitute 21% of directors in India's top 200 listed companies, up from 19% in 2023 . Across all NSE-listed firms, women hold 21% of board seats .*russellreynolds.com+1The Economic Times+1MSCI+2The Economic Times+2The Indian Express+2*
- **Regulatory Impact**: The Companies Act of 2013 mandates at least one woman director on every board, leading to 97% of NSE-listed companies complying with this requirement .The Economic Times+1russellreynolds.com+1
- **Independent Directors**: Women hold 29% of independent director roles in the top 200 companies, compared to just 11% in non-independent positions .russellreynolds.com
- **Leadership Roles**: Only 9% of board chairs in India's top 200 companies are women, indicating limited presence in top leadership positions .

Challenges and Observations

Vacancies: In 2024, 3.2% of independent director positions in NSE-listed companies were vacated mid-term, with 94% of these being resignations. Over half cited preoccupation with other commitments as the reason .russellreynolds.com

Family-Owned Businesses: The prevalence of family-controlled firms in India (approximately 85%) can limit opportunities for women in executive roles, as board positions are often filled through familial ties .The New Indian Express

Pipeline Issues: The limited number of women in senior management roles affects the pool of candidates eligible for board positions, slowing progress toward gender parity .

US boardrooms: still a white man's world?
Also in today's newsletter, a green argument for EU financial integration

Diversity of Board in India- status

Central Public Sector Enterprises (CPSEs)

- **Vacancy Rate**: Approximately **86%** of independent director positions in CPSEs are unfilled as of December 2024.
- **Number of Vacancies**: Out of around 750 sanctioned positions, about **648** are vacant.
- **Trend**: This marks a sharp increase from a 59% vacancy rate in October 2024, attributed to the expiration of many directors' terms.
- **Government Response**: Efforts are underway to expedite appointments, with administrative ministries collaborating with the Department of Public Enterprises (DPE) and the Department of Personnel & Training (DoPT) to address the shortfall.

? ***Data Sources and Monitoring Tools***

For those interested in tracking or applying for independent director positions:

- ***Primeinfobase****: Offers a daily updated list of companies lacking the required number of independent directors, aiding in identifying potential opportunities.*
- ***Independent Directors Databank****: A platform for registration and training of aspiring independent directors, providing resources and updates on vacancies.*
- ***MentorMyBoard****: Features a board placement section listing current openings for independent directors across various companies.*

Diversity of Board in India- status

Private and Listed Companies

- **Total Positions**: There are approximately **9,727** independent directorship positions across **2,596 NSE-listed companies** in India.
- **Resignations**: In the first three quarters of 2024, about **304** independent directors (3.2%) resigned prematurely.
- **Reasons for Resignation**:
  - 54% cited preoccupation with other commitments.
  - 27% mentioned personal issues.
  - 6% attributed their resignation to health or age-related concerns.
  - 2% resigned due to conflicts or disagreements with management.
- **Compliance Requirements**: SEBI mandates that listed companies must have at least one-third of their board as independent directors.

As of April 2025, precise figures on the number of vacant independent director positions in private companies in India are not publicly available. However, several indicators suggest a significant turnover and potential vacancies:

- ***Tenure Expirations****: Approximately 1,551 independent directors across 825 NSE-listed companies were expected to complete their 10-year tenures by April 1, 2024, necessitating a substantial board refresh. LinkedIn+1IiAS+1*
- ***Resignations****: In the first three quarters of 2024, about 94% of mid-term cessations of independent directors in India's top 200 NSE-listed companies were due to resignations, primarily citing preoccupation with other commitments.*