

# **AN INTRODUCTION TO SUSTAINABILITY FOR BOARD DIRECTORS**

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**June 10, 2018**

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# About the Lee-Chin Institute



Founded in 2005 with a transformational gift from Michael Lee-Chin, the Lee-Chin Institute helps current and future business leaders integrate sustainability into business strategy and practices

Thematic focus areas:

- Corporate sustainability strategy, social enterprise and responsible investing

Programs:

- Research and thought leadership on sustainability theories, models, strategies and practices
- Dissemination of research and leading thinking through events and the media
- Student engagement through curriculum development and support of student initiatives



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# **What is sustainability?**

**Sustainability encompasses environmental, social, and governance (ESG) concerns.**

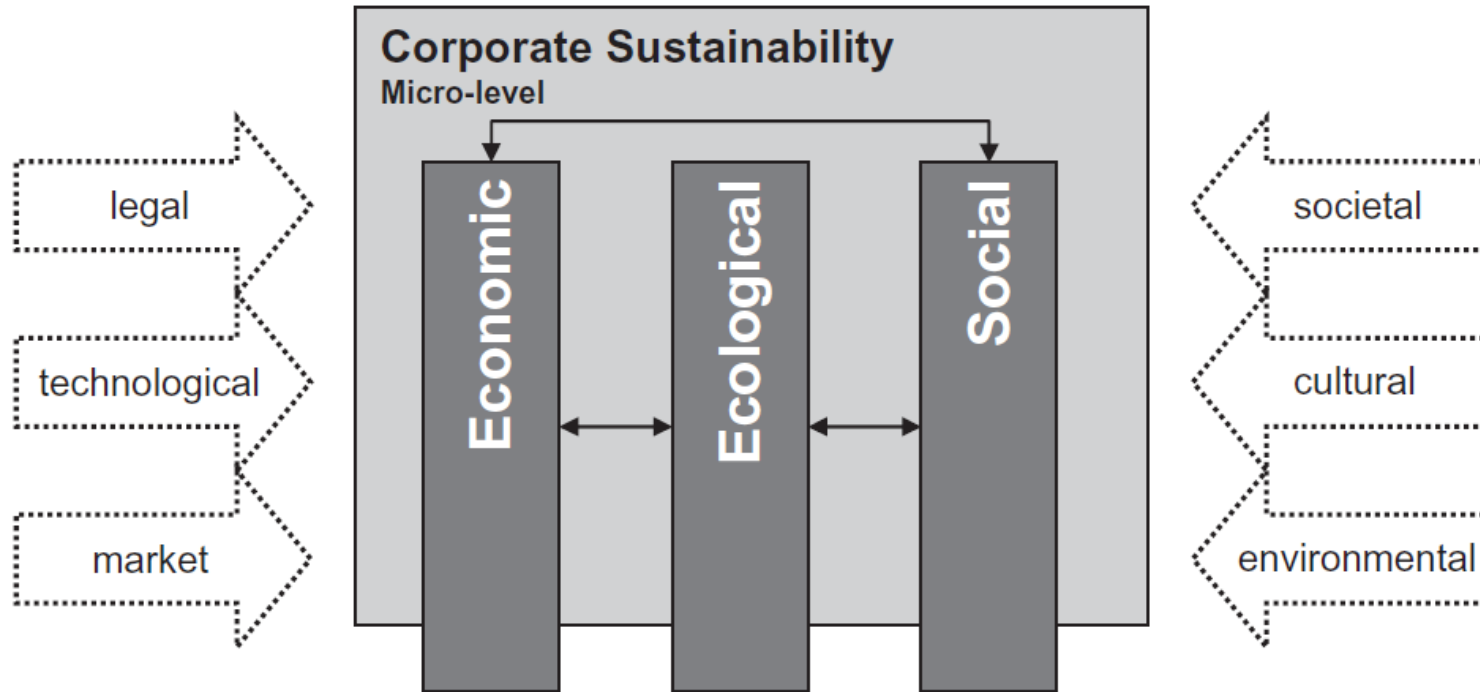
**Deloitte Global Centre for Corporate Governance, March 2018**

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# What is sustainability?

It's about managing an evolving context



Baumgartner and Ebner, "Corporate Sustainability Strategies," 2010

# Why does it matter?

**On a global scale, the directors of public companies are facing challenges from investors and other stakeholders to be proactive in evaluating competitive threats and understanding disruptive market trends, which include environmental and societal concerns.**

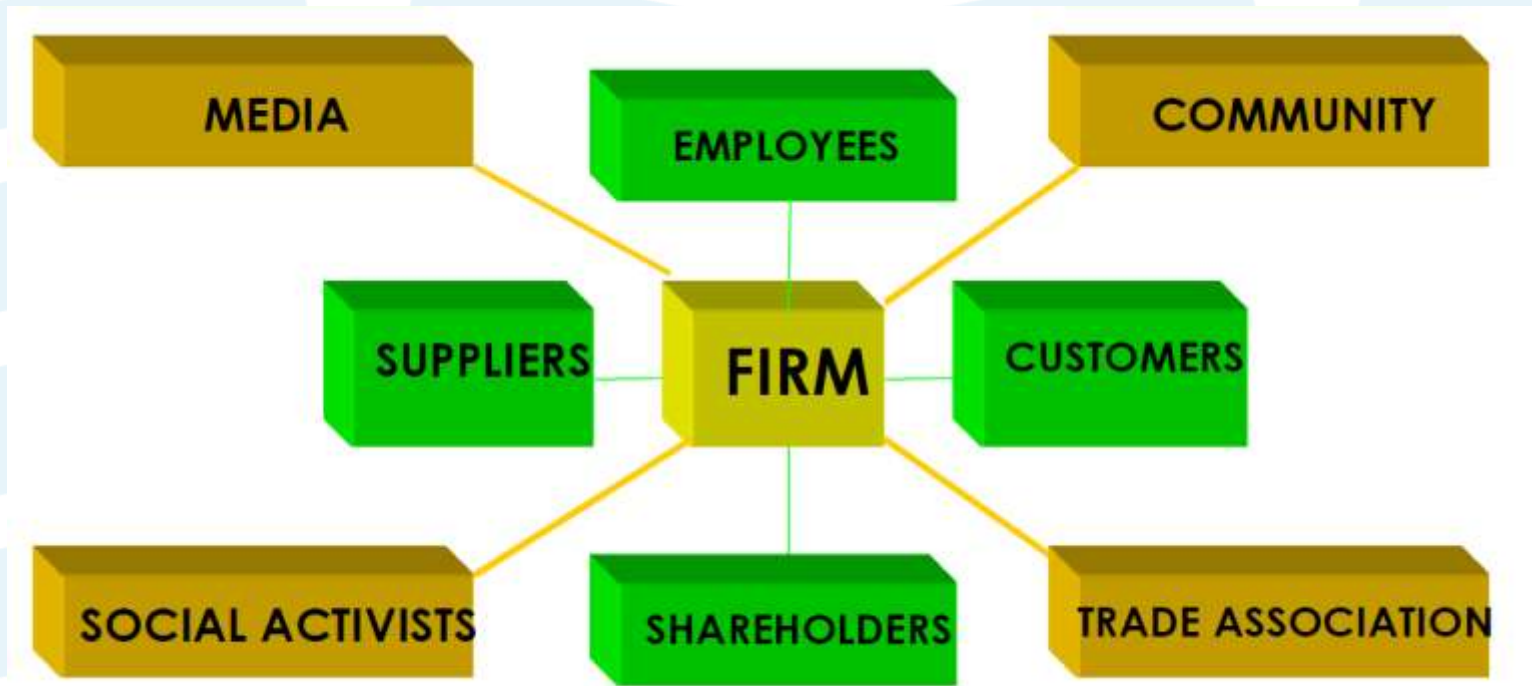
Deloitte Global Centre for Corporate  
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# Who cares?

It's about managing – and leveraging - stakeholders



Powers et al, DEP 2018

# Who cares most?

## Increasingly, investors...

Environmental and social concerns can create reputational risk for companies, but that risk is increasingly extending to shareholders.

Integrating E&S into corporate governance considerations is a part of the fiduciary duty of investors.

The expectation is that investors will use their leverage with companies to prevent and mitigate adverse impacts to their portfolios by seeking fuller E&S disclosures, engaging investee companies on areas of concern, and considering further steps where companies do not make desired changes.

Canadian Coalition for Good Governance, The  
Directors' E&S Guidebook, 2018



# What are the risks (and opportunities)?

## Risk

Poor environmental performance in the areas of energy, waste, water, and emissions can expose a company to fines, lawsuits, regulatory exposure, reputational impact, and increased operating costs.

Poor labor practices and talent management can result in lost work, fines and penalties, and higher turnover.

Lack of attention to changing consumer and commercial expectations can threaten a company's ability to operate.

## Opportunity

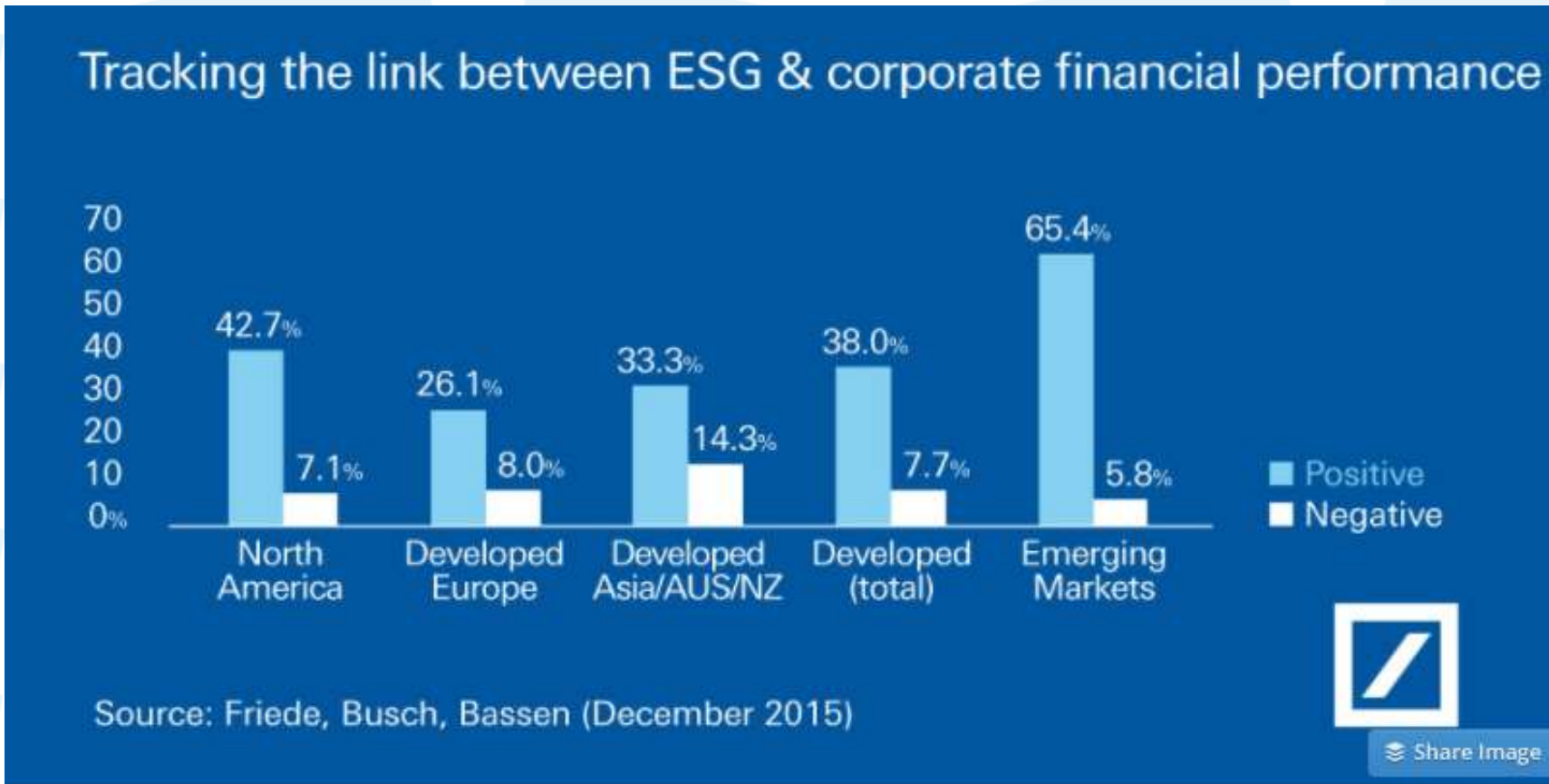
Investment in sound environmental practices reduces costs by improving resource and waste management while providing greater insight into the physical and financial exposure to climate risk, as well as expanding access to capital.

Investment in talent and supply chain performance can yield lower costs, a rise in productivity, and greater ability to attract talent.

Investment in positive environmental and social attributes of products and services can drive market penetration and competitiveness.



# What's the point? Is this just a cost?



# What is the role of board directors?

Provide oversight of strategy, risk, capital allocation for:

**Competitive advantage**

**Competitive norms**

**Compliance**

- **Is the company exploring strategic business opportunities (new markets, new products, new solutions, new business design)?**

- **Are the company's policies and procedures in keeping with the industry and/or dominant voluntary disclosure protocols?**

- **Is the company in compliance with local, national and international regulations?**

- **Government Regulators**
- **Investors**

- **Investors**
- **Industry Associations**
- **Disclosure protocols**
- **Communities**
- **NGOs**

- **Investors**
- **Consumers**
- **B-to-B customers**

**Relevant to:**

# Where to start: Look for opportunity, not just risk

**Ensure directors have a deep understanding of stakeholder needs relating to positive sustainability performance**

- **Investors may not only be looking to reduce risk, but also invest in sustainable companies and projects (e.g., Apple and Google have raised billions for renewable energy by issuing “green bonds”)**
- **Consumers/customers may privilege sustainability and sustainable products and services**
- **Employees/potential employees may be more loyal to/more likely to be recruited**
- **Regulators may behave preferentially to companies that conduct business sustainably**

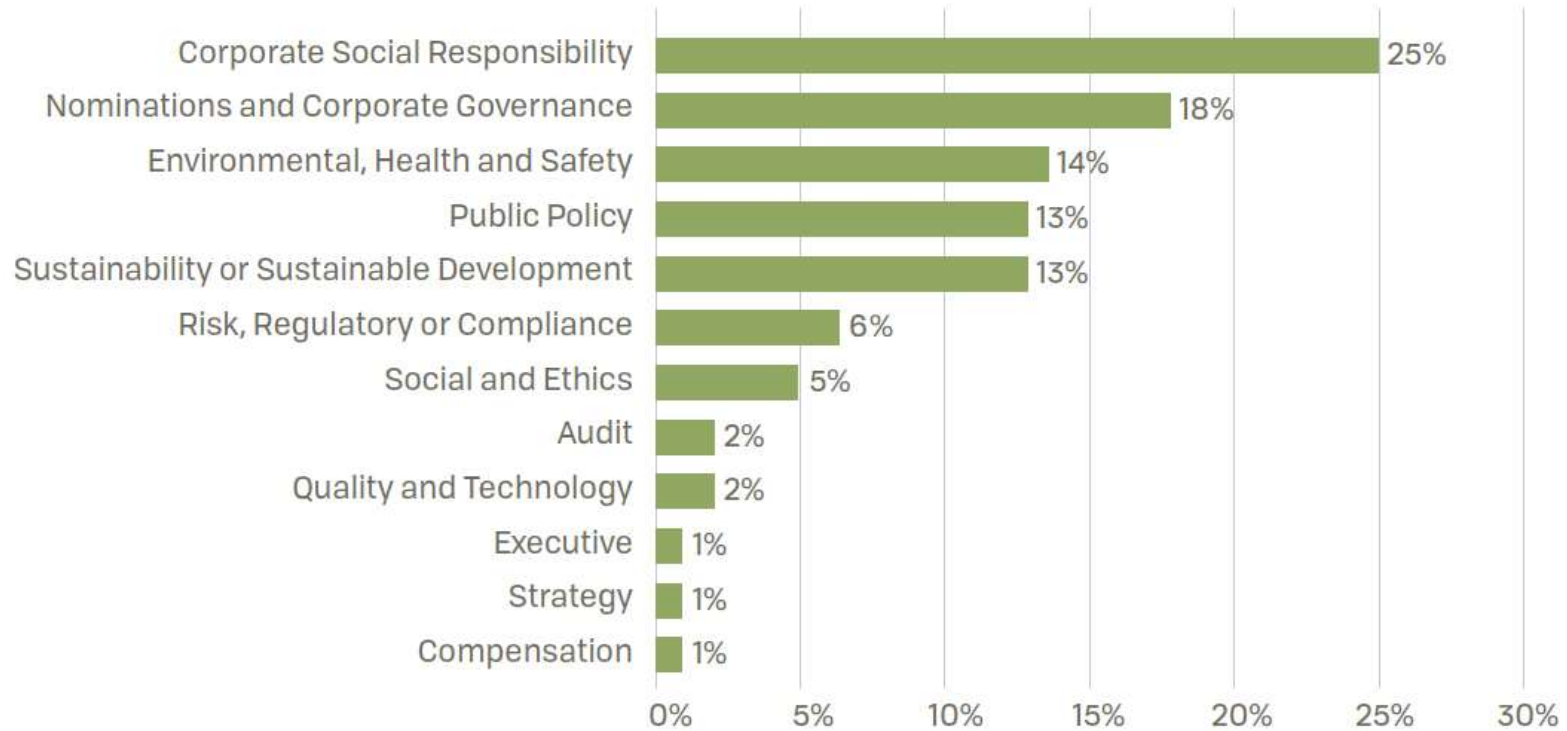
# Where to start: Key questions

Questions to ask	Steps to take
Do we have regular access to the information needed to evaluate risks emerging from environmental and social trends?	Establish, or increase the frequency of, management reporting of sustainability risks to the board.
How frequently do we discuss sustainability risks?	Establish a standing board agenda item on sustainability.
Do we have a board committee focused on sustainability risk?	Establish, or clarify the responsibility of, a board committee with a sustainability mandate.
Who on the board has sustainability competence?	Consider giving the nominating committee responsibility for evaluating sustainability competence on the board.
Do we have an understanding and list of critical stakeholders and how we're meeting their needs as a means of driving shareholder value?	Ensure management has established clear sustainability responsibilities for functions such as finance, investor relations, legal, risk, strategy, talent, and operations.
Do we have a clear message on how our long-term strategy considers sustainability risks and opportunities?	Establish a disclosure strategy that prioritizes the needs of stakeholders, aligns sustainability to business value, and uses leading sustainability standards to guide meaningful disclosure.
What external sustainability disclosures do we provide and how confident are we that they are complete, accurate, and reliable?	Ensure management has taken steps to establish sustainability data management systems (i.e., energy management systems), document sustainability reporting processes and controls, engage internal audit in sustainability reporting, and obtain external assurance to increase confidence in disclosures and improve the quality of the data used in decision making and risk management.
Are sustainability risks specifically included in the company's ERM program and processes?	Ensure management sustainability risks are incorporated in the ERM processes of the company.



# Where to start: Accountability

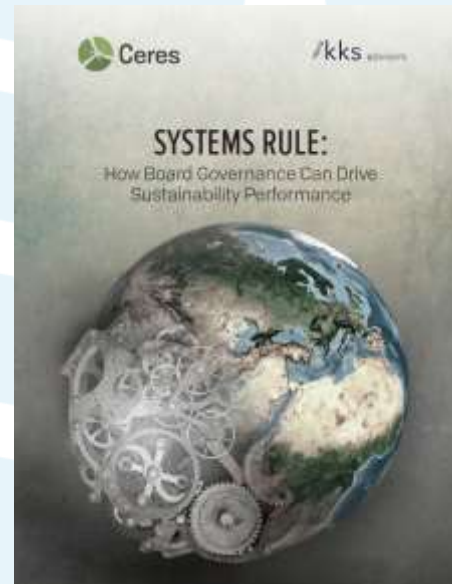
Which board committee has responsibility for sustainability?





# Where to start: Resources

## Advice for directors

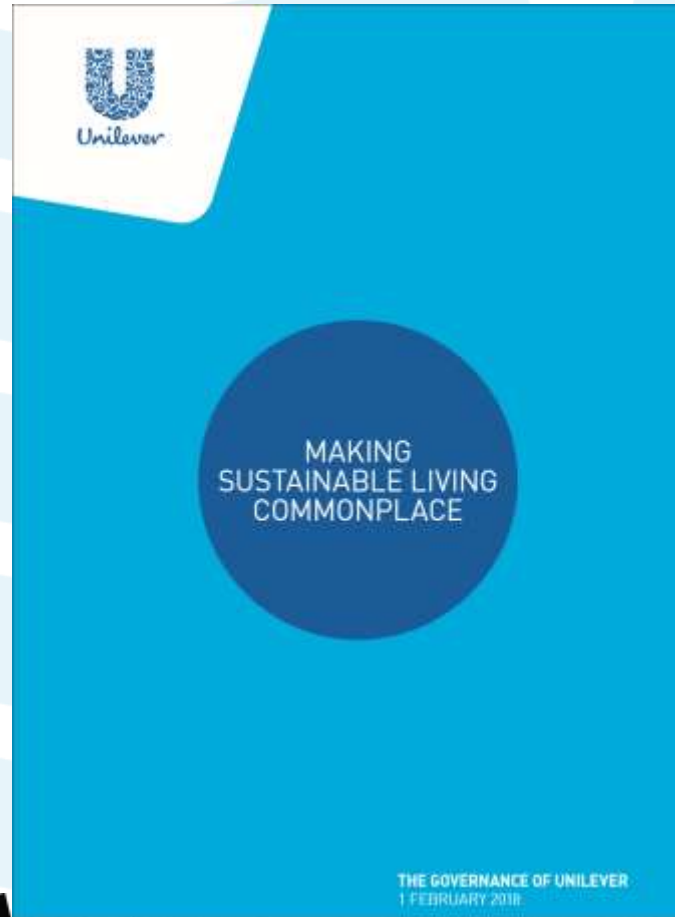


## Advice about sustainability disclosures

- [Global Reporting Initiative](#)
- [Task Force on Climate-Related Disclosure](#)



# Case: Unilever



## RESPONSIBILITY

The Boards are responsible for the overall conduct of the Unilever Group and have the powers, authorities and duties vested in them respectively pursuant to the relevant laws of the Netherlands and of the United Kingdom and the Articles of Association of NV and PLC.

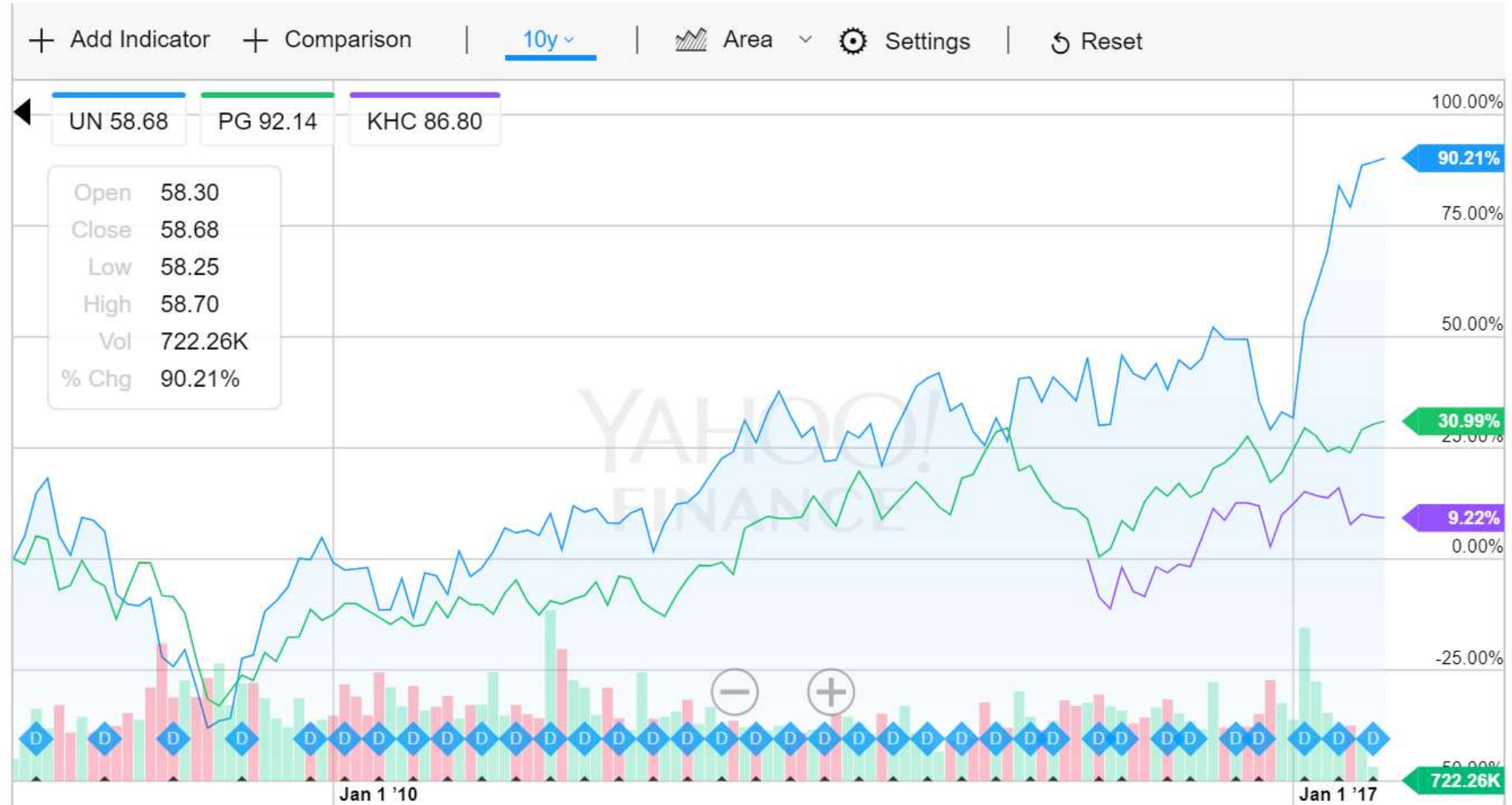
In all their dealings, the Boards have regard to the interests of Unilever as a whole, including its shareholders, employees, customers and suppliers, together with Unilever's social and legal responsibilities in the communities in which it operates and to the environment.

# Case: Unilever



# Case: Unilever

Unilever N.V. (UN) 58.68 0.27 (0.46%) As of 2:36PM EDT. NYSE Real Time Price. Market open.



# Discussion



# Thank you

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