



Sustainability in boards in sustainable companies

Christoph Van der Elst

Sustainability in boards in sustainable companies

“Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. *Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate.*”

Larry Fink, Annual Letter to CEOs - A Sense of Purpose

(<https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>, 2018)

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Agenda

- Sustainability is key
- Are “sustainable boards” the driver?
 - Views in current research
 - TSX-60 and comparative research

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General Assembly

Distr.: General
21 October 2015

Seventieth session
Agenda items 15 and 116

Resolution adopted by the General Assembly on 25 September 2015

[without reference to a Main Committee (A/70/L.1)]

70/1. Transforming our world: the 2030 Agenda for Sustainable Development

28. We commit to making fundamental changes in the way that our societies produce and consume goods and services. Governments, international organizations, the business sector and other non-State actors and individuals must contribute to changing unsustainable consumption and production patterns, including through the mobilization, from all sources, of financial and technical assistance to strengthen developing countries' scientific, technological and innovative capacities to move towards more sustainable patterns of consumption and production. We encourage

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THE GLOBAL
COMPACT



- UN Global Compact
- UN Principles for Responsible Investment
- UNEP Equator Principles
- ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration)
- UNHCHR Business and Human Rights
- UNODC Anti-corruption
- UNCTAD Corporate Responsibility Reporting, World Investment Report



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FRC Financial Reporting Council

September 2012

The UK Stewardship Code

Code
Corporate Governance

Principle 4

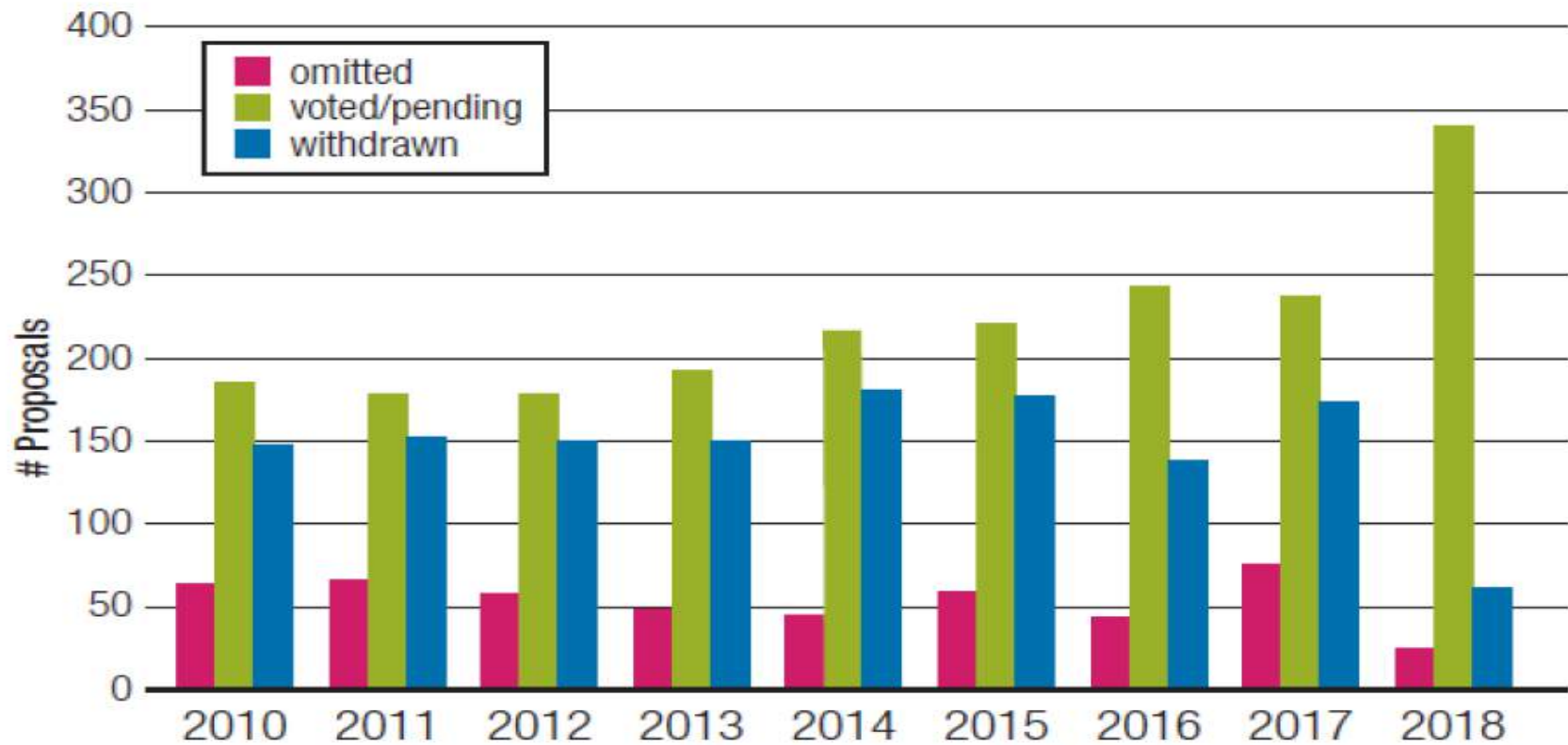
Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

Guidance

Institutional investors should set out the circumstances in which they will actively intervene and regularly assess the outcomes of doing so. Intervention should be considered regardless of whether an active or passive investment policy is followed. In addition, being underweight is not, of itself, a reason for not intervening. Instances when institutional investors may want to intervene include, but are not limited to, when they have concerns about the company's strategy, performance, governance, remuneration or approach to risks, including those that may arise from social and environmental matters.

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Environmental, Social & Sustainability Resolutions Since 2010

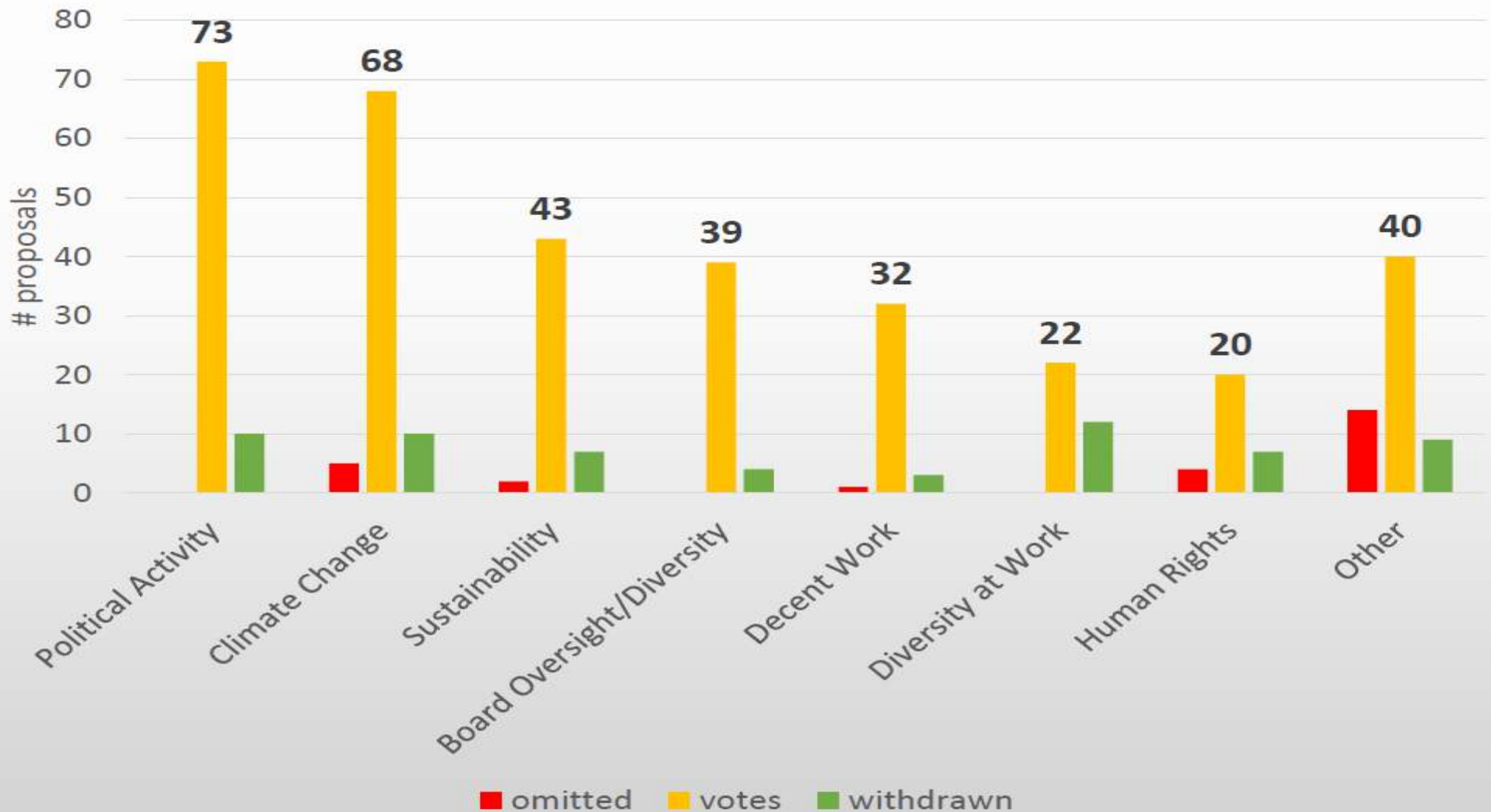


Excludes 48 not voted for other reasons, 1 in 2018 and 7 in 2017; data as of 2-16-18

Source: www.proxypreview.org

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Projected 2018 Votes



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March 27, 2018 - AsYouSow

29% of Starbucks' Shareholder Votes Support As You Sow Proposal on Plastic Straws, Packaging Reuse and Recycling

FOR IMMEDIATE RELEASE

Media Contact: [Cyrus Nemati](#), (510) 735-8157

Nearly a third of Starbucks' shareholders at the company's Annual General Meeting [last week](#) supported an *As You Sow* resolution [asking the company](#) to phase out use of plastic straws and develop aggressive plans to meet packaging reuse and recycling goals.

More than 29% of shares voted (271 million shares), with a market value of \$54 billion, to support the proposal. This vote far exceeds the average support of 21.5% for environmental proposals. The proposal was presented on behalf of *As You Sow* by actor, filmmaker and UN Environment Goodwill Ambassador Adrian Grenier.

"We are pleased that a significant number of shareholders sent a message to management that its previous efforts to address cup reusability and recycling are insufficient and that stronger actions are needed," said Conrad MacKerron, senior vice president of *As You Sow*. "This sizable vote indicates the seriousness with which shareholders view threats to the ocean from discarded plastic straws as well as cups, lids, cutlery and other food service items from quick service businesses."

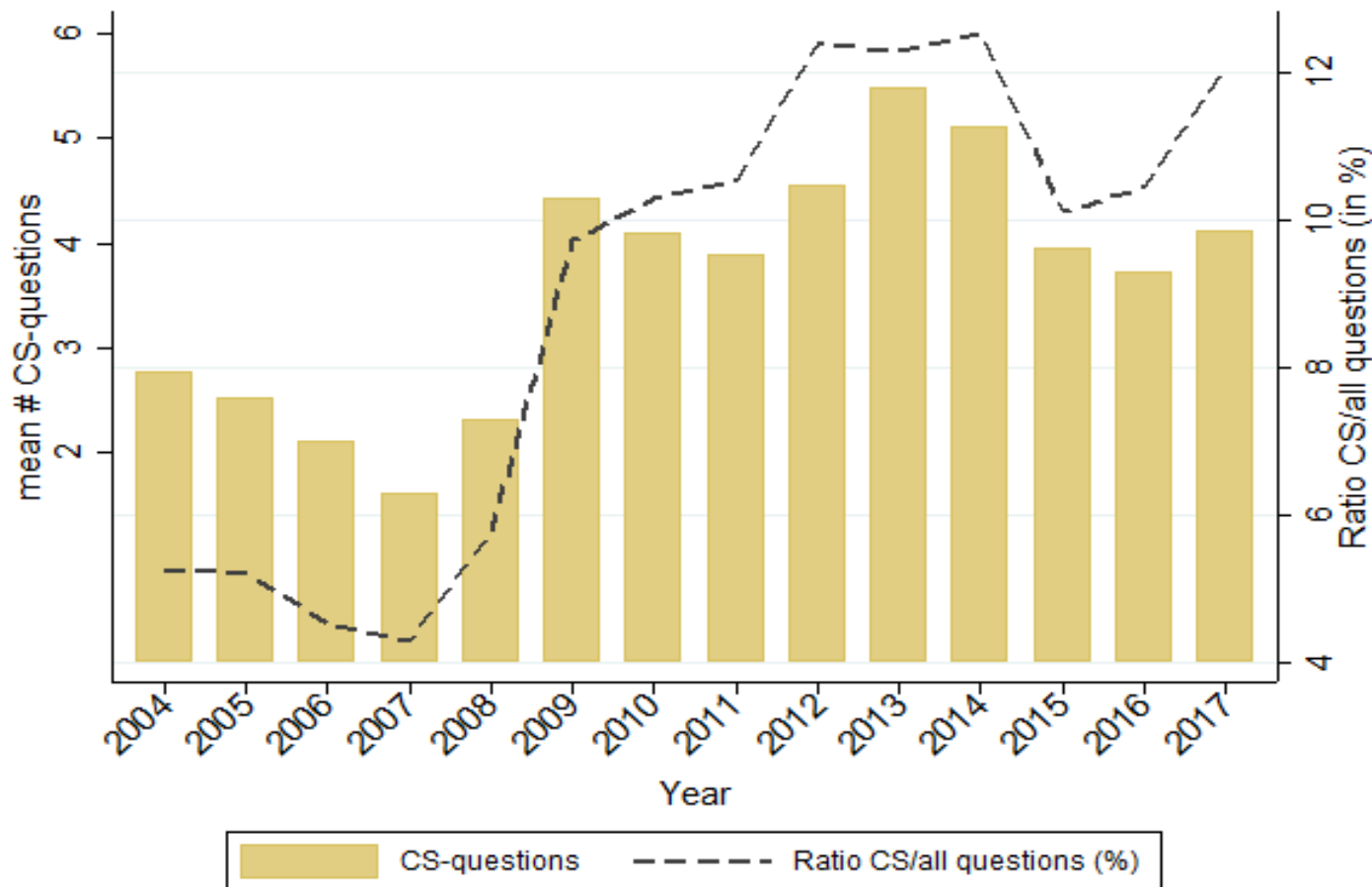
While the media often dismisses votes that receive less than 50% support as unsuccessful, proposals can have strong impact even with minority vote results. Following a 31% vote result on an *As You Sow* proposal at McDonald's Corp. last year, the fast food giant later agreed to [phase out](#) use of harmful polystyrene cups and food packaging by the end of 2018, and to [recycle](#) packaging in all stores globally by 2025.

The proposal presented at Starbucks' annual meeting had an impact even before voting results were complete. The day before its annual meeting, the company [announced](#) a \$10 million investment in designing a more sustainable cup that can be recycled or composted globally, in an attempt to respond to one of the requests in the proposal. However, the company did not address phase-out of plastic straws or a strategy to reach its previous reusables

<https://www.asyousow.org/press-releases/2018/3/27/29-of-starbucks-shareholder-votes-support-as-you-sow-proposal-on-plastic-straws-packaging-reuse-and-recycling>

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Figure 2: Corporate sustainability questions (all shareholders)



Lafarre, A.J.F., & Van der Elst, C.F. (2019). Corporate Sustainability and Shareholder Activism in the Netherlands, 23 p. to be published in Cambridge Handbook of Corporate Law, Corporate Governance and Sustainability, B. Sjöfjell and C. Bruner (eds.), CUP, 2019;
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3156614

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IMPACT ENTREPRENEURS

Supporting each other



CITIZENS

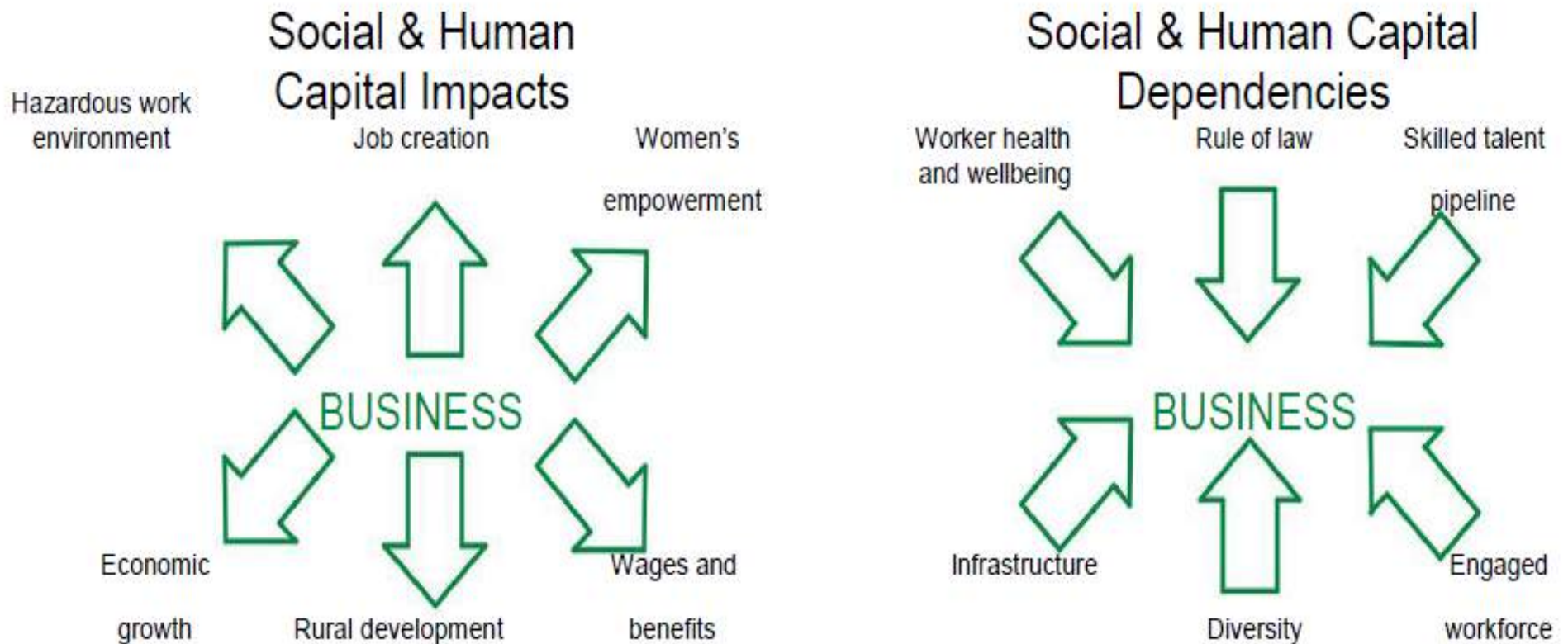
Supporting impact entrepreneurs

INVESTORS

Supporting impact entrepreneurs

- 1 An impak scorecard that shows your social impact
Get support from the Community, more Sales and Capital from values aligned investors
- 2 Using MPKs will give you rewards and grow the impact economy!
- 3 An independant governance body sets the MPK price quarterly
- 4 Find qualified impact projects to buy with values and collaborate by location and interest
- 5 Observe trends, find qualified impact organisations, deal flows and co-investing opportunities

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Social & Human Capital Coalition: The Social & Human Capital Protocol, April 2018

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- Recent research

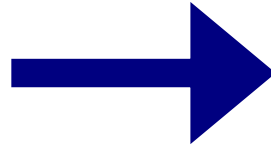
Board diversity



Corporate social
responsibility

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Board diversity



Corporate social
responsibility

- Recent research:
 - Bear et al. (2010): diversity of board resources and the number of female board members affect firms' corporate responsibility ratings.
 - Liao et al. (2014): female representation is positively influencing carbon disclosures in UK
 - Ben-Amar et al. (2015): female boardroom participation is positively related to the voluntary disclosure of climate change information in Canada)
 - Al-Shaer and Zaman (2016): board gender diversity has a significant and positive association with sustainability quality reporting
 - Glass (2016): gender diverse leadership teams are more effective than other firms at pursuing environmentally friendly strategies
 - Hacque (2017): board independence and board gender diversity have positive associations with carbon reduction initiatives.

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Global Reporting Initiative (GRI)

A multi-stakeholder initiative

www.globalreporting.org

WHAT WE DO

GRI's core product are the Sustainability Reporting **Standards** which are made available as a free public good. They have been continuously developed over 20 years and represent global best practice for reporting on economic, environmental and social issues.

In addition to developing the GRI Standards, we work to support their widespread use and implementation.

Companies:

The GRI **GOLD Community** offers organizations the opportunity to join a collaborative, global multi-stakeholder network that works together to reach our common goal of a sustainable global economy through greater transparency.

The **GRI Support Suite** offers tools and services to guide and equip those responsible for developing their organization's sustainability report at every stage of the process.

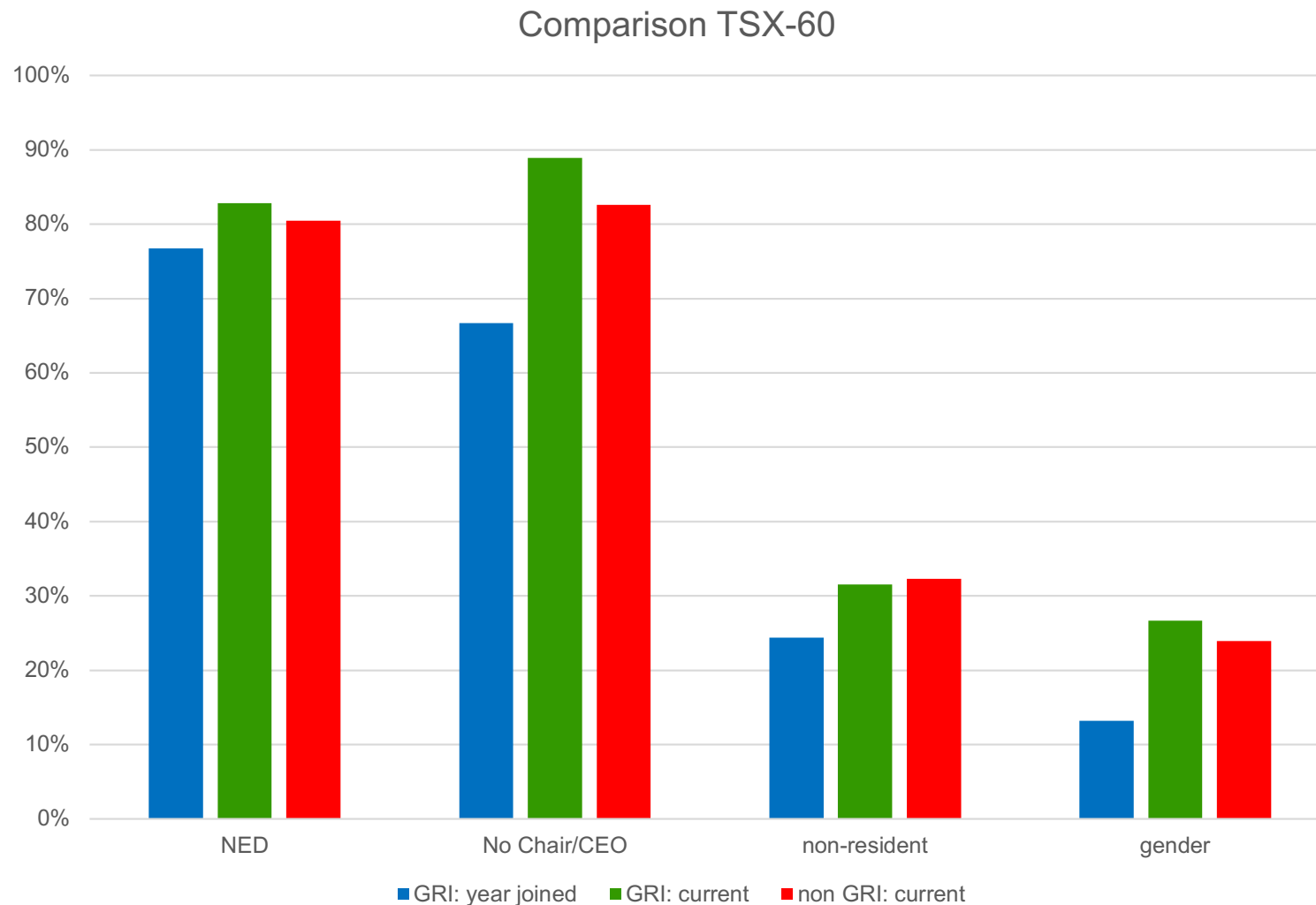
Strategic partners:

GRI is an international, not-for-profit organization, generously supported by **a diverse range of partners**. These partners help shape our agenda, and support the work we do to advance sustainable development through greater transparency and accountability, with a focus on emerging markets.

Policy makers:

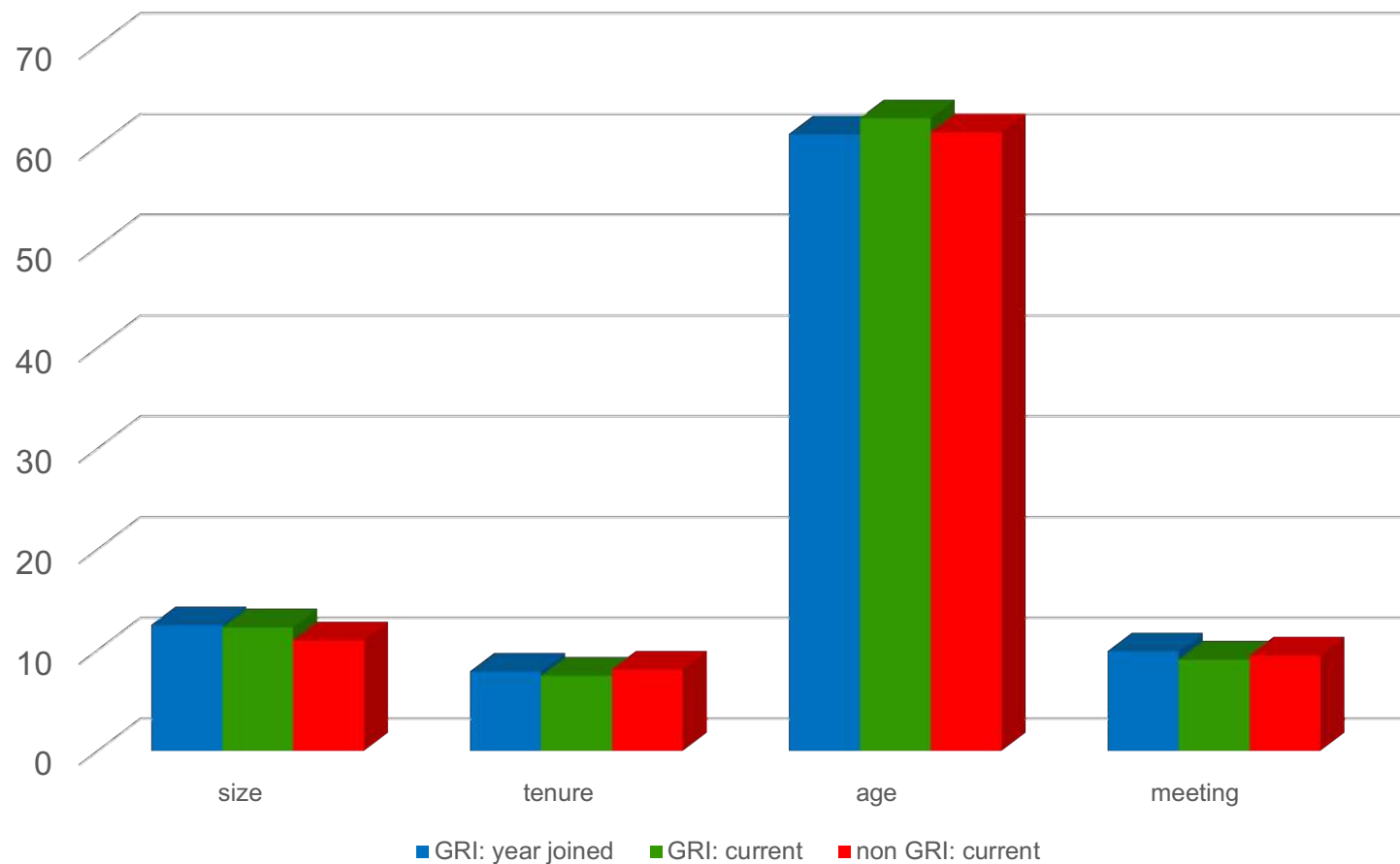
We advise governments, stock exchanges and market regulators in their **policy development** to help create a more conducive environment for sustainability reporting.

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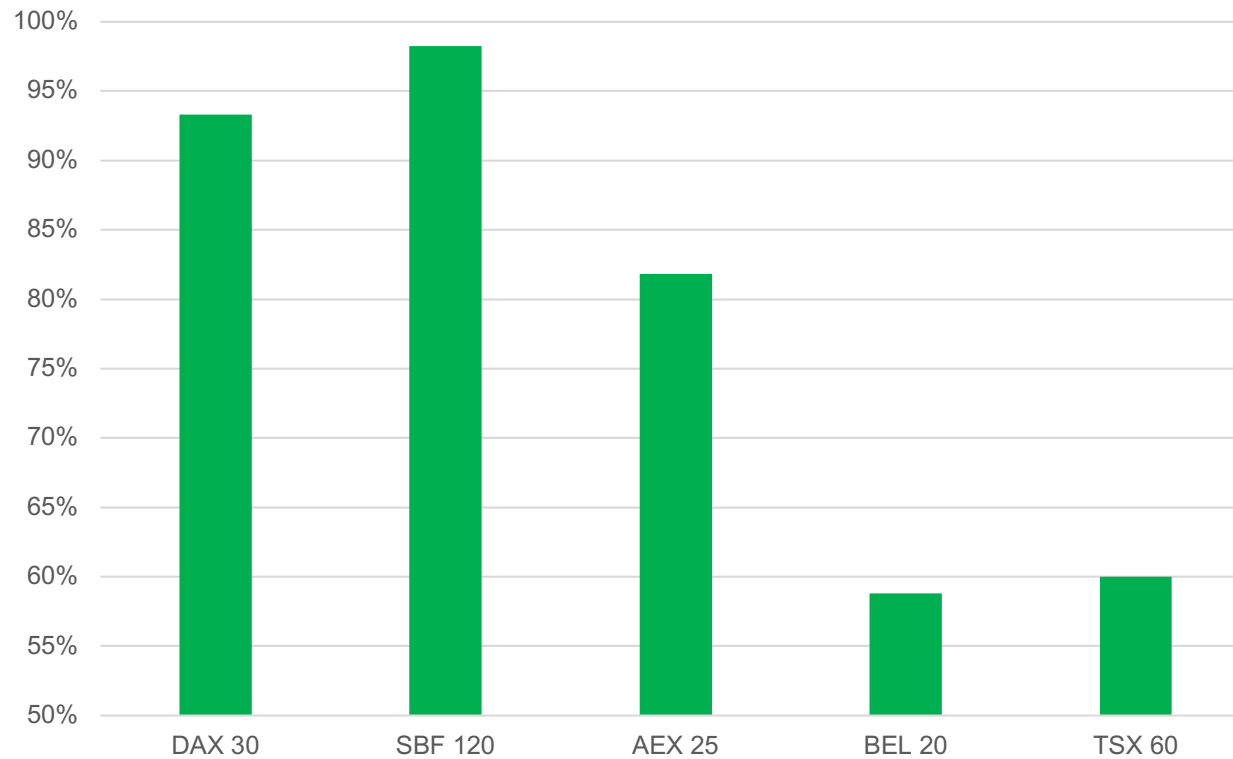
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Comparison TSX-60

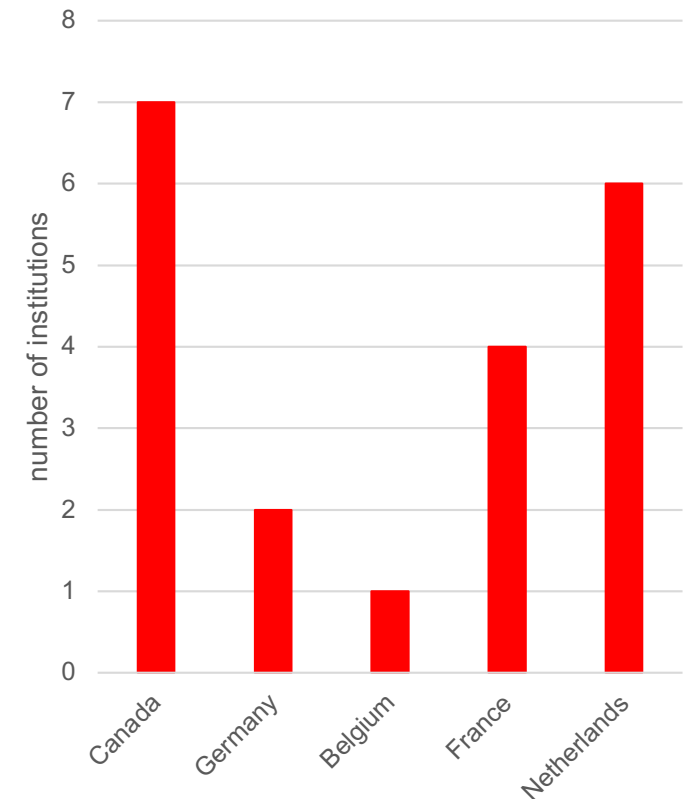


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Participants GRI



Equator Principles



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Corporate Knights

2018 GLOBAL 100

An index of the Global 100 most sustainable corporations in the world

[BACK TO ALL ISSUES](#)

2018 Global 100

2018 Global 100 Issue

*An index of the Global 100 most sustainable corporations
in the world*

In this report...

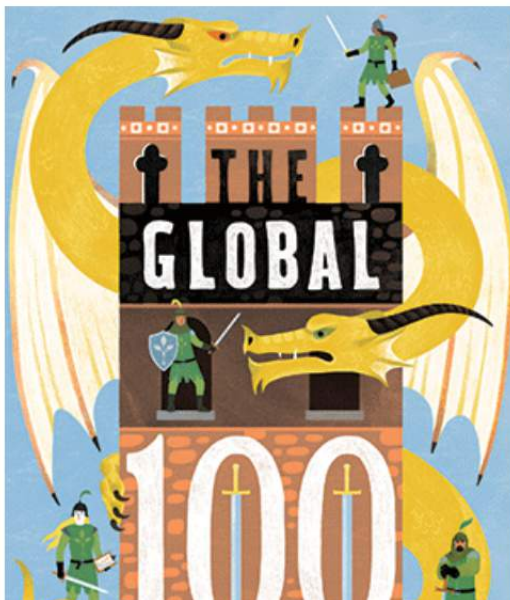
Global 100 progress report

2018 Global 100 results

Top company profile: Dassault Systèmes

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<http://www.corporateknights.com/reports/2018-global-100/#requestReport>



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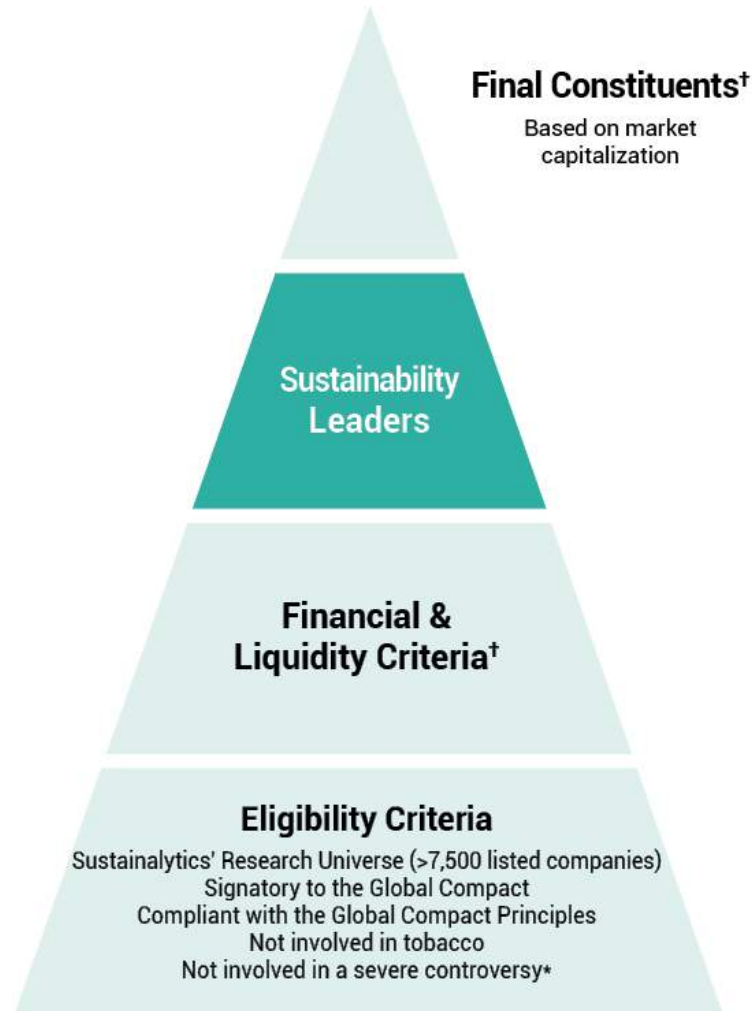
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Rank	Company	Country	GICS Industry	Overall Score	Board	NED	Non-resident	gender	age	meeting
12	Enbridge	Canada	Oil, Gas & Consumable Fuels	74.90%	13	84,6%	61,5%	30,8%	65	12
73	Telus	Canada	Diversified Telecommunicator	62.50%	13	92,3%	0,0%	23,1%	64	6
78	Sun Life Financial	Canada	Insurance	61.50%	12	91,7%	33,3%	33,3%	61	11
89	Canadian Imperial Ban	Canada	Banks	60.00%	16	93,8%	25,0%	37,5%	61	13
				Avg	13,5	90,6%	30,0%	31,2%	62,8	10,5
1	Dassault Systemes	France	Software	86.10%	11	72,7%	18,2%	45,5%	61,4	8
3	Valeo	France	Auto Components	83.60%	12	91,7%	25,0%	41,7%	64,4	8
6	Amundi	France	Capital Markets	77.80%	13	76,9%		38,5%	57,3	7
22	Sanofi SA	France	Pharmaceuticals	71.90%	16	81,3%	37,5%	43,8%	58,6	10
25	Vivendi	France	Media	71.10%	12	83,3%	8,3%	50,0%	51,0	6
32	Television Francaise 1	France	Media	69.90%	11	72,7%	0,0%	54,5%	59,1	7
33	bioMerieux	France	Health Care Equipment & Sup	69.80%	9	66,7%	22,2%	33,3%	60,7	4
36	BNP Paribas	France	Banks	69.40%	14	78,6%	28,6%	50,0%	57,9	11
45	Schneider Electric	France	Electrical Equipment	67.00%	12	83,3%	58,3%	41,7%	59,7	8
47	Kering	France	Textiles, Apparel & Luxury Go	66.80%	11	72,7%	18,2%	63,6%	54,1	7
51	Legrand	France	Electrical Equipment	66.50%	10	90,0%	30,0%	50,0%	59,9	6
84	L'Oreal	France	Personal Products	60.70%	15	80,0%	33,3%	46,7%	57,7	6
85	AXA	France	Insurance	60.60%	14	85,7%	50,0%	42,9%	59,3	11
90	Renault	France	Automobiles	59.70%	19	73,7%	31,6%	36,8%	58,7	7
94	Suez	France	Multi-Utilities	59.30%	19	73,7%	21,1%	47,4%	57,2	11
				Avg	13,2	78,9%	27,3%	45,7%	58,5	7,8

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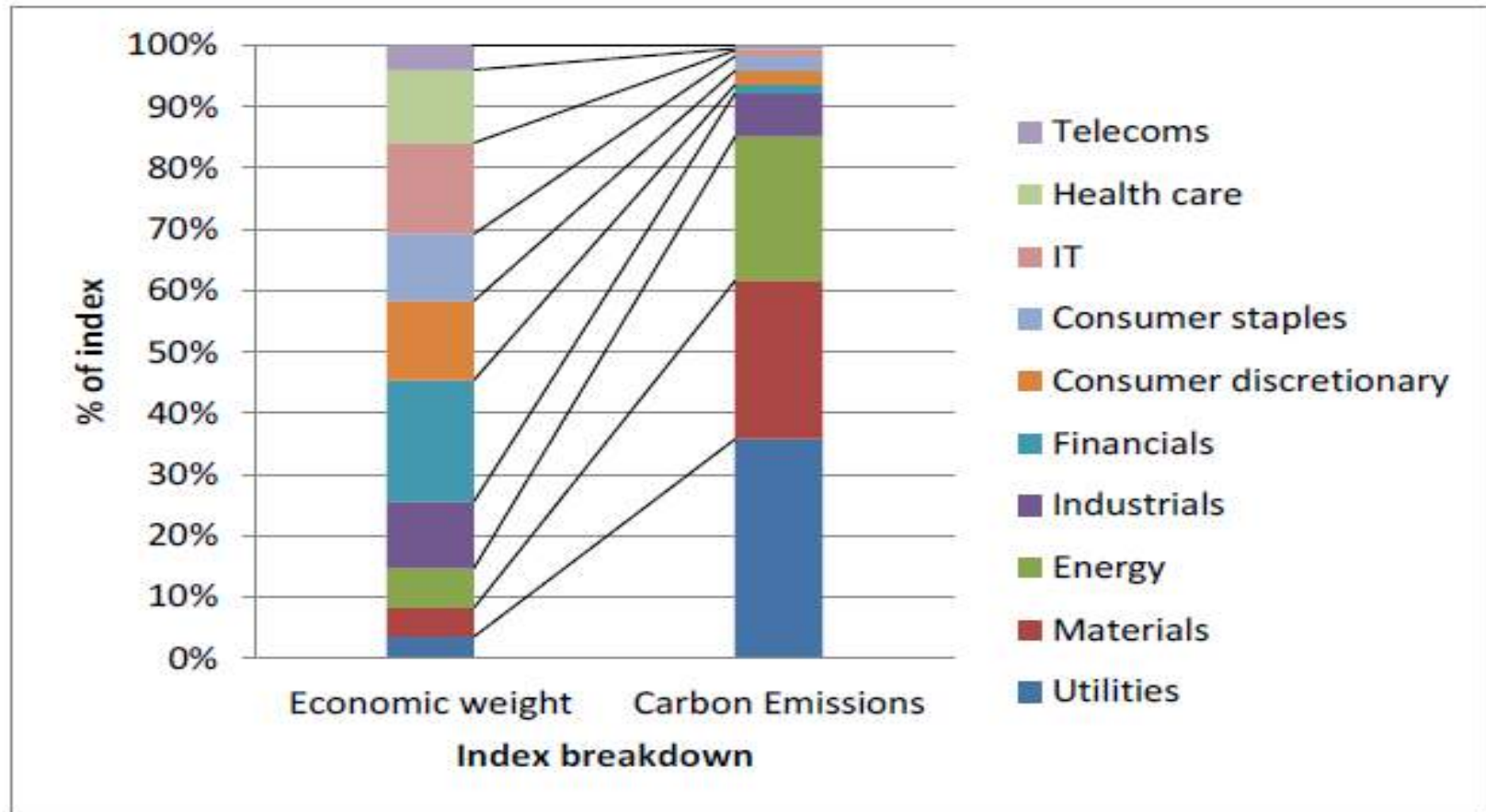
- Hypothesis: the relationship is more complex:
 - CSR adherence?

MSCI ESG INDEXES



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Figure 4. Market cap versus carbon emissions



Source: OECD calculations based on BNY Mellon Capital Management and MSCI – data from Q2 2015

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those that are related to climate change.

Not all ESG issues matter equally

The relevance of ESG issues varies industry to industry, company by company. For example, fuel efficiency has a bigger impact on the bottom line of an airline than it does for an investment bank. So, rather than adopt a one-size-fits-all approach, we have worked to develop a new ESG scoring methodology that is truly *material* to a company and its profitability.

Why? We have found that *traditional* ESG scores are composed of a large number of issues that are not material for every industry or company. Specifically, for two-thirds of all securities in the Russell Global Large Cap Index universe, less than 25% of the data items in the *traditional* score are considered material.^[1]

So, to generate our new score, we have leveraged the “traditional” ESG scores from the data provider Sustainalytics alongside the industry-level materiality map developed by the Sustainability Accounting Standards Board (SASB). After doing this, we asked ourselves: Can this new score be used as an ESG signal for investment decision-making?

SASB and Sustainalytics: Who are they and what do they do?

Sustainalytics

[Sustainalytics](#) provides data for 145 sustainability categories divided into environmental (E), social (S) and governance (G) issues. Scores for these subcategories are then rolled up into aggregated E, S and G scores, which are further rolled up into an aggregated ESG score for each company. Sustainalytics acknowledges that not every subcategory is relevant to every industry. To reflect this, data is not provided for each industry in each category.

SASB

The mission of the SASB is to develop sustainability accounting standards that help companies disclose value-relevant

RECOMMENDED FOR YOU

Grey Owl Capital Management's Quarterly Letter

by Team, May 01, 2018

Social Media is Like an IRA, Not a Cash Register – The Five Tasks That Make it Work

by Sara Grillo, May 01, 2018

Next Recession? Pundit Prognoses

by Jill Misinski & Marianne Brunet, Apr 16, 2018

The Power of Focusing on Others

by Dan Solin, May 02, 2018

Blind Courtesy Copying 101

by Crystal Butler, May 02, 2018

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Wrapping up

- Sustainability is key
- Are “sustainable boards” the driver?
=> Many other features contribute

Thank you!

Questions: c.vdrelst@uvt.nl

See for our latest paper

Lafarre, Anne and Van der Elst, Christoph, *Shareholder Sustainability Activism in the Netherlands (April 2018)*. European Corporate Governance Institute (ECGI) - Law Working Paper No. 396/2018.

Available at SSRN: <https://ssrn.com/abstract=3156614>