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ONE-ON-ONE INTERVIEW

ESTABLISHING ESG STRATEGY AND HUMAN VALUES AT BOARD LEVEL

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Gerry Zack is the chief executive officer (CEO) of Society of Corporate Compliance and Ethics (SCCE) & Health Care Compliance Association (HCCA). He leads the global strategy and activities of SCCE & HCCA and its 18,500 members across 100 countries. He has more than 35 years of experience providing preventive, detective and investigative services involving fraud, corruption and compliance matters. He has worked in more than 25 countries with businesses of all sizes and in many industries, as well as with non-profit and nongovernmental organisations and government agencies.



R&C: Could you explain why companies' environmental, social and governance (ESG) strategies are increasingly important in today's business world? What factors are compelling organisations to enhance performance in this area?

Zack: The days of share price as the sole measure of a company's performance are over. Employees, customers, the general public, governments and the investor community are all now looking at the non-financial impacts organisations have. They are setting behavioural standards on everything from CO2 emissions to how well the company ensures there is no human trafficking in its supply chain. If an organisation wants to see its business grow and keep good people, it must look to environmental, social and governance (ESG) measures

R&C: To what extent has the global coronavirus (COVID-19) pandemic served to highlight the ESG agenda and focus companies' priorities?

Zack: The coronavirus (COVID-19) pandemic placed enormous pressure on organisations as they struggled to keep operating in the face of a range of challenges. They had to revisit everything from employee health and wellbeing, both physically and from a mental health standpoint, to new methods and vendors for sourcing goods. That inevitably

led to thinking that extended well beyond profit and loss (P&L). At the same time, climate change has impacted business thinking, while social expectations continue to rise. So, while the pandemic had a major impact, it was far from alone in driving this transformation.

R&C: What steps can companies take at board level to create an ESG culture and embed human values across the organisation? Why is it vital that senior leaders buy-in to these concepts and drive the initiative?

Zack: The board sets the direction for the organisation, and if it is not committed to ESG, leadership and management will quickly figure that out. Likewise, if they set ESG goals and ask leadership hard questions about performance, the impact will be enormous.

R&C: What are some of the common challenges at board level when adopting ESG strategies and, in turn, reporting performance to stakeholders?

Zack: Goal setting is going to be key for boards in ESG, as it is elsewhere in business. And the board needs to realise that the organisation simply cannot satisfy everyone. Selecting stances on social issues gets very complicated and priorities must be

established. The board must set reasonable goals that are achievable for the business. And, just as importantly, it must ensure that those goals are truly and honestly met. That will mean ensuring that there is a system in place, whether managed by the compliance team or others, to make sure that the results reported are accurate and reliable.

R&C: Given the burgeoning status of ESG as a top business imperative, what tools are available, such as new technologies, to help companies implement effective ESG strategies and reporting processes?

Zack: The greatest tool organisations have for implementing effective strategies and reporting processes are their own people and compliance programmes. Since ESG is about how the business will operate, businesspeople must be on board and work through the challenges to make ESG measurements as integrated as quality measurements. The compliance team is already well-skilled in identifying risks, finding, investigating and remediating problems and developing controls. ESG also greatly overlaps with initiatives around the organisation's values, which is also squarely in the compliance team's remit. And keep in mind that ESG

is not just about aspirations; there are an increasing number of laws and regulations that companies have to be mindful of when it comes to ESG and ESG reporting. Cheating here is no different than doing so elsewhere.

"The greatest tool organisations have for implementing effective strategies and reporting processes are their own people and compliance programmes."

*Gerry Zack,
SCCE & HCCA*

R&C: How important is it for boards to maintain adequate oversight of a company's ESG claims and credentials, to ensure their accuracy? Could you outline the potential financial and reputational risks of greenwashing, for example?

Zack: If a board does not exercise proper oversight of the company's ESG claims, it is being derelict in its responsibilities. The same approach to internal controls over systems and information that apply to the audited financial statements

needs to be applied to ESG reporting processes and systems. Investment decisions are made based on them. Reputations depend on them. The cost for the organisation in terms of share price will likely be substantial, and no board member wants to have to explain how he or she missed what likely would have been an avoidable scandal.

R&C: In your opinion, what are the likely consequences for companies that fail to demonstrate a commitment to ESG and human values? Do you expect these issues to become an integral part of boards' remit in the years ahead?

Zack: We are already seeing it happening. Look at what happened to Exxon Mobil. Activist investors are making it clear that a board cannot settle for a 'business as usual' approach today. And litigation pertaining to ESG is increasing rapidly. Any board member will have to address ESG and human values issues if they value the company they serve and the board seat that they occupy. **RC**