SEAN GALLUP

The GlobalEthicist

Integrating ESG issues into risk and compliance programmes

An interactive Q&A with Dr Andrea Bonime-Blanc

Q: How do we get environmental and social issues to be integrated more systematically into companies' risk and compliance programmes, the way that corruption, anti-money-laundering and other 'governance' issues are?

Submitted by Alexandra Mihailescu Cichon, head of business development at RepRisk, Switzerland

A: While environmental, social and governance (ESG) reporting has been around for quite some time, you know ESG has arrived when Wall Street and Fleet Street are paying attention to these issues and companies such as Goldman Sachs are publishing annual ESG reports. Does the recent awakening by the powerful global financial industry to issues of ESG, reputation

In this monthly column, Andrea Bonime-Blanc, 'The GlobalEthicist', answers readers' strategic governance, risk, ethics, compliance and reputation related questions. Submit your questions to Ethical Corporation's editor, Zara Maung, at zara.maung@ethicalcorp.com.

COLUMNIST: ANDREA BONIME-BLANC

and integrity convey a trend towards convergence between ESG and business risk, compliance and integrity programmes? Or is it a short-term pendulum swing?

Before we answer that question, let's take a quick look at what we mean by ESG – Table 1 provides a snapshot. While some consider the "governance" piece to be limited strictly to corporate governance protocols, others view it as including a broader set of legal and regulatory issues; I agree with the more inclusive view.

This said, let's go back to the question posed. There are two assumptions embedded in this question:

CHRIS HONDROS

Finance firms are publishing annual ESG reports

1. That the "governance" part of the ESG equation has found its way more regularly and systematically into companies' business risk, compliance and integrity programmes – through corporate governance procedures, codes of conduct and policies, especially relating to legal and regulatory matters. I generally agree with this observation, especially concerning US-based global companies whose business risk, compliance and integrity programmes started for legal and regulatory reasons. As discussed below, however, even these programmes are morphing into more holistic, strategic approaches, including broader ESG issues.

Table 1:
Sampling of environmental, social and governance (ESG) issues

Environmental	Social	Governance
• Climate change issues • Sustainability • Environmental laws & regulations • Toxic waste laws & regulations	• Human rights • Labour rights • Child labour • Health & safety • Discrimination, harassment & bullying	• Anti-corruption • Anti-money-laundering • Anti-fraud • Regulatory compliance • Conflicts of interest • Corporate governance

2. That the “environmental” and “social” pieces of the ESG realm have not quite found their way systematically into companies’ business risk, compliance and integrity programmes. I generally agree with this observation as well, with the caveat that this too is quickly breaking down and, depending on the geography, industry, leadership and culture of the company, the “E” and “S” issues are increasingly being included in business risk, compliance and integrity programmes. Witness the rush to a more holistic approach to ESG, risk and compliance by the global retail industry post-Rana Plaza.

Now to answer the question posed. We have witnessed convergent forces over the past 20 years (powered by the age of hyper-transparency and the stakeholder revolution) which is leading to the need for a more strategic, holistic and integrated approach. While some still call ESG issues “non-financial”, new research, metrics and KPIs are demonstrating the quantitative and qualitative impact (both positive and negative) of ESG issues. Moreover, reputation risk – which is potentially embedded in every kind of ESG risk – is increasingly recognised by C-suites and boards as a key strategic risk. The reason is that reputation risk attaches itself to other kinds of risk and acts as an “amplifier risk” (for good and for bad) as I have explored in my recent book on the topic.

Global retail has taken a holistic approach to ESG

As risk and reputation risk incidents and scandals occur in this hyper-transparent age, companies will see (or be forced to see) the value of integrating their “E” and “S” issues into their business risk, compliance and integrity programmes as well. Those tainted by scandal or affected by risk gone wrong are already demonstrating this. For example, Walmart, in the wake of Rana Plaza and the Mexico bribery allegations, is creating what may be one of the more advanced approaches to an integrated global business risk, compliance and integrity programme – for example, in its new scheme, the global sourcing officer reports into global compliance.

It may sometimes take a scandal or a hit to awaken a company to the new reality that an integrated and holistic ESG, risk, compliance and integrity

DANIEL AGUILAR

Walmart de México allegedly bribed officials

Use the power of reputation risk to focus the attention of leaders

programme makes sense. In the meantime, there are things responsible managers, executives and board members can do to help their companies adopt a more integrated approach, including some of the following:

- It takes a village – start a dialogue about common issues and concerns with colleagues.
- Break down the barriers – invite colleagues from the “E” and “S” functions to participate in conversations, workshops, talks and online chats within the company.
- Escalate the dialogue to higher-level members of the team – encourage them to touch base with their counterparts.
- Be cross-functional and cross-topical – create a committee to discuss an integrated approach.
- Deploy the headlines to your advantage – show how other companies are doing it.
- Benchmark and use the power of comparison – use the potential for competitive advantage as a motivator.
- Use and deploy data – show trends, developments, best practices, strategic information.
- Engage leaders during town halls, online, via Twitter and LinkedIn – ask them what they’re doing about ESG.

Finally, use the power of reputation risk as an organising principle to focus the attention of leaders on what they hold dear: their own and the company’s reputation. If ESG risks are not properly and strategically integrated and planned for, reputation risk will adhere to a full-blown ESG risk and make it worse. And the opposite is true too: a company that is prepared for its ESG risks (including reputational implications) will not suffer as severe a downside – and indeed it may actually garner greater stakeholder support and value for being prepared. ■

Dr Andrea Bonime-Blanc is chief executive of GEC Risk Advisory and has recently authored The Reputation Risk Handbook: Surviving and Thriving in the Age of Hyper-Transparency.