ESG / CSR / Sustainability Governance and Management Assessment

By Coro Strandberg
President, Strandberg Consulting
www.corostrandberg.com
June 2017

Introduction

This "ESG / CSR / Sustainability Governance and Management Assessment" is a free tool for companies seeking to improve the integration of social and environmental factors into business practices and advance down the change management and business transformation path. It is based upon research originally conducted for the Conference Board of Canada in 2008 on The Role of the Board of Directors in Corporate Social Responsibility, supplemented by new practices identified since that period.

The checklist can be used to help a company conduct a self-assessment of its existing practices in this area, in order to develop a roadmap, work plan or project charter to guide further progress toward sustainability embedment. The tool can be used as a diagnostic model to identify aspects of corporate culture which need attention to avoid strategic sustainability drift. A measure of a company's maturity in integrating sustainability into governance, strategy, operations, value chains and daily decisions, an ESG / CSR / Sustainability Governance and Management Assessment can be used as a springboard to the next stage of embedment. (For the purposes of this tool ESG, CSR and Sustainability are used interchangeably.)

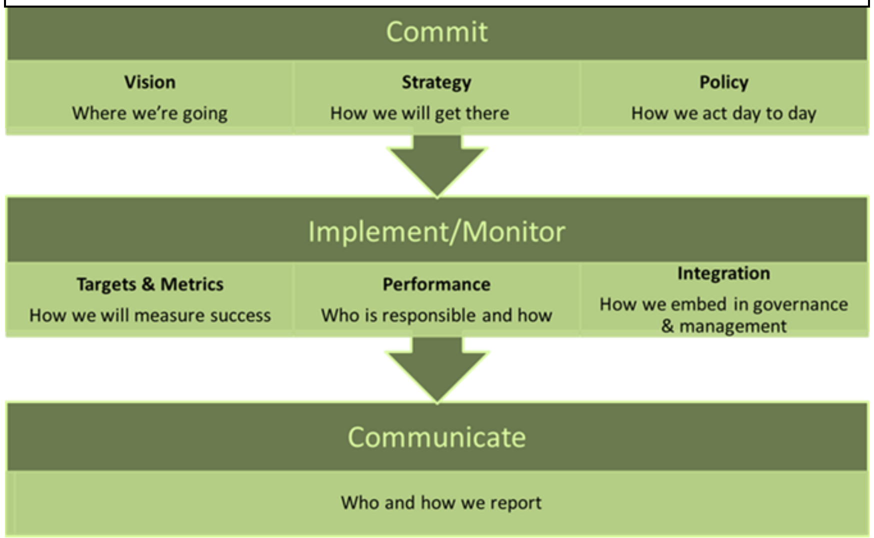
The Assessment consists of:

- A checklist of best, good and leading practices
- A rating system to rank your company's current practices.

The Assessment does not measure the quality, effectiveness, success, impacts or outcomes of an organization's practices, but reviews the degree and nature of an ESG / CSR / Sustainability Governance and Management system.

The tool includes 40 practices for the board of directors and 36 practices for management, for a total of 76 practices. The practices range from foundational to leading. They can be prioritized, sequenced and phased, depending on the organization's culture, preferences and resources. The following is a typical sequence for the development and implementation of a comprehensive ESG / CSR / Sustainability Governance and Management system:

ESG / Sustainability Governance & Management Sequence



Please [contact me] if you would like assistance with your assessment, a third-party review of your self-assessment and / or assistance preparing board and management reports, policies and procedures for addressing your organization's gaps.

Rating System

The rating system is based on a 5-point ranking:

0 = No practices in place

1 = Weak practices

2 = Moderate practices

3 = Strong practices

4 = Full practices

N/A = not applicable

ASSESSMENT RESULTS *To be filled in after assessment is complete.*

Rating	
Full practice	
Strong practice	
Moderate practice	
Weak practice	
No practice	

ESG / CSR / SUSTAINABILITY GOVERNANCE AND MANAGEMENT ASSESSMENT

Component and Practice Area	Assessment	Rating
Board of Directors provides oversight of corporate ESG strategy and performance.		
1. Vision and Strategy: **The board demonstrates its commitment to ESG and ensures it is incorporated into the organization’s vision and strategy.**		
1.1 Organization charter incorporates commitment to ESG. ESG is incorporated in the core purpose statement and business model.		
1.2 Board and management have agreed on and communicated an explicit commitment to ESG.		
1.3 Board and management share a common definition of ESG as it relates to the organization, its sector and broader societal trends and mega-forces.		
1.4 Board has developed a common understanding of the organization’s business case for ESG and its link to financial performance. The board is aware of how ESG translates into value creation for the organization.		
1.5 Board and management have identified the ESG issues material to the business. They have developed a long-term ESG vision and strategy for the organization which is incorporated into the corporate strategy and sufficient resources have been allocated in the corporate budget to achieve ESG objectives.		
1.6 ESG is incorporated into the organization’s mission, vision and values.		

1.7 Board is aware of ESG issues, impacts, risks, opportunities and trends specific to the industry, its suppliers, customers, supply chains and operating environment. These issues are addressed by the corporates strategy. The board is provided the information it needs to understand the ESG context. Reputable independent experts are available and regularly engaged to advise the boards on ESG matters.		
2. Oversight and Accountability: **The board has established a governance structure to enable it to oversee the management of ESG issues and their integration throughout the organization.**		
2.1 Board has delegated a committee(s) with responsibility for ESG oversight. The committee(s) has the skills, knowledge and resources for overseeing ESG. Board ensures ESG is integrated into other relevant committees such as Risk Management, Audit, Nominations, Governance and Compensation.		
2.2 Board receives reports from, and has direct and unfettered access to, a designated ESG officer.		
2.3 Board has adopted and regularly reviews an ESG policy/s and ensures ESG commitments are integrated into existing corporate policies and routinely integrated into new corporate policies. Board confirms management has systems and procedures in place for implementing ESG policies. Board receives reports from Internal Audit on the organization's compliance with its ESG policies.		
2.4 Board roles and responsibilities include reference to ESG; governance policies / manuals embed the board's ESG philosophy and commitment. (Example: "The board is accountable to shareholders 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 practices, environmental practices, and social practices." From ICGN Governance Principles)		
2.5 Board regularly monitors and oversees progress on the organization's performance against ESG goals, objectives and targets. The board allocates sufficient time to discuss ESG matters during meetings. The board provides input and counsel on ESG risk and opportunity identification and management.		
2.6 Board agendas promote integration of ESG issues with other agenda items such as strategy, finance and risk. Agenda allocates sufficient time to enable ESG discussions. Board meeting minutes reflect ESG discussions.		
2.7 Board has adopted an ESG framework which is consistently applied by subsidiary boards. Board has a means of assessing ESG performance of subsidiaries.		
2.8 Board ensures that management compensation is linked to performance on both short and long-term ESG goals and targets. Sustainable pay metrics reflect material ESG issues. The company's remuneration philosophy and policy address "ESG" compensation. Board benchmarks its ESG compensation practices to other organizations.		
2.9 CEO position description and annual performance plan incorporate ESG. The board includes ESG as a criterion for executive performance evaluation and periodically reviews the CEO against ESG capability and suitability qualities.		
2.10 ESG is included in CEO and executive succession planning, leadership development and competency models. The Board ensures executive leadership possess ESG competencies and continuing professional development plans are in place to address gaps. Board ensures the company's talent development strategy addresses ESG competencies. Board has processes in place to assess the organization's sustainability capacity and knowledge.		

2.11 Board periodically reviews and updates its ESG governance system (e.g. when corporate governance procedures, such as governance manuals, are reviewed).		
3. Risk Management and Financial Performance: **The board integrates ESG risks and opportunities into the management of enterprise risk and considers ESG impacts on financial performance.**		
3.1 Board provides oversight of the ESG components of the enterprise risk management program and ensures that ESG risk and corporate strategy are aligned. 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. Systemic ESG risks are identified and the Board ensures management has a strategy to address them.		
3.2 Board considers ESG impacts, issues, risks and opportunities when reviewing, guiding and approving strategy, major plans of action, risk management policies, annual budgets and business plans and overseeing major capital expenditures, mergers, acquisitions and divestitures.		
3.3 Board is informed of the potential ESG impacts of its decisions.		
3.4 Board reviews its own practices to reduce the social and environmental impacts of board meetings and board operations.		
3.5 Board receives independent and unfiltered information on stakeholder issues and concerns related to ESG to inform risk management and strategy (e.g. board meeting presentations, stakeholder dialogues, stakeholder panels that advise the board, grievance mechanisms, etc.). Board holds regular discussion about what stakeholder relationships are most important and how these might change.		

3.6 Board receives information on management's approach to building effective stakeholder relationships and ensures that systems are in place to monitor, measure and report on the effectiveness of the company's relationships.		
3.7 Measures are in place for the board to assess the extent to which the company's ESG commitments are adhered to across the organization, and within its value chain. Board ensures the organization regularly assesses compliance with, and implementation of, its ESG commitments, voluntary standards, policies and management systems through an internal audit or other formal and systematic process.		
3.8 Board is informed of the financial impacts of key ESG issues on performance, liquidity and financial condition.		
3.9 Director and Officer (D&O) policies include protections addressing ESG issues and risks (e.g. breaching fiduciary duties by not considering ESG risks, failing to disclose ESG liabilities, disseminating false, misleading or incomplete information on ESG risks, failing to protect the company's assets or reputation, etc.).		
4. Board Composition and Expertise: **The board is equipped to provide oversight on material ESG issues.**		
4.1 Board composition reflects the cultural, gender, age and geographic diversity of the marketplace.		
4.2 Nominating committee includes ESG skills, expertise, knowledge, and experience as a factor in director recruitment. One or more directors have strong ESG expertise including top experts or executives from corporations with a track record on sustainability.		

4.3 Nominating committee considers ESG values alignment in director recruitment and nomination process.		
4.4 New director orientation process includes a review of the organization's ESG risks and opportunities, commitments and goals.		
4.5 ESG education is provided to directors as part of their ongoing development. Boards are knowledgeable about how sustainability issues affect the company's business environment and how societal and regulatory trends create opportunities and risks.		
4.6 ESG competency is included in the board evaluation / self-assessment process. Questions address board and director knowledge of the organization's sustainability priorities and the materiality of sustainability impacts, risks and opportunities to the organization.		
4.7 All board advisors and consultants are required to have ESG experience, knowledge, benchmarks and competencies and include ESG recommendations in their advice to the board and board committees.		
5. External Disclosure: **The board regularly discloses information about the organization's ESG performance.**		
5.1 Board provides input into management's assessment of material ESG issues to include in the organization's external reporting and disclosures and generally provides guidance on the content.		
5.2 Board reviews and approves the organization's disclosure of its ESG performance and impacts and ensures compliance with mandatory disclosure requirements.		

5.3 Board confirms a process is in place to ensure ESG information is consistent, robust, accurate and complete across multiple formats, e.g. corporate websites, social media and voluntary reports and that provided in government filings, Annual Information Form, Management's Discussion and Analysis, financial statements and other disclosures.		
5.4 Board ensures that management has implemented adequate and effective systems, internal controls, documented processes and audit trails to support the compilation and verification 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.		
5.5 Annual or ESG Report discloses the nature of the Board's discussions on ESG risks and opportunities. It includes an ESG message from the Chair; directors' report in the annual report includes ESG information. Frequency of meetings and key topics, decisions, actions and outcomes of board ESG committee is disclosed in annual / ESG Report.		
5.6 Board Chair joins the CEO in publicly endorsing ESG standards and voluntary initiatives.		
Management implements and manages corporate ESG strategy and improves ESG performance.		
6. Commitment and Strategy: **ESG commitment is included in the organization's mission, vision, values and corporate strategy.**		
6.1 CEO demonstrates personal leadership on ESG, promotes ESG to the sector, leads development of industry ESG standards and leads the executive management team in development of the ESG strategy, defining goals and overseeing implementation.		

6.2 Organization has a long-term ESG strategy, annual plans (as component of annual corporate business plan), targets, KPIs, and metrics for measuring progress; its ESG goals are included in the corporate strategy. ESG considerations inform and underpin corporate strategy.		
6.3 ESG is incorporated into the innovation and R&D process to facilitate ESG idea generation and address material ESG risks and opportunities. The company enables social intrapreneurialism and employee-generated innovation and initiative taking for sustainability. Employees are rewarded for ESG innovation. Open, honest and transparent internal dialogue on sustainability is encouraged.		
6.4 Organization's enterprise risk management program considers material ESG risks and opportunities, including those of its suppliers, business partners and customers at the individual, portfolio, segment, category, sector and / or regional level, which are managed and leveraged through the corporate and ESG strategy.		
7. Execution: **Organization has processes to integrate ESG into structures and procedures and to assign resources and accountability to implement and monitor progress.**		
7.1 ESG oversight is clearly mandated. There is executive level responsibility for ESG. Senior ESG officer has direct and unfettered access to the Board and CEO. Senior leaders are held accountable for ESG deliverables and performance and for integrating ESG into their departmental mandates, business areas and business plans.		
7.2 A program management office or similar structure is created to steward the ESG strategy. The function is a source of knowledge, expertise and connections for business and functional heads. (The role of the specialist function evolves as the organization embeds sustainability across all functions and business units. Eventually the function becomes responsible for helping embed ESG across the company and drawing upon good internal and external practice to do so.		

7.3 A review is conducted to ensure ESG policy aligns with existing organizational policies and gaps are addressed; procedures are developed and deployed for ESG policy implementation.		
7.4 The Employee Code of Conduct incorporates ESG.		
7.5 Processes are in place to enable ESG impacts, issues, risks and opportunities to be taken into account clearly and consistently in major decisions, design processes, capital budgets and projects, and day-to-day decision-making (e.g. sustainability included as a factor in R&D, responsible products and services policy, sustainable purchasing policy, embedding ESG considerations into other corporate policies and procedures, etc.). ESG is considered early in project and product planning and at all stages of core business decision-making.		
7.6 Organization has a process to integrate ESG into its products and services. ESG is considered in product design before new products and services are launched.		
7.7 Organization understands the ESG risks, opportunities, trends, issues, impacts, dependencies and performance of its suppliers and customers and implements measures to address gaps.		
7.8 Organization integrates ESG into its strategic performance management tools, such as balanced scorecards, cost-benefits assessments, project management systems, etc.		
7.9 ESG is considered in budgets and financial modeling/business cases and a system is in place to measure and quantify financial impacts of ESG activities. Hurdle rates and pay-back periods are ESG-adjusted. Sustainable products,		

business or sourcing processes have a longer-term return on investment. ESG's economic value is assessed.		
7.10 Staff resources and budgets are dedicated to ESG implementation.		
7.11 There is a representative, interdepartmental, cross-functional management committee chaired by the CEO or another C-suite executive and comprising senior level executives from across the enterprise responsible for overseeing sustainability strategy and performance. The committee will have implementation authority and responsibility for influencing strategic direction and monitoring progress on ESG. Senior leaders are responsible to: • Develop long-term ESG strategies. • Review annual ESG plans to ensure alignment with ESG goals and targets. • Review progress on ESG goals and targets and address gaps regularly.		
8. Performance: **ESG is incorporated into performance management systems.**		
8.1 CEO and executive have explicit accountability for ESG performance reflected in their mandates and personal and divisional scorecards. Executive compensation packages and variable incentive plans are linked to performance on ESG goals and targets including both short term (annual) and long-term expectations.		
8.2 ESG is included in organization-wide and departmental goals. ESG goals are cascaded throughout operations.		
8.3 ESG strategy objectives and targets are assigned to key employees, and included in performance systems (including job descriptions, annual performance plans and appraisals and at-risk remuneration for eligible employees). ESG mandates are included in each position description, signed off by employees.		

8.4 Organizational competencies include behavioural expectations that address "ESG" capacity.		
8.5 Promotions, raises, benefits and awards recognize and reward ESG performance. Team ESG awards are in place.		
8.6 All employees undergo ESG training; training addresses ESG strategy, policies and procedures, ESG trends and ESG competencies. Conventional, role-based employee training and development programs incorporate ESG. The quality and effectiveness of the training is monitored.		
8.7 ESG is included in the hiring process through recruitment interviews, offer letters and early employee contact and in the orientation and probationary review processes.		
8.8 ESG is included in all personal and leadership development, career-pathing, secondment, succession planning, and change management plans and programs. ESG is included within experiential learning as a component of leadership development programs and incorporated into 360 degree appraisals.		
8.9 Regular employee surveys are conducted of their perception of the organization's ESG commitment and progress.		
9. Engagement: **Organization has robust internal and external stakeholder engagement programs in place.**		
9.1 Organization has publicly recognized responsibility for its impacts on internal and external stakeholders. Organization has systematically mapped its stakeholders and regularly engages with priority stakeholders on ESG trends, issues, expectations, concerns, dilemmas, risks and opportunities in an ongoing, in-depth and timely manner, involving all appropriate parts of the business. Key stakeholders are consulted on the organization's ESG strategies, goals, policies and performance and their feedback is integrated into strategic planning, day-to-		

day operations and corporate decision-making. Senior leaders participate in stakeholder engagement processes which inform strategy, risk management and enterprise-wide decision-making. Organization seeks to understand and address stakeholders' material issues, concerns and expectations. Stakeholders are embraced as a source of innovation and opportunity.		
9.2 Organization has a range of stakeholder engagement practices in place from input and consultation, to partnership and collaboration, to empowerment and designated decision-making. Organization assesses stakeholder perception of its ESG commitment and performance. Organization uses a variety of channels to regularly obtain stakeholder input. Organization engages in partnerships and collaborations with stakeholders to address core business needs and tackle ESG issues.		
9.3 Organization discloses how it incorporates stakeholder input into corporate strategy and business decision-making.		
9.4 Organization has an internal communication plan to regularly update employees on ESG objectives, plans and progress; to inform employees of ESG trends and developments; and to provide customer and stakeholder relevant information for employees to share.		
9.5 Organization engages employees through champion teams, events, volunteering and campaigns, has a process in place to solicit employee feedback on its ESG efforts, and celebrates its achievements and accomplishments with employees.		
10. Monitoring and Reporting: **Organization regularly monitors, reviews, reports and improves its performance.**		
10.1 Leadership conducts regular progress review of ESG strategy implementation to ensure the strategy is working as intended and targets are on track. Discussion is held on key problems and challenges and future directions.		

Organization takes corrective action as necessary. Lessons learned are documented, analyzed and tracked to improve ESG performance in future. Processes are in place for ESG quality control.		
10.2 Organization regularly discloses significant ESG performance data and targets relating to its direct operations, subsidiaries, joint ventures, products and value chains. Disclosure covers how the organization is managing material issues and progress on its ESG strategy. The report is balanced, covering challenges, setbacks and dilemmas as well as achievements and positive impacts.		
10.3 Quality consistent, complete, accurate, timely and auditable information, measurement, monitoring and reporting systems for ESG are in place.		
10.4 Organization ensures ESG messages are consistent and current in public reports, speeches, and public communications and that control processes are in place to ensure consistency. Messages are relevant to the organization's mission, goals, objectives and commitments.		
10.5 Organization releases ESG information through a range of disclosure vehicles, including stand-alone reports, annual reports, websites and social media.		
10.6 Organization verifies key ESG performance data to ensure valid results and engages and independent, credible third party to review and validate its disclosures.		
10.7 Organization periodically reviews and updates its ESG governance and management system.		