

NEW EXPECTATIONS FOR CORPORATIONS, THE GREATER FOCUS ON ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE (ESG) AND THE OPPORTUNITY FOR HR

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TODAY'S AGENDA

- How we got here, What is included in ESG?
- Impact of Governmental and Regulatory Environment
- What are expectations from stakeholders today?
- The role of the “S” in ESG
- The Role of the Board in ESG
- What the best-in-class companies are doing
- How are companies measured for sustainability?

WHAT IS ESG?

ENVIRONMENT (E)



- Climate change
- Energy
- Water
- Materials
- Biodiversity
- Emissions
- Waste and pollution
- Remediation
- Supply chain

SOCIAL (S)



- Culture
- Diversity & equal opportunity
- Product / Customer health & safety
- Employee safety & well-being
- Labor / Management relations
- Human capital
- Reskilling, upskilling, education
- Community engagement
- Human rights / stakeholder rights
- Privacy & security practices
- Public policy

GOVERNANCE (G)



- Ethical business practices
- Anti-corruption
- Anti-competitive behavior
- Management approach
- Board composition
- Executive compensation
- Economic performance
- Risk management
- Procurement practices

Reference: GRI Reporting Standards <https://www.globalreporting.org>

HOW WE GOT HERE: IMPACT OF GOVERNMENTAL AND REGULATORY ENVIRONMENT

- Polarization of Political Leaders and Gridlock
- Lack of Confidence in Government
- Increase in Role, Trust, and Expectations of Corporation
- Critical questions for companies:
 - How does ESG interact with corporate positions on legislation in those areas?
 - Would you rather try to fix these problems using approaches consistent with your business strategy and culture or would you like to be told how to fix them by the government?

HOW WE GOT HERE: EVOLVING VIEWS OF THE CORPORATION

- Blackrock, State Street, Vanguard, Activists, Business Roundtable: Impact Investing: Investments made with the intention to generate positive, measurable social, and environmental impact alongside a financial return.
- Increasing recognition by regulators and investors that financial reporting fails to differentiate between companies managing for long- term sustainability from those focused on maximizing short term results with considerable forward-looking risk.
- Heightened view of risk in workforce management practices since

ROLES AND CHALLENGES: THE “S” IN ESG

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WHAT IS THE BOARD'S ROLE?

Provides Oversight:

- Full board vs Committee
- Reporting & Metrics
- Stakeholder Communication
- Disclosure of ES/Frameworks

Identifies and Mitigates Risks:

- Governances
- Emerging Risks
- Business/Enterprise Risks
 - Reputation
 - Talent Shortage
 - Corporate Performance

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WHAT ARE COMPANIES DOING TODAY?



Alignment with global business model and purpose

- Increased food security
- Alleviate hunger
- Advance sustainable agriculture
- Support hometown communities



- 2020 ESG report details approach to the most relevant ESG issues and provides data and metrics
- Work to Change the World and Sustainability plan: commitment to UN Sustainability Goals
- Use SASB and GTI Frameworks
- Highlights: People capabilities, Skilling and Up-skilling, Engagement, Wellness and Resilience post COVID, DE&I, Community Involvement, etc.
- Highlights where we are today, why it matters and what's next

Examples from HR Policy Association White Paper March 2019

WHAT ARE COMPANIES DOING TODAY?



- Engaged corporate leadership to design a unified company approach integrated into the company's business model
- Designed to be locally driven, with active employee involvement
- Move focus from “social responsibilities” to “social impact”



- Focus on environmental footprint and impact on communities served, incorporated into business strategy
- Water use, waste, energy use, destination of products after use
- Unified approach among many brands
- Focus on sustainable sourcing practices – engagement of other organizations and NGOs
- Impact on communities: health care, child care, clean water

Examples from HR Policy Association White Paper March 2019

WHAT ARE EXPECTATIONS FROM STAKEHOLDERS TODAY?



EMPLOYEES

- Safety, diversity, equity expectations
- Data security and privacy
- Connection with company purpose
- Culture of Care
 - Employee Well-being
 - Learning and development
 - Flexible work
 - Inclusion



REGULATORY & GOVERNMENT

- Net zero expectations, carbon prices
- BoD governance
- Executive pay
- Lobbying
- Renewable energy R&D focus



CUSTOMERS & COMMUNITIES

- Safe travel confidence
- Rising environmental justice focus
- Public – private partnerships
- Inequality concerns
- Community outreach and volunteering



INVESTORS

- Climate change risk focus
- SEC increasing attention; consistency
- Carbon offset markets maturing
- Company resilience and crisis management
- Employee retention
- Supply chain ethics

HOW ARE COMPANIES MEASURED FOR SUSTAINABILITY?

METRICS USED TO MEASURE CORPORATE SUSTAINABILITY

- Product Safety & Reliability
- Employee Health & Safety
- Ethical Business Practices
- Economic Performance
- Diversity & Inclusion
- Labor & Employment Relations
- Education & Training
- Greenhouse Gas Emissions
- Community Impact
- Materials Management
- Water Use
- Energy Management
- Waste Reduction
- Supply Chain Practices

PRINCIPLES & RATINGS

Global
Reporting
Initiative



Sustainability
Accounting Standards
Board



Task Force on
Climate-Related
Financial Disclosures



ISO Human
Capital Reporting
Standard



LEADING ASSESSMENT PROVIDERS



POTENTIAL SEC ACTION

- Prescriptive approach to ESG disclosures expected to be proposed Fall 2021
- Climate (which could have a comp connection), human capital metrics, and diversity and inclusion
- Potential human capital metrics
 - workforce turnover
 - skills and development training
 - compensation/benefits
 - workforce demographics including diversity
 - health and safety



QUESTION & ANSWER

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