

# Sustainability and Strategy

Corporate & Business

**Clustiv**



CLUSTIV



# Setting the Tone at the Top

---

- Implementation of SASB Standards may be more likely to succeed when a company views use of the standards as being well-aligned with its strategic objectives.
- Company leadership can facilitate such an approach by signaling its support for embedding the consideration of financially material sustainability factors into the company's strategy, business model, and corporate culture. This includes embedding consideration of financially material sustainability factors into governance, strategy, risk management, and performance management processes.
- Strong leadership buy-in should ensure that the necessary resources are made available to enable robust SASB implementation. In a world of limited resources, clear and consistent leadership support enables the effective execution of the steps in this guidance. The following questions and considerations may help a company assess—and, if necessary, establish—buy-in among the board of directors and executive leadership team.

# Questions for Boards of Directors

---

- Is the company's approach to sustainability well-aligned with its business strategy?
- Have the board and management identified the sustainability issues that are most relevant to the company's long-term financial performance?
- Is the risk committee satisfied that the company's approach to risk management incorporates business-relevant sustainability matters?
- Is the nominating committee satisfied that the board's competencies include sufficient fluency in the sustainability issues most likely to impact the company's financial condition or operating performance?
- Has the company engaged with its investors to better understand their sustainability-related areas of concern and information needs?
- Does the board or its key committees regularly review KPIs tracking the company's performance on financially material sustainability issues? Are these KPI's integrated into executive compensation plans?
- Has the audit committee reviewed the effectiveness of the company's internal control over sustainability information gathering and reporting to ensure it is comfortable with the quality and reliability of the data?

# Questions for Executive Leadership Team

---

- Is the company's approach to sustainability well-aligned with its business strategy?
- Have the board and management identified the sustainability issues that are most relevant to the company's long-term financial performance?
- Has the company identified key audiences for sustainability information, and has it developed a communication strategy to meet the needs of those audiences?
- Has the company allocated sufficient resources to ensure its sustainability reporting objectives are met?
- Who owns sustainability disclosure at the company? Is that person's work integrated with other relevant business functions?
- How does the company currently disclose financially material sustainability information to investors?
- Are business-critical sustainability matters reflected in the company's risk inventory and sufficiently assessed by the company's risk management team? Are they considered in setting the company's risk appetite?
- Does senior management regularly review KPIs tracking the company's performance on financially material sustainability issues?
- Has the company conducted a thorough review of sustainability disclosure among peer companies?
- Has the company established appropriate controls and procedures to ensure financially material sustainability information is effectively captured, summarized, and reported?

# Questions you can ask management to understand where your company stands on ESG and how to chart a path forward:

## Questions you can ask management to understand where your company stands on ESG and how to chart a path forward:



1. **Are ESG risks included in our ERM program?** What are our key ESG risks that the business faces? How are we addressing them? How do they evolve under different time horizons?



2. **Is ESG being baked into our long-term strategy?** How are we looking at ESG to innovate and effectively add value or cost savings to our business? Are ESG risks dealt with separately, or are they fully included in our overall strategy? Are we keeping an eye on what our competitors are doing?



3. **When investors want to talk about our long-term sustainable value, should we ask the sustainability or corporate responsibility team to step in?** If our corporate responsibility leader or sustainability officer has oversight of our ESG efforts, is that team working closely with finance, investor relations and risk management? Are members of those other teams fully versed on our ESG efforts? Or is it a siloed effort?



4. **Do we have the information we need to oversee our ESG strategies and risks?** Is the board getting the right metrics to monitor these risks effectively?



5. **Have we considered using a framework to assess/report ESG metrics at our company?** Have we taken a look at the SASB framework, or other available models?



6. **Can we improve the transparency of our ESG disclosures considering investors' expectations?** How can we improve our ESG disclosures and increase trust in this area? How do we benchmark against others?



7. **Are we effectively telling our ESG story to investors?** Have we included the key ESG-related risks and opportunities in our broader shareholder disclosures—rather than simply including them in a separate report? Have we clearly conveyed to investors how ESG is part of our company's strategy? Are directors who are meeting with shareholders prepared to answer those questions?

## Audience Needs

---

Even within a given audience type, variability is likely to exist. For companies seeking to communicate sustainability information to investors, different investors may have unique information needs. For example, investors' interests often vary by region, sector, and investment strategy. A company is therefore likely to benefit from considering a diversity of perspectives and specific use cases from among its key shareholders. By engaging with these investors to better understand their sustainability-related priorities, a company can more readily determine how to incorporate relevant information into its investor communications.

## A company may wish to solicit input on the following:

---

- Does the investor prefer a specific framework or combination of frameworks?
- Which sustainability topics are most important to the investor? Why?
- What associated performance metrics are most relevant to and useful for the investor's decision making?
- How frequently is the information needed or desired?
- In which reporting channel(s) would the information be most useful?
- Does the investor rely on a third-party ESG ratings agency, and if so, which one?

Engaging with investors to better understand their information needs may be particularly helpful to companies just beginning their sustainability reporting journeys. Many investors have published policy statements, proxy voting guidelines, or other ESG disclosure guidance for their portfolio companies. Such documents are a useful resource for identifying the preferences of your key shareholders.

# Do large company board establish formal board mandates sustainability?

*Most large companies state that they oversee sustainability at the board level in some way, though only a minority demonstrate robust oversight*

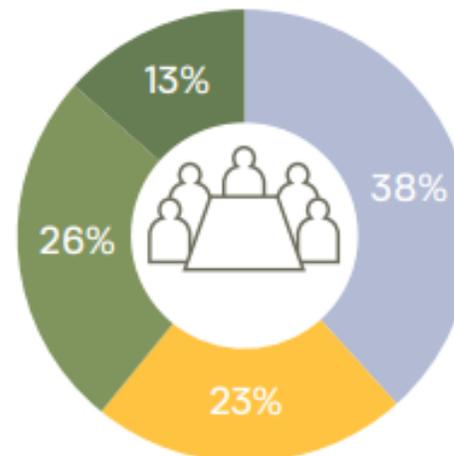


Sixty-two percent of the companies we analyzed state that they have some form of oversight of sustainability at the board level. However, only 13 percent show truly robust oversight practices, meaning there is both a formal board mandate for sustainability (either through a dedicated sustainability committee or through the inclusion of sustainability in another board committee's charter) **and** the board receives regular reports on sustainability from management. This combination of both a formal board mandate with evidence of board-management engagement is important to demonstrate that sustainability oversight exists in more than name only, and is part of board discussions.

On the other hand, 38 percent of companies still have no discernable board practices in place for sustainability oversight.

## Percentage of companies with responsibility for sustainability at the board level

- No responsibility at board level, or no disclosure of this information
- No committee with formal responsibility, but the board receives regular reports on sustainability
- Yes, has a dedicated committee for sustainability oversight or sustainability is included in the charter of another committee
- Yes, has a dedicated committee for sustainability oversight or sustainability is included in the charter of another committee, and the board receives regular management reports on sustainability



# What board governance practices are most critical to move the needle on sustainability?

While corporate boards can affect corporate sustainability performance in a number of ways, this report focuses on the following systems, which have been the focus of investor attention in recent years:



## Formal board mandates for sustainability

**What we examined:** Whether 1) boards embed sustainability oversight at the board committee level through charter incorporation and/or 2) companies disclose whether boards and management discuss sustainability during board meetings.

**Why this is important:** When sustainability issues are material to a company, making sustainability a formal and explicit board priority within a board committee charter ensures that key issues are discussed systematically and in depth. With risk oversight becoming an increasingly prominent issue for the board,<sup>10</sup> material sustainability risks must be among the key business risks that boards regularly consider. It is particularly important as such risks can potentially impact a company's profitability, success and sometimes survival.



## Board expertise for sustainability

**What we examined:** If director biographies demonstrate background in or exposure to sustainability issues.

**Why this is important:** Corporate boards with the relevant skills and experience to oversee sustainability issues will be more effective at identifying and responding to risks and opportunities. The expertise of the board should correspond to the sustainability issues that are relevant to the company.



## Executive compensation linked to sustainability

**What we examined:** If companies disclose linkages between executive compensation and sustainability priorities.

**Why this is important:** Compensation is one of the most potent levers the board can use to incentivize management to act on sustainability. By aligning executive incentives toward sustainability priorities and goals, boards are able to reward the right behavior and spur performance.

# why should boards oversee sustainability?

→ **Sustainability risks affect the world economy.** In 2018, the World Economic Forum's list of the top 10 global risks impacting countries and industries included extreme weather events, natural disasters and failure of climate-change mitigation and adaptation.

→ **Sustainability is linked to financial performance.** Wall Street research, university studies, market indices and other reports overwhelmingly show that sustainability impacts corporate financial performance. In fact, in most cases, companies that are strong performers on sustainability typically outperform their peers on a range of financial metrics.

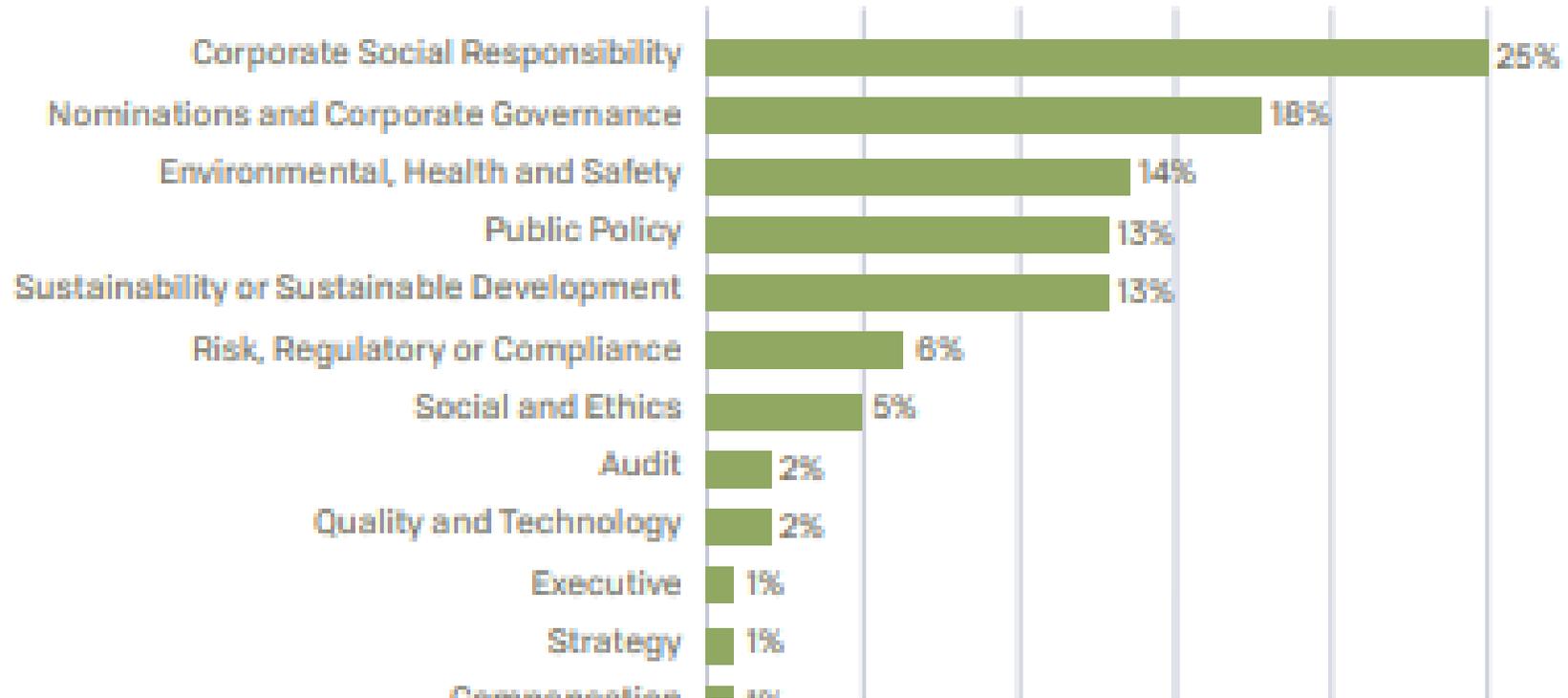
→ **Shareholders expect action on sustainability.** The world's largest institutional investors and pension funds are increasing the pressure on businesses to integrate sustainability into their corporate governance systems. In 2017, shareholders in the U.S. filed far more resolutions about environmental and social issues than in the previous year (430 compared to 360).<sup>6</sup> In 2018, Larry Fink, chief executive of BlackRock – the world's biggest institutional investor – issued a landmark letter to CEOs stating that BlackRock expects corporations to manage environmental, social and governance issues and that the role of the board is critical to achieving sustainable growth.

→ **Regulatory pressures require companies to evolve or be left behind.** Global regulators are tackling sustainability challenges by introducing more stringent requirements to address environmental and social issues. For instance, between 1997 and 2017, the number of climate change relevant laws worldwide increased by a factor of 20.8 We are seeing similar trends on regulations covering issues from biodiversity protections to human rights.

→ **Sustainability belongs on the board's agenda.** A key part of the board's fiduciary responsibility is the "duty of care" that requires directors to be adequately informed of issues that are material, or relevant, to the business prior to making decisions. Where sustainability is material, boards have a fiduciary duty to act.<sup>9</sup>

# Which board committee has responsibility for sustainability?

## Which board committee has responsibility for sustainability?



# Secure buy-in from board and executive leadership, consider the following questions to assess – and, if necessary, establish – the level of buy-in among the board of directors and executive leadership team:

## Questions for Boards of Directors

- Is the company's approach to sustainability well-aligned with its business strategy?
- Have the board and management identified the sustainability issues that are most relevant to the company's long-term financial performance?
- Is the risk committee satisfied that the company's approach to risk management incorporates business-relevant sustainability matters?
- Is the nominating committee satisfied that the board's competencies include sufficient fluency in the sustainability issues most likely to impact the company's financial condition or operating performance?
- Has the company engaged with its investors to better understand their sustainability-related areas of concern and information needs?
- Does the board or its key committees regularly review KPIs tracking the company's performance on financially material sustainability issues? Are these KPIs integrated into executive compensation plans?
- Has the audit committee reviewed the effectiveness of the company's internal control over sustainability information gathering and reporting to ensure it is comfortable with the quality and reliability of the data?

## Questions for Executive Leadership Team

- Is the company's approach to sustainability well-aligned with its business strategy?
- Have the board and management identified the sustainability issues that are most relevant to the company's long-term financial performance?
- Has the company identified key audiences for sustainability information, and has it developed a communication strategy to meet the needs of those audiences?
- Has the company allocated sufficient resources to ensure its sustainability reporting objectives are met?
- Who owns sustainability disclosure at the company? Is that person's work integrated with other relevant business functions?
- How does the company currently disclose financially material sustainability information to investors?
- Are business-critical sustainability matters reflected in the company's risk inventory and sufficiently assessed by the company's risk management team? Are they considered in setting the company's risk appetite?
- Does senior management regularly review KPIs tracking the company's performance on financially material sustainability issues?
- Has the company conducted a thorough review of sustainability disclosure among peer companies?
- Has the company established appropriate controls and procedures to ensure financially material sustainability information is effectively captured, summarized, and reported?

- Identify the person who will lead the SASB implementation effort
- Identify the skills and knowledge needed to produce high-quality disclosure
- Form a cross-functional team, or leverage an existing team
- Review available SASB resources



CLUSTIV



THANK YOU