THE BOARD MINDSET™

The vital attribute of exceptional boards

PRIORITIZING YOUR ESG EFFORTS

Environmental, social and governance (ESG) considerations are increasing in prominence — across the globe. Delivering shareholder value, maintaining financial strength, being recognized as a top employer, excelling in marketing, capturing a large market share, and consistently having highly satisfied clients may not be sufficient to sustain your company and personal reputation. Most leaders that I speak with want to do the right thing and make the best choices for all of their stakeholders. However, actions alone are not and will not be enough. Demonstrating a commitment to ESG is essential for success in the 21st century.

Environment

On the environmental front, activism continues, and political leaders are responding with action. President Biden revoked a permit for TC Energy's Keystone XL Pipeline. Michigan Governor Gretchen Whitmer has stated she wants to shut down a pipeline operated by Enbridge for decades. In both cases, there is strong support for these projects in the United States. The Enbridge pipeline has decades of safe operation. Shutting down this pipeline would increase energy costs to American consumers. TC Energy committed to net-zero emissions for Keystone XL, and proponents of XL pointed to job creation and expected safe operation.

The story is the same, and the impact is even more significant, in Canada. The Canadian oil and gas industry has one of the highest safety records and best labour practices across the globe.

Canadian Taxpayers Federation estimates that Canada's inability to construct pipelines has removed $6 billion from the economy between 2013 and 2020 and continues to drain an additional $3 million every day. For a relatively small economy with an enormous debt, this is and will have a massive impact. In spite of this, regulations and policies, enacted in response to activism and growing commentary around climate change, continue to dramatically impact the industry.

These examples are important to consider. Having a good story to tell, backed by data, may not be enough to ensure your continued success and license to operate. Also, executives commonly and historically argued for job creation and/or protection and impact to consumers' wallets. These arguments can fall on deaf ears when contrasted with environmental concerns.

Social

A resurgence of support for Black Lives Matter and a continued under-representation of women and visible minorities on boards and at executive levels contributes to sustained attention on social actions. Unfortunately, most organizations are not acting quickly enough. The arts community has received the greatest pressure to date, forcing apologies and resignations. I foresee this occurring more broadly in the business world if leaders are not seen as proactively addressing community and shareholder concerns.

Arts workers and board members leave galleries and museums following more public revelations of concern about bias — including racism and homophobia. Former Winnipeg mayor, Glen Murray, who was the first openly gay mayor of a major North American city, left the board of the Friends of the Canadian Museum for

Human Rights following reports of homophobic workplace issues at the museum. Their CEO, John Young, indicated he would not seek reappointment following those reports and the media coverage of racism in that workplace. At Ace Art Inc., Helga Jakobson resigned as program director, and Seth Woodyard resigned as president. The gallery issued the statement, "We have been ignorant to our shortcomings in terms of systemic racism time and time again. Most recently, we failed to thoroughly and effectively vet our exhibiting artists and to act expediently after hearing feedback from community members at our AGM." At Oakville Galleries, Pierre Gagnon, former board chair, left the organization around the same time that the gallery removed a Black Lives Matter solidarity post from social media.

Governance

Shareholders are seeking better governance. Some institutions are responding. In 2020, BlackRock CEO Larry Fink stated that while striving for more stable returns in what he considers a "fundamental reshaping of financial markets...Sustainability has become a critical factor in determining companies' long-term value." BlackRock has made a "firm-wide commitment to integrate ESG into their investment processes and consider ESG when determining what information to discount or emphasize."

IFRS is leading a charge to set universal standards for how companies measure and report on their sustainability performance. Presently, they oversee the work of the International Accounting Standards Board (IASB) in setting financial reporting requirements for most companies in the world, across more than 140 jurisdictions. (In full disclosure, as a director of the Accounting Standards Oversight Council and a member of their ESG committee, I have some involvement in this IFRS initiative.) Many NGOs are currently working independently to develop standards; this is creating complexity and confusion for companies and investors.

If the proposed ideas are adopted, investors and other stakeholders would have a much clearer view of any company's sustainability performance — just as they do its financial performance. Most companies already issue sustainability reports, but these are divorced from financial reports, making it difficult to see the relationship between financial performance and sustainability performance.

The Future of ESG (is Here)

In 2020, Husky announced their target of a 25 percent reduction in greenhouse gas emissions by 2025 and net zero by 2050. They also made a gender diversity commitment to have 25 percent of their senior leadership roles occupied by women, up from 16 percent in 2019.

The impact of sustainability reporting standards will be significant. Are you ready? Executives will be in a better position to factor sustainability issues into strategy and capital-allocation decisions. This could contribute to the sustainability of corporate financial performance, particularly over the long term. Wise boards of directors are no longer treating sustainability as an item to be addressed by a committee, but rather an important agenda item for the entire board. The companies that are most effective at managing sustainability will be most attractive to investors. One can expect that investors will want the same consistency and clarity in a company's sustainability reporting as they now expect for its financial reporting. Investors will want this information from the CEO and CFO, and will want to understand the company's financial and sustainability performance and the relationship between the two.

Presently, executives and board members are rewarded largely in terms of the company's financial performance. New and rigorous standards for measuring and reporting on sustainability will involve compensation; there will be a demand for executive and board members' compensation to be tied to sustainability metrics.

There are many advantages to being at the forefront of this issue. Rather than waiting for your stakeholders — investors, shareholders, employees, customers, the media — to seek a reckoning of your commitment, step into the limelight with an active plan endorsed by all directors and led by management.

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