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ESG Viewpoint: BrownFlynn

RepRisk interviews Mike Wallace, Managing Director at BrownFlynn

Brown Flynn (www.brownflynn.com / @BrownFlynn) is a Cleveland-based corporate responsibility and sustainability consultancy that helps companies and organizations incorporate sustainability into their business activities. The 20-year old firm, which in 2009 became the first US-based training partner of the Global Reporting Initiative (GRI), advises Fortune 500 and privately-held companies on topics such as sustainability strategy, reporting, and employee engagement.

Mike Wallace, who has over 20 years of experience in the sustainability field, joined the firm as Managing Director in February 2014, with the aim of developing new business opportunities across North America and forming strategic relationships with corporations, NGOs, and professional associations. Prior to BrownFlynn Mike was a Director at the GRI from 2009 to 2014, and helped re-establish GRI's North American operations. He regularly presents on the topic of sustainability, strategy and reporting and has given expert testimony to both European and US government agencies.

RepRisk: How have you seen ESG trends evolve over the last 5-10 years?

Mike Wallace: One of the biggest trends shaping the market is the increase in investor involvement, from both asset owners and managers. Various groups have been pushing the responsible investment agenda for over 40 years, but now we see investor-driven coalitions like CDP and PRI, which have thousands of signatories and trillions of dollars of investment capital behind them. These initiatives have raised awareness in a substantial way.

As these institutions have increased their membership, so has the community changed from being a small group of environmentally and socially conscientious investors, to being a more mainstream group. Large, internationally-recognized financial services firms are looking at sustainability issues across their portfolios. Simultaneously a growing number of organizations are now demanding sustainability information from their suppliers, including corporations and even government procurement offices. In today's market, every company – large, small, public and private – needs to be prepared to disclose some sustainability information.

RR: What ESG trends do you see on the horizon?

MW: Recognition of material topics is definitely of increasing importance. However, there is still quite a bit of confusion about how to define materiality in the context of sustainability. There is a wide range of non-profit organizations driving the concept of materiality into the sustainability field, but their approaches and definitions do not always align. This creates confusion in the market, and results in inconsistent disclosures across the global economy and even within individual sectors, or industries.

Demand on suppliers is also rapidly evolving and is going to be the biggest change agent in this field. One of the most interesting stories is that of Intel, who is well advanced in their own identification and reporting of material sustainability topics. Rather than survey or question suppliers discretely and privately, Intel opted to hold a supplier training with its largest suppliers. Intel, a GRI reporter, used the GRI framework and its approach to assessing materiality to train suppliers on this type of reporting and asked these suppliers to then report publicly. The training was beneficial to the suppliers, who had other customers asking similar questions. It also helped Intel and the broader market by getting sustainability information out into the public domain for a range of stakeholders to use and assess.

RR: In your view, what potential risks does a company face if it fails to consider ESG issues in its business strategy?

MW: Brand and reputational impacts are key factors for companies to consider in today's market and particularly around sustainability issues. A major controversy in a company's supply chain or at a facility, or a human rights issue in its workforce, calls into question the company's overall governance and the capabilities of the firm's senior management. Such issues raise questions about whether the company understands the complexities of today's marketplace and whether its social license to operate will remain valid over the long term. Reputation around sustainability issues can influence a company's access to capital, customers, suppliers and talent. Senior management needs to realize that effectively managing sustainability issues helps manage risks, while creating new opportunities. Reporting publicly is also a key component as it can establish trust and credibility in the market and among stakeholders.

RR: What are the main challenges that corporate responsibility or sustainability teams face within their organizations?

MW: Our experience with clients shows that one of the main challenges is in making the business case for sustainability. These activities are still seen as voluntary and "nice to have" activities in North America. Unless those responsible for sustainability initiatives find immediate return on investment for their efforts, it is a challenge to expand the program. This is why focusing on the most material sustainability issues is important. Being able to connect sustainability issues directly to the successful management of the business helps sustainability teams stay focused and successful.

The other challenge facing corporate social responsibility or sustainability teams is the plethora of different approaches and frameworks. There are numerous non-profits promoting different ways to embrace sustainability and it is confusing for a company to decide which method to choose. In addition, there is a growing area of business around rating and ranking companies on sustainability performance. Making the "good list" or staying off the "bad list" can appear to be important, but can sometimes be a distraction and a waste of resources. It is important to assess the market conditions and develop a strategy that keeps your organization focused on the most material issues.

RR: You have a lot of experience in the area of sustainability reporting, frameworks and materiality analyses. How have you seen this evolve over time – and do you see non-financial reporting becoming a requirement in the US in the near future?

MW: I worked at the GRI for roughly 5 years and think the institution offers a highly respected and credible approach to measuring, managing and reporting sustainability performance. Over the years GRI has collaborated with a range of sustainability and business organizations to integrate other reporting approaches. Fortunately GRI's most recent version, G4, helped to integrate more of these frameworks, and leading companies are being creative in how they integrate various frameworks and share these examples in their own reports.

In the context of the US government, we see change coming more on the procurement side than on the regulatory side. The public sector has a duty to its citizens, and governments are realizing they can be more impactful by requesting sustainability from suppliers than requiring it of companies through regulation. It requires significant time and money to pass and then enforce regulation, whereas highlighting sustainability through procurement policies can help incentivize innovation while continuing to support the economy. The White House Council on Environmental Quality (CEQ) is working with the General Services Administration and the Department of Defense, the largest buyer in the US government, on how to identify sustainable suppliers. In the last couple of weeks the CEQ website has published a list of the largest suppliers to the US Government together with the amount of money spent with that supplier, and information about whether the company has a greenhouse gas management plan. This is a significant step in supply chain transparency.
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RR: RepRisk and BrownFlynn began their partnership in October 2014. Why did you choose to work with RepRisk?

MW: RepRisk looks at environmental, social and governance (ESG) issues on the horizon that may pose a material risk. This is helpful in our work with corporate clients and helps our team stay abreast of the latest trends. RepRisk's ability to provide data on both public and private companies across the world is also incredibly valuable, since most other ESG tools focus only on publicly traded companies. RepRisk's research allows us to see hot spots around the globe, in industries, and in supply chains.