Leading for Tomorrow: Board Effectiveness and Sustainability in Emerging Markets

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Introduction

Corporate boards across the globe are wrestling with an increasingly complex array of critical issues. In recent years, sustainability has taken center stage. But pressing new matters—notably the rapid rise of generative AI (GenAI) and intensifying trade and geopolitical disruptions—have also become prominent on the agenda.

For boards in emerging markets, however, these challenges are compounded by their companies' unique circumstances: still-evolving governance practices, a higher share of ownership with a controlling interest (which comes with its own set of challenges and opportunities), and the realities of their operating environment, including a more nascent regulatory landscape.

How can boards in emerging markets more effectively navigate these challenges? This was a core question we probed for the latest edition of our report, part of a series produced jointly with Heidrick & Struggles and INSEAD, on how boards are responding to today's complex trends and disruptions. In addition to a global survey, this year's study included multiple roundtables for board members and executives held throughout the world.

Here, we present key findings and insights on emerging markets boards, highlighting the differences in attitudes and practices between them and boards throughout the rest of the world. We explore the unique characteristics and challenges of corporate governance in these regions and examine how the state of governance influences boards' ability to navigate complexity. Building on these insights, we conclude with a set of detailed questions that will help boards and management assess their current capability level and cultivate the best practices critically needed to manage sustainability and the complex array of other challenges they face.

Boards in Emerging Markets Face a Dual Set of Challenges

First, some context: of the 112 emerging markets board members who participated in our survey, 62% have over five years of experience as directors, and 18% are currently CEOs. They come from diverse industries, including banking and finance (19% of respondents) and manufacturing (26%). They also represent businesses of various sizes and structures; for instance, 48%, nearly the same percentage as the global sample, serve on the boards of publicly traded companies. However, a larger share (23%) serve on a listed company with controlling interest (compared to 12% in our global sample). (See Exhibit 1.) To capture more detailed insights, we also conducted six roundtables involving more than 70 directors in Kuala Lumpur, Jakarta, São Paulo, Nairobi, Baku, and Istanbul. (For more on the study, see the sidebar "About Our Report.")

About Our Report

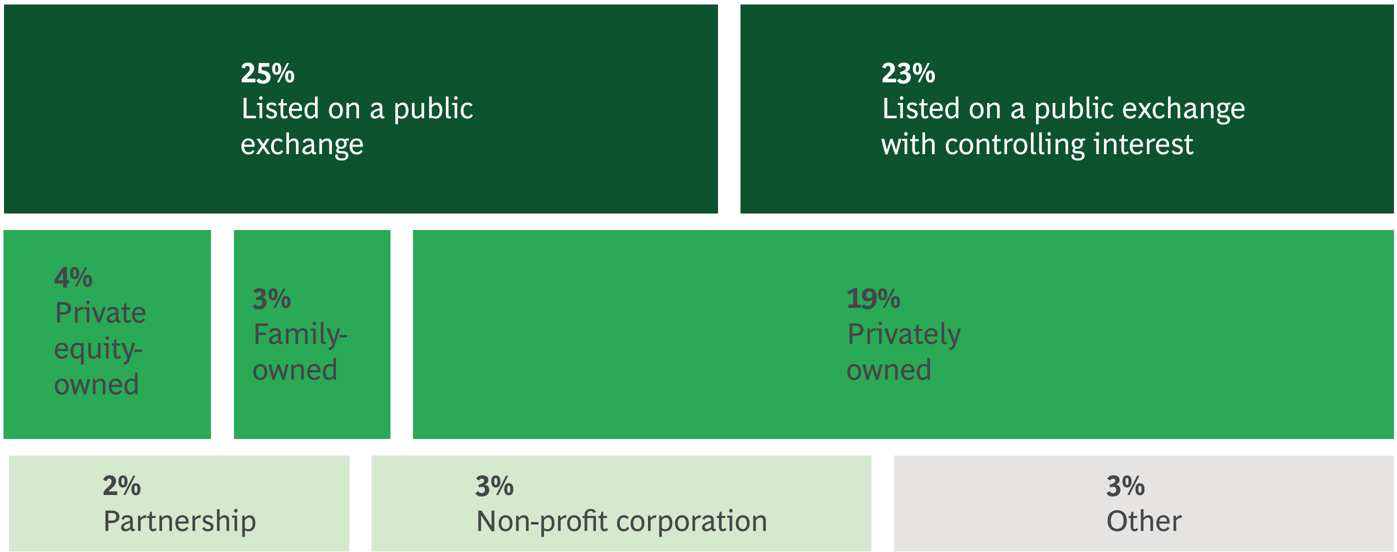
Three years ago, BCG launched an annual survey in collaboration with INSEAD and Heidrick & Struggles on how the growing emphasis on sustainability was reshaping the role of corporate directors. This year, we broadened our focus to consider how boards are adapting to the impacts of GenAI, trade shifts, and geopolitical disruptions. We also expanded our scope to include insights from developing markets, offering a more comprehensive view of how the emerging challenges are influencing boardroom dynamics in these regions.

In aggregate, respondents chiefly represented multinationals from Europe (46% of respondents), North America (22%), Asia-Pacific (21%), South America (9%), and elsewhere (2%). Of the 444 directors and executives surveyed, 112 were from emerging markets.

For our research, we also held a dozen roundtables that brought together more than 130 directors from five continents. Our survey and roundtables provided valuable insights into where boards currently stand on some of today's most pressing challenges, highlighting areas of progress as well as ongoing difficulties.

Exhibit 1: The Survey Pool Was Evenly Split between Publicly and Privately Owned Companies

Majority of companies in our sample generate less than $10 billion in revenues



Source: BCG, INSEAD, Heidrick & Struggles Board Survey, 2024; n = 112.

Through both our survey and roundtables, we learned that boards in emerging markets confront two main sets of challenges. When it comes to integrating sustainability into the core of their businesses, the obstacles they face strongly resemble those their developed market counterparts face. But the context in which they must address these challenges is markedly different. By "context," we mean more than just their internal governance and operating realities.

"Context" also encompasses the broader governance landscape, which, in many emerging markets, is still evolving, both in terms of best practices and institutional frameworks (including legislative and regulatory structures), as well as political realities. These factors further complicate the process of accounting for other external factors in business strategies, such as GenAI, trade, and geopolitical issues.

How Emerging Markets Boards Are Managing Sustainability

There is a significant gap in sustainability progress between developed market companies and those in emerging markets, according to the most recent available data from The World Bank and the Organization for Economic Co-operation and Development. On a weighted basis, developed market companies scored an average of 68 in environmental, social, and governance (ESG) performance versus a score of 48 for emerging markets companies. (See Exhibit 2.) Deeper analysis revealed that emerging markets companies exhibit lower maturity across all ESG pillars, with the "social" pillar having the biggest gap.

Exhibit 2: ESG Performance of Developed vs. Emerging Markets Companies[1]

1. Weighted ESG scores of G20 countries are calculated according to market capitalization based on 2020 figures.

Note: . Note: Developed markets include the U.S., Japan, Germany, the UK, France, Italy, Canada, South Korea, Australia, Spain, the Netherlands, Switzerland, and Singapore. Emerging markets include China, India, Russia, Brazil, Mexico, Indonesia, Turkey, Argentina, South Africa, and Saudi Arabia.

Sources: The World Bank database, OECD database, BCG analysis.

Two main factors underlie this disparity. Despite having similar challenges, developed market companies generally embarked on their sustainability journey much earlier—whether driven by societal pressures or regulatory or legislative mandates—which thus gave them more time to make progress. Their earlier start also means they had the benefit of abundant access to ESG expertise, whereas such access remains limited in emerging markets.

The performance gap is also a function of more fundamental structural differences. Companies in emerging markets often follow the sustainability frameworks and legislation created in developed economies, which may not fully reflect their local circumstances. As a director from a Brazilian investment firm noted:

> "We talk about bridging the ESG gap between emerging and developed markets as if the developed markets have all the answers. We [need to] bring our own challenges to the table."

Yet there is advantage in this apparent disadvantage. Working from more of a clean slate, emerging markets companies, with their fresh perspectives, have the ability to design innovative sustainability strategies more suited to their unique contexts. By considering global experiences alongside their own, they can create tailored approaches that address their particular circumstances and needs. In this way, they can not only accelerate their own efforts, but they can also contribute valuable insights to the broader global sustainability effort.

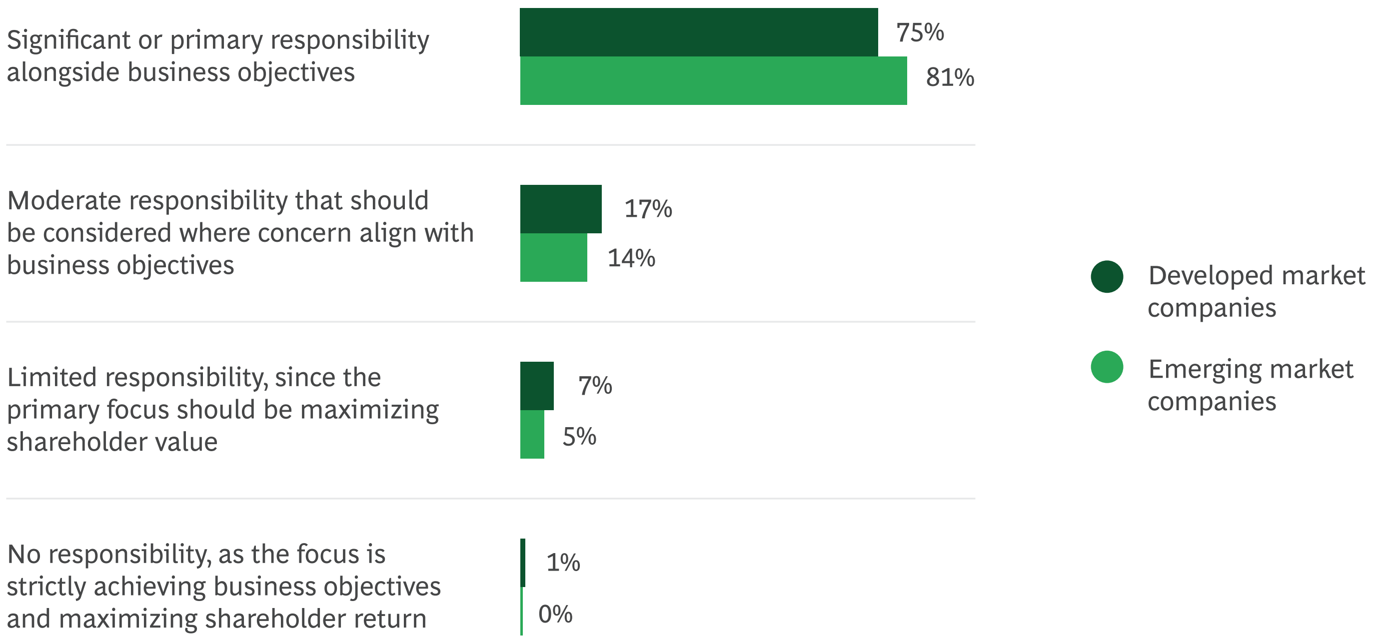
Trailing in Progress, But Leading in Commitment

Despite the formidable challenges they face in strengthening governance, boards in emerging markets clearly have the right mindset and a strong foundation for progress. Directors are as committed to tackling sustainability challenges as are their counterparts in developed markets.

In fact, while the majority in both groups recognize the board's responsibility for societal concerns, this sentiment is slightly stronger in emerging markets, where 81% of survey respondents view the board as having a primary or significant role, compared to 75% in developed markets. (See Exhibit 3.) This does not imply that they back-burner business objectives; an almost equal share of directors in each market prioritizes business goals. But it does indicate that they take a more balanced approach. Emerging markets directors are less inclined to have a "profit-only" mindset. Instead, they embrace a broader view of their role in creating long-term value for both their company and society.

Exhibit 3: Emerging Markets Companies Put Slightly More Responsibility on the Board to Address Broader Societal Concerns

When asked to describe board responsibility for addressing broader societal concerns, respondents cite it as a…



Source: BCG, INSEAD, Heidrick & Struggles Board Survey, 2024; developed market companies n = 307; emerging market companies n = 111.

Minimal Differences in Internal Challenges and Approach…

Overall, we found few substantial differences between emerging markets boards and boards in the global sample in how they approach the challenges of sustainability. Both groups regard the commitment to sustainability as essential; in fact, fewer emerging market respondents (19%) considered it a "nice to have" than the developed market sample (24%). Both emphasize the need to strengthen their companies' risk management and horizon-scanning capabilities. And both promote stakeholder engagement and advocate adopting more flexible long-term resource allocation strategies.

We did, however, uncover some material differences—differences we believe are rooted in more general corporate governance challenges, as we describe later.

Boards in emerging markets spend less time on sustainability education (29%) than the global average (49%). Importantly, though, emerging markets boards recognize the need to access critical sustainability information. And they tend to rely more on partnerships with external organizations to achieve this (31%, versus 22% in developed markets).

Our roundtable discussions revealed that with emerging markets boards, sustainability is more often treated as a separate agenda item than as an element integral to the company's overall strategy. As a result, it can be harder to articulate the business case for sustainability and demonstrate its role in driving long-term value.

As one Azerbaijani roundtable participant noted, sustainability is rarely the primary driver for action. However, when there is a strong business case, sustainability can become an added incentive.

> "There are massive uncertainties regarding returns, particularly in the short and intermediate terms,"

explained a director who serves on the board of a Southeast Asia mining company. In addition, the rise of the chief sustainability officer (CSO)—a role that has gained greater visibility in developed market companies, and one that now typically reports directly to top leadership—significantly helps prioritize sustainability. In most emerging markets, however, it's not yet common practice for the CSO to be positioned at a senior enough level to influence strategic decisions effectively.

…But Significant Differences in Operating Context

One of the most striking differences in operating context is the disproportionate impact of climate change on developing nations. Yet companies in these regions are governed by sustainability targets set by developed economies. As a director from the financial industry in Brazil (a former government official) noted,

> "We shouldn't just ask what the Amazon can do for the climate. [We should] also consider what the climate is doing to the Amazon. Right now, the Rio Negro at Manaus has dried up completely, disrupting connectivity between cities and impacting supply chains."

Beyond the disparate climate impacts are differences in institutions and market structures that further inhibit progress on sustainability, such as:

Limited access to green finance and other financing constraints. Companies in emerging markets struggle to find funding sources for sustainability initiatives. Developing regions face a funding gap for energy transition initiatives that is twice as large as that of their developed region counterparts. One reason is taxonomy: according to a 2024 World Bank report, only 10% of emerging markets have adopted green and sustainable taxonomies compared to 76% in advanced economies. These taxonomies define and classify investments and activities that support climate targets and are crucial for increasing climate-related lending. Their slow adoption in emerging markets has limited the available avenues for sustainable finance.

The impact of ESG-linked financing instruments remains modest. As one director from Istanbul pointed out "The 1% to 2% difference [from commercial loan rates] isn't particularly attractive." The obstacles to financing not only slow progress, but also exacerbate the difficulties of meeting local and international sustainability goals. Emerging markets companies can't develop at the same scale as their developed market counterparts. These financial constraints put additional pressure on boards to find alternate ways to address sustainability challenges while maintaining their companies' competitiveness.

Different sources of influence. In developed markets we have seen that employees (both existing and prospective) have had a lot to do with driving initial corporate sustainability efforts. In contrast, as a roundtable participant from Azerbaijan pointed out, regulators and investors typically provide the first push in emerging markets. However, he added, companies in these markets anticipate that sustainability will become increasingly important for attracting talent in the coming years.

A Web of different regulations. Emerging market companies that supply developed markets face an ever-expanding set of regulations that vary from region to region. Noted one director from an Southeast Asian-based company that supplies raw materials for consumer products,

> "We do everything the world asks of us, but as soon as we comply with all the rules, they move the goalposts again."

Moreover, many emerging market boards underestimate the impact of international regulations, such as the European Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CS3D), on their operations. Many of these regulations apply not only to companies based in the EU, but they also have ripple effects down the supply chain, directly affecting suppliers, regardless of their location. Either emerging markets companies underestimate the potential impact or are adopting a "wait and see" posture, which could leave them at a competitive disadvantage, especially as the regulatory landscape evolves. As a director from a Malaysian food and beverage company observed,

> "Complying early with the new regulations is a competitive advantage."

Emerging Markets and their Governance Realities

The progress that emerging market boards are making in integrating sustainability into their oversight is often hindered by general corporate governance practices, which are not adapted to handle the kind of complex challenges companies face today, as many directors have observed. This not only complicates the integration of sustainability into governance structures, but it also makes it difficult to grasp how other emerging trends—such as GenAI, trade dynamics, and geopolitical risks—will impact how companies create value, and to what extent.

Adding to the challenges of governance maturity are the gaps in institutional frameworks and legislative and regulatory structures, along with political realities that make it hard for the board to provide the comprehensive oversight necessary to sustain and grow the value of the business. This leaves companies with little external support or pressure to improve their governance standards. Without the incentive of firm regulatory oversight, companies are left to drive governance improvements on their own. This can potentially lead to a patchwork of varied approaches, as each board sets its own internal priorities rather than aligning with cohesive external standards.

Board members and executives in emerging markets clearly recognize the need for corporate governance reform. A director from a South American pharmaceutical company put it succinctly:

> "We need to retrofit corporate governance and board practices from the ground up. While no one enjoys the tedious details of rewriting board and committee charters or bylaws, it's necessary [in order] to align with today's evolving complexities."

Among our key findings on the realities of emerging market corporate governance are the following.

Not Enough Diversity and Independence

A key area where emerging market boards are seeking improvement is in their composition and diversity. In these markets, concentrated ownership structures such as family- or state-controlled entities are prevalent. And while these structures can offer organizational stability and long-term vision, they also mean that board diversity is often limited. Traditionally, boards in these regions rely on conventional professional profiles, so that in background, expertise, generation, and overall mindset, most are quite homogeneous. Remarking on his region, another director in Indonesia observed,

> "New board nominations are still mostly done by one friend calling the other."

Independent board members can lend diverse perspectives, bolstering a company's ability to adapt and remain competitive in a rapidly changing global environment. As a family member of a Turkish family-owned conglomerate noted,

> "Independent board members, especially foreign ones, really make a difference. They aren't afraid to make difficult decisions that may affect short-term profitability but are essential for long-term value creation. They should be mandatory."

Tradition Can Impede Reform

One of the key issues highlighted by roundtable participants was the entrenched nature of some emerging markets boards. Some longstanding board members are appointed based more on personal connections that on interest or expertise. Such individuals tend to be more focused on preserving the status quo than on driving meaningful change. As one board member at our Nairobi roundtable put it: “Boards should start dealing with people who don’t contribute, who are silent or who don’t show up to board meetings.”

The status-quo mindset is especially evident when it comes to board education and competence development. Despite the recognition that ongoing education is vital, our data shows that board education and skills development in emerging markets are not given the priority they are given at many developed market companies.

In fact, we saw evidence of this disparity in our roundtable participation. While many board members saw these events as valuable learning opportunities, some passed off their participation to management, implying that it was not for them.

Finally, in our roundtable discussions on the relationship between boards and management, we learned that the board-management dynamic in some emerging market companies tends to be more transactional than collaborative. Such a relationship prevents the kind of deep, candid engagement necessary for boards to fully perform their oversight function and contribute value to management and the company. A participant at our Nairobi roundtable noted that:

> “Management is mostly asking the board for blessings; they are less interested in getting questioned.”

A Manifest Desire to Invest in the Future

Despite the challenges they face, emerging market boards are taking decisive action in response to sustainability and other global trends—in many cases, more so than their developed market counterparts. Notably, more than 60% of directors in emerging markets reported that their companies are making long-term investments in new sustainability-related technologies, compared with 48% of developed market directors. Additionally, 16% of emerging market companies are pursuing mergers and acquisitions prompted by GenAI, surpassing the 10% seen in developed markets.

Regardless of the absolute monetary amount of their investments (likely smaller than in developed market companies), the decisive action of emerging markets boards highlights the growing recognition that they must move swiftly to remain competitive. Their proactive stance on other important issues such as GenAI, trade, and geopolitical disruption reflects an increasing understanding of the importance of adapting to global shifts to secure long-term success.

Moving Forward: Critical Questions

The business environment in emerging markets is evolving rapidly, and companies striving for long-term competitive advantage must embrace sustainability as a core part of their transformation. For any board in any market, steering a company effectively requires mastering the material sustainability issues that are shaping competitive advantage in its particular industry. However, as we've noted, the journey is more complex in emerging markets, because governance practices, the general operating environment, regulatory landscapes, and political realities are still evolving, and at different rates.

Nonetheless, as demanding—or daunting—as their role is today, boards that are actively engaging in governance reform find themselves in an advantageous position. By shedding outdated practices, they can develop fresh, innovative approaches to tackle the considerable challenges ahead. Amid a more nascent regulatory environment, they have the opportunity to help shape governance policy and practices. Ultimately, they are well-positioned to forge a more responsible and resilient business ecosystem, driving long-term value while contributing to the development of future-forward governance frameworks.

Directors can start by addressing key questions that help evaluate both their overall governance practices and structures, as well as the effectiveness of their sustainability oversight.

Key Questions on Governance

Board Effectiveness

- Does our board composition reflect the right mix of generations, skills, and perspectives, and include independent directors, to provide the rigor needed to navigate current and future challenges—in particular, sustainability, geopolitical disruption, and technological innovation?
- Are we committed to ongoing education for board members, ensuring they have the latest knowledge on emerging trends, regulatory changes, evolving societal demands, and best practices?
- Are we willing to assess our own effectiveness? Are individual board members ready to step aside if necessary, to allow the board to bring in fresh perspectives, more relevant expertise, and the skills essential for driving the company forward?
- Are we open to listening to external voices that can lend new perspectives and foster fresh insights?

Governance Framework

- Are our governance structures (e.g., committees, policies, charters, and bylaws) up-to-date and aligned with today's business landscape and evolving societal and regulatory requirements? Do they mesh with the company's long-term strategic goals?
- Are our governance structures and intentions clear to management, enabling them to effectively prepare for and engage with the board?

Risk and Opportunity Management

- Are we properly evaluating interconnected risks from such external factors as climate change and technological, trade and geopolitical shifts? Is our board equipped to make prompt, informed decisions to navigate these complex challenges?
- Are we governing effectively to turn the effects of climate and technological and geopolitical shifts into competitive opportunities?

Board and Management Dynamics

- Are we fostering a collaborative relationship with management that encourages open dialogue and effective oversight? Are we challenging them without overstepping their operational responsibilities?
- Have we created a safe environment that encourages management to bring forward their most pressing challenges and uncertainties without hesitation?

Policy and Influence

- Are we empowering management to drive impact beyond traditional business boundaries by engaging with industry leaders, policymakers, multilateral organizations, NGOs, and others to realize both business growth and societal well-being?

Key Questions on Sustainability

ESG Integration into Business Strategy

- Has the board approved a clear company statement of purpose? Are we confident that our actions reflect this purpose by meaningfully addressing broader societal concerns and contributing to a more responsible business ecosystem?
- Are we leveraging sustainability as an opportunity for growth, exploring innovative technologies and business models that align with sustainability goals—while building competitive advantage?
- Is the company transitioning its *corporate portfolio*, business boundaries, and asset base to support sustainability transformations in operations, customers, and the industry at large?
- Is the company's product *portfolio evolving*—i.e., enjoying a growing share of revenues and higher margins—from the sustainability segments in its markets?

Sustainability and the Board

- Have we adequately anchored sustainability into our governance structure? And have we updated our board and committee charters to reflect these priorities?
- Do we have the right sustainability expertise on the board? Are we complementing it with access to external specialists in order to effectively oversee and challenge management on its sustainability efforts?

Stakeholder Engagement

- Are we engaging with a diverse range of stakeholders—not just shareholders and customers, but also activists, NGOs, competitors, and government officials—to inform our strategies and ensure we are aligned with broader societal expectations?
- Is the company supporting the creation of *new business ecosystems* that enable sustainability solutions?

Sustainability in Risk and Opportunity Management

- Does the company know how to mitigate or solve *scarcity in critical resources*?
- Does the company have a clear view on the degree to which sustainability demands in the market will create *stranded assets*? Does it have a plan to manage that risk?
- How are sustainability implications integrated into our enterprise risk management framework? Are we considering them in our discussions of risk tolerance and business resilience?
- Are we fully aware of—and ready to meet—the requirements that EU and other international sustainability regulations will impose on us, either directly or indirectly, through the supply chain? Are we seizing the opportunities arising from these regulations?

Capital Allocation and Investment Decisions

- Are sustainability factors considered in all of the company's major capital allocation and investment decisions, thereby ensuring that our financial strategies support our long-term goals?
- Is the company creating an *innovation portfolio* and supporting ecosystems that accelerate investment in sustainability technologies, infrastructure, products, and services?

ESG Performance and Accountability

- Is the company building the necessary human capital by clearly identifying the skills and expertise required to support its long-term sustainability goals?
- Do we regularly assess the company's ESG performance and include sustainability metrics in our performance assessments, compensation models, and business planning?
- Are we transparent with our stakeholders about our sustainability progress through integrated reporting? Does the board regularly review this reporting?

Answering these questions can help directors in emerging markets understand their board's and company's current maturity level and where they need to drive greater focus and action—in sustainability as well as in corporate governance in general. By expanding and enhancing their effectiveness, boards in these markets will be prepared to help their companies build resilience that creates long-term value, both locally and globally.

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