ESG / Sustainability Governance Assessment:
A Roadmap to Build a Sustainable Board

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Introduction

This is a tool for boards and management, including corporate secretaries and governance professionals, to assess and benchmark the board's ESG / sustainability governance practices. The evaluation questions can be used to help an organization conduct an 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 governance embedment. A measure of a company's maturity in integrating sustainability into governance, an ESG / sustainability governance assessment can be used to generate insights into the company's next stage of sustainability governance. (ESG refers to "environment, social and governance" and is used interchangeably with sustainability in this tool. For the purposes of this assessment, these terms address the social and environmental performance of the firm.)

"The ESG Governance Assessment Tool is for boards of directors determining what they should be doing and how well they are doing in relation to oversight of how their companies are managing and making disclosures about ESG/sustainability issues."

The Assessment consists of:

- Evaluation questions that assess best practices.
- A rating system to rank your board's current practices.

The Assessment does not measure the quality, effectiveness, success, impacts or outcomes of an organization's practices, but enables a gap assessment in leading practices on ESG / sustainability oversight of boards. The tool includes 43 practices for the board of directors. (A companion document includes practices for management.) They can be prioritized, sequenced and phased, depending on the organization's culture, beliefs, preferences and resources.

The Assessment is organized into five sections:

1. Vision and Strategy
2. Oversight and Accountability
3. Risk Management and Financial Decisions
4. Board Composition and Expertise
5. External Disclosure

The 43 best practices are not mutually exclusive and discrete in every case. The tool highlights a few instances where a direct connection is evident. This reflects both the emergent nature of best practices in ESG / sustainability Governance as well as the fact that many, if not most, board practices are highly inter-connected.

Note that while the Assessment uses the term “Board” throughout, these practices will be pursued jointly with the company’s leadership. In many cases, the underlying practices contained in this tool would be led, supported and prepared by management for review and action or decision by the board. Indeed, the Assessment may be led by management to identify areas of discussion with the board.

As an organization and its board evolves its ESG practices, many of the processes outlined in the tool will become routine and embedded. This is an ideal development, but may make it difficult to track and assess the ESG practices on a stand-alone basis.

This is a living document, which will be updated as new best practices in ESG governance are identified. Boards and management teams can conduct periodic reviews for continuous improvement. Given board turnover, the rapid evolution of ESG governance practices and the increasing ESG imperatives for firms, reviews every 2 – 3 years are recommended.

Rating Process

The rating process can be initiated, led and undertaken by the board or management. The assessment can be filled out by all directors, by Governance Committee directors or by the specific board committee/s tasked with ESG / sustainability oversight. As the practices impact all areas of board governance, ideally it would be undertaken by all board members.

The assessment can also be completed by executive members, the corporate secretary or governance team and by the sustainability group in the company. Third parties can undertake the review by conducting document assessments and interviews.

The rating system is based on a 5-point ranking. Reviewers would assess the degree to which they agree that the practices are in place, by assigning a number that corresponds to the maturity of the practice as outlined below.

0 = Strongly disagree

1 = Disagree

2 = Neither agree nor disagree

3 = Agree

4 = Strongly agree

N/A = not applicable

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

Rating	
Strongly agree	
Agree	
Neither agree nor disagree	
Disagree	
Strongly disagree	

About the Author

Coro Strandberg is President of Strandberg Consulting, a leading Canadian advisor to boards and management on ESG / sustainability governance, risk and strategy. She has been a corporate director for 20 years, and authored the first comprehensive study on the role of the board in providing sustainability oversight in 2008 for The Conference Board of Canada. This resulted in the creation of sustainability governance guidelines for boards in collaboration with Canadian Business for Social Responsibility for Industry Canada. She is a faculty member of Governance Professionals of Canada conducting training on ESG / Sustainable Governance as part of its GPC.D designation. As a faculty member of Director's College, she trains directors on ESG Governance. Strandberg was recognized as the top sustainability consultant in Canada in 2015 by Canada's Clean50. www.corostrandberg.com

ESG GOVERNANCE ASSESSMENT

Component and Practice Area	Assessment	Rating
1. Vision and Strategy: **The board demonstrates its ESG commitment and ensures ESG risks and opportunities are considered in the organization's vision and strategy.**		
1.1 Mission: Board ensures ESG is incorporated in the organization's purpose, mission, vision, values and Corporate Code of Conduct.		
1.2 Commitment: Board and management agree on and communicate an explicit commitment to ESG internally and externally.		
1.3 Definition: Board and management adopt a common definition of ESG as it relates to the organization, its sector and broader societal trends and mega-forces. Directors understand the company's definition of sustainability in the context of the company's strategy and specific circumstances.		
1.4 Risk Information: Board is aware of current and emerging ESG issues, impacts, risks, opportunities and trends specific to the industry, its suppliers, customers, supply chains and operating environment – on short, medium and long-term time horizons. Board is well-briefed on ESG matters material to the company and assesses whether management's approach is appropriate, by challenging and engaging management on their ESG approach. The board understands this involves trade-offs, potential disruption, and an innovative mindset. (see also 3.1)		
1.5 Business Case: Board and management have a common understanding of the organization's business case for ESG and its link to financial performance, and are aware of how ESG translates into value creation for the organization.		

1.6 Materiality: Board and management agree on the ESG issues material to the business (e.g. via a materiality assessment). They have developed a long-term ESG vision and strategy for the organization which is incorporated into and integral to the corporate strategy.		
1.7 Resources: Board ensures sufficient resources (including financial, organizational, human and intellectual) are allocated in the corporate budget to achieve ESG objectives.		
1.8 Tone at the Top: Board determines how it sets the "tone at the top" to encourage ESG in the corporate culture. Board signals to management the importance of protecting and generating sustainable value over the long-term.		
2. Oversight and Accountability: **The board has established a governance structure to enable it to oversee the management of ESG issues, risks and opportunities and their integration throughout the organization.**		
2.1 Oversight: Board adopts a system for its ESG oversight. Board incorporates relevant ESG responsibilities within its standing committees (e.g. Risk Management, Audit, Nominations, Governance and Compensation) or a designated committee, if it deems the latter desirable. The committees have the skills, knowledge and resources for overseeing their ESG responsibilities.		
2.2 Information: Board receives the information it needs to understand the ESG context. Reputable independent experts are available and may be regularly engaged to advise the board on ESG matters**.** Board receives reports from, and has direct and unfettered access to, a designated ESG officer.		
2.3 Policy: Board adopts 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 throughout the organization as appropriate.		

2.4 Policy Compliance: Board receives reports from the Audit, Risk or designated committee on the organization's compliance with its ESG policies and commitments via routinely scheduled internal audits.		
2.5 Roles and Responsibilities: Board ensures the Board and Director roles and responsibilities include reference to ESG and that governance policies / manuals embed the board's ESG philosophy and commitment. The scope of the board's oversight on sustainability issues is well-defined, comprehensive and encompasses the entire value chain, product life-cycle and company's jurisdictions. (Example: "The board is accountable to shareholders and [other] 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." From ICGN Governance Principles)		
2.6 Performance: Board regularly monitors and oversees progress on the organization's performance against ESG goals, objectives and targets within the corporate strategy. The board provides input and counsel on ESG risk and opportunity identification and management. The board establishes parameters for sustainability reporting to the board regarding the information required to support robust discussions with management. The information flow to the board is relevant, context-based, timely, balanced and comprehensive.		
2.7 Discussion: Board / Agenda allocates sufficient time to discuss ESG matters during meetings. Its agendas include ESG as a stand-alone item and / or promote integration of ESG issues with other agenda items such as strategy, finance and risk. Board meeting minutes reflect ESG discussions.		
2.8 Subsidiaries: Board adopts an ESG framework which is consistently applied by subsidiary boards. Board has a means of assessing ESG performance of subsidiaries. Board ensures ESG approaches are well-coordinated among business units, geographies and subsidiaries.		

2.9 Compensation: Board ensures 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. 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 to identify best practice. Claw-back mechanisms are in place if the company does not achieve its ESG thresholds. The Compensation Committee ensures fair compensation practices such as CEO-employee pay fairness, living wages and pay equity are followed in the organization.		
2.10 CEO Position: Board ensures the 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. Board ensures the CEO exhibits leadership commitment to ESG issues that are important to the company. ESG competence is included as a key factor in Executive Search.		
2.11 Succession Planning: Board includes ESG factors in CEO and executive succession planning, leadership development and competency models. The Board ensures executive leadership possesses ESG competencies and continuing professional development plans are in place to address gaps. Board ensures the executive team sees ESG as an issue of long-term competitiveness, and understands the company's ESG risks and opportunities.		
2.12 Competencies: Board ensures the company's enterprise-wide talent development strategy addresses ESG competencies. Board has processes in place to assess the organization's sustainability capacity and knowledge.		
2.13 Benchmarks: Board (or relevant committees) periodically reviews and assesses the effectiveness of the company's ESG efforts against peer companies, leading industry standards, and the ESG-related priorities of key stakeholders. This includes assessing the ESG approach and commitment of the company's suppliers, customers and other business partners.		

2.14 Review: 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 Decisions: **The board ensures ESG risks and opportunities are integrated into the management of enterprise risk and considers ESG impacts on financial performance.**		
3.1 ERM Integration: Board ensures ESG risks are appropriately included within the scope of existing enterprise risk management systems and ensures that ESG risk and corporate strategy are aligned. Board has an up-to-date appreciation of the nature and sources of current and emerging ESG risks faced by the company, including an understanding of interdependencies between risks and how events or conditions occurring simultaneously can further increase the impacts of these risks. Board ensures the business risks are not ignored because they are considered unlikely, long-term or uncertain. 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. The risk analysis process addresses risks in the value chain, lifecycle of the product portfolio and in the company's operating environment. Board endeavours to ensure risks, which require collaboration to address, are effectively identified and managed through multi-stakeholder collaborations. (see also 1.4)		
3.2 Decisions: Board considers ESG impacts, issues, risks and opportunities when reviewing, guiding and approving major plans of action, risk management policies, annual budgets and business plans and overseeing major capital investment / expenditures/ capital allocation and merger, acquisition and divestiture plans. Board recognizes that ESG may affect the relative attractiveness of a potential merger, acquisition or divestiture and understands how ESG might influence these types of business decisions.		

3.3 Practices: Board reviews its own practices to reduce the social and environmental impacts of board meetings and board operations. While not a material issue, this helps set the tone at the top.		
3.4 Stakeholder Information: Board receives independent and unfiltered information on shareholder and other stakeholder issues and concerns related to ESG to gain a holistic understanding of the key issues that affect a company and inform risk management and strategy (e.g. board meeting presentations, stakeholder dialogues, stakeholder panels that advise the board, grievance mechanisms, results of stakeholder consultations, etc.). Board understands key issues raised by stakeholder engagement processes and how management plans to address them. Board holds regular discussion about what stakeholder relationships are most important and how these might change.		
3.5 Stakeholder Relationships: 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.		
3.6 Comprehensive Compliance: Board ensures measures are in place for it to assess the extent to which the company's ESG commitments are adhered to across the organization, and within its value chain, including across jurisdictions, subsidiaries and joint ventures. 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.		
3.7 Insurance Coverage: Board ensures 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 Composition: Board ensures its composition reflects the cultural, gender, age, nationality and geographic diversity of the marketplace. The board has a policy on diversity which includes measurable targets for achieving appropriate diversity within the senior management and Board and reports on progress made in achieving its targets.		
4.2 Skills Matrix: Nominating committee includes ESG skills, expertise, knowledge, and experience as factors in director recruitment. One or more directors have strong ESG expertise including top experts or executives from corporations with a track record on sustainability. Nominating committee considers ESG values alignment in director recruitment and nomination process.		
4.3 Orientation: Board ensures new director orientation process includes a review of the organization's ESG risks and opportunities, commitments and goals.		
4.4 Education: Board ensures ESG education is provided to directors as part of their ongoing development, including optional and mandatory education, so that directors are equipped to ask the right questions of management on material ESG / sustainability issues. Education should address the sustainability mega-forces 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.		
4.5 Evaluation: Board ensures ESG competency is included in the board evaluation / self-assessment / effectiveness process or review. Questions address board and director knowledge of the organization's sustainability priorities and the materiality of ESG impacts, risks and opportunities to the organization. The assessment determines if the board has the necessary skills, knowledge, training and experience to enable them to assess the ESG risk and		

opportunities the business faces in the short, medium and long-term. Directors are knowledgeable about the business issues arising from ESG, including relevance and significance to the core operations, value chain and operating context; how ESG issues influence a company's risk management and strategy and can create opportunities; and current and potential future impacts of ESG on the company's financial performance. Education strategies are put in place to address gaps.		
4.6 Advisors: Board ensures board advisors and consultants have the necessary ESG experience, knowledge, benchmarks and competencies and include ESG recommendations in their advice to the board and board committees, where relevant.		
5. External Disclosure: **The board provides oversight of timely company disclosures about ESG performance.**		
5.1 Disclosure Topics: Board provides oversight of management's assessment of material ESG issues to include in the organization's external reporting and disclosures and generally provides guidance on the content and placement. Board is satisfied that management's process for determining materiality is sound and supportable. Board questions the inclusion of generic boilerplate disclosures that provide no company-specific information useful to investors, especially if there are materials ESG risks and impacts that should be disclosed. Board (via Audit or ESG Committee) approves the basis for selection of the reporting framework, given the range of voluntary and mandatory disclosure frameworks that exist.		
5.2 Performance Disclosure: Board reviews and approves the organization's disclosure of its ESG performance and impacts and ensures compliance with mandatory ESG disclosure requirements. Board monitors how the company's ESG disclosure compares to that of its peers. Board and management align on the ESG message and information the company reports publicly. Board believes		

the company's ESG disclosures fairly present the information that investors and other stakeholders need to assess the impact of ESG on the company's performance and future prospects.		
5.3 Quality Information: 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 Information Controls: Board ensures that management has implemented comprehensive and effective information systems and related 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. Board (or Audit Committee) ensures that a comprehensive internal reporting process is in place relating to ESG disclosure, and oversees the independent assurance of ESG performance. Board deems the information systems to be adequate to record timely ESG information for management analysis and internal decision-making and external disclosure.		
5.5 Earnings Guidance: Board and Audit Committee discuss and agree on the suitability of issuing optional quarterly earnings guidance in light of the company's long-term strategy. Audit Committee assists in identifying the long-term strategic financial benchmarks to be communicated to financial markets.		
5.6 ESG Disclosure: Board ensures the Annual Report provides a high-level summary of the nature of the board and committee discussions on ESG risks and opportunities (e.g. list of topics). The Chair's message addresses ESG topics.		
5.7 Shareholder Dialogue: 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 understand shareholder priorities, demonstrate the significance of ESG to firm performance and build relationships. Board ensures that the communication covers what the company is doing and why, and how it benefits the long-term interests of the company so that investors have the information they require to evaluate the company's ESG investments and their implications for long-term value. (This information is provided to shareholders even if it is not directly requested.) Board understands the views of investors regarding the company's management of ESG issues. Board consider strategies to increase the proportion of longer-term shareholders.		
5.8 Public Positions: Board Chair joins the CEO in publicly endorsing ESG standards and voluntary initiatives. Board ensures the company's lobbying efforts (both direct and via industry groups) are consistent with the company's ESG commitments.		