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Use ESG ratings to expand your compliance and ethics program

By Lisa Beth Lentini Walker

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Within the last 20 years, matters of environmental, social, and governance (ESG) risks have progressed from being a niche concern for a small segment of the investing community to a global movement gaining the attention and market share of consumers, employees, communities, investors, and the world. Today, nearly all large institutional investors use ESG research in some way. There is a dawning realization that it matters *how* you interact with the world and that this can drive results. On the other side, not minding ESG risks can present an existential threat to the business, including direct reputational and business model threats.

ESG's role in business today

ESG refers to the key factors measuring the sustainability and ethical impact of an investment in a business or company. ESG is essentially a subset of nonfinancial performance indicators that include ethical, sustainable, and corporate governance issues, such as making sure there are systems in place to ensure accountability around a company's carbon footprint; diversity, equity, and inclusion; or the ability to drive shared values.

According to Rhonda Brauer, a corporate governance expert and president and founder of RLB Governance, "ESG is a three-syllable acronym that has come to be associated with significant issues that impact the long-term sustainability of companies, our capital markets, capital formation and society. ESG is part of Enterprise Risk Management (ERM) and ERM oversight is a core board responsibility."[1]

Marcy Twete, CEO of Marcy Twete Consulting, explained that "focusing on ESG means recognizing that it's important for your company to have positive impact in more than just dollars. I like the old adage of the 'triple bottom line' of profit, people, planet. ESG has risen out of what was (and in some cases is) the idea of corporate social responsibility or corporate responsibility. But those words are more vague. What is responsible? What is ethical? What do companies have to do to be good citizens? ESG is clearer. If you can take a business focused approach to these three aspects of your company—environmental excellence, social impact, and good governance—you are signaling to your stakeholders and shareholders that you are focused on building long-term value not just for your company but for the world."[2]

Ultimately, companies need to understand that ESG issues should not be siloed as nice window dressing into annual reports about corporate responsibility, touching only a few corporate departments. Rather, they should *increasingly* be integrated thoughtfully into company strategy, including the related risks and opportunities that companies will face over the long term.

"Many investors want to know how ESG is integrated into strategy and to understand how the board is ‘sustainability competent’ for the long term,” added Brauer. “I define that broadly to include, among other areas of expertise, climate, strategy, business transformation, legal and compliance, industry, marketing and governance. Stakeholders want the directors around the boardroom table to have the expertise and competence to help support the long-term strategy and to connect the dots.”