



ESG in evolution: Moving from the *Why* to the *How*

ESG. It's become a mainstream term – not only for investment professionals conducting ESG analysis, but for corporate issuers and the public. There is substantial capital flowing into sustainable funds¹, and decisions around capital allocation are increasingly integrating ESG factors.

Additionally, as Millani's most recent Semi-Annual ESG Sentiment Study of Canadian Institutional Investors² shows, despite market volatility, 97% of investors are maintaining their approaches to ESG, and are in fact increasing their engagements with corporate issuers around ESG topics. Governance professionals can therefore play a crucial role in bringing value to the organization's Board of Directors and management teams in these engagements.

As investors and other stakeholders increase their demand for ESG information, the business case for **why** ESG is important has become understood. However, **how** businesses implement ESG into their strategies is where Governance professionals have a particular role to play.

This was the topic of discussion during "Setting the Organization up for Success on ESG Risk Oversight: Moving Beyond GHG", a session moderated by Millani's President and CEO. Milla Craig was joined by investor and governance professionals Jamie Bonham (NEI Investments), Nancy Brennan (Keyera), Hubert Lacroix (Blake, Cassels & Graydon LLP) and Annie Laurenson (Lundin Mining Corporation) during the Governance Professionals of Canada's 24th annual corporate governance conference in Kelowna, BC, in August 2022.

1. Morningstar, *Global Sustainable Fund Flows: Q2 2022 in Review*, July 2022.

2. Millani, *Semi-Annual ESG Sentiment Study of Canadian Institutional Investors*, July 2022.

The discussion highlighted **four key areas** where governance professionals can bring added value.

1. Board education

Active and regular education are a key part of advancing the Board's understanding of any issue, and ESG is no different. Regulation around disclosure of ESG risks is becoming more rigorous and investors' standards for disclosing information on topics like climate change, diversity and cybersecurity have evolved. At the same time, other stakeholders, including banks, insurers, customers, and communities have growing expectations for issuers to manage and provide information on their ESG strategies.

Providing robust education and regular updates on specific ESG topics, as well as the regulatory requirements and financial opportunities associated with ESG, is a key part of the governance professional's role.

Rather than assigning one Director to specific ESG topics, bring in third parties to ensure all Directors are on the same page and that other Directors do not depend too much on the knowledge and experience of any one particular individual. The goal is to educate all Directors, rather than center the knowledge with one person, avoiding the risk of knowledge loss and groupthink.

2. Assign oversight of ESG

Managing environmental, social and governance risks – and leveraging the opportunities – can be time and resource-heavy for the workforce and management teams. Having oversight of ESG at the Board level provides investors with confidence that there is a level of accountability for the ESG strategy, and that it is integrated into the business, rather than being a standalone initiative.

Board skills matrices can include sustainability expertise or specific environmental and social topics. Providing additional details on the level of expertise of Directors relating to ESG topics is helpful; for example, is the Director familiar with a topic at a high-level, or have they spent time managing the issue in another role?

Governance professionals can also bring best practices to the Board for consideration. For example, when it comes to structuring the Board around ESG topics, will there be a dedicated committee? Will social topics fall under a Human Resources Committee? Would the assessment and monitoring of ESG risks be assigned to the Audit Committee? Formalizing these responsibilities in Committee Charters ensures Directors and Management teams are clear on expectations, roles, and responsibilities.

3. Assess the market

Companies are familiar with comparing their performance, stock price, and compensation levels to peers. As ESG analysis is conducted by more stakeholders, companies can look to peers to understand how they are disclosing on their material ESG topics – and who they are being compared to. For example, listing peers in Management Information Circulars for compensation comparisons provides a ready-made list for analysts to compare ESG disclosures to. Consider the peer set's material ESG topics and how your organization's disclosure of those topics may compare.

4. Share the load

Implementing a robust and genuine ESG strategy can be overwhelming. Ensure you have sufficient resources around you to integrate it into the existing business. Key for governance professionals is to engage at all levels – so that you have champions amongst the Board, Management and the workforce to generate support and disseminate key messages.

During the session, it was frequently mentioned that there are experts in the market to help in the development of ESG strategies. Seek expert advice and third-party opinions to center the organization's focus on the most material issues and drive ESG into strategy.

As the ESG arena grabs hold, the governance professional has a vital role to play in helping the Board and Management move from the *why*, to strategically considering the *how*.



About Millani

Millani provides advisory services on ESG integration to both investors and companies. For the past 15 years, Millani has become the partner of choice for institutional investors. By providing advisory services on developing ESG communications, engagement and disclosure strategies and integrating material ESG issues into their investment strategies and decision-making processes, we help our clients reduce risks, increase returns, and create value. Millani is also leveraging this expertise and its experience in ESG consulting to help reporting issuers improve their ESG disclosure to financial stakeholders and optimize their market value.

For more information, contact us at: info@millani.ca
Visit our website: www.millani.ca