



Board and Sustainability: Role of Company Secretary

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The Perspective

The Amazon fires, extreme weather phenomena and the Extinction Rebellion marches in London, prompted by climate change breakdown, biodiversity loss and ecological collapse, have brought the conversation on sustainability to the forefront of the media and the public's mind. Corporate social responsibility (CSR) and environmental, social and governance (ESG) factors have also been a hot topic in the company secretarial world, with organizations facing pressure from investors, stakeholders and the community to get more involved in environmental sustainability governance.

In modern business, Company Secretaries are key managerial personnel occupying pivotal positions in their companies. They have a central role in fostering good governance practices and supporting the development of highly functioning Boards. The Company Secretary is a resource and confidante to the Board and senior management, providing advice and counsel on Board responsibilities and duties. They are integral to the company's corporate governance as the glue behind effective decision-making and advancing priorities. The Company Secretary is the guardian of the company's reputation, playing a pivotal role in maintaining the company's legal and social license to operate.

Aware of the dynamic interaction between all players within the Board room, Company Secretaries can play a critical role in increasing the level of attention and ownership of sustainability by the Board. As a member of the management team, the Company Secretary shares overall responsibility with the CEO, c-suite, executive management and relevant specialist functions for ensuring the Board is aware of sustainability trends and best practices and that it identifies and takes account of sustainability in its stewardship and oversight of the company. From keeping the Board informed on governance issues, to ensuring corporate policies approved by the Board are followed, to helping safeguard the corporate reputation and helping directors contribute to effective decision-making, the Company Secretary is a strong catalyst for implementing good governance in a company's business practices, organizational culture and strategic affairs. As such, they are well-placed to support the Board to address the rising risks and opportunities generated from sustainability.

Drivers of Board's adoption of Corporate Sustainability

In recent years there has been significant discussion in the business, academic, and popular press about "corporate sustainability." This term is often used in conjunction with,

and in some cases as a synonym for, other terms such as “sustainable development” and “corporate social responsibility. Corporate sustainability is defined as the company's delivery of long-term value to shareholders and society in financial, social, environmental, and ethical terms. It refers to the economic, social, and environmental issues that affect corporate strategy and performance over the long term.

Corporate sustainability can be viewed as a new and evolving corporate management paradigm. The term 'paradigm' is used deliberately, in that corporate sustainability is an alternative to the traditional growth and profit-maximization model. While corporate sustainability recognizes that corporate growth and profitability are important, it also requires the corporation to pursue societal goals, specifically those relating to sustainable development — environmental protection, social justice and equity, and economic development.

Amid rapid developments in the environmental, social and governance (ESG) space and rising stakeholder demand for improved sustainability performance, it is essential for business leaders to adopt a proactive approach to holistically integrate ESG into their business. This effort should encompass corporate governance, risk management, strategies, reporting and more. Integrating ESG concerns into business strategies allows Strengthening the core companies to capture the trends on this front as well as helps them stay alert to ESG risks in both operations and their value chains.

There is a new expectation that Boards demonstrate best practices in corporate sustainability governance as part of their fiduciary duty. Corporate sustainability governance is the approach Boards take to provide oversight and stewardship of the organization's sustainability performance, manage risks, leverage opportunities, create shareholder and stakeholder value and secure the organization's long-term future

The role of the Company Secretary in mainstreaming Sustainability

Since ESG has entered the mainstream, it has been proven that strong ESG performance creates a variety of competitive advantages for companies. With more stringent ESG reporting requirements coming into effect, it is time for companies to review both their ESG reporting and performance in a holistic manner. Establishing a systematic approach to managing such issues would help the board understand the implications of the accompanying risks, and cash in on the opportunities brought by various ESG topics.

The Company Secretary has key role in bringing sustainability issues into the Boardroom :

- The Company Secretary can leverage the Governance Committee relationship by raising the corporate sustainability governance topic with the committee.
- Through relationships established with the Board and committee chairs, the Company Secretary can informally bring up the topic of corporate sustainability governance as an

emerging governance trend and best practice.

- Given the proximity to the C-suite, the Company Secretary can bring these ideas to management's attention.
- The Company Secretary can support the sustainability prime in securing a spot on the Board's agenda, preparing the sustainability report to the Board and making Board presentations.
- Sustainability Committee : Either include a sustainability mandate within a pre-existing Board committee or charter a new committee to be responsible for advising on the corporate sustainability strategy and policy, providing oversight of the company's sustainability performance, approving sustainability reports, and annually reviewing and updating the sustainability policy.

Guide to strengthening ESG Governance

Companies continue to struggle with the concept of voluntary disclosure, especially with respect to non-regulated information such as ESG or sustainability data. Sustainability reporting is still voluntary, but increasingly becoming an expectation of influential market players. By equipping board members, corporate secretaries, and in-house legal counsel with the importance of ESG information to capital allocation, the growing investor expectation for disclosure, and the potential legal risks, companies will be better positioned to disclose ESG information relevant to investors.

The result? A more strategic disclosure of relevant ESG information to the markets. In addition, company secretaries will be better able to assist boards of directors and to improve governance through greater awareness of the potential financial implications of ESG performance, the specific environmental and social issues of concern, and the key practices and outcomes leading to better governance and therefore improved ESG performance.

- Ensure the board comprises directors with relevant ESG expertise and experience (e.g. “climate competent” and future looking board members) to minimize/avoid the potential ESG-related risks and crises from happening, and to avoid missing opportunities in the marketplace due to a lack of attention to ESG issues
- Include ESG as one of the criteria for selecting future candidates for the board
- Engage a third-party consultant to help enhance the board's capabilities in ESG Roles and Accountabilities
- Ensure the board has a good understanding of the mandatory or voluntary ESG-related requirements of organizations
- Determine which activities should have the full board involved, and which should just

involve a specific committee (e.g. level setting is best done by the full board, but assessment of specific ESG risks may be best addressed and dealt with by a specific committee)

- Determine whether these responsibilities should be added to the agenda of an existing committee or housed in a more targeted and newly established committee. This can be done by considering: » Type and magnitude of issues » Available bandwidth of existing committee » Culture of the board
- Set clear roles and responsibilities of the board members as well as committees in order to make the personnel/committees accountable and thus facilitate the overall development of ESG
- Appoint a C-suite or board member to chair the ESG committee as he/she has strong influence and control of the business Mandating ESG governance and its disclosure is regarded as the most important change in the HKEX's new ESG Guide. composition and capability Board oversight Reporting and monitoring Policy and other fundamentals
- Ensure the management focus on all the ESG material topics identified by the key stakeholders
- Ensure the board concentrate on two or three strategically important ESG topics, that fundamentally affect a company's competitiveness and business sustainability, given the board's limited time Ensure the board work closely with the senior management to decide on what types of information need to be reported to the board, such as KPIs, progress updates of certain ESG initiatives, and how often the reporting cycle should be
- Ensure the board closely monitor the company's ESG performance and have adequate oversight of significant ESG issues
- Establish and execute the relevant ESG-related policies, guidelines and other requirements, in order to guide the management and various business functions in effectively implementing ESG strategies and practices addressing the key ESG issues Improving ESG Disclosures

To improve ESG disclosures, companies consider three key areas:

- **Materiality** : Companies can evaluate the materiality of different environmental or social issues and prioritise them according to their impact on the business. Instead of providing a laundry list of ESG factors and explaining how the company is handling each of them, it would demonstrate more thoughtfulness if the company can prioritise the key risks and focus on the E, S and G issues that are relevant to its business as potential drivers of long-term financial performance.
- **Target and metrics setting** : What makes numbers useful is the ability to put them into context. While most companies are still at an early stage gathering the relevant data, it is important for them to set certain ESG targets to clearly define what the company

strives to achieve within a certain time frame, closely monitor performance, and disclose the relevant performance metrics.

- **Comparability** : Companies will benefit from adopting commonly used reporting frameworks such as TCFD and SASB to enhance the comparability of ESG reports from year to year, among their peers in their respective industries. Creating comparable reports makes it easier for investors to evaluate a company. A common framework allows investors to better compare companies within the same industry over time.

Conclusions

Environmental, social and governance (ESG) issues are of increasing concern to the investor community. Companies are also facing rising expectations from different stakeholders to take a proactive approach to manage ESG risks and opportunities as part of their business strategies. In fact, the global investment community's interest in ESG issues has reached a tipping point. Investors are now demanding corporate leaders improve sustainability practices that both benefit their firms' bottom line and create greater impact on the wider community. The investors' demands are in line with multiple studies suggesting that ESG and corporate performance are intrinsically intertwined. Companies with higher ESG performance are likely to have better financial performance, talent retention, and long-term value creation. As investments dedicated to ESG and sustainability are now escalating, companies need to hasten their response to institutional investors' demands for transparent and detailed ESG disclosures.

Not all companies currently subscribe to the principles of corporate sustainability, and it is unlikely that all will, at least not voluntarily. However, a significant number of companies have made public commitments to environmental protection, social justice and equity, and economic development. Their number continues to grow. This trend will be reinforced if shareholders and other stakeholders support and reward companies that conduct their operations in the spirit of sustainability.