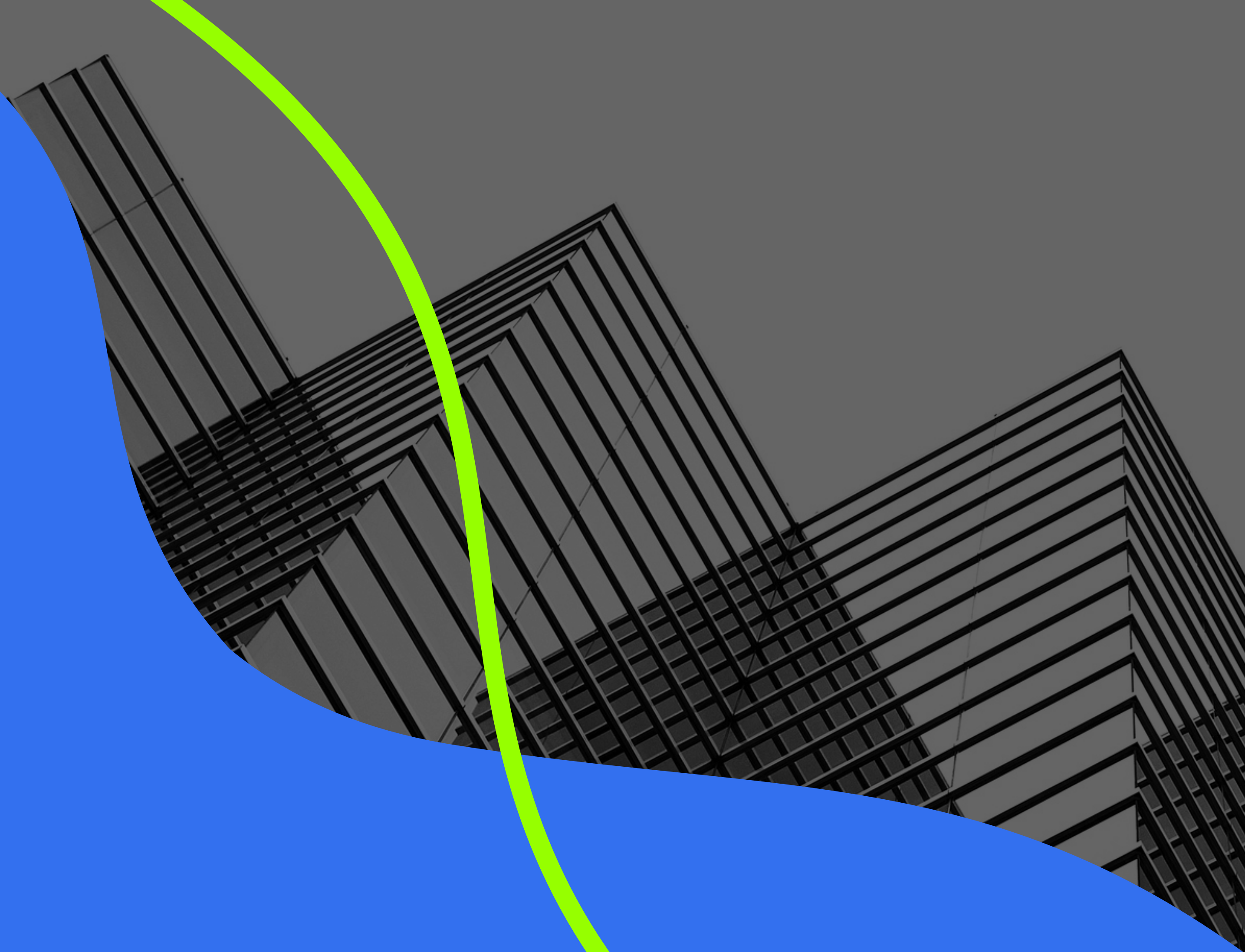

Strandberg Consulting

GPC Governance Professionals of Canada — Where Governance Matters

BECOMING FLUENT IN ESG:

Putting Inclusion, Purpose, and Climate Governance Into Action

MAY 2022

A summary report of GPC's annual ESG Conference

INTRODUCTION

The status quo is being upended. The foundations of our economy and society are being challenged and society is calling into question the purpose of the economy and the purpose of the organization. Boards and their organizations are at the heart of this debate.

The pace at which governance practices are moving has never been this fast. Governance professionals need to keep up with ever-changing expectations regarding diversity and inclusion, purpose, and climate from investors, management, the Board of Directors, stakeholders, customers, and the public. Being fluent in environmental, social, and governance (ESG) is no longer something that just brings added value to the company, but rather an imperative to thrive in the business world.

This was the backdrop to GPC's third annual "deep dive" in ESG Governance: "Becoming Fluent in ESG Governance: Putting Inclusion, Purpose, and Climate Governance into Action". The conference convened thought leaders, experts, and governance professionals to learn about and make sense of the emerging governance playbook.

This is a summary report of the virtual event, written by the conference moderator, Coro Strandberg, President of Strandberg Consulting and ESG/Purpose governance faculty member of GPC's 'Governance in Practice' Education Program. The report is a discussion-starter on the evolving role of boards and governance professionals in navigating the changing social terrain.

There is so much turbulence it can be hard for governance professionals and boards to know how to respond. This report can help governance professionals unpack and make sense of the changes afoot so they can both prepare and lead their organizations.

GOVERNANCE REDEFINED: THE ROLE OF PURPOSE, SUSTAINABILITY AND STAKEHOLDERS IN THE MODERN BOARDROOM

***Dr. Victoria Hurth**, Global Expert and Thought Leader in Sustainability, ESG, and Purpose Governance Cambridge Institute for Sustainability Leadership, Fellow. Convenor of ISO 37000, the first global governance standard*

We are in the throes of the biggest paradigm shift in business and organizations and even humanity that we have ever been through. The future is coming very fast towards us, and boards are absolutely in the epicenter of the changes.

We need to understand the mental models that are holding us back from addressing the changes effectively through governance. Current mental models put many elements of ESG out of mind, out of sight and off limits, and therefore out of accountability and out of decision making for boards.

However new practices are emerging.

Enlightened boards and organizations realize they must take the data on the health of the planet and society seriously. They shift their focus from the short term to the long term. They bring stakeholder voices into the room to understand the nature of the issues they face, trying to work out win-wins where multiple problems can be solved simultaneously using whole system approaches. Some set up stakeholder advisory boards to advise the board on how the organization might respond.

The most pioneering boards and organizations change the notion of the value they seek to generate in the first place. They adopt a purpose that contributes to the long-term well-being for all people and planet. They define their optimal strategic contribution to society and put an accountability framework around it that directs governance.

Two recent developments help boards with this task:

1) ISO 37000: 2021 Governance of organizations - Guidance

2) PAS 808 Purpose-driven organizations – worldviews, principles and behaviours for delivering sustainability – Guide

Boards are called to be more visible in this transformational work as they steer their organizations beyond the mental models that hold them back, to contributing to a sustainable future.

WHAT IF THE FUTURE IS NOW?
PREPARING YOUR BOARDROOM TO FACE ESG CHALLENGES

Moderator: ***Coro Strandberg,*** *President, Strandberg Consulting and GPC advisor on Sustainability Governance*

Panel: ***Carol Liao***, *Associate Professor, Peter A. Allard School of Law, University of British Columbia;* ***Christie Stephenson***, *Executive Director, Dhillon Centre for Business Ethics, University of British Columbia's Sauder School of Business;* ***Ian Robertson***, *Vice President, Director, Portfolio Manager, Odlum Brown Limited*

There were many dramatic changes in the past year as ESG standards and expectations for boards continue to evolve. Legal, investor and governance trends are driving boards to adopt best practices in ESG. We are witnessing an explosion of interest in ESG by investors, executives, and boards like never before.

Future pandemic risks are inseparable from climate change. The global corporate landscape has changed in the wake of financial crises, geopolitical conflicts, environmental emergencies, and pandemics that have defined the first quarter of the century. To mitigate the most catastrophic effects of climate change and limit global warming, unprecedented shifts in institutional behaviour are needed immediately.

Board members want to be good global citizens and feel uncertain about their fiduciary duties to the company. What's stopping them from moving the business forward in a sustainable manner may be entrenched norms, resistant corporate culture or a misunderstanding of the legal frameworks in which they operate.

In Canada directors are not agents to the shareholders but their duties are to the best interests of the corporation viewed as a good corporate citizen. In their decision-making boards and management should consider stakeholders particularly since there are a range of stakeholder remedies available in Canada notably the oppression remedy, and the environment is a stakeholder under the Canada Business Corporations Act.

Shareholder proposals have moved from a sole focus on ESG disclosure to an interest in the role of the board in oversight of ESG including its link to executive pay. Investors are becoming more interested in how purpose fits into the business and the shareholder-stakeholder connection.

Boards will become more central to resolving the false dichotomy between stakeholders and shareholders and boards are at the nexus of this issue. Shareholders and stakeholders are watching boards and expect directors to be stewards of corporate values and ensure their organizations are playing a constructive and not destructive role in the world, socially and environmentally.

Accounting frameworks are evolving to include ESG. ESG reporting standards are being merged and consolidated, and regulation of ESG disclosures is expected soon. There are expectations that organizations provide robust reporting to stakeholders and shareholders so they can assess if the board is focusing enough on ESG.

Boards are under the microscope. The public is paying more attention to what is happening in board rooms. What is happening in governance is making headline news. Boards are starting to bring values into their discussions. Board and director level accountability is rising.

Boards are expected to become more diverse, to consider Indigenous knowledge, and to appoint Indigenous directors. Directors should receive ESG education, so that all directors can surface ESG issues at every board meeting. The board needs to have more explicit oversight of ESG, and every board committee should consider its work through an ESG lens.

A seismic shift is underway in the economy in its low carbon, inclusive, circular transition. All need to collaborate in helping the system move forward, including lawyers, regulators, investors, and corporations. Directors should work together across boards to tackle systemic issues that can't be tackled in silos.

Corporate boards and executives need to be oriented to this new reality that the integration of ESG into governance and business practices is increasingly becoming a legal and ethical obligation and not a choice.

Governance is being redefined. Governance professionals are called to become governance innovators. We should share our stories of innovation with each other so we can learn from each other and tackle these issues together.

INDIGENOUS GOVERNANCE PANEL:
FROM WORDS TO ACTION: INDIGENOUS RIGHTS, RECONCILIATION AND LEARNING FROM INDIGENOUS GOVERNANCE SYSTEMS

Moderator: ***Shannon Rohan***, *Chief Strategy Officer, Shareholder Association for Research and Education (SHARE)*

Panel: ***Geordie Hungerford***, *Chief Executive Officer, First Nations Financial Management Board;* ***Mark Podlasly***, *Director, Economic Policy and Initiatives, First Nations Major Project Coalition;* ***Kody Penner***, *Director, Tahltan Nation Development Corporation*

Governance of Indigenous economic corporations differ from conventional governance in important ways.

Indigenous economic corporations are more aligned with ESG inherently because the shareholders are the First Nations people. There is a deep connection between the workers, shareholders, and the business. While Indigenous enterprises are for-profit, they are also social enterprises. They diversify into other areas to boost employment, mentorships, or apprenticeships, even though they may not be the most profitable solution in the portfolio. They are pursued because they are capacity and community building and help the Nation grow. Everything is funneled back to build the Nation. Their ultimate beneficiaries are the shareholders and stakeholders, community members, employees, and employers. Their place-based model drives governance.

Indigenous communities increasingly control pools of investment capital, finance and wealth through revenues or financial settlements from claims. Indigenous people have conducted commerce and governed themselves from time immemorial across North America. It changed with the arrival of European settlers, and the ability to do commerce was lost. Traditional governance systems like the potlach were banned and the Indian Act imposed an artificial patriarchal chief and council system. Indigenous communities are now overcoming that capacity gap.

Indigenous governance is more collaborative, more inclusive, and less hierarchical and each person has a role and can provide their input. Elders play a key role in the decision-making and prosperity is shared. Some codify their laws into principles. They are about sharing and making decisions with a longer-term horizon. The biggest difference between conventional and Indigenous businesses is that Indigenous businesses operate like social enterprises. They have a dual mandate to make a profit and benefit the community through job creation, meaningful careers, and impact. They take a stewardship approach over short-term profits. Their opportunities arise from communal rights.

Corporate boards can address Indigenous rights and reconciliation by reflecting on the Truth and Reconciliation Call to Action number 92 which speaks to Canadian businesses. Boards should adopt it. Boards need to be educated and to know what they don't know. There is a need to recognize that boards have been trained to ignore Indigenous people. The board may have a lot of cognitive dissonance in terms of reconciliation because they are unwinding years of education, stereotypes and cultural attitudes that have been self-reinforcing over decades. Empathy and knowledge need to be built. Boards need to consider indigenous inclusion in all levels of the organization, including the board level and senior management.

Corporate governance leaders can learn from this approach to long-termism and inter-generational responsibility, with a concern for future generations. Boards should think in multi-generational terms and adopt the Indigenous concept of land stewardship.

How might we run our boards differently if we were to centre Indigenous knowledge in our own practices? Boards would:

- Have more collaborative and less hierarchical styles and cultures
- Adopt mufti-generational, long-term and stewardship thinking
- Focus on shared prosperity, with a dual mandate to make profits and benefit the community

PURPOSE GOVERNANCE PANEL: USING PURPOSE GOVERNANCE AS A COMPASS FOR YOUR CORPORATION

Moderator: ***Stephanie Bertels****, Director, Centre for Corporate Governance and Sustainability, SFU Beedie School of Business and Founder, Embedding Project*

Panel: ***Kulvir Gill****, Board Member, Canada Nickel Company;* ***David Rutherford****, VP Communications and Corporate Sustainability, Aviso Wealth;* ***Lisa Skakun****, Chief Legal, Regulatory & Corporate Affairs Officer, Coast Capital*

Purpose governance is gaining support from businesses in various industries as investors, customers and stakeholders expect corporations to create value beyond profit. This is driving businesses to adopt a purpose as their reason for existing – their "why" as distinct from their "how", which is the mission. Boards then broaden their mandate to have oversight of the organization's purpose.

There are different types of purpose companies:

- Companies whose purpose is to drive profits
- Companies driven by the products they are taking to market (e.g., Apple)
- Companies with customer-focused purposes whose purpose is to deliver an incredible customer experience (e.g., Hilton or Four Seasons and high-end hotel chains
- Companies with a purpose to enhance the social good, or a social purpose

Companies are increasingly stumbling into the social purpose space, they are trying to embed social purpose into their DNA, so it becomes the reason they exist, it influences all their decisions, and it is what drives them forward. Even start-ups are developing a social purpose. They are setting the purpose DNA of the organization from the outset. They design the company with social purpose in mind, to be the partner of choice for investors, employees, suppliers, local communities, and customers.

These are benefits that all companies can realize. Having a social purpose creates a compass and brings clarity to the organization.It also helps attract and retain employees. If your company is not purpose-driven it will be hard to retain people for the long-term.

The process of developing a social purpose is a great tool of alignment and constructive tension for the board and management team – it fosters thought-provoking conversations on how it would drive decision-making strategy and resource allocation at the company. Companies need a 'why'. Profits are the outcome, they are the score, but not the reason you play.

The development of a social purpose can take time. It needs to be measurable, actionable, and compelling. Every word matters because it determines the company's direction and trajectory, and forces changes in the organization. It needs to be authentic. Even the process of developing a purpose can start to influence the culture and decisions.

Embedding purpose into the governance process starts with getting C-suite and board buy-in. After that it is incorporated into the corporate strategy, approved by the board. This establishes timelines and accountability for implementing the purpose. It is important to have a cross-functional social purpose operating committee at the senior management level to operationalize the purpose. It must be embedded across the organization for it to become part of the DNA. This includes mandatory purpose education for employees, tying corporate values to it, and bringing it up at every team and board meeting. It needs to be tied to compensation and measurement.

Investors are starting to set expectations that companies have a social purpose and create values and alignment with it. It was a watershed moment for investors and companies when Larry Fink, the CEO of BlackRock, the world's largest investor, stated that purpose is not the sole pursuit of profits, but the animating force for achieving them. It put a stake in the ground when the largest investor in the world that owns every company in the world said that all companies needed to have a social purpose.

Governance professionals can help boards enhance their purpose oversight by getting it on the board agenda, including of quarterly meetings, committee meetings and board strategy meetings. As the conduit back to the business, they can make sure materials coming to the board connect back to the social purpose. Board education on purpose is also necessary. Once it is incorporated into the strategy, it is reported quarterly to the board. Governance professionals can suggest that boards put purpose alignment in the annual board evaluation.

Purpose alignment should also be a factor in director recruitment. Directors need a purpose mindset and be aligned intrinsically to the purpose. Candidates could be asked what role they played in a past organization to help them deliver on their social purpose and whether they have been an active participant in helping bring the purpose alive. This is a new recruitment checklist that boards of the future should have.

Adopting and authentically embedding a social purpose is an emerging governance responsibility. The purpose governance manual is yet to be written, but elements include a governance and management system to embed it, metrics, targets and incentives, and a board purpose decision-lens. Investors can use their own investments to empower social change of purpose-driven companies, where their investments are an expression of their own purpose.

EDI GOVERNANCE PANEL:
HOW TO EMBED EDI GOVERNANCE AND GO FROM A "NICE TO HAVE" TO A PRE-REQUISITE TO A THRIVING BOARDROOM

Moderator: ***Shona McGlashan***, *Governance Advisor, Office of the CEO, Vancity Credit Union*

Panel: ***Lisa Edwards***, *President & Chief Operating Officer, Diligent;* ***Vanessa Geary***, *Senior Executive Lead, Crown Agencies and Board Resourcing Office, Government of British Columbia;* ***Laurie Sterritt***, *Partner, Leaders International Executive Search*

Equality, Diversity, and Inclusion (EDI) governance is about more than just having a diverse board. It encompasses how diversity can enhance board governance and organizational performance.

Diversity is tied to good and effective governance. For leading boards, it is rooted in a moral and ethical responsibility to tackle systemic discrimination but also rooted in desire to ensure boards are effective in providing governance.

The conversation is moving from check the box approaches, to a recognition that values drive value. For companies that want to grow and attract investors, diversity is more than a nice to have. Not having it can be a material risk to the company's growth. More diverse boards have better financial performance. There is increasing data that diverse boards and diverse leadership teams drive better results. For example, companies with higher gender diversity are 21 percent more likely to outperform peers in a down market and 27 percent more likely to outperform in long-term value creation.

Public sector boards earn legitimacy by having diverse directors. The legitimacy of corporate boards also depends on this.

Yet, statistics on boardroom diversity remain dire. According to 2021 statistics, one quarter of directors of publicly traded Canadian corporations are female, 6.8 percent are racialized and only 8 directors identify as Indigenous, and 9 directors identify as having a disability. At the current rate of change we won't have gender equal boards for generations.

With over 70% of boards having a written diversity policy, there is a clear gap between aspirations and practical application. Actions need to match the words.

Leading boards look for people from different communities, including Indigenous, black and people of colour, LGBTQ2S+, people with disabilities, immigrants, age groups and regions. Diversity can include labour, business, and civil society voices at the table.

It is important to remember that everyone has a first board. If skills are fungible, first directors can be taught about the industry and board governance. Additionally, competency and diversity are not mutually exclusive but intertwined. By changing old mindsets and practices it is possible to open up the field of candidates. The issue is not pipeline but perspective.

Consider this three-stage approach:

1. **Recruitment** – boards need to broaden their relationships to identify diverse candidates. Partners can be found to help with this. Make sure postings and notices reach target groups, and the language is accessible and attractive to diverse people. Organizations need to be visible and connected to the groups they want to attract. Recognize that in some cultures, people do not advocate for themselves because being humble can be the most revered value in many underrepresented groups.

2. **Candidate evaluation** – broaden the lens of evaluation. Evaluate candidates and assess competency and place value on the experience people are bringing to the table. Look at community involvement, volunteer experience and lived experience.

3. **Training** – provide board governance training to first directors. Take boards through cultural competency training to create a safe and healthy culture. Use micro-affirmations to support soft-spoken or reserved board members, by validating their points or bringing their points up for further discussion. By providing training to diverse first directors and supporting their growth they can become equipped to be a committee chair and ultimately board chair, increasing the diversity of board chairs in Canada.

Allyship is a necessary practice to ensure equity deserving groups have a seat at the board table. People who have benefited from privilege have a moral responsibility to lift other people up.

To become an inclusive and anti-racist board, boards need to examine their culture. Culture is often invisible particularly for people who are privileged and benefit from it.

The boards of companies that have a social purpose will need to have a special focus on stakeholder diversity to foster effective decision-making on their purpose.

We are on a learning journey and none of us have diversity quite right yet. There are many good practices across a range of organizations, from co-ops, to non-profits, public sector organizations, and public corporations. We can learn from each other to close the gap between intent and action.

CLIMATE GOVERNANCE PANEL: WE ARE IN A CLIMATE EMERGENCY. NOW WHAT? HOW CAN YOU, YOUR BOARD AND ORGANIZATION BE MORE PROACTIVE?

Moderator: ***Juvarya Veltkamp***, *Director, Canada Climate Law Initiative*

Panel: ***Carol Hansell***, *Senior Partner, Hansell LLP;* ***Annalisa King***, *Chair of the Board, Vancouver Airport Authority;* ***Pierre Matuszewski***, *Director, Export Development Canada*

With extreme weather disrupting operations, communities, and supply chains, and in a post-COP26 world that includes growing climate-related disclosure requirements, companies and boards are under pressure to rewire their organizations to act on the climate emergency.

There is no denying climate change is here. B.C. experienced a heat dome, wildfires and flooding that shut down key infrastructure within the span of 6 months. Insured losses from those events exceeded $2B and the heat dome was the deadliest extreme weather event in Canada's history. No sectors are immune from these impacts. Canada is warming twice as fast as the rest of the world.

Governance professionals are required to provide strong climate governance leadership. Society and the economy are transitioning to net zero climate emissions and we are adapting to this new reality. Global standards for climate risk reporting are under development. Disclosure of climate risk will soon be mandatory.

We are in a climate emergency and now what?

Boards need to become fluent in climate change. Working with management, boards need to ensure the organization is transparent and clear about how it is going to reach its climate goals, and its risks and how it is managing them. There needs to be consistency in the company's messaging and disclosures. Clear and measurable climate goals are necessary for effective board oversight, and they need to be linked to the strategy.

If you look at the legal opinion, the courts have taken judicial notice of climate change risk. There is no question that climate change poses a risk to organizations.

There are several ways that boards can improve their oversight of the organization's climate change response:

- Make sure everyone on the board acknowledges there is a climate emergency and humans can do something about it; it is important not to have climate skeptics on the board
- Ensure there is a climate or ESG policy in place to mitigate risks and provide solutions
- Filter all decisions through a climate lens – acquisitions, product offerings, operations, fleet management, supply chain, etc., should all be assessed from a climate perspective
- Include your business partners in your assessment, think about their impact on the climate and how it affects your organization
- Ensure there is a solid stakeholder communication plan including ESG and climate disclosures
- Agree on your approach to structuring governance oversight of ESG and climate strategy:
    - Should there be a committee, and should it report to the board regularly?
    - Should it be included in the mandates of all committees?
    - Should this be a standing agenda item?

A new focus for boards is prompting management to take an industry view in addressing climate risks and opportunities. How is management reporting to the board on their efforts to drive broader change in industry discussions? How is the company taking an industry and collective view and is it participating and leading? These discussions need to be on the board agenda. Boards should have a big picture view and not be myopic in their focus. Organizations could get a bigger bang for their investments and expenditures if they collaborated with their industry. Boards should guard against narrow incentives that chase lesser roles. The compensation committee has a responsibility to ensure incentives reward industry-wide behaviour. It is both essential to get the industry together on climate change and also start at home and take responsibility as a company. Companies can't ask their partners to get to net zero if they don't do the same. However, boards can't forget the industry side of things, which is sometimes more significant.

The board needs to acknowledge there is a climate emergency and understand the implications on the business. This can happen through board education which should kick off a discussion at the board about how it will affect the organization.

Boards need to take an industry view as well and understand how industry collaboration on climate change is unfolding. Boards can broaden their oversight to include how the company is approaching stakeholder collaboration to address the impacts of the climate emergency.

CONCLUSION

Fiduciary duty is being redefined. There is a paradigm shift in the role of the board in addressing these new responsibilities and if it is a role for the board, it is a role for the governance professional. The governance playbook is being rewritten by governance professionals. The boardroom and its advisors need to unlearn old mindsets and overcome their biases. How we were taught, and our experience is hindering our ability to innovate and tend to societal issues as they affect our organizations.

There is a call to action to boards and governance professionals to serve the greater good. Governance professionals are central to success on climate, Indigenous, inclusive and purpose governance. This requires governance innovation, and leadership from governance professionals to help their boards and organizations prepare for and influence the future.