



South
Australian
Leaders

Knowledge Workshop

Purpose and Stewardship Embedding ESG at all levels of the organisation

Dr Tracey Dodd, The University of Adelaide

MY ROLE

I am here today to share with you some advice from research and practice related to:

- Developing a centralised strategy and vision with full board and executive buy in
- Decentralising deployment and ownership
- How organisation-wide ownership drives effective implementation

FIRST, WE NEED TO ASK:
WHAT DOES IT MEAN TO BE IN BUSINESS?

- The world is transitioning.
- The story of business is changing from a race to the bottom, where organisations seek to cut costs to maximise profits and shareholder returns to a race to the top where organisations have a leading role as global value creation.
- To illustrate how organisations can achieve this, I will first define ESG and then draw on the idea of stewardship.

NEXT, WE NEED A FRAMEWORK

Environmental, social, and corporate governance (ESG) is a framework designed to be embedded into an organisation's strategy that considers the needs and ways in which to generate value for all organisational stakeholders (such as employees, customers and suppliers and financiers).

Sustainability = Humanity's impact on the planet and society (Bansal & Song, 2017).



WHAT ESG
IS...

WHAT ESG IS NOT...



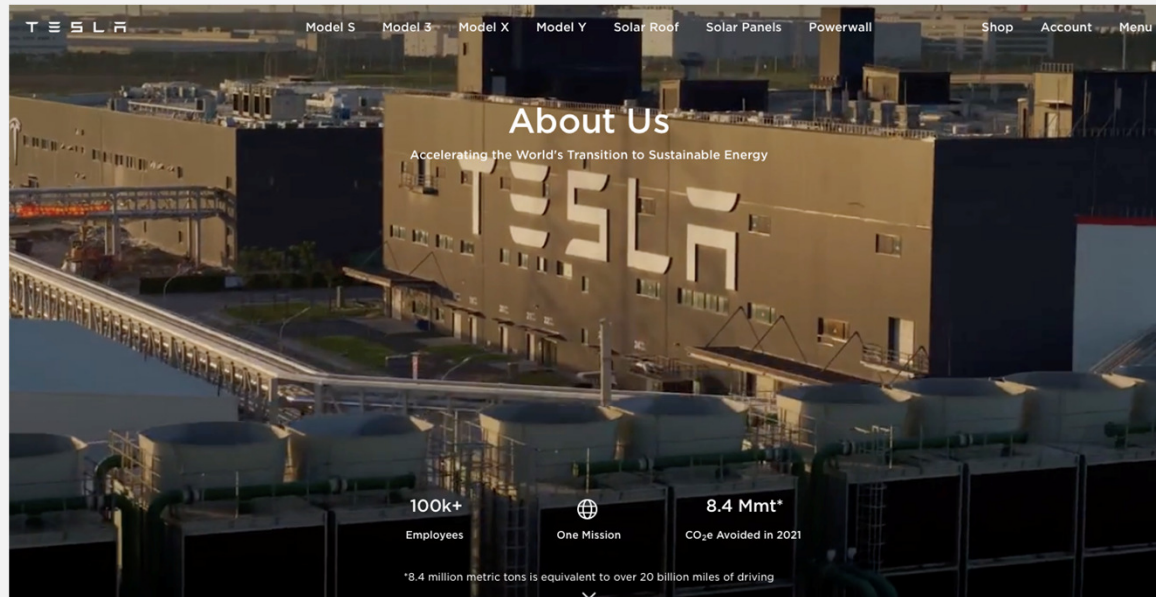
Florida governor Ron DeSantis has sought to ban the use of ESG criteria in all state investment decisions. PHOTO: AP



WHAT UNDERLAYS AN ESG STORY?





1. What are the metrics against which you measure the success of your strategy and implementation?
2. What are the determinants for effective reporting landscape in Australia and abroad?
3. How is the focus and expectations of investors and stakeholders driving the way forward?

CASE STUDY



THE
STORY

Industry Comparison

Company	ESG Risk Rating	Industry Rank
Mercedes-Benz Group AG	20.9  Medium	23 out of 91
BYD Co., Ltd.	23.9  Medium	35 out of 91
Volkswagen AG	26.1  Medium	48 out of 91
Tesla, Inc.	28.5  Medium	67 out of 91
Toyota Motor Corp.	29.1  Medium	75 out of 91

<https://www.sustainalytics.com/esg-rating/tesla-inc/I035322998>



Elon Musk

@elonmusk · [Follow](#)



Exxon is rated top ten best in world for environment, social & governance (ESG) by S&P 500, while Tesla didn't make the list!

ESG is a scam. It has been weaponized by phony social justice warriors.

1:39 AM · May 19, 2022



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MSCI has been downgrading Tesla's ESG rating since commencing measurement. In 2017, MSCI gave Tesla an ESG rating of "AAA". It reduced it to "AA" in 2018 and now, in 2022, it rates Tesla as "A".

THE GOOD

- Tesla is producing high-energy efficient vehicles
- It states that it is investing heavily to mitigate its environmental risks
- It states that it does this by improving the management and transparency in its supply chains and developing better recycling processes and technology for its batteries.

BUT RECALL...

ESG focuses on understanding whether an organisation is efficiently and/or effectively responding to a diverse range of stakeholder needs, demands and requirements within specific internal/external contexts (i.e., environment, social, governance).

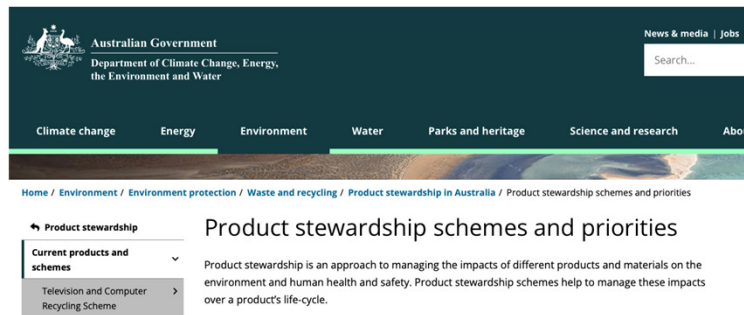
THE CHALLENGE

- The environmental impact of its batteries
- Climate resilience of its operations
- Paying a fair and living wage
- Poor working conditions
- Diversity, equity and inclusion (DEI)-related discrimination controversies
- Sometimes eccentric and unusual governance of Musk himself.

THEN, WE NEED SOME NORMS

SINGAPORE STEWARDSHIP PRINCIPLES (SSP)

1. Take a stand on stewardship.
2. Know your investment.
3. Stay active and informed.
4. Uphold transparency in managing conflicts of interest.
5. Vote responsibly.
6. Set a good example.
7. Work together.



DUTCH STEWARDSHIP CODE

ADOPTED ON 20 JUNE 2018

Preamble

1. Since its establishment, Eumedion has been a strong advocate of good governance of Dutch listed companies¹. Eumedion is one of the seven supporting organisations of the Dutch corporate governance code that contains principles and best practices for an effective corporate governance model that is intended to promote long-term value creation at Dutch listed companies.² According to the recitals of the recently adopted revised Shareholder Rights Directive³ "effective and sustainable shareholder engagement is one of the cornerstones of the corporate governance model of listed companies". Asset owners⁴ and asset managers⁵ hold the overwhelming majority of the shares in Dutch listed companies and manage other people's and institutions' money. As a result, society at large expects that both Dutch and non-Dutch asset owners and asset managers take their responsibility in playing an active role in promoting good corporate governance and sustainability practices at Dutch listed investee companies. It is for this reason that Eumedion has drafted this



Also see the Japan Stewardship Code and UK Stewardship Code

WHAT DO OTHERS EXPECT?

Directors have a fiduciary duty to understand stakeholder expectations and requirements.

They must ensure that their organisations' understand, define, and communicate the NET benefit of that organisation.

They must also future-proof their business and be able to understand and adapt to regulatory changes that are on the horizon.



Corporations Act 2001

No. 50, 2001

Compilation No. 95

Compilation date: 1 July 2019
Includes amendments up to: Act No. 50, 2019
Registered: 15 July 2019
This compilation is in 6 volumes

Volume 1: sections 1–260E
Volume 2: sections 283AA–601DJ

REFLECTION OF EXPECTATIONS

First annual reporting periods starting on or after	Listed companies, public companies, large private companies, registered schemes and registrable superannuation entities (i.e. Part 2M Reporting Entities) meeting at least two of three criteria			National Greenhouse and Energy Reporting (NGER) Reporters	Asset Owners
	Consolidated revenue	EOFY consolidated gross assets	EOFY employees		
1 July 2024 Group 1	\$500 million or more	\$1 billion or more	500 or more	Above NGER publication threshold	N/A
1 July 2026 Group 2	\$200 million or more	\$500 million or more	250 or more	All other NGER reporters	\$5 billion assets under management or more
1 July 2027 Group 3	\$50 million or more	\$25 million or more	100 or more	N/A	N/A

The draft Bill will likely be passed as law in the near future with a commencement date of 1 January 2025 and the first group of reporters (Group 1) reporting at the end of FY26 (i.e. at the end of 30 June 2026).

<https://www.dentons.com/en/insights/articles/2024/june/4/australias-mandatory-climate-reporting-regime-practical-implications-everyone-needs-to-know>



STEWARDSHIP

Stewardship: The willingness of an individual or entity to be accountable for and contribute to the long-term well-being of an organisation, social system, or nature—could assist society in addressing collective action challenges.



EXAMPLES

- “We're here to **improve the wellbeing of the world through the outdoors**. So, we make products that help us — and you — get out there”



WOMEN

MEN

KIDS



GEAR

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WINTER. WE'RE OUT THERE.

NEW SEASON GEAR

SHOP NEW GEAR >





EXAMPLES

- “To **reimagine urban life**. By creating beautiful homes, inspiring workplace precincts and thriving shopping centres, we aim to make a positive contribution to our cities and communities.”



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EXAMPLES

- “To **deliver satisfactory returns to shareholders** through financial discipline and exceptional management of a diversified portfolio of businesses.”

THE WESFARMERS WAY

Wesfarmers' primary objective is to provide a satisfactory return to shareholders.

Wesfarmers' primary objective is to deliver satisfactory returns to shareholders through financial discipline and exceptional management of a diversified portfolio of businesses. A key focus of the Group is ensuring that each of our divisions has a strong management capability that is accountable for strategy development and execution, as well as day-to-day operational performance. Each division is overseen by a divisional board of directors or steering committee that includes the Wesfarmers Managing Director and Chief Financial Officer, and is guided by a Group-wide operating cycle and governance framework.

RELATED

[DELIVERING OUR OBJECTIVES](#)

[OUR APPROACH TO SUSTAINABILITY](#)



TAKE AWAYS

In sum:

- Developing a centralised strategy and vision with full board and executive buy in = **starts with purpose**
- Decentralising deployment and ownership = **ends with purpose**
- How organisation-wide ownership drives effective implementation = **begins and ends with having a purpose that others 'buy' and can see.** Are you being specific enough? What measures helps others (employees, the Board, regulators, etc.) to know that you have delivered on your promise?

THE CHALLENGE

- Society needs businesses that understand the true value of ESG and what it can offer to your business.
- Boards need to adapt to understand the changing landscape.
- The need a road map and directors at the table that are versed in transformation and change.
- Respected global businesses have a board that understand that value creation occurs over time and extends beyond short-term shareholder returns.



CONTACT

Dr Tracey Dodd GAICD, MSPPM

Research Development, Adelaide Business School

A/Associate Professor, Governance Institute of Australia

Honorary Senior Research Fellow, University of Exeter

Ph: +61 0407 165 676

E: tracey.dodd@adelaide.edu.au

W: <https://www.traceydodd.com>