Addressing SESG: aligning words and actions

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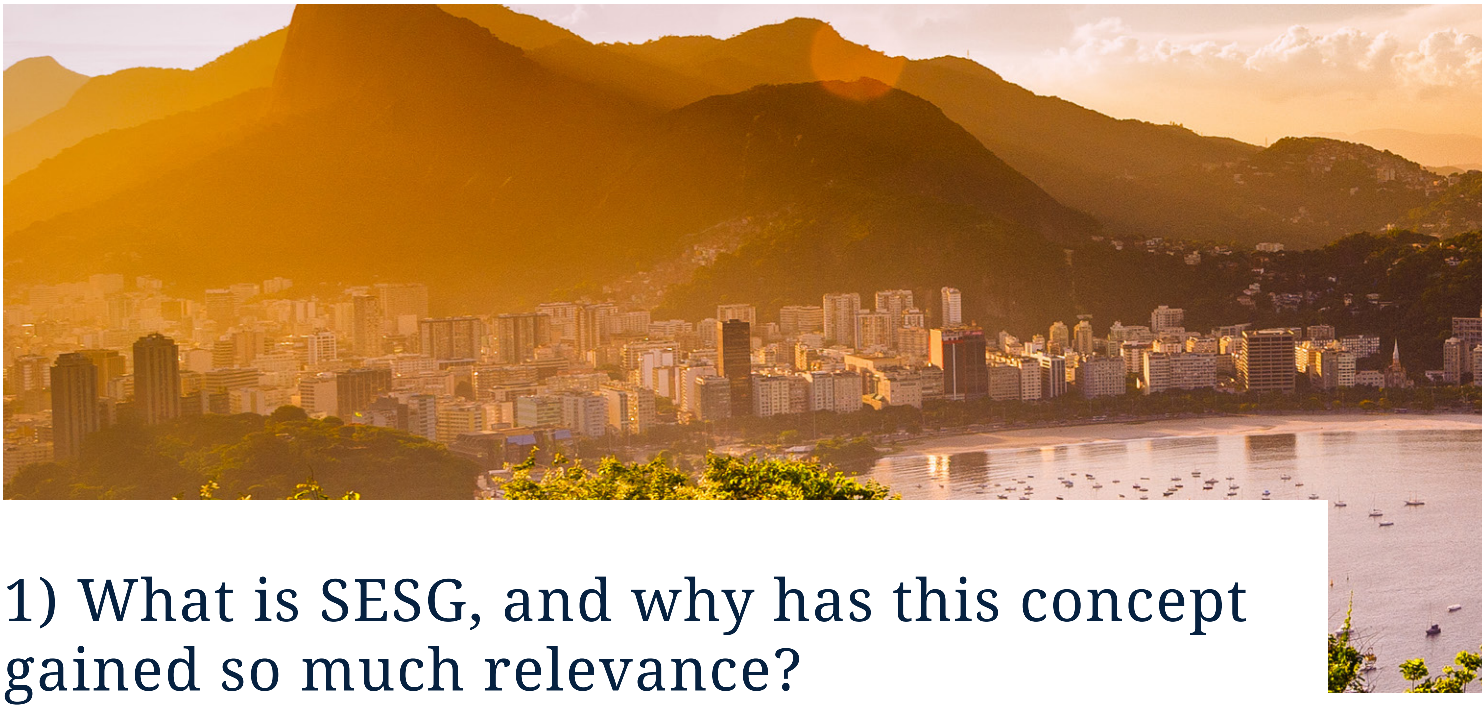

1) What is SESG, and why has this concept gained so much relevance?

SESG stands for Sustainability, Environmental, Social, and Governance, the framework for investors and others to assess the impact of a business's operations on various stakeholders. SESG investing—a term that connotes sustainable, socially responsible investing or mission-related investing and screening—has become a standard for top-tier institutional and public investors, financial institutions, private lenders and other stakeholders.

Sustainability refers to the business's ability of businesses to create and preserve value over the long term in alignment with ethical investment principles. It rests on three pillars:

- **Environment** – how a business performs as a steward of our natural environment. This includes waste and pollution, resource depletion, greenhouse gas emission, deforestation and climate change.
- **Social** – how the company addresses its impacts on people and society. This term encompasses employee relations, diversity, human rights, working conditions (including child labor and slavery), and local communities. This could include projects or institutions that will serve poor and underserved communities globally, as well efforts to promote health and safety, and reduce or eliminate conflict.
- **Governance** – how the company is governed and how it implements SESG in its decision making.

These elements are intimately connected, both with each other and with how the company articulates and consolidates its core values. They are part of an unprecedent global surge in demand from employees, investors, suppliers, customers, and communities seeking to make companies accountable for how their operations affect stakeholders. That demand, in turn, is prompting companies to step up and publicly commit to addressing unsustainable practices. Some companies are responding by revamping their operating principles and corporate purpose.

The number of investment funds and entities taking SESG into account has grown rapidly since the beginning of this decade and is expected to continue rising in the years to come. Businesses increasingly incorporate SESG into their missions and operations to ensure business continuity in uncertain times. This is a mounting body of evidence suggests that investment in companies with strong SESG performance outpace investment

into businesses that do not address their material ESG impacts. These companies also tend to have lower capital costs and enjoy and advantage in attracting and retaining top talent.

One interesting article recently published by DLA Piper looks at SESG issues through the lens of the Rule of Three: "Three core principles to help businesses understand the What? and How? of SESG, so they can deliver impactful change and enjoy the concomitant value enhancement and reputation dividend. Those principles – the Rule of Three – are: **Materiality, Advocacy and Authenticity**."[1]

> "It is no longer attractive or interesting for a business to show awareness and intention – or even just written processes and protocols. Such a business will need to demonstrate an SESG strategy which is: consistent with its corporate purposes; focuses on issues material to the business; is underpinned by its culture and values; and is resilient to competition and replication.
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> The leadership of that business will also need to show that it can deliver. This will inevitably require the production of very specific, time-linked and measurable objectives and regular communication of progress – at all levels within the organization – towards the achievement of those objectives.
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> Boards must be brave enough to extend that advocacy externally, not just within the business, and it must be protected by verification to prove its accuracy and also by the authenticity that makes it truly useful to investors.
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> On the SESG journey, 2021 is a year to move from awareness to action and from action to results. That is the challenge for businesses in pursuit of Alpha. It is an easy challenge to state, but a demanding one to implement, especially where time is of the essence and the need for focus is paramount. An optimal response will be greatly facilitated by the principles within the Rule of Three: Materiality, Advocacy and Authenticity. Boards which need to make a difference should keep them close at hand."

This Rule of Three provides a route for businesses to address SESG's central elements. In our view, boards looking to have their companies make a positive difference and meet the growing call for SESG should keep this rule top of mind.

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Endnotes

1 https://www.dlapiper.com/en/uk/insights/publications/2021/01/beyond-woke-acting-now-sesg/

2 https://www.forbes.com/sites/tinethygesen/2017/01/24/innovation-isnt-created-the-way-people-think/?sh=6a266ffe5a8c

3 https://www.dlapiper.com/en/us/news/2020/11/dla-piper-launches-sustainability-and-esg-portal-to-help-clients-thrive-in-a-sustainable-future/

4 https://www.dlapiper.com/en/us/insights/publications/2021/01/biden-administrations-ambitious-climate-agenda-starts-now

5 https://www.dlapiper.com/en/uk/insights/publications/2021/02/sfdr-are-you-ready/

6 Ibid.

7 https://lifesciences.dlapiper.com/post/102grik/the-importance-of-an-sesg-strategy-for-life-sciences-companies

8 https://www.dlapiper.com/en/uk/insights/publications/2021/01/beyond-woke-acting-now-sesg/

9 SUSEP 2016 Sustainability Report: http://www.susep.gov.br/setores-susep/seger/codin/Ryou elatorio%20de%20Sustentabilidade%202016%20v%20final.%20docx.pdf

10 https://midias.cnseg.org.br/data/files/53/F2/D1/15/B8A6361019FF6136F98AA8A8/Declara__o%20do%20Rio.pdf

11 The rights of members of the LGBTQIA+ community are based on the principles of human dignity, equality and non-discrimination, as set out in the Federal Constitution.

12 https://dash.harvard.edu/bitstream/handle/1/14369106/15-073.pdf?sequence=1

13 https://www.dlapiper.com/en/us/news/2020/11/dla-piper-launches-sustainability-and-esg-portal-to-help-clients-thrive-in-a-sustainable-future/

14 https://treediversidade.com.br/