



Corporate governance and sustainability: Who's connecting the dots?

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Thursday, August 20, 2015 - 1:45am

Scrutiny of how companies handle sustainability governance — the “G” in [the ESG triad](#) of environmental, social and governance issues — won't be subsiding anytime soon.

While the United States tunes into presidential debates over the governance of the entire nation, governance of sustainability issues is rapidly increasing as one of the [most important business concerns](#) of our time.

More eyes around the globe are watching public and private companies, as well as public agencies, to ensure greater accountability for managing, measuring and reporting their collective ESG impacts.

Just look at the myriad stakeholders and prominent sustainability frameworks or standards focusing on the link to governance, such as the [Global Reporting Initiative](#) (GRI), [Sustainability Accounting Standards Board](#) (SASB), [International Integrated Reporting Council](#), [Dow Jones Sustainability Index](#) (DJSI) and [CDP](#).

All have heightened expectations regarding the governance and transparency of environmental and social performance over longer time horizons. Verity Chegar, a vice president of [BlackRock](#), the world's largest asset manager, reinforced this point.

“As long-term investors, we expect company leadership to plan beyond the mid-term,” Chegar said. “It's important for companies to disclose their long-term strategies and report how they manage material environmental and social risks and opportunities relating to the business.”

She added that a lack of long-term clarity on ESG issues can prove detrimental to overall growth prospects.

“Problems can occur when management doesn't clearly describe its vision, or sacrifices long-term sustainability for short-term financial or personal gain,” Chegar said.

The 'new normal'

Heightened expectations of leadership to adopt a holistic, long-term approach to managing ESG impacts is the “new normal,” said Marjella Alma, CEO and co-founder of business intelligence technology company [eRevalue](#).

“Water and energy-related issues, for example (have) become more important to managers' agendas and corporate planning in the past several years,” she said. “Companies that saw these issues emerging before they were discussed broadly and frequently are the ones who were able to react successfully, both within their businesses and to financial analysts' questions.”

So what does the “new normal” mean for companies navigating the rapidly evolving ESG landscape?

Starting at the top, this shift requires a governance model and mindset that [takes into account broader risks](#) — environmental and social impacts — as part of the company's business strategy.

“Board members and those overseeing corporate governance need to be vigilant and proactive, as we still see a growing number of events and scandals involving ESG issues, including corruption, which can translate not only into reputational risks, but also into compliance and financial risks,” said Alexandra Mihailescu Cichon, head of business development and marketing at [RepRisk](#).

Above and beyond governance issues, “broader ESG issues need to be integrated, measured and managed in a systematic and strategic way into all aspects of business,” Mihailescu Cichon explained.

Where the buck should stop

While there isn't a “one-size-fits-all” approach to sustainability governance, one key ingredient stands out among those companies taking a holistic approach to ESG —accountability at the highest level of the organization.

“Accountability is key,” [Comerica's](#) Senior Vice President and Director of Corporate Sustainability Scott Beckerman noted. “Without it, sustainability can become just another short-term corporate initiative that quickly fades into the background.”

Harkening back to the beginning Comerica's sustainability program in 2008, Beckerman said the organization always has recognized the importance of top-level support.

“Since its inception, our program has reported up to our chief financial officer, who also sits on our Sustainability Council,” he said.

At the board level, Comerica's Enterprise Risk Committee has responsibility for overseeing the bank's corporate sustainability issues and impacts, and they are regularly briefed on our emerging trends, challenges and opportunities. The bank also has several other teams and groups supporting sustainability initiatives that are responsible for meeting goals and reporting progress to the Sustainability Council. Additionally, Comerica builds sustainability criteria into individual performance plans.

At wire and cable manufacturer [Southwire](#), Rebecca Cranford, senior vice president of sustainability, safety and environmental, describes increased expectations associated with sustainability governance as “refined accountability.”

As a progressive private company, Southwire has had a Sustainability Committee of the Board for more than a decade — and there’s no doubt where the buck stops for oversight of ESG impacts, opportunities and transparency.

“Sustainability governance starts at the top — and has for many years,” Cranford said. “We have a strong internal sustainability structure and culture of accountability that cascades down throughout our company via tactical committees and groups.”

For example, Southwire’s Environmental Leadership Committee and Risk Oversight Committees meet quarterly. Working teams, such as Environment, Health and Safety, or special teams such as Conflict Minerals meet monthly and regularly report their progress.

What matters to investors?

[RobecoSAM](#), which together with the [S&P Dow Jones Indices](#) publishes the globally recognized DJSI, looks for two key factors when evaluating a company’s ESG governance performance.

“We’re interested in who within a company is responsible for sustainability issues on both a strategic and an operational level,” said Matthias Müller, a senior analyst. “We look for a specific board committee formally responsible for sustainability and/or if executive managers sit on a sustainability committee that sets the company’s corporate responsibility agenda.”

RobecoSAM also assesses whether companies apply environmental and/or social success metrics for senior management compensation or other financial indicators.

“Implementing sustainability performance into the management incentive system should assure that sustainability initiatives are managed properly,” Müller said.

He also explained that of all the companies assessed for the 2014 DJSI assessment:

- More than one-third applied some sort of social figures in their variable senior management remuneration system — primarily around health, safety and employee well-being; and
- About one-fourth applied environmental success metrics and addressed issues such as emissions, resource efficiency or environmental compliance.

BlackRock also reinforces these points through their focus on companies’ long-term performance and engagement.

"We are committed to measuring company performance against the key governance, environmental and social factors that we find support long-term, sustainable, financial performance," Chegar said, which includes "monitoring the risks that can thwart success."

Sometimes that includes pushing companies to hone their focus on these areas.

“In the cases where management teams do not make clear their long-term goals and milestones,” she said, “we engage to encourage better disclosure and the adoption of better practices to protect the economic interests of long-term shareholders, such as our clients.”

'The critical few vs. the important many'

Investors and key stakeholders [will continue pushing](#) for increased disclosure and transparency regarding ESG governance practices, as well as measuring and reporting material impacts.

Therefore, as businesses evolve their sustainability reporting in accordance with the [GRI G4 framework](#) and consider incorporating the [SASB Standards](#), how can they best identify, measure and manage their most material ESG impacts?

By undertaking a materiality assessment and engaging internal and external stakeholders as Southwire and Comerica did, companies can — as Southwire’s Cranford aptly described — “define the critical few versus the important many.”

However, Cranford is also quick to point out the ongoing challenge of remaining focused on what matters most while maintaining the quality and consistency of associated data.

BlackRock also believes companies can be most successful when they focus on the most material issues and spend less time on issues less relevant to the business.

“It requires discipline to do this well, and many companies have spent thoughtful time considering their approach,” Chegar stressed.

That discipline can pay off when it comes to the patience of investors.

“The companies that exhibit good efficiencies and operational excellence on the important issues stand out,” Chegar said. “When companies articulate a credible long-term vision and strategic direction, investors are more willing to support management through short-term negative events.”

Thinking future first

The evolution of corporate governance to seamlessly integrate environmental and social risks and opportunities into long-term business strategy — while not always easy — remains vital to building sustained value.

“As businesses look to solve the complex challenges of today’s world, they need to understand how our economic, social and environmental systems interrelate and affect one another,” Comerica’s Beckerman said. “Integrating this kind of understanding into the ways we live and do business will not only serve the best interests of people and the planet, but improve our company's business performance.”

While sustainability governance scrutiny continues, tune in more closely to your company's ESG impacts; think long-term, and focus on effectively managing, measuring and transparently disclosing ESG risks and opportunities.

In doing so, stakeholders — most especially investors — won't tune out. Rather, you'll gain stakeholder and shareholder support and value to sustain your future.