ESG Oversight

Harness the Power of ESG Transparency

By Kristen Sullivan

Sustainability is going mainstream. The number of S&P 500 companies publishing some form of sustainability disclosure increased from 20 percent in 2011 to 86 percent in 2018, according to data from the Governance & Accountability Institute. Furthermore, the Investor Responsibility Research Center Institute found that 40 percent of the S&P 500 now voluntarily address some aspect of sustainability in financial filings. Companies are also recognizing that simply providing data may not go far enough for investors; accordingly, 36 percent of S&P 500 companies now obtain assurance on select environmental, social, and governance (ESG) information in their sustainability reports, and 3 percent obtain assurance on sustainability reports as a whole. The growing trend of including broader nonfinancial measures in financial filings and obtaining assurance on this information is based on the realization that such disclosures are an important consideration in the evaluation of company performance and future growth. Companies that don't harness the power of ESG transparency risk losing favor with investors or ceding competitive advantage, and they may also be at a disadvantage when attracting and retaining customers and employees.

Though there are still many unknowns in terms of how and what to disclose, the board's accountability in ESG reporting will likely increase. Directors will need to better understand how sustainability is linked to strategy and the corresponding opportunities and risks. Directors will likely also play a role in helping their companies proactively communicate their corporate purpose and sustainability story to various stakeholders, including investors and shareholders, stock exchanges, policymakers and regulators, and customers and employees.

To advance the dialogue around increased ESG transparency and disclosure, consider asking the following key questions:

1. **Does the board understand the risks and opportunities for the business with respect to sustainability?** This includes determining how sustainability-related risks and opportunities impact the company's strategy and whether or not ESG is integrated into the company's enterprise risk management activities.

2. **Who within the company is responsible for ESG management and performance disclosure, and what is the internal governance structure?** A true understanding of ESG governance requires considering how the company identifies ESG issues that are material and collects data that support high-quality disclosure.

3. **Does the company understand what types of ESG disclosures its largest investors and other stakeholders seek, and if so, how is the board and the company responding to these expectations?** Board members should consider if the company uses a consistent, compelling narrative to tell its sustainability story, even though the extent, form, location, and content of specific ESG disclosures may vary.

4. **If the company currently reports on ESG matters, how often is the form and content of that reporting revisited to assess changes and modifications to reflect current trends?** Periodic review of ESG reporting is relevant because information reporting standards are still evolving.

5. **Is sustainability the responsibility of the full board, or is it delegated to one or more committees?** Given their oversight of the financial reporting process, the audit committee could play an important role in reviewing and assessing the disclosure of material ESG matters. With increasing investor attention and reliance on ESG disclosure, the audit committee will likely also play a role in overseeing how ESG information is presented to investors.

Current trends suggest that companies are expected to deliver investor-grade, high-quality ESG disclosure, both for the benefit of external stakeholders and for management decision-making. Furthermore, directors will likely play a role in assessing and communicating the company's sustainability story. Those who move swiftly to understand ESG risks and opportunities are enabled to intentionally craft and control delivery of the narrative and transparently communicate that story. Such a proactive approach to ESG disclosure can help enhance the public view of a company while mitigating risks to its brand and reputation.

Kristen Sullivan is a partner in Sustainability and KPI Services at Deloitte & Touche LLP.