



# FOCUS 15

## Sustainability Committees: Structure and Practices

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(Presented in alphabetical order)

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# Foreword



Sustainability is key to the long-term performance of companies. In this complex, connected, and fast-paced world, there is hardly a concept that has as much relevance for the challenges we face.

It is also, however, a concept that is overused and often misunderstood. Sustainability encompasses economic, environmental, and social dimensions – at the individual and the corporate levels. We must continue to ask ourselves whether we can continue our current behavior indefinitely.

At IFC, we concern ourselves with corporate behavior in the private sector. We believe that a strong and engaged private sector is indispensable if we are to achieve the World Bank Group’s twin goals of ending extreme poverty and boosting shared prosperity. IFC’s ultimate objective is to create sustainable markets and opportunities where they are needed most.

Boards of directors play a vital role in providing leadership at the highest corporate level to address and resolve sustainability challenges. The board is responsible and accountable for governing sustainability in a company. IFC values this role. At the same time, we understand that boards should be equipped with relevant tools to achieve corporate sustainability goals. We developed this guidance paper for boards to lead the oversight of their companies’ environmental and social footprint through a board-level sustainability committee to help the board discharge their responsibilities.

We trust that this paper will be helpful in contributing to the understanding of the importance of sustainability for companies and how sustainability considerations can be made an integral part of strategy development, risk management, and a company’s decision making and culture. All of this is supported by appropriate governance structures, and the sustainability committee plays an important role. This publication is based on good practice examples of sustainability committees from developed countries and emerging markets from around the world.

Getting sustainability right is an imperative not only for the long-term success of our companies, but also for a sustainable future for our society.

Mary Porter Peschka  
Director, Environment, Social and Governance Advice and Solutions  
IFC

# Acronyms

<b>AA</b>	AccountAbility
<b>A4S</b>	Prince's Accounting for Sustainability Project
<b>CDSB</b>	Climate Disclosure Standards Board
<b>CEO</b>	Chief executive officer
<b>CGO</b>	Chief governance officer
<b>CRO</b>	Chief risk officer
<b>CSO</b>	Chief sustainability officer
<b>CSR</b>	Corporate social responsibility
<b>ESG</b>	Environmental, social, and governance
<b>ESMS</b>	Environmental and social management system
<b>EU</b>	European Union
<b>GRI</b>	Global Reporting Initiative
<b>IFRS</b>	International Financial Reporting Standards
<b>IISD</b>	International Institute for Sustainable Development
<b>IIRC</b>	International Integrated Reporting Council
<b>IR</b>	Integrated Reporting
<b>ISAE</b>	International Standard on Assurance Engagements
<b>KPI</b>	Key performance indicator
<b>MSCI</b>	Morgan Stanley Capital International
<b>NGO</b>	Nongovernmental organization
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PwC</b>	PricewaterhouseCoopers
<b>ROA</b>	Return on assets
<b>ROE</b>	Return on equity
<b>SASB</b>	Sustainability Accounting Standards Board
<b>SDG</b>	Sustainable Development Goal
<b>TCFD</b>	Task Force on Climate-related Financial Disclosures
<b>UN</b>	United Nations
<b>UNEP</b>	United Nations Environment Programme
<b>WBCSD</b>	World Business Council for Sustainable Development

# Definitions

## **Capitals or six capitals**

The capitals are stocks of value on which all organizations depend for their success as inputs to their business model, and which are increased, decreased, or transformed through the organization's business activities and outputs. In accordance with the six capitals model, these capitals consist of financial, manufactured, intellectual, human, social and relationship, and natural capital.

*Sources: IIRC; International Integrated Reporting (IR) Framework.*

## **Corporate citizenship**

Corporate citizenship normally refers to a commitment by businesses to ethical behavior in their strategy, operations, and culture. Corporate citizenship is a recognition of the standing of the company as a juristic person in society, with rights but also responsibilities and obligations.

## **Corporate governance**

This governance is a set of structures and processes for the direction and control of companies involving a set of relationships between a company's shareholders, board, and executive bodies for the purpose of creating long-term shareholder and stakeholder value.

*Source: IFC Toolkit for Disclosure and Transparency, 2018, p. 6.*

## **Corporate social responsibility**

CSR is widely regarded as a business approach that contributes to sustainable development by delivering social and environmental benefits (i.e., two of the three pillars of sustainability) to stakeholders by behaving ethically, legally, and transparently.

## **Environmental and social management system**

ESMS is a set of policies, procedures, tools, and internal capacity that helps a financial institution identify and manage its exposure to the environmental and social risks of its clients/investees.

*Source: [https://firstforsustainability.org/risk-management/managing-environmental-and-social-risk-2\\_2/managing-environmental-and-social-risk-2\\_2\\_2/what-is-an-esms/](https://firstforsustainability.org/risk-management/managing-environmental-and-social-risk-2_2/managing-environmental-and-social-risk-2_2_2/what-is-an-esms/)*

## **IFC Corporate Governance ESG Progression Matrix for Listed Companies**

The matrix represents a summary of ESG provisions within six parameters: commitment to ESG, structure and functioning of the board of directors, control environment, disclosure and transparency, treatment of minority shareholders, and governance of stakeholder engagement.

*Source: IFC Toolkit for Disclosure and Transparency, 2018, p. 6.*

## **IFC Environmental and Social Performance Standards**

These standards define IFC clients' responsibilities for managing their environmental and social risks. The standards include: risk management, labor, resource efficiency, community, land resettlement, biodiversity, indigenous people, and cultural heritage.

*Source: IFC Toolkit for Disclosure and Transparency, 2018, p. 6.*

## **Materiality**

Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance, based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.

*Source: IFRS Conceptual Framework.*

In a context broader or other than financial information, material refers to matters that could substantively affect an organization's ability to create value in the short, medium, and long terms.

*Sources: IIRC; International (IR) Framework.*

## **Sustainability**

There are various definitions of this concept. Below are three complementary definitions that provide depth and richness of understanding:

The environmental and social factors that have an impact on the long-term performance of companies.

*Source: IFC Toolkit for Disclosure and Transparency, 2018, p. 5.*

Sustainability is the ultimate long-term goal of sustainable development. Sustainable development is in general defined as, "the development that meets the needs of the present without compromising the ability of future generations to meet their needs."

*Source: Brundtland Report.*

At the level of an organization's participation in sustainable development it means organizations intentionally interacting with, and responding to, the opportunities and challenges presented by the dynamic system of the triple context in which the organization operates and the capitals that the organization uses and affects, with the aim to create value over time.

*Source: The definition of sustainable development in Part 1 of King IV Report on Corporate Governance for South Africa, 2016. Also, see definitions of "triple context" and "capitals."*



**Sustainability policy**

This policy articulates a company's definition of and position on sustainability, its long-term goals regarding sustainability, and the principles that guide the company's decision making and actions on matters of sustainability.

**Triple context**

This is the combined context of the economy, society, and environment in which an organization operates.

*Source: The definition of triple context in Part 1 of King IV Report on Corporate Governance for South Africa, 2016.*



# 1

## Introduction

**In recent years, much has been written about sustainability as a critical component of business success.**

**However, relatively little guidance is available about how boards should practically govern this matter. This paper proposes the sustainability committee as a mechanism for managing and governing sustainability and provides guidance on this issue to directors and senior managers.**

**This paper draws from good practice examples of sustainability committees in both developed and emerging markets, which include: Australia, Brazil, Germany, Italy, Malaysia, Netherlands, New Zealand, Saudi Arabia, South Africa, Sri Lanka, Sweden, Switzerland, the United Kingdom, and the United States.**

## Sustainability Explained

A precondition for the effective use of this paper is a common understanding of the term “sustainability.” It is often confused and even used interchangeably with the economic viability of the company; the natural environment (so-called “green issues”); corporate citizenship; ESG factors; or CSR. Sustainability is not confined to any of these matters individually. Sustainability rather refers to the overarching concept that includes these and other considerations, as represented by the triple context of the economy, society, and the natural environment in which the company operates and the capitals (financial, manufactured, intellectual, human, social and relationship, and natural capital) that the company relies on and affects.

A succinct definition of sustainability is provided in the *IFC Toolkit for Disclosure and Transparency*, 2018, p. 5, namely, “The environmental and social factors that have an impact on the long-term performance of companies.” The economic contribution (effect) of the company, and how the broader economy affects it and its customer base, surrounding communities, and other stakeholders, are implied in the performance dimension.

In short, sustainability is about companies creating value within the triple (economic, environmental, and social) context or across all the capitals in the short, medium, and long terms.

The position taken in this paper is that sustainability is the ultimate long-term goal or result of sustainable development. This is also applicable to companies, which should develop in a sustainable way to ensure the sustainability of their economic, societal, and environmental systems. For this reason, the terms “sustainable development” and “sustainability” are used interchangeably here, indicating either contribution or result, depending on the context.

# 2

## The Significance of Sustainability for Companies

**Companies should take sustainable development seriously for a number of reasons. Increasingly, investors are demanding information about sustainability activities (often referring to them as ESG factors); compliance requirements pertaining to sustainability issues are on the rise; internationally, many regulators have stringent disclosure rules for sustainability; and customers and affected communities are becoming more aware not only about sustainability considerations and implications, but also the power that they have to affect corporate behavior on this issue.**

**However, sustainability is not a mere compliance exercise or an effort to satisfy stakeholder expectations. It is also an imperative for long-term operational success. Well-governed companies are increasingly recognizing that, “the survival and success of organizations are intertwined with, and related to, three interdependent subsystems: the triple context of the economy,**

**society, and the natural environment” (p. 26, the King IV Report). Companies cannot ultimately thrive in a context that fails, and therefore, creating value for the company is closely associated with creating value for stakeholders, who represent the context in which the company operates.**

There is a convincing amount of research pointing to a correlation between sustainability and performance. The benefits for companies that operate conscious of sustainability considerations include, among others:

- Better understanding and therefore management of the company's risks
- Anticipating and being responsive to stakeholders' needs, interests, and expectations, and thereby building stronger relationships
- Improved strategy development, particularly as a result of being attuned to innovation and other growth opportunities
- Improved reputation, which means that the organization is better able to attract customers and talent

# 3

## The Structures: For Management and Governance of Sustainability

**Sound corporate governance underpins a company's ability to not only effectively manage the risks in its operating environment, but also to recognize and capture the opportunities that are presented. The board is responsible for providing this underpinning, and as such, the sustainable development of the company must be governed as an integral part of the board's performance.**



To govern is the legal duty of the board, which has ultimate accountability for the performance and actions of the company, including sustainable performance and mitigating the negative effect of the company on the environment and society.

If a sustainability committee is established, in accordance with sound governance principles, the board may delegate this responsibility without abdicating accountability. **In short, the accountability of the board for sustainability remains, whether or not a sustainability committee is established.**

The board performs its duties for sustainability by making use of governance systems and by delegating to structures that may include a committee(s) responsible for sustainability. The advantage of a sustainability committee is that it supports the management and oversight of sustainability in a focused and coordinated way across the company.

This paper provides guidance about how a sustainability committee could best be leveraged in the interest of sound governance and the good performance of the company.

### 3.1 Formal Establishment of a Committee

A board sustainability committee may be established by the board, which appoints the committee members and approves its mandate. A management sustainability committee is usually set up by the executive committee, albeit under the direction of the board.

The mandate of the committee should be formalized in written terms of reference that are approved by the board or the executive committee, depending on whether it is a board or a management committee. This document should address the committee's purpose, composition, appointment processes, authority and power, and functions and duties. An example of a sustainability committee charter can be found among the resources in appendix 6.

The formal establishment of a sustainability committee constitutes a delegation of authority to that committee by board or management, without abdicating responsibility or accountability. As is the case with all delegations, it should be done in such a way that there is clarity about the role of the committee in relation to the board and in relation to management. The terms of reference and other documents that address delegation should articulate the respective roles of the various structures that have duties and responsibilities that pertain to sustainability.

### 3.2 Types of Sustainability Committees

There are generally two types of sustainability committees, based on their manner of establishment, their composition, and their role.

**Figure 1. Governance Structure for Sustainability (board and management committees)**





**Table 1. Comparison of Two Types of Sustainability Committees**

	<b>MANAGEMENT SUSTAINABILITY COMMITTEE</b>	<b>BOARD SUSTAINABILITY COMMITTEE</b>
<b>ESTABLISHMENT</b>	Executive management (e.g., CEO) or executive committee	Board
<b>MEMBERSHIP</b>	Management	Directors and members of management may be included as long as non-executive directors are in the majority.
<b>ROLE</b>	<ul style="list-style-type: none"> <li>• Development of sustainability policies and frameworks</li> <li>• Operational oversight of implementation of sustainability activities, including the company's ESMS</li> <li>• Possible coexistence with a board sustainability committee</li> </ul>	<ul style="list-style-type: none"> <li>• Approval of sustainability policies and frameworks</li> <li>• Oversight of implementation of sustainability policies and frameworks</li> <li>• Possible coexistence with a management sustainability committee</li> </ul>
<b>REPORTING LINE</b>	• CEO, CSO, or CRO	• Board

Companies may choose one or both of the options in table 1. For example, the international agribusiness Olam has two separate committees, one a board committee and the other an executive management committee. The management committee reports to the board committee.

### **Example of a Company with Both Committees: Olam, Singapore**

Olam is an international agribusiness with two tiers of governance to implement, monitor, and evaluate the delivery of its Corporate Responsibility and Sustainability strategy as an intrinsic part of daily business operations – the Corporate Responsibility and Sustainability Board Committee and the Corporate Responsibility and Sustainability Executive Committee.

- **The Corporate Responsibility and Sustainability Board Committee**

This committee is chaired by a non-executive and independent director and monitors and evaluates progress of the Corporate Responsibility and Sustainability Executive Committee. It has detailed terms of reference that are documented in the annual report. The performance of the committee is evaluated by the board.

- **The Corporate Responsibility and Sustainability Executive Committee**

This committee reports to the Corporate Responsibility and Sustainability Board Committee. It has representation from across the geographical regions in which the company operates, as well as experts from across upstream operations, smallholder supply chains, and treasury. The activities of the Committee are managed by the global head of Corporate Responsibility and Sustainability.

A company may also choose between establishing a stand-alone committee or giving additional responsibilities for sustainability matters to an existing committee, such as the risk, compliance, or governance committee. Sustainability duties may also be distributed across a number of committees. See table 3.



There is no single governance structure that is always preferable. The type of committee structure that is established should depend on the legal requirements and situation of each company. The following are illustrative of the factors to be considered when deciding the appropriate structure to govern the sustainable development of the company:

- Size of turnover and workforce
- Nature of industry
- Complexity of operations
- Extent of the effect of the operations of the company on its economic, social, and environmental operating context.

The less complex the company and the more limited its impact, the less the need for extensive formal structures. The opposite is true for larger, more complex companies with more impact. **The determinant of whether the right structures are in place for the governance of sustainability is the ability to answer this outcomes-based question in the affirmative: Do the established structures support the board in effectively discharging its role and responsibilities for sustainability?**

To assist companies with deciding the type of sustainability structure and practices to introduce, it is helpful for the company to position itself in accordance with the IFC Corporate Governance ESG Progression Matrix for Listed Companies. The document provides for four progressive levels of maturity and complexity: basic practices, intermediate practices, good international practices, and leadership practices. Underlying this approach is the assumption that the more complex the company and the more extensive its impact on its context, the greater the need to implement formal structures.

Using the framework outlined in the matrix, Table 2 proposes the following as a guide for companies that are considering which type of sustainability committee(s) to establish.

**Table 2. The Progressive Need for Formal Structures for Managing and Overseeing Sustainability**

COMPLEXITY AND IMPACT	SUSTAINABILITY STRUCTURES	EXPLANATION
<b>LEVEL 1: BASIC PRACTICES</b>	Full board taking responsibility for sustainability; no committees	For companies that are less complex and have limited sustainability issues, it may be appropriate for the board to have direct responsibility to ensure that sustainability considerations are integrated in strategy and execution of business plans. The assumption in this instance is that the board has the capacity and knowledge required to effectively govern the sustainability of the company. Where companies have not achieved even the basic practices level, board oversight is lacking or absent.
<b>LEVEL 2: INTERMEDIATE PRACTICES</b>	Either management committee or board committee	Companies at an intermediate level of maturity could initiate a more formal approach to governance of sustainability by establishing a management structure, including a function or a committee responsible for sustainability. Alternatively, the board may establish a committee that oversees sustainability in a more focused and detailed way, in which case the various workstreams or functions that have sustainability duties report to the board committee.
<b>LEVEL 3: GOOD INTERNATIONAL PRACTICES</b>	Both management and board committees	For companies that have complex and high-impact operations, having both a board committee and a management committee (or alternatively, a dedicated function) constitutes leading practice. It ensures that the governance and operational aspects of sustainability integration receive dedicated oversight.
<b>LEVEL 4: LEADERSHIP</b>	Management and board committees functioning in an integrated way	When both management and board sustainability committees exist, it is important that they evolve to operate as integrated parts of the overall governance system overseen by the board.

The two types of sustainability committees are addressed in more detail in the next sections.

## **Management Sustainability Committee**

This type of sustainability committee comprises senior management and reports to a management structure, normally the executive committee. This is the most common structure for sustainability committees. According to an IIRC survey, just fewer than half of the largest 500 U.S. companies (223 companies) have established a committee that does not directly report to the board about oversight of sustainability issues. These committees have a strong operational focus and would typically delve deeper into the details of sustainability activities.

### **Examples of a Management Sustainability Committee Structure**

#### **Sasol Ltd.**

Sasol Ltd. is an integrated energy and chemical company based in Sandton, South Africa. In 2000, Sasol's group executive committee formally adopted responsibility for sustainable development as a groupwide strategic business objective. Since then, the company has taken steps toward embedding sustainable development principles into all of its activities. The executive committee believes that there is a strong causal link between promoting sustainable development and achieving the company's strategic growth objectives. Achieving each of the sustainability elements requires the company to operate in an informed, responsive, and socially responsible manner.

#### **General Electric Co.**

GE is a diversified technology and financial services company. Its Sustainability Steering Committee is chaired by the vice president of environment, health, and safety, and composed of senior managers from across the company with deep subject matter expertise. The committee meets regularly to review stakeholder feedback and emerging trends and to assess sustainability performance and reporting. Its activities are discussed with GE's four board committees (Audit Committee, Technology and Industrial Risk Committee, Governance and Public Affairs Committee, and Management Development and Compensation Committee) and by executive management.

#### **AkzoNobel**

The Executive Committee of AkzoNobel, a paints and coatings company with strong global brands, has established a Sustainability Council to advise about sustainability developments. The council monitors the integration of sustainability into management processes and oversees the company's sustainability targets and overall sustainability performance. The council is chaired by the CEO and includes members of the Executive Committee, managing directors from within its businesses, and corporate directors of strategy, human resources, sustainability, integrated supply chain / research, development and innovation, procurement, and communications. Progress regarding sustainability objectives, development, target-setting, and implementation is reviewed quarterly by the executive committee, semi-annually by the supervisory board, and is verified annually by PricewaterhouseCoopers Accountants N.V. The Audit Committee takes an active role in assessing the quality and reliability of sustainability performance reporting.

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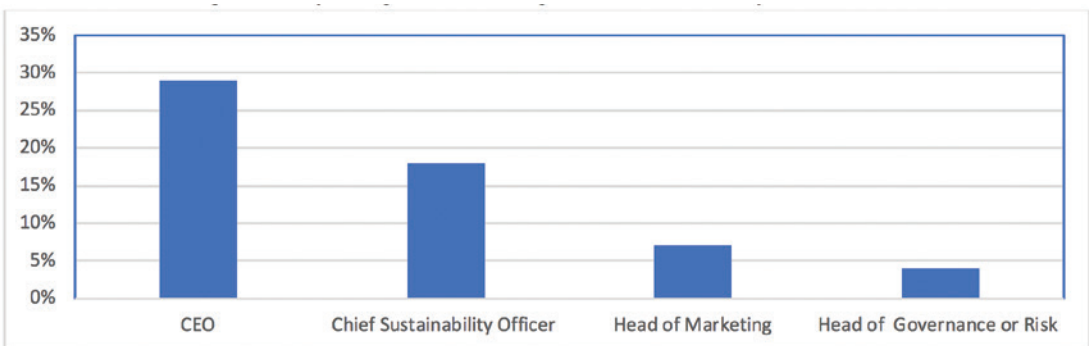
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## Volvo Cars Group

Sustainability at Volvo Cars, a global producer of automobiles, is governed by a committee known as the Sustainability Board, a decision-making body responsible for sustainability matters from a strategic perspective, as well as governance, communication, and reporting functions. The Sustainability Board is also responsible for continuously following up about sustainability progress and performance. The members of the board have the responsibility to ensure that the sustainability strategy is aligned with the corporate strategy and the Volvo Cars business plan, and that the company operates in accordance with Volvo Cars' values, code of conduct, and overall sustainability strategy. The Board consists of the president and CEO, as well as other key executive management team members.

These forms of committees typically have a direct reporting line to the CEO or CSO and do not directly report to the board about sustainability matters.

**Figure 2. Reporting Line of Management Sustainability Committees**



Source: Survey by the Ethical Corporation, 2017.

## Board Sustainability Committee

If the structural form for sustainability has been determined by the board, there tends to be a focus on high-level oversight of sustainability activities with a direct reporting line to the board, i.e., governance of rather than management of sustainability.

## Examples of a Board Sustainability Committee Structure

### Rio Tinto

The Sustainability Committee for Rio Tinto, a global metals and mining corporation, comprises three or more independent nonexecutive directors appointed by the board on the

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>>> (cont'd)

recommendation of the Nominations Committee. The Sustainability Committee chair is an independent director appointed by the board. The chair of the board may be a member, but not chair, of the Sustainability Committee. At least one member of the Sustainability Committee must have relevant skills, experience, or qualifications, as determined by the board, in sustainability-related matters.

### **BHP Billiton**

BHP Billiton extracts and processes minerals, oil, and gas. The majority of its board sustainability committee members must be independent, nonexecutive directors. The committee consists of at least three members. All members of the committee must be appropriately skilled in health, safety, environment, and community matters as determined by the board, and are proposed by the Nomination and Governance Committee and – if considered appropriate – approved by the board. The board also appoints the committee chairman.

Larger companies tend to have this type of committee. An IIRC survey (2014) identified that more than half of the 500 largest U.S. companies (277 companies) have established a committee that directly reports to the board about oversight of sustainability issues.

However, smaller companies prefer to establish management sustainability committees rather than board sustainability committees, and the proportion of medium and smaller companies in a more recent global survey by the Ethical Corporation (2017) indicated that the proportion of board sustainability committees in these companies was at a much lower level of 19 percent.

Board sustainability committees are smaller than management sustainability committees and have an average membership of four or fewer members (Burke, Hoitash, and Hoitash 2017).

## **3.3 Duties of a Sustainability Committee**

The role of sustainability committees is to manage (in the case of a management committee) or to govern (in the case of a board committee) the interaction of the company with the triple context in which it operates. The triple context is made up of the economy, the environment, and society, which in turn contain various components. How these components are analysed differs from jurisdiction to jurisdiction, in accordance with legal requirements, and from company to company, depending on factors such as industry, size and nature of the company, and its impact. As a result, sustainability committees have a wide range of duties. They may also exist under various names. Table 3 provides sample committee names and common committee duties.

Because sustainability is a concept that depends on the wider ecosystem or the triple context, the scope of the work of the sustainability committee extends beyond the boundaries of the company to encompass suppliers and customers. For example, see the ESMS and IFC resource

**Table 3. Sustainability Committee Classification**

<b>MSCI ESG INDEX</b>	<b>SAMPLE COMMITTEE NAMES</b>	<b>COMMON COMMITTEE DUTIES</b>
<b>COMMUNITY</b>	<ul style="list-style-type: none"> <li>• Sustainability</li> <li>• Public interest</li> <li>• Public issues community and external relations</li> <li>• Civic and charitable affairs</li> </ul>	<ul style="list-style-type: none"> <li>• Charitable giving</li> <li>• Community impact</li> <li>• Community engagement (volunteer programs)</li> </ul>
<b>HUMAN RIGHTS</b>	<ul style="list-style-type: none"> <li>• Sustainability</li> <li>• Public policy</li> <li>• Public issues</li> <li>• CSR</li> <li>• Ethics</li> <li>• Compliance</li> </ul>	<ul style="list-style-type: none"> <li>• Labor rights</li> <li>• Human rights policies and initiatives</li> <li>• Human rights violations</li> </ul>
<b>EMPLOYEE RELATIONS</b>	<ul style="list-style-type: none"> <li>• Sustainability</li> <li>• Occupational safety and environmental protection</li> <li>• Operational safety</li> <li>• Public policy</li> <li>• Employee development and retention</li> </ul>	<ul style="list-style-type: none"> <li>• Union relations</li> <li>• Employee involvement</li> <li>• Employee health and safety</li> <li>• Professional development</li> <li>• Child labor</li> </ul>
<b>DIVERSITY</b>	<ul style="list-style-type: none"> <li>• Sustainability</li> <li>• Employee and public responsibility</li> <li>• Public affairs</li> <li>• Diversity review</li> <li>• Corporate responsibility</li> <li>• Excellence</li> </ul>	<ul style="list-style-type: none"> <li>• Women and minority contracting</li> <li>• Employment of the disabled</li> <li>• Employment of underrepresented groups</li> </ul>
<b>ENVIRONMENT</b>	<ul style="list-style-type: none"> <li>• Sustainability</li> <li>• Environmental health, safety, and public policy</li> <li>• Environmental and safety</li> <li>• Corporate responsibility</li> </ul>	<ul style="list-style-type: none"> <li>• Waste management</li> <li>• Climate change</li> <li>• Water stress</li> <li>• Biodiversity and land use</li> <li>• Raw material sourcing</li> </ul>
<b>PRODUCT</b>	<ul style="list-style-type: none"> <li>• Sustainability</li> <li>• Environmental and safety</li> <li>• Quality</li> <li>• Public policy</li> </ul>	<ul style="list-style-type: none"> <li>• Product quality and safety</li> <li>• Customer relations</li> </ul>

Source: Burke, Hoitash, and Hoitash 2017.

developed as a tool for financial institutions to manage these institutions’ exposure to the environmental and social risks of their clients/investees. It has also become good practice, especially for larger companies, to oversee the sustainability of their supply chains.

### 3.4 Knowledge, Skills, and Experience Required for Members of a Sustainability Committee

Collectively, the knowledge, skills, and experience of sustainability committee members should match the role and functions of the committee as set out in its terms of reference. Generally, it means that the members' expertise should extend across a range of matters, as illustrated in table 3. Even though individual members have different, and ideally complementary, skill sets, all members should be able to engage on the various matters before the committee, rather than relying on one or two members with specialized or specific sustainability knowledge. This requires members to have a sound understanding of how sustainability considerations affect the strategy, opportunities, and risks facing the company.

The level of understanding among committee members, generally, should be such that members are able to constructively interrogate and challenge the information submitted. Even though committee members may not necessarily be able to provide the responses to the questions and challenge that they pose – which is management's role – they should be able to assess those responses meaningfully.

Because it is a challenge to find members with such a diverse skill set for this type of committee, companies increasingly are inviting outside “partners” to supplement their internal expertise. See the IKEA example, in which more than 10 external specialist sustainability partners are represented on the company's sustainability committees.

The extent of use of external expertise, if at all, depends on the requirements of the company and the responsibility of the committee. Sustainability committees that report directly to the board tend to make less use of outside experts as standing participants in committee deliberations, whereas their use is more extensive in management committees that are responsible for implementation of sustainability initiatives.



To meet the demanding and broad knowledge requirements for members of sustainability committees, it is necessary for committee members – especially members who are further removed from operations – to adhere to a robust continuing professional development program. Such a program should proactively address developments in sustainability components, generally, and the triple context of the company, specifically.

### 3.5 Composition and Size of Sustainability Committees

As set out in table 1, generally, a board sustainability committee comprises board members and a management committee comprises members of senior management.



## Examples of Partnerships on Sustainability Committees



TOPIC	PARTNERSHIPS REPRESENTED ON IKEA'S COMMITTEES
<b>RESPONSIBLE SOURCING</b>	<ul style="list-style-type: none"> <li>• <b>Agriculture Stewardship Council</b> – a leading organization that provides certification for sustainable food</li> <li>• <b>Marine Stewardship Council</b> – a leading organization that provides certification for sustainable seafood</li> <li>• <b>Better Cotton Initiative</b> – a multi-stakeholder initiative that aims to improve global standards in cotton production</li> <li>• <b>Forest Stewardship Council</b> – a multi-stakeholder initiative that aims to promote responsible management of the world's forests</li> <li>• <b>Sustainable Palm Oil Initiative</b> – a major public-private partnership that supports the sustainable production of palm oil while minimizing adverse social and environmental impacts</li> <li>• <b>World Wide Fund for Nature</b> – an international NGO working in the field of wilderness preservation, and the reduction of human impact on the environment</li> </ul>
<b>CLIMATE CHANGE</b>	<ul style="list-style-type: none"> <li>• <b>RE100</b> – an international initiative to support companies aiming to be 100 percent renewable</li> <li>• <b>We Mean Business</b> – a global coalition of nonprofit organizations working with the world's most influential businesses to take action on climate change and bringing together forward-looking companies that are committed to accelerating the transition to, "What gets measured, gets managed"</li> </ul>
<b>CIRCULAR ECONOMY</b>	<ul style="list-style-type: none"> <li>• <b>Ellen MacArthur Foundation</b> – a global platform of companies and innovators aimed at accelerating the transition to the circular economy</li> </ul>
<b>FAIR WAGES</b>	<ul style="list-style-type: none"> <li>• <b>Fair Wage Network</b> – an NGO committed to promoting fair-wage practices in companies' own operations and in their supply chains</li> </ul>
<b>MIGRANT WORKERS</b>	<ul style="list-style-type: none"> <li>• <b>International Organization for Migration</b> – an inter-governmental organization that works with migrants, governments, and businesses to respond to growing migration challenges</li> </ul>

A management sustainability committee's primary function is operational in nature and its membership must reflect the ability to manage and execute on all of the matters that fall within the responsibilities of the committee, as described in its terms of reference.

A board committee has governance duties and therefore, exercises oversight over execution. For this reason, it is good practice for the composition of the board committee to include a majority of independent directors, or, at the very least, a majority of non-executive directors.



The size of a sustainability committee is a function of its mandate and the required skill set. If it is a board committee, the requirement is for sufficient independent members to provide objective oversight.

Sustainability committees have an average membership of between four and five (Burke, Hoitash, and Hoitash 2017). However, the variation in size of members is large and it is increasingly common to find sustainability committees with a membership into double figures. For example, the sustainability committee of the Teachers Mutual Bank in Australia has 10 members (CEO, CFO, chief sales and marketing officer, chief human resources officer, chief information officer, senior marketing manager, property services and administration manager, manager of corporate affairs, the CSR strategist, and a staff representative) and 50 percent of the committee members are executive managers.

Board sustainability committees tend to be smaller than management sustainability committees.

Gender diversity and other types of diversity among members of the committee could contribute significantly to deliberations that are in-depth and that support robust decision making.

# 4

## The Governance Process: For Integrating Sustainability Considerations within a Company

**Typically, a company adopts a process to ensure that it follows a sustainable development approach (figure 3).**

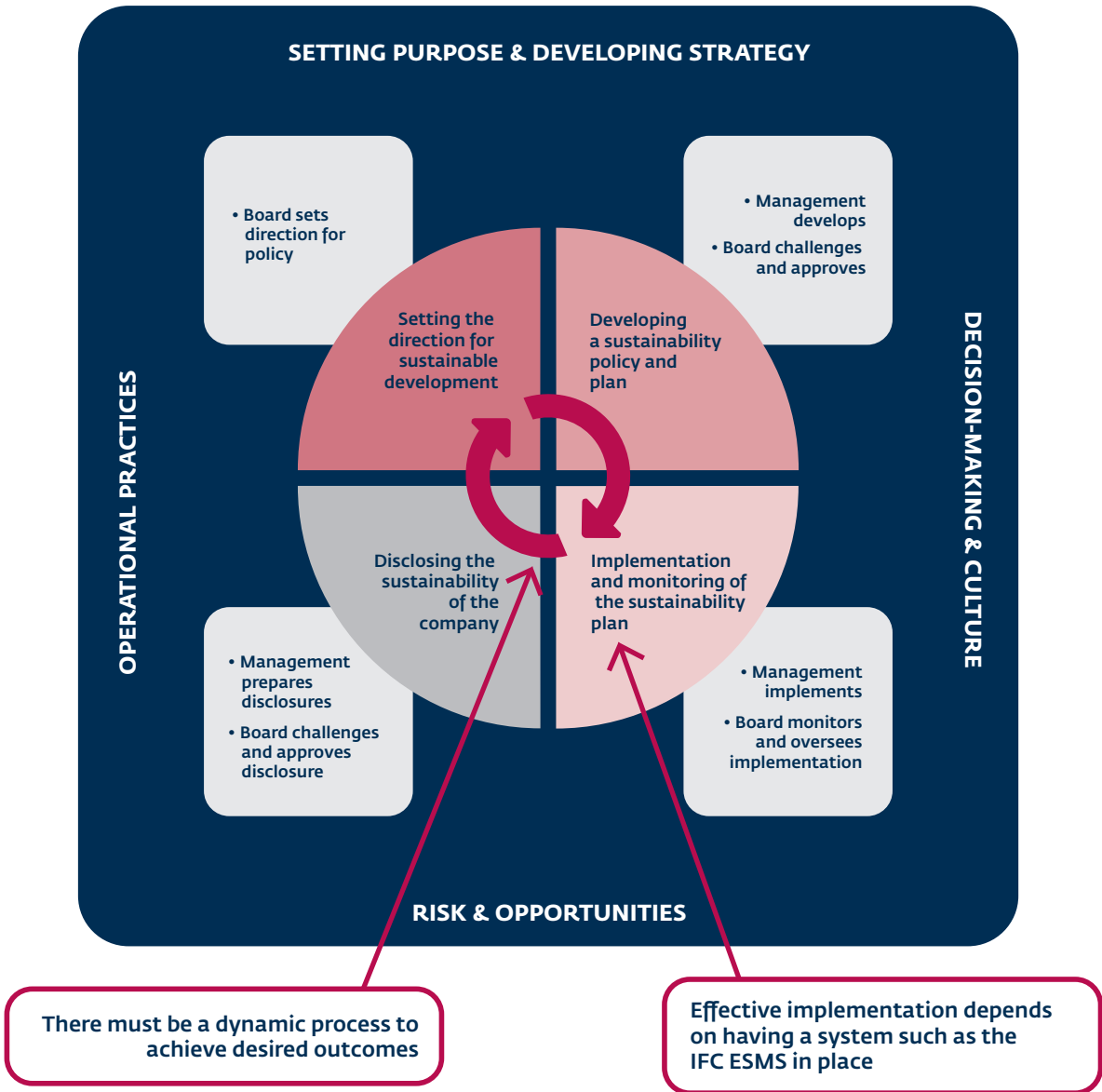


The governance of sustainability is not a process that happens in isolation, but should be an integral part of the how the company sets its purpose, develops strategy and responds to the risks and opportunities posed by the triple context in which it operates. The process should also ensure that sustainable development is embedded in operational practices and the company's decision making and culture. **Achieving this integration is one of the committee's primary challenges.**

**Figure 3 depicts the process and the role of board and management, respectively, in each element of the process. This process is dynamic and iterative and based on continual assessment of whether the desired outcomes are achieved.**

This paper addresses the stage when a sustainability committee(s) has been established. Figure 3 depicts the responsibilities for both board and management committees.

Figure 3. Typical Process for Integrating Sustainability Considerations within a Company



Each step in the process, as depicted in figure 3, is now explored in more detail below, under the headings:

- 4.1** Setting Direction for Sustainability
- 4.2** Developing a Sustainability Policy and Plan
- 4.3** Implementation and Monitoring of a Sustainability Plan
- 4.4** Disclosure about the Sustainability of a Company

## **4.1 Setting Direction for Sustainability**

The board sets direction on sustainability and in so doing, should consider how the company affects or is affected by its external context in the short, medium, and long terms. (This is also a requirement for strategy setting – another illustration of how sustainability is an integral aspect of the business of the company.) Setting direction includes the tone that the board adopts about sustainable development. The full board is responsible for setting direction and establishing a tone, even if sustainability is delegated to a committee or management. Being able to set direction (and monitor implementation for that matter) means that all board members – especially those who do not have expertise about sustainability – should do everything necessary to become sufficiently proficient to understand the imperative for it and to allow them to process the information presented for discussion by the board.



Management takes its cue from the level of priority that the board assigns to sustainability matters, through what the board says and does. If management is not clear about the direction provided by the board, it should, through the CEO, take the matter up with the board chair so that it can be discussed formally at a board meeting. At the very least, the board should indicate and record a formal commitment to sustainability, and also should recognize its ultimate accountability for sustainability – including oversight of efforts to develop a sustainability strategy, work plans, and disclosure in support of this commitment.

## **4.2 Developing a Sustainability Policy and Plan**

### **4.2.1 Sustainability Policy**

The sustainability policy gives effect to the direction set by the board. A company makes use of a sustainability policy to articulate its definition of and position about sustainability, its relevant long-term goals, and the principles that guide the company's decision making and execution on sustainability matters.

According to the IFC Performance Standard 1 on Assessment and Management of Environmental and Social Risks and Impacts, paragraph 6, “The policy provides the framework for the environmental and social assessment and management process, and specifies that the ... business activities ... will comply with the applicable laws and regulations...”

A good policy builds on the foundation of an assessment of the sustainability risks, opportunities, and impacts of the company, and how it responds to exploit opportunities and to mitigate risks and impacts.

The policy documents usually include the structures, functions, and activities (including decision making) within the company that pertain to sustainability. These documents also address the structures that are responsible for execution on sustainability. As set out above, these structures may include management functions and committees and board committees.

A primary task of the sustainability committee is to develop a sustainability policy, if it is a management committee, or to approve the developed policy, if it is a board committee. In both instances, the board has responsibility for ultimately approving the sustainability policy.

The sustainability policy could consist of one document, or two or more separate documents, that include frameworks, supporting procedures, guidelines, and codes of practice. The form is less important than the substance.

Below are several examples of how different companies spell out their sustainability policies. The first example is from Sanford Ltd., a fishing company in New Zealand that clearly sets out the company’s understanding of sustainability and the envisioned outcomes.

### **Example of a Sustainability Policy: Sanford Ltd., New Zealand**

Our sustainability agenda focuses on six performance outcomes, aligned with our operational processes and long-term vision:

#### **1. Building a sustainable seafood business**

We will deliver sustainable, profitable, and socially beneficial outcomes across our business by:

- Improving our business margins, creating shareholder value in a sustainable way, understanding and managing our risk profile, and leading the way in creating a more innovative, sustainable business
- Being recognized as a company which lives its values in all our activities, demonstrates an ethical approach across all areas of corporate responsibility, proactively engages with key stakeholders, and communicates with clarity and as much transparency as possible

>>>

>>> (cont'd)

## **2. Enabling zero harm and great prospects for our people**

We will make zero harm a priority, protecting our people from the risks of occupational injury or ill health, and become an employer of choice by:

- Maximizing prospects and offering meaningful opportunities for continual learning and development
- Promoting diversity and equal opportunities, recognizing and rewarding sound performance and fresh thinking, and fostering a values-based culture that creates a happy and motivated workforce

## **3. Leading the way to healthy food**

We will lead the way in driving sustainable outcomes across our value chain, maximizing opportunities to create value through:

- Being recognized as a global leader in providing safe, high-quality New Zealand seafood
- Working with our supply chain to deliver mutually sustainable solutions that deliver value for money, and support our focus on health and safety, product quality, sustainability, continuous improvement, and innovation

## **4. Ensuring healthy oceans**

We will lead by example in healthy ocean management, so that future generations can enjoy and benefit from our biologically diverse, healthy, and dynamic oceans, by:

- Complying with all applicable laws and regulations governing our operations, including relevant international conventions
- Enhancing our role as a leader of change in our industry, applying influence to ensure the sustainability of our ocean ecosystems, and maintaining zero tolerance for overfishing, under-reporting, and discarding catch
- Striving to protect marine species – including seabirds, sea lions, dolphins, and sharks – through best-practice farming and fishing practices

## **5. Supporting enduring communities and partnerships**

We will deliver a significant and positive contribution everywhere we work, through:

- Respecting and supporting local communities in line with our social licence to operate
- Establishing strategic partnerships that create value for the community, our partners, and Sanford, in the short, medium, and long terms

## **6. Protecting and enhancing environments**

We will work proactively with our people, customers, and suppliers to ensure that we protect and enhance the environment by:

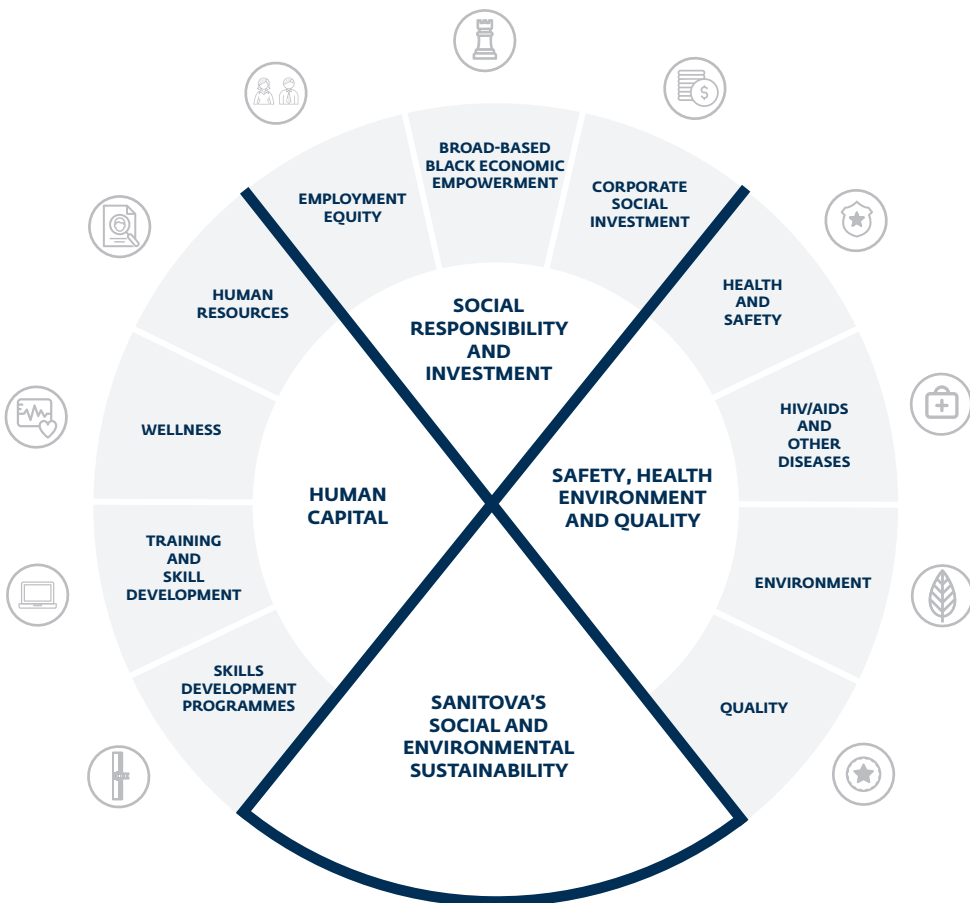
- Minimizing environmental impact when carrying out business operations, preventing pollution or contamination of land, air, and water and, where possible, enhancing the environment we operate in through sound management and mitigation
- Doing more with less by maximizing efficient use of resources
- Demonstrating our commitment to climate change response by actively reducing our energy consumption and emission of greenhouse gases and by seeking to introduce low-carbon solutions into our value chain, when practical



As can be seen from the example of a sustainability policy at Sanford Ltd., it is useful to incorporate within the policy documents a framework of sustainability issues that affect the company's short-, medium-, and long-term performance. These issues should emanate from the company's definition of and position on sustainability, as dealt with in the sustainability policy. Categorizing these issues, or otherwise dealing in a methodical manner with them, in the policy documents contribute to clarity about the company. Having this clarity supports strategy development, risk management, stakeholder engagement, and reporting.

Another example of a corporate sustainability framework comes from Santova, a logistics company in South Africa whose key strategic initiatives focus on creating long-term sustainable value for all its stakeholders. The social and environmental sustainability section of its 2017 annual report shows 11 categories of sustainability matters divided into human capital, social responsibility and investment and safety, health environment and quality issues (figure 4).

**Figure 4. Santova's Social and Environmental Sustainability Framework**





A final example of a corporate sustainability framework shows how an investment bank in Saudi Arabia has built a unique framework that incorporates the global principles of sustainability and relates them to Islamic values and the bank’s strategy (table 4). The development of this framework has clearly involved considerable work contextualizing the framework to Islamic values and is clearly not a generic standardized document that has been “taken off the shelf.”

**Table 4. Example of Customized Framework of Sustainability Matters: Saudi Investment Bank (SAIB)**

<b>PILLAR</b>	<b>DEFINITIONS</b>	<b>SAIB’S 3-YEAR AMBITION (2016–2018)</b>
<b>TAKLEEF</b>	To be held responsible	This pillar encompasses responsible banking practices, ethical conduct, and measures that protect our customers and earn their trust. The bank will be recognized by customers, investors, employees, and the public as the most genuine, integrity-based, values-driven, and accountable bank in Saudi Arabia.
<b>NUMMOW (GROWTH)</b>	To “give life” and to “grow.” In Arabic, it refers to a positive change.	Nummow represents the bank’s efforts to create economic stability and growth, to build quality, accessible products and services, and to sustainably build on its financial performance. It embodies sustainable, accessible, and inclusive growth that encompasses the bank and its stakeholders. SAIB will be the fastest-growing bank in Saudi Arabia because customers will switch to it from competitor banks, due to the unique service offerings and customer experience that are largely attributable to SAIB’s ongoing sustainability-driven innovations. These innovations will be the central showpieces of SAIB’s sustainability efforts and will demonstrate not only how sustainability can shape the core of a bank, but also how it can drive the bank’s differentiation, top-line revenue growth, and profitability.
<b>REA’YA (WORKFORCE)</b>	The establishment of strong relationships between one another	This pillar encompasses the bank’s efforts to engage employees and work as one family to embody inclusiveness and respect, to develop talents, and to preserve human rights. SAIB will be the most sought-after bank to work for, first and foremost because of its clear transparency and accountability toward both its employees and society.
<b>HIFTH (ENVIRONMENTAL PROTECTION)</b>	The sustainable use of natural resources by local communities	This pillar entails the bank’s conservation of the environment through its lending and investment decisions and its efforts to limit emissions and waste and reduce consumption of electricity, water, and paper in its direct operations and suppliers. SAIB will build a competitive advantage by embedding environmental management into its core activities and continuously de-materialize banking. The bank will be a model of the competitive environmental practices that the Saudi government is seeking for the benefit of the kingdom.
<b>AWN (HELPING OTHERS)</b>	To help, to offer what you can for others	SAIB has a responsibility to support local communities. Awn encompasses our Zakat investments, community investment programs, and local procurement. SAIB will measure not only the amount of money it invests, but also the extent and effectiveness of its impact. The Bank will narrow and focus its investments in areas where it can contribute not just money, but also tools and expertise.

Another way to frame sustainability matters is to view them from a stakeholder lens. Table 5 contains an example of four key stakeholder groups that sustainability committees would typically focus on and maps them to the components of sustainability that the stakeholder groups affect or are affected by.

Table 5 is a repeat of table 3, but this version includes the stakeholder groupings in the first column.

**Table 5. Mapping of Sustainability Matters and Duties to Stakeholder Groupings**

STAKEHOLDER GROUPS	MCSI INDEX DIMENSION	SAMPLE COMMITTEE NAMES	COMMON COMMITTEE DUTIES
<b>COMMUNITY</b>	Community	<ul style="list-style-type: none"> <li>• Sustainability</li> <li>• Public interest</li> <li>• Public issues community and external relations</li> <li>• Civic and charitable affairs</li> </ul>	<ul style="list-style-type: none"> <li>• Charitable giving</li> <li>• Community impact</li> <li>• Community engagement (volunteer programs)</li> </ul>
	Human rights	<ul style="list-style-type: none"> <li>• Sustainability</li> <li>• Public policy</li> <li>• Public issues</li> <li>• CSR</li> <li>• Ethics</li> <li>• Compliance</li> </ul>	<ul style="list-style-type: none"> <li>• Labor rights</li> <li>• Human rights policies and initiatives</li> <li>• Human rights violations</li> </ul>
<b>EMPLOYEES</b>	Human relations	<ul style="list-style-type: none"> <li>• Sustainability</li> <li>• Occupational safety and environmental protection</li> <li>• Operational safety</li> <li>• Public policy</li> <li>• Employee development and retention</li> </ul>	<ul style="list-style-type: none"> <li>• Union relations</li> <li>• Employee involvement</li> <li>• Employee health and safety</li> <li>• Professional development</li> <li>• Child labor</li> </ul>
	Diversity	<ul style="list-style-type: none"> <li>• Sustainability</li> <li>• Employee and public responsibility</li> <li>• Public affairs</li> <li>• Diversity review</li> <li>• Corporate responsibility</li> <li>• Excellence</li> </ul>	<ul style="list-style-type: none"> <li>• Women and minority contracting</li> <li>• Employment of the disabled</li> <li>• Employment of underrepresented groups</li> </ul>
<b>ENVIRONMENT</b>	Environment	<ul style="list-style-type: none"> <li>• Sustainability</li> <li>• Environmental health, safety, and public policy</li> <li>• Environmental and safety</li> <li>• Corporate responsibility</li> </ul>	<ul style="list-style-type: none"> <li>• Waste management</li> <li>• Climate change</li> <li>• Water stress</li> <li>• Biodiversity and land use</li> <li>• Raw material sourcing</li> </ul>
<b>CONSUMER/SUPPLY</b>	Product	<ul style="list-style-type: none"> <li>• Sustainability</li> <li>• Environmental and safety</li> <li>• Quality</li> <li>• Public policy</li> </ul>	<ul style="list-style-type: none"> <li>• Product quality and safety</li> <li>• Customer relations</li> </ul>

Source: Burke, Hoitash, and Hoitash 2017.

#### 4.2.2 Sustainability Plan

The sustainability committee normally delegates the responsibility for developing the sustainability plan to senior management. Once management has developed the plan, the committee should constructively review it before approving it for implementation. If both management and board sustainability committees are in place, it is good practice for both committees to approve the plan.

#### ***Purpose and Scope of the Plan***



The purpose of the sustainability implementation plan is to guide the execution of the sustainability policy and should include the following:

- Identifying activities and interventions toward achieving the sustainability outcomes as expressed in the policy which could include but is not limited to the following:
- Determining the barriers that are likely to be faced when improving sustainability within the company and how these would be managed
- Prioritizing the various sustainability issues and goals
- Developing risk appetite and tolerance parameters for sustainability goals and assessing the risks of each goal
- Supporting sustainability's alignment with and integration into overall corporate strategy and planning

#### ***Activities and Interventions Supporting the Plan***

Below is an indication of activities and interventions that should be included to support the achievement of the plan outcomes. It is not an exhaustive list, and the sustainability committee should apply itself to effectively review the completeness of the plan before approving it.

- Assess sustainability risks and opportunities and put in place responses to manage risks and realize opportunities.
- Design and execute a stakeholder engagement plan that is mapped to sustainability matters.
- Determine material sustainability matters.
- Implement an ethics program.
- Set up safe and confidential reporting mechanisms for employees and stakeholders to report ethical breaches and noncompliance.
- Design and implement a plan for fraud prevention, detection, and response.
- Monitor compliance with laws.
- Oversee employee well-being and related policies that cover diversity, sexual harassment, and fair remuneration.
- Ensure waste management and environmental rehabilitation initiatives.

- Oversee sustainability practices of participants in the company supply chain.
- Continue the professional development of board and committee members about relevant sustainability matters.

### **Key Performance Indicators and Measurable Targets**

The activities and initiatives as outlined above should result in measurable outputs and outcomes that set the foundation for performance management and monitoring. An important aspect of the implementation plan, therefore, involves the setting of key performance areas and indicators and measurable targets.

Companies are increasingly using disclosure guidelines and standards to develop associated and more detailed key performance targets and indicators. This is a good approach, because it is ineffective and illogical for there to be a disconnect between targets and indicators used for monitoring and reporting internally and those used for external disclosure.

Most commentators agree that KPIs in the area of sustainability are still in the early stages of development. For example, in 2015 (b), the audit firm PricewaterhouseCoopers (PwC) concluded that:

**“We currently lack robust, standardized methodologies for measuring impact. Each impact can often require a different methodology; primary data is often lacking, and a lot of creativity is required. For the time being, management teams may have to accept these imperfections, understanding that investors would rather have imperfect information than none. This feels uncomfortable in the context of traditional financial reporting, but we see the absence of reporting in key areas necessary for an understanding of a company’s performance as a bigger problem. Investors agree. They have told us they prefer to receive information that may not reach 100 percent accuracy than to receive none at all. They also accept the inherent limitations of certain information sets.”**

Companies are developing sophisticated KPIs to set targets and monitor performance in the field of sustainability.

In practice, many of the sustainability KPIs and targets are extremely demanding and may involve the whole of the supply chain, rather than being company-specific. The example from Marks and Spencer (M&S), a U.K. retailer with a focus on sustainability issues, provides an example of the number and specificity of KPIs that are typically used by sustainability committees in their “Plan A” set of more than 300 commitments. An extract from some of these commitments is shown below.

## Example of Sustainability Targets and KPIs: Marks and Spencer, UK

To ensure 100 percent of our products address 100 percent of their material social and environmental impacts, we have an existing commitment that every one of the 3 billion food, clothing, home, and beauty products we sell every year has at least one Plan A attribute by 2020.

Examples of Plan A 2025 targets include:

- BY 2030** We aim to **reduce greenhouse gas emissions** from M&S operations worldwide by 80 percent compared with 2006/7, on track to a 90 percent reduction by 2035.
- BY 2020** We will have completed programs in 10 locations that aim to **secure meaningful economic, social, and environmental benefits in the communities around our stores** and beyond. We'll build on our insights and roll out programs in 100 further locations in the United Kingdom and internationally by 2023, then share our learnings with 1,000 locations by 2025.
- BY 2025** 50 percent of our full-line M&S-operated stores and offices in the United Kingdom will have **space available for community groups, charities, and local interest groups** to use.
- BY 2019** M&S single-serve portion sizes of snacks, confectionery, and ice cream will contain **no more than 250 calories**.
- BY 2025** We will support M&S colleagues worldwide to **provide 1 million hours of work-time community volunteering**.
- BY 2025** We want all edible surplus food from M&S stores, key franchises, and direct food suppliers worldwide to be diverted for human consumption.
- BY 2025** We'll enter into a **new collaboration with Oxfam** for three years, focusing on the United Kingdom and India, to develop a deeper understanding of the connection between our sourcing practices and our human rights impacts. Oxfam will report the findings independently, while M&S will develop a program of actions and report annually about our progress, starting in 2018.
- BY 2025** **Our Global Community Program will benefit 1 million people in our supply chain communities**, by working in partnership with others to help build livelihoods, protect the environment, and improve well-being, and focusing on our areas of biggest human rights and environmental impact.
- BY 2025** **Every product will have attributes that address all priority social, ethical, and environmental impacts**.
- BY 2022** All M&S product packaging in the United Kingdom that could end up with our customers will be not only **“recyclable,” but also “widely recycled.”** To achieve this, we will actively collaborate with others to bring about changes in local government recycling policies.
- BY 2025** The **50 key raw materials used for M&S products will come from sources verified** as respecting the integrity of ecosystems, the welfare of animals, and the well-being of people and communities. This will cover more than 80 percent of M&S raw material usage by volume.

Below is an example of some sustainability indicators used by Gold Fields a globally diversified gold producer, from its 2017 Integrated Annual Report:

### Example of Corporate Sustainability Indicators: Gold Fields, South Africa

ENVIRONMENT		
Parameter	Unit	Reported 2017 Data
CO <sub>2</sub> equivalent emissions, scope 1–3	Metric tons	1,959,035
Electricity purchased	MWh	1,366,086
Diesel	KL	188,140
Energy consumed / metric tons mined	GJ / metric tons	0.058 (12,178,119.73 GJ / 208,520,018.06 metric tons)
Energy consumed / ounces of gold produced	GJ / ounces of gold	5.46 (12,178,119.73 GJ / 2,232,443.05 ounces)
Water withdrawn	ML	32,985
Water recycled / reused per year	ML	43,289
Water intensity	KL withdrawn / ounces of gold produced	14.78 (32,985,196.00 KL / 2,232,443.05 ounces)
Environmental incidents, level 3 and above	Number of incidents	2
HEALTH		
Parameter	Unit	Reported 2017 Data
Cases of Silicosis*	Number of cases reported	11
Cases of noise-induced hearing loss	Number of cases reported	5
Cases of cardio respiratory (tuberculosis)	Number of cases reported	21
Cases of malaria per year	Number of cases tested positive	409
South African and West African employees in the HAART program (cumulative)	Number of employees	370
South African and West African employees in the company's voluntary counseling and testing program	Percentage of employees	40.01%
SAFETY		
Parameter	Unit	Reported 2017 Data
Total recordable injury (TRI) frequency rate	Number of TRIs / man-hours	2.42 (138 TRIs / 57,099,862 man-hours)
Fatalities	Number of fatalities	3
SOCIAL		
Parameter	Unit	Reported 2017 Data
Amount spent on socioeconomic development	\$	\$17,486 797.51
Employment in host community	%	40.42%
Amount spent on procurement in host community as percentage of total procurement spending	%	44.62%
<b>Total value created and distributed</b>	<b>\$</b>	<b>\$2,850,000,000.00</b>

\* Silicosis is a lung disease that usually occurs among workers who breathe in dust that contains silica, which is a tiny crystal found in sand, rock, or mineral ores such as quartz

### 4.3 Implementation and Monitoring of a Sustainability Plan

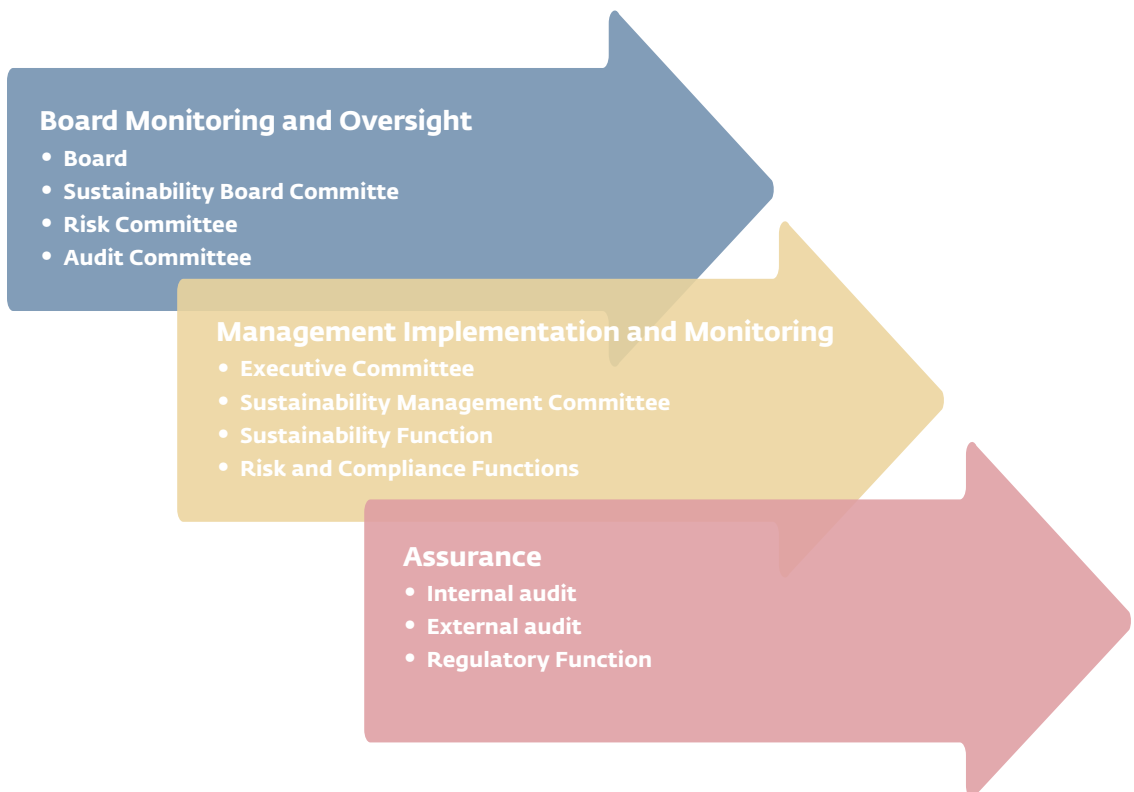
Once the sustainability plan has been approved by the board or by the board sustainability committee on its behalf, management has the responsibility of implementing the plan.

Monitoring of implementation happens at various levels in the company, and various actors from within and outside the company are involved in it, as depicted in figure 5. The monitoring at all levels should be conducted according to the approved sustainability implementation plan, and reporting to the committee should be prepared accordingly. Reporting to the committee should indicate both progress against KPIs and the risks that could affect achievement of targets and outcomes.



The structures and processes that constitute board oversight, management implementation, and monitoring and assurance should holistically work together so that there is comprehensive monitoring that leverages a system of checks and balances. Figure 5 is a representation of how these structures and processes could work in a combined way – **for example, as in the ESMS recommended by IFC.**

**Figure 5. Monitoring, Oversight, and Assurance of Sustainability Matters**



IFC's Environmental and Social Performance Standards define IFC clients' responsibilities for managing their environmental and social risks. These standards and the accompanying guidance documents – related to the categories of Risk Management, Labor, Resource Efficiency, Community, Land Resettlement, Biodiversity, Indigenous People, and Cultural Heritage – are also useful tools to help companies guide and assess implementation of sustainability considerations in all of the categories.

## 4.4 Disclosure about the Sustainability of a Company



### 4.4.1 Sustainability Reporting Frameworks

In 2018, IFC published a reporting framework, the IFC ESG Corporate Governance Progression Matrix for Listed Companies. See table 2 for a description of the maturity levels.

The matrix represents a summary of ESG provisions within six parameters: commitment to ESG, structure and functioning of the board of directors, control environment, disclosure and transparency, treatment of minority shareholders, and governance of stakeholder engagement.

The ESG / sustainability disclosure and transparency good and leadership practices that IFC developed and published are summarized in table 6.

**Table 6. ESG / Sustainability Disclosure and Transparency Good and Leadership Practices**

	
<p><b>GOOD</b> INTERNATIONAL PRACTICES IN ESG / SUSTAINABILITY REPORTING</p>	<p><b>LEADERSHIP</b> ESG / SUSTAINABILITY</p>
<ul style="list-style-type: none"> <li>• Annual report includes ESG information.</li> <li>• ESG data is subject to independent review.</li> <li>• Information disclosed to affected communities is in an understandable format and language.</li> <li>• Annual updates are provided to local affected communities.</li> </ul>	<ul style="list-style-type: none"> <li>• There is periodic non-financial reporting of ESG issues that are of concern to stakeholders.</li> <li>• ESG data are subject to an annual audit by an independent provider.</li> </ul>



The IFC framework emphasizes the importance of ongoing improvements in a company’s governance practices and suggests that the three elements of disclosure and transparency involving strategy, governance, and performance increases with company size (table 7).

**Table 7. Strategy, Governance, and Performance Reporting, by Company Size**

<b>COMPANY SIZE</b>	<b>STRATEGY</b>	<b>GOVERNANCE</b>	<b>PERFORMANCE</b>
<b>SMALL</b>	Strategy objectives and risk	Board structure and functioning	Financial statements
<b>MEDIUM</b>	Strategy objectives and risk Business model and environment	Board structure and functioning Internal control and audit Compliance	Financial statements
<b>LARGE, PRIVATE / NATIONAL</b>	Strategy objectives and risk Business model and environment Sustainability opportunities and risks	Board structure and functioning Internal control and audit Compliance Risk management Minority shareholders	Financial statements Performance report
<b>LARGE, PUBLICLY LISTED / INTERNATIONAL</b>	Strategy objectives and risk Business model and environment Sustainability opportunities and risks KPIs	Board structure and functioning Internal control and audit Compliance Risk management Minority shareholders Governance of sustainability Governance of stakeholder engagement	Financial statements Performance report Sustainability performance

The GRI has published Sustainability Reporting Standards, which organize Specific Standard Disclosures into three categories: economic, environmental, and social. The social category is further divided into four subcategories: labor practices and decent work, human rights, society, and product responsibility (table 8). Each of these categories are fundamental to achieving transparency in sustainability reporting, and each should be applied when preparing a sustainability report.

**Table 8. Categories of Global Reporting Initiative Sustainability Reporting Standards**

<b>ECONOMIC PERFORMANCE</b>	<b>MARKET PRESENCE</b>	<b>INDIRECT ECONOMIC IMPACTS</b>
<b>ENVIRONMENTAL PERFORMANCE</b>	<ul style="list-style-type: none"> <li>• Materials</li> <li>• Water</li> <li>• Emissions</li> <li>• Products and Services</li> <li>• Transport</li> <li>• Supplier Environmental Assessment</li> </ul>	<ul style="list-style-type: none"> <li>• Energy</li> <li>• Biodiversity</li> <li>• Effluents and Waste</li> <li>• Compliance</li> <li>• Overall</li> <li>• Environmental Grievance Meeting</li> </ul>
<b>SOCIAL PERFORMANCE</b>	<b>Labor Practices and Decent Work</b> <ul style="list-style-type: none"> <li>• Employment</li> <li>• Occupational Health and Safety</li> <li>• Diversity and Equal Opportunity</li> <li>• Supplier Assessment for Labor Practices</li> <li>• Labor Practices Grievance Mechanisms</li> </ul>	<ul style="list-style-type: none"> <li>• Labor/Management Relations</li> <li>• Training and Education</li> <li>• Equal Remuneration for Women and Men</li> </ul>
	<b>Human Rights</b> <ul style="list-style-type: none"> <li>• Investment</li> <li>• Child Labor</li> <li>• Security Practices Assessment</li> <li>• Freedom of Association and Collective Bargaining</li> <li>• Human Rights Grievance Mechanisms</li> </ul>	<ul style="list-style-type: none"> <li>• Nondiscrimination</li> <li>• Forced or Compulsory Labor</li> <li>• Indigenous Rights</li> <li>• Supplier Human Rights Assessment</li> </ul>
	<b>Society</b> <ul style="list-style-type: none"> <li>• Local Communities</li> <li>• Public Policy</li> <li>• Compliance</li> <li>• Grievance Mechanisms for Impacts on Society</li> </ul>	<ul style="list-style-type: none"> <li>• Anti-Corruption</li> <li>• Anti-Competitive Behavior</li> <li>• Supplier Assessment for Impacts on Society</li> </ul>
	<b>Product Responsibility</b> <ul style="list-style-type: none"> <li>• Customer Health and Safety</li> <li>• Marketing Communications</li> </ul>	<ul style="list-style-type: none"> <li>• Product and Service Labeling</li> <li>• Customer Privacy</li> <li>• Compliance</li> </ul>

There are increasing compliance requirements associated with the reporting of sustainability activities. Table 9 shows the key global companies that address sustainability by using mandatory and voluntary instruments.

**Table 9. Global Instruments that Address Sustainability Reporting**

<b>INSTRUMENT</b>	<b>ARCHITECT OF SUSTAINABILITY STANDARD / FRAMEWORK</b>	<b>YEAR OF INTRODUCTION / REVISION</b>	<b>DESCRIPTION</b>
<b>CLIMATE CHANGE REPORTING FRAMEWORK</b>	Climate Disclosure Standards Board	Issued in 2010 and expanded in 2018	This is a voluntary reporting framework designed to elicit climate change-related information of value to investors in mainstream financial reports.
<b>EQUATOR PRINCIPLES</b>	IFC	Issued in 2003 and revised in 2013	These are developed by financial institutions as an industry benchmark for assessing environmental and social risks in projects. They have been adopted by 80 financial institutions in 34 countries, covering 70% of international project finance debt in emerging markets.
<b>SUSTAINABILITY REPORTING STANDARDS</b>	GRI	Issued in 2016	These focus on the presentation of economic, environmental, and social aspects of company activities (for details, see appendix 3).
<b>GLOBAL COMPACT</b>	UN	Issued in 2000	These 10 principles are voluntarily used by businesses committed to alignment with UN principles on human rights, labor, the environment, and anti-corruption.
<b>GUIDANCE ON INTEGRATED BUSINESS REPORTING</b>	International Corporate Governance Network	Issued in 2015	This provides guidance to companies about investor expectations of both financial and non-financial corporate reporting, including about environmental and social issues.
<b>GUIDELINES FOR MULTINATIONAL ENTERPRISES</b>	OECD	Issued in 1976 and revised in 2000 and 2011	These provide principles for responsible business conduct in employment, industrial relations, human rights, the environment, information disclosure, anti-bribery, competition, and taxation.
<b>GUIDING PRINCIPLES ON BUSINESS AND HUMAN RIGHTS</b>	UN High Commissioner for Refugees	Issued in 2011 and revised in 2015	These are focused largely on multinational enterprises and encourage businesses to incorporate operations policies and procedures in their strategy that safeguard human rights.
<b>DISCLOSURE AND TRANSPARENCY FRAMEWORK</b>	IFC	Issued in 2018	This provides a flexible tool that can be used to integrate a variety of best practices in sustainability management and reporting.

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**Table 9. Global Instruments that Address Sustainability Reporting (cont'd)**

INSTRUMENT	ARCHITECT OF SUSTAINABILITY STANDARD / FRAMEWORK	YEAR OF INTRODUCTION / REVISION	DESCRIPTION
<b>INTEGRATED REPORTING INITIATIVE</b>	IIRC	Issued in 2013	This aims to facilitate harmonized and holistic financial and non-financial corporate reporting. There are almost 2,000 participants in the Integrated Reporting networks worldwide. There are nearly 1,600 corporations and other organizations that have published corporate responsibilities with an independent assurance statement. These reports are variously classified as sustainability, CSR, citizenship, or environmental, health, and safety reports and vary substantially in the specifics and thoroughness of the data they disclose.
<b>ISO 26000</b>	ISO	Issued in 2010	ISO 26000 provides guidelines for social responsibility. Its goal is to encourage businesses and other organizations to practice social responsibility and thereby to improve their impacts on their workers, their natural environments, and their communities.
<b>PRINCIPLES FOR RESPONSIBLE INVESTMENT</b>	UN	Issued in 2006; endorsed by 1,250 institutional investors in 2014	These principles are voluntarily endorsed by institutional investors for incorporating sustainability issues into their investment decisions.
<b>SASB</b>	Sustainability Accounting Standards Board Foundation	Released in November 2018	What distinguishes SASB standards is a focus on financially material information covering a range of industry-specific sustainability areas, including environmental and social topics and the governance of those topics. SASB focuses on financially material issues because our mission is to help companies around the world report on the sustainability topics that matter most to investors.
<b>SDGS</b>	UN	Issued in 2015	Many companies are integrating the UN SDGs into their business strategies. The most common SDGs listed by respondents in a recent survey by the Ethical Corporation were: Goal 13 – Climate action (62% of respondents) Goal 3 – Good health and well-being (60%) Goal 8 – Decent work and economic growth (58%) Goal 12 – Responsible consumption and production (57%) Goal 9 – Industry innovation and infrastructure (53%) (For details of the goals, see appendix 4)

The next section, 4.2.2, contains examples of these indicators and targets that sustainability committees can use for disclosure. Generally, there should be congruence between reporting indicators and targets used for internal reporting and those used for external disclosure – although the latter may be at a higher level.

For further guidance about disclosure, the publication *Beyond the Balance Sheet: IFC Toolkit for Disclosure and Transparency* is recommended.

#### 4.4.2 Involving Stakeholders in Disclosure

Many companies have found it useful to involve external stakeholders as part of the reporting process. (Note that stakeholder involvement goes beyond consultation about disclosure, but this section deals particularly with the disclosure aspect of it.) Typically, a company will invite a select group of external experts to perform the following tasks:

- Test and improve the quality and clarity of its corporate responsibility reporting.
- Know whether stakeholders believe that the report effectively addresses material corporate responsibility issues.
- Assess whether it is effective in presenting the sustainability issues in a credible tone with appropriate context.
- Hear expert perspectives about its overall sustainability strategy and performance, and also issues that stakeholders believe are most likely to create new opportunities and risks for the company.

### Example of Stakeholder Reporting: Nike, United States

For each of its corporate responsibility reports, Nike formally involves external stakeholders as part of the reporting process. This engagement helps the company improve both the quality of its reporting, and its overall approach to corporate sustainability and responsibility. Nike engaged SustainAbility to help design and facilitate the engagement process for its most recent report. Together, they selected a group of stakeholders who represent diverse constituencies and were able to speak with authority on a range of topics relevant to reporting and to Nike's strategy, performance, and future risks and opportunities as they relate to sustainability. The representatives are listed in the table below.

#### Nike stakeholders

ORGANIZATION	POSITION
STARBUCKS	Vice President of Global Responsibility and Public Policy
WRI	Vice President for Institutional Strategy and Development
BSR	President and CEO
SUSTAINABLE APPAREL COALITION	CEO
SASB	Head of Standards Setting
WE MEAN BUSINESS	CEO
ACADEMY FOR SUSTAINABLE BUSINESS	CEO
CORNERSTONE CAPITAL GROUP	Head of Corporate Governance, Engagement, and Research
WINSTON ECO-STRATEGIES	Founder

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### >>> (cont'd)

During two-day meetings, the stakeholders shared their perspectives about draft sustainability reports with the Corporate Responsibility / Sustainability Performance and Disclosure Committee. They also shared additional information about work in key areas, including climate change, waste, labor, products, and materials. Themes from a recent stakeholder meeting include:

- **Set bold, business-oriented corporate responsibility / sustainability ambitions.** Stakeholders encouraged the company to consider disclosing the ambition of doubling its business with half the impact, to send a signal to its external stakeholders that Nike has big aspirations and that it needs its partners and employees to realize the goals.
- **Refine and better frame its corporate responsibility narrative.** Stakeholders encouraged Nike to consider ways to simplify the report and better tell the company's stories (e.g., through an executive summary and additional infographics). They also suggested that the company consider focusing on three key audiences: long-term investors, employees, and consumers.
- **Better demonstrate the linkages between its business and sustainability strategies.** Stakeholders questioned the clarity of the connection between the company's business and sustainability strategies. They suggested that the company look for ways to better articulate the business rationale for addressing issues such as labor and climate change.
- **Consider the next bold move on labor transparency.** Stakeholders encouraged the company to consider game-changing actions.
- **Better articulate its influence and ambition in the industry.** Stakeholders suggested that the sustainability report include discussion about the importance of industry organizations for driving systemic change and how the company intended to engage the organizations in the future, given its leadership position in the industry.
- **Reconsider the reporting model in the future.** A number of stakeholders remarked that the company's reports have generally been too long, audience agnostic, and disconnected from financial reporting.

Nike found that engaging stakeholders in the reporting process was invaluable. It provided the company's leadership with direct insights and perspectives about the report and the company's work overall. It also allowed the company to understand the topics that were top of mind for its stakeholders. Based on the feedback, the company made a number of changes to its sustainability report.

### 4.4.3 The Materiality of Sustainability Matters

Reporting standards about sustainability matters are not as well established as standards about financial reporting, and therefore the definition of materiality in the context of sustainability is still a subject of debate.



The concept of materiality is becoming extremely important in reporting about sustainability activities, because it is used in determining what should be included in disclosure. Also, it is essential for a sustainability committee to define and understand materiality to attain a grasp of the very wide range of sustainability matters. The committee cannot manage or govern otherwise.

The International Accounting Standards defines information in financial statements as being material if its omission or misstatement could influence users' decisions that are taken on the basis of the financial statements. According to the International (IR) Framework issued by IIRC, materiality refers to matters that could substantively affect the company's ability to create value in the short, medium, and long terms. The sustainability committee should define the materiality of sustainability matters in terms of a threshold or cut-off point, after which the information becomes relevant to users to decide about the company's future ability to create value.

Information contained in the integrated report, the sustainability report, or the financial statements must therefore be complete in all material respects for the documents to present a true and fair view of the company's affairs. The size and impact of individual companies will determine the materiality thresholds or cut-off points.

In some companies, the materiality of sustainability is determined by taking into account its relevance to both internal and external users. An example of this approach was adopted by Bayer, a German multinational pharmaceutical and life sciences company (figure 6 on the next page).

Figure 6. Sustainability Materiality Index for Bayer, Germany

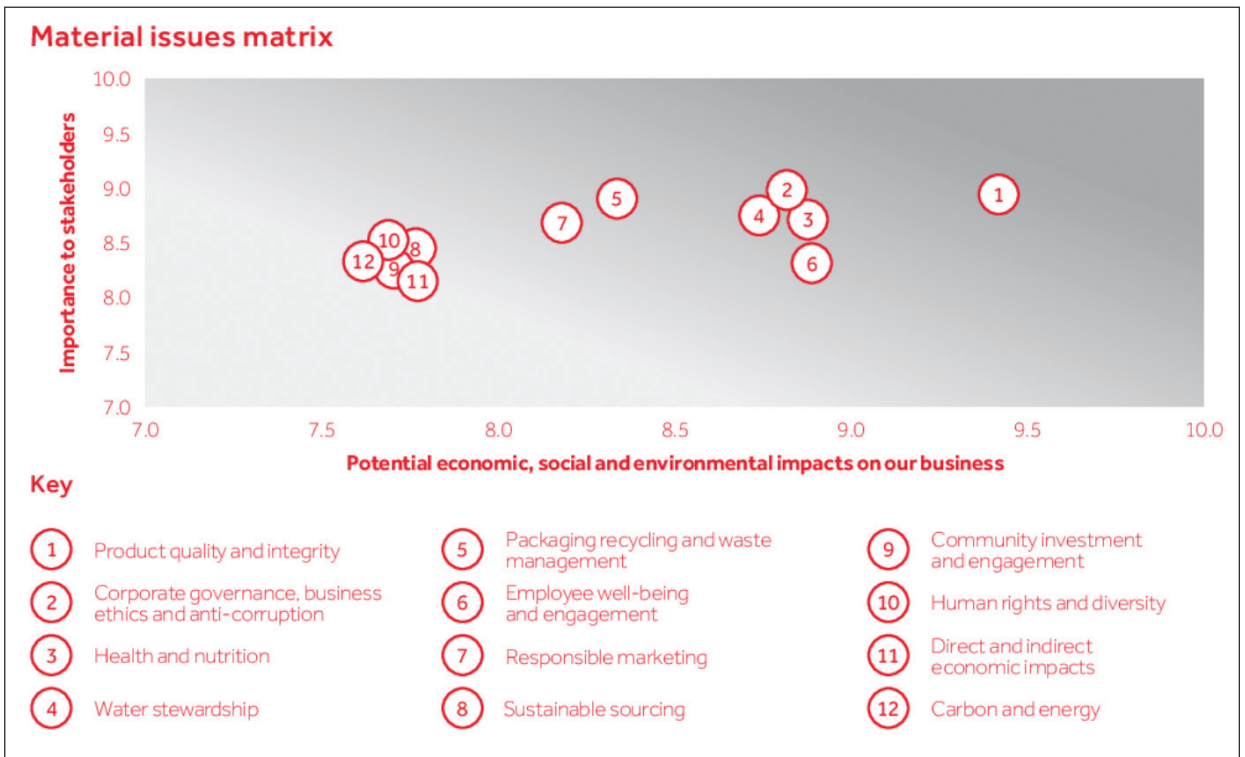
STAKEHOLDER RELEVANCE (EXTERNAL PERSPECTIVE)	VERY HIGH	<ul style="list-style-type: none"> <li>• Water Scarcity</li> <li>• Biodiversity/Land Use</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable Food Supply</li> <li>• Access to Medicine</li> <li>• Product and Process Innovation</li> <li>• Stakeholder Engagement/Partnering</li> <li>• Employee Relations and Development</li> <li>• Business Ethics</li> <li>• Product Stewardship</li> <li>• Supplier Management</li> </ul>	
	HIGH	<ul style="list-style-type: none"> <li>• Human Rights</li> <li>• Societal Shifts</li> <li>• Climate Change</li> <li>• Resource Efficiency</li> <li>• Safety</li> <li>• Sustainability Governance</li> </ul>	<ul style="list-style-type: none"> <li>• Intellectual Property</li> <li>• Responsible Marketing</li> </ul>	
	MID	<ul style="list-style-type: none"> <li>• Animal Welfare</li> <li>• Job Security</li> </ul>	<ul style="list-style-type: none"> <li>• Counterfeit Prevention and Mitigation</li> <li>• Social Commitment</li> <li>• Environmental Protection</li> <li>• Circular Economy</li> </ul>	
		MID	HIGH	VERY HIGH
		BAYER RELEVANCE (INTERNAL PERSPECTIVE)		



In other companies, sustainability materiality is determined by taking into account the potential economic, social, and environmental impacts and their relative importance to stakeholders.

An example of such approach was taken by Coca Cola’s bottler in Greece (figure 7).

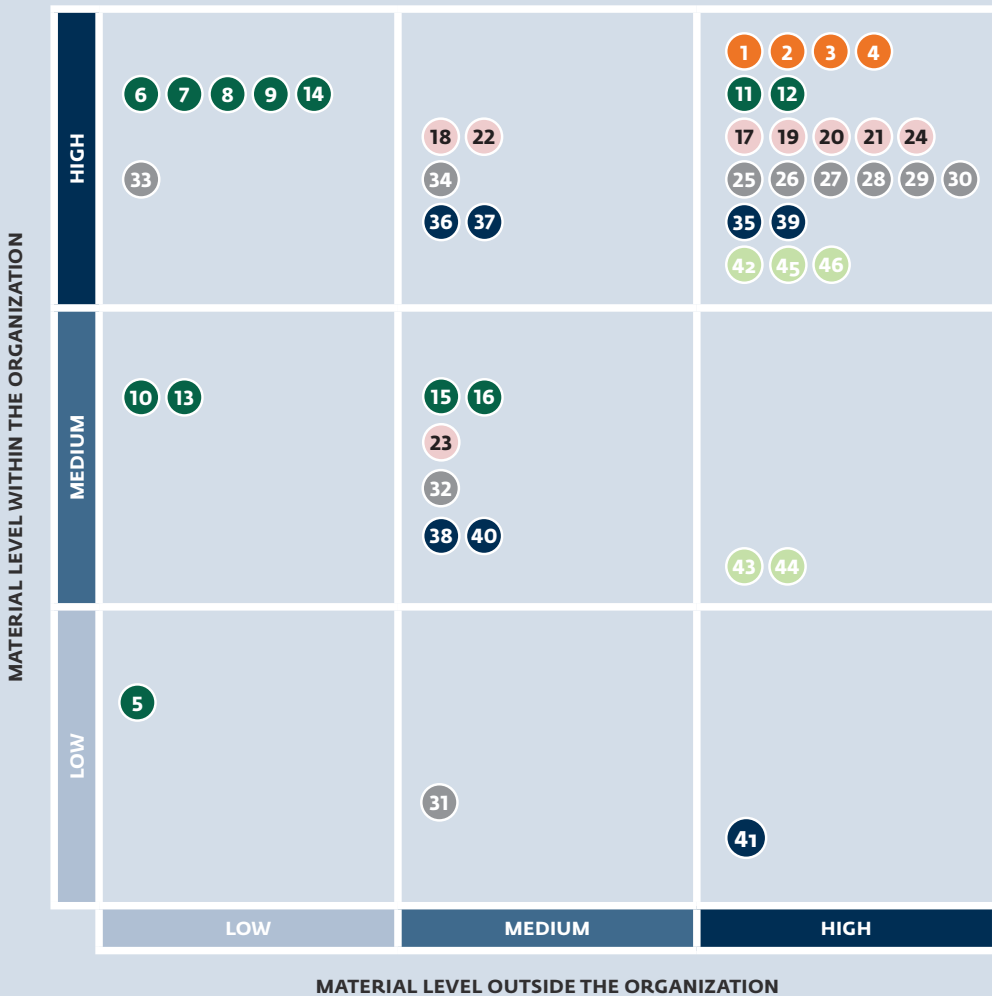
**Figure 7. Material Issues for Coca-Cola HBC, Greece**



Another example comes from Sampath Bank in Sri Lanka, which used stakeholder engagement to help it determine its material sustainability issues.

### Example of Mapping Stakeholder Concerns: Sampath Bank, Sri Lanka

- Economic (Orange, 1-4)
- Environmental (Green, 5-16)
- Social (labor practices and decent work) (Pink, 17-24)
- Human rights (Grey, 25-34)
- Societal (Blue, 35-41)
- Product responsibility (Green, 42-46)



#### 4.4.4 Assurance about Sustainability Disclosure

Ensuring the quality and integrity of non-financial information from assurance providers is essential for the credibility of sustainability disclosure. However, assuring sustainability information is not an easy task, because the reporting criteria and the standards and methodologies for assuring non-financial information are not as well-developed as for financial reporting. (Assurance here refers to a competent party that is independent of a company undertaking a process to obtain sufficient and relevant evidence to support a written conclusion about certain information that is disclosed.) Some of the areas of difficulties for assurance providers when verifying sustainability information include:

- A lack of specialist auditing skills that are required to verify sustainability information
- Insufficient data within a company to assess its sustainability performance
- Unclear information presented by a company
- A lack of robustness in a company's materiality determination

Under existing standards, assurance can be obtained at a “reasonable assurance” level or a “limited assurance” level, or as a combination of the two. Reasonable assurance is similar to the process conducted for the auditing of financial statements, whereas limited assurance involves gathering a lower level of evidence. Sustainability information could include aspects that are subjected to either reasonable or limited assurance. There is also the option of “agreed-upon procedures” engagements, which are related to but not the same as assurance engagements. Agreed-upon procedures simply provide a report of factual findings, without expressing any assurance. Instead, users of the report assess for themselves the reported procedures and findings and draw their own conclusions about the work conducted. (For more information about assurance, consult the papers issued by IIRC as referenced in the resource list.)

There are two international standards for assuring sustainability disclosures:

- **International Standard on Assurance Engagements (ISAE 3000).** This is a generic standard for any assurance engagement other than audits or reviews of historic financial information. The standard was developed by The International Auditing and Assurance Standards Board of the International Federation of Accountants and first published in 2003. The most recent revised set of standards came into operation in 2015. An assurance report in accordance with ISAE 3000 can only be issued by professional accountants, because the assurance provider must also comply with the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants.

ISAE 3000 recognizes two types of reports: type 1 provides assurance of suitability of design and existence of controls; and type 2 provides assurance of suitability of design, existence of controls, and operational effectiveness.

- **AA1000 AccountAbility Assurance Standard (AA1000AS).** This standard was developed by AA for external assurance of the implementation of the AA1000 AccountAbility Principles Standard. Its emphasis is on whether the organization

engages with its key stakeholders and whether its sustainability reporting responds to stakeholder concerns. The standard provides two types of sustainability assurance. The first is an assessment of whether the disclosure adheres to the three AA principles, namely Materiality, Completeness, and Responsiveness. The second, in addition to this assessment, includes a verification of all the data in the report.

It is the sustainability committee's responsibility to decide, in collaboration with the audit committee, the scope of assurance required about sustainability disclosures; the level of assurance (or whether agreed-upon procedures would be conducted instead); and the selection of the assurance providers. The following should be factors in this determination:

- The size, nature, and complexity of the company
- The extent of the impact of the company on its stakeholders and the natural environment
- The needs and expectations of users of the company's reports

# 5

## Sustainability Committee Practices and Procedures

**A sustainability committee filled with talented and skilled members is of little use if it follows ineffective working practices. When the committee responsible for sustainability is a board committee, it should in all material respects follow work practices consistent with those of other board committees. Similarly, management sustainability committees should follow the practices in place for all other executive committees.**

**The practices listed below relate to board sustainability committees, but with some adjustments, they also are a good guide for management sustainability committees.**

### **5.1 Role of Sustainable Committee Secretary**

The secretary of the sustainability committee is normally the company secretary or a person recommended by the company secretary and approved by the board. The secretary plays an important role in organizing and providing assistance on legal and governance processes,

including working with the committee chair to develop the work plan and agenda. The committee secretary also assists with recording discussion points and the decisions of the committee, for future reference.

For more information about the role of the secretary, the following resources are available:

- The Corporate Secretary: The Governance Professional (IFC 2016)
- The Institute of Chartered Secretaries and Administrators website, [www.icsa.org](http://www.icsa.org)

## 5.2 Development of Annual Work Plan and Meeting Agendas

The committee should develop an annual work plan in accordance with the responsibilities set out in its terms of reference. The work plan describes all the activities that must be covered in a year, including the number of meetings. At a high level, the work plan should provide for the following:

- Consideration of management reports against the sustainability plan
- Preparation of assurance reports
- Review of content for public disclosure in the annual report, including determination of materiality
- Annual review of the sustainability policy and sustainability plan
- Assessment of committee performance, as part of the assessment of board performance, including an evaluation of whether the committee's size and composition are appropriate and whether it is achieving its objectives
- Annual review of the committee's terms of references, to enable any possible recommendations to the board for changes

The agendas for committee meetings are developed from the work plan and determine the issues for discussion. The chair and the committee secretary generally develop the agendas, with input from senior executive management and other committee members.

## 5.3 Frequency of Sustainability Committee Meetings

The typical sustainability committee meets three times to four times a year, and these meetings should be incorporated in the board calendar. The frequency of meetings depends on the activities in the work plan that are required for the committee to fulfill its mandate, as set out in the terms of reference. (See appendix 6 for an example of terms of reference for a sustainability committee.) Management sustainability committees generally meet more frequently than equivalent board committees.

Further details about meeting practices can be found in *The Corporate Secretary: The Governance Professional* (IFC 2016), downloadable from [www.ifc.org](http://www.ifc.org).

# 6

## Additional Organizations, Resources, and Information

**AccountAbility** [www.accountability.org](http://www.accountability.org)

This is an international professional institute that focuses on sustainable development, accountability, and public disclosure.

**African Institute of Corporate Citizenship** [www.aiccafrica.org](http://www.aiccafrica.org)

This NGO promotes the role of business in developing and building sustainable communities. It operates under a partnership model and has been involved in projects with partner organizations in a number of African countries, including South Africa, Malawi, Botswana, Lesotho, Mozambique, Namibia, Nigeria, Zambia, and Zimbabwe.

**Association for Sustainable & Responsible Investment in Asia (ASRIA)** [www.asria.org](http://www.asria.org)

This nonprofit membership association is dedicated to promoting corporate responsibility and sustainable investment practice in the Asia-Pacific region. Its members include investment institutions managing more than \$4 trillion in assets. The association combined forces with the PRI in 2015, by integrating its organization and team into the PRI and operating as the PRI's presence in Asia.

**CDP (formerly Carbon Disclosure Project)** [www.cdp.net](http://www.cdp.net)

This charity runs a global disclosure system that enables companies, cities, states, and regions to measure and manage their environmental impacts. The organization owns the most comprehensive collection of self-reported environmental data in the world of investors and purchasers, representing more than \$100 trillion. It has offices and partners in 50 countries.

**Climate Disclosure Standards Board (CDSB)** *www.cdsb.net*

The board promotes climate change-related disclosure through the development of a global framework for corporate reporting about climate change. It is a nonprofit organization that provides information for investors and financial markets. CDSB believes that investors and financial institutions can make better and informed decisions if companies are open and transparent and if they analyze the risks and opportunities associated with climate change-related information.

**Earth Council Alliance** *www.earthcouncilalliance.org*

The alliance has more than 80 National Councils for Sustainable Development in developing countries. The purpose of these councils is to build the principles of sustainability into national development plans. The alliance's goals include monitoring government compliance with commitments made to international agreements and facilitating partnerships for creative solutions to issues addressed by Agenda 21, a nonbinding UN action plan regarding sustainable development. The alliance also supports and coordinates the development of the Earth Charter, which articulates four guiding principles: respect for the earth and each other; ecological integrity; social and economic justice; and democracy, nonviolence, and peace. The charter, written in 2000, has been adopted by many countries, institutions, and organizations and been signed by millions of people around the world.

**Ethical Corporation** *www.ethicalcorp.com*

Ethical Corporation is a part of FC Business Intelligence Ltd., an independently owned company based in London. The organization provides business intelligence to more than 3,000 multinational companies every year.

**Ethos Institute of Business and Social Responsibility** *www.ethos.org.br*

This association of Brazilian companies represents a range of sectors that are keen on developing their activities in a socially responsible manner. This is achieved through a permanent process of evaluation and improvement. The institute also focuses on specific projects for the media and academic communities, and partners with many national and international institutions. It was founded as a not-for-profit organization in 1998 by a group of business leaders and has more than 600 company members.

**EU directives**

In December 2014, the EU implemented the Directive on Disclosure of non-financial and Diversity Information by certain Large Companies, amending the 2013 Accounting Directive. The first company reports in compliance with this directive were to be published in 2018, covering financial year 2017/18. The directive introduced measures that will strengthen the transparency and accountability of approximately 6,000 companies in the EU. These “public interest entities,” with more than 500 employees, will be:

- required to report about environmental, social, and employee-related human rights, anti-corruption, and bribery matters;



- required to describe their business model, outcomes and risks of the policies related to the above topics, and the diversity policy applied to their management and supervisory bodies; and
- encouraged to rely on recognized frameworks, such as GRI's Sustainability Reporting Guidelines, the UN Global Compact, the UN Guiding Principles on Business and Human Rights, OECD Guidelines for Multinational Enterprises, ISO 26000, and the International Labour Organization Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy.

This Directive is part of the wider EU initiative on CSR, which includes plans for a consistent approach to reporting, with the goal of supporting smart, sustainable, and inclusive growth in pursuit of the Europe 2020 objectives.

**Fundes** [www.fundes.org](http://www.fundes.org)

FUNDES promotes the competitive development of micro, small, and medium enterprises in Latin America. It develops programs for companies and organizations that seek to generate efficiency, profitability, and innovation throughout their value chains or in the communities where they work.

**Global Reporting Initiative (GRI)** [www.globalreporting.org](http://www.globalreporting.org)

This independent international organization has pioneered sustainability reporting since 1997. It helps businesses and governments worldwide understand and communicate their impact on critical sustainability issues such as climate change, human rights, governance, and well-being. The GRI Sustainability Reporting Standards (GRI Standards) are the first and most widely adopted global standards for sustainability reporting.

**International Finance Corporation (IFC)** [www.ifc.org/sustainability](http://www.ifc.org/sustainability)

IFC is a member of the World Bank Group and is committed to development occurring in an environmentally and socially sustainable manner. IFC's Sustainability Framework, originally adopted in 2006, reflects its commitment to sound environmental management and social development. IFC's Performance Standards are reflected in the Equator Principles, now used by many financial institutions around the world. Since 1956, IFC has committed more than \$31 billion of its own funds and has arranged \$20 billion in syndications for more than 2,600 companies in 140 developing countries. Working with business partners and financial institutions, the organization invests in sustainable private enterprises in regions and sectors that are underserved by investment from private sources. In addition to its primary role as a lender or direct investor, IFC uses concessional financing to develop innovative business models and demonstration projects with broader environmental and social benefits. In addition, IFC has produced more than 250 publications about sustainability issues. Key publications relevant to this paper include the following:

**IFC's Sustainability Framework: From Policy Update to Implementation (2012)** [www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/publications/publications\\_loe\\_sf\\_update-implementation](http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_loe_sf_update-implementation)

**Beyond the Balance Sheet: IFC Toolkit for Disclosure and Transparency (2018)** [www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/ifc+cgl/resources/toolkits+and+manuals/beyond+the+balance+sheet+-+ifc+toolkit+for+disclosure+and+transparency](http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+cgl/resources/toolkits+and+manuals/beyond+the+balance+sheet+-+ifc+toolkit+for+disclosure+and+transparency)

**Environmental and Social Management System (ESMS) Implementation (2015)** [www.ifc.org/esms](http://www.ifc.org/esms)

The suite of documents developed by IFC to assist with the design and implementation of the ESMS. These consist of the ESMS Handbook, the ESMS Self-assessment and Improvement Guide, and the ESMS Toolkit.

**IFC Environmental and Social Performance Standards (2012)** [www.ifc.org/performancestandards](http://www.ifc.org/performancestandards)

**Assessment and Management of Environmental and Social Risks and Impacts (2012)** [www.ifc.org/ps1](http://www.ifc.org/ps1)

**International Financial Reporting Standards (IFRS)** [www.ifrs.org](http://www.ifrs.org)

These standards, issued by the IFRS Foundation and the International Accounting Standards Board (IASB), provide a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. The standards are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards.

**International Integrated Reporting Council (IIRC)** [www.integratedreporting.org](http://www.integratedreporting.org)

This is a global coalition of regulators, investors, companies, standard setters, the accounting profession, and NGOs. The coalition promotes communication about value creation as the next step in the evolution of corporate reporting.

See also the papers issued by IIRC about assurance of integrated reports:

**Assurance about IR: An Exploration of Issues (2014)** <http://integratedreporting.org/wp-content/uploads/2014/07/Assurance-on-IR-an-exploration-of-issues.pdf>

**Assurance about IR: An Introduction to the Discussion (2014)** <http://integratedreporting.org/wp-content/uploads/2014/07/Assurance-on-IR-an-introduction-to-the-discussion.pdf>

**International Institute for Sustainable Development (IISD)** [www.iisd.org](http://www.iisd.org)

The institute was established in 1990 and is an independent, nonprofit organization that provides practical solutions to the challenge of integrating environmental and social priorities with economic development. It reports about international negotiations, conduct rigorous research, and engages citizens, businesses, and policy makers on the shared goal of developing sustainably. It has offices in Canada, Switzerland, and the United States, and operates in more than 70 countries around the world.

**International Organization for Standardization (ISO)** [www.iso.org](http://www.iso.org)

ISO is an independent, international NGO with a membership of 161 national standards bodies that is based in Switzerland. Key standards in the area of sustainability include: ISO 82 guidelines for addressing sustainability in standards, ISO 20400 guidelines for

sustainable procurement, ISO 26000 guidelines for social responsibility, and ISO 37120 guidelines for sustainable development of communities.

**The Prince's Accounting for Sustainability Project (A4S)** [www.accountingforsustainability.org](http://www.accountingforsustainability.org)  
Accounting for Sustainability was set up by HRH The Prince of Wales in 2004 to help ensure that sustainability is embedded in organizations.

**Sustainability Accounting Standards Board (SASB)** [www.sasb.org](http://www.sasb.org)  
The Board was launched in 2011 to develop and disseminate sustainability standards for the disclosure and recognition of financially material environmental, social, and governance impacts of publicly traded companies in the United States.

**SustainAbility** [www.sustainability.com](http://www.sustainability.com)  
Since its foundation in 1987, SustainAbility has guided businesses toward new pathways to sustainable development, both as a strategic advisor and an independent think tank. SustainAbility is the longest established international consultancy specializing in business strategy and sustainable development (environmental improvement, social equity, and economic development). It is a hybrid organization: part strategic management consultancy, part world-class think tank, and part energetic public interest group. In all its work, it stresses the need to create not just shareholder value, but also wider economic, social, and environmental value.

**Sustainable Stock Exchanges Initiative (SSE)** [www.sseinitiative.org](http://www.sseinitiative.org)  
This initiative is a peer-to-peer learning platform for exploring how exchanges, in collaboration with investors, regulators, and companies, can enhance corporate transparency about – and ultimately corporate performance on – ESG issues and also encourage sustainable investment. The SSE is organized by the UN Conference on Trade and Development (UNCTAD), the UN Global Compact, the UN Environment Programme Finance Initiative, and the Principles for Responsible Investment (PRI). The first five SSE Partner Exchanges (BM&FBOVESPA in Brazil, the Egyptian Exchange, Johannesburg Stock Exchange, Borsa Istanbul, and Nasdaq) have been joined by nearly all major stock exchanges worldwide, from both developed and developing countries.

**Task Force on Climate-related Financial Disclosures (TCFD)** [www.fsb-tcfid.org](http://www.fsb-tcfid.org)  
The task force develops voluntary climate-related financial risk disclosures for use by companies when they provide information to investors, lenders, insurers, and other stakeholders.

**UN Environment Programme (UNEP)** [www.unep.org](http://www.unep.org)  
This is the leading global environmental authority that sets the global agenda, promotes the coherent implementation of the environmental dimension of sustainable development within the UN system, and serves as an authoritative advocate for the global environment. The UN work encompasses assessing global, regional, and national environmental conditions and trends; developing international and national environmental instruments; and strengthening institutions for the wise management of the environment.

The UNEP Finance Initiative is a global partnership between UNEP and the financial sector. More than 190 institutions – including banks, insurers, and fund managers – work with UNEP to understand the impacts of environmental and social considerations on financial performance. Through its Climate Change Working Group, the initiative identifies the roles of the finance sector in addressing climate change, and advances the integration of climate change factors – both risks and opportunities – into financial decision making. This is done through a work program encompassing research, training, events, and regional activities.

**UN Global Compact** [www.unglobalcompact.org](http://www.unglobalcompact.org)

Companies that commit to the 10 principles of the global compact are required to annually report about their progress and sustainability performance.

**World Business Council for Sustainable Development (wbcSD)** [www.wbcSD.ch](http://www.wbcSD.ch)

This global, CEO-led organization of more than 200 leading businesses works together to accelerate the transition to a sustainable world. The council helps make member companies more successful and sustainable by focusing on the maximum positive impact for their shareholders, the environment, and societies. Its member companies come from all business sectors and all major economies, with a combined revenue of more than \$8.5 trillion and 19 million employees. It has a global network of almost 70 national business councils.

**World Resources Institute (WRI)** [www.wri.org](http://www.wri.org)

This global research organization spans more than 50 countries, with offices in the United States, China, India, Brazil, and Indonesia. It employs more than 700 experts and staff who work closely with leaders to turn big ideas into action to sustain natural resources. Its work focuses on six critical issues at the intersection of the environment and development: climate, energy, food, forests, water, and cities and transport.

# Appendix 1

## Drivers of Sustainability

**This appendix lists some of the various pressures on or motivations for a company to improve its approach to sustainability.**

### 1.1 Investor Demands

A 2017 survey by HSBC identified that the main driver of increased transparency related to sustainability is investor pressure (83 percent). Investors are increasingly factoring sustainability into their investment decision making and are consequently expecting companies to report about their sustainability approach. State Street Global Advisor recently said:

**“Today’s investors are looking for ways to put their capital to work in a more sustainable way, one focused on on long-term value creation that enables them to address their financial goals and responsible investing needs. So, for a growing number of institutional investors, the ESG characteristics of their portfolio are key to their investment strategy.”**

Larry Fink, CEO of Black Rock, one of the largest financial institutions in the world, sent a letter to Black Rock’s key investment companies in 2017 that said:

**“Environmental, social, and governance factors relevant to a company’s business can provide essential insights into management effectiveness and thus a company’s long-term prospects. We look to see that a company is attuned to the key factors that contribute to long-term growth; sustainability of the business model and its operations, attention to external and environmental factors that could impact the company and recognition of the company’s role as a member of the communities in which it operates in.”**

Amel-Zadeh and Serafeim (2017), summarizing their study published by the University of Oxford and Harvard Business School, said:

**“The clear majority of respondents (82 percent) suggest that they use ESG information because it is financially material to investment performance.”**

Investors’ demand that companies improve their reporting about sustainability activities and approach is expected to grow strongly over the next few years. However, a PwC study (2016b) identified that only 29 percent of investors view the information that the companies report about ESG as high quality, whereas 100 percent of the companies rank the same information as high quality.

A recent study found that 97 percent of major institutional investors (large global pension funds and asset managers) are expecting an increase in the next two years of their responsible investment requirements focusing on impact on ESG matters.

A key characteristic of corporate governance is maintaining a good relationship with shareholders and investors. Therefore, boards of directors must improve their reporting of sustainability activities.

## **1.2 Legal Compliance Requirements**

A 2017 survey by HSBC identified that one of the main drivers of increased transparency related to sustainability is international regulation (77 percent). The board and the senior executive management team are increasingly being required to comply with new legislation related to sustainability.

### **Examples of New Legislation Related to Sustainability**

#### **European Union**

Sustainable development has been mainstreamed into EU policies and legislation, via the EU Sustainable Development Strategy, the EU 2020 Strategy, and the EU’s Better Regulation Agenda. It also is reflected in sectoral policies, such as the 7th Environment Action Programme.

#### **Australia**

The Australian Government have set mandatory environmental standards for incorporating sustainability into government procurements. The environmental management issues covered in the policy include energy use; greenhouse gas emissions and ozone depleting substances; suppliers, products and materials use; office waste, building waste, and resource recovery and potable water use and waste water.

## 1.3 Stock Exchange Listing Requirements

Stock Exchanges around the world (both in developed and emerging countries) are increasingly setting more stringent listing requirements concerning a company's obligations to report about its sustainability approach.

### Examples of Stock Exchange Sustainability Listing Requirements

#### Brazil

The Brazilian Stock Exchange recommends that companies either declare that they publish a regular integrated sustainability report or explain why they have not done so.

#### South Africa

Since the King III Report was published in 2010, companies listed on the Johannesburg Stock Exchange are required to either produce integrated financial and sustainability reports or explain their reasons for not doing so.

#### India

SEBI, the securities regulatory authority, requires the 500 largest listed companies to include a business responsibility section in their annual report.

#### Peru

The securities market regulatory authority requires public companies to produce an ESG report along with their annual report.

#### Malaysia

The stock exchange, Bursa Malaysia Berhad, in 2018 launched BURSASUSTAIN, a comprehensive online portal designed as a one-stop knowledge and information hub for corporate governance and sustainability. This portal provides a platform for users – listed issuers, investors, and other key stakeholders – to have easy access to the latest information about corporate governance and sustainability. The bursa hopes that the website will help catalyse issuers to adopt and implement quality corporate governance and sustainability practices and thereby to bring reporting up to international standards. The hub also supplies case studies with examples that illustrate the benefits of responsible investing, to inform investors about responsible investment and Islamic finance. This initiative is part of the stock exchange's continuous efforts to ensure inclusiveness that will further enhance market quality and attractiveness ([www.bursasustain.bursamalaysia.com](http://www.bursasustain.bursamalaysia.com))

#### Kenya

The Corporate Governance Code (2015) defines sustainability as "meeting needs without compromising future needs" and recommends that a "board shall have formal strategies to promote sustainability. Attention shall be given to ESG aspects of the business that underpin sustainability."

## 1.4 Improved Sustainability Approaches and Tools

Over the last five years, institutes of directors and corporate governance associations have been very successful in disseminating good practice guidance, particularly in the area of revisions to national corporate governance codes.

Many other thought leadership organizations have initiated educational publications about sustainability topics that are aimed at business organizations. For example, IFC has more than 250 publications on sustainability topics that are downloadable from its website, [www.ifc.org](http://www.ifc.org).

## 1.5 Contribution to an Integrated Strategic Approach

Many business leaders now recognize that sustainability is a key factor in contributing to business success. A recent global study by PwC identified that 76 percent of CEOs recognized that business success is about more than just financial profit and that social and environmental factors are extremely important. This topic is further discussed in section 4.3 of this report.

- Improved performance, risk management, and risk resilience  
Many studies look at the relation between a company's sustainability practices and its performance. The vast majority of the studies find a direct link between companies that do good by their labor force, the environment, and communities, and that also do well financially (table 1.1). In addition, boards and senior executives are increasingly noting that a greater emphasis on sustainability is allowing an improved mitigation of environmental, social, and commercial risks.

**Table 1.1. Correlation between Business Performance and Sustainability**

<b>ORGANIZATION / BUSINESS</b>	<b>RESEARCH FINDINGS</b>
<b>Grewal, Hauptmann, and Serafeim (2017)</b>	This study examined materiality standards developed by the SASB and found that companies voluntarily disclosing more sustainability information had higher stock prices.
<b>IFC (2017)</b>	Of the 800 companies in IFC's investment portfolio, the companies with good environmental and social performance outperformed clients with poor environmental and social performance by 210 basis points on ROE and by 110 basis points on ROA. They also outperformed the MSCI Emerging Market Index by 130 basis points.
<b>Whelan and Fink (2016)</b>	This Harvard Business Review article said that embedding sustainability clearly resulted in a positive impact on business performance.
<b>Cambridge Associates (2016)</b>	This study of the stock selection process found that ESG factors added value in emerging markets equities.



<b>PwC (2015)</b>	This study that found that 71 percent of investors said they would decline to take part in private equity fund-raising, or would turn down an investment, that had high associated environmental, social, or governance risks.
<b>Khan, Serafeim, and Yoon (2015)</b>	This study found that companies with good performance on material sustainability issues significantly outperformed firms with poor performance on these issues, suggesting that investments in sustainability issues enhance the value of a company for shareholders.
<b>Eccles, Ioannou and Serafeim (2011)</b>	This study that found that high sustainability companies outperformed low sustainability companies by 4.8 percent per year, on a risk-adjusted basis over a 20-year period.
<b>Dhaliwal et al. (2011)</b>	This study found that companies with a high cost of equity capital in the previous year tended to initiate disclosure of CSR activities in the current year, and that these companies – now with a superior social responsibility performance – enjoyed a subsequent reduction in the cost of equity capital.
<b>Goss and Roberts (2011)</b>	This study found that U.S. companies with social responsibility problems paid 7-18 basis points more than firms that were more responsible

- **Increased revenues and innovation**

In recent global research, PwC identified 987 companies around the world that are deriving revenues from sustainable impact themes. Although the number of companies that have identified a significant benefit from a sustainability focus is still small, the numbers are growing.

- **Cost savings and efficiencies**

Increasingly, companies are focusing on their sustainability activities to drive savings throughout the business. Although the impact of a sustainability strategy typically extends throughout a company, sustainability officers identify procurement and supply chain departments as particularly affected when they are developing purchasing policies. IFC (2018) has noted that meaningful ESG reporting can provide insights into the quality of a company’s management, including its ability to assess risk during different time horizons. In particular, sustainability reporting can raise awareness and educate board directors about new or emerging material risks.

- **Improved access to capital**

As noted in the earlier section, investors and shareholders are increasingly attracted to companies that are pursuing a sustainable approach throughout their business.

- **Improvements in staff morale**

Building the company’s reputation related to its sustainability approach can have a significant impact on staff morale. Some companies have noted that applicants for first jobs (millennials) are particularly influenced by a company’s corporate responsibility and sustainability reputation. Although typically the impact of a sustainability strategy extends throughout a company, sustainability officers identify human resource departments as particularly affected when they are developing their policies.

- **Improved reputation and stakeholder relations**

Many stakeholders increasingly view sustainability not only as an issue confronting today's society, but also as a path to build a more secure future for our children and future generations. This is because sustainability reporting can help external stakeholders assess whether a company is making a positive contribution to society, and also because of the increased perception that companies should participate in economic and social development and the realization of the UN SDGs. Consequently, understanding key stakeholder priorities has become a major task for the board and the senior executive management team, which may wish to build better stakeholder relationships through the company's sustainability approach, particularly with its local communities.

- **Doing “the right thing”**

Many improvements in sustainability practices are voluntarily initiated by the board and senior management team, because of their general acceptance that this is the “right thing to do.”

## **Why Invest in Sustainability?**

Pursuing a strategy based on sustainability can add value to an organization in different ways:

- 1. Identifying new business opportunities**

- Innovation

- 2. Generating revenue**

- Adapting products and services to new consumer needs
- Accessing new markets
- Building customer loyalty

- 3. Reducing costs**

- Optimizing use of natural resources (water, energy, and other inputs) in production
- Establishing partnerships and developing suppliers

- 4. Boosting productivity and intellectual capital**

- Attracting and retaining talent
- Potentially raising workforce productivity

- 5. Mitigating risk**

- Reducing exposure to socio-environmental risks
- Lowering operational, market, financial, and other risks

- 6. Complying with and anticipating legal requirements**

- 7. Enhancing reputation and image**

Source: BM&FBovespa, Brazil (2016).

## Appendix 2

# Annual and Sustainability Reports Consulted

COMPANY NAME	COUNTRY	WEBSITE
<b>AkzoNobel</b>	Netherlands	<a href="http://www.akzonobel.com">www.akzonobel.com</a>
<b>Bayer</b>	Germany	<a href="http://www.bayer.com">www.bayer.com</a>
<b>BHP Billiton</b>	Australia	<a href="http://www.bhp.com">www.bhp.com</a>
<b>BM&amp;FBovespa</b>	Brazil	<a href="http://www.bmfbovespa.com">www.bmfbovespa.com</a>
<b>Coca-Cola</b>	United States	<a href="http://www.coca-cola.com">www.coca-cola.com</a>
<b>Coca-Cola HBC</b>	Switzerland	<a href="http://www.coca-colahellenic.com">www.coca-colahellenic.com</a>
<b>Exxaro</b>	South Africa	<a href="http://www.exxaro.com">www.exxaro.com</a>
<b>General Electric</b>	United States	<a href="http://www.ge.com">www.ge.com</a>
<b>Generali</b>	Italy	<a href="http://www.generali.com">www.generali.com</a>
<b>Ikea</b>	Netherlands	<a href="http://www.ikea.com">www.ikea.com</a>
<b>Ing Bank</b>	Netherlands	<a href="http://www.ing.com">www.ing.com</a>
<b>Marks and Spencer</b>	United Kingdom	<a href="http://www.marksandspencer.com">www.marksandspencer.com</a>
<b>Nike</b>	United States	<a href="http://www.nike.com">www.nike.com</a>
<b>Olam</b>	Singapore	<a href="http://www.olamgroup.com">www.olamgroup.com</a>
<b>Rio Tinto</b>	United Kingdom	<a href="http://www.riotinto.com">www.riotinto.com</a>
<b>Royal Vopak</b>	Netherlands	<a href="http://www.vopak.com">www.vopak.com</a>
<b>Sampath Bank</b>	Sri Lanka	<a href="http://www.sampath.lk">www.sampath.lk</a>
<b>Sanford</b>	New Zealand	<a href="http://www.sanford.co.nz">www.sanford.co.nz</a>
<b>Santova</b>	South Africa	<a href="http://www.santova.com">www.santova.com</a>
<b>SASOL</b>	South Africa	<a href="http://www.sasol.com">www.sasol.com</a>
<b>Saudi Investment Bank</b>	Saudi Arabia	<a href="http://www.saib.com.sa/en">www.saib.com.sa/en</a>
<b>Sime Darby</b>	Malaysia	<a href="http://www.simedarby.com">www.simedarby.com</a>
<b>Tata</b>	India	<a href="http://www.tata.com">www.tata.com</a>
<b>Teachers Mutual Bank</b>	Australia	<a href="http://www.tmbank.com.au">www.tmbank.com.au</a>
<b>Twinings</b>	United Kingdom	<a href="http://www.twinings.co.uk">www.twinings.co.uk</a>
<b>Volvo</b>	Sweden	<a href="http://www.volvocars.com">www.volvocars.com</a>

# Appendix 3

## Global Reporting Initiative Specific Standards

### GRI 200: ECONOMIC

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- 201:** Economic Performance
- 202:** Market Presence
- 203:** Indirect Economic Impacts
- 204:** Procurement Practices
- 205:** Anti-corruption
- 206:** Anti-competitive Behavior

### GRI 300: ENVIRONMENTAL

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- 301:** Materials
- 302:** Energy
- 303:** Water
- 304:** Biodiversity
- 305:** Emissions
- 306:** Effluents and Waste
- 307:** Environmental Compliance
- 308:** Supplier Environmental Assessment

### GRI 400: SOCIAL

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- 401:** Employment
- 402:** Labor / Management Relations
- 403:** Occupational Health and Safety
- 404:** Training and Education
- 405:** Diversity and Equal Opportunity
- 406:** Nondiscrimination
- 407:** Freedom of Association and Collective Bargaining
- 408:** Child Labor
- 409:** Forced or Compulsory Labor
- 410:** Security Practices
- 411:** Rights of Indigenous Peoples
- 412:** Human Rights Assessment
- 413:** Local Communities
- 414:** Supplier Social Assessment
- 415:** Public Policy
- 416:** Customer Health Safety
- 417:** Marketing and Labeling
- 418:** Customer Privacy
- 419:** Socioeconomic Compliance

## Appendix 4

# United Nations Sustainable Development Goals

**The SDGs are contained in the UN publication *Transforming our world: the 2030 Agenda for Sustainable Development*. They consist of a set of 17 “Global Goals” with 169 targets and are the successor to the Millennium Development Goals. The goals and targets will stimulate action over the next 15 years in areas of critical importance for humanity and the planet:**



**PEOPLE.** We are determined to end poverty and hunger, in all their forms and dimensions, and to ensure that all human beings can fulfil their potential in dignity and equality and in a healthy environment.



**PLANET.** We are determined to protect the planet from degradation, including through sustainable consumption and production, sustainably managing its natural resources and taking urgent action on climate change, so that it can support the needs of the present and future generations.



**PROSPERITY.** We are determined to ensure that all human beings can enjoy prosperous and fulfilling lives and that economic, social, and technological progress occurs in harmony with nature.



**PEACE.** We are determined to foster peaceful, just, and inclusive societies which are free from fear and violence. There can be no sustainable development without peace and no peace without sustainable development.



**PARTNERSHIP.** We are determined to mobilize the means required to implement this agenda through a revitalized Global Partnership for Sustainable Development, based on a spirit of strengthened global solidarity, focused in particular on the needs of the poorest and most vulnerable and with the participation of all countries, all stakeholders, and all people.

## There are 17 SDGs:

- Goal 1.** End poverty in all its forms everywhere
- Goal 2.** End hunger, achieve food security and improved nutrition, and promote sustainable agriculture
- Goal 3.** Ensure healthy lives and promote well-being for all at all ages
- Goal 4.** Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
- Goal 5.** Achieve gender equality and empower all women and girls
- Goal 6.** Ensure availability and sustainable management of water and sanitation for all
- Goal 7.** Ensure access to affordable, reliable, sustainable, and modern energy for all
- Goal 8.** Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all
- Goal 9.** Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation
- Goal 10.** Reduce inequality within and among countries
- Goal 11.** Make cities and human settlements inclusive, safe, resilient, and sustainable
- Goal 12.** Ensure sustainable consumption and production patterns
- Goal 13.** Take urgent action to combat climate change and its impacts\*
- Goal 14.** Conserve and sustainably use the oceans, seas, and marine resources for sustainable development
- Goal 15.** Protect, restore, and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
- Goal 16.** Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable, and inclusive institutions at all levels
- Goal 17.** Strengthen the means of implementation and revitalize the global partnership for sustainable development

A recent report by PwC noted that the attainment of SDGs is increasingly being seen as an opportunity for companies to gain licenses to operate in countries and regions. The Ethical Corporation recently reported that SDGs are increasingly used to create cross-industry alliances and coalitions that aim to have a positive impact on society and the environment.

Many companies are struggling to align their business activity with the SDGs into their business strategy. It's no wonder, since there 17 goals, 169 indicators, and 243 targets to consider. Defining how a business affects each of the goals is a considerable requirement, and different companies are focusing on different SDGs. Success stories of large companies include the following:

- **Kimberly-Clark** focused on SDG 6, clean water and sanitation, with a large-scale multinational program, "Toilets Change Lives."
- **Siemens** focused on SDG 11, sustainable cities and communities, by rewarding public-private coalitions for taking on sustainable development.

## Appendix 5

# Job Description for a Typical Chief Sustainability Officer

### CSO, City of Austin, Texas, United States

The City of Austin is seeking to fill the position of CSO. This executive position will report to the City Manager's office and will work closely with city departments in the development, coordination, and administration of sustainability policies and practices for the City of Austin. This position will be responsible for establishing a citywide sustainability program that includes assessing the impact of sustainability practices to the city and broad community at large, while balancing the city's shared objectives for a healthy environment, an excellent quality of life, and continued economic vitality.

The city already has of a growing number of long-term environmental initiatives. Austin has considered itself one of the most environmentally conscious communities in the country. Among U.S. cities, Austin was ranked 19th by *Popular Science* and 13th by SustainLane.com for its environmentally sustainable initiatives. The city established a nationally recognized green-building program starting in the 1980s, Austin Energy is considered one of the nation's most innovative electric utilities, and the Solid Waste Department's Zero Waste Goal is to reduce the amount of waste Austinites send to the landfill by 90 percent by the year 2040.

### The CSO will:

- Identify, review, and assess the current sustainability services and programs within city departments. Evaluate programs for best practices, duplications, or overlapping programs within the various departments. Assess current sustainability goals and strategies to bring greater coordination of services citywide. Streamline identified opportunities for improvement.
- Develop a comprehensive policy and a strategic performance plan for the city that encompasses current goals and best practices, and moves the city toward the next step of a more environmentally sustainable future.
- In collaboration with departments, evaluate, enhance, and develop metric systems that monitor and assess progress toward achieving performance goals at all appropriate organizational levels.
- Develop and implement marketing and educational programs that inspire the community to embrace environmental sustainability practices and change the



thinking, behavior, and practice of individuals, organizations, and government by focusing on sustainable development.

- Coordinate activities with departments that accomplish all levels of conservation and sustainable development within the city, to include green purchasing, energy conservation, solid waste recycling, green building, resource and water conservation, greenhouse gas reduction, renewable resources, government funding, and environmental reporting metrics.
- Perform highly complex forecasting and cost/benefit analysis to enable executive city leadership to make informed decisions that focus on optimizing social and environmental impacts of sustainability program initiatives.
- Provide oversight and direction to research and analysis of city and community sustainability needs to determine program direction and goals.
- Serve as a skilled facilitator that works collaboratively with boards and commissions, committees, or other governing boards to develop strategic direction and to integrate the city's sustainability policy and practice. Develop partnerships and work with community members and organizations and other government agencies to establish a citywide sustainability program and to integrate sustainable practices.
- Act as the official departmental representative to the City Manager's office, elected officials, outside agencies, and the community; explain, justify, and defend department programs, policies, and activities; and negotiate and resolve significant and controversial issues relating to sustainability. Brief and advise city management regarding sustainability programs.
- Respond to and resolve sensitive inquiries, complaints, and issues from both internal and external sources.

### **The ideal candidate will:**

- Possess a minimum of seven years of sustainability-related experience, to include a minimum of two years in a managerial capacity. The successful candidate will be an innovative individual who identifies the tools and resources needed to stay current in the field. He/she will need to demonstrate superior project management skills and have the ability to effectively develop and define a sustainability plan for the City of Austin.
- Be a master collaborator who will work effectively in relationship-building and garner trust with departments, to ensure that the city's sustainable short- and long-term goals and strategic plan meet and exceed the city's aim of becoming the most sustainable city, without compromising the quality of life for future generations.
- Possess advanced oral and written communication skills, as well as a strong ability to educate, persuade, and mobilize resources. He/she must have the ability to influence at

all levels and functions in order to make sustainability a priority and to inspire people to action. He/she must be able to adhere to the highest ethical and moral standards and be able to display transparency.

- Possess high-level planning, budget, and financial management experience in a high-performance management organization. He/she must be financially astute and able to understand and communicate how the long- and short-term benefits of sustainability efforts translate into cost savings. He/she should be able to establish meaningful performance metrics to track and measure success. The ideal candidate will need to have an understanding of sustainable technology as it relates to energy, waste, carbon emissions, green building, and other areas.
- Be passionate and understand current concepts of conservation and sustainable development, including green purchasing, energy conservation, solid waste recycling, green building, resource and water conservation, greenhouse gas reduction, renewable resources, government funding opportunities, and environmental reporting metrics.
- Demonstrate strong leadership and innovative thinking in the development of exemplary policies and programs that promote an environmentally sustainable future, without compromising the ability of future generations to meet their needs.
- Be a highly approachable leader, who can openly accept and work effectively in a climate of interaction and communicating up and down the organization. Display a willingness to work collaboratively with business, organizations, institutions, and city residents to develop solutions and implement action plans to address the challenges and opportunities inherent in the relationship between environment, equity, and the economy.

### **Desired education and experience for the position are:**

- A Bachelor's degree from an accredited four-year college or university is required, with major coursework in Business Administration, Public Administration, Environmental Management, Environmental Science, Environmental Engineering, Urban Planning, Architecture, or another job-related field. Seven years of sustainability-related experience, with a minimum of two years in a managerial capacity. A Master's degree may substitute for two years of sustainability-related experience.

# Appendix 6

## Sustainability Committee Charter

Figure 6.1. Example of a Sustainability Committee Charter: Sime Darby, Indonesia, 2017

### 1. PURPOSE

- 1.1** The Sustainability Committee is established as a committee of the Sime Darby Berhad (SDB) Group Board of Directors to assist the Board in fulfilling its oversight responsibilities in relation to the Group's objectives, policies, and practices pertaining to sustainability, which comprise the following:
  - 1.1.1** Contribute to a better society.
  - 1.1.2** Minimize environmental harm.
  - 1.1.3** Deliver sustainable development.
- 1.2** The Sustainability Committee's oversight responsibilities shall be in line with the Group of companies' strategic sustainability goals, listed as follows:
  - 1.2.1** Leverage sustainability to create value.
  - 1.2.2** Effectively manage sustainability risks and critical sustainability issues.
  - 1.2.3** Encourage sustainability through progressive and innovative leadership.
  - 1.2.4** Instill a performance culture.
  - 1.2.5** Provide effective sustainability reporting.
- 1.3** The primary objectives of the Sustainability Committee are as follows:
  - 1.3.1** To have full responsibility for reviewing the sustainability strategy and performance at the Board level
  - 1.3.2** To oversee the monitoring, reporting, and verification of the Sustainability KPIs of the Group and their implementation through the Group Blueprint and Divisional Roadmaps
  - 1.3.3** To emphasize and facilitate the adoption of a mindset in favour of sustainability throughout the Group
  - 1.3.4** To work toward a set of Corporate Sustainability Principles (the Charter), as appended to these Terms of Reference
  - 1.3.5** To perform such other functions and exercise such other powers as may be delegated to it from time to time by the Board

## 2. COMPOSITION AND APPOINTMENT

- 2.1** The Sustainability Committee members shall be appointed by the Board from among their number and shall consist of not less than three members. All members of the Sustainability Committee shall be Non-executive Directors.
- 2.2** No alternate Director shall be appointed as a member of the Sustainability Committee.
- 2.3** The Chairman of the Sustainability Committee shall be a Non-executive Director appointed by the Board.
- 2.4** The Sustainability Committee members may relinquish their membership in the Sustainability Committee with prior written notice to the Group Secretary. If a member of the Sustainability Committee resigns, then the Board shall, as soon as possible, but not later than three months from that event, appoint such number of new members as may be required.
- 2.5** The Board may appoint an Independent Sustainability Advisor who, for the duration of their appointment, will be an ex-officio member of the Sustainability Committee.

## 3. AUTHORITY

- 3.1** The Sustainability Committee is authorized by the Board and at the expense of the Group to perform the following duties:
  - 3.1.1** Secure the resources in order to perform its duties as set out in its terms of reference.
  - 3.1.2** Have full access to all information pertaining to the Company and Group, their records, properties, and personnel.
  - 3.1.3** Investigate any activity within its terms of reference and have direct communication channels with Senior Management, the Independent Sustainability Advisor, or any consultant and any person appointed by the Sustainability Committee. The Sustainability Committee shall have a role to scrutinize and question programs/initiatives and practices to ensure transparency and oversee implementation of programs/initiatives across the Group.
  - 3.1.4** Obtain external legal or other independent professional advice as necessary.
  - 3.1.5** Authorize an investigation into any matters within its terms of reference.
- 3.2** The Sustainability Committee shall report to the Board about matters considered and its recommendations thereon that pertain to the sustainability of the SDB Group.

## 4. FUNCTIONS AND DUTIES

The main functions and duties of the Sustainability Committee include but are not limited to:

### 4.1 Sustainability and Operational Excellence

- 4.1.1** Review the effectiveness of the Group's strategies, policies, principles, and practices pertaining to sustainability and operational excellence, on a worldwide basis.
- 4.1.2** Provide oversight and input to Management to ensure that the SDB Group's strategies, goals, and principles pertaining to sustainability and operational excellence (i.e., pertaining to the environment, employees, and communities in which it operates) are aligned with, promote, and encourage the Group's commitment toward sustainability.
- 4.1.3** Advise on the Group's Sustainability Report and any other issue-specific reports (if any) prior to reporting to the Board, including:
  - Changes in sustainability policies, standards, and procedures, and their implementation;
  - Assessment of issues material to the achievement of sustainability by the Group and efforts to address the material issues; and
  - Compliance with the Group's sustainability policies, as set out in the Group Policies and Authorities.
- 4.1.4** Review issues relating to sustainability arising from independent audits and assurance reports, as well as any matters highlighted by the consultants.
- 4.1.5** Consider and recommend to the Board positioning on relevant emerging sustainability issues.
- 4.1.6** Provide the Board with assurance of the quality and technical content of the sustainability information used by the Board, and of the sustainability information issued publicly by the Group.
- 4.1.7** Oversee the stakeholder dialogue process and its outcomes that address social and environmental matters regarding the strategic sustainability goals – in particular, matters that may affect the Group's reputation. This shall include key concerns/allegations that are raised by stakeholders, evolving public sentiments, and government regulations.

### 4.2 Oversight of Management Sustainability Committee

- 4.2.1** The Sustainability Committee shall perform the following tasks in relation to the Management Sustainability Committee:

- Review and approve the Sustainability Roadmap prepared by the Management Sustainability Committee. Review status updates prepared by the Management Sustainability Committee about the implementation and progress of key initiatives related to the Sustainability Roadmap. This includes discussing key findings and advising on appropriate action that is required.
- Provide direction and oversight to the internal sustainability function and the Independent Sustainability Advisor.

### **4.3** Oversight of Independent Sustainability Advisor

**4.3.1** Approve the appointment of the Independent Sustainability Advisor, based on the recommendation of the President and Group CEO and Group CSO, including the appropriate level of remuneration.

**4.3.2** Assign tasks to the Independent Sustainability Advisor, including:

- Identifying emerging sustainability trends and their implications for the Group
- Reviewing and updating the Group Sustainability Principles and plans
- Providing advice about the application of the principles in new ventures, developing economies, and changing cultures
- Advising on the implementation of the principles across the Group
- Assessing the Group’s progress toward achieving sustainable outcomes, as defined by the principles
- Providing advice about sustainability reporting, including assurance methods

### **4.4** Other Matters

**4.4.1** Ensure that proper processes and procedures are in place to comply with all relevant laws, regulations, and rules that could have a significant impact on the implementation of the Sustainability Principles.

**4.4.2** Perform delegations of authority and responsibilities of the Sustainability Committee as the Sustainability Committee deems appropriate, and periodically review such delegations.

**4.4.3** Undertake any such other functions as may be determined by the Board from time to time.

# Appendix 7

## IFC ESG Progression Matrix for Listed Companies (2018)

### A. Commitment to Environmental, Social, and Governance (Leadership and Culture)

	BASIC PRACTICES	+	INTERMEDIATE PRACTICES	+	GOOD INTERNATIONAL PRACTICES	+	LEADERSHIP
Formalities	<ol style="list-style-type: none"> <li>Written policies/ corporate governance (CG) code addressing, at a minimum, the role of the board, rights and treatment of shareholders and other stakeholders, compliance with the law and transparency and disclosure, and stating the objectives and principles guiding the company.</li> <li>Written policies that address, at a minimum, compliance with E&amp;S law and regulations.</li> </ol>		<ol style="list-style-type: none"> <li>CG code, which addresses E&amp;S issues.</li> <li>Periodic disclosure to shareholders on CG code and practices, and their conformance to the country's code of best practices.</li> </ol>				<ol style="list-style-type: none"> <li>Adequacy of ESG policies and procedures is disclosed.</li> </ol>
Code of Ethics and Culture	<ol style="list-style-type: none"> <li>Code of ethics and/or conduct approved by the board.</li> </ol>		<ol style="list-style-type: none"> <li>Code of ethics included in employee orientation program</li> </ol>		<ol style="list-style-type: none"> <li>Codes of ethics and/or conduct fully integrate ESG practices in business activities</li> </ol>		<ol style="list-style-type: none"> <li>Organization culture has embedded ESG awareness and a control consciousness throughout the organization.</li> </ol>
Designated Officer/ Functions	<ol style="list-style-type: none"> <li>A company officer serves as a corporate secretary</li> </ol>		<ol style="list-style-type: none"> <li>Designated fulltime CG officer and/or company/ corporate secretary.</li> </ol>		<ol style="list-style-type: none"> <li>Designated compliance function ensuring compliance with ESG policies and procedures, code of ethics and/or conduct.</li> <li>Internal audit of implementation of ESG policies and procedures</li> </ol>		
Recognition			<ol style="list-style-type: none"> <li>Publicly recognized as a national leader in ESG practices</li> </ol>		<ol style="list-style-type: none"> <li>Publicly recognized as a regional leader in ESG practices.</li> </ol>		<ol style="list-style-type: none"> <li>Publicly recognized as a global leader in ESG practices.</li> </ol>

## B. Structure and Functioning of the Board of Directors

	BASIC PRACTICES	+	INTERMEDIATE PRACTICES	+	GOOD INTERNATIONAL PRACTICES	+	LEADERSHIP
Role, Election, and Succession	<ol style="list-style-type: none"> <li>1. Board approves strategy.</li> <li>2. Board members are given sufficient time and information to exercise their duty.</li> </ol>		<ol style="list-style-type: none"> <li>1. The board is fully elected on an annual basis.</li> </ol>		<ol style="list-style-type: none"> <li>1. Board-established succession plan for its members and senior management.</li> </ol>		
Composition	<ol style="list-style-type: none"> <li>3. The board has a number of independent directors in accordance with law and regulations.</li> </ol>		<ol style="list-style-type: none"> <li>2. 1/5 or more of board members are independent from management and controlling shareholders.</li> <li>3. Board composition is based on a skills matrix.</li> </ol>		<ol style="list-style-type: none"> <li>2. 1/3 or more of board members are defined as independent in accordance with international best practices.<sup>1</sup></li> <li>3. Board diversity, including but not limited to gender, achieved in all aspects.</li> <li>4. Roles of chair and CEO are separate. Board chair is independent, or a lead independent director has been designated.</li> </ol>		<ol style="list-style-type: none"> <li>1. 1/2 or more of board members are defined as independent in accordance with international best practices.</li> </ol>
Committees			<ol style="list-style-type: none"> <li>4. Board-established audit committee.</li> </ol>		<ol style="list-style-type: none"> <li>5. Majority of audit committee membership is independent.</li> <li>6. Specialized committees address special technical topics or potential conflicts of interest (e.g., nominations, compensation, technology/cybersecurity, E&amp;S/sustainability, risk management, etc.), if applicable.</li> <li>7. Committee of independent directors approves all material related-party transactions.</li> </ol>		<ol style="list-style-type: none"> <li>2. Audit committee membership 100% independent.</li> <li>3. Special board-level CG committee established.</li> <li>4. Specialized committees (governance, nominations, E&amp;S/sustainability, and compensation) composed of a majority of independent directors, including the chair.</li> <li>5. Compensation committee ensures that executive compensation is based on performance and long-term incentives (and adjusted for all types of current and future risk), based on financial and non-financial performance.</li> <li>6. Risk management or other specialized committee with a majority of independent directors, and a majority who have experience managing risks.</li> </ol>

<sup>1</sup> For example, IFC's "Indicative Independent Director Definition."





## B. Structure and Functioning of the Board of Directors (cont'd)

	BASIC PRACTICES	+	INTERMEDIATE PRACTICES	+	GOOD INTERNATIONAL PRACTICES	+	LEADERSHIP
Meeting Frequency	4. Board meets at least quarterly and is charged with objectively overseeing management.				8. Non-executive directors meet separately at least once a year.		7. Independent directors periodically meet separately.
Evaluation and Performance			5. The board as a whole undergoes periodic evaluation. 6. Formal performance evaluation of management conducted annually.		9. Board, committees and individual directors undergo an annual evaluation.		8. Board and committee evaluations conducted/facilitated by third party.
Oversight of E&S			7. Board is trained on general E&S risk issues.		10. Board is trained on industry E&S risk issues. 11. Strategy and risk appetite integrate E&S issues/risks. 12. At least 1 director has experience analyzing and interpreting E&S risks. 13. In sensitive industries, <sup>2</sup> 1 director or more has in-depth knowledge of E&S risks. 14. ESG issues are recurring board agenda items; board approves ESG strategy and E&S policies; routinely reviews E&S performance; ensures appropriate dialogue between the company and key stakeholders; and ensures effectiveness of External Communications Mechanism (ECM). 15. Board ensures that management systems are in place to identify and manage E&S risks and impacts.		9. Special board-level committee established to review E&S issues. 10. Board reviews independent audits on effectiveness of Environment and Social Management System (ESMS), including stakeholder engagement processes and grievance mechanism.

<sup>2</sup> Examples of "sensitive industries" include: oil, gas, mining, heavy industry (steel, cement), and chemical manufacturers, and large agro-commodity production or processing.

### C. Control Environment (Internal Control System, Internal Audit Function, Risk Governance and Compliance)

	BASIC PRACTICES	+	INTERMEDIATE PRACTICES	+	GOOD INTERNATIONAL PRACTICES	+	LEADERSHIP
Internal Controls	<ol style="list-style-type: none"> <li>1. Company has established documented internal control policies and procedures.</li> </ol>		<ol style="list-style-type: none"> <li>1. Audit committee ensures corrective actions on control deficiencies identified in Management Letters.</li> </ol>		<ol style="list-style-type: none"> <li>1. "Three lines of defense" model of risk management, internal control and internal audit has been adopted.<sup>3</sup></li> </ol>		<ol style="list-style-type: none"> <li>1. Control environment in accordance with highest international standards, including but not limited to IIA,<sup>4</sup> COSO, ISO 31000, 19600, 37001, and 27001.</li> <li>2. The organizational structure adopted by management has a positive effect on performance, productivity, and leadership effectiveness.</li> </ol>
Internal Audit	<ol style="list-style-type: none"> <li>2. Internal audit function regularly interfaces with external auditors and is accountable to the board.</li> </ol>				<ol style="list-style-type: none"> <li>2. Internal audit function is independent, objective, risk-based, and has unlimited scope of activity.</li> <li>3. Head of internal audit reports to the audit committee and administratively to management.</li> </ol>		<ol style="list-style-type: none"> <li>3. Audit committee ensures that the internal audit function is subject to periodic quality assessment by third party.</li> </ol>
Risk Governance			<ol style="list-style-type: none"> <li>2. Board approves risk appetite.</li> <li>3. Company has established risk-management framework with a chief risk officer (CRO) or equivalent with unfettered access to the board.</li> </ol>		<ol style="list-style-type: none"> <li>4. Board routinely monitors risk management and compliance with policies and procedures.</li> <li>5. CRO reports to board-level risk management committee or equivalent.</li> </ol>		
Compliance			<ol style="list-style-type: none"> <li>4. Comprehensive compliance program annually reviewed, with mechanisms to report wrongdoing and misconduct.</li> <li>5. Designated compliance officer.</li> </ol>		<ol style="list-style-type: none"> <li>6. Chief compliance officer reports to the audit committee or equivalent and administratively to management.</li> </ol>		
External Audit	<ol style="list-style-type: none"> <li>3. Written Management Letters provided by external auditor.</li> </ol>				<ol style="list-style-type: none"> <li>7. Audit committee owns relationship with external auditor (EA); agrees on scope and audit fees, and undertakes a periodic quality assessment of EA, using relevant Audit Quality Indicators.</li> <li>8. Company has established CFO function.</li> </ol>		<ol style="list-style-type: none"> <li>4. Audit committee reviews long association of EA.</li> </ol>



<sup>3</sup> Namely, management is the first line of defense, risk management and compliance function are the second line of defense, and internal and external audit as independent assurance providers are the third line of defense.

<sup>4</sup> The Institute of Internal Auditors standards and related promulgations.

**C. Control Environment (Internal Control System, Internal Audit Function, Risk Governance and Compliance) (cont'd)**

	BASIC PRACTICES	+	INTERMEDIATE PRACTICES	+	GOOD INTERNATIONAL PRACTICES	+	LEADERSHIP
Integrating of E&S			<p><b>6.</b> Company has established industry practices in its E&amp;S risk-management practices.</p>		<p><b>9.</b> ESG activities are highly integrated, effective, and efficient and support the strategic and operational business objectives, and controls support objectives.</p> <p><b>10.</b> Periodic ESG, IT, and Information Security internal audits.</p> <p><b>11.</b> Comprehensive ESMS integrated in risk-management framework, and E&amp;S risks are part of establishing the risk appetite.</p> <p><b>12.</b> E&amp;S/sustainability head has unfettered access to senior management and CRO.</p>		<p><b>5.</b> Board or sustainability committee ensures corrective actions on E&amp;S issues.</p> <p><b>6.</b> Head of ESG reports to board E&amp;S/sustainability committee.</p> <p><b>7.</b> ESMS is consistent with international standards (e.g., ISO 14001).</p>
Subsidiary Governance	<p><b>4.</b> Company can identify its subsidiaries.</p>		<p><b>7.</b> Company has policies and procedures to control the creation and dissolution of subsidiaries.</p>		<p><b>13.</b> Company has a centralized subsidiary governance function and subsidiaries are categorized based on complexity and an appropriate governance framework applied to each category.</p>		<p><b>8.</b> Board exercises oversight over the organizational structure and the activities of its subsidiaries.</p>

## D. Disclosure and Transparency

	BASIC PRACTICES	+	INTERMEDIATE PRACTICES	+	GOOD INTERNATIONAL PRACTICES	+	LEADERSHIP
Financial Reporting	<ol style="list-style-type: none"> <li>1. Financial statements are audited by recognized independent external auditing firm.</li> </ol>		<ol style="list-style-type: none"> <li>1. Financial statements prepared in accordance with International Financial Reporting Standards (IFRS) or equivalent.</li> <li>2. Financial statements are audited in accordance with International Standards on Auditing (ISA).</li> </ol>		<ol style="list-style-type: none"> <li>1. Audit committee oversees financial and non-financial reporting and audit.</li> <li>2. Disclosure policy in place.</li> </ol>		
Risk Appetite					<ol style="list-style-type: none"> <li>3. Company discloses its risk appetite.</li> </ol>		<ol style="list-style-type: none"> <li>1. Risk appetite disclosure includes both qualitative and quantitative information.</li> </ol>
Corporate Disclosure	<ol style="list-style-type: none"> <li>2. Compliance with all disclosure requirements and listing rules. Investors and financial analysts are treated equally regarding information disclosure.</li> <li>3. Shareholders provided with accurate and timely information on the number of shares of all classes held by controlling shareholders and their affiliates (ownership concentration).</li> </ol>		<ol style="list-style-type: none"> <li>3. Company discloses its code of ethics/conduct.</li> </ol>		<ol style="list-style-type: none"> <li>4. Significant ultimate beneficial shareholders are disclosed.</li> <li>5. All disclosure and communications with shareholders and stakeholders made available online in a relevant and timely fashion.</li> </ol>		<ol style="list-style-type: none"> <li>2. Tax transparency statement disclosed.</li> <li>3. Executive compensation is disclosed.</li> <li>4. Dividend policy is disclosed.</li> </ol>
ESG Disclosure	<ol style="list-style-type: none"> <li>4. ESG/sustainability reporting, if any, follows minimum national requirement.</li> </ol>		<ol style="list-style-type: none"> <li>4. Comprehensive compliance program annually reviewed, with mechanisms to report wrongdoing and misconduct.</li> <li>5. Designated compliance officer.</li> </ol>		<ol style="list-style-type: none"> <li>6. Annual report includes ESG information.</li> <li>7. E&amp;S/sustainability committee reviews annual report ESG information.</li> <li>8. ESG data subject to independent review.</li> <li>9. Information disclosed to Affected Communities is in understandable format and language.</li> <li>10. Annual updates to locally Affected Communities.</li> </ol>		<ol style="list-style-type: none"> <li>5. Non-financial disclosure in accordance with highest international standards (e.g., GRI, IIRC, SASB).</li> <li>6. Periodic non-financial reporting of ESG issues that are of concern to stakeholders.</li> <li>7. ESG data subject to an annual audit by an independent provider.</li> </ol>

## E. Treatment of Minority Shareholders

	BASIC PRACTICES	+	INTERMEDIATE PRACTICES	+	GOOD INTERNATIONAL PRACTICES	+	LEADERSHIP
Voting Rights	<ol style="list-style-type: none"> <li>All shareholders of the same class have equal voting, subscription, and transfer rights.</li> <li>Minority shareholders receive adequate notice and the agenda for all shareholders' meetings; and are permitted to participate and vote at shareholders' meetings.</li> </ol>		<ol style="list-style-type: none"> <li>Effective representation of minority shareholders through cumulative voting or similar mechanisms; and economic rights such as inspection rights, exit rights, and tag-along rights.</li> <li>Company has a dividend policy.</li> <li>Clearly articulated and enforced policies on treatment of minority shareholders in changes of control.</li> </ol>		<ol style="list-style-type: none"> <li>Effective shareholder voting mechanisms to protect minority shareholders from concentrated ownership or strong conflicts of interest with controlling shareholders (e.g., supermajority or "majority of minority" provisions).</li> <li>Shareholders are consulted on executive compensation.</li> </ol>		<ol style="list-style-type: none"> <li>Treatment of shareholders consistent with best international market practices.</li> <li>Executive compensation subject to shareholder approval.</li> <li>Each share is afforded one vote at the AGM.</li> </ol>
Protective Rights	<ol style="list-style-type: none"> <li>3. Holders of all securities of the same type and class have access to equal information (fair disclosure).</li> </ol>		<ol style="list-style-type: none"> <li>4. Well-understood policy and practice of full and timely disclosure to shareholders of all material related-party transactions and shareholder agreements.</li> </ol>		<ol style="list-style-type: none"> <li>3. Well-understood policy and practices of company material transactions that could potentially affect the rights of minority shareholders.</li> <li>4. Annual report discloses material risks to minority shareholders associated with controlling shareholders, ownership concentration, cross-holdings, and voting-power imbalances.</li> </ol>		<ol style="list-style-type: none"> <li>4. Related-party transactions (over 2.5% of net assets or \$150,000) subject to shareholder approval or stricter requirements.<sup>5</sup></li> </ol>
Investor Relations	<ol style="list-style-type: none"> <li>4. Investor relations function established.</li> </ol>				<ol style="list-style-type: none"> <li>5. Investor relations functions include program for engaging minority shareholders.</li> </ol>		

<sup>5</sup> Often, requisite thresholds are set by law/regulation in the listing jurisdiction; however, the OECD has recommended the referenced limits. See OECD, Guide on Fighting Abusive Related Party Transactions in Asia (2009) 31.

## F. Governance of Stakeholders Engagement <sup>6</sup>

	BASIC PRACTICES	+	INTERMEDIATE PRACTICES	+	GOOD INTERNATIONAL PRACTICES	+	LEADERSHIP
Stakeholder Mapping	<ol style="list-style-type: none"> <li>Ad hoc stakeholder-identification, including workers, customers, regulators, and the locally Affected Community.</li> </ol>		<ol style="list-style-type: none"> <li>Key stakeholders identified also include local nongovernmental organizations (NGOs) and civil society organizations (CSOs).</li> </ol>		<ol style="list-style-type: none"> <li>Formal stakeholder-mapping process and expanded definition of stakeholders includes contracted workers, primary-supply-chain workers, neighboring projects, and international NGOs and CSOs.</li> </ol>		<ol style="list-style-type: none"> <li>Senior executive responsible for stakeholder relationships, including ensuring integration with strategy and target setting.</li> </ol>
Stakeholder Engagement Policy			<ol style="list-style-type: none"> <li>Established Stakeholder Engagement (SE) policy and procedures.</li> </ol>		<ol style="list-style-type: none"> <li>SE policy and strategy includes procedures with stakeholder analysis, differentiated approaches for priority groups, iterative disclosure and consultation requirements, and reporting.<sup>7</sup></li> </ol>		<ol style="list-style-type: none"> <li>Commitment to SE visible to staff, contractors, suppliers, and collaborators via codes of conduct setting out expectations for stakeholder interactions and human rights.</li> <li>SE practices incorporated into requirements for primary suppliers.</li> <li>SE activities and outcomes included in board decision making and external reporting procedures.</li> </ol>
Worker Grievance Mechanism	<ol style="list-style-type: none"> <li>HR policy and procedures for worker engagement.</li> </ol>		<ol style="list-style-type: none"> <li>Basic grievance mechanism for workers.</li> </ol>		<ol style="list-style-type: none"> <li>Management responds to grievances from workers and contracted workers on a regular basis.</li> </ol>		<ol style="list-style-type: none"> <li>Issues raised through grievance mechanism for workers are analyzed and resolved with the participation of a worker representative.</li> <li>The board is informed about grievance outcomes and trends on a regular basis.</li> </ol>
Affected Communities Grievance Mechanism	<ol style="list-style-type: none"> <li>Informal response to stakeholder requests and concerns.</li> </ol>		<ol style="list-style-type: none"> <li>External Communications Mechanism for stakeholder questions and complaints, and if there are Affected Communities, a grievance mechanism is established.</li> </ol>		<ol style="list-style-type: none"> <li>External and publicly accessible communication procedure.<sup>8</sup></li> <li>Grievance mechanism facilitates the resolution of concerns from Affected Communities.</li> <li>Designated Affected Communities engagement personnel have clearly defined responsibilities, training, and reporting lines to senior management and the board.</li> <li>SE policy incorporated into requirements for contractors.</li> <li>Unresolved stakeholder issues require a management action plan.</li> </ol>		<ol style="list-style-type: none"> <li>Periodic analysis of grievances to identify trends and root causes is conducted by senior management.</li> <li>Senior management participate actively in international industry discussions on related topics.</li> <li>SE and reporting consistent with international standards (AA 1000 Standards on Stakeholder Engagement and Accountability Principles and ISO 26000).</li> </ol>

<sup>6</sup> This section should not be completed without consulting with the assigned E&S Specialist. If assigned E&S Specialist is not a Social Specialist, consult with Social Specialist.

<sup>7</sup> Consult with Social Specialist to determine quality of SE policy, strategy, and procedures, if applicable.

<sup>8</sup> Consult with Social Specialist to determine whether communication procedure is adequate to (a) receive and register external communication from the public; (b) assess issues raised and determine response; (c) provide and document responses, if any; and (d) adjust the management program, as appropriate and if applicable.



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