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, governance professionals and governance teams, to assess and benchmark the board's ESG / sustainability governance practices. The evaluation questions can be used to help an organization assess its existing practices in this area, 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 or corporate social responsibility 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 and governance professionals determining what their board 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, benchmark and baseline your company's current sustainability governance approach.

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 by boards. The tool includes 39 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, existing practices and resources. Recognizing there is no “one size fits all solution” to ESG governance, the intent of this tool is to ensure boards are given the opportunity to be aware of emerging trends in ESG / sustainability governance and to identify which practices are most relevant for their organization.

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

Each section includes three keystone practices which are fundamental and foundational to the practice area. They warrant the most attention by the Board of Directors in institutionalizing sustainability into oversight.

The 39 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. It is also the case that Boards may delegate some of these responsibilities to Board Committees in which case the reference to Board in the assessment tool refers to the relevant Board Committee.

As an organization and its board evolves their 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 3-5 years are recommended.

Why use the tool?

- *To assess where your board is on its ESG journey*
- *Identify the gaps associated with best practices*
- *Determine which gaps are important for your board to address*

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/Nomination 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, social purpose, 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.

More information can be found on her website: www.corostrandberg.com.

ESG GOVERNANCE ASSESSMENT

These best practices frequently refer to "the Board". "Board" is used as a generic in this tool. For some boards, the practices may be delegated to, and carried out by, a committee (e.g. a sustainability committee). As you complete the assessment, please tailor the question to your organization's circumstances.

Keystone practices within each section are ***highlighted in bold.***

Responsibility and Practice	Assessment	Rating
1. Purpose and Strategy: **The board demonstrates its ESG commitment and ensures ESG risks and opportunities are addressed by the company's purpose and strategy.**		
1.1 Company Purpose: Board and management incorporate ESG in the organization's purpose, mission, vision, values and Corporate Code of Conduct.		
1.2 Culture: Board and management agree on and communicate an explicit commitment to ESG internally and externally. Board determines how it sets the "tone at the top" to encourage ESG in the corporate culture and workplace practices. Board signals to management the importance of protecting and generating sustainable value over the long-term. The Board regularly reviews the quality of the organization's culture and ensures it aligns with the company's purpose, mission, vision and values across multiple levels of seniority, operating units, functions and geographies. The Board ensures leadership is signaling the right tone from the top to foster the attitudes and behaviours that will support ESG goals and safe workplaces.		
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 and management understand the company's definition of sustainability / ESG in the context of the company's strategy and specific circumstances.		

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1.4 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.		
1.5 Risk Information: Board is aware of current and emerging ESG issues, impacts, risks, opportunities and trends specific to the industry, its workforce, 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. (see also 3.1)		
1.6 Corporate Strategy: Board ensures there are long term plans specifying how the organization's purpose will be fulfilled. Board and management agree on the ESG issues material to the business. Board ensures ESG factors of material value or risk to the organization are incorporated into long-term strategic objectives, corporate strategy and business plan. (see also 3.1)		
1.7 Resources: Board ensures management has allocated sufficient resources (including financial, organizational, human and intellectual) in the corporate capital and operating budgets to achieve ESG short-term targets / objectives and longer-term goals, and to cover preventative maintenance and disaster planning.		
1.8 Board Practices: Board reviews its own practices to reduce the social and environmental impacts of board meetings and board operations, to ensure that it is walking-the-talk on its commitment to ESG. While not a material issue, this helps set the tone at the top.		

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2. Oversight and Accountability: **The board establishes and updates a governance structure to enable it to oversee how ESG issues, risks and opportunities are managed and integrated throughout the company.**		
2.1 Board Committees: Board has 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 (e.g. ESG/Sustainability), if it deems the latter desirable. The committee(s) have the skills, knowledge and resources for overseeing their ESG responsibilities. As ESG cuts across multiple committees, 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. The Governance/Nomination Committee ensures responsibilities for ESG oversight are clearly delineated and allocated in board policy documents and charters, explaining how ESG oversight is embedded into the ongoing work of the board. (See p. 101 of this Resource for detailed information on the role of Board Committees.)		
2.2 ESG Context 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 ESG Policy and Positions: Board adopts and regularly reviews an ESG policy/s and ensures management integrates ESG commitments into existing and new corporate policies / manuals. Board confirms management has systems and procedures in place for implementing ESG policies throughout the organization, including Finance and Procurement, as appropriate. Board adopts and regularly reviews associated ESG positions that address industry and firm-specific risks.		

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Board ensures the company develops and encourages ESG dialogue among industry peers, investors, regulators and other stakeholders.		
2.4 Compliance: Board ensures management has an internal audit or other formal and systematic process in place for assurance the company's ESG policies and commitments are adhered to across the organization, and within its value chain, including across jurisdictions, subsidiaries and joint ventures. 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. Board makes sure there is a management system in place that ensures policy compliance between 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 ESG reporting to the board regarding the information required to support robust discussions with management. The performance information flow to the board is relevant, context-based, timely, balanced and comprehensive. The		

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board allocates sufficient time to reviewing ESG priorities as a component of the strategic plan, at least annually. Periodic focus sessions should be held (annually, at a minimum) to allow board and management to jointly assess whether the strategy captures changes in drivers, experience, and knowledge.		
2.7 Agenda Design: Board Agenda allocates sufficient time for reflective conservations about ESG matters during meetings. 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. An environment exists where ESG is a regular part of the discussion across a wide range of board discussion topics. Board meeting minutes reflect ESG discussions.		
2.8 Subsidiaries: Board ensures management consistently applies an ESG framework across subsidiary boards. Board has a means of assessing ESG performance of subsidiaries. Board ensures management is coordinating ESG factors across business units, geographies and subsidiaries.		
2.9 CEO Mandate: 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. Fit with the company's values, culture and purpose is an explicit criterion for CEO selection. Board ensures the CEO exhibits leadership commitment to ESG issues that are important to the company, cascading ESG throughout the business.		
2.10 Executive Succession Planning: Board includes ESG factors in CEO and executive-team succession planning and leadership development. The Board encourages executive leadership to enhance their ESG competencies and ensures that continuing professional development plans are in place to address gaps. Board ensures the executive team sees ESG as an issue of long-term		

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competitiveness, and understands the company's ESG risks and opportunities. ESG competence is included as a key factor in Executive Search.		
2.11 Talent Development: Board ensures the company's enterprise-wide talent development strategy addresses ESG competencies and that all aspects of the firm's talent and human-capital strategy work together to support an ESG culture and discourage unwanted behaviours. Board has processes in place to assess the organization's sustainability capacity and knowledge.		
2.12 Compensation: 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. Sustainable pay metrics reflect material ESG issues. The company's pay philosophy and policy address "ESG" compensation and the Compensation Committee has responsibility for oversight of company remuneration / workforce pay. Board ensures that qualitative impacts, such as reinforcing the desired culture, are captured in the Compensation Committee's discretionary mechanism. Board benchmarks its ESG compensation practices to other leading 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, fair / living wages and pay equity are followed in the organization. The Committee ensures management conducts third-party reviews of pay practices in the company to ensure ESG alignment and that management reviews recognition and reward systems (financial and non-financial) to ensure ESG practices and decisions are reinforced, and that compensation, promotion and other non-financial rewards reinforce the desired culture. There is sufficient overlap and communication between the Compensation Committee and ESG oversight committee(s) to ensure that compensation targets and performance evaluations are appropriately aligned, informed, and mutually		

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reinforce ESG priorities. Board ensures controls on ESG data used to inform compensation is sufficiently robust.		
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 Governance Review: Board routinely and explicitly reviews and updates its ESG governance system (e.g. when corporate governance procedures, such as governance manuals, are reviewed). Board benchmarks its ESG governance system against peers and best practices.		
3. Risk Management and Financial Decisions: **The board ensures ESG-related risks and opportunities are integrated into the management of enterprise risk and considers ESG impacts on company financial performance.**		
3.1 ERM Integration: Board ensures management appropriately includes ESG-related risks within the scope of existing enterprise risk management systems and that ESG risk and corporate strategy are aligned. Board ensures there is executive ownership of ESG risks. Board has an up-to-date understanding 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 management does not ignore business risks because they are considered unlikely, long-term or uncertain. Board assesses management's approach to scenario analysis and the underlying assumptions management has used to inform short, medium and long-term		

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ESG risk and opportunity analysis. Board ensures management has a strategy to address systemic ESG risks that can affect the company's future viability and that management's analysis process addresses risks in the value chain, lifecycle of the product portfolio and in the company's operating environment. Board endeavours to ensure management is effectively managing ESG risks which require collaboration to address, through multi-stakeholder collaborations. (see also 1.5 and 1.6)		
3.2 Opportunity Capture: Board ensures the corporate strategy identifies and capitalizes on innovative ESG-enabled revenue streams — reinforced by enhanced brand value and stakeholder reputation — and expense savings (e.g. innovative new products and services, new markets, new customer revenue streams, innovative operating expense reductions, employee engagement programs, market valuation enhancements, attractive new sources of capital, and asset valuation enhancements).		
3.3 Decisions: Board considers ESG impacts, issues, long-term trends, risks and opportunities when conducting due diligence and reviewing, guiding and approving corporate strategies, major plans of action, risk management policies, annual budgets and business plans and overseeing major capital expenditures (CAPEX), investments, capital allocation, merger and acquisition (M&A), and divestiture plans. Board recognizes that ESG may affect the relative attractiveness of a potential joint venture, merger, acquisition, divestiture or new market and understands how ESG might influence these types of business decisions. Board ensures management conducts ESG due diligence in early stages.		
3.4 Stakeholder Information: Board considers the needs and views of a wide range of stakeholders and thus receives independent and unfiltered information on shareholder and other stakeholder issues and concerns related to ESG to gain		

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a holistic understanding of the key issues that affect a company and inform risk management and strategy (e.g. via board meeting presentations, stakeholder panels that advise the board, grievance mechanisms, on-site visits, results of stakeholder consultations, etc.). Board understands stakeholders' key issues and how management plans to address them. Board receives information on management's approach to building effective stakeholder relationships and ensures that management has systems in place to monitor, measure and report on the effectiveness of the company's relationships.		
3.5 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 Recruitment and Composition: Nominating Committee ensures Board has demonstrated competence in sustainability. Nominating Committee includes ESG qualifications (skills, expertise, knowledge, and experience) as a factor in director recruitment. The evaluation of career experience and expertise includes consideration of ESG capabilities as they relate to the company's industry, financial responsibilities and risk profile. ESG is included in the board skills matrix. One or more directors have strong ESG expertise including top experts or executives from corporations with a positive track record on sustainability. Nominating Committee considers ESG values alignment in director recruitment and nomination process. It also considers the qualities that will enable open, constructive dialogue on new and evolving topics. Board ensures its composition reflects the cultural, gender, age, nationality and		

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geographic diversity of the marketplace. Board has a diversity policy which includes measurable targets for achieving appropriate diversity within the Board and senior management and reports on progress made in achieving its targets. The board's combined ESG capabilities should align with the company's most material drivers. If an ESG topic emerges as highly important for company strategy, the board should have the requisite skills or expertise to address it. If the board does not have the requisite knowledge (existing or acquired) to provide oversight on a topic, it should be prioritized in director recruitment and / or education. (see 4.3)		
4.2 Orientation: Board ensures new director orientation process includes a review of the organization's ESG risks and opportunities, policies, commitments and goals.		
4.3 Director Expertise: Board ensures ESG education is provided to directors as part of their ongoing development, including optional, mandatory and in-house education, so that directors are equipped to ask the right questions of management on material ESG / sustainability issues. Education addresses material 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. Education builds awareness and understanding of complex and emerging ESG issues. Boards use independent advisors and / or external speakers to provide exposure to additional viewpoints.		
4.4 Evaluation: Board ensures ESG competency is included in the board and committee 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		

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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.		
4.5 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 and risks 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 reports to shareholders in the annual report on how they have engaged with management throughout the year on stakeholder considerations. 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, with preference for an integrated reporting approach that highlights the contribution of ESG initiatives to company		

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financial success. If ESG information is reported separately from financial reporting, the board or a board committee is mandated to approve ESG disclosure; appropriate internal or external controls are in place to provide the board reasonable verification and assurance of the facts and assumptions relied on by management in preparing the reports.		
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. Disclosure includes the company's approach to ESG risk oversight, including the process the board uses to review management's ERM assumptions, materiality assessment and risk prioritization. It also includes disclosure on how ESG considerations factor into long-term vision, strategies and objectives. Board ensures management 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 Information Control and Quality: 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. Board (or Audit Committee) ensures that a comprehensive internal reporting process is in place supporting ESG disclosure and oversees the independent assurance of ESG performance. Board is provided appropriate independent assurance of the accuracy of the ESG disclosures and ensures there are controls around the production of		

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quantitative data. Board confirms a process is in place to ensure ESG information is consistent, robust, accurate and complete across multiple formats, e.g. corporate websites (including corporate governance and investor relations sections), social media, voluntary reports, proxy statements, government filings, Annual Information Form, Management's Discussion and Analysis, financial statements and other disclosures.		
5.4 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.		
5.5 ESG Disclosure: Board ensures its corporate reporting (e.g. Management's Discussion and Analysis, annual report and / or proxy circular) provides a high-level discussion of the company's ESG management approach and priorities, including a summary of the nature of board and committee discussions on ESG risks and opportunities (e.g. list of topics). Disclosures include information about the company's industry and policy engagement on ESG. The Chair's message addresses ESG topics. Director biographies provide specific detail on relevant ESG experience and capabilities.		
5.6 Shareholder Engagement: Board Chair and designated directors hold discussions with key shareholders on the company's purpose, culture and ESG risks and opportunities and how they are being managed to demonstrate the significance of purpose, culture and ESG to firm performance. Board ensures shareholder communications include a description of how the board carries out its responsibility for overseeing and actively monitoring ESG performance, e.g. 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-		

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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 is comfortable that the CEO, corporate secretary and investor relations teams appropriately address ESG performance in investor communications such as analyst calls, investor roadshows, etc. Board ensures the investor relations team includes the necessary subject-matter ESG experts and that the team can accurately explain the Board's ESG positions, including how the Board engages management on ESG details. Board considers strategies to increase the proportion of longer-term shareholders given their heightened interest in ESG concerns.		
5.7 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. Board is regularly informed of, approves and supervises consistent conduct of the company's industry and public policy engagement.		