By Re_Generation

Business Model and Organization

4.2 Leadership and Governance

Description

There is a growing recognition that corporate executives and directors have an explicit fiduciary responsibility to take action on sustainability issues. However, as much as climate risk and ESG disclosures are becoming mainstream, there is a profound gap in the capacity of leaders to take action on ESG issues and integrate sustainability considerations throughout organizational decision-making processes. Heidrick and Struggles recently conducted a survey of a large sample of corporate directors, and found that 46% of respondents indicated that their board has no knowledge of the financial implications of climate-related risk, while 49% said that climate issues are not integrated into any investment decisions. Similarly, a study by Deloitte of 1,1888 Fortune 100 board members determined that just 6% of corporate directors had any kind of environmental credentials. To learn about how firms should improve sustainability management and governance to increase the integration of sustainability criteria across all organizational decision-making processes, continue reading this PDF guide.

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Acknowledgements

Written by Gareth Gransaull, Associate Director of Re_Generation, with review by some of Canada and North America's most influential sustainability leaders.

About Re_Generation

Re_Generation is a Canadian youth movement that seeks to build a regenerative, sustainable, and just economy. We aim to reimagine our schools, repurpose our careers, and remodel our companies to be aligned with regenerative principles. In particular, we provide resources for individuals to launch impact-driven careers and advocate for change within their companies and schools. We also aim to advance public policies that promote regenerative and sustainable business practices.

Our successful 'Our Future, Our Business' Manifesto campaign received the support of 65 youth organizations, 130 high-level executives, and 100 civil society organizations recognizing the need for reform in business education on sustainability. After three years of existence as the Canadian Business Youth Council for Sustainable Development, we have changed our name to Re_Generation to become more inclusive of all youth, not just business youth.

We believe that the ideal society is a **regenerative** one. Regeneration to us means putting human and ecological **well-being** at the centre of every decision. It means restoring relationships, both within nature and within society, while helping all communities to thrive. Read more about our history and vision at our **About Us** page.

Issue Summary

Despite the deluge of rhetoric indicating that climate change and other sustainability factors are quickly becoming boardroom issues, the reality is that most modern boards lack the requisite ESG competencies and skills to properly design and implement sustainability strategies. As much as climate risk and ESG disclosures are becoming mainstream, there is a profound gap in the capacity of leaders to take action on ESG issues and integrate sustainability considerations throughout organizational decision-making processes. **Heidrick and Struggles** recently conducted a survey of a large sample of corporate directors, and found that 46% of respondents indicated that their board has no knowledge of the financial implications of climate-related risk, while 49% said that climate issues are not integrated into any investment decisions. Distressingly, 69% of respondents admitted that climate knowledge is not a formal requirement for board hiring processes nor is it included in their board's competency matrix, while 74% said that ESG issues are not integrated into executive compensation packages. Similarly, a **study by Deloitte** of 1,1888 Fortune 100 board members determined that just 6% of corporate directors had any kind of environmental credentials. For all the positive sustainability discourse, there is an enormous governance gap which limits the ability of firms to plan for the green transition.

Key Considerations

The reason that the sustainability governance gap exists is partially because many corporate leaders have until now viewed environmental and social issues as primarily a marketing and reputational concern. Many firms' CSR or ESG strategies lack credibility for the reason that they remain siloed from business strategy and other functions, and are not reflected in core business decisions. Sustainability teams are often not provided with enough resources or organizational power to affect change, and are often housed under marketing departments where they serve as an extension of a firm's PR efforts. For most organizations, sustainability reporting is not integrated with mainstream financial reporting, meaning that ESG concerns are still not considered material issues (and therefore not worthy of attention from senior officers). As a result of these obstacles, sustainability plans and strategies are often vague and ambiguous, contain few concrete or near-term targets and goals that are quantifiable and realistic, and lack the appropriate capital allocation and organizational resources to be truly transformative. Many sustainability teams spend all their time collecting data for reports, rather than actually advancing organizational change, resulting in the awkward fact that sustainability reporting becomes a substitute for real action. Firms frequently highlight positive success stories in their sustainability reports, while failing to disclose major controversies or ESG failures (i.e. avoiding taxes, or facing fines and sanctions for violations of the law), and in those contexts sustainability reports amount to little more than elaborate forms of greenwashing.

However, the limits of a business-as usual approach to sustainability are becoming apparent. There is a growing recognition that corporate executives and directors have an **explicit fiduciary responsibility** to take action on sustainability issues. Around the world, a legal consensus is growing that climate-related risk in particular represents a fundamental threat to business operations and thus creates a compulsion to act. In November 2020, the **IFRS Foundation** published guidance titled 'the **Effects of climate-related matters on financial statements**', stipulating that material climate-related financial information should be included in companies' annual reports. In Canada, an **influential legal opinion** was published by corporate lawyer and governance expert Carol Hansell, which recognized that corporate directors have a fiduciary responsibility to consider the long-term interests of their company, which directly includes a consideration for environmental and climate-related risks. Regulators such as the Canadian Securities Administrators have followed suit by issuing **proposed directives** covering

mandatory climate risk disclosures for firms, along with the stipulations for audit committees and boards to be provided with appropriate information relating to sector-specific climate-related concerns. Given these new rules, it is very likely that the robustness and specificity of sustainability reporting efforts will improve over time as scrutiny from regulators and investors increases exponentially.

At the same time, institutional **short-termism** remains a major problem that is obstructing the creation of credible sustainability strategies. Modern corporate governance regimes are characterized by a fixation on short-term stock performance, with a reduced capacity to invest in long-term investments and plan for the long-term. According to **a study by Morgan Stanley**, 80% of managers said that they would consciously prioritize short-term value metrics even at the expense of long-term shareholder value. Companies are increasingly motivated to spend money on short-term quick wins which often don't contribute to the real economy, such as share buybacks or dividends. In order to improve governance for sustainability, it is imperative that firms move beyond short-term value metrics and begin to adopt planning and reporting cycles that allow them to plan for the long-term. One immediately obvious solution is to encourage the development of **long-term accounting performance measures**, while ending the requirement for quarterly earnings reports. Many of today's most innovative companies, such as Google, already refuse to issue quarterly earnings guidance. Businesses must also be willing to achieve lower short-term returns in order to gain long-term resilience and prosperity. It is only by slowing down corporate culture and shifting to **long-termism** that corporations today will be able to take action on climate change and other complex, system-wide challenges. This begins with creating systems to embed consideration for ESG risks, which tend to be long-term in nature, throughout organizational structure and culture, and also within institutional planning and capital allocation processes.

Tools

1. Corporate Governance (General)

The OECD has developed a list of **corporate governance principles** which should ideally serve as the basis for all governance-related decisions. These principles specifically identify disclosure requirements related to all relevant governance matters, which include material information on:

1. The financial and operating results of the company;
2. Company objectives and non-financial information;
3. Major share ownership, including beneficial owners, and voting rights;
4. Remuneration of members of the board and key executives;
5. Information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board;
6. Related party transactions;
7. Foreseeable risk factors;
8. Issues regarding employees and other stakeholders;
9. Governance structures and policies, including the content of any corporate governance code or policy and the process by which it is implemented.

The Canadian Coalition for Good Governance has a **comprehensive list of policies** that cover all aspects of corporate governance. In general, there are **five priority areas** for good corporate governance: board effectiveness, audit risk and external accountability, remuneration and rewards, stakeholder relations, and shareholder relations. Each of these issue areas has metrics and indicators that are designed to measure the integrity and effectiveness of a company's governance protocols.

The effectiveness of a board is often determined by its structure, including the level of independence of its members and the manner in which board members are compensated. Independent board members are those which do not have a material relationship with the company, and are neither part of the executive team nor are involved in day to day operations. The practice of 'overboarding' (i.e. board members who serve on too many boards) should be minimized, and the positions of Chair and CEO should be kept separate and distinct. Board diversity is of high importance, particularly with respect to gender, age, race, geography, and tenure, to ensure a wide variety of perspectives are considered in important decisions. Board effectiveness should also be evaluated according to the proportion of meetings that directors actually attend. Other indicators of board effectiveness, as **identified by Institutional Shareholder Services** (ISS), include:

- Independent nominating and compensation committees;
- Disclosure of policies requiring an annual performance evaluation of the board;
- Disclosure of board or governance guidelines;
- Disclosure of related-party transactions and conflicts of interest;
- Mechanisms to encourage director refreshment;
- Standard deviation of director age and tenure (in years).

For further information on increasing board diversity, review these **guidelines from the International Corporate Governance Network**, as well as this **sample diversity policy** from Governance Solutions. Forward-thinking firms are also advised to consider including **worker representation on boards**, especially given the robust evidence that companies with worker representatives on the board have a 16-21% increase in labor productivity, lower outsourcing and 40-50% larger capital stock invested in fixed assets. Firms with worker representation help reduce income inequality by distributing income more equally on average and paying wages 18-25% higher than companies without worker representation, while also creating 9% more wealth for shareholders and investing twice the amount of other firms.

ISS has developed a list of **five principles for compensation policies**, which include that:

- Pay should be aligned with performance, with an emphasis on the long term;
- Firms should avoid "paying for failure," by avoiding guaranteed compensation and excessive severance packages;
- Firms should create an independent compensation committee for effective oversight;
- Firms should ensure transparent and comprehensive compensation disclosures;
- Firms should manage payments made to non-executive directors, and avoid overpaying.

For more information about proper compensation policies, see Section 3.3 on Excessive Compensation.

A firm's audit committees must be as independent as possible. Companies should disclose the percentage of audit committee members that are independent, the size of the committee, the number of committee meetings, the proportion of meetings actually attended, as well as the ratio of fees for non-audit/audit work. Insider trading, market manipulation, and all forms of abusive self-dealing must be prohibited.

In a firm with good governance practices, the rights of shareholders should be protected, in particular the rights of minority shareholders to be protected from the actions of controlling shareholders, with an appropriate means of redress. Companies should abide by the 'one share, one vote' policy, and adopt specific policies to facilitate shareholder engagement and adopt shareholder resolutions. The OECD defines a basic list of **shareholder rights**, which include the right to:

1. Secure methods of ownership registration;
2. Convey or transfer shares;

3. Obtain relevant and material information on the corporation on a timely and regular basis;
4. Participate and vote in general shareholder meetings;
5. Elect and remove members of the board;
6. Share in the profits of the corporation.

Shareholders are also entitled to be adequately informed of the following:
1. Amendments to the statutes, or articles of incorporation or similar governing documents of the company;
2. The authorisation of additional shares;
3. Extraordinary transactions, including the transfer of all or substantially all assets, that in effect result in the sale of the company.

Most importantly, all firms should undertake efforts to ensure that the rights of all stakeholders, including employees, communities, and the environment, are respected through mutual agreements and explicitly referenced in policy. Where stakeholder rights are protected by law, companies must provide the opportunity for redress through appropriate grievance mechanisms. Firms should undertake efforts to actively ascertain the opinions and attitudes of stakeholders, including through mechanisms to encourage employee participation or consult with affected communities. Companies and their boards should also have clear objectives regarding their intent to collaborate with their stakeholders on their purpose and fulfillment of mutual goals. Companies that do are more likely to generate greater stakeholder value, foster loyalty and inspire innovation. Above all, stakeholders should be able to access reliable and effective conduits for relaying their concerns about illegal or unethical practices to the board of directors, and should be free of intimidation or fear or reprisal when doing so.

Companies should be advised to create their own governance scorecards to help evaluate their own performance, using these **templates** from the International Finance Corporation. For more information related to corporate governance, review these **governance principles** from the International Corporate Governance Network, as well as materials from the **Board Institute**.

2. Sustainability Management

Proper sustainability management is impossible without good corporate governance practices. For sustainability transitions to take place, sustainability needs to be embedded throughout all aspects of an organization: its culture and hiring practices, strategy and vision, leadership and executive profiles, risk management and information systems, procurement and supply policies, and many others. The following are frameworks for embedding sustainability into a company's management practices.

The UN Global Compact has developed a **general management model** for firms to employ in planning for more sustainable futures. These steps include:
1. Commit: leadership commitment to mainstream the Global Compact principles into strategies and operations and to take action in support of broader UN goals, in a transparent way;
2. Assess: assess risks, opportunities, and impacts across Global Compact issue areas;
3. Define: define goals, strategies, and policies;
4. Implement: implement strategies and policies through the company and across the company's value chain;
5. Measure: measure and monitor impacts and progress toward goals;
6. Communicate: communicate progress and strategies and engage with stakeholders for continuous improvement.

The Embedding Project has developed a comprehensive list of general **strategies for the sustainability transition**. The steps in their list include:

1. An environmental scan of all political, social, economic, technological, legal, and (PESTLE) issues that might be relevant for a firm and its stakeholders, according to the thorough list of indicators outlined on pages 21-27;
2. Develop an understanding of all the firm's impacts, according to four distinct lenses:
    - System needs (i.e. the health and wellbeing of environmental, social, and economic systems);
    - Strategic relevance for business risks and opportunities;
    - Operational and value chain impacts;
    - Systems influence (i.e. points of intervention through which a business can contribute to positive systems change);
3. Prioritize by selecting the most relevant issues to take action on;
4. Articulate a clear position statement that explains the issue (including the company's understanding of the relevant system limits), links the issue to the firm's strategy, and outlines a commitment to take appropriate actions;
5. Set goals and interim targets at the system, value chain, and operational levels.

For the purposes of evaluating the ambition and stringency of corporate sustainability efforts, the Embedding Project has also developed a **self-assessment questionnaire** that covers all aspects of organizational change management, and is crucial for any sustainability transition effort. Key self-assessment questions from their questionnaire can be grouped into the following four categories:

- Agenda-setting and transition plans:
    - Do you envision future sustainability scenarios in order to inform what you do today?
    - Have you set organizational and business unit goals and targets that address environmental limits and enhance social foundations?
    - Do you integrate sustainability into your core strategy-making process?
- Organizational structure, culture, and leadership:
    - Have you established roles and responsibilities within the organization to allocate sustainability responsibilities?
    - Do you seek opinions and ideas from employees about how to approach and solve sustainability issues?
    - Do you proactively seek senior and mid-level management's opinions about how to improve your sustainability performance?
    - Do you implement voluntary initiatives and adopt more stringent practices than mandated by regulation or common standards?
    - Do your frontline managers regularly follow up with employees to monitor and enquire about the status of sustainability tasks in your organization?
    - Do you collaborate with other organizations to try and achieve shared sustainability goals that benefit the environment and/or society?
    - Do you include sustainability as an element of the recruitment process?
    - Do you allocate the responsibility for delivering on the sustainability agenda to senior leaders?
    - Do you translate organizational sustainability goals and targets into employee responsibilities and expectations?
    - Do you link employee compensation to the achievement of set sustainability objectives?
    - Do you move people with sustainability values and skills into higher positions in the organization through incorporating sustainability criteria into decisions about advancement?
- Collecting information:
    - Do you make efforts to understand and improve the sustainability performance of your products

  and services?
  - Do you benchmark your sustainability processes and performance against those of other organizations?
  - Do you exchange sustainability knowledge with other organizations?
  - Do you routinely revisit your efforts towards sustainability to determine whether you are meeting your goals and commitments and whether changes in approach are needed?
- Control systems and evaluation:
  - Do you integrate sustainability into your risk assessment process?
  - Do you create and make use of organizational policies, codes of conduct, and management standards related to sustainability?
  - Do you integrate sustainability into your business planning process?
  - Have you undertaken a process to ensure that your existing business processes and systems are in alignment with delivering on your sustainability commitments (for instance, project management systems; design processes; and accounting or financial management systems)?
  - Do you measure your sustainability impacts and contributions?
  - Have you developed information systems to support your sustainability efforts?
  - Do you use analytics and algorithms to combine and display sustainability data in meaningful ways to generate new insights?

Role-specific guidance is also available for individual C-Suite positions. For general counsels and other senior legal professionals, check out the UN Global Compact's **Guide for General Counsels**. For Chief Financial Officers, review resources from the **CFO Taskforce**, as well as this **Harvard Business Review article** about approaching CFOs about sustainability concerns. The **Accounting for Sustainability** project provides useful tools and insights for CFOs. CEOs are advised to review the **CEO guides** developed by the World Business Council for Sustainable Development.

Sustainability considerations should also be integrated throughout all human resources policies and procedures, in order to ensure integration throughout organizational culture. For a guide to the implementation of ESG criteria throughout HR management, review this **guide developed by Coro Strandberg** for Industry Canada. Key considerations for HR sustainability practices include:
- Vision, mission, values and CSR strategy development;
- Employee codes of conduct;
- Workforce planning and recruitment;
- Orientation, training and competency development;
- Compensation and performance management;
- Change management and corporate culture;
- Employee involvement and participation;
- Policy and program development;
- Measurement and reporting.

Stakeholder relations is another key component of sustainability management. Engaging directly with key stakeholders, and consulting them about key decisions and strategies, is critical to the development and success of sustainability transition plans. For more information, see this **stakeholder governance framework** from the Cranfield School of Management. Key self-assessment questions include:
- Have you identified which stakeholder groups are essential to value creation that drive and deliver your business model?
- How well do you understand the expectations of and impacts on your material stakeholders?
- To what extent do you consult with your stakeholders to understand their views and to ensure good

quality information?
- How formalized is stakeholder engagement in your governance systems and processes?
- How well embedded are stakeholder discussions into the board agenda?
- Are you confident that you are getting a fully representative view of your stakeholders' opinions?
- Do the views of stakeholders materially influence the board's strategic long-term decisions?
- To what extent is stakeholder engagement integrated into existing business practices or decision-making activities, for example materiality and risk management assessments?

3. Sustainability Governance

Company boards are central to stewarding an organization to long-term success in fulfillment of its purpose and in achievement of its sustainability objectives. The Canadian Coalition of Good Governance has developed a **specific E&S handbook** for corporate directors when considering the integration of environmental and social factors into strategy and decision-making. Coro Strandberg has also published a **comprehensive list of considerations for embedding sustainability in corporate governance**. For even more comprehensive indicators and metrics of board performance on ESG issues, review Coro Strandberg's **roadmap for sustainable boards**.

Corporate boards should make sure that environmental and social factors are considered in the organization's long-term, core strategic objectives and embedded throughout all organizational purpose, mission, and value statements. The board must make an explicit commitment to sustainability, agree on the most material social and environmental issues (both for the firm and for stakeholders), and ensure these issues are reflected in all strategic plans and business plans, while also allocating regular discussion time to the consideration of ESG issues. Boards must make sure that there is clear accountability and ownership for particular social and environmental factors among senior officers, in particular by integrating ESG responsibilities within its standing committees or creating a designated ESG committee. The CEO's mandate should include a responsibility to address sustainability risks and opportunities and sustainability should be embedded throughout all recruitment processes for board members and senior executives. The orientation of new board members should include ESG, and continuing education efforts should be provided to ensure ESG knowledge is kept up to date. Efforts should be made to increase board diversity in terms of demographic composition, with a specific priority to recruit directors who represent key stakeholder groups relevant to a company's sustainability impacts.

Boards should ensure that ESG factors are integrated through all decision-making processes and considered in all strategic discussions, especially decisions related to corporate strategies, annual budgets, and major capital allocation decisions including annual capital expenditures and merger and acquisition or divestiture plans. Boards should actively confirm that management has integrated ESG considerations throughout all corporate policies and manuals, particularly with respect to finance and procurement. Boards should ensure that ESG factors are integrated across all enterprise risk management (ERM) systems and frameworks, including a statement of relevant assumptions, and mandate integration of ESG factors throughout all information systems and evaluation and control protocols. Boards should ensure that executives and senior officers have internal controls, processes, and audit trails to record, monitor, and communicate ESG performance metrics. Boards should ensure ESG disclosures are integrated in the firm's financial reports, including in its Management Discussion and Analysis, annual report and/or proxy circular. A high-level discussion of ESG strategies should be provided, and key ESG metrics should be independently verified.

Most importantly, board compensation committees must make sure that ESG priorities are captured in all performance management processes and compensation plans. Firstly, boards must remove perfor-

mance incentives that harm or erode stakeholder value; analysis by Carbon Tracker indicates that **92% of oil and gas companies** offer executive compensation plans that directly incentivize executives to increase fossil fuel expansion and production. According to Sustainalytics, **only 9% of companies** currently link executive pay to ESG criteria. Board members and senior executives should be remunerated according to their performance on key sustainability metrics, to ensure alignment with strategic ESG goals. There should also be significant coordination between a board's compensation committee and its ESG oversight committee (if it exists), to ensure alignment between targets and performance evaluations. Specific **compensation-related self-assessment questions** for ESG integration, as developed by Claremont Partners, include:

- Does the company provide information indicating a link between consideration of ESG risks and performance, and executive remuneration?
- Does the company disclose specific non-financial targets in executive compensation plans?
- Does the company indicate that strategic ESG-related key performance indicators (KPIs) in the company plan are represented in the compensation or remuneration metrics?
- Does the compensation policy explicitly reference specific science-based targets for reducing GHG emissions with a reference to the 2°C scenario?
- Has the company explained how the variable pay award, dependent on non-financial (ESG) performance, was assessed for the year under review?
- If the company suffered a major controversy, is any increase in salary or bonus proposed for the directors employed at the time of the incident?

PwC has also developed a list of **important self-assessment questions** for considering board performance on sustainability issues, particularly with respect to audit, compensation, and nominating committees.

- Audit committee:
    - Are the ESG disclosures (both qualitative and quantitative) investor grade? Which ESG frameworks and/or standards is the company using?
    - Are there processes and controls in place to ensure ESG disclosures are accurate, comparable, and consistent?
    - Should independent assurance be obtained to ensure ESG disclosures are reliable?
- Compensation committee:
    - Are the ESG goals and milestones effectively integrated into executive compensation plans?
    - How is management organized to execute the ESG strategy? Are the right people and processes in place? Does the company have a culture which embraces ESG efforts?
- Nominating and governance committee:
    - Is the company's ESG story being effectively communicated to investors and other stakeholders?
    - Does the board have the necessary expertise and skills to oversee ESG risks and opportunities?
    - Does the board understand why ESG is important to investors and other stakeholders?
    - Is the board appropriately educated on ESG?

In the Climate Action 100+ **Net Zero benchmark**, relevant indicators for board climate oversight include that:

- The company discloses evidence of board or board committee oversight of the management of climate change risks via at least one of the following;
    - There is a C-suite executive or member of the executive committee that is explicitly responsible for climate change (not just sustainability performance) and that executive reports to the board or a board level committee;

  - The CEO is responsible for climate change AND he/she reports to the board on climate change issues;
    - There is a committee (not necessarily a board-level committee) responsible for climate change (not just sustainability performance) and that committee reports to the board or a board-level committee.
- The company has named a position at the board level with responsibility for climate change, via one of the following:
  - A board position with explicit responsibility for climate change;
  - The CEO is identified as responsible for climate change, if he/she sits on the board.
- The company's executive remuneration scheme incorporates climate change performance elements;
  - The company's CEO and/or at least one other senior executive's remuneration arrangements specifically incorporate climate change performance as a KPI determining performance-linked compensation (reference to 'ESG' or 'sustainability performance' are insufficient);
  - The company's CEO and/or at least one other senior executive's remuneration arrangements incorporate progress towards achieving the company's GHG reduction targets as a KPI determining performance linked compensation;
- The board has sufficient capabilities/competencies to assess and manage climate related risks and opportunities;
  - The company has assessed its board competencies with respect to managing climate risks and discloses the results of the assessment;
  - The company provides details on the criteria it uses to assess the board competencies with respect to managing climate risks and/or the measures it is taking to enhance these competencies.

For more information on the board's role in climate risk management, see this **report** by Ceres, as well as this set of **self-assessment questions** from Chartered Accountants of Canada. For more information about boards and sustainability in general, check out the **resources compiled** by the advocacy group **Earth on Board**.

See the earlier section on purpose governance under Section 4.1 on Business Model Transformation to understand best practices in board oversight of purpose execution.

Case Studies

Some companies have become outliers by making notable strides in improving sustainability governance and management practices. IKEA has gone a step beyond its peers by **integrating sustainability responsibilities directly into the job titles of its managers**; in 2019, the firm announced that its Country Retail Managers will all take on the additional role of country Chief Sustainability Officer, ensuring that all operational managers are simultaneously responsible for overseeing the firm's sustainability policy, 'People & Planet Positive'.

Unilever, a major consumer goods company, is well-known for governing and executing its sustainable purpose: to make sustainable living commonplace. As a key route to implementing its purpose, it has a robust approach to **engaging employees in sustainability strategies**. Unilever's managers are required to go through an intense leadership development process designed to develop sustainability competencies and systems thinking capabilities, culminating in a "Purpose Into Impact" project that all

managers must deliver which aims to unite social and business impact. Unilever has ensured sustainability considerations are included in its information systems and analytics capabilities by developing a valuation tool that specifically tracks supply-chain savings, capital expenditures, manufacturing avoided costs, and turnover of goods associated with sustainability initiatives. Most interesting of all, Unilever has incentivized employee participation in sustainability initiatives by introducing a healthy degree of competition, such as a company-wide zero-waste target which prompted teams at the firm's global factories to compete to eliminate non-hazardous waste.

Danone, the French foods social purpose company, has a mission "to bring health through food to as many people as possible." It has become a world leader in incentivizing sustainable practices through executive compensation. Danone links ESG factors to both its short and long-term incentive plans, and includes annual variable compensation that is linked to performance over three categories: economic (60%), social and environmental (20%), and managerial (20%). Siemens, the major German manufacturer, has introduced a 'sustainability index' into its annual long-term Stock Award for executives on its managing board, which includes metrics related to reduction of carbon emissions.

The Cooperators, a leading Canadian insurance provider, has been **ahead of the game in embedding sustainability** throughout its governance. The firm currently factors sustainability considerations into all of its key governance functions including strategy, risk, capital allocation, and compensation, and its board includes a permanent standing committee for Sustainability and Citizenship. Executive compensation plans include ESG metrics to incentivize sustainability performance, and the firm has embedded sustainability into its larger business strategy by offering sustainable products such as insurance discounts for green vehicles.

Organizations/Initiatives

For more information about corporate governance, sustainability, and planning for the long-term, check out the following organizations:

- **Earth on Board**
- **Chapter Zero**
- **World Business Council for Sustainable Development**
- **Canadian Coalition for Good Governance**
- **Strandberg Consulting**
- **The Embedding Project**
- **International Corporate Governance Network**
- **CorpGov.net**
- **Institute of Corporate Directors**
- **Governance Professionals of Canada**