EVOLVING ESG

ENVIRONMENTAL, SOCIAL AND GOVERNANCE PRACTICES WERE A HOT BOARDROOM TOPIC BEFORE THE PANDEMIC HIT. NOW WHAT?

BY C.J. PRINCE

IRST, THERE WAS Larry Fink's letter in 2018 asking CEOs to clarify their company's purpose and long-term value to society. Then came last year's Business Roundtable statement redefining the role of the corporation beyond the creation of value for investors to creating value for a multitude of stakeholders, including society at large.

This past January, Fink again pushed the envelope in his annual letter, saying that BlackRock would be encouraging votes against management when the company had not made enough progress on ESG disclosure in line with the Sustainability Accounting Standards Board and would be scouring its portfolios for exposure to "heightened ESG risk." As the new year began, it fully looked as though the buzzword of 2019 would keep its spotlight in 2020 and for the foreseeable future.

Then came Covid-19, the black swan event that swept just about everything off the agenda other than strategies for keeping the lights on. Employees were furloughed, playbooks tossed, businesses shuttered—and boards understandably wholly focused on supporting management through the tsunami.

In a climate of crisis, the likes of which few businesses had ever lived through, many directors questioned whether ESG should still be a boardroom priority. With the pandemic threatening the very lives of both people and companies, shouldn't ESG initiatives get shunted to the back burner until the fires are out and survival seems more certain? The first few months of the outbreak saw some sustainability projects put on hold—Unilever's water conservation and sustainable farming initiatives, Starbucks' reusable cups, Ford's electric car

initiative, for example.

But those inside the ESG debate say that the programs being put on pause are not what ESG is fundamentally about. Really, ESG encompasses any and all risks to long-term sustainable value—which is why it won't be going away, says Sarah Fortt, a securities lawyer for Vinson & Elkins, who works with boards to assess their readiness to address corporate crises, including cybersecurity incidents, investor activism

"Yes, the number one priority is survival, but not at any cost."

—Wanda Lopuch, Global Sourcing Council, Entelligent, HEVO Power

and, yes, pandemics. "When we think of sustainability, we often see it as a two-dimensional thing," she says. "This crisis has shown us that it has many more dimensions to it. If anything, the pandemic has underscored the need for companies and boards to look at non-financial risks much more closely."

TIME TO DECOUPLE AN ACRONYM?

It's understandable if directors are still confused about how relevant ESG is to their companies, given an overhyped, often politicized and roundly misunderstood acronym. "You could argue that the whole space is somewhat fatigued by the definitional confusion," says Deloitte partner Kristen Sullivan, who leads the firm's sustainability and KPI services. "You've

THE BOARD'S ROLE IN ESG DURING COVID—AND BEYOND

GOVERNANCE EXPERTS OFFER THE FOLLOWING TIPS FOR NAVIGATING IN A POST-COVID WORLD.

Don't lose sight of long-term goals. In a crisis, the temptation will be to focus on the short-term, but while management is fully absorbed with day-to-day triage, boards have to have one eye on the horizon. "Yes, the number one priority is survival—but not at any cost," says director Wanda Lopuch. "Boards also need to be guided by the visions of 10 years from now: Are we adding value or creating a problem for the future with this decision today?"

To that end, she and the board of VC company HEVO Power decided to approve aggressive hiring, even in the midst of the downturn. "Another strategy might have been to wait and see how quickly the market can recover," she says. "But we want to have an opportunity to get the best resources at a reasonable price—so we made the decision today having future outcomes in mind."

Look for best practices. Boards should be asking what key business drivers stakeholders are interested in. Then, look at competitors and peers to see what metrics they're using and what they're measuring.

Joyce Cacho, an indepencent director with Sunrise Banks, adds that boards should look at financial reports and ask how you can more explicitly account for intangible assets figures in the income statement.

Remember—noses in, fingers out. Supporting management through the crisis is, of course, key. "This is not a time for the board to pepper management with a lot of individual questions and suggestions," says The Conference Board's Paul Washington. "But without micromanaging, the board can ask about alternatives that have been considered when making decisions around employee health and safety and morale."

Directors still need to be that voice of healthy disruption in the boardroom, says attorney Sarah Fortt, posing the question of how the board needs to think about non-financial risks going forward. "Investors will want to see that more, so if you see weak points in your enterprise risk management, keep asking questions until you're satisfied."

"Covid-19 came along and separated the wheat from the chaff when it comes to answering the 'people' question."

—Joyce Cacho, Sunrise Banks

HUMAN CAPITAL MANAGEMENT DURING AND AFTER THE COVID ERA

BOARDS HAVE LONG BEEN responsible for certain key human resources decisions, most notably hiring, retaining or relieving a company's CEO. Many boards have expanded their HR responsibilities in recent years, as investors and other stakeholders demanded greater board involvement with "human capital management" ("HCM"), a broad concept that encompasses a wide range of workforce issues, including talent development, employee retention, diversity and inclusion, and corporate culture, among other things.

The attention to these issues has only grown in the wake of the Covid-19 pandemic. Companies are rightly devoting considerable resources to carefully evaluating challenging workforce issues.

In our view, the Covid era will cause many boards to enhance their HCM oversight and voluntarily disclose more about their efforts. To help directors thrive in this new environment, this article briefly describes where we have come from and where we are headed.

Increasing Investor Pressure

Some outsiders do not believe that boards have been sufficiently involved in overseeing their companies' HCM activities. Calls for more effective HCM oversight started to attract attention in the summer of 2017 when a group of investors formed the Human Capital Management Coalition and asked the SEC to mandate more HCM disclosure. Others, including heavyweight asset managers like BlackRock and State Street Global Advisors, issued their own HCM guidance.

Some shareholders have gone beyond talk and moved to action, filing a number of HCM shareholder proposals. Until this year, there had been little success on those that went to a vote. Between July 1, 2016, and June 30, 2019, there were 63 such proposals at Russell 3000 companies, averaging roughly 22 percent support. In that period, three that sought employment diversity reports narrowly passed.

This year has been different. Many proposals this proxy season settled, including at least seven focused on diversity and gender equality and two others requesting disclosure of HCM metrics such as average hourly wages.

As of this writing, only three HCM proposals have gone to a vote this year. All passed with substantial support. One proposal for enhanced diversity reporting had 61 percent of votes cast in favor. Two proposals that sought a wide range of HCM disclosure as defined by the Sustainability Accounting Standards Board (SASB) passed with 66 percent and 79 percent support, respectively. These shareholder proposal victories will not be the last; there is clearly wind in the sails of HCM proposals.

SASB Standards Take the Lead

The SEC has resisted calls for prescriptive HCM disclosure requirements. However, last August, the Commission proposed a principles-based rule that would essentially require companies to describe the material human capital resources on which management focuses in managing the company's business.

Meanwhile, the private market is moving much faster and appears to be coalescing around SASB standards. SASB's HCM standards are sector-specific and comparable. Given the current momentum behind SASB, including the very public promotion of SASB standards by BlackRock and State Street Global Advisors earlier this year, we anticipate many more shareholder proposals asking companies to disclose this data will be filed and, if they go to a vote, most will likely pass.

The Covid era will cause many boards to enhance their HCM oversight and voluntarily discuss more about their efforts.

Boards Devoting More Time to Talent

At many companies, HCM efforts are increasing organically, independent of shareholder pressure.

For example, EY found that half of Fortune 100 companies publicly disclosed commitments and efforts related to diversity and inclusion last year, with roughly a third of those also including some numerical diversity performance data. A meaningful number of other companies disclosed information about workforce compensation, corporate culture initiatives and workforce health and safety.

Some companies have signaled greater attention to HCM issues by changing the name of the board committee responsible for compensation. In 2019, almost 40 percent of S&P 500 companies sent such a signal, with a growing number of "Human Resources and Compensation Committees" or "Management Development and Compensation Committees," among other titles, according to Willis Towers Watson. Many other companies have added HCM responsibilities to their compensation committee charters.

The Path Forward

There was substantial momentum behind HCM before the Covid-19 crisis; the pandemic only adds more fuel to the fire. Investor and other stakeholder interest in HCM will increase in the next few years, and we suggest boards take two steps to prepare.

The first step is enhancing the dialogue about HCM in the boardroom. Asking informed questions and ensuring resources are devoted to important HR issues are valuable and appropriate tasks. Material HCM issues should be discussed with the board or a designated committee at regular intervals, depending on their significance to the company and context.

Second, companies should be prepared for more requests to describe their HCM activities, strengths and weaknesses. Company leaders should get ahead of the issue by discussing what they might be comfortable disclosing voluntarily before shareholder demands or regulatory requirements compel them to do so.

Richard Fields, director of corporate stakeholder engagement at King & Spalding, advises boards and C-Suite executives on issues related to corporate governance.

Cal Smith is a partner with King & Spalding with decades of experience counseling directors, CEOs and C-Suite executives on strategic and governance issues.

KING & SPALDING

got corporate responsibility, you've got sustainability, you've got citizenship—a lot of different framing in terms of how different market participants are talking about this whole evolution."

That fatigue is likely responsible for at least one result in PwC's 2019 Annual Corporate Directors Survey: 56 percent of directors felt ESG was getting too much attention—a jump from just 26 percent the previous year. "The term has become so broad that it is impossible to reach your arms all the way around it," says Margaret Peloso, a partner in Vinson & Elkins' environmental and natural resources practice. "It is definitely useful to think about non-financial risks, but I

"It's a human issue, but it's an economic issue as well."

—Rob Mellor, Coeur Mining

would agree that the concept of the ESG brand has perhaps outlived some of its usefulness."

Fortt agrees, noting that when the pandemic has passed and the economy resumes, we will see "whether we're successful in breaking the concept of ESG apart into the individual aspects of it that can really add value—because adopting an ESG policy is very close to useless if you're not thinking about the individual components that matter to your company."

Employee safety, for example, might be considered an "S" risk under ESG, but on the board of Coeur Mining, it's not talked about that way—it's simply a key risk for the business, says independent chairman Rob Mellor. "It's always been a big issue, it's always covered in board meetings—and environmental, along with safety, are at the top of the page," he says, because they're critical to the company's viability. "It's a human issue, but it's an economic issue as well." If the company gets sloppy and starts failing tests and audits routinely conducted by the EPA and by local government agencies, "you're gonna get not only fined but shut down—and then you're in the penalty box." Coeur's board has an Environmental Health and Safety committee that meets prior to every board meeting and reports back on all relevant issues. Workforce, diversity and income equality issues are covered by the nom/gov and comp committees, largely, but none of it, says Mellor, appears on the agenda under the heading "ESG."

"A lot of boards and companies are

SHORT-TERM PAIN, LONG-TERM GAIN

Lauri Shanahan

Many corporate leaders are still trying to suss out which ESG areas, some of which seem a bit "squishy," impact their companies' bottom lines. But, while overseeing corporate responsibility initiatives as chief legal officer at clothing retailer Gap, Lauri Shanahan saw firsthand how doing "the right thing" translated to the company's bottom-line health. Company policy dictated that factories that supply the Gap product must follow certain labor practices, such as requiring no more than 60 hours per week of work and paying employees correctly, etc. "My team found around 15 instances of factories keeping double books," Shanahan recalls. They would show Shanahan's team one set of books, but when interviewing workers, they discovered not all was as it seemed.

As a result of the violations, the company had to walk away from factories that offered lower prices but refused to make the ethical changes Gap required. "That was extremely painful for the business in the short term," she says. Over the long term, however, the company established more honest and solid relationships with factories that were willing to change. "What we found was that it might have been a cheaper product [with the less ethical factories], but the all-in cost for the factories that were better run was lower, and they delivered much better qualify and took better care of their workers." Ultimately, they delivered greater continuity in the supply chain and more consistent pricing, she adds. "So, it was a much more sustainable model."

Today, when similar decisions come up on the boards of Deckers Outdoor, Cedar Fair Entertainment and Treasury Wine Estates, she is mindful that ESG principles and initiatives aren't just about mitigating risk. "It's not just about doing it because we have to or because we're going to get a bad reputation if we don't," she says. "We're actually doing this to be more profitable and sustainable over the longer term to actually thrive and win over our competitors."

WHY ESG IS CRITICAL TO BUSINESS RESILIENCE

By Kellie Huennekens

TODAY, COVID-19 IS UPENDING how work is defined, what companies and organizations represent and what they do. Amid high market volatility, unprecedented peacetime pressures on the economy and existential challenges to businesses, large and small, some voices are asking how these developments reconcile with ESG.

We see ESG in the actions of businesses and other organizations in thinking how best to provide for—and more than that, *drive*—the long-term sustainability of the communities in which they operate. These communities underpin the foundation of society, the economy and the capital markets.

We see it in heightened awareness of the saying "people are our most important asset." Today the "S" of human capital is constantly top of mind. Leadership is more important than ever. There is a tremendous need for leaders to assure and inspire workers, customers and other stakeholders. So much, too, rests on a healthy, confident and empowered workforce: Workers who feel protected and safe while serving on the frontlines of healthcare and critical business operations. And workers who are working from home, juggling the needs of young children and other family members, including individuals requiring special care.

Former workers, consumers and suppliers fill the ranks of the unemployed and those seeking assistance at foodbanks in an all-too-rapidly growing segment of the population—and one that doesn't include the many who may soon join them. These same individuals simultaneously represent *future* workers, consumers and suppliers when the economy picks up pace. How do companies and organizations manage today, in the coming months and farther out?

Even as "S" challenges make headlines, large-scale environmental challenges continue. Climate change, resource limits and efficiency pressures, waste management and pollution, and other environmental challenges do not go away, even with the temporary ease in ecological pressures. Poor management of environmental challenges—which represent short- and long-term systemic risks—can carry significant costs and other repercussions for businesses and communities.

Today's business models are customer-centric and built on global travel and population densities, digitalization and interconnectedness, complex supply chains and a substantial gig economy. It's in this landscape that we are seeing more non-traditional risks appear more often and with greater impact—whether it's "once-in-a-hundred years" weather events that occur repeatedly in a lifetime or an inconceivably damaging global pandemic.

ESG is critical to business resilience. This lens and accompanying stakeholder considerations help organizations to better identify non-traditional risks and opportunities; to flex, endure and recover from shocks and stresses; and to accelerate the changes needed for our global ecosystem to be more sustainable in the long run.

Resilience reflects what we do before, during and after disruptive events, and it's built on effective governance practices.

In times of crisis, there is an opportunity for boards and companies to think strategically about how they can achieve a better outcome for their organizations, from supply chains to their customers—and by extension, to greater whole that is society and the global economy.

In recent years, there have been more calls for an inclusive approach to capitalism—from corporate leaders to the common worker, policymakers, academics and other stakeholders. Historically separate stakeholders are increasingly collaborating on common goals—whether by working to move the needle on greenhouse gas emissions or other aspects of the UN Sustainable Development Goals. These efforts share the goal of leveraging corporate purpose to build long-term business and societal sustainability.

Companies and organizations are demonstrating this commitment in fighting the pandemic, taking action in alignment with long-term purpose, mission and vision. Some are retooling equipment and processes to assist healthcare workers; contributing time, expertise and services; or by making financial donations. Some are fighting pain points by expanding healthcare coverage and sick leave, contributing to hospitals and foodbanks, or committing to "keep the lights on." There are offerings of free data, technology and communications, and access to wellness services, fine arts and other entertainment.

ESG by itself isn't the solution, but it gives room for optimism. Resilience reflects what we do before, during and after disruptive events, and it's built on effective governance practices—the "G" applied with a view toward inclusive growth over the long term.

Our global vulnerability and experience with disruption today will likely accelerate calls to strengthen our resilience in the face of future challenges. It's these future non-traditional challenges that stakeholders need to consider as we continue to adjust *all* of our existing processes, practices and behaviors for the coming months and the recovery.

Let's use this moment to improve our ability to mitigate and absorb the systemic stresses and shocks we're now facing. And let's harness the power of the crisis to focus, adapt, innovate and transform. We can start now to build something better for the long-term. We need to.

As individuals, as companies and organizations, and as a society, let's work together to get through this and, in the process, create a better tomorrow.

Kellie Huennekens is head of ESG Research for Nasdaq Corporate Services (corporatesolutions@nasdaq.com).

doing a lot more than they're giving themselves credit for, but they're doing it in a much more integrated way than just having it as a topic they can check off the list once a year," says Maroon Peak Advisors Principal Lauri Shanahan, who sits on the boards of Deckers Outdoor, Cedar Fair Entertainment and Treasury Wine Estates. In fact, addressing ESG as a separate agenda item "is one of the biggest mistakes boards can make," she says. "As a director, every single time I hear from the supply chain, every single time I hear from retail or from any constituent or any part of the business, [ESG] should be baked into that presentation. It should be part of the long-term strategy discussion and not just standalone."

ESG has certainly come up in the Deckers boardroom, she adds, "because it's the buzzword of the day, but it's less about 'here's what we have to do' and more 'here are all the things we do that fall under this umbrella.' The challenge for the Deckers of the world is then how do we articulate that in a way people can judge us and hold us accountable?"

"From an institutional investor perspective, a lot of this is driven by portfolio managers and what they think is important to understand about a particular company."

—Cynthia Hostetler, Invesco Funds, Vulcan Materials Company, TriLinc Global Impact Fund, Resideo Technologies

SYNCING STANDARDS

That is much harder done than said, largely because standards for reporting on ESG and for compliance are still a disorganized alphabet soup. "There is a lot of inconsistency in the space," says Global Sourcing Council chair Wanda Lopuch, who also sits on the boards of Entelligent and HEVO Power. Europe has been further along on standards, she adds, particularly with regard to climate risk disclosure, "but jumping across the Atlantic, there are no mandates, and the guidelines from regulatory bodies are not very precise and are based on voluntary disclosures." Even when there are guidelines—SASB, for example—they're geared to investors "and directors are not always in sync with that."

Some directors are not aware, for example, that Moody's increasingly uses ESG disclosure in its credit ratings. "That is a link that is not well appreciated or well recognized. And it means that ESG is not about being nice—it's about the cost of capital," says Lopuch. "For investors, ESG is the surrogate for risks. If boards do not report on the risks, that's a red flag."

With metrics still scarce and standards inconsistent, boards and management are left to figure out which ESG risks are actually material to the business and what their investors want to see. Lopuch points to fintech companies operating from remote locations, sans supply chains, as an example of those who "used to brush off the question of mitigating climate risk," she says. "But when you start to peel back the onion of what that means—climate risk, from physical risk to transitional risk—there is a different picture, and, sometimes, elements of that are being captured by ratings agencies, which catches directors by surprise."

One thing that seems to be growing abundantly clear is that ESG is not, as it was once thought, "the softer side" of governance. Though not as easily measured as financial risk, "it really is, in fact, the iron fist in the velvet glove if companies are caught unaware," says Fortt. "Unfortunately, I think we're seeing that play out on a very global scale."

MAKING IT ABOUT MATERIALITY

The area of focus for particular boards depends heavily on the type of company and industry—and to say focus varies widely is a grand understatement. "That's where materiality becomes so important," says Ryan Resch, managing director at Willis Towers Watson. "What's important for one industry is not necessarily important to another, so that's where you need to tell *your* story and decide what's material to your business, your investors and your long-term value creation."

Long-time board member Cynthia Hostetler agrees that monitoring and measuring ESG progress is highly company specific, which makes it critical to have good relationships with stakeholders and an open, honest line of communication about what they're looking for. "I see it from both sides because I wear two hats," says Hostetler, a director with Invesco Funds, Vulcan Materials Company, TriLinc Global Impact Fund and, since March, Resideo Technologies. "From the industrial company perspective, it requires having good relationships with

"If our people are sick and they can't perform, what good are we?"

—Gaurdie Banister, Russell Reynolds Associates

ESG: ADDRESSING AN EVOLVING ISSUE

By Kelly Malafis

In August 2019, the Business Roundtable came out with a new statement on the purpose of a corporation. For the first time, the focus expanded from serving shareholders and creating long-term value to serving all stakeholders by delivering value to customers, investing in employees, dealing fairly and ethically with suppliers and supporting the environment and people in the community.

While this statement is bold, it is a response to the increased focus by shareholders on Environmental, Social and Governance (ESG) matters. Investors are evaluating how companies are addressing ESG issues and their impact on the long-term sustainability and value creation for each organization. Some of the largest institutional investors, including BlackRock and State Street, have put boards on notice that they will be holding directors and company management accountable for how ESG issues are managed. The major proxy advisory firms (Institutional Shareholder Services and Glass Lewis) now provide their clients with ESG ratings for each company they evaluate, highlighting related risks to investors in these areas.

What should board members generally and compensation committee members specifically be doing to address ESG? Each board should define what ESG means for their organization as each company has a unique operating model or business strategy that may include ESG initiatives to varying degrees. Many boards are doing this. We have seen the creation of ESG committees of the board or modifications to committee charters to incorporate ESG oversight (for example, many compensation committees now have oversight of diversity and inclusion). Once companies and boards define what ESG means for them, it will be important to articulate the following:

- Objectives for each of these initiatives
- Criteria for assessing performance against these objectives
- Approaches for holding management accountable

The governance area of ESG has improved in the past decade, with many organizations focused on strengthening shareholder rights and demonstrating the alignment of pay and performance in response to input from shareholders and shareholder advisory groups. A strong and independent board is a key factor in governance and across industries, and many boards have embraced independent director sessions, board refreshment and balanced tenure, skills and diversity. Showcasing of governance enhancements has become common in proxy statements, and we expect companies to continue to maintain strong governance practices.

The environmental aspects of ESG have been more common in certain industries, such as energy, utilities and manufacturing, though the focus on the environment is gaining momentum across industries. Companies are focusing on how they manage climate change, emissions, spills, water conservation and other sustainability efforts. Organizations such as the Sustainability Accounting Standards Board have developed standards so companies and investors can assess the risks and opportunities across industries.

The social aspects of ESG have focused on human capital and the impact of a company's products or policies on society. The topics of human-capital management, employee engagement and gender pay equity have increasingly worked their way into board meeting conversations, with gender pay equity raising the fundamental issue of representation and inclusion. These statistics are measurable, and detailed analysis over time can help hold management accountable and demonstrate progress. It is now very common for compensation committees and, in some instances, the full board to receive updates on representation across an organization.

A natural question is to what extent should ESG factors be incorporated into incentive compensation plans? CAP reviewed the proxy statements of 2020 early filers (companies that filed their most recent proxy statement between December 2019 and January 2020) and found that approximately one-third incorporate some type of ESG metric in their executive compensation plan decision-making. The types of metrics varied significantly by industry as not all aspects of ESG will be critical to every organization's business strategy. For example, carbon emissions may be more material for an energy company than a professional services company. When incorporating ESG factors, most companies in our review applied the metric to their annual incentive plans using a qualitative assessment of the factor. The metric generally reflected a small percentage of the overall weighting (5 percent–15 percent of the total incentive). Companies and boards should discuss the best ways to hold management accountable for ESG progress, including incorporating such progress into incentive plan performance.

Every board and management team should identify which ESG matters are material to their organization and understand how they should be approached and monitored and how to communicate their approach to investors.

Every board and management team should identify which ESG matters are material to their organization and understand how they should be approached and monitored and how to communicate their approach to investors. While the Covid-19 pandemic in 2020 has turned the focus of management on business continuity and crisis management, we expect ESG matters will continue to be prominent factors considered by institutional investors, proxy advisory firms and other stakeholders. It will be important for companies to define the ESG factors that have the greatest impact on their business as transparency and disclosure on how ESG matters are addressed have become increasingly essential parts of shareholder engagement.

Kelly Malafis (kelly.malafis@capartners.com) is a founding partner of Compensation Advisory Partners, who advises committees and management on executive and director compensation matters.

cap Compensation Advisory Partners

your institutional investor base and understanding what kind of data they find helpful. And then, from an institutional investor perspective, a lot of this is driven by portfolio managers and what they think is important to understand about a particular company." She adds that all of the boards she sits on take ESG seriously. "It's not soft—it's a priority."

That priority will look different company to company and, therefore, board to board, given that the severity of risks apply so differently. For Russell Reynolds, a global executive search and advisory firm, human capital is a top priority for the health of the company. "If our people are sick and they can't perform, what good are we?" asks the board's lead director Gaurdie Banister, who says that, in the wake of Covid-19, the first thing he would talk to the CEO about in preparation for board meeting would be the well-being of the staff. "The health and well-being of those people is absolutely critical to the future success of the business. As such, the board has to be paying attention to that."

Human capital is one of the ESG areas highlighted most prominently by the pandemic and its fallout, as companies have had to take quick, and sometimes painful, action vis-à-vis staffing. "In every annual report, in every CEO/president's letter, somewhere it says something to the effect that 'our people are our greatest asset.' Covid-19 hit, and one of the first questions from customers, communities and investors was, 'how are their people being treated?'" says Joyce Cacho, an independent director with Sunrise Banks. Some companies, like Amazon and Instacart, quickly found that spotlight when employees protested unsafe warehouse conditions. "Covid-19 came along and separated the wheat from the chaff, when it comes to answering the 'people' question—and it continues to."

Companies that are perceived to have failed to live up to their own cultural statements about the importance of employee welfare and of being good citizens generally have not had much time to reverse course, thanks to the speed of social media. A single misstep can blow up quickly into a blow to a venerated brand, as happened with companies that were villified for applying for and accepting coronavirus relief funds.

On the other hand, companies already operating with a laser-focused ESG lens had a leg up in the crisis, says Cacho, who points to Sunrise Banks, which earned a B Corp certification back in 2009. "That means they have not invested any time [recently] in debating whether or not how they do their business makes a difference to their value," says Cacho. "They're 10 years, give or take, into focusing on value creation through a huge 'S' lens."

When the pandemic hit, they had already made tech investments to allow for flexible, secure, work-from-home options and had already written the definition of essential staff into policy. "It's been seamless, so we've actually been able to be part of the solution to Covid-19 by being the backdrop to contactless transactions through our fintech partners."

"It's still too early to tell exactly what will happen coming out of this, but past experience suggests that companies that have focused on sustainability have a better chance when it comes to survivability."

—Paul Washington, The Conference Board

PREVENTIVE VS. PRESCRIPTIVE

It is not yet clear whether a focus on ESG risk helped companies better weather the storm, but if ESG-focused funds are any indicator, the answer is yes; even as the markets rocked, roiled and tanked, funds with a strong sustainability profile and limited exposure to energy outperformed peers. And anecdotal evidence suggests that boards that have adopted ESG religion tend to think more broadly about risk, look more deeply into supply chains, spend more time on third-party risk and do more robust scenario-planning than their counterparts.

"It's still too early to tell exactly what will happen coming out of this, but past experience suggests that companies that have focused on sustainability have a better chance when it comes to survivability," says Paul Washington, executive director of The Conference Board's ESG Center. There will also always be skeptics and those who see ESG as the flavor of the month, he adds, "but that skepticism was already breaking down as ESG went mainstream, and now this pandemic has caused people to take a look at some of the issues—sustainability of your supply chain, how you treat your workforce, your impact on the environment—they're looking at that now with a fresh lens."

Those who ignore ESG may find themselves in the crosshairs of activist shareholders who, post-pandemic, are more focused on the financial risks associated with sustainability, rather than less. But more than that, "you may be forfeiting opportunities," Washington says. "If you think about your business in a sustainable way, which requires you to think a little more longer term, more broadly, it can lead to greater innovation and, frankly, greater collaboration because the process of thinking about sustainability issues is inherently a collaborative process." **CBM**