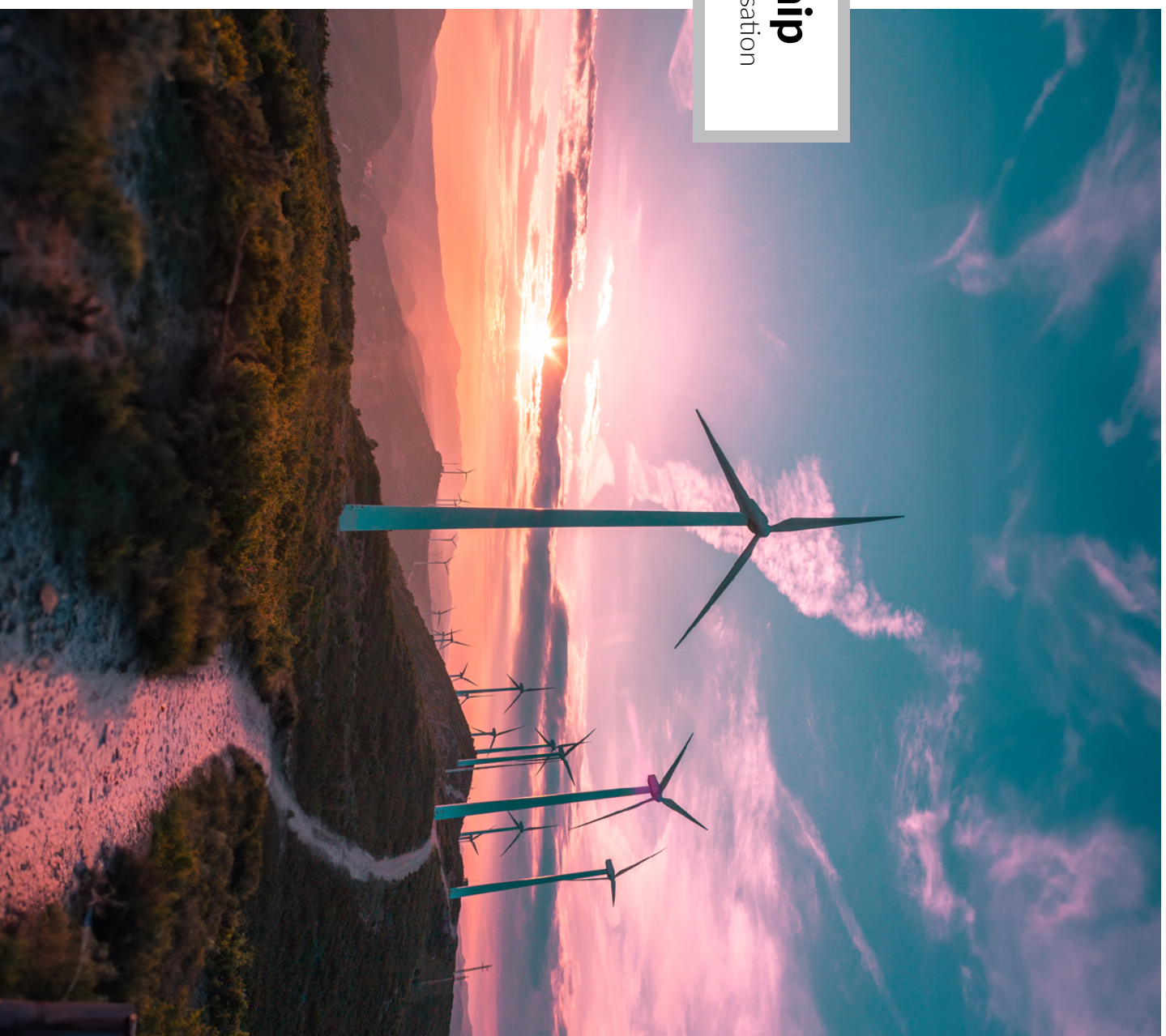


Purpose and Stewardship

Embedding ESG at all levels of the organisation



Introduction

In May 2023, Myfanwy Wallwork, Vice President - Regulatory Compliance Global, from LexisNexis®, chaired a discussion at the Governance Institute of Australia's Government Risk Management Forum, with the University of Adelaide academic and ESG expert Dr Tracey Dodd; and Robin Parkin, Head of Sustainability at Ethical Partners Funds Management. This discussion explored the factors that can help businesses move the needle on ESG.

This paper and checklist, "Purpose and Stewardship: Embedding ESG at all levels of the organisation", provides insights directly from the Government Risk Management Forum discussion. It provides thought starters on how to explore the practicalities of purpose and stewardship. It identifies what Boards and senior leaders need to do in order to centralise strategy, decentralise ownership, and cascade a robust ESG framework throughout their organisations.



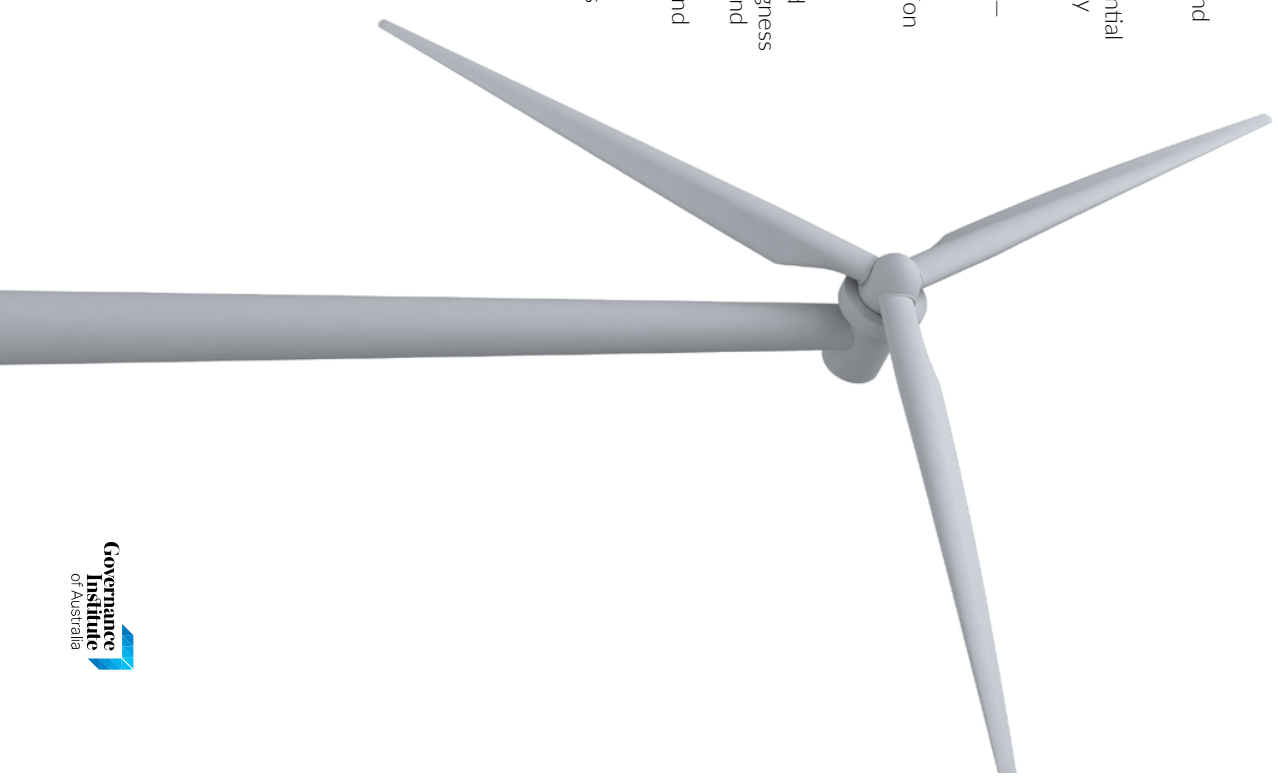
Setting the scene

Across businesses of all sizes, the Environmental, Social, Governance (ESG) articulation of organisational strategy is fast becoming the favoured lens through which business priorities are considered, achieved, and measured. The drawcard of ESG is its holistic purview — it requires organisations to consider themselves not just as standalone entities who are responsible only for themselves, but as parts of a whole: whose actions have far-reaching consequences on people and environments across the world. But as with any paradigm shift, the adoption and implementation of ESG frameworks are at varying stages in different organisations, and some businesses encounter challenges in trying to embed ESG within their leadership or Board. But if businesses are to establish themselves as leaders of the communities and societies we want for the future, they must be able to manage the short-term challenges in order to deliver that ESG vision.

The visibility, efficacy and success of ESG approaches will only become a more fundamental contributor to businesses' social licence to operate in the future. This is not a new concept — for decades, businesses have understood that in order to be accepted and valued

by communities, they must be active contributors and show a willingness to give back to the world around them. But as societal awareness of the impacts of business has grown, this has now become an existential threat — something that can determine the longevity and sustainability of a business or product.

Two notions are key here: purpose and stewardship — and understanding how they interact is important. In a time where simply being in business to provide shareholder value is no longer enough, the articulation of a clear and meaningful purpose statement is one of the most powerful tools in bringing ESG vision to fruition. That articulation then drives a sense of stewardship across the organisation, from the Board down. Stewardship is defined by Dodd as the willingness of an individual or entity to take accountability for and act in the long-term interest of either a business, a group of businesses, or the environment. Purpose and stewardship work in harmony to help organisations achieve two key tasks in delivering ESG vision: building a centralised strategy, and decentralising its implementation and ownership.



Embedding ESG from the top down: a two-part framework

1. Developing a centralised strategy & vision

“One of the greatest tools you can use in your business is your sense of purpose,” says Dodd. Research shows that an organisation’s purpose statement determines how employees relate to the business. “If the purpose statement is just focused on business, research shows employees will become stewards of the business. But if the purpose statement has a broader impact, it enables and facilitates greater action.”

“We also think defining purpose is essential,” says Parkin. “Former Unilever CEO Paul Polman made the point that despite having the tools and technologies available to meet all the UN’s Sustainable Development Goals, the world is currently only on track to meet 12% - so we’re falling badly. But the difference between businesses who are and are not making a difference is mindset. And that’s what needs to be articulated in a purpose statement.” The mindset shift Polman refers to is, in essence, a sense of stewardship: that Directors, management, and employees are responsible for guiding the organisation’s impact across the ESG framework.

Strategy starts at the top, and as fiduciaries, Company Directors have long been considered stewards of their companies. But this is changing to embrace a broader definition of stewardship that encompasses the community, and environmental impacts of a business. “There have been rulings that say, under the Corporation Act, you have a moral and legal obligation to think about the impact of your business, on the community in the long run,” says Dodd. “And there are moves in the EU where people are being held legally culpable, for the environmental impact that they are having in society. So it’s no longer just a normative ethical claim that businesses have to be good citizens. It’s actually a legal interpretation.”

But when it comes to the upper levels of an organisation, the carrot of purpose can be just as effective as the stick of regulation in building stewardship. For both existing and prospective Board members, having a clear understanding of organisational purpose will intrinsically guide decision-making, risk appetite in certain areas, and prioritisation. It can also serve to assist in recruiting the right people for senior roles to ensure the ESG vision is delivered over time.

“The average tenure of the CEO is about five years, so long term thinking becomes even more critical,” says Parkin. “It’s about stewarding an organisation, it’s not about the person - and for truly purpose-driven organisations this often plays into a different form of leadership as well. It’s not just about the CEO, CFO or even the Board. It’s about thinking of the business as a long term entity that you are stewarding.”



Developing Centralised ESG Strategy: Thought starters for Directors & Senior Leaders

Defining or reviewing purpose

Does the purpose statement accurately reflect both the vision and mission of the business?

YES NO

Does our purpose align with the organisation's culture?

YES NO

Is our purpose something the organisation can meaningfully contribute towards in a measurable way?

YES NO

Does this purpose inspire stewardship at all levels of the organisation?

YES NO

Developing a centralised strategy & vision

What in our organisation needs to change if we are to achieve our purpose?

Are there gaps in internal capacities, resources and systems that must be addressed?

YES NO

Does our strategy contain credible transition plans?

YES NO

Which of our products can grow and which will need to transition?

What are the short-term actions that will deliver our purpose?

Do our actions go beyond the risk and sustainability departments to being embedded across the organisation?

YES NO

2. Decentralising deployment & ownership

While strategy starts at the top, its deployment and successful implementation is dependent on whole-of-business alignment, and both purpose and stewardship are essential here too. Purpose drives stewardship among employees, and it's this sense of stewardship that will drive continued progress through the diverse functions of any organisation. Responsibility is essential in deputising each member of a business to deliver on the strategy.

"Old management theory would tell you that we're all after money, so you've got to incentivise people," says Dodd. "But stewardship theory says no, people really care about purpose, and you've got to give them something to buy in. The reality is that it's somewhere in the middle, and it's not good or bad to be one or the other." But Dodd's research shows that there is a causal link between articulation of purpose and stewardship. So as organisations look to decentralise their ESG approach across the business, having a clear purpose becomes even more important.

"It's not about a checkbox," says Parkin. "It's about fundamentally changing the way you think about your business and not being tokenistic. The staff can tell if your approach is tokenistic. So it's about moving beyond simple compliance, to really embedding your ESG vision as business as usual." Research shows that purpose statements define how employees connect with their businesses.



Developing a centralised strategy & vision

Invest as much in people and culture as in new technologies: ensure adequate resourcing - Integrate into product design, strategy, and roles.



Allow staff to raise concerns and provide feedback.



Rethink job titles, role descriptions and team structures.



Learning across departments, markets, and sectors: stop the siloes.



Identify passions, skills and influence points your staff has and leverage those.



KPIs of as many staff as possible.



Look for internal champions and mentors to build momentum.



Democratisation of data.



Ensure staff are feeling heard and valued, and are sharing in the purpose.



Harness competitive nature of behaviour change: Unilever example.



Provide autonomy and flexibility for employees to reach goals.



Celebrate the wins internally.



Encourage experimentation.



Understand what pressures staff are under, and how ESG will affect their decision making.



About the Government Risk Management Forum panellists

Dr Tracey Dodd is the Director of Research Development at the Adelaide Business School and Honorary Senior Research Fellow at the University of Exeter in the UK. She also chairs the Governance Committee of the green industry, in South Australia and is CEO of a sustainable innovation and advisory firm that provides strategic planning and corporate governance advice to global organisations.

Robin Parkin is the Head of Sustainability at Ethical Partners Funds Management. Robin coordinates Ethical Partners' proprietary in-house ESG investment research process, working directly with the investment team to integrate the analysis into the investment decisions and portfolio construction, as well as coordinating Ethical Partners' active programme of engagements and wider advocacy activities. She is the recipient of the 2023 Anti Slavery Australia Impact Award for Outstanding Contribution to anti-slavery initiatives in the financial sector.

Myfanwy Wallwork is the Vice President for Regulatory Compliance Global, as a Regtech Incubator solution launched in Australia in 2016 and now leads cross-functional teams around the world, including the US and UK. Myfanwy is also the Executive Sponsor for LexisNexis Australia's Rule of Law program and has worked with government organisations across the Pacific, including the Australian Human Rights Commission. Myfanwy is currently working with the Human Technology Institute on operationalising the principles of responsible innovation for AI-based technologies while the concepts, regulatory instruments and technology continues to evolve.



ESG Resources from LexisNexis

Your ESG Toolkit from Practical Guidance

LexisNexis Practical Guidance is an online solution offering the practically-focused content that Inhouse Counsel need to conduct a new matter. Guidance, practice tips, legislation, cases, checklists, tools, forms and precedents are all in one place and in the context of an Inhouse Counsel's workflow.

With the ESG toolkit from Practical Guidance, you can quickly access expert guidance on the very latest legal, regulatory, and compliance information about ESG. It provides a detailed overview of key considerations around ESG and practical checklists and links to help your company understand its obligations, manage and mitigate its ESG risks, and undertake specific ESG activities such as ESG due diligence. The toolkit also links to key content within Practical Guidance (which may require a LexisNexis subscription) and the key benchmarks and legislation you need to know about.

Your ESG Checklist from Regulatory Compliance

LexisNexis Regulatory Compliance helps you forge a clear path to compliance. With LexisNexis content know-how at the core, our compliance registers, alerts, and information-driven solutions make compliance uncomplicated for GRC professionals across the globe.

This complimentary checklist can help you to deliver on your ESG strategy and reporting requirements. The checklist has been developed in conjunction with Dr Rachel Baird, Director at IcebergsSRC and LexisNexis Regulatory Compliance Legal Expert.



Learn More →

If you would like to learn more about our range of solutions that can support your requirements, you can email us at compliance@lexisnexis.com.au or call **1800 772 772**





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With a membership of over 7,500 company secretaries, governance leaders and risk managers from some of Australia's largest organisations, the Governance Institute of Australia is the only fully independent professional association with a sole focus on governance excellence.

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