



## Putting **ESG** at the Heart of your **Strategy**

*\*Ms. Emma Carroll*

“Climate change, sustainability and the societal impact of business are now all crucial matters for organisations. Non-executives tell Emma Carroll how they are leading on ESG in the boardroom.”

In Criticaleye's recent Research, Chairs and NEDs said ESG is now their top priority. Businesses that fail to place it at the heart of their Board agenda will increasingly find themselves out of step with their stakeholders and at a serious competitive disadvantage.

At our Non-Executive Director Forum, Resetting the Board Agenda, held in association with Tata Consultancy Services, leaders discussed how they are stepping up to this challenge.

Some organisations are better prepared than others. Tania Cabrera, Relationship Manager for Non-executive Directors at Criticaleye, said, “Boards that are clear about their purpose and use it to shape their strategy are one step ahead when it comes to ESG. That makes it easier to have more informed discussions about where each of the three elements, Environmental, Social and Governance, naturally sits.”

Given the breadth of ESG, many businesses find themselves wondering where to focus their efforts. Investors are certainly paying more attention to ESG credentials, but Elizabeth Corley, who is Chair at the Impact Investing Institute, cautioned that

they aren't all looking for the same thing: “First, you have to work out where your investors are coming from. They're not all driven by the same purpose. Some are still coming from a risk avoidance and mitigation viewpoint – the last thing they want to do is own a bond or share that is mispriced because there are external pieces of information not yet in the valuation or the credit score.”

She continued: “However, increasingly there's another subset of investors who are seeking to drive change, whether that's on an inclusion, equality and diversity agenda, rapid adoption of net zero or appropriate employment and supply chain practices.”

Stewart Gilliland, who is Chair of C&C Group, said organisations need to make sure they think widely about their stakeholders: “If you wait until it gets onto the investor agenda, I think you're missing the point, because this is high up on every single stakeholder's agenda,” he said.

Elizabeth, who is also a Non-executive Director at organisations including Pearson, BAE Systems and Morgan Stanley, agreed: “I think our definition of stakeholders is going to grow – if it's about consumers, we also know it's about future consumers. Other stakeholders are at the community or societal level.”

She also said that businesses must look internally: “I think there's going to be a real fight to secure those future employees who will drive sustainability in companies. The organisations that have the most authentic offering for these change agents are the ones that will attract them. Boards should be thinking through succession planning and skills development to identify the competencies needed in future leaders, not just past leaders.”

Steven Cooper, Chair of Experian UK, said that D&I is core to attracting the best people: “The more diverse your business is, particularly at a senior level where it tends to be less diverse, the more successful it will be.”

Steven, who is also Interim Chair of the UK Government's Social Mobility Commission, continued: “Looking at social mobility, why wouldn't you open your organisation up the widest possible talent pool for future employees?”

Robin R. Sanders is an NED at organisations including SGI (a Nigerian solar company) and VGG (an ICT business) as well as a Board Mentor for Criticaleye. She said: “We brought employees in to share their voice in a session with the Board. It's been a really useful way to have a two-way dialogue, and it's helped us in changing the way some endowments have been invested, particularly pulling out of fossil fuels and climate-change related companies.”

For those still struggling with where to start, The UN's Sustainable Development Goals (SDGs) can be a good place. Robin explained: “If you break down ESG into its stand-alone pillars of E, S & G, the themes can be easily thought of in thematic terms, synergistic with the SDGs.”

The SDGs can also be useful when deciding what data to measure and how to report, which is the challenge Chairs and NEDs voted their biggest headache when it comes to ESG, in a poll conducted at the Forum. The consensus was that rather than waiting for external standards to coalesce, businesses should work out what metrics are important to them.

“We're clear that this is absolutely fundamental to our strategy,” Stewart said. “So, we should get on with the things that are important to us and start measuring them. As the standards become recognised and available, we will then move to adopt those.”

Elizabeth said being quick off the starting line with measurement will allow you to course correct: “Work out what metrics matter to your business and start to monitor them

because then the data will improve. There's always going to be a data deficit when you start measuring something.”

These measures should be linked to individual performance targets too. Steven, who until recently was CEO of C. Hoare and Co, said: “When it became clear ESG was important to all our stakeholders at Hoare's, including colleagues and the owners of the businesses, we decided to use a number of the UN goals and put them into our own performance objectives. If you think something is that important then you should be measuring yourself against them – and that should include performance-related pay.”

An authentic ESG strategy will allow you to have better conversations with stakeholders about your short, medium and long-term plans. Elizabeth stated: “It's not a choice of financial performance or ESG performance – the two are increasingly side by side now in terms of investor expectations.” ■

**\*Ms. Emma Carroll** is Managing Editor at Criticaleye. She has a decade long experience in writing on business and finance related matters, with a focus on business performance management. Prior to joining Criticaleye she worked with CFOs and other finance professionals at ICAEW. She also ran a network for women in finance and launched an online performance management community. Emma qualified as a Chartered Accountant with PwC in 2000, before working in various business roles at Marks & Spencer and within the film production industry.

An authentic ESG strategy will allow you to have better conversations with stakeholders about your short, medium and long-term plans. Elizabeth stated: “It's not a choice of financial performance or ESG performance – the two are increasingly side by side now in terms of investor expectations.”

