

# Creating Sustainable Value From Good Governance

**October 2018**

In association with



## Foreword from Jane Taylor

Climate change, plastic waste, the future of work and rising inequality are among a growing number of sustainability risks that can affect company reputations and financial performance if left unaddressed. Board members and executive management have a key role, and indeed a responsibility, to ensure their organisations manage these key strategic risks and, where possible, turn these into a competitive advantage.

The business environment is constantly changing. However the speed with which issues associated with sustainability are emerging is accelerating, and businesses both large and small need to get better at anticipating and managing these issues.

Investors, shareholders, regulators and consumers are calling for greater accountability and transparency in relation to environmental, social and governance risks, as well as stronger alignment between corporate action and public policy.

Sustainability matters to me because it is fundamental to business success. To survive and grow over the long term, organisations must create value for the business and for society. To do this successfully organisations must examine their impact on society and how they can make a positive difference in the communities where they operate by embedding societal values deeply into their core purpose, strategy and everyday decision-making. Directors may not be experts in all of these areas, but a good starting point is to ask the right questions.

This guide is a welcome tool to help us take stock of where our organisations are at on sustainability issues, how well we are doing at embedding sustainability into our strategy and operations, and how well we are prepared for emerging issues, not only in terms of risks but also opportunities.

Organisations such as Sanford and Fonterra are already using the checklist to support meaningful conversations between board and management. One of the recommendations in the checklist is for regular reporting on sustainability strategy and performance. After four years of integrated reporting, Sanford considers their approach to have played a role in enabling the company to access capital at a lower cost, due to increased transparency and hence perceived lower risks. The benefits are real and tangible.

I hope that wider use of this checklist will help companies and boards meet the challenges of doing business in the 21<sup>st</sup> century and be better corporate citizens for New Zealand.

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# Introduction

## Are you equipped to lead your organisation to sustainable long-term growth?

We live in an increasingly volatile, global, tech-driven and competitive economic environment, which is subject to growing socio-economic and environmental disruption and uncertainty. Maintaining short-term returns while ensuring sustained long-term growth and value creation is no easy task.

Growing investor, shareholder, regulator and consumer expectations are placing greater scrutiny on business performance and the transparency of decision-making, particularly in relation to environmental, social and governance (ESG) risks.

Sustainability issues like climate change, diversity and inclusion, labour practices, executive compensation, cyber risk and board independence are moving up the boardroom agenda.

Overseas, these issues are already central to a board's role and responsibilities. This was reinforced by the G20's [Financial Stability Board on climate risk disclosure](#)<sup>1</sup>. And here, in New Zealand, momentum is building following the release of the revised [NZX Corporate Governance Code](#)<sup>2</sup> and the [FMA's Good Corporate Governance handbook](#)<sup>3</sup>. There is also the [Treasury's Living Standards Framework](#)<sup>4</sup>.

Corporate governance has always been a way to bring new thinking to decision-making. Leading organisations are embedding sustainability in a more integrated way to navigate these new responsibilities and to foresee and adapt to changing economic, social and environmental risks in order to maximise value for the organisation and society. It helps them shape strategy, manage risk and ensure long term viability and business growth.

**"Boards have a unique role to play to bring sustainability and ESG issues to the forefront of corporate strategy<sup>5</sup>".**

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<sup>1</sup> <https://www.fsb-tcfd.org/publications/>

<sup>2</sup> <https://www.nzx.com/files/attachments/257864.pdf>

<sup>3</sup> <https://fma.govt.nz/compliance/guidance-library/corporate-governance-in-new-zealand-principles-and-guidelines/>

<sup>4</sup> <https://treasury.govt.nz/information-and-services/nz-economy/living-standards>

<sup>5</sup> <https://boardleadership.kpmg.us/relevant-topics/articles/2017/esg-strategy-and-the-long-view.html>



This guidance document helps directors and executive management ask questions in order to:

- Improve understanding of organisational capabilities for driving exemplary sustainability and ESG performance.
- Improve oversight and help drive a strategic approach to corporate sustainability, to manage risk, and to respond to the interests of key stakeholders while protecting and creating financial value.
- Assess the maturity of sustainability in their organisations, and to identify priority actions needed to progress it.

We have also provided examples of leading practice from across SBC member organisations to provide different perspectives and approaches to embedding sustainability into an organisation - in the context of the maturity attributes contained in this guidance document.

In this guide we use the umbrella term 'sustainability' to describe a broad range of environmental, social, economic, and governance issues that are meaningful to investors, employees, customers, and other stakeholders. Others may use terms like CSR, ESG, or corporate citizenship. These terms often mean different things to different people. An important first step is for the board to reach an understanding with executive management, not only on language, but what that language practically means.

## Using this guide

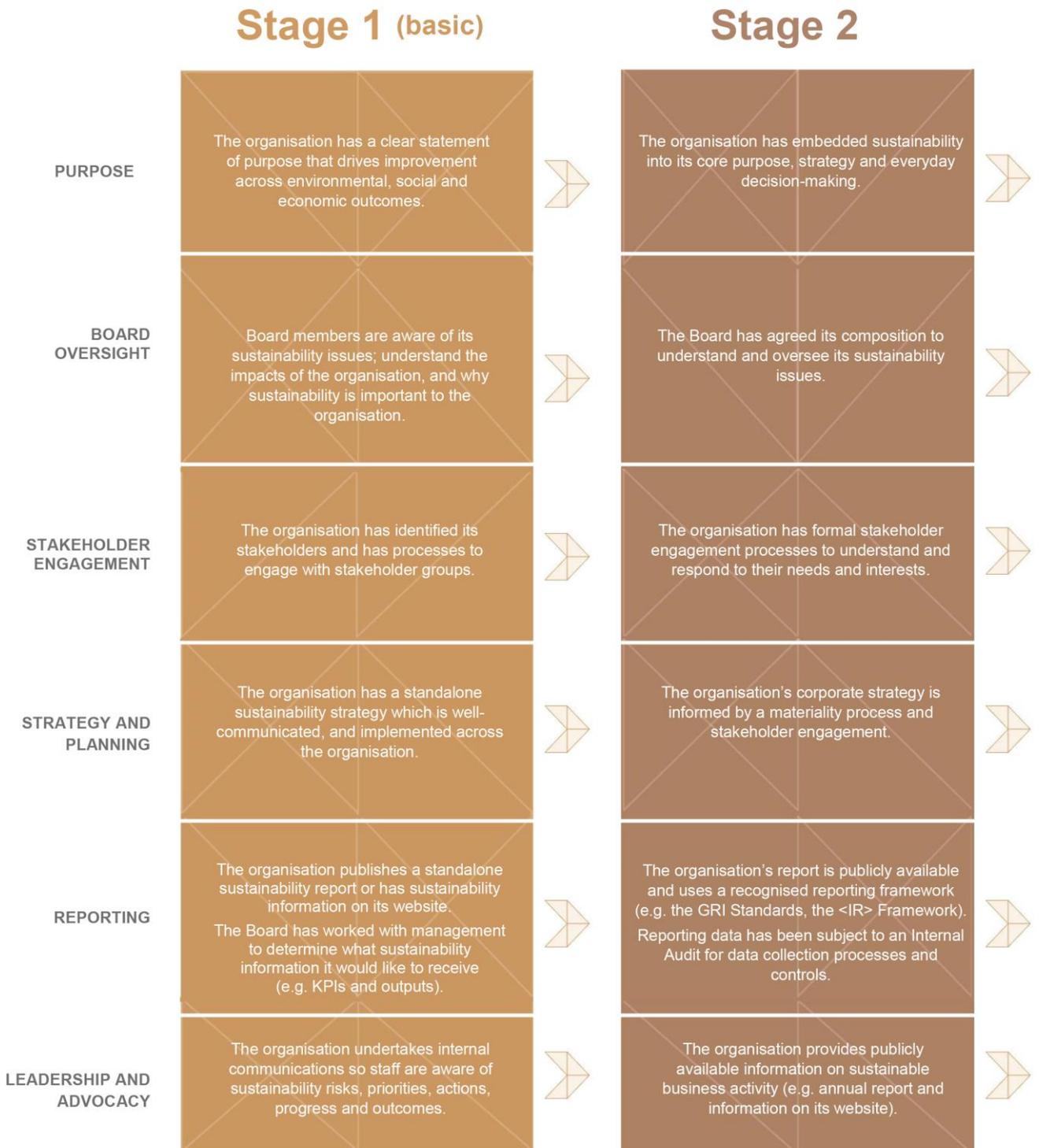
We first present a sustainability governance maturity matrix. The matrix provides a practical diagnostic tool for directors, to work alongside their executive management, to assess the level of maturity by which sustainability has been integrated into their organisation, and to identify critical steps for improvement. The matrix focuses on attributes to support an organisation's maturity towards integrating sustainability and is meant to be a guide for an organisation's self-assessment.

We then set out a series of questions to support organisations to further build capability, and provide examples of leading New Zealand practice.

The guidance is framed around a series of questions to support organisations to advance from Stages 1 to 4. It is not an exhaustive list and should not be used as a compliance-based exercise. It provides a good base to reflect on critical questions to progress an organisation to integrate sustainability into business thinking and strategy. Examples of leading practice are provided as illustrative examples only.



# Sustainability governance maturity matrix: How equipped is our organisation?



## Stage 3

<p>The organisation can show it will create value for the environment, people, communities and New Zealand Inc. over the next 5-10 years.</p>
<p>The Board can exercise informed oversight by accessing advice and capability on sustainability risks from external experts or advisory groups. Director experience and expertise in material sustainability issues serve as a criterion for future candidates.</p> <p>Sustainability has been integrated into the Board charter and, where appropriate, committee charters such as strategy, risk, audit and remuneration.</p>
<p>The organisation publicly communicates stakeholder needs and interests, and how their strategy and work programmes respond.</p> <p>The organisation bases its stakeholder engagement around recognised standards such as AA1000 and the GRI Standards.</p>
<p>Sustainability is integrated into the organisation's corporate strategy, business planning, and everyday decision-making and budgeting processes.</p> <p>The organisation is influencing its value chain.</p>
<p>The organisation publishes an externally assured integrated report, which demonstrates how it creates value over time and the impact on capitals. Disclosures use relevant sector-based or issue-specific reporting frameworks such as CDP.</p> <p>The Board receives sustainability performance reporting, which is used to facilitate improved oversight.</p>
<p>The organisation demonstrates a leadership role via media communications on sustainability issues, practices and achievements.</p>



## Stage 4 (advanced)

<p>The organisation shows inter-generational thinking when developing its integrated strategy and outcomes.</p>	<b>PURPOSE</b>
<p>The Board is inclusive and diverse in its composition.</p> <p>The Board has core competencies and capability on material sustainability issues to help the organisation achieve its direction and strategic outcomes.</p>	<b>BOARD OVERSIGHT</b>
<p>The organisation has a process to identify, monitor and report on the quality of relationships to prepare for the future needs and concerns of key stakeholders that are important to its business.</p>	<b>STAKEHOLDER ENGAGEMENT</b>
<p>Sustainability drives the organisation's long term strategic objectives and outcomes, and shapes business planning processes and value chain partnerships year on year.</p>	<b>STRATEGY AND PLANNING</b>
<p>The organisation has produced an externally assured integrated report, which has been made publicly available for at least three consecutive years. It clearly demonstrates effectiveness of the organisation's strategy, and how integrated thinking creates value.</p> <p>The organisation's internal and external performance reporting is aligned.</p>	<b>REPORTING</b>
<p>All levels of the organisation, including the Board, take a collaborative leadership role on material issues in their communities; and are actively engaged in regional, national or international programmes or policy.</p>	<b>LEADERSHIP AND ADVOCACY</b>



# Integrating sustainability into corporate governance

## Purpose

Clarity of purpose helps drive consistency and compelling messaging from senior leadership, and the board, about the strategic importance of sustainability to the company's long-term success<sup>6</sup>.

1. Have we defined sustainability, and its importance to, our organisation?
2. Is our organisation using its material (important) sustainability issues to set its purpose and strategic direction, as well as to communicate sustainability issues to key stakeholders?
3. Can we clearly articulate and show how we will create value for our environment, people, communities and New Zealand Inc.?
4. Does inter-generational thinking drive our strategic purpose?

### What is a purpose-led organisation?

"Purpose is an aspirational reason for being that is grounded in humanity and inspires action." In other words, an organisation needs to stand for something it believes in, going beyond profit and impacting society.

(Markus Heinen, chief innovation officer, EY)

Many leading companies and SBC members show a strong focus on purpose and putting sustainability outcomes for their business and society at the core of their business models. Unilever has a simple but clear purpose – *to make sustainable living commonplace*. It states that this is the "best long-term way for its business to grow".

Air New Zealand has a purpose of 'Supercharging New Zealand's success - socially, environmentally and economically'. Air New Zealand outlines what sustainability means to the organisation:

At Air New Zealand we're acutely aware our success is inextricably linked to the success of New Zealand. Similarly, a successful New Zealand needs a significant and thriving Air New Zealand.

For more than 75 years, we've been part of the fabric of our society. To ensure we're a strong, vibrant business for at least another 75 years it's critical we commit to a purpose that's bigger than ourselves - that is to supercharge New Zealand's success socially, environmentally and economically.

We know that this is still just the start of the journey and that we can't achieve all that is needed by ourselves. We require ongoing concerted effort and strong collaboration with our employees, customers, suppliers and other New Zealand businesses if we're to make the kind of ambitious difference that will shape a strong future for both our company and New Zealand, for the long term<sup>7</sup>.

<sup>6</sup> <https://boardleadership.kpmg.us/relevant-topics/articles/2017/esg-strategy-and-the-long-view.html>

<sup>7</sup> [www.airnewzealand.co.nz/sustainability](http://www.airnewzealand.co.nz/sustainability)



## Board oversight

The structure and processes a board creates to oversee sustainability issues will vary based upon a number of factors, such as: the size and complexity of the organisation's operations (including its supply chain); the magnitude of their sustainability risks and opportunities; the degree to which sustainability issues are central to the company's strategy; and the level of director expertise regarding relevant sustainability issues<sup>8</sup>.

### Focus on what's important

#### **Building boardroom knowledge on sustainability**

Boards need information to help them understand the materiality (importance) of sustainability issues to their organisation so they can make clear connection between sustainability and business risk, strategy, performance and disclosure. Materiality assessments<sup>9</sup> prove invaluable in helping directors gain a better understanding about what sustainability risks and opportunities are important, and how they affect the business.

5. Have we undertaken a full materiality assessment, which involved proactive engagement with stakeholders?
6. Are our identified sustainability risks and opportunities regularly discussed by the board, board sub-committees, and/or executive management? If so do these risks cover the full breadth of the business?
7. Does our board consider its material sustainability and/or sustainability-related matters to be a threat or opportunity? If so does it consider 'risk to' and 'risk from' sustainability?

### Board composition

8. Who is accountable for sustainability leadership and performance at a board and executive management level? How have we structured that accountability?
9. How do we hold them accountable for sustainability performance and how do we measure that (e.g. key performance indicators)?
10. Are those who are accountable being measured in a way that creates the right incentives?
11. Do we dedicate sufficient time to engage and discuss sustainability issues and opportunities at board level?
12. How has responsibility for sustainability been embedded into all relevant committee charters, to ensure it is considered through oversight of issues such as strategy, risks and remuneration/incentives?

<sup>8</sup> <https://boardleadership.kpmg.us/relevant-topics/articles/2017/esg-strategy-and-the-long-view.html>

<sup>9</sup> <https://assets.kpmg.com/content/dam/kpmg/pdf/2014/10/materiality-assessment.pdf>



### **Structuring board oversight of sustainability**

There is “no one size fits all” solution to structuring sustainability oversight at a board level. However, four main approaches are:

- A dedicated committee for sustainability issues (e.g. Vector, Silver Fern Farms)
- Sustainability integrated into existing committee charters (e.g. Meridian)
- Sustainability as the responsibility of the entire board (e.g. NZ Post, Sanford)
- Sustainability Advisory Panel (e.g. Air New Zealand, Westpac, Christchurch International Airport)

A growing number of organisations have established independent advisory panels – formal groups of sustainability experts to advise the CEO and executive management on critical sustainability issues.

### **Accessing external expertise and developing internal capabilities**

#### **A sustainability-competent Board<sup>10</sup>**

- Integrates knowledge of material sustainability issues into board nomination processes to recruit directors.
- Educates all directors on material sustainability issues to support informed oversight and informed strategic decision-making.
- Engages regularly with external stakeholders and experts on relevant sustainability issues.

13. How do we undertake training, upskilling and professional development to develop sustainability as a core leadership competency at a board and executive level?
14. How do we ensure robust disclosure of the board’s oversight of relevant sustainability issues?
15. Do we have the capabilities required to deliver value from our most material sustainability issues and opportunities, and to mitigate risks associated with any potential issues?
16. What are the weakest links and/or gaps in our capabilities? What is our plan for attaining, developing and retaining capabilities in these areas?
17. Does the board and executive management have the right skills and competencies to support informed oversight of sustainability?

<sup>10</sup> [www.ceres.org/sites/default/files/reports/2017-09/LFTT\\_full%20report\\_online%20%28F%29\\_0\\_0.pdf](http://www.ceres.org/sites/default/files/reports/2017-09/LFTT_full%20report_online%20%28F%29_0_0.pdf)



### **Air New Zealand - Sustainability Advisory Panel**

In 2014 Air New Zealand established a Panel of New Zealand and global experts to help to guide and accelerate the organisation's ambition and commitment to substantially improve its sustainability performance.

Chaired by Sir Jonathon Porritt, the Panel has six external members who were selected based on the range of skills and expertise considered necessary to shape and inform a pioneering sustainability agenda.

The Panel has played a key role in establishing Air New Zealand's overall Sustainability Framework and related goals, and continues to guide and challenge as the organisation evolves its approach.

The Air New Zealand Board and Sustainability Advisory Panel have together reviewed the organisation's sustainability programme and discussed the sustainability risks and opportunities the organisation faces. Recent Panel sessions have featured a particular focus on rising to meet the challenge of transitioning Air New Zealand towards a low carbon future; partnering with suppliers to encourage greater transparency and sustainability in its supply chain; and ensuring a sustainable tourism industry for New Zealand.

Air New Zealand is also a partner of sustainable development organisation Forum for the Future, which delivers access to international tools, resources and sustainability expertise, as well as critique on the progress the organisation is making.

### **Westpac - External Stakeholder Panel**

Westpac have established an eight member External Stakeholder Panel to assist the bank on sustainability strategy and key issues, and to ensure it is sufficiently challenged by its community representatives.

The Panel has met three times in the last year. Its role has been to challenge Westpac on its sustainability practices, consider current plans, as well as identifying potential initiatives and setting new goals and themes for future strategy, participating in discussions with senior leadership.

The developing focus of the Panel has been on how Westpac can support the wellbeing of the communities in which it operates, how the bank can help achieve the Paris Agreement goals and which of the SDGs it could help achieve with a measurable, positive impact.

In addition to its External Stakeholder Panel Westpac's strategy is overseen by a dedicated Sustainability Steering Committee, comprising the CEO, Executive Team and Chief Economist. This helps ensure sustainability is overseen at the highest levels of the organisation and embedded throughout its everyday operations.



## Building sustainability leadership capability

A growing number of SBC members are providing regular education on sustainability issues and leadership to their boards and executive management. This includes Fonterra, Mercury, NZ Post, Toyota NZ, Vector and Z Energy.

The Cambridge Institute for Sustainability Leadership (CISL)<sup>11</sup> offer the following programmes:

- **Prince of Wales's Business and Sustainability** - recognised as the global benchmark for sustainability leadership education. The three-day programme helps executives translate complex sustainability trends into strategic business decisions.
- **Earth on Board** - equips directors with knowledge, tools, guidance and 'peer to peer' learnings to build oversight and provide advice to their executive teams on sustainability.

## Vector – Building leadership capability

Cambridge Institute for Sustainability Leadership (CISL) has helped to build leadership and embed sustainability across Vector – from deepening the understanding of its leaders on the sustainability imperative, to helping its board set and champion a strategy to help Vector become a long-term, sustainable business that all staff understand and subscribe to.

Vector is a founding corporate partner of The Prince of Wales's Business & Sustainability Programme in Australia, and Vector's Chief Risk Officer, Kate Beddoe is part of the faculty that delivers the programme.

Over the past 5 years, Vector has sent delegates on The Prince of Wales Programmes, and the majority of the Vector board have attended the Non-Executive Director Programme. This has helped develop consistent understanding across the business for strategic discussions, setting objectives and targets relating to sustainability.

It has changed the way Vector approaches their annual report and how they think about climate change impact and modelling. Vector has also rethought their approach to social responsibility and changed the way they engage with the debate on minimum wage. Vector employees who have participated in CISL courses now advocate for a sustainable approach across the business.

Vector's long-term outlook, focusing on social and environmental responsibility as well as commercial outcomes, frames all the decisions they take as a business. For instance, when exploring the potential of a new piece of energy technology, Vector now considers how this might affect consumer affordability and environmental impact.

Two years ago Vector made the commitment to align with the SDGs, and examine the assets in their portfolio of businesses through a long-term sustainability lens. The business case now considers consistency with other objectives, such as supply chain management and affordability.

Vector has also brought key speakers to New Zealand to talk about the impact of climate change, which has helped staff and stakeholders understand the urgency with which we need to address the issue.

<sup>11</sup> [www.cisl.cam.ac.uk/executive-education](http://www.cisl.cam.ac.uk/executive-education)



## Mercury and the Cambridge Institute for Sustainability Leadership

To progress its substantial sustainability and ESG kaupapa, Mercury saw a need for the Executive Management Team and Directors to have a consistent understanding of key global trends, and how they apply to Mercury, to continually improve its approach. Mercury felt that there was much more beyond being 100% renewable, having the largest EV fleet in the country and being carbon positive.

CISL delivered a one-day intensive “Earth on Board Programme”, developed with Mercury.

The programme achieved three goals:

1. Create a shared understanding of key sustainability issues, including:
  - Global pressures and trends that will shape the business context;
  - How society, regulators and investors are responding – and the implications of these responses for business;
  - The commercial implications of these trends, and insight into how businesses are responding; and,
  - The relationship between sustainability and fiduciary responsibility, and the implications for corporate governance.
2. Create a shared response through exploration of the strategic implications of the above in relation to Mercury’s purpose and contribution to society.
3. Align the Board and Executive Management Team around strategic implications and ambition.

The four themes of the day:

- System pressures and trends: the changing context for global business;
- The evolving investment, regulatory and legal landscape;
- The commercial case for taking a strategic, integrated approach to sustainability; and,
- Strategic and governance implications – what leadership is required in the changing context?

Mercury used the insights gained from the programme to enhance its integration of sustainability and the means by which it is communicated to all its stakeholders.

The real value of the CISL programme was helping the Executive Management Team and directors building a shared understanding of the current and potential future sustainability context, opportunities and issues that are sufficiently material to governance at Mercury. In addition, it made the connection between global and local sustainability matters.



# Stakeholder engagement

Stakeholder engagement is an open dialogue process to support accountability with stakeholders as it obliges organisations to involve stakeholders in identifying, understanding and responding to their issues and concerns. Doing so in a credible way can improve an organisation's knowledge, build social and relationship capital, contribute to its license to operate, and improve overall performance.

18. Who are our stakeholders and what do they think of our impact on the environment and community?
19. How informed and engaged are our employees on key sustainability issues? What are the opportunities for improvement?
20. How do we engage key stakeholders to create more inclusive conversations and collaborations?
21. How do we demonstrate leadership on key material issues? How do we communicate our ambitions to stakeholders?
22. Have we required management to adopt a recognised standard for stakeholder engagement, such as AA1000?

## Stakeholder engagement in practice

Stakeholder engagement processes are becoming more central to a business's sustainability strategy and reporting, with more detail provided in report commentary about stakeholder needs.

Reports from Contact Energy<sup>12</sup>, Mercury<sup>13</sup>, Toyota NZ<sup>14</sup>, Sanford<sup>15</sup> and SKYCITY<sup>16</sup> provide information about how they are identifying and engaging their stakeholders in a meaningful way to identify and respond to their needs and expectations on material issues.

<sup>12</sup> Contact Energy 2017 Full Year Report <https://contact.co.nz/aboutus/media-centre>

<sup>13</sup> Mercury 2017 Annual Report <https://mercuryannualreport.co.nz/>

<sup>14</sup> Toyota NZ 2017 Sustainable Development Report  
[www.toyota.co.nz/globalassets/about-toyota/2017\\_tnz\\_sdr-report.pdf](http://www.toyota.co.nz/globalassets/about-toyota/2017_tnz_sdr-report.pdf)

<sup>15</sup> Sanford 2017 Annual Report  
[www.sanford.co.nz/investors/reports-1/company-reports/2017/2017-annual-report/](http://www.sanford.co.nz/investors/reports-1/company-reports/2017/2017-annual-report/)

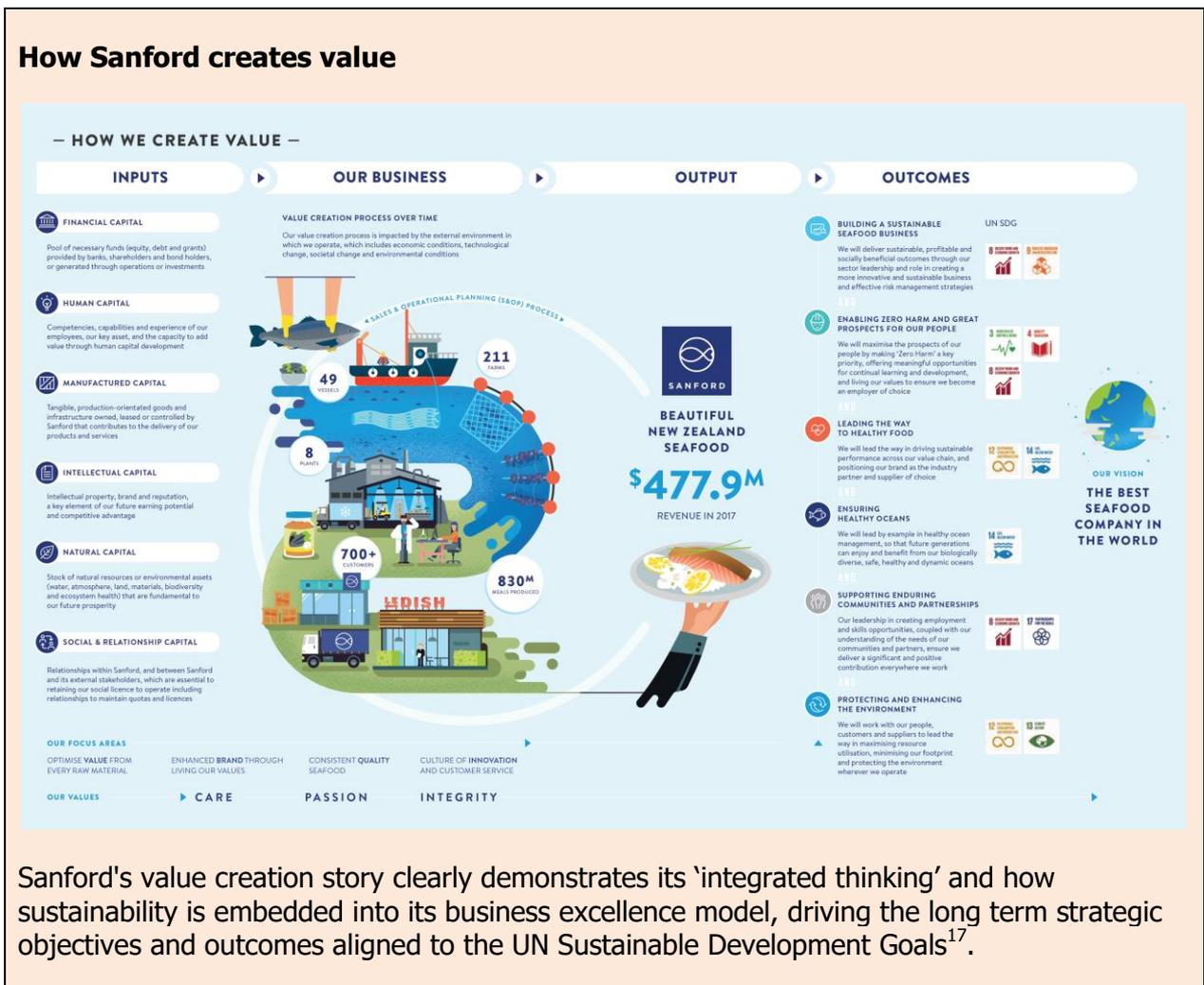
<sup>16</sup> SKYCITY Entertainment Group 2017 Annual Report [www.skycityentertainmentgroup.com/media/1764/skycity-annual-report-2017\\_web.pdf](http://www.skycityentertainmentgroup.com/media/1764/skycity-annual-report-2017_web.pdf)



# Strategy and planning

A strategic approach to sustainability clearly articulates how a company addresses material sustainability risks and opportunities. Embedded into core business strategy and day-to-day decision-making, it links to the overall vision and purpose of the company and supports the delivery of sustainable outcomes and business performance.

23. Do we have a comprehensive understanding of the sustainability issues and risks we face?
24. How does our organisation scan for emerging sustainability issues and mega-trends?
25. Has the profit and loss opportunity or risk of each issue been quantified?
26. Have we identified the most material issues for our organisation (and our stakeholders)? If not, how do we identify them?



Sanford's value creation story clearly demonstrates its 'integrated thinking' and how sustainability is embedded into its business excellence model, driving the long term strategic objectives and outcomes aligned to the UN Sustainable Development Goals<sup>17</sup>.

<sup>17</sup> [www.sanford.co.nz/assets/announcements/Sanford-2017-Annual-Report.pdf](http://www.sanford.co.nz/assets/announcements/Sanford-2017-Annual-Report.pdf)



## Incorporating sustainability risks and opportunities into strategy

27. How are our sustainability risks and opportunities integrated in our strategic plans and how are they being managed in our current business plans?
28. How have we aligned our core business model with sustainable outcomes?
29. How do we ensure that key staff responsible for profit and loss are involved in board discussions about sustainability to ensure alignment with business strategies?
30. How does our investment portfolio (current and planned) take into consideration identified sustainability risks and opportunities?

### Risk management is concerned with the down-side and the up-side<sup>18</sup>

Investors are becoming more aware of significant evidence that effective risk management, or sustainability-related matters, not only contribute to value protection but also value creation. A 2015 Deutsche Bank Asset Management study found that over 60% of studies conducted found a positive link between sustainability performance and financial performance. The increased value of intangible assets in a business (such as its brand and its people) can be compromised by sustainability-related risks creating a substantive reason for investors to demand purposeful oversight of such risks by Boards and effective management by executive management.

Business faces threats in the form of sustainability-related risks that need attention. The World Economic Forum's Global Risks Report 2018 outlines the growing severity and frequency of such risks over the past 10 years.

	2008	2013	2018
Top 5 global risks in terms of likelihood	Asset price collapse	Severe income disparity	Extreme weather events
	Middle East instability	Chronic fiscal imbalances	Natural disasters
	Failed and failing states	Rising greenhouse gas emissions	Cyberattacks
	Oil and gas price spike	Water supply crises	Data fraud or theft
	Chronic disease, developed world	Mismanagement of population aging	Failure of climate-change mitigation and adaptation
Top 5 global risks in terms of impact	Asset price collapse	Major systemic financial failure	Weapons of mass destruction
	Retrenchment from globalization (developed)	Water supply crises	Extreme weather events
	Slowing Chinese economy (<6%)	Chronic fiscal imbalances	Natural disasters
	Oil and gas price spike	Diffusion of weapons of mass destruction	Failure of climate-change mitigation and adaptation
	Pandemics	Failure of climate-change mitigation and adaptation	Water crises

● Economic   
 ● Environmental   
 ● Geopolitical   
 ● Societal   
 ● Technological

<sup>18</sup> Society for Corporate Governance and BrownFlynn. 2018. ESG Roadmap: Observations and Practical Advice for Boards, Corporate Secretaries and Governance Professionals



## United Nations Sustainable Development Goals (SDGs)

31. Which of the SDGs are most material (important) to our business, how are we contributing to their achievement and how do we measure our impact?
32. How are the SDGs integrated into our business agenda, as well as planning, reporting and stakeholder engagement processes?

### Connecting to the SDGs

A growing number of businesses are aligning their company values, targets and strategies with the SDGs. The SDGs are a global framework for sustainability and enable businesses to understand the role they can play in reducing poverty, protecting the planet and ensuring prosperity in the long-term.

There are different levels of business engagement with the SDGs, and there isn't a "one-size-fits-all" approach. Examples of how businesses are integrating the SDGs, each one taking a different approach, include Fonterra<sup>19</sup>, Meridian Energy<sup>20</sup>, Sanford<sup>21</sup> and Vector<sup>22</sup>.



CEO Guide to the SDGs was published by WBCSD in 2017<sup>23</sup>.

## The financial risks of climate change

33. How do we measure our organisation's greenhouse gas emissions (GHGs)? What is our strategy for managing GHGs and transitioning to a zero carbon economy?
34. How will the impacts of climate change affect our organisation?
35. What are the potential risks and opportunities (and financial implications), and how are we building the organisation's resilience?
36. Have we reviewed our practices, including our governance arrangements, against the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD)?

<sup>19</sup> Fonterra 2017 Sustainability Report <https://view.publitas.com/fonterra/sustainability-report-2017/page/1>

<sup>20</sup> Meridian Energy 2017 Report [www.meridianenergy.co.nz/assets/Investors/Reports-and-presentations/Annual-results-and-reports/2017/Meridian-Energy-Integrated-Report-for-the-year-ended-30-June-2017.pdf](http://www.meridianenergy.co.nz/assets/Investors/Reports-and-presentations/Annual-results-and-reports/2017/Meridian-Energy-Integrated-Report-for-the-year-ended-30-June-2017.pdf)

<sup>21</sup> Sanford 2017 Annual Report [www.sanford.co.nz/investors/reports-1/company-reports/2017/2017-annual-report/](http://www.sanford.co.nz/investors/reports-1/company-reports/2017/2017-annual-report/)

<sup>22</sup> Vector 2017 Annual Report [https://vectorwebstoreprd.blob.core.windows.net/blob/vector/media/vector-regulatory-disclosures/annualreportvec173\\_ar2017\\_web\\_final.pdf](https://vectorwebstoreprd.blob.core.windows.net/blob/vector/media/vector-regulatory-disclosures/annualreportvec173_ar2017_web_final.pdf)

<sup>23</sup> [https://docs.wbcsd.org/2017/03/CEO\\_Guide\\_to\\_the\\_SDGs/English.pdf](https://docs.wbcsd.org/2017/03/CEO_Guide_to_the_SDGs/English.pdf)



## Disclosing climate-related risks and opportunities

Climate-related issues are, or could be, material for many organisations. The Taskforce on Climate-Related Financial Disclosures (TCFD) sets out guidance across four layers of disclosure to enable transparency and action around climate related risk and opportunities<sup>24</sup>.

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
<b>Recommended Disclosures</b>	<b>Recommended Disclosures</b>	<b>Recommended Disclosures</b>	<b>Recommended Disclosures</b>
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

<sup>24</sup> [www.wbcsd.org/Overview/Resources/General/CEO-Guide-to-climate-related-financial-disclosures](http://www.wbcsd.org/Overview/Resources/General/CEO-Guide-to-climate-related-financial-disclosures)



# Reporting

Investors, shareholders, consumers and other stakeholders are expecting more accountability and transparency around business performance and their impact on society using information they can trust and understand.

37. What are our key business performance metrics and sustainability metrics?
38. To what extent do our internal reporting systems reflect and support the external reporting expectations of our key stakeholders?
39. What are the key messages we should communicate? How are they determined? And who, when, and on what channels should they be distributed?
40. What formal reporting frameworks do we currently use to report on non-financial (ESG) factors? For example: Integrated Reporting and/or the Global Reporting Initiative Standards.
41. How does the content of our current reporting compare to best practice, particularly structure and content?
42. What are the biggest opportunities to improve ESG disclosure and the transparency of decision-making and performance?
43. Do we obtain assurance on our non-financial disclosures?
44. Is our internal performance reporting aligned to external performance reporting?



### NZX Guidance

NZX have prepared guidance for listed companies considering disclosure of ESG factors under the NZX Code<sup>25</sup>. The guidance helps issuers develop a better understanding of the benefits of ESG reporting by:

- explaining what ESG is, and why it is important;
- providing information about how to report on ESG factors, including which global frameworks are available to them; and,
- helping issuers communicate their strategies for identifying and managing their materially significant ESG opportunities and risks to stakeholders.

*"In our view, consideration of environmental, social and governance factors is an important part of a listed company's approach to corporate governance. It supports long-term value creation, and is another tool companies can use to communicate their strategy and broader business opportunities and challenges to investors." (Hamish Macdonald, General Counsel and Head of Policy, NZX Ltd)*

<sup>25</sup> [https://s3-ap-southeast-2.amazonaws.com/nzx-prod-c84t3un4/comfy/cms/files/files/000/003/274/original/ESG\\_Guidance\\_-\\_6\\_March\\_2018.pdf](https://s3-ap-southeast-2.amazonaws.com/nzx-prod-c84t3un4/comfy/cms/files/files/000/003/274/original/ESG_Guidance_-_6_March_2018.pdf)



## **Proxima - Creating value through integrated thinking and reporting**

Companies adopting integrated reporting find that it leads to much more than just an evolution in their approach to reporting. It helps change the way they think, act and communicate. It enhances their relationships with stakeholders, heightens awareness of risks, and drives them to embrace opportunities.

The NZX Corporate Governance Code (2017) and FMA Corporate Governance Handbook (2018) set out the requirements for wider consideration and reporting on environmental, social and governance (ESG) issues. Reporting on value creation, which integrated reporting is all about, has become the natural approach for many because it helps them reflect the way business is done in the 21st century: increasingly based on intangible assets, connections and brand.

The board are responsible for a company's business model and sets and governs the strategic parameters within which the company creates value. Integrated reporting provides a way to communicate these things to investors. The process of integrated reporting is an accountability mechanism for those with governance responsibilities, for the way in which the company creates value for itself and others, over time. Integrated reporting for any company starts with the examining its business model and the capitals on which it is dependent for value creation. Integrated reporting ultimately reflects the state of a company's *integrated thinking*. The board set the tone for this thinking.

In practical terms this means the board need to be aware of the *capitals* on which the company depends for creating value. These capitals may include human, social and environmental as well as financial and manufactured capitals.

Key questions that typically arise through the reporting process include how the company uses and impacts the capitals on which it is dependent to create value – are they being enhanced, maintained or depleted? These questions lead to a closer examination of reporting measures used to describe value creation and state of the capitals within the company's operating context. Integrated reporting should demonstrate how the current business model and strategy is able to deliver sustainable value over time.

## **What is the Global Reporting Initiative (GRI)?**

A sustainability reporting standard that enables organisations to report on sustainability impacts. The GRI Standards<sup>26</sup> use a set of principles for determining report content and for ensuring report quality. Fundamental to these are the principles of stakeholder inclusivity and materiality, to ensure organisational sustainability reports focus on the most material issues, in order to meet reasonable stakeholder expectations. The GRI Standards include defined disclosures for different material topics, as well as general organisational and management approach disclosures.

<sup>26</sup> [www.globalreporting.org/services/Pages/default.aspx/](http://www.globalreporting.org/services/Pages/default.aspx/)



## WBCSD's Reporting Exchange

WBCSD's collaborative, global knowledge online platform helps organisations prepare sustainability reports. The Reporting Exchange aims to bring coherence to the disclosure landscape by providing one central resource for reporting requirements, and good practice resources related to the disclosure of non-financial information from across 70 sectors and 60 countries including New Zealand<sup>27</sup>.



### New Zealand Post – Integrated Reporting in practice

*"Our board's vision and adoption of Sustainability goals and Integrated Reporting has been fundamental to shaping New Zealand Post's strategic direction. We've had clear guidance from them that Sustainability is not an add on for us, rather it is wrapped into the essence of everything we do, and where we want to be in the future."* **(Dawn Baggaley, Head of Sustainability, NZ Post Group)**

New Zealand Post has been part of the fabric of New Zealand since 1840 and our ambition is to be around for at least another 178 years. Critical to creating a long-term

sustainable business is understanding how we create value for our stakeholders. Integrated thinking and reporting assist us to do this. In 2013, we produced our first (and NZ's first) integrated report. An integrated report focuses on future plans not past performance, requiring reporters to be concise and complete as well as honest and transparent in communicating progress towards meeting strategic goals.

However, the real benefit for our business comes from integrated thinking. This means engaging with our stakeholders to identify the most material issues for our business and addressing them in our business strategy, and understanding how we create value over the short, medium and long term across a range of capitals or assets that we rely on to run our business. Discussing material issues and value creation with our board supports us to balance short terms gains with long term plans in our strategic planning.



### Sanford - Integrated Reporting in practice

Sanford's commitment to ensure robustness and transparency of its award winning Integrated Report<sup>28</sup> sets a precedent for good practice in 2017 by gaining external assurance of the report's financial and non-financial information.

<sup>27</sup> [www.reportingexchange.com](http://www.reportingexchange.com)

<sup>28</sup> [www.sanford.co.nz/assets/announcements/Sanford-2017-Annual-Report.pdf](http://www.sanford.co.nz/assets/announcements/Sanford-2017-Annual-Report.pdf)



## Leadership and advocacy

Leadership must respond to the increasing complexity of sustainability issues. This demands clear advocacy, communication, and collaborative leadership to empower others, build strategic partnerships, and accelerate solutions that support long-term sustained value creation for business and society.

45. How do we communicate internally on sustainability and its importance to the organisation?
46. How do we incentivise management for positive sustainability performance?
47. How are we working collaboratively within our sector/industry to develop solutions and drive sustainability outcomes (e.g. Climate Leaders Coalition)?
48. Do we have strategic partnerships to drive change at a national or international level? And how are we ensuring all parties are benefiting from these?
49. How do we actively create space for innovation, collaboration and leadership? What new strategies and capabilities will be required to do so?
50. Are we making the most of our sustainability story? Are our key stakeholders aware of the work we are doing?



### Climate Leaders Coalition<sup>29</sup>

The Climate Leaders Coalition, launched in July 2018, is currently made up of 70 New Zealand organisations committed to measuring and reporting their greenhouse gas emissions, setting long term emissions reduction targets, and working with suppliers to reduce emissions, to help keep global warming within two degrees.

<sup>29</sup> [www.climateleaderscoalition.org.nz](http://www.climateleaderscoalition.org.nz)



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