FONDATION GUILÉ
RESPONSIBILITY CREATES VALUE

High-level dialogue in a safe space between institutional investors and corporate sustainability leaders

September 5th 2016 at Kursaal in Bern

Summary

Managing material sustainability issues – approaches, benefits and challenges

The representatives of the four companies openly inform about the internal processes and the related experiences in identifying and prioritizing material sustainability issues. The presented processes have in common that in a first step the sector relevant sustainability issues are gathered by means of data review, own and or third party research, dialogues with strategic stakeholders which are then initially prioritized through consultations with internal experts. In a second step external key stakeholders (comprising normally customers, investors, suppliers, employees, and local communities) are systematically involved by means of surveys, interviews or dialogues to assess the relevance of the suggested issues from their perspective. This allows generating a matrix which visualizes the priorities of the identified material issues from an external stakeholder and a company perspective. All participating companies are sharing publicly this materiality matrix and supplementary qualitative information e.g. in their annual or sustainability reports, on their websites and at investors' forums.

Though the basic approach in identifying and prioritizing sustainability issues is quite standardized, primarily induced by the G4 Sustainability Reporting Guidelines, there are some differences in regard of process ownership, the involvement of internal and external stakeholders and the strategic embedment. In some of the represented companies the board of directors (or an assigned committee) is reviewing the key issues and related measures on a regular basis which expresses the strategic relevance that the systematic analysis of sustainability issues has gained. Other companies have formed (additionally) topic specific working groups with representatives of different business units. In some cases they are chaired by a member of the executive board. The outcomes of these working groups are considered in e.g. internal policies, guidelines or innovations.

In the discussion about the evolution of sustainability issue management the majority of the company representatives confirms that a substantial change took and is still taking place from an originally rather defensive, reputation management oriented communication exercise to a business oriented and dynamic stakeholder engagement process which contributes to explore both, future risks and business opportunities. This shift also helps to raise internally the awareness for sustainability aspects.

The question is posed if the companies are using a specific framework for performance measurement with regard to the identified material environmental, social and governance (ESG) issues and the related measures respectively. In some cases, particularly for environmental issues such as climate change, "standard" key performance indicators (KPIs) are and can be defined. For social issues, such as food security and human rights, it is difficult to set meaningful quantitative KPIs though the companies have formulated and implement specific goals and commitments.

Major conclusions from the discussion

The participants explicitly and implicitly confirm that the ability to listen to key stakeholders, as a prerequisite to identify and understand relevant sustainability issues, is very important for companies, not only for risk mitigation purposes but increasingly to differentiate in the long-term in highly competitive markets. The company representatives express the expectation to receive more feedbacks from institutional investors – as one major stakeholder group - related to the adequacy and depth of the embeddedness of sustainability aspects within their enterprise. Though sustainability leaders are providing a lot of information, feedbacks from investors are very scarce. But company representatives have different opinions concerning the nature of investors' feedbacks: Some prefer more prescriptive input others are seeking for challenging but constructive questions.

It is several times expressed that investors have a huge yet unexploited power to influence companies in systematically reviewing and considering material sustainability issues. This would presume that investors have to take a clear decision on how they intend to take into account a specific issue in their portfolio management which should go beyond than just an exclusion based on purely normative considerations. However, consideration of ESG criteria in institutional investment is new for the majority of institutional investors and they are still in a learning curve.
One challenge they already foresee is the amount of non-financial/sustainability information published by the investees. If integrated reporting will resolve this unsatisfactory situation is controversially discussed by the participants. For portfolio managers, even of actively managed institutional assets, it is not possible to read all the disclosed sustainability information. Therefore, they rely on aggregated information such as ESG related KPIs provided by specialized research and rating companies though the reliability of this information is critically commented. Another gap which is addressed by the institutional investors is that there is still no consistent framework for sustainability performance information which is comparable to financial performance reporting. They are seeking for information explaining comprehensibly how a company's sustainability interventions (will) lead to financial value added. This demand is well received by the companies' representatives who challenge the institutional investors to become more active in developing the appropriate frameworks and also in taking more risks. It is concluded that more qualitative discussions between investors and investees are required on long-term issues impacting business and society.

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