4th Colloquium Memorandum

The Importance of ESG

Environment, Social and Governance

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Message from the patron

Professor Mervyn King SC

The story of ESG

The story of ESG is one of the first two decades of the 21st Century.

The primacy of the shareholder could not carry on

In the first two decades of the 21st Century, companies moved away from a focus of increasing the wealth of shareholders, because of the principle of the primacy of the shareholder, to one of value creation in a sustainable manner. This was so because by the end of the 20th Century it was empirically established that, in the main, companies had used, and were using, natural assets faster than nature was regenerating them - hence a century of unsustainable development. We couldn't carry on business as usual, that was clear.

Prosperity is all very well, but if it's with adverse impact on people and planet then you are actually subsidizing that bottom line.
You are not adding value, in fact, you could be eroding value.

The establishment of the Global Reporting Initiative

At the time when I chaired the United Nations (UN) Governance and Oversight, The International Federation of Accountants (IFAC) called a meeting at the UN headquarters in Geneva. They called this meeting because it had become evident that although financial reporting, and doing an Annual Financial Statement according to International Financial Reporting Standards (IFRS) in this part of the world, was critical, it was no longer sufficient for a board to discharge its duty of accountability. The study presented showed that only 20% of the make-up of the market cap of the companies listed on the S&P 500[1] was reflected as assets on the balance sheet according to US GAAP or even on an IFRS standard.

In other words, the net assets of these companies, when added together, only amounted to 20% of the value that the market thought these companies were worth. This means that the financial reports were only providing 20% of the company's information, with 80% "unreported".

As a result of this meeting, the Global Reporting Initiative (GRI) was founded to give guidance to companies on how to report on the remaining 80% of what was called, unfortunately, non-financial assets. This was an unfortunate term because they all have financial outcomes.

[1] The S&P 500 is a stock index that tracks the share prices of 500 of the largest public companies in the United States. Formally known as the "Standard & Poor's 500 Composite Stock Price Index" and commonly referred to as the S&P 500, it is one of the main tools used to follow the performance of U.S. stocks. [Source: Forbes.com]

Increasing importance of sustainability reporting

Over time, as the human population has continued to increase, so have our demands, especially on natural assets. As a result this "sustainability reporting", as initially envisaged and what is now known as the ESG cluster has become more and more important.

A company's 2 reports came to be a sustainability report and a financial report. But these reports still were not able to accurately reflect how companies operate. Companies do not operate with financial capital in one room and intellectual capital in another building, manufactured capital in yet another, social capital in yet another. In a company, these are all integrated 24/7. Reporting needed to evolve further. The so-called financial and non-financial, or sustainability reporting, needed to be integrated and interconnected.

Integrated reporting

Accounting for Sustainability (AFS), an organization started by His Royal Highness Prince Charles, was also talking of connected reporting at the time that I was talking of this need for integrated and interconnected reporting. So the GRI and the AFS started talking and agreed on the need for Integrated Reporting. The IIRC (International Integrated Reporting Council) was formed as a result. I became chairman and Charles Tilley, one of the colloquium speakers, was one of the founders with me and has subsequently been appointed CEO.

The IIRC completed its Integrated Reporting <IR> framework and by 2013 was giving guidance to companies as to how to report on an integrated basis. The framework also includes content elements such as the challenges and uncertainties faced by the company in meeting its business model.

Proliferation of reporting standards

With the growing recognition of the need for such reporting, so the number of different reporting standards grew. This has over time, unfortunately, caused clutter and confusion for, in particular, preparers and users of these standards. Comparability and impact became diluted.

In recognition of this, the IIRC formed the Corporate Reporting Dialogue (CRD).

The purpose of this initiative was to encourage the various providers of reporting standards, in particular the GRI and Sustainability Accounting Standards Board (SASB), to come together to consider convergence because this was a public interest issue. There was a call for me, as chair of the IIRC, to chair this initiative but I felt differently. I felt that it would be bet for this collaboration initiative to be chaired by an independent chair. As a result, the CRD was first chaired by Transparency International (TI) and by the IFRS Foundation.

A social outrage

Unfortunately progress was not as it should have been. So, after about 4 years at the international IIRC conference of May 2019, I gave a speech which I am told by several people, galvanized framework providers into action to collaborate. I said that it was a **social outrage** for these framework providers to see themselves as competitors when they were dealing with public interest issues. This is especially so given that they all have the same public good outcome namely to make sure that accountability was more informed. They are all "fishing from the same social pond" from a funding point of view so there really should be collaboration.

At that meeting, executives from all the major reporting framework providers were present, including the Financial Accounting Standards Board (FASB), SASB, IFRS and the IIRC. The UN Sustainability Development Goals (SDGs) are also top of mind for all attendees at this meeting, importantly SDG 17 which emphasizes collaboration ("Strengthen the means of implementation and revitalize the global partnership for sustainable development". Whatever the motivation, we have seen significant changes since then.

Well, whether the CRD and that talk had an effect, it moved platelets in the corporate reporting world over the last few months and that's why I say that it was a story of ESG of the first two decades because you moved from the primacy of the shareholder, increasing the wealth of shareholders, to actually focusing on the long-term health of the company and dealing with Prosperity, People and Planet.

Towards comprehensive corporate reporting

Since **May 2019**, there has been huge movement towards comprehensive corporate reporting.

In **August 2019**, the World Economic Forum (WEF) business community, represented by the International Business Council (IBC) launched an initiative to identify a corer set of ESG metrics and disclosures. At the 50th Annual Meeting in Davos, January 2020, they released a consultation paper titled Toward Common Metrics and Consistent Reporting of Sustainable Value Creation which had been developed in collaboration with the "Big 4"[2] Audit Firms published metrics for reporting on ESG issues. Notably about 60% of these measures were GRI standards which is understandable because the GRI, as the pioneer of sustainability reporting, has invested over 2 decades in accumulated knowledge to optimize its measures.

In **January 2020**, the European Union (EU) has also commenced a process of reviewing its standard in this respect the non-financial reporting directive (NFRD), with adoption expected for the first quarter 2021.

In **April 2020**, the International Organization of Securities Commissions (IOSCO) Sustainable Finance Network published a report - Sustainable Finance and the Role of Securities Regulators and IOSCO. The announcement noted that the "lack of consistency and comparability across third party frameworks could create an obstacle to cross border financial activities and raise investor protection concerns".

In **September 2020**, 5 collaborators, the GRI, SASB, CDP, IIRC and the Climate Disclosure Standards Board (CDSB), issued a statement of intent to work together. The statement provided that they were "committing to engage with key actors, including IOSCO and the IFRS, the European Commission, and the World Economic Forum's International Business Council.

In **September 2020**, IFAC issued a statement calling for the creation of a new sustainability standards board that would exist alongside the International Accounting Standards Board (IASB) under the auspices of the IFRS Foundation.

[2] Deloitte, PricewaterhouseCoopers (PwC), Ernst & Young (EY), and Klynveld Peat Marwick Goerdeler (KPMG).

On **30 September 2020**, the IFRS Foundation published a consultation paper to assess the demand for global sustainability standards and its contribution.

On the same day, CDP, CDSB, GRI, IIRC and SASB wrote an open letter to the Chair of the Sustainable Finance Task Force of IOSCO, setting out how IOSCO could play a leading and critical role by facilitating cooperation for consistent reporting of sustainability information that is relevant for enterprise value creation, as part of a comprehensive system of corporate reporting.

On **29 October 2020**, the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD) published its annual report highlighting the "continuing need for progress in improving levels of TCFD-aligned disclosures given the urgent demand for consistency and comparability in reporting". It also launched its consultation process for "Forward-Looking Financial Sector Metrics".

On the same day, on the back of the open letter, IOSCO formally endorsed "efforts by the world's most widely used ESG standards and the IFRS Foundation to align sustainability reporting globally", indicating its willingness to contribute to the process.

A clarion call – what, when and by whom

So there has been a clarion call by global sustainability framework providers for collaboration to establish the **what**.

But **when** should such a sustainability standards board be created?

In my judgement it is urgent – it is now. Because we can no longer carry on trying to achieve the SDGs by 2030 with this confusion in the market place and this divergence of standards and guidance by these different standards providers. There is every indication of goodwill and collaboration between these bodies to establish a sustainability standards board and as a matter of urgency within the parameters of effective consultation.

The remaining question is therefore **by whom**.

Charles Tilley, CEO of the IIRC provided insights to this question at the 4^{th} Colloquium, but insights were also provided on those other essential aspects of ESG which should be considered as input to this very initiative: Governance, Social and economic factors and mindful outcomes-based value creation, by organizations, in a sustainable manner.

Agenda and source materials

The colloquium was held by Zoom webinar on 5 November 2020.

The agenda was as follows:

- WELCOME and logistics – Carolynn Chalmers
- OPENING comments – Prof. Mervyn King
- Moving from mindless rules based to mindful outcomes-based corporate governance – Ansie Ramalho
- The role of ESG in a global multi-capital reporting system – Charles Tilley, OBE
- ESG audits in investment decisions - following the FSCA guidance notice and the EU directives – Anton van Wyk and Jayne Mammatt
- The mindful outcomes based approach during and after Coronanomics – Mohamed Adam
- A Practical Approach to Embedding ESG into a company's business model and strategic purpose - Geoff Kendall
- Questions and answers – facilitated by Carolynn Chalmers
- CLOSING summation – Prof. Mervyn King

The Good Governance Academy community contains all the presentations as well as the content from the prior colloquiums. Register for access on the GGA website (https://www.goodgovernance.academy/) and click on "COMMUNITY" to Login or CREATE LOGIN.

The GGA Facebook Page: https://www.facebook.com/TheGoodGovernanceAcademy/

The GGA LinkedIn Page: https://www.linkedin.com/company/14071752/admin/

Moving to mindful outcomes-based governance

Ansie Ramalho

In her presentation, Ansie explored the evolution of the "G" in ESG from that of a mindless rules-based approach to a mindful outcomes-based approach. She also emphasized the importance of Governance in positioning the "E" and the "S" in ESG.

She made use of the book "Leading from the Roots: Nature-Inspired Leadership Lessons for Today's World" by Kathleen E. Allen and living root bridges to describe mindful outcomes. Ansie described how these bridges had been built several centuries before they could be confidently used.

The corporation and corporate governance go hand in hand

The British Academy notes that "The future of the corporation lies at the heart of the future of capitalism and the future of humanity" [Source: The British Academy: Future of the Corporation]. Building on this, Ansie pointed out that by implication: "The future of corporate governance lies at the heart of the future of the corporation." Essentially, the future of the corporation depends on whether we can get governance right – if we can't get governance right it affects capitalism and the future of our very humanity.

The foundations of corporate governance

Corporate governance (CG) started as a response to the agency risk – a risk that materializes as soon as there is separation between ownership and control. The agency dilemma is about the agency principle - use for proper purpose and not for personal gain. The corporate governance system responded to this risk in its emphasis on directing and control and guidance on remuneration.

Does it work? It appears not. Corporate scandals continue to occur whilst changes to corporate governance laws, rules and standards try to keep up.

Perhaps corporate governance would be more successful if it:

- Moved to the offensive (outcomes-based); and
- Focused on the essence of the corporation, a healthy company creating long-lasting value for all.

King IV™

South Africa's King IV Report (the King IV Report on Corporate Governance for South Africa 2016) establishes this move to outcomes-based governance. Corporate governance in King IV stands on both ethical leadership and effective leadership – a board needs both for good governance. The mindful governance outcomes, which King IV says should be achieved, are:

- Ethical culture
- Good performance
- Effective Control
- Legitimacy

The King IV code demonstrates how these outcomes are to be achieved through the applications of principles as governance practices. In the application of these principles, the code builds on integrated thinking. The principles should be applied considering all others and the triple context within which it operates. It is these interconnections and interdependencies which represent the integrated nature of business.

A paradigm shift in the foundations of corporate governance

The current way of thinking is to shift from an agency theory based form of corporate governance to a more sustainable form which has a positive impact on the "E" and "S" in ESG.

Stewardship theory is based on psychological research. This research shows that, although there can be a rational self-interest; humans are also motivated by things like self-actualization. This is encapsulated in behavioral economics.

Human beings are Predictably Irrational Decision Makers says Dan Ariely

There is an opportunity for us to change our thinking by revisiting the foundations of corporate governance and moving towards a more stewardship-based approach. The journey of the King Reports reflects this, from King I through to King IV – from agency theory to more stewardship thinking. The journey of the King Reports although unique, is not the rule.

A shift is needed towards long-term value creation across all 6 capitals, against a meaningful purpose for sustainable development to be the outcome.

From mindless conformance to mindful stewardship

A shift is needed to:

- Tap into the higher order internal motivations of meaning and self-actualization
- Embrace diverse stakeholders and gain their inputs to be resilient
- Act in harmony with its context to agile, adaptive and innovative

A corporate governance system is traditionally mechanistic but should be aligned with organizational realities and reflect the paradigm of human nature (how humans behave and make decisions) so we can achieve better results over the long-term and reduce the corporate failures.

Best practices, such as having an Audit Committee in place, a governing Terms of Reference and Independent directors is clearly no guarantee for effective governance. Good governance needs stewardship and the mindful adoption of governance practices, which are appropriate for the organization and its stakeholders, in order to affect ongoing adaptive change.

The 6 capitals

The agency model based approaches to corporate governance do not reflect the corporate governance which is needed for long-term value creation. The corporate governance model which is required needs to be mindful, purposeful and outcomes based. It needs to reflect responsible stewardship of all 6 capitals.

As living bridges need to be continually shaped and trained so too do our organisations. Organisations need to be shaped and continually trained to adapt, innovate and thrive in this volatile and uncertain complex world; to meet the demands made of it.

We are not only doing this for ourselves, but also for future generations.

The role of ESG in a global multi-capital reporting system

Charles Tilley, OBE

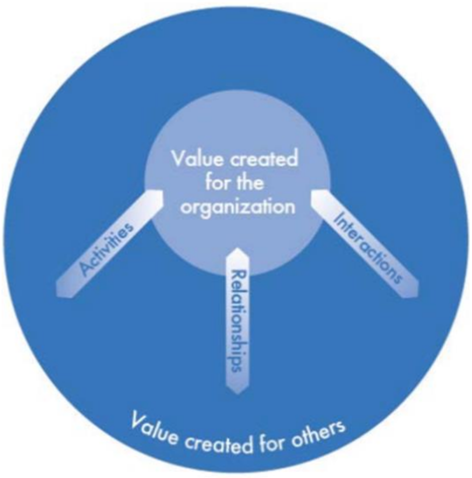
The world we live in today is very different – social values are changing; we are experiencing the global impact of the pandemic; and technology innovation is changing the way we interact with each other and the way we do business. These changes bring opportunities but also significant challenges.

The International Integrated Reporting Council

The IIRC is current celebrating its 10th anniversary. It is a coalition representing all elements of the market with its purpose "to promote prosperity for all and protect the planet". The organisation's vision is "a world in which capital allocation and corporate behaviour are aligned to the wider goals of financial stability and sustainable development through the cycle of integrated reporting and thinking". The organization's mission is to "establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors".

The <IR> Framework as developed and maintained by the IIRC has been widely adopted – in over 70 countries, by over 2000 organisations and is supported by more than 40 stock exchanges across the globe.

The core or this Framework is to enable value creation for organizations and for others.



Interactions and connectivity are significant to enable the creation of value over time. Long-term success depends not only on value for the providers of financial capital but also value for the organisation's stakeholders.

Relationships, the building and maintaining of these relationships are also a critical component of value creation. In its Annual Global CEO Survey, PwC present a chart which demonstrates the importance of the various stakeholders and their relationships with companies.

Currency: A revision of the <IR> Framework was initiated in February of this year and the revised framework will be launched in January 2021. In summary, the global consultation has indicated that the remains, very much, fit for purpose.

Guiding Principles: The <IR> Framework's Guiding Principles underpin how a company should create value for its investors and principle stakeholders.

Content elements: The content elements describe the organization in its entity and how it sits in the external environment. Boards need to have a common understanding of the company's business model and its drivers of business creation. Boards also need to have an understanding of the company's external environment. Board should consider the organisation's planning for changes to the business model based on this external environment and allocate resources to drive the strategy and treat the associated risk,

The 3 elements provide a governance tool to provide the type of information needed as well as the organization of this information for effective decision making.

The value creation model: The model is built on a multiple capital way and integrated way of thinking. Fundamental to this model is an awareness of key stakeholder relationships and reputation. These aspects need to be at the heart of everything a company does and with this:

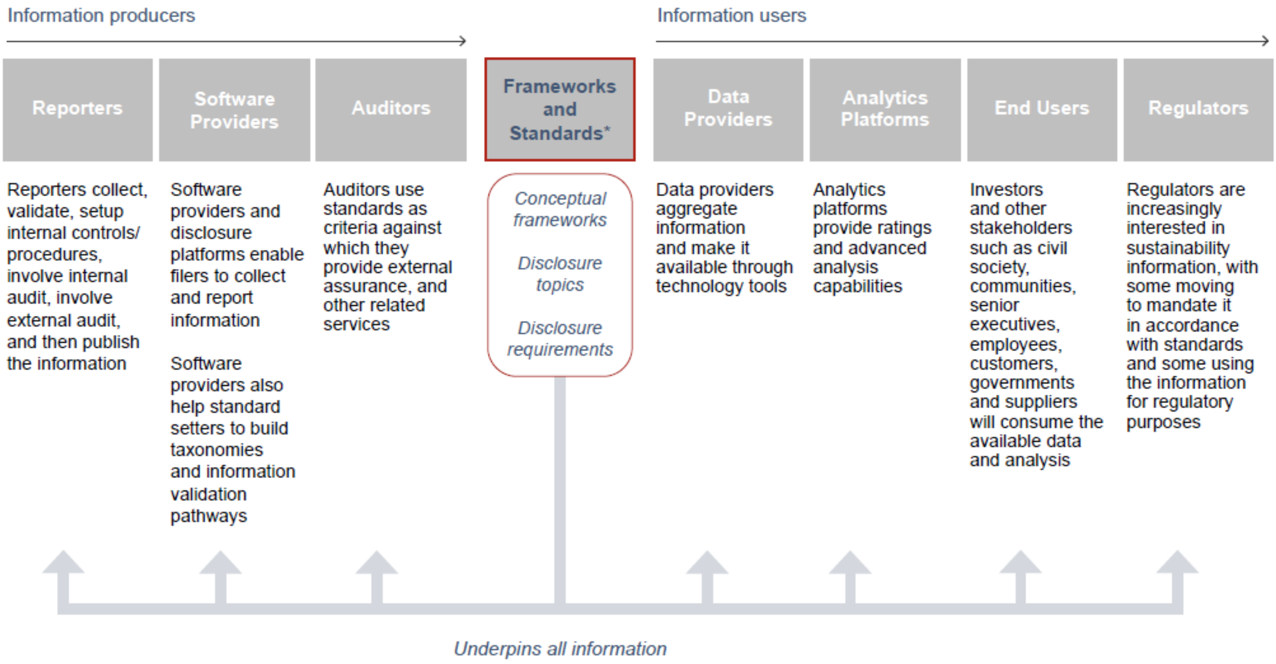
- Do you understand how your business is creating value?
- Do you understand your external environment?
- Do you know how things are going to change in to the future?

The <IR> Framework provides a process map to help to understand the needs for Integrated Reporting and inform decision making.

Reporting and Materiality

Materiality: In the business model there is an understanding of the relationships but there is a need to link the concept of materiality to the business model. The starting point is in understanding how key relationships (customers, suppliers etc.) are being impacted by the organization. From this understanding, opportunities and risks and be identified and assessed. Investment and resource allocation decisions are then made on this basis. But it must be remembered that this needs to be dynamic and adaptive, recognizing what is happening in the external environment and what is happening in the organization.

Reporting: Corporate reporting involves multiple stakeholders in preparation and use:

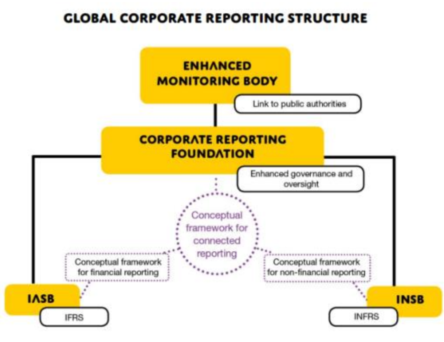


* **Framework:** A set of principles and guidance for "how" a report is structured; **Standards**: Specific, replicable and detailed requirements for "what" should be reported for each topic

To ensure consistency of reporting and facilitate comparability, frameworks and standards are needed. This standardization, consistency and transparency build trust and coherence. As indicated in the opening remarks, there has been much movement recently towards a comprehensive corporate reporting framework, in which the IIRC has been significantly involved.

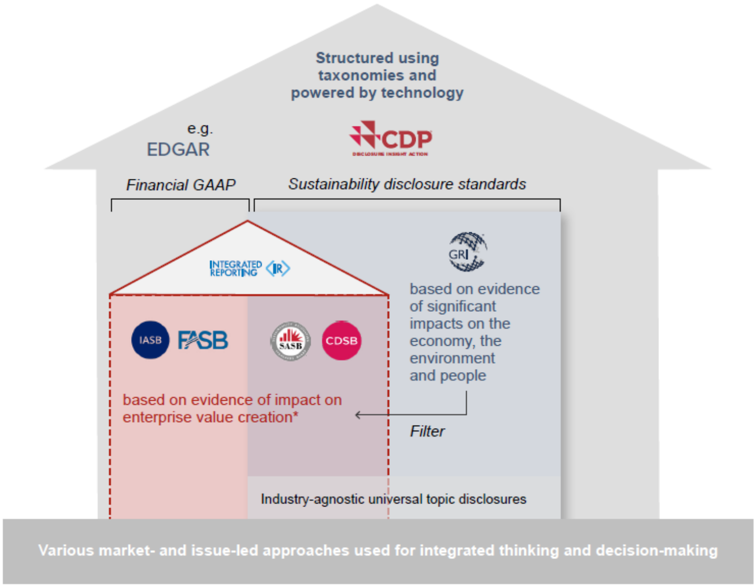
In **December 2019,** Accountancy Europe published a paper on interconnected standard setting for corporate reporting. The paper proposes that:

- An Enhanced Monitoring Board be created to provide broader public oversight
- That this is built on the current IFRS Foundation to create a Corporate Reporting Foundation which is responsible for financial and nonfinancial reporting oversight
- To create an International Non-financial Reporting Standards Board (INSB) to set International Non-financial Reporting Standards (INFRS).



In **September 2020**, as mentioned previously, IFAC issued a statement calling for the creation of a new sustainability standards board alongside the accounting standards board. This is important because corporate reporting should not be only financial in nature, but also consider all other capitals as well. This is 21st Century accounting and a comprehensive approach to corporate reporting needs to make sure of this.

To make an informed decision on the way forward, it is important to understand how the standards fit together. Applying the materiality concepts described above to these standards and overlaying then the digital taxonomies and technology, the following comparison results:



* Comprehensive value creation would also need to include manufactured and intellectual capital

What remains is to indicate the work of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) to introduce a specific climate focus.

Over and above these considerations, there is an increasing need to provide this reporting digitally. An example of this is of course the drive to standardization on XBRL, the global framework for exchanging business information.

The way forward

Structure: The IFRS Foundation to launch International Sustainability Standards Board (ISSB)

Principles: The ISSB should collaborate with organizations which focus on gathering non/pre-financial and financial information and this information should be connected through a conceptual framework i.e. Integrated reporting principles and the work of TCFD

Application: Completing the Eco-system:

- Corporate governance must evolve to provide effective oversight of expanded reporting obligations
- Enhanced corporate controls and data systems will be necessary to generate high-quality information
- Reporting standards and assurance processes must be digital ready
- Professional accountants and firms need to prepare for and assure this new information
- Providers of ratings to embrace development of corporate reporting requirements, which will enhance their work

ESG audits in investment decisions

Anton van Wyk and Jayne Mammatt

The director of the future

The director of the future needs the skill to assess those future demands which may impact the way an organization does its business and how it operates in to the future with and in society. Boards are adapting their routines to this new reality, but the board's work has not changed in its essence. There remains the need to:

- Focus on organizational sustainability
- Understand the way the organization operates in society
- Protect shareholder value
- Oversee management activities

ESG is not new but the themes for investment are changing. This is largely as a result of recognition of the role of all organisations in responding to the COVID-19 pandemic and responding to climate change. Boards need to engage with foresight, apply collective judgement and have a better understanding of the fundamentals of ESG. Boards need to reinvent, rescale and reposition around ESG; drive the agenda on this basis; and ask the relevant questions, going beyond financial information.

The strength of character of the board comes to the fore at times like these. Now more than ever, boards of directors need to be proactive and agile, and they need to respond with strong leadership.

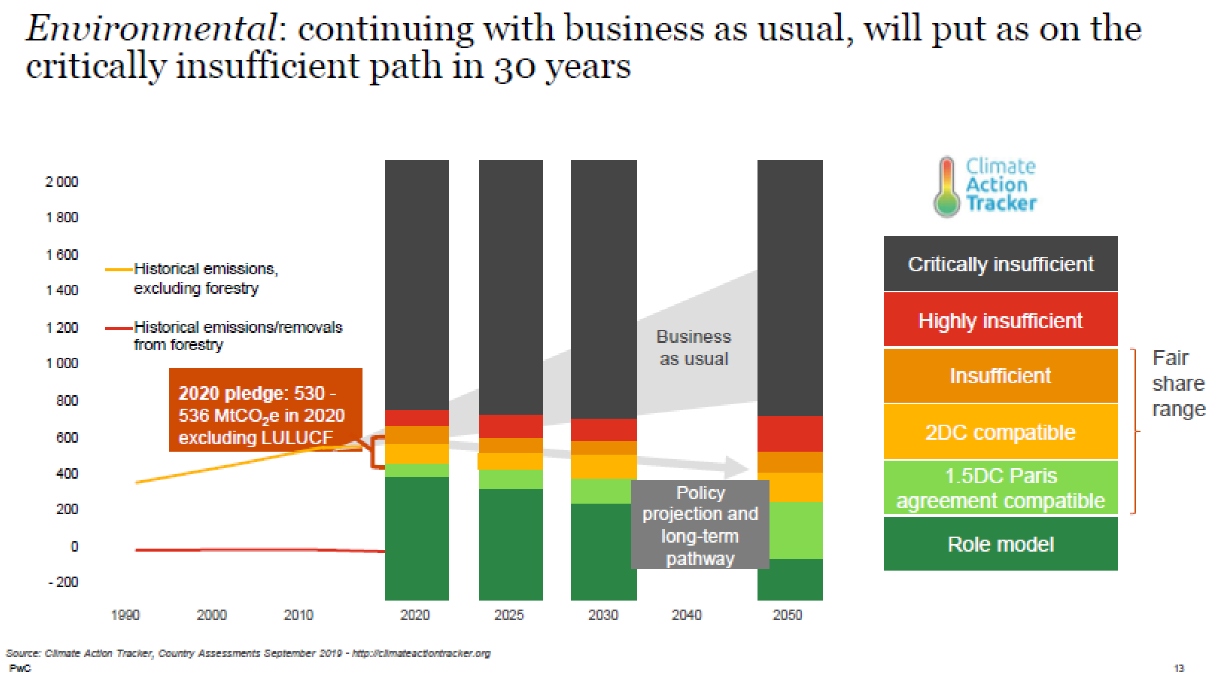
Investors of the future

Many aspects of the world as we know it have and will change forever:

- Weak and non-differentiated companies will fail and stronger will get stronger
- New entrants will challenge non-future proof business models and technology will enable new business models and entrants
- Liquidity and conditions for new capital deployment will be key
- Cost structures, operating models, supply chains, use of technology and innovation
- Governance and heightened accountability will arise
- Consumer power will increase
- Governments are likely to introduce policies around localization, employment retention and creation, foreign activity, protectionism and seek new tax and funding sources
- Global credit crunch impacted liquidity and was fairly limited in reach, whereas COVID-19 impacts liquidity, solvency and the manner in which business is done
- Competition will still exist between entities but increasingly between countries and trade agreements will be key

ESEG – Environment, Social, Economic and Governance

Drastic change is needed in how we live and operate in order to reduce the carbon going forward and new need to do this over the next 10 years. Companies cannot survive in a society that fails – this is not a soft issue. This is an issue which impacts all levels - global, national, local and organizational. But the economic factors have an equal footing in the ESG cluster, hence ESEG.



Responsible investment

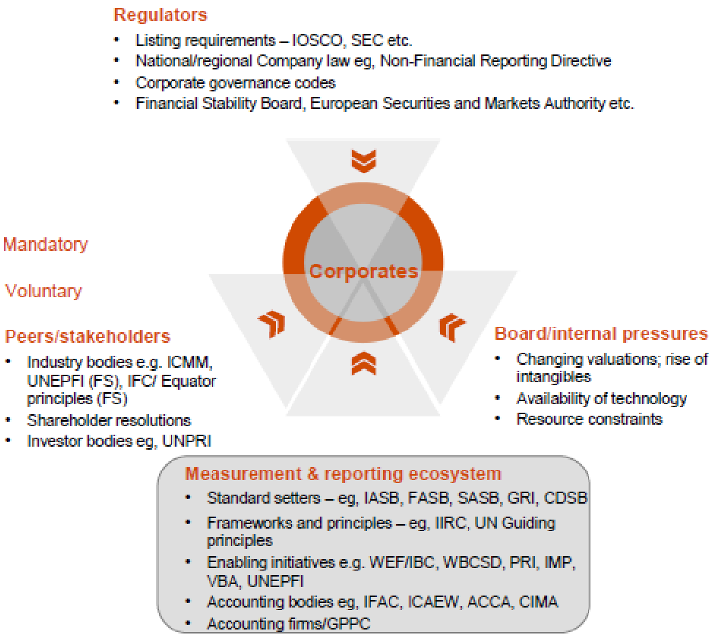
Where we put our capital can change this picture. The results are showing that this responsible investment focus has driven changes in behavior and those companies which are mindful of ESG factors are performing well.

Transformation shifts in corporate reporting

Companies should not only implement ESEG strategies, they also need to demonstrate how they create value in this context, for shareholders and for society. They need to do this through insightful, rounded and trusted reporting. Corporate reporting needs to:

- Go beyond financial information. Report non-financial.
- Go beyond reporting to investors. Report to stakeholders.
- Go beyond rigid formats for annual and quarterly reporting.
- Report rapidly and openly, using flexible data.
- Use the right KPIs based on your strategy and data.
- Use the right standards to assess those KPIs.

Influences on corporate reporting



Regulators are recognizing the need for companies to consider ESEG factors as well as report on them. The EU SFDR regulation, for example, provides a standardized way to prevent green washing and increase transparency. Public consultation is underway to draft the methods for this with guidance due out in December 2020.

The same rigor needs to be applied to ESG data as with financial data. Stakeholders need to be able to use it and rely on it on a regular basis. This builds trust. Companies need to understand what to report and select the right tools and technology for non-financial data measuring, monitoring and reporting.

ESG investment decision making

What the Investor community should be asking themselves:

- Has the organisation's responsible investment policy been translated into commitments and concrete action (e.g. by ensuring ESG matters are integrated throughout the deal cycle)?
- Is responsible investment a core component of the organisation's risk management approach, or is it just an add-on?
- After completing an ESG due diligence is there continuous engagement on material ESG issues and is ESG performance monitored?
- Transparency - when reporting, are the key facts and challenges on material issues, such as climate or human rights, distilled or bundling under the label of 'ESG'?
- Can the organization explain how a robust responsible investment policy has added value to the portfolio and can this be leverage at investment exit?

Coronanomics - a mindful outcomes based approach

Mohamed Adam

In this presentation Mohamed Adam shares insights on how things evolved in South Africa in response to the COVID-19 pandemic. The presentation looked at what businesses did and how they responded and compares this with what is considered good governance

What is influencing how we lead has got as much to do with what is happening outside our organisations as is happening within them

If we look then at where we are today:

- Colin Mayer in his book "Prosperity" talks about moving from profit to shared values
- King IV and its emphasis on ethical and effective leadership

The guidance is calling for mindful application and good judgement – there are no formulas. It is about qualitative and not quantitative or administrative governance.

Dealing with COVID-19

When looking at how businesses have responded to COVID-19, a good picture emerges. It appears that organisations responded in the manner expected of King IV. However, it is still unclear as to what made organisations change from past behaviours to aligning with these "good governance" behaviours. Perhaps it was due to the immediacy of the consequence or the universality of the pandemic's impact.

- Covid-19 presented an opportunity to put outcomes based governance into action
- As a result of the Pandemic various levels of lockdown were imposed in SA
- Ranged in stages from total shut down of businesses, to operating at 50% of employment and finally to full employment
- There was and still is a significant impact on the economy and on health and safety – *"lives and livelihood"* –Coronanomics.
- This is common across the world
- The future was happening right NOW

Leaders had to navigate through unchartered territory. In all of this there was also opportunity, the opportunity to build trust. Leadership and ethics were tested.

The key questions:

- Where do we want to be and what do we need to do to get there?
- And of course, who were "we"?

As a result of the Covid-19 Pandemic and consequent shut down of economies – how did organisations respond? The audience of > 1000 people from 27 countries responded as follows:

Did your organisation need to request any concessions or indulgences renegotiate contracts, payment terms or other obligations?

Did your suppliers, customers or any other parties request from your organisation: any concessions or indulgences, to renegotiate contracts, payment terms or other obligations?

Leadership and Governance

One of the first priorities was to address how the organization would continue to function and take decisions in this time of crisis. The leadership needed to develop a new way of working to ensure that the organization wasn't left paralyzed during this time.

This new way of working needed to consider:

- Whether the governance processes still worked and were adequate / effective
- Whether the leadership was in a position to guide the organization effectively
- The information flows required for decision making
- The frequency and agendas of meetings - was there a need for a dedicated committee?
- The possible impact based on the information that was available
- Whether the organization was responding in a manner that is consistent with its values
- On which priorities to focus: Health and safety, going concern, sustainability, stakeholders
- Whether the current stakeholder communication was effective and sufficiently transparent

The desired outcome for the leadership team was to be informed, agile, innovative and responsive

Business Operations

A survey that was conducted during this time found that the most successful companies who were finding opportunities in the chaos were doing 3 things:

1. Releasing updates on new products
2. Pivoting on new strategy
3. Gathering feedback

This was underpinned by 2 fundamental traits: Curiosity and Agility - the willingness to explore and seeking new opportunities and solutions by using data and feedback as a guide.

The government needed to develop a new way of working to ensure that the country wasn't left paralyzed during this time. This new way of working needed to provide: Opportunities to comment on the regulations being issued so that decisions and a partnership between government and stakeholders. Unfortunately this approach was not successful: Organisations appeared to, overwhelmingly, responded with self-interest in mind.

Fortunately, as the process unfolded, acceptance for the prioritization of essential services improved as an awareness of the need to prioritize the safety of employees, customers and society became apparent.

The desired outcome; longer term sustainability in context of shorter term sacrifices; to allow the economy to thrive later through an initial focus on the safety of society.

Compliance

In South Africa, certain organisations were identified as essential services and exempt from the strict lockdown protocols. In addition, as the levels of lockdown were reduced, so further organisations were allowed to operate. Unfortunately there was abuse, "non-essential" organisations operated; there were cases of price gorging and tender corruption

Fortunately, what started to happen was greater diligence by each party in the value chain. What became apparent was when organisations issued orders; they verified that the orders themselves were for essential services only. Very quickly abuse was minimized. Everyone in the value chain started realizing the benefits from this joint responsibility. The more diligence there was in this value chain, the more all parties benefitted.

Desired outcome: Compliance was a joint responsibility

Employee Well-being

Remuneration

- In South African where businesses were completely shut, employees were legally entitled not pay employees
- In many instances, and with most large organisations, employees were paid some or all of their salaries
- Employees were also supported by Government through Unemployment Insurance Fund (UIF) payments

Health and Safety

Where operations continued during different levels of lockdown, leaders understood quickly that treating safety protocols as a mere compliance was not sufficient. Without the necessary protocols being strictly and effectively enforced, in the event of employees testing positive for the virus, the impact could be much more significant and could lead to widespread infections, shutting of operations and could lead to liability by the employer. This could also lead to a temporary or permanent loss of key skills and resources if not carefully managed.

Employee safety and well-being needed to be treated as a sustainability issue for the business – resulting in better and more careful decisions and discipline regarding operations.

Desired outcome: Sustainability through effective health and safety practices and employee well-being

Value Chain

- As the lockdown progressed more businesses faced existential threats
- The supply chain was disrupted and products and services were not delivered
- Many entities declared Force Majeure
- There was a growing acceptance that legal action or insisting on timely payment was futile
- Many businesses learnt the importance every party in the value chain
- The solution was to find an integrated collaborative solution to ensure that the business, its employees, customers and suppliers were all able to survive and manage the impact of the lockdown

Desired outcome: Resilience and future sustainability of the value chain and not a single entity in that chain

Corporate Citizenship

- As the lockdown progressed the poor and vulnerable were most affected
- South Africans in general responded well to support others in need, with the corporate sector, making a contribution in this regard
- Support to employees in some instances was broadened to support to communities and to government
- Communities were supported with food and basic needs and facilities made available or donations made to support the establishment of emergency medical facilities

Desired outcome: Sustainability of stakeholders

Strategy

- The relevance and effectiveness of the purpose and strategy of an organization was tested
- As leaders grappled with managing through the crisis, they also needed focus on the permanent disruptive effect on the purpose, strategy and business model into the future
- The "new world of work" presented opportunities and threats that needed to be considered in the strategy of the business going forward
- Modes of delivery of certain services and products changed
- The way employees have worked requires changes to existing policies
- This journey has started for many - and there were many lessons that could be learnt especially with regard to assessing the effectiveness of : risk governance, business continuity, agility and innovation; and the adequacy of IT and IM systems and cybersecurity

Desired outcome: Sustainable strategy and business model

Conclusion

Better quality decisions were evident in how many businesses were responding to the COVID-19 pandemic. This was more likely in cases where the organization exhibited: a focused interdependent approach and positive and lasting benefits for the business, society and the environment. This is what Mindful Outcomes and integrated thinking is all about.

A Practical Approach to Embedding ESG

Dr Geoff Kendall

To drive rapid and sustainable transformation, all businesses need a clear and compelling destination and a way to steer toward this. The vision is for everyone on Earth to have the opportunity to lead healthy and fulfilling lives. To enable this, we need an economy which is:

- Environmentally restorative
- Socially just
- Economically inclusive.

Everyone agrees that this is the aim, but there is little understanding of how to achieve this.

The Sustainable Development Goals (SDGs) give us shared vision for the global problems we must solve within a generation. When these were launched in 2015, the idea was to turn the tide on all of these issues by 2030. But the truth is that with 10 years to go, we are nowhere near on track to reaching a single SDG. On any number of socio-economic or environmental dimensions, things are moving in the wrong direction.

The systems theorist Donella Meadows says:

If you define the goal of a society as GDP, that society will do its best to produce GDP. It will not produce welfare, equity, justice, or efficiency unless you define a goal and regularly measure and report the state of welfare, equity, justice, or efficiency.

Gross Domestic Product (GDP) is a measure of how much money is flowing through the economy but it says nothing about the quality of the outcomes which results from all these financial transactions. Because GDP has been the overriding metric which nation states have focused on since just after World War II, our global economy is basically evolved to become a GDP maximization engine.

Today environmental and social performance is assessed in essentially 3 ways:

1. Backward looking with companies explaining their improvements relative to a previous year. This shows progress but nothing about how much more is required.
2. Company performance is often judged relative to best practice within a particular sector or industry. This is where the ESG ratings and rankings sit. For example the Dow Jones Sustainability Index. These often send the wrong signals because companies that are the “least bad” within an industry might be applauded as leaders even if their entire industry is unsustainable. For example, last year DJSI rated an oil company as 90% sustainable which shows just how unhelpful this data can be.
3. Company performance measured against their own short-term goals which they have set themselves. Short-term goals are important because every journey is a series of steps but how do we know if these targets are the right ones?

If we are to make collective progress with speed and scale, we need to define what "good" looks like; we need a clear destination to work towards. We need a way to focus not on where companies have come from, but where they are going and how they are going to get there. This has to be grounded in the clear understanding of what it will take to uphold social well-being and to live within planetary boundaries.

To reach the SDGs, new flows of extra-financial information are required to guide every socio-economic actor towards and beyond these extra-financial break-even points. This applies to the companies, those who invest in them and the government which regulates how this is done.

1. **Business leaders** need a way to assess the extra-financial impacts of their every decision in a holistic way.
2. **Investors** will only be able to steer their companies towards this holistic solution if they can tell who these companies are, so they need concise, comparable forward looking data which shows how far away companies are from where they need to be. Only then will they be able to see the full view of systemic risks and opportunities in their portfolios.
3. **Government** must put in place the rules and incentives needed to scale up and speed up the transition to future fitness by making it economically rewarding for all, market actors to pursue. Those policies must be developed in a joined-up way or the intended outcomes will always come at a cost of unintended consequences.

We must assess and report on extra-financial information relative to the sustainable future we need not relative to the unsustainable present. We need to look at necessary practice not current best practice.

In a Future-Fit Society:

- People have the capacity and opportunity to lead fulfilling lives
- Our physical presence protects the health of ecosystems and communities
- Natural resources are managed to safeguard communities, animals and ecosystems
- The environment is free from pollution
- Energy is renewable and available to all
- Water is responsibly sourced and available to all
- Waste does not exist
- Social norms, global governance and economic growth drive the pursuit of future-fitness

Considering what this means to an organisation is considered across 2 axes:

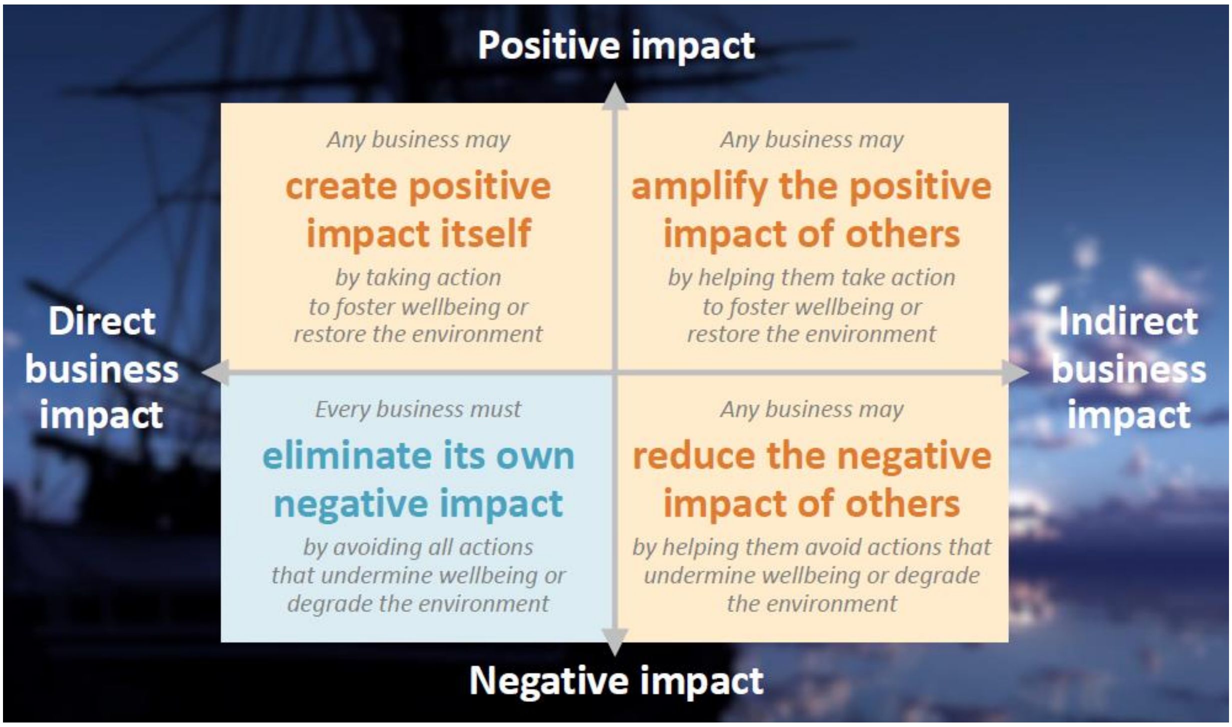
1. Positive – Negative Impact on a Future-Fit Society
2. Direct – Indirect Business Impact (Indirect e.g. through the impact of suppliers or use of products)

The minimum every organisation must do is eliminate the negative impacts within its control; to avoid all activities which undermine well-being or degrade the environment. It does this by considering throughout its operating model – from where it chooses to spend its money through to the design of its products.

To make this achievable, the Future-Fit Benchmark translates this into Break-Even Goals - what every company must strive to do to avoid slowing down society's progress and avoid hindering the SDGs. These, together, mark the line in the sand that every business eventually needs to reach to ensure it is not slowing down progress on the SDGs.

In terms of what an organisation must actually do to achieve all these goals, the devil is in the detail. Some of these goals may take many years to reach, particularly without government support. Some goals will also be much harder to reach than others depending on the business the organisation is in. This leads to the question of materiality.

Many organisations go further than just minimizing their impacts and they should be recognised for doing so. Organisations may help others to avoid their negative impacts. They could also create a positive impact itself for example by offering products and services which solve societal problems. Finally a business may even amplify the positive impacts of others through, for example, targeted investment and game changing start-ups.



The other side of the bench mark is positive pursuits. Positive pursuits capture all of the systemic outcomes an organisation might deliver which actually speed up society's progress on the SDGs via its products and services or in other ways such as targeted planned improvements. What any company may choose to do to help speed up society's progress and actively help the SDGs.

The Future-Fit Benchmark **is NOT a reporting framework**.

The Future-Fit Benchmark is a self-assessment management tool.

Each break-even goal has a set of metrics and each one has a single overarching progress indicator measured as a percentage. These can be baked into day-to-day decisions and included in management dashboards.

Business can only thrive if it can thrive in society and society and only thrive if it lives within the carrying capacity of the environment. The Porter's 5 forces model is a systems view but it is a myopic one because it only looks at the immediate industry, i.e. suppliers' new entrants; industry rivalry; substitutes; and buyers.

In a 21st Century perspective, entire industries are being buffeted by three macro level forces:

1. Environmental pressure such as extreme weather events or water scarcity
2. Societal pressures ranging from collapsing trust to economic migration
3. A range of exponentially disruptive technologies from 3D printing and artificial intelligence through to things like gene manipulation which have the potential to completely transform entire industries.

Example:

Consider Novo Nordisk, one of the world's biggest pharmaceutical companies and provides around 40% of the world's insulin for diabetes sufferers.

Who is Novo Nordisk's biggest competitive threat?

In a **5 Forces World**, this would be the next biggest seller of insulin.

In an **8 Forces World**, it is more likely to be a company like Apple. Millions of people already wear an Apple Watch and in 2018 Apple applied for a patent for a wearable device that continuously monitors blood glucose levels. Imagine if you have diabetes and your watch can alert you to engage in interventions such as eating something or walking around the block. If diabetes sufferers in developed markets can self-manage their insulin levels like this, their need for Novo Nordisk's insulin may plummet,

All business leaders are encouraged to ask themselves:

1. What societal need do we address – and how do we do it?

   This is not the same thing as asking "what products do we sell?"
2. What unique knowledge and competencies do we possess?

   These can potentially open up completely new markets.
3. How can we leverage what makes us unique – in the face of these macro-level forces – to identify and pursue game-changing solutions, solutions that address the Sustainable Development Goals?

Summation

Professor Mervyn King SC

Ansie brought to everyone's attention the importance of moving away from a grudge compliance or checklist governance and adopting a mindful outcomes-based approach:

- **Value creation** in a sustainable manner as good performance
- **Ethical culture** with effective leadership, that is, an acceptance that the company is an incapacitated artificial person and has no conscience and has no mind, that its corporate leaders are the conscious mind of the company. When something goes wrong, the wrath of society shouldn't turn against the company but rather against its corporate leaders.
- **Adequate and effective controls** with informed oversight by the board. This is why one needs an agenda item at every board meeting, in my judgement, for stakeholder relationships. Charles touched on this in his talk.
- **Legitimacy** – Key is trust and confidence of the community in the company by that community in which the company operates with legitimacy of operations.

These outcomes are critical. If an external stakeholder sees any organization achieving these outcomes, whatever the practices which were adopted when applying the principles, that stakeholder could rationally draw the conclusion that the organization is practicing quality governance.

Charles pointed out that the <IR> Framework shows what boards have to consider and pointed to the importance of stakeholder relationships. It is interesting that stakeholders, because of the digital world that we are now in, are starting to ask that, instead of company reports, they be given access to the information. This will be a huge issue going forward. The time has certainly come to have this international body looking at reporting both financial and sustainability information. The IFRS Foundation seems to be the most suitable home, but I think there would need to be a name change and I think the name **International Reporting Standards Board (IRSB)** is appropriate because it covers both financial and sustainability issues

The other agenda item which should be on every board meeting is **inputs to outcomes** so that, at every board meeting, the board discusses the outcomes resulting from the organisation's output. When the organisation's product or service goes out into society, it has an impact on the 6 capitals. In the language of the SDGs, it has an impact on the three critical dimensions for sustainable development: the economy, society and the environment. This is the extra "E" which Jayne Mammatt brought into her talk.

Anton and Jayne spoke about the short-term survival of companies. Earlier this year I coined the term "**Coronanomics**" because we are actually dealing with two crises – we are dealing with an economic crisis and a viral crisis. Boards are swimming in this Coronanomics crisis and have to make short-term decisions for survival because economies are in a survival mode. But we should also be thinking ahead to the move from a survival mode to a thriving mode, we have to think about **ESEG (Environment, Social, Economic and Governance) and long-term issues**. Even in the short-term we have to be thinking on an integrated, collaborative, compromising basis considering the hardships which have been suffered by stakeholders. Stakeholders, likewise, have to compromise with the company because the company has also been suffering hardships.

There was a reference by Jayne to “Stakeholder Capitalism” which is a phrase which doesn’t enamor me. We had **Financial Capital Underpinned by the Primacy of the Shareholder** and then Shareholder Capitalism after the Business Roundtable in America issued their statement saying that they would no longer just focus on the Primacy of the Shareholder but take account of the interests of all stakeholders. They talked then about taking into account the needs interests and expectations of stakeholders but making a decision in the best long-term interest of the company which is the duty of directors and management implementing the decisions of the board. The era of corporate leaders in the 20th Century following various judgements of the House of Lords, and in America, and of course Professor Friedman’s dictates focused on increasing the wealth of shareholders. **It was an error**.

We are reaping the whirlwind of this error with declining natural assets but increasing demand for product. If by **Stakeholder Capitalism** it is intended to mean the directors should meet the interests of stakeholders well that would lead to the bankruptcy of companies. I think the better nomenclature is **Inclusive or Responsible Capitalism** rather than Stakeholder Capitalism which is a phrase used by the World Economic Forum consortium.

Mohamed Adam showed us how trust in corporations is being restored out of the pandemic because of **collaboration**. It is quite extraordinary that collaboration, the “S” in “ESG”, is coming through so clearly too in the collaborative efforts to find a vaccine. I think this collaboration will shine through in this charge to establish and form an **International Reporting Standards Board**.

Mervyn King

Professor Mervyn King SC

November 2020

Speaker Biographies

Ansie Ramalho

Corporate Governance Specialist

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Ansie Ramalho is a lawyer by training and an authority on corporate governance with both theoretical and applied knowledge on the topic. She consults, presents, trains and writes on the various aspects of corporate law, directors' duties and governance. She believes that corporate governance can and should be harnessed for the benefit of the economy, society and the natural environment.

Ansie serves as a professional non-executive director and her current directorships include the boards of KPMG South Africa and The South African National Blood Service NPC. She has been conferred the Chartered Director (SA) designation by the Institute of Directors South Africa (IoDSA).

She regularly facilitates training on corporate governance and company law for the IoDSA and the Johannesburg Stock Exchange Sponsorship Development Programme offered by KAR. In addition, Ansie provides corporate governance consulting and advisory services on an ad hoc-basis to the International Finance Corporation (IFC), a subsidiary of the World Bank - working predominantly in sub-Sahara Africa. Her more recent IFC assignments involved reviewing the code of corporate governance for the Rwanda Capital Market Authority and the drafting of listings requirements pertaining to corporate governance for the Ghana Stock Exchange.

Ansie is a member of a number of technical committees, including the King Committee on Corporate Governance for South Africa and the Integrated Reporting Committee of South Africa. She is also the appointed examiner for the Chartered Director designation of the IoDSA. Ansie is also certified as a results coach.

From August 2014 to November 2016 Ansie was the appointed King IV Project Lead with responsibility for the successful finalization of the King IV Report on Corporate Governance for South Africa, 2016. This role involved the design of the project and its governance structures, oversight of project implementation, stakeholder engagement and the drafting of the King IV Report.

Ansie's prior positions include being the Chief Executive of the IoDSA from 2010 to 2014. Before joining the IoDSA, Ansie cut her business teeth at KPMG in the corporate restructuring and recovery environment with assignments that included the Saambou Bank receivership and Kebble insolvency. Ansie played a key role in respect of both. The experience on business failure was applied with much fruit when she later took up the position as a dedicated corporate governance specialist within KPMG.

She completed a PhD in Integrated Reporting in 2016, where she conducted 36 interviews with leading executive in seventeen FTSE 100 companies on their perceptions and experiences of

Integrated Reporting. She has published several articles based on her research in leading academic journals and practitioner magazines and has presented her research findings at leading conferences.

She has previously worked for 25 years in senior finance roles in industry, with particular expertise in compliance, internal audit and project management. Fiona qualified as a Chartered Accountant in 1988 and is a member of the Institute of Chartered Accountants of Scotland (ICAS) Corporate & Financial Reporting Panel which represents ICAS in relation to financial reporting and broader corporate reporting issues and undertakes proactive initiatives to contribute to the debate on how reporting could improve into the future, to better meet the needs of stakeholders.

Charles Tilley

CEO of the International Integrated Reporting Council

https://integratedreporting.org/the-iirc-2/

Charles Tilley, OBE, FCMA, CGMA is the current CEO of the International Integrated Reporting Council (IIRC).

Formerly CEO of the Chartered Institute of Management Accountants (CIMA), Charles spearheaded the joint venture with the American Institute of CPAs, and was fundamental in conceiving and creating the Association of International Certified Professional Accountants (AICPA).

Charles is chairman of International Federation of Accountants' (IFAC) professional accountants in business committee.

Charles is a member of the IIRC and previously chaired the IIRC's technical task force, the group responsible for developing the framework. He is also a member of the UK Financial Reporting Council's Lab and the A4S Advisory Council.

Prior to joining CIMA, Charles spent 14 years at KPMG, becoming a partner in 1986. Subsequently, he held senior positions as Group Finance Director of investment banks Hambros plc and Granville Baird plc. He has also held non-executive positions at the Ipswich Building Society and Great Ormond Street Hospital.

For his positive leadership and achievements in promoting the importance of management accounting, Charles was recognized in the 2016 New Year's honours list and awarded the Order of the British Empire (OBE) for services to the economy.

Anton van Wyk

PWC, Africa Clients, Markets and Development Leader

https://www.pwc.co.za/en/contacts/a/anton-van-wyk.html

Anton is the Firm's Africa Clients, Markets and Development Leader and the Global Relationship Partner on 3 of the firm's top clients.

Anton was admitted as a partner in 1998 and served as PricewaterhouseCoopers' Global Internal Audit Services leader between 2004 and 2009. He led the Risk Assurance practice (IT Risk Assurance, Internal Audit, and Sustainability & Governance) for the Africa Firm from 2004 to 2017.

Anton has over 35 years' experience in Corporate Governance, Risk Management and Internal Audit, and has worked with a range of local and global clients. He has served as a board member of PwC's Africa Governance and South African Governance Board between 2011 and 2014, and was a member of the firm's Business School Board. Anton served on PwC's Africa Leadership Team between 2014 and 2019.

Anton is a full member of the King Committee on Governance in South Africa. Anton is the Chairman of the Board Governance Forum, under the auspices of the IoDSA.

Anton is a past Global Chairman of The Institute of Internal Auditors (IIA). He is the first individual from the African continent and the first South African to have led the world's largest internal audit organisation (200 000 members).

A notable highlight during Anton's Chairman year was addressing members of the United Nations' General Assembly in New York City, together with the then Secretary General, Ban Ki-moon. Anton was awarded, in 2018, the Victor Z. Brink award for distinguished service, by the Global IIA.

The IIA recognized Anton as a dedicated volunteer, advocate, and leader whose guidance and extraordinary efforts have greatly impacted the profession of internal auditing, globally.

Jayne Mammatt

Partner PwC South Africa, Sustainability and Climate Change

https://www.pwc.co.za/en/contacts/j/jayne-mammatt.html

Jayne is the Partner in charge of PwC South Africa's Sustainability and Climate Change department, where she focuses on developing and delivering services in the areas of:

- sustainable development strategy, framework, practices, reporting and assurance
- Sustainable Development Goals
- integrated reporting and management

- social and environment impact and outcomes measurement
- safety, health and environment risk, performance and compliance and
- climate change risk and resilience

Jayne is a Chartered Accountant by profession but has been working in the broad areas of corporate governance, sustainable development and climate change since 2002. During this time, she has worked across a variety of industries including mining, oil and gas, banking, insurance, telecommunications, technology, construction, real estate and state-owned entities.

As part of her work she has also written various “thought leadership” articles for publication in the press, presented at numerous conferences, is co-author of The Company Director’s Handbook published and contributed a chapter to SAICA’s Green II. She was also a member of the IOD Sustainable Development Forum, the Integrated Reporting Committee of South Africa (IRCSA) Working Group and the National Business Initiative’s Advisory Committee on Environment and Sustainability. Currently she is a board member of the IRCSA and a member of the King sub-committee on climate change.

Mohamed Adam

General Counsel, ArcelorMittal

Mohamed is an admitted attorney and obtained a BA law degree at the University of Durban-Westville and an LLB degree at the University of the Witwatersrand, in South Africa. He also holds an LLM in International Trade Law from the University of Essex in the UK.

He held several positions in Eskom in a professional and management role, and in February 2015 he joined ArcelorMittal South Africa Limited as General Counsel and GM Regulatory Affairs.

His experience includes involvement in executive management, legal and compliance, ethics, corporate governance, sustainability and integrated reporting.

He has been a member of the King Committee on Corporate Governance for many years and served on the King IV task team. He was also the chairman of the board of directors of The Ethics Institute until July 2019.

He is the co-author, together with Dr Reuel Khoza, of – ‘The Power of Governance: Enhancing the Performance of State-Owned Enterprises’ (2005).

Geoff Kendall

CEO, Future-Fit Foundation

https://futurefitbusiness.org/

https://www.linkedin.com/in/geoffkendall/

Geoff is an entrepreneur whose experience spans sustainability consulting, tech startups, and academic research. He holds a PhD in Artificial Intelligence, and is CEO and Co-Founder of Future-Fit Foundation, a non-profit whose focus is to translate systems science into free tools to help companies and investors accelerate the transition to a flourishing future.

Carolynn Chalmers

Chief Executive Officer, the Good Governance Academy

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Carolynn has extensive management and governance experience and has held various executive and board positions. Carolynn volunteers her time to standards development as chairperson of the South African Bureau of Standards (SABS) Technical Committee for the governance of organizations and co-editor of the ISO 37000 standard (Guidance for the Governance of Organizations). She holds a BSc (Hons) and MSc (Quantitative Resource Ecology) as well as several industry related credentials including CGEIT® and CBRM®.

She is known for her work in the areas of:

- The King Reports, Governance of Organizations and IT Governance
- Information/Data Governance, Strategy, Security and Architecture
- IT Legacy and Digital Transformation
- Project Governance and Project Management