**Ethicast featuring Mike Wallace, Managing Director, [BrownFlynn]**

**Maharaj**: Hi this is Aarti Maharaj with Ethisphere, thank you for tuning into our 8th episode of our Ethicast series. Joining us today is Mike Wallace, Managing Director at BrownFlynn an Ohio-based corporate responsibility and sustainability consulting firm. Mike, it's great to have you here today to talk more about ESG performance. There's a lot of debate around how companies are using and measuring ESG performance and over the years why is this becoming increasingly important?

**Wallace**: The field of sustainability and corporate responsibility has matured quite significantly within the last five years because of the growing attention to ESG issues from large institutional investors. This includes public pension plans, sovereign wealth funds and their suppliers – the asset managers that manage their money. As that kind of food chain evolves and a large institutional investor says to its asset manager, please find me sustainable companies or find me responsible investments to be involved with—those asset managers, in turn are doing more extensive due diligence on individual companies or the public equity space. With that comes new tools that have evolved quite rapidly in the last few years. You've got Bloomberg with an area of their terminal that now covers about 10,000 companies across about 150 ESG topics.

As a company it is easy to make a rather grandiose statement about your commitment to the environment, society and governance issues and it can be a very qualitative statement, but you need to realize now that there's data inside the Bloomberg terminal that I can quickly and easily look up your true performance. When it comes to this topic of environment, social and governance performance a lot of people are still looking at it as this *soft and fuzzy* area of work and a very qualitative area of work but realize that there's real hard numbers out there now and as these investors look at this information they're either knocking on corporate doors and asking why is this information not available to me when it's available to me for 80% of your industry or your sector and if you're not able to fill in these blanks in the Bloomberg terminal is that an issue with your overall governance and management of your company? How can all of your peers be doing this but you seem to not be able to manage and report this information.

The second thing is that it's now starting to ripple through your supply chains in a very interesting way—it's one thing to say I'm a private company so if those shareholders issues don't burden me because I'm private. Well, that's great, but you have customers now that are asking you these sustainability questions and if you're a supplier to Intel or Microsoft or General Motors or McDonalds even, you're getting questions directly from them about your sustainability performance. They're smart about this stuff, they're not going to accept some sort of qualitative statement about sure we do no harm and yes we're a good company. They're going to want to see numbers especially around things that are quantifiable such as things like green house gas emission, energy use, things that are important to them but are also things that passed on in the way of cost. If you're an energy hog and you're producing my widget I might go find somebody who is energy efficient to produce my widget because hopefully my cost of that product is going to be cheaper and it also by the way helps me with my own greenhouse gas footprint because I'm buying from a more energy efficient supplier.

**Maharaj**: Right, that sounds good and it's interesting you touched on governance. I think that's very important in this entire picture here. When you look at it when it comes to measurement what type of data is out there that companies can actually use?

**Wallace**: It comes from quite a few different places; the field has been evolving for literally 40 years now. Probably the most significant evolution was the creation of the Global Reporting Initiative (GRI) where it started to develop standards by which companies or any organization would measure, manage and report on certain indicators and that primarily started with your quantifiable environmental metrics; how much energy do you use? How much water do you use? How much water do you recycle? How much waste goes away from your property? How much of it is toxic? How much of it goes to the landfill? What percentage of it is recycled? The whole ecosystem of sustainability has evolved, it has gotten smarter overtime and so now there are things in this bucket of metrics that includes social issues like how much you train your people per year. Do you train suppliers? Those are social issues because it's really about taking care of people. What are the records of injuries and illness in your workforce? Are you taking good care of your workforce? As an investor I want to know that you're a sustainable company and you're not going to have any major business interruptions or major reputational impacts because the way you're treating your people. Have you had any deaths on site? Are there any deaths in your supply chain? Do you have a human rights policy for your own company? What about a human rights policy for your own supply chain? Then when it comes to governance it's the obvious very typical governance questions like separation of chairman and CEO, independent director questions, percentage of women on the board becomes a social and a governance question, compensation questions – compensation of the Chief Executive versus the lowest employee – and the governance questions continue to evolve. You would look if you were a corporation trying to figure this out you would look to something like the GRI to give you the road map and you would look at your own Bloomberg sores and Bloomberg information to see where you stand, but what we often do at BrownFlynn is look at a bunch of different ESG research platforms and subscriptions and resources so that you can see how you're truly stacking up in the market against your peers. You want to look at that against your peers because if an investors looking at you they're not just looking at you they're looking at your entire industry and they're trying to pick a stock in your industry. They're looking at your 20 global peers not just your North American peers, but ten to twenty global peers and they're seeing this kind of data so you need to be aware of where you stand amongst your peers.

**Maharaj**: I agree with you on that and to your point about investors when it comes to ESG data can you name the top three types of data they're specifically looking for?

**Wallace**: Top three types of data would be anything to do with energy use because that's a proxy for greenhouse gas emissions and it's also a proxy for efficiency. Water is becoming increasingly important not just here in California but across the world, more and more concerns about water. I think diversity and inclusion is becoming a much bigger issue on a social and governance point of view. You want to attract talent, you want to retain talent and you want to know that you're treating your people right and that they're happy so diversity and inclusion related metrics are coming up more and more. Starting from the top-level greenhouse gas emissions can be measured and you can quantify those and you can report those and many companies are doing it. Water same thing – most companies are in developed areas and are drawing not from wells directly but from utilities and your utility company has that information – you're paying for the water usage. I can get that number fairly easily. When it comes to diversity and inclusion it's usually your human resources person has stats available but they're not always publicly releasing that information and so they should be aware of the fact that people want that information. In some cases they can release it publicly and it can be a very good thing and in some cases it could be a very B2B thing where they share that information with a particular investor or client but they do it privately. That's the evolution that we're seeing right now.

**Maharaj**: I feel like ten years ago ESG covered only specific areas and as you mentioned earlier diversity comes under the social aspect of ESG. Do you anticipate any changes or regulations on this front in the future?

**Wallace**: We're certainly seeing inklings of regulation popping up in certain parts of the world. I think the diversity and inclusion piece is a little more delicate right now. I don't anticipate anything there in the way of regulatory requirements right away. What I do think we will see is more regulatory guidance for disclosure. What I mean by that is people won't say you must do this by a certain day but they will say we would like to see in examples best practices include disclosure of this kind of information. We've seen that come up with the way the European Commission is directive on corporate responsibility is playing out. If you're a company that is over 500, maybe it's 600, employees you will report on your most material ESG issues according to a globally recognized framework or standard. They're hinting at the fact that you should use the UN Global Compact or the Global Reporting Initiative and you should decide for yourself what are the most important issues. If you're a professional services firm you're not making anything you're providing professional services. People are you're biggest asset you better well know how your people are being treated and you better have some information on the talent attraction and retention aspects of your business. For professional service types of firms human capital and people have become very important.

**Maharaj**: I would think about that as corporate culture and eventually that would fall under the social category here; how people feel they're treated and their commitment to the company.

**Wallace**: Totally and it's becoming a bigger differentiator in a number of clients that we have in California particularly in the Bay Area there's a lot of competition between new startups and the new younger engineers that are in software developers that are graduating or are in that realm of being the millennials and there's a lot of interest in working for a company that has a good reputation and is doing things about the environment. We have certain client situations where the clients start to think about attraction and retention of millennials and they're a whole new breed of workforce and they have to think about how do we attract this new type of person and retain them. There's a plethora of ESG research firms out in the market place right now. What we will generally find is a company will come to us because they've gotten some strange questionnaire from a group they don't know they don't recognize the name. It usually hits in the investor relations office and the investor relations office might share it with the sustainability officer or the investor relations office might figure out how to respond to those questions on their own. What we generally advise is that we collect any such questions that are coming in and they could be coming in from human resources because some companies get questions about human resources issues so they can make some sort of great list; best place to work, best place for women to work, best place for mothers to work. Or it could come in through sales and marketing because a customer is asking the supplier hey what are you doing about sustainability and ESG or more likely for public companies it's coming from the investor relations office. We often suggest let's do some engagement with different departments, find out if these sustainability questions are coming in from any other direction, let's do a comparison of who these institutions are, what they are in the field, who they're related to, what they're feeding information to, understanding how influential they are and help the client prioritize who to respond to. Then we will generally help the client figure out what the response looks like; are you going to do this in a public form? As in put together a full blown sustainability report and publish it or are you going to do a discreet B2B engagement and develop a set of disclosures that you're ready to put into the public domain but you might just for a while release it just to discreet stakeholders like important investors and important customers. So just be aware that this is a constantly moving and evolving target. There are literally dozens of these research firms out there that are gobbling up and are looking for this type of information. Some are better than others and we don't see this stopping, we see it getting bigger because the way it's evolving now through supply chains means that more and more large institutions, big customers, are asking more and more of their suppliers some of these very same questions. Public, private, large or small you're going to be getting some questions like this whether you like it or not.

**Maharaj**: Thank you, Mike. Again that was Mike Wallace, Managing Director at Brown Flynn. For more information feel free to contact Mike directly at MikeW@BrownFlynn.com We hope you enjoyed today's Ethicast series on ESG Performance. To receive updates about our next Ethicast series follow us on Twitter: @Ethisphere. Thank you again for joining us.