



# The ESG journey: Lessons from the boardroom and C-suite

## — Key Highlights



It is now widely recognised that environmental, social and governance (ESG) issues impact the company's key stakeholders, corporate strategy and long-term performance. Following the publication of **'ESG, strategy and the long view'** which introduced **a framework for board oversight of ESG as a strategic issue**, KPMG has **conducted a series of interviews with business leaders** from major corporations in addressing various ESG issues - including Morgan Stanley, Tyson food, Microsoft and Whirlpool and **published a report titled 'The ESG journey: Lessons from the boardroom and C-suite'**. This four-page summary presents the key highlights of the report, including our **key observations and recommendations**, which we hope will **guide your company in addressing ESG as a strategic imperative for value creation and long-term growth**.

## Why is integration of ESG into business strategy essential?

 <b>Risks</b>	 <b>Opportunities</b>	 <b>Regulations</b>
<p><b>8 of the top 10</b> global risks are ESG-related, as identified by the World Economic Forum in 2018<sup>1</sup></p>	<p>The green bond market is forecast to grow to <b>\$1 trillion annually</b> by the early 2020s, with China anticipated to account for <b>40%</b><sup>2</sup></p>	<p>The China Securities Regulatory Commission (CSRC) has announced that all listed companies will be required to disclose key environmental information in their annual or semi-annual reports <b>by 2020</b><sup>3</sup></p>



*Companies that seize these opportunities by identifying and incorporating ESG issues into their strategy will clearly stand out as **forward thinking organisations**, focused on **long-term performance and value-creation**.*

<sup>1</sup> The Global Risk Report 2018, World Economic Forum, January 2018, <https://www.weforum.org/reports/the-global-risks-report-2018>

<sup>2</sup> Financial Services Special Report: China's Green Finance Market, British Embassy Beijing, September 2018, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/738876/China\\_Financial\\_Services\\_Special\\_Report\\_-\\_Green\\_Finance.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/738876/China_Financial_Services_Special_Report_-_Green_Finance.pdf)

<sup>3</sup> Investor duties and ESG integration in China, Principles for Responsible investment, March 2018, <https://www.unpri.org/download?ac=4496>

# Questions to consider

Integrating ESG into corporate strategy is no easy task. Below are **five important questions** for your company to consider on your ESG journey, along with our **observations from the interviews** with directors and business leaders.

Q1:

What are the driving forces behind your company's decision to focus so intensively on ESG issues?

Three main driving forces have been observed:

- People understanding the Importance of ESG and driving the company's focus
- Increasingly intense focus by the board and management on ERM and strategy
- Expectations of investors, customers and employees

**91%** of investment firms surveyed say governance has the greatest impact on investment decisions among ESG factors <sup>1</sup>

Q2:

How did the board and senior management determine which ESG issues to focus on?

- Strategically significant ESG risks and opportunities vary by industry and sector
- ESG issues are not static but evolutive
- The social piece of ESG is going to be increasingly important

Among the respondents, incorporation of ESG factors into investment decision-making process nearly doubled to **43%** in 2018 <sup>2</sup>

Q3:

How did or does your company integrate its major ESG initiatives into its strategies?

- ESG initiatives are often disconnected from the core business and do not directly contribute to competitive advantage
- How to achieve the integration varies from company to company, but requires the involvement of people who buy into ESG
- Almost every ESG metric needs to be translated to a financial metric

**22%** of directors surveyed said ESG is directly linked to corporate strategy <sup>3</sup>

Q4:

How does your company communicate ESG issues to investors and other stakeholders?

- Different company stakeholders have different information needs
- Providing the ESG information required in securities filings is not enough for stakeholders
- Formal earnings communications sometimes don't really touch on ESG issues

**50%** of CFA Institute members surveyed believe independent verification of ESG information should be similar to an audit <sup>4</sup>

Q5:

What is the board's role in overseeing the company's ESG activities?

- The structure and processes a board creates to oversee ESG issues vary upon factors like size and complexity of business operation, industry, ESG risks and opportunities, director's expertise in ESG issues
- Different opinions exist regarding whether a designated committee should be established to assist the board in the oversight of ESG

**123** companies in the S&P 500 have a board-level sustainability or responsibility committee <sup>5</sup>

<sup>1</sup> 2018 ESG Survey, Russell Investments, September 2018, <https://russellinvestments.com/us/blog/2018-esg-survey>

<sup>2</sup> 2018 ESG Survey, Callan Institute, August 2018, <https://www.callan.com/press-release-2018-esg-survey/>

<sup>3</sup> 2018 Global Board Leaders' Summit, NACD, 29 September 2018, <https://richardbistrong.com/event/the-nacd-2018-global-board-leaders-summit/>

<sup>4</sup> 2017 ESG Survey, CFA Institute, May 2017, <https://www.cfainstitute.org/-/media/documents/survey/esg-survey-report-2017.ashx>

<sup>5</sup> Bloomberg LP

# Our recommendations

Companies and boardroom discussions are moving at different speeds in addressing ESG issues today. Regardless of where a company is on its ESG journey, the boards can lead the organisation forward by focusing on the big picture. **The five-part framework below will enable the boards to address ESG issues and incorporate them into the business strategy.**





## Contact us

Our sustainability team can support you in various stages of your ESG management and reporting process, with interdisciplinary expertise and access to global knowledge. Please contact us to discuss any ESG needs.

To read the full report, please click on the link or scan this QR code below:

<https://boardleadership.kpmg.us/content/dam/boardleadership/en/pdf/2019/the-esg-journey-lessons-from-the-boardroom-and-c-suite.pdf>



**Patrick Chu**

Partner

T: +86 (10) 8508 5705

E: [patrick.chu@kpmg.com](mailto:patrick.chu@kpmg.com)



**Eva Wei**

Associate Director

T: +86 (10) 8508 5259

E: [eva.f.wei@kpmg.com](mailto:eva.f.wei@kpmg.com)



**Julie Wong**

Associate Director

T: +852 2685 7856

E: [julie.wong@kpmg.com](mailto:julie.wong@kpmg.com)

[kpmg.com/cn](https://kpmg.com/cn)

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