



## NACD Private Company Directorship

### The Tsunami that is ESG

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Chris Clark conducts interviews with leading corporate directors and subject matter experts for *NACD Private Company Directorship*, a bi-weekly e-publication about private company board leadership and governance best practices, on critical issues from ESG and cyber-resiliency to succession planning and board composition.

According to **Andrea Bonime-Blanc**, JD/PhD and Founder & CEO of GEC Risk Advisory, a focused ESG strategy has an enormous upside for both public and private company businesses in terms of value creation and competitive advantage.

(This interview with Andrea Bonime-Blanc was condensed and modestly edited for clarity)

#### **How do the ESG principles for public companies apply to private companies and their boards?**

The mistake many people make about ESG is that they think it's something that only applies to public companies or that only investors (read: public markets) are interested in. Far from it; ESG is a mindset, a culture, and a strategy that is not only interesting to investors but to other key stakeholders as well – primarily younger generations of talent are willing to walk away from a company that doesn't get it and customers will do the same. Companies that get it – whether they are publicly traded, privately held family businesses, or pre-IPO or pre-M&A companies that are part of a private equity portfolio – understand that ESG is about creating long term, sustainable value through excellent risk and opportunity management, embedded into strategy that in turn helps to create better products and services. ESG is about understanding all relevant environmental, social, and governance (and in my work, I add technology and call it ESGT) aspects of your business that allow you to understand your context (situational awareness), risks, and opportunities so much better. ESG is knowledge, and knowledge is power – the power to refine and solidify your offerings. In other words, when you have a full grasp of your ESG/ESGT profile – issues, risks, and opportunities – you are in a position to unlock a lot of resilience and value that are otherwise untapped or, more seriously, nonexistent.



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Yes, I think so, but not at the expense of the S and E. Let me explain myself. I developed an eight-part model for building organizational resilience and sustainability in my recent book *Gloom to Boom: How Leaders Transform Risk into Resilience and Value* (Routledge 2020), and the #1 element that companies need to get right is governance and leadership. What this means is that the board and the management team must contain the right mix of diversity and expertise, which should always include more than one person with ESG expertise. On the one hand, when you have that expertise on the board, you can hold the CEO and management team more accountable for developing the right approach to ESG strategic considerations. On the other hand, a management team empowered with ESG knowledge is a team empowered with better situational awareness and the ability to develop a more holistic and sustainable business strategy, as well as better products and services and trust in them. If you get the G right, the other elements follow – culture, stakeholder engagement, risk management, strategy, performance metrics, crisis readiness, and continuous improvement and innovation. It's what I call in my work the "Virtuous or Robust Resilience Lifecycle." Boards and management that are able to create such a lifecycle will survive and thrive through the tough times, as we have seen in this past year.

### **What ESG considerations should P/E owned companies fully embrace in 2021 and 2022**

They need to get qualified directors into their portfolio company boards who have the background, knowledge, and direct experience of having dealt with ESG and what I like to call ESGT (including technology) issues, risks, and opportunities in their careers. This means instead of putting your 5<sup>th</sup> chief executive officer or chief financial officer on a portfolio company board, why not consider putting someone who has served as a chief risk officer, chief sustainability officer, chief ethics and compliance officer, general counsel, investor and government relations head, corporate responsibility officer, human capital head or the like on each of your portfolio company boards? Having the distinct perspective of one or more folks who have immersed themselves into these issues over their career, rolled up their sleeves, and engaged deeply in ESG topics will give you that unique perspective of whether a portfolio company is prepared to be resilient and sustainable and thereby garner the value in the marketplace that you hope it can. To me, this is a *sine qua non* of success in today's high-risk global business environment and often explains the difference between portfolio companies that rise to the next level and those that don't.

### **What is the global outlook for ESG going forward?**

[In this piece that I wrote for NACD Directorship's blog "Davos 2020 Catalyzes ESG,"](#) written just before the pandemic began in February 2020, I made the case that we had reached a certain turning point in the acceptance and arrival (so to speak) of ESG and sustainability in the business world – not only in the U.S. but globally. I believe I called it a wave, especially in the U.S. because of the many ESG related pronouncements and activities from the likes of Blackrock, Vanguard, State Street, the Business Roundtable, and others over the preceding 1-2 years (since Europe was already ahead of the curve for a number of years). Then we got hit with the global pandemic. At the beginning, I don't think anybody thought that ESG would be turbocharged from a wave to a tsunami, but that's exactly what happened with the rush and realization of the critical environmental and social issues that the pandemic laid bare globally and nationally, including, in the U.S. especially, serious social justice, worker safety, and related health issues. Not only did ESG issues grow exponentially in terms of awareness but also and critically in terms of financial flows, with the greatest growth in all forms of ESG fund and investment activity we have ever seen happening in the past year, with no signs of abetting. Indeed, with



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call it a tsunami but a permanent tectonic shift.

### **What is the biggest, dirtiest (pun intended) little secret about ESG?**

That ESG only applies to publicly traded companies and that the only reason they need to pay attention is because regulators are getting involved. Au contraire, I work with both public and private companies whose leadership teams and boards really get it and understand that there is enormous business upside and competitive advantage to developing a customized, practical, and focused ESG strategy for their businesses. The problem is that folks become “slaves to fashion” and run headfirst into deploying something pre-packaged or sold to them without a considered, thoughtful approach to understanding what their specific ESG context and footprint require. Once that has been figured out, everything else flows, and the interconnection back to key stakeholders like employees (especially younger, incoming talent you want to attract and retain), customers, and the supply chain can happen, thus retaining and building their trust. Although we are living through the Wild West phase of ESG, many companies have already been doing ESG for a long time and didn’t know it. When I provide strategic counsel to boards or management on developing their ESG strategy, more often than not, they already had many pieces of the ESG puzzle that they hadn’t quite knitted together yet. In other words, it’s a matter of thoughtful strategic thinking and then connecting back to tactical implementation, including, of course, due diligence, information gathering, and reporting. This is not rocket science; it’s actually strategic planning at its best because it incorporates intangibles that for too long have been sidelined, ignored, siloed, or not fully integrated into strategy.

*Andrea Bonime-Blanc serves as a board member to the Cyber Future Foundation, Epic Theatre Ensemble & the NACD New Jersey Chapter, advisory board member to Crisp, WireX, and several international think tanks, and has written several books, including *Gloom to Boom: How Leaders Transform Risk into Resilience and Value* (Routledge 2020) and *The ESGT Megatrends Manual* (Diplomatic Courier 2021).*

*Christopher Clark, Publisher, Directorship & Senior Director, Partner Relations, National Association of Corporate Directors*

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