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Embedding Sustainability Into Corporate Governance

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Welcome



WELCOME

Good governance is much more than a set of legal formalities. It is about insisting on high-quality business practices, sound risk-management, ethics and integrity. Most importantly, it is about shifting the focus from short-term profit, to long-term business value creation.

As an investment manager and steward of client assets, we believe that understanding and encouraging best practices in corporate governance is vital to our process and success in achieving long-term value-added growth for our clients. An important element of any governance structure is how it deals with long-term operational risks and opportunities, which are increasingly labelled “sustainability” issues in modern vernacular. To that end, the Jarislowsky Fraser Partners Foundation supports leading researchers in exploring sustainability matters that will help inform discussion — and hopefully spark debate — about the ongoing journey to embed sustainability into corporate business practices and strategy, as well as increase investors’ consideration of these issues.

What is material to one business in one sector is not necessarily material to another. As outsiders, investors and other stakeholders must rely on management to proactively identify the sustainability issues that are relevant to their business. Board oversight and accountability for sustainability creates a substantive feedback loop to effectively identify, manage and report on these issues. In essence, environmental and social issues are not separate, but rather core to good governance.

We are delighted to have partnered with the Conference Board of Canada to develop this research on Embedding Sustainability into Corporate Governance, as it lays out the emerging toolkit that Boards of Directors can use to adopt best practices in sustainability governance.

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Introduction





Guest Briefing by Coro Strandberg
President of Strandberg Consulting

INTRODUCTION

Sustainability is a key responsibility for prudent boards. There is growing evidence that sustainability issues present risks and opportunities and their effective management enhances company value creation and protection¹. Sustainability megatrends such as climate change, demographic shifts, and changing consumer preferences are creating material risks and opportunities to business, including impacts within its value chains and operating context, and thus likely to affect its future performance. As such, sustainability requires the ongoing attention of boards in their fiduciary oversight of culture, strategy, risk, resource allocation, financial performance and reporting. As sustainability has moved into the boardroom, so too has the practice of sustainability governance – which is now a board issue and a director’s responsibility.

With the evolution of sustainability governance since the 2000s, there are now best practices that boards can follow to strengthen their sustainability governance and enhance long-term value creation for their companies. This briefing provides an overview of the sustainability governance field of practice, including the perspectives of investors, financial markets, governance practitioners and non-governmental organizations (NGOs). It profiles five practice areas and 15 practices that boards and their advisors can follow to enhance their sustainability oversight roles and bring value to the company, its shareholders and society.

This briefing uses the term sustainability, corporate social responsibility (CSR) and ESG (for environment, social and governance) interchangeably. For the purposes of this briefing these terms refer to a company’s management of its social and environmental risks and opportunities.

¹ See for example: “From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance”, Arabesque Partners and Oxford University, 2015.



Context



CONTEXT

In 2008, I conducted a global scan of sustainability governance for The Conference Board of Canada. The report, “*The Role of the Board of Directors in Corporate Social Responsibility*”², provided an overview of the literature and insights from thought leaders and company directors on the state of sustainability governance at the time. It recommended twelve best practices for boards of directors to embed sustainability into the governance mandate. These practices informed the creation of “*CSR Governance Guidelines for Boards*”³ in 2011, commissioned by the Government of Canada and co-authored by Canadian Business for Social Responsibility (CBSR) and the author.

Since then, best practices have continued to evolve, to the point that nearly two-thirds of Canadian boards are addressing sustainability issues by 2017, according to an informal poll conducted by Governance Professionals of Canada at its annual governance conference. They are doing so, in part, to address investor interest, according to a majority of those polled.⁴

Investor Interest

This investor interest is exemplified in the 2017 annual CEO letter to portfolio companies⁵ penned by BlackRock’s CEO, Larry Fink. BlackRock is the world’s largest investor with over US\$5 trillion in assets under management. The letter advocates for governance practices that BlackRock believes will maximize long-term value creation for its investments and warns that if its long-term interests are not considered the investment company will exercise its right to vote against incumbent directors. On the topic of sustainability Fink writes: “Environmental, social, and governance (ESG) factors relevant to a company’s business can provide essential insights into management effectiveness and thus a company’s long-term prospects. We look to see that a company is attuned to the key factors that contribute to long-term growth: sustainability of the business model and its operations, attention to external and environmental factors that could impact the company, and recognition of the company’s role as a member of the communities in which it operates. A global company needs to be local in every single one of its markets”.⁶



2 *The Role of the Board of Directors in Corporate Social Responsibility*, Strandberg for the Conference Board of Canada.
3 *CSR Governance Guidelines for Boards*, Strandberg and Baldwin.
4 Maiden, *Canadian boards tackling environmental issues, poll finds*.
5 Fink, *Annual Letter to CEOs*.
6 Fink, *Annual Letter to CEOs*.



Governance Standards

Globally and in Canada, professional governance networks are developing guidance for boards to enhance their sustainability oversight. Globally, the International Corporate Governance Network (ICGN), an international authority on good governance practices with members from over 45 markets responsible for managing assets in excess of US\$26 trillion, adopted its “*Global Governance Principles*” in 2014. Sustainability practices are referenced within Board Duties and Responsibilities, Composition and Appointment, and Risk Oversight, as follows (emphasis added)⁷:

- Duties and Responsibilities: “The board of directors should act on an informed basis and in the best long-term interests of the company with good faith, care and diligence, for the benefit of shareholders, **while having regard to relevant stakeholders**. The board of directors is accountable to investors and relevant stakeholders and responsible for protecting and generating sustainable value over the long term. In fulfilling their role effectively, board members should [...] **monitor the effectiveness of the company’s governance, environmental impacts, and social practices, and adhere to applicable laws.**”
- Composition and Appointment: “**There should be a policy on diversity** which should include measurable targets for achieving appropriate diversity within its senior management and board [...] and report on progress made in achieving such targets. Aspects of diversity include gender, nationality, and special skills required by the board.”
- Risk Oversight: “A comprehensive approach to the oversight of risk which includes all material aspects of risk should be adopted, including financial, strategic, operational, **environmental, and social risks (including political and legal ramifications of such risks)**, as well as any **reputational consequences.**”

In Canada, the Canadian Coalition of Good Governance (CCGG) includes sustainability within its guidelines for “*Building High Performance Boards*” and its “*Executive Compensation Principles*”, both of which were adopted in 2013. The CCGG is a network of institutional investors with over CDN\$3 trillion in assets, formed to promote good governance practices in the companies owned by its members. Its best practice guidelines include these sustainability references^{8,9}:

- Diversity: “A high performance board is comprised of directors with a wide variety of experiences, views and backgrounds which, to the extent practicable, reflects the gender, ethnic, cultural and other personal characteristics of the communities in which the corporations operate and sells its goods or services. **Boards should set reasonable, measurable targets for themselves to build a more diverse board.**”

7 International Corporate Governance Network, *Global Governance Principles*, 7, 11, 14.

8 Canadian Coalition of Good Governance, *Building High Performance Boards*, 16.

9 Canadian Coalition of Good Governance, *Executive Compensation Principles*, 4.



- Risk Management: “Directors need a full understanding of all of the risks facing their corporations and to provide effective risk oversight. **Reputational, environmental and other risks can significantly impact a corporation’s value in the short and long-term.** The effective oversight of all relevant types of risk is a core function of the board and a process by which every director should be actively involved.”
- Executive Compensation: “Performance should be based on key business metrics that are aligned with corporate strategy and the period during which risks are being assumed. [...] Examples of metrics used in performance-based compensation plans include [...] **non-financial measures appropriate to the company, such as Environmental, Social and Governance measures, corporate sustainability measures or other specific non-financial strategic measures.**”

Notably, CCGG has an Environment and Social Committee, created to develop best practice governance guidance on environment and social risk matters. One of its tasks includes “developing guidelines for boards on their oversight of E&S [environmental and social] factors, such as evaluating the materiality of E&S risks and ensuring proper controls are in place to mitigate and manage those risks.”¹⁰

Another sustainability governance milestone is the 2017 voluntary framework for companies to disclose the financial impact of climate change recommended by a global task force set up by the G20. In its 2017 recommendations, the Task Force on Climate-Related Financial Disclosures (TCFD) advocated for more explicit board oversight and disclosure of climate-related risks and opportunities. While the voluntary framework is directed at the topic of climate change, its advice can be generalized to other social and environmental risks that are equally material to a company’s current and future performance, and in some cases may be exacerbated as a result of climate change. These climate change oversight and disclosure recommendations are a sign of future expectations to be placed on boards:

“In describing the board’s oversight of climate-related issues, organizations should [disclose] the following:

- Processes and frequency by which the board and/or board committees (e.g., audit, risk, or other committees) are informed about climate-related issues;
- Whether the board and/or board committees consider climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans as well as setting the organization’s performance objectives, monitoring implementation and performance, and overseeing major capital expenditures, acquisitions, and divestitures; and

10 Canadian Coalition of Good Governance, *Environment and Social Committee Terms of Reference*.



- How the board monitors and oversees progress against goals and targets for addressing climate-related issues.”¹¹

Investors and financial markets are looking for greater board oversight and disclosure of sustainability, as these guidance excerpts show. This is driving interest on the part of governance professionals and corporate secretaries who advise boards, to understand and enhance best governance practices. For example, in 2016, the Governance Professionals of Canada (GPC) launched a new governance award, “*Best Practices in Sustainability and ESG Governance*”, defining sustainable governance in this way:

“Sustainable governance considers not only the board’s role in ensuring the long-term and enduring success of the company but also includes the steps the board takes to ensure it performs an effective oversight function of the organization’s social and environmental performance. This [award] considers the board’s responsibilities for the company’s sustainability policies and strategies as well as the board’s role in designing processes that effectively address its own sustainability. Other factors considered include approaches to environmental, social and governance issues and risks faced by the organization and the board’s role in their review. Entrants in this [award] category will be judged on the board processes in place that instill and support a culture of sustainability across the organization and that demonstrate effective board oversight of sustainability.”¹²

The criteria used to evaluate companies that qualify for this award give insight into best practices in sustainability governance, as defined by the GPC:

- “Describe how sustainability is reflected in the corporate strategy. What is the board’s policy on sustainability and how often is it reviewed? Describe how sustainability issues are integrated into the company’s enterprise risk management program, the frequency with which sustainability is a board agenda item and the breadth and depth of the discussions that ensue.
- How is sustainability reflected in the board and director education, evaluation, recruitment, selection and orientation processes?
- How does the board oversee sustainability? How does the board disclose details on the sustainability issues facing the company and the board oversight of these issues?
- Describe how the board assesses management’s performance on their sustainability objectives. How often does this assessment occur? Does the compensation program include specific sustainability objectives and targets? If not, how does the board incorporate achievement of specific sustainability goals and objectives in their compensation decisions?”¹³

11 Task Force on Climate-Related Financial Disclosures, *Recommendations*, 19.

12 Governance Professionals of Canada, *Excellence in Governance Awards*

13 Governance Professionals of Canada, *Excellence in Governance Awards*



Additionally, “CSR, Sustainability and ESG and the Role of the Board” is a new session in GPC’s Strategic Governance Module within its updated certification program for governance professionals. As corporate secretaries, chief legal and financial officers, general counsel, and other board advisors are exposed to these ideas, best practices will be further driven into the boardroom.

Canadian expert on corporate governance and accountability, Richard LeBlanc, edited and published a comprehensive best practices guide on board governance in 2016. The handbook includes a chapter on “Governance of Sustainability: Board’s Changing Roles”, which provides a summary of the Board’s sustainability responsibilities, including board oversight of sustainability including the entire value chain, product life-cycle and company jurisdictions, board sustainability expertise, board processes for identification of sustainability risks and opportunities, internal controls, monitoring, and self-evaluation, relevant information flow to the board, leadership commitment, sustainability performance metrics linked to remuneration, and ESG disclosure to all stakeholders.¹⁴

Sustainability-oriented non-profit organizations (NGOs) are also embracing the sustainable board agenda. New York-based Ceres, for example, has a mission to transform the economy to build a sustainable future for people and the planet. Its “2020 Roadmap for Corporate Sustainability” includes a call to action for corporate boards to provide formal oversight for corporate sustainability strategy and long-term performance and to integrate sustainability considerations into board discussions on strategy, risk and revenue.¹⁵ In 2015, the organization published its guidelines on how boards can engage on sustainability performance¹⁶ and in 2017 it published recommendations to boards to build their sustainability competence.¹⁷

Additionally, CCSR included “Sustainability Governance and Culture” in its Qualities of a Transformational Company, published in 2015.¹⁸ This, too, signaled the imperative of boards setting the tone at the top to accelerate the transition to a sustainable future in which the company and society thrive.

Over the past five years, investors, capital markets, governance professionals and NGOs have formalized their expectations of boards by providing enhanced stewardship of the sustainability performance of their companies. All signs are that this trend is predicted to grow.

14 Arguden, *Responsible Boards for a Sustainable Future*, 599 – 658.

15 Ceres, *Governance for Sustainability*.

16 Ramani, *View from the Top: How Corporate Boards Can Engage on Sustainability Performance*.

17 Ramani, *Lead from the Top: Building Sustainability Competence on Corporate Boards*.

18 Strandberg and Canadian Business for Social Responsibility, *Qualities of a Transformational Company*.

Case
Study:
A Board's
Sustainability
Governance
Journey



CASE STUDY: A BOARD'S SUSTAINABILITY GOVERNANCE JOURNEY

CASE STUDY

This is a summary of The Co-operators' ten-year sustainability governance journey.¹⁹ The Co-operators Group Limited is a Canadian multi-line insurance and financial services organization providing property and casualty insurance, life insurance and institutional investments. It has nearly 5,000 employees.

In 2007, The Co-operators Board of Directors adopted an enterprise-wide sustainability policy and changed the organization's vision to include a commitment to be a catalyst for a sustainable society. It established an ad hoc committee of the Board to provide oversight as the organization developed its sustainability approach.

In 2010, the Board approved the organization's first sustainability strategy, including a goal that the Board become "a recognized leader in sustainability governance." With these steps, the Board signaled its commitment, setting the tone at the top. The Board has since elevated its Sustainability and Citizenship Committee from an ad hoc to a standing committee with an enduring governance role.

Today, sustainability is embedded in all key board governance mandates such as strategy, risk, investments, nominations, education and compensation. The Board's compensation philosophy includes a requirement that senior management are incentivized for sustainability performance along with financial performance. The CEO and all EVPs, SVPs and VPs have at least one bonus-able goal related to sustainability, tied to the corporate scorecard and corporate strategy deliverables.

The Board has set a goal for itself that it demonstrates – and periodically educates itself on – best practices in its approach to sustainability governance. As a result of this leadership, ten sustainability products have been launched since 2008, including insurance discounts for green vehicles, wind insurance and car-share insurance coverage, green building incentives and socially responsible investment options.

Ninety-three per cent of employees agree that The Co-operators is a socially and environmentally responsible organization. The voluntary turnover rate in 2016 was 3.3% - well below the industry benchmark of 7.0%. The Co-operators Board received the Governance Professionals of Canada award for Best Practices in Sustainability Governance in 2016.

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Best Practices in Sustainability Governance



BEST PRACTICES IN SUSTAINABILITY GOVERNANCE

Increasingly, investors, financial markets, regulators, NGOs, and corporate governance professionals are looking to boards to enhance their oversight and stewardship of corporate sustainability performance. Increasingly, boards are responding. The following five good practices focus on major board practices to address sustainability. Boards can reflect on them to ensure sustainability issues are appropriately embedded in the organization.

These guidelines will help investors assess and engage with their portfolio companies and peers to enhance corporate sustainability oversight and improve portfolio returns. Governance and sustainability professionals can reference these practices to build out their board’s sustainability roadmap; NGOs can use these practices to inform their advocacy for a sustainable economy; and company directors can use these as a resource to engage their boards and governance committees on best sustainability governance practices.

There are five main components of best practice in sustainability governance for company boards and directors, as summarized in Table 1. They correspond to key board and director roles in strategy creation and setting the tone at the top, oversight and performance accountability, risk management and decision-making, board renewal, and disclosure and shareholder relations.

Table 1. Sustainability Governance Best Practices

Board Responsibility	Board ESG Practice
1. Strategy and Culture	The board ensures material ESG risks and opportunities are addressed by the company’s strategy and that sustainability is integrated in the culture.
2. Oversight and CEO Relations	The board establishes a governance structure to enable oversight of the company’s management of ESG issues, risks and opportunities and includes ESG in CEO relations.
3. Risk Management and Major Decisions	The board ensures ESG-related risks and opportunities are integrated into the company’s management of enterprise risk and major corporate decisions.
4. Board Composition and Competency	The board builds ESG into board renewal, education and evaluation systems.
5. Disclosure and Shareholder Relations	The board provides oversight of the company’s disclosure of its ESG performance and position and ensures shareholders have appropriate ESG information.

Source: Strandberg Consulting





While sustainability governance is ultimately a responsibility of the whole board, specific activities may be delegated to committees as deemed appropriate. Thus, references to ‘the board’ may pertain to a designated board committee. Additionally, as it is the board’s role to review, advise or approve, and it is the executive’s job to manage, many of the following activities speak to the board’s role reviewing management practices. Here follows an overview of the main sustainability governance practices within each of these areas of board responsibility²⁰, supplemented by three top keystone ESG Governance Practices.²¹

Board Responsibility 1. Strategy and Culture: The board ensures material ESG risks and opportunities are addressed by the company’s strategy and that sustainability is integrated in the culture.

Boards and management set the sustainability tone at the top, and need to demonstrate their commitment to sustainability internally to employees and externally to shareholders and other stakeholders. They do this through embedding it into the company purpose, vision and mission and infusing it in board culture. Critically, boards need to agree with management’s assessment of the material sustainability issues (risks and opportunities) that will affect the future performance of the company and ensure they are appropriately addressed in the corporate strategy and business plan.

Keystone ESG Governance Practices:

- a. **Company Mission:** The board ensures management incorporates ESG in the organization’s purpose, mission, vision, values and corporate code of conduct.
- b. **Board Culture:** The board and management agree on and communicate an explicit ESG commitment. Board sets the ‘tone at the top’ to encourage ESG in the corporate culture.
- c. **Corporate Strategy:** The board and management agree on the material ESG issues. The board ensures management addresses the material ESG issues in the corporate strategy and business plan.

20 The board responsibilities are informed by the ESG governance resources listed in the Bibliography

21 The three top keystone ESG Governance Practices are drawn from *Sustainability Governance Assessment: A Roadmap to Build a Sustainable Board*, Strandberg Consulting.



Board Responsibility 2. Oversight and CEO Relations: The board establishes a governance structure to enable oversight of the company's management of ESG issues, risks and opportunities and includes ESG in CEO relations.

It is important for boards to have ongoing oversight of pertinent ESG topics, not just annually, to keep up with new requirements, trends and developments, and to assess the company's performance against the ESG goals of the corporate strategy. To discharge their oversight responsibilities, best practice boards incorporate sustainability responsibilities into standing committees such as Audit, Risk, Nominations, Governance and Compensation. Some boards, especially those early into, or in the middle of, their sustainability journeys, establish sustainability committees to provide regular oversight of ESG priorities and performance.

Leading boards ensure senior leaders demonstrate appropriate ESG competency and alignment, by building ESG into the CEO mandate and annual performance plan, succession plan and company competency model. Through compensation committees, Boards ensure compensation is linked to ESG performance.

Keystone ESG Governance Practices:

- a. **Board Committees:** The board incorporates relevant ESG responsibilities within its standing committees or a designated committee. The committee(s) have the requisite ESG skills and knowledge. The board periodically assesses the division of responsibilities for its ESG oversight to ensure committee activities are appropriately aligned, with no gaps or overlapping duties.
- b. **CEO Mandate:** The board ensures the CEO position profile and annual performance plan incorporate ESG, and includes ESG in executive performance evaluation. The board includes ESG factors in CEO and executive succession planning, leadership development and company competency models. ESG competence is included as a key factor in executive search.
- c. **Compensation:** The board ensures CEO and management compensation is linked to performance on both short- and long-term ESG goals and targets by including ESG metrics in both annual and long-term incentive plans. The company's pay philosophy and policy address ESG compensation. The Compensation Committee ensures fair compensation practices such as CEO-employee pay fairness, fair/living wages and pay equity are followed in the organization.

Board Responsibility 3: Risk Management and Major Decisions: The board ensures ESG-related risks and opportunities are integrated into the company's management of enterprise risk and major corporate decisions.

A key role for boards is to provide oversight of management's approach to identifying and managing risks. Sustainability has emerged as another type of risk to be managed. Boards need to be satisfied that appropriate processes are in place to ensure management has properly identified and is managing material ESG risks. This also holds true for ESG opportunities. Best practices thus include the board ensuring management appropriately includes ESG-related risks within the company's approach to enterprise risk management and that the corporate strategy addresses them properly, while also capitalizing on innovative ESG opportunities.

Finally, and importantly, sustainability best practices include the board considering ESG impacts, issues, risks, and opportunities when reviewing and approving corporate strategies, major plans and investments, capital expenditures, mergers and acquisitions and divestitures. ESG needs to be embedded in strategy, investment and innovation decision-making.

Keystone ESG Governance Practices:

- a. **ERM Integration:** The board ensures management appropriately includes ESG-related risks within the enterprise risk management system and that ESG risk and corporate strategy are aligned. The board ensures management does not ignore business risks because they are considered unlikely, long-term or uncertain. The board assesses management's approach to scenario analysis and the assumptions management has used to inform short-, medium- and long-term ESG risk and opportunity analysis.
- b. **Opportunity Capture:** The board ensures the corporate strategy identifies and capitalizes on ESG-enabled revenue streams — reinforced by enhanced brand value and stakeholder reputation — and expense savings.
- c. **Decisions:** The board considers ESG impacts, issues, risks, and opportunities when reviewing, guiding and approving corporate strategies, major plans of action, annual budgets and business plans and overseeing major capital expenditures, and merger and acquisition (M&A), and divestiture plans.



Board Responsibility 4: Board Composition and Competency: The board builds ESG into board renewal, education and evaluation systems.

To effectively carry out their oversight role, boards need a diverse mix of skills and experience, including directors with ESG skills, expertise and knowledge, and a range of backgrounds that reflect the cultural, gender, age, nationality and geographic diversity of their marketplace. These factors need to be included in the boards skills matrix which drives the recruitment process. As sustainability keeps evolving, directors need to be kept abreast of the changing ESG landscape.

This requires ongoing education of directors on material ESG trends and developments. They need to understand how sustainability may affect the company's current and future performance, including its value chain and operating context.

These issues need to be incorporated into the board, director and committee effectiveness evaluations, which well-run boards undertake annually. Such assessments need to determine if directors collectively have the necessary skills, knowledge, training and experience to monitor the company's sustainability performance.

Keystone ESG Governance Practices:

- a. **Recruitment and Composition:** The nominating committee considers ESG skills, expertise, knowledge, and experience as factors in director recruitment. ESG is included in the board skills matrix. The board ensures its composition reflects the cultural, gender, age, nationality and geographic diversity of the marketplace.
- b. **Director Education:** The board ensures ESG education is provided to directors as part of their ongoing development, including optional, mandatory and in-house education. Education addresses material sustainability trends and how they create risks and opportunities that affect the company's performance in the medium to long-term, including its value chain and operating context.
- c. **Evaluation:** The board includes ESG competency in the board and committee evaluation/self-assessment. Questions address board and director knowledge of the organization's sustainability priorities and the materiality of ESG impacts, risks and opportunities to the organization. Education strategies are put in place to address gaps.





Board Responsibility 5: Disclosure and Shareholder Relations: The board provides oversight of the company's disclosure of its ESG performance and position and ensures shareholders have appropriate ESG information.

Investors and other stakeholders are seeking greater disclosure of the company's assessment of its material ESG topics, risks and opportunities and how these are being managed in the short and long-term. Boards have a duty to ensure that management's process for determining materiality is sound and that the disclosures are appropriate and not boiler-plate. They are also expected to ensure that management has the proper controls and procedures in place to ensure the ESG performance metrics and disclosures are accurate and reliable – and consistent across all communication channels.

Best practice boards also initiate dialogues with shareholders on the company's management of its ESG risks and opportunities. They ensure shareholder communications address ESG value creation and protection perspectives and investments, including how these tie into long-term shareholder value, whether or not this is requested by shareholders.

Keystone ESG Governance Practices:

- a. **Disclosure Topics:** The board provides oversight of management's assessment of material ESG topics, risks and opportunities to include in the organization's external reporting and disclosures. The board is satisfied that management's process for determining materiality is sound and supportable.
- b. **Information Control and Quality:** The board ensures that management has implemented comprehensive and effective information systems and internal controls, procedures, documented processes and audit trails to support the compilation, verification and communication of key ESG performance metrics appropriate for reliably, completely and accurately tracking performance, setting targets, compensating, benchmarking and external reporting to capital markets and governments.
- c. **Shareholder Dialogue:** The board Chair and designated directors hold discussions with key shareholders on the company's ESG risks and opportunities and how they are being managed to demonstrate the significance of ESG to company performance. The board ensures shareholder communications include a description of how the board carries out its responsibility for overseeing and actively monitoring ESG performance.

These five responsibilities and fifteen keystone practice areas comprise best practices in sustainability governance for boards. They represent the current state of play, now that ESG has formally moved into the boardroom.

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A final practice is to continuously improve. Boards need to explicitly review and update their ESG governance systems on a regular basis. This can be initiated and led by an ESG Committee, if one exists, or the Governance Committee, which has responsibility for ensuring boards have quality practices in place, and for keeping current on emerging best practices as sustainability increasingly becomes a driver of company performance. In so doing, Governance Committees and their boards need to ensure sustainability governance is not a 'check-box exercise', but a foundational effort to enhance governance effectiveness.

Case
Study:
Strong
Sustainability
Governance
Practices



CASE STUDY: STRONG SUSTAINABILITY GOVERNANCE PRACTICES

CASE STUDY

Goldcorp is a gold producer headquartered in Canada. The company employs about 18,000 people worldwide and is engaged in gold mining and related activities including exploration, extraction, processing and reclamation.

Goldcorp discloses its approach to Sustainability Governance in its Management Information Circular. Here are some highlights:

The Board Sustainability Committee is one of four standing Board committees. It has a mandate to review and monitor the sustainable development, environmental, health and safety policies and activities of Goldcorp on behalf of the Board. Its role includes oversight of community development and environment, health and safety risks.

The Board's formal oversight role includes:

- Periodic review of the Environmental and Sustainability Policy and Safety Policy
- Regular review of Environmental, Health and Safety Reports
- Ensuring effective communication process with stakeholders

The Corporate Code of Conduct includes sustainability which Board members endorse annually and sustainability is included in the corporate performance scorecard (e.g., safety and strategic CSR initiatives). Sustainability is a factor in executive compensation and is referenced in the CEO's position description. It is also included in the CEO's performance objectives along with objectives of a few other executives.

The Board has adopted a diversity policy and measures are in place to increase board diversity. The Governance Committee has oversight responsibility for the implementation of the diversity policy. The Director skills matrix includes sustainability as a skill and sustainability opportunities are included in director continuing education. Sustainability information is proactively provided to institutional and socially responsible investors and contact information for the Board is available to stakeholders.²²

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Resources



RESOURCES

The Conference Board of Canada has various resources to help business professionals improve their sustainability governance. Some of the key resources are presented below:

- **Report: The Role of the Board of Directors in Corporate Social Responsibility**
Available at <http://www.conferenceboard.ca/e-library/abstract.aspx?did=2657>
- **Report: Perspectives on Board Diversity**
Available at <http://www.conferenceboard.ca/e-library/abstract.aspx?did=6468>
- **Report: Just What Is the Corporate Director's Job? Perspectives on the Board Member's Job Description**
Available at <http://www.conferenceboard.ca/e-Library/abstract.aspx?did=9183>
- **Report: Board Oversight of Long-Term Value Creation and Preservation: What needs to change?**
Available at <http://www.conferenceboard.ca/e-Library/abstract.aspx?did=9093>

- **Webinar: The Board's Role in Corporate Social Responsibility (CSR) and Sustainability**
Available at <http://www.conferenceboard.ca/e-library/abstract.aspx?did=5285>
- **Webinar: Integrating Sustainability into your Organization: From Plan to Action**
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