

ESG: 1 board; 3 letters; 6 steps

A new approach for effective board stewardship of long-term sustainable success.

by Ros O'Shea

Ask a board, any board: what three letters have or will appear on your agenda this year? Environment, Social and Governance (ESG), once a philanthropic “nice to have” and perhaps considered under “AOB”, is now (or should be) permeating every board agenda.

While for decades the shareholder primacy model was the accepted paradigm of corporate governance, in recent years this has been firmly displaced by a broader stakeholder capitalism approach, with a new focus on a wider set of constituents including employees, customers, suppliers, society and the environment, as well as investors and shareholders.

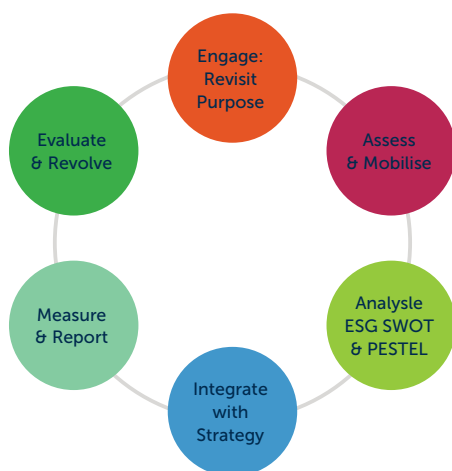
With its origins in the Global Compact “Who Cares Wins” initiative of early 2000s and its focus on the triple bottom line of “people, profit and planet”, Covid-19 has accelerated the mandate for more responsible stewardship, with an investor-led “build back better” momentum gathering pace throughout the pandemic. Accordingly, boards must now reprioritise the long-term sustainable success of their organisations and will be held to a higher bar in terms of delivering against firmly established expectations for ESG performance for a range of stakeholders.

In our experience however, board directors, while committed to embracing the principles of ESG, in practice struggle with translating elements of these perceived lofty ideals into their organisations’ core business strategies. Specifically, while boards may be reasonably comfortable with the traditional corporate governance domain of the “G”, they are less sure how to interact with the E (Environment) and S (Social) elements and so the

whole topic can become fraught and perceived as yet another governance problem to solve, as opposed to a world of opportunity to be embraced.

At Board Excellence we are pleased to outline our **Enlightened ESG Board Engagement Framework**, which may be the first truly practical and proportionate tool to help boards along their journey from a commitment to do the right thing, to the provision of the highest levels of genuine stewardship across all three ESG dimensions that underpin long-term measurable sustainable success. A six-step iterative and interactive approach, the key elements of the framework are set out below.

The Enlightened ESG Board Engagement Framework from Board Excellence



1. Engage: Revisit Purpose

The starting point is to revisit the organisation’s mission and answer a series of simple questions that help frame its ESG proposition, such as:

- Why was the organisation established?
- How is value created?
- Who are its key stakeholders?
- What do they care most about and does the business model reflect their objectives?
- How does the organisation’s activity impact society and the environment overall?

Through a guided discussion of these fundamental questions, aided by a parallel stakeholder mapping exercise, this process helps the Board to articulate a simple but compelling and authentic statement of purpose that links its ESG narrative to its very raison d’être. This overarching declaration of ESG provides essential clarity and context for the remaining steps in the process. In other words, once you have answered the why, the who, what, when, and how will all follow.

2. Assess and Mobilise

The next step involves an assessment of the “who”, or how the Board is set up to interact with ESG. It will look at board composition and diversity and oversight mechanisms and committee structures, as well as ascertaining the overall level of board engagement with the topic.

Consisting of a desktop document review, a short ESG Questionnaire for directors and interviews with selected members of the Board and executive, the Board's ESG credentials are assessed (as either "Aware," "Active" or "Advanced") to establish a baseline, from which progress can be measured, building on a collective commitment to developing the Board's ESG expertise.

The Board ESG Scaler



Recommendations may include board training, tweaking the board charter, perhaps establishing a dedicated ESG board sub-committee or could point to the need to recruit specialist board expertise in the medium term. Any and all such recommendations will be commensurate with the scale of the organisation, proportionate to its regulatory environment and relevant to its sector and strategy. Properly organised, mobilised, and resourced i.e. with the right "G" in place, the board can now meaningfully engage with and lead the way on the E and the S.

3. Analyse: ESG SWOT and PESTLE

This next step explores the "what" and involves a further facilitated discussion, employing trusted devices from the strategy toolbox, including a specially ESG-adapted SWOT analysis (Strengths, Weaknesses, Opportunities and Threats) and a PESTLE analysis (Political, Environmental, Social, Technological, Legal and Economic) to explore the organisation's principal non-financial risks and opportunities over the short, medium and long-term and through the lens of the key stakeholders identified in the earlier mapping exercise. Specifically in this part of the process:

- Pertinent ESG policy and regulatory requirements are distilled, and their impact analysed;
- Reports from research providers such as MSCI, Sustainalytics, FTSE

Russell, etc are mined for influential ratings and opinions;

- Relevant external standards frameworks are cross-referenced, including the Sustainability Accounting Standards Board, the Global Reporting Initiative, the Task Force on Climate-Related Disclosures, the Paris Agreement, the Green Deal, etc;
- The UN's Sustainable Development Goals are reviewed and those particularly germane to the organisation identified and related targets assessed for potential application;
- Emerging risks, so-called "Black Swan" events, new technologies including AI and 5G, extreme weather events, cyber breaches, transition risks (to a low carbon economy) and the Board's crisis management and stress testing protocols are reviewed and evaluated;
- Finally, the impact of the pandemic will be assessed and its consequent once-in-a-lifetime opportunity to reset the organisation examined in terms of how the organisation employs people, technology and property in the delivery of its products or services.

The outcome of this informed analysis and debate is a matrix of organisational strengths and competitive advantages to exploit potential ESG opportunities together with a summary of likely vulnerabilities and key ESG risks to mitigate. Once prioritised and fine-tuned, they form the core ESG building blocks to be aligned and integrated with the organisation's strategy, which brings us neatly to the next step.

4. Integrate with Strategy

This is the "how" part of the process which involves connecting the purpose as articulated to the strategic DNA of the organisation. Addressed via an interactive integration workshop, this determines how the ESG building blocks above can be embedded into the organisation's core strategic processes, including, for example:

- investment and resource allocation decisions
- the approach to innovation and digitalisation
- partnership and supply chain strategies
- the chosen suite of products and services
- risk management processes
- compliance and audit programmes

Critically it also requires ensuring that the organisation's stated purpose is embraced by everyone in the organisation and that the pervasive culture fosters this broad sense of ownership and engagement. This in turn requires a review of the recruitment, reward and promotion policies and practices to ensure their alignment and that compensation and incentive packages especially reflect the appropriate balance of financial as well as non-financial metrics to reward sustainable value creation over time.

5. Measure and Report

If what gets measured gets done, then what gets done should get reported. This fifth step involves substantiating that overarching story articulated in Step 1 and requires that the Board has:

- a. the right intel in the form of relevant Key Performance Indicators (KPIs), capable of being measured and communicated in a meaningful way, together with useful third party and competitor benchmarking data to measure real and relative ESG performance, focusing both on the current state and also milestones on the way to the achievement of long-term ESG goals, and
- b. the requisite information and appropriate stakeholder dialogue to meet all external reporting and compliance requirements, which will at minimum include the disclosure of material ESG risks and opportunities from a qualitative and quantitative perspective and how they inform the business strategy.

Our approach is to work with the Board to prescribe an ESG dashboard capable of satisfying both the internal



and external needs above, and to refresh these on at least an annual basis to ensure chosen metrics remain relevant, reliable and regular as well as contextual, consistent and comparable. In our experience much of the data may already exist in the organisation and any data gaps, once identified, can be addressed and closed.

The nature and timing of ESG reporting is a further consideration, as organisations have varied channels of communication for different stakeholders. These include the annual report, standalone sustainability reports, proxy statements, the corporate website, circulars, newsletter and presentations, etc. Our approach will include a set of recommendations for the board covering when, how and to whom ESG information should be provided.

6. Evaluate and Evolve

This last step completes the circle and is an important final check to

ensure that the board is continuously organised in such a way as to effectively oversee ESG and should help future-proof the board's infrastructure for the anticipated increased standards arising from the EU Corporate Governance Sustainability Initiative. Specifically, the charters for Board committees should evolve to support the board accordingly. For example:

- The Audit and Risk Committee could oversee ESG disclosures, relevant frameworks and underlying processes and controls.
- The Remuneration Committee could ensure ESG goals and metrics are appropriately incorporated into executive compensation and reward plans and check that culture is aligned with strategy and mission.
- The Nominations Committee could check board composition and succession planning to ensure ESG is maintained as a core board competency and that board

development and training designed to build expertise and fluency in this critical area of governance.

A focused evaluation comparing progress by the Board and its committee's vs the initial baseline assessment (along the 3-point scale from Aware to Advanced) provides independent assurance of the board's maturity in ESG oversight and is the final element of the Board Excellence Enlightened ESG Board Engagement Framework.

Our six-step approach is designed to help boards articulate, execute and communicate their ESG strategy so that they can motivate their staff, delight their customers, forge strong supplier relationships, satisfy regulators, attract investment, participate in a low carbon economy and make a meaningful contribution to society at large. In short, it's an enlightened approach to help an organisation to tell their story - a story to be proud of.



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- ✓ Ideally looking at fee value of €100k to €500k but will consider other amounts.
- ✓ Will consider all geographic locations within 2 hour drive of M50.

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To register interest and arrange an exploratory call.