A4S CFO LEADERSHIP NETWORK

ESSENTIAL GUIDE TO ENGAGING THE BOARD AND EXECUTIVE MANAGEMENT

A practical guide for finance teams to engage their board and executive management on sustainability

THE PRINCE OF WALES'S CHARITABLE FUND

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A4S CFO LEADERSHIP NETWORK

NAVIGATING THIS GUIDE

The A4S Essential Guide to Engaging the Board and Executive Management aims to provide guidance and practical examples to prepare CFOs and finance teams to engage their board and executive management (EM) team on sustainability as a driver of value. An informed and engaged board and EM will support the broader aim of making sustainable business, business as usual.

The guide sets out a typical process for engaging the board and EM using three key steps. Recognizing that different organizations have different experiences, the guide provides a nuanced perspective on the order of actions and reflects that the process is not necessarily linear. At the end of each step, there is a checklist that helps indicate the progress made and the readiness to move on to the next step.

The second part of the guide describes how the steps can be applied in regular board activities and how finance can engage the board and EM on sustainability under each activity. It gives examples of what the CFO and finance team can do to prepare for engaging the board, describes the role of the CFO and EM when engaging the board, and how finance can embed sustainability into the regular board decision-making processes. This section also explores elements of an engaged board.

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- Introduction from the A4S CFO Leadership Network
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KEY STEPS TO ENGAGING THE BOARD AND EXECUTIVE MANAGEMENT

- Prepare
- Engage
- Embed and improve

APPLYING THE STEPS IN REGULAR BOARD ACTIVITIES

- Business strategy and planning
- Governance and risk management
- Corporate development and investment
- Corporate reporting and internal controls

PRACTICAL EXAMPLES, TOOLS AND MATURITY MAP

Tools
- A4S board characteristics review tool
- A4S board engagement tool
- A4S 'What does an engaged board look like' survey

Practical examples
- British Land
- Brookfield Asset Management / Brookfield Renewable Partners
- Manulife
- TELUS
- Watercare
- Yorkshire Water

Maturity map

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We would like to thank all the project team members who contributed to the framework.

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INTRODUCTION

INTRODUCTION FROM THE A4S CFO LEADERSHIP NETWORK

The need for boards of directors and executive management teams to focus on sustainability has never been more crucial. The range of issues is broad, and their complexity is increasing. The effects of climate change, global pandemics, and societal demands to address inequality are just a few examples of the pressing issues of our time. Organizations that will thrive in the future are those that can successfully integrate sustainability considerations into their regular business models. Doing so will require action from the most senior leaders of an organization – the board and executive management.

As trusted partners with specific expertise, CFOs and finance professionals are well positioned to help boards and executive management respond to the challenges ahead and create value. Finance teams already have the necessary skills and insight to distill issues, prioritize them and help equip leaders with critical information and analysis. However, for many, bringing the sustainability lens is new.

The A4S CFO Leadership Network created this guide with additional input from leading experts around the world, to whom we would like to give special thanks. Its objective is to assist CFOs and finance teams in identifying the key steps to engaging the board and executive management in order to embed sustainability into regular business.

Operating sustainably is a strategic business imperative – we hope this guide, its tools and case studies will help you work with the rest of your organization and support your CEO, executive colleagues and board members as we all work to address the many complex sustainability issues that we face today.

JONATHAN SIMMONS, FCPA, FCA

Co-Chair of the Canadian Chapter of the A4S CFO Leadership Network
Chief Financial and Strategy Officer, OMERS

"Organizations that will thrive in the future are those that can successfully integrate sustainability considerations into their regular business models. Doing so will require action from the most senior leaders"

WHY DID WE DEVELOP THIS GUIDE?

The purpose of the guide is to help the CFO and finance team to engage the board and EM in ways that will help embed sustainability into regular board and EM decision-making information and processes.

By focusing on the regular board activities that finance is typically involved in, the guide sets out ways that finance can engage the board on sustainability as a driver of value through these activities. It also shows what an engaged board looks like – when there is a high level of board engagement on sustainability across the board activities, and environmental and social factors are being considered in regular board decision making.

Where finance may require support to integrate sustainability into financial and business decision making, the guide refers to relevant guidance and tools from the A4S Essential Guide series, other A4S materials, as well as external resources.

WHY ENGAGE THE BOARD AND EXECUTIVE MANAGEMENT ON SUSTAINABILITY?

The board and EM are responsible for ensuring the long-term viability of the organization as it fulfils its purpose, and in doing so, that the interests of its shareholders, key stakeholders, and the communities in which it operates are considered. Amid climate change, global pandemics, and other pressing environmental and social matters, the business case for a shift to resilient business models and a sustainable economy is clear. In response, the board and EM must set the tone at the top and ensure that a clear strategy is defined, implemented, and continually improved.

The role of the board in overseeing environmental, social, and governance (ESG) matters has also gained more attention among regulators, policymakers, and investors. A study by the Commonwealth Climate and Law Initiative (CCLI), in October 2019, found that the existing directors' duties regimes in many jurisdictions, including the UK, the US, and Canada, are conceptually capable of being applied to corporate governance failures in the identification, assessment, oversight, and disclosure of climate risks.[1] Leading ESG standards, guidelines, and frameworks, such as the Global Reporting Initiative (GRI), Principles for Responsible Investment (PRI), Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Framework, and the Task Force for Climate-related Financial Disclosures (TCFD) have clear expectations for boards to oversee ESG matters, covering multiple dimensions of the associated governance best practice. The world's largest investors, including BlackRock, Vanguard, and State Street, also expect corporate boards to pay attention to ESG matters and many have issued board-specific guidance on ESG.[2] The largest proxy advisers, including ISS and Glass Lewis, have also updated their voting guidelines to be more supportive of ESG votes.[3] As a result, the board and EM are under pressure to approach the governance and management of ESG matters in the same way as they would any other business imperative.

WHY DOES FINANCE HAVE A CENTRAL ROLE TO PLAY?

Finance is a trusted business partner and adviser to the board and EM. As custodians of value,[4] the CFO and finance team have a decisive influence over financial, strategic, risk management, and other business decisions that help create more resilient, accountable, and profitable organizations.

By understanding the business case for change, finance can inform, actively support, and challenge the board and EM to adopt a sustainable business model that delivers sustainable outcomes. They can provide a multicapital context and help integrate natural, social, and human capital into the organization's strategy and operations. They can also provide business context for sustainable-value messaging and help answer sustainable-business-related questions from investors to the board and EM. By performing analysis and undertaking risk assessments, finance can add credibility to sustainable business practices and initiatives proposed to the board and EM by business units.

1. World Economic Forum in collaboration with PwC (2019), How to Set Up Effective Climate Governance on Corporate Boards Guiding principles and questions.
2. High Meadows Institute, The Board and ESG – What do ESG frameworks and investors expect?
3. Glass Lewis (2021), Guidelines and Overview of the Glass Lewis Approach to Proxy Advice, Environmental, Social & Governance ("ESG") Initiatives and ISS (2021), United States Sustainability Proxy Guidelines, 2021 Policy Recommendations
4. Jill Atkins and Mervyn King (2016), The Chief Value Officer – *Accountants Can Save the Planet*, Greenleaf Publishing

AIMS OF THIS GUIDE

UNDERSTAND THE KEY STEPS

Understand the key steps to engaging the board and EM, and the guidance and tools available:

Step 1	**Prepare** – Understand what sustainability means for the organization, assess EM's alignment around the need to embed sustainability, and understand the board's characteristics.
Step 2	**Engage** – Get buy in and support from EM, engage the board and draw on their expertise, apply finance skills, and establish accountability.
Step 3	**Embed and improve** – Identify areas for improvement, embed sustainability across board activities, and report progress. As you continue to improve and progress, it is likely that you will want to repeat parts of steps one and two as you engage the board and EM on new and evolving processes and approaches.

APPLY THE STEPS

Apply the steps in regular board activities to get the board and EM engaged:

Activity 1	Business strategy and planning
Activity 2	Governance and risk management
Activity 3	Corporate development and investment
Activity 4	Corporate reporting and internal controls

GLOSSARY

Word / phrase	Description
Capitals	Any store of value that an organization can use in the production of goods and services, or is vital to production, which needs to be maintained, protected, and nourished to continue to produce benefits in the future. The Value Reporting Foundation defines the following capitals: financial capital; manufactured capital; intellectual capital; human capital; social and relationship capital; and natural capital.[5]
Environmental factors / impacts and dependencies	Environmental factors examine how a company performs as a steward of the natural environment, and how it manages the impact of the environment (eg water scarcity, extreme weather, biodiversity) on business operations.
Environmental, Social, and Governance (ESG)	A set of factors or criteria that are critical to the success of businesses across all sectors. Environmental factors examine how a company performs as a steward of the natural environment. Social factors examine how a company manages relationships with its employees, suppliers, customers, and the communities it operates in. Governance deals with a company's leadership, ethical conduct and oversight, executive pay, audits and internal controls, and shareholder rights.[6]
Multicapital	Something which relates to all (or many) of the six capitals. For example, multicapital information includes natural capital, social capital, human capital, intellectual capital, manufactured capital, and financial capital information.
Social factors / impacts and dependencies	Social factors examine how a company manages relationships with, and supports resilience of, its employees, suppliers, customers, and the communities it operates in, and how these groups impact business operations.
Stakeholder	A party that can either affect or be affected by an organization. Stakeholders can be internal or external. Internal stakeholders are those who have a direct relationship with an organization, such as employees; external stakeholders are those who relate to the actions and outcomes of the organization, such as customers, suppliers, investors, or governments.[7]
Sustainability	The ability to satisfy the needs of the present generation without adversely affecting the conditions for future generations.
Sustainable business	A business that delivers financial returns in the short and long term in a way that generates positive value for society and the environment, operates within environmental constraints and contributes to the ongoing resilience of social and environmental systems.
Value creation	Value is created through an organization's business model, which takes inputs from the capitals and transforms them through business activities and interactions to produce outputs and outcomes that, over the short, medium, and long term, create or destroy value for the organization, its stakeholders, society, and the environment. Value is to be interpreted by reference to thresholds and parameters established through stakeholder engagement and evidence about the carrying capacity and limits of resources on which stakeholders and organizations rely for well-being and profit, as well as evidence about societal needs, interests, and expectations.

5. Value Reporting Foundation, Get to grips with the six capitals, (accessed 2021)
6. Investopedia (2021), Environmental, Social and Governance (ESG) Criteria
7. Investopedia (2021), Stakeholder

THE BOARD'S ROLE IN SUSTAINABILITY

BOARD COMPOSITION AND STRUCTURE[8]

Board composition is influenced by several factors, including the jurisdiction and industry in which the business operates, the nature of the business, its strategy, key risks, and culture. Board structures differ across different jurisdictions. These have implications for CFOs and finance teams as they prepare to engage the board and EM on sustainable business issues.

In the **one-tier model**, there is one unified board of directors with supervisory responsibilities for the business, but where one or more directors may also hold managerial responsibilities in the business. There are variations of the one-tier model to address the issue of board independence. For example, in the US and Canada, the CEO is commonly the only executive on the board and while the CFO and other executives may report directly to the board, they are not members of the board.

In the **two-tier model**, there is a supervisory board with supervisory responsibilities for the business and a management board with managerial responsibilities in the business. The executive directors on the management board decide the organization's objectives and implement the necessary measures. The non-executive directors on the supervisory board monitor these decisions on behalf of other parties. Members of the supervisory board are appointed by the shareholders and can represent shareholders, employees, labour unions, the organization's group holdings, business partners, creditors, or state representatives. Members of the management board are appointed by the supervisory board.

The King IV Report[9] recommends the board should comprise executive directors and non-executive directors and, for a balance of power, the majority of non-executive directors should be independent. Where the executive directors provide in-depth knowledge of the organization, the non-executive directors are expected to bring independence, impartiality, and a wider perspective to the board's decision making.

8. University of Pennsylvania Carey Law School (2016), One-Tier vs. Two-Tier Board Structure: A Comparison Between the United States and Germany.
9. Institute of Directors in Southern Africa (IoDSA) (2016), The King Report – sets out the philosophy, principles, practices, and outcomes that serve as the benchmark for corporate governance in South Africa. It is widely considered to be the world's standard on corporate governance.

IMPLICATIONS FOR THE CFO AND FINANCE TEAM IN ENGAGING THE BOARD AND EXECUTIVE MANAGEMENT

- **Direct contact:** Depending on the board structure, the CFO, along with the CEO, may be executive directors of the board, having direct contact with other board members. This means having first-hand experience of the board characteristics, including the level of interest and understanding of sustainability among the board members, and more opportunities to engage individual board members and build relationships with them. In all cases, the CFO is a key member of the executive management team and plays an instrumental role in supporting the CEO in engaging the board and executing the board's strategic decisions in the management and day-to-day operation of the organization.
- **Process and time:** The structure of the board may influence the CFO and finance team's engagement approach. The process of decision making is likely to be faster in a one-tier structure because all the decisions are made and approved by a single board. A one-tier board, however, may be more likely to have ingrained thinking and less able to adapt and respond to pressing environmental and social matters. A supervisory board structure may bring broader external perspectives and help the organization stay abreast of developments and react to emerging issues in a more strategic manner. Decisions made by the management board in a two-tier structure, however, must be approved by the supervisory board for discussion and implementation by the management board, which can take time. This delay can be prolonged if the management and supervisory board disagree on a certain agenda. The CFO and finance team should consider the decision-making process and timeframes when pursuing their engagement approach.
- **Board competence:** The skills, knowledge, and experience available to a board will impact its decision making. In the case of the two-tier structure, the appointment of representative directors may provide an opportunity to add specific in-depth knowledge to the supervisory board. In the one-tier structure, such requirements may be incorporated when potential directors are nominated to shareholders for appointment. The CFO and finance team should consider the competence of individual board members when preparing to engage them on sustainability.

DIRECTORS' DUTIES GO BEYOND SHAREHOLDER VALUE

With the evolving regulatory and investor landscape, and growing media scrutiny around ESG factors, directors are increasingly required to consider such factors when discharging their duties. Failure to do so could constitute a breach of duty of care, resulting in legal claims against a director in certain jurisdictions.[10] While the in-house legal counsel would provide legal advice, the finance team has a significant role in supporting ESG-related disclosures and decision making.

Take climate change, for example. In the Directors' Liability and Climate Risk: Comparative Paper – Australia, Canada, South Africa, and the United Kingdom published by the Commonwealth Climate and Law Initiative (CCLI) in October 2019, it was found that the prevailing directors' duties regimes under Australian, Canadian, South African, and UK laws are all conceptually capable of being applied to governance failures in the identification, assessment, oversight, and disclosure of climate-related financial risks.

Disclosures provide a basis for investors and regulators to assess whether directors are discharging their duties effectively. By adopting the TCFD framework, for example, companies can demonstrate the EM's role in assessing and managing climate-related risks and opportunities, while the boards provide oversight. The finance team often plays a key part in implementing the TCFD recommendations and in explaining the disclosures to the board, investors, and regulators.

Overall, it is imperative that effective stewardship is transparent and that company actions demonstrate consideration of the needs, interests, and expectations of key stakeholders and the communities in which the company operates. According to the Future Boardroom Competencies™ 2020 Report, stewardship in the 21st century goes beyond purpose and will require a high level of accountability in delivering on promises. Organizations, and the individuals that lead them, hold the responsibility of delivering on a shared vision that drives long-term value creation while responding to short-term needs.

Shareholder value to stakeholder value to systems value

While many organizations recognize the need to shift from a shareholder view (that focuses exclusively on maximizing shareholder return) to a stakeholder view of capitalism (that considers the needs of a range of stakeholders, including employees, customers, suppliers, and local communities), leading organizations are moving on to a systems view – that is to view their operations as part of a nested system, bounded by, and embedded within, the environmental, social, and economic systems in which they operate.[11] While this is an evolving area of study, organizations should enhance their understanding of the systems in which they operate, how emerging risks might impact their business, and how they might leverage opportunities.

10. Board Agenda (2019), UK directors' duties 'include ESG responsibilities' says legal expert
11. Embedding Project (2020), Embedded Strategies for the Sustainability Transition Setting Priorities and Goals Aligned with Systems Resilience

TOP TIPS FOR GETTING STARTED

1
Build finance team competency
Start by building finance team competency so that you can speak knowledgeably about these issues when you engage with the board and EM.

2
Assess your financial processes
Consider how your financial processes for budget forecasting, capital allocation, investment, measurement, reporting, and auditing may need to shift.

3
Work with other teams
Partner with sustainability team (and others – cross functional) to help build this knowledge and understanding – it is important for the board and EM to see that you are united in your approach, and this must be joined up across the organization.

4
Create the business case
Make a strong case that this is a board issue and why – frame the conversation in language the board is used to dealing with: risk assessment, disclosure, access to and cost of capital, customer / investor / employee perceptions.

5
Understand impact and dependency
Start with an assessment of your company's impacts and dependencies on the environment and society

6
Connect with the committees
Make full use of the board committees: Audit, Sustainability, Compensation, Nomination / Governance – spend time with the company chair and committee chairs to build a group of board members who understand the issues and can support the boardroom conversation.

7
Coordinate with the calendar
Align sustainability matters with the board calendar, especially to tie in with annual reporting, strategy days and the AGM.

8
Provide new information
Bring the board good information on activities of competitors and suppliers.

9
Encourage champions
Get board champions on side and encourage them to build their capability.

KEY STEPS TO ENGAGING THE BOARD AND EXECUTIVE MANAGEMENT

STEP 1: PREPARE

The first step is about understanding what sustainability means for the organization, talking to relevant teams, and upskilling the finance team. It also involves assessing EM alignment with the strategic vision and business case for change, and understanding the board characteristics.

1.1 Understand what sustainability means for your organization

Where the organization is at the start of the journey and the board and EM are not yet engaged on sustainable business issues, finance may first need to work with relevant teams, such as sustainability, strategy, risk, operations, and human resources, to understand what enivronmental and social factors mean for the organization. This involves recognizing what the macro sustainability trends are and their implications for the organization, how it is responding to these trends in terms of the commitments and progress made, and how it fares against peer companies and leaders in other sectors.

Finance can help identify the sustainability risks and opportunities that are material to the organization, and then assess their impact on long-term business performance and value creation. Finance should develop a good understanding of how it can be an enabler for transitioning to a sustainable business, for example:

- How to embed environmental and social factors into financial decision making
- Whether current financial processes enable or constrain embedding these factors
- What are the requirements and expectations of stakeholders and communities on sustainability and how these affect the organization

Whether or not the board is already engaged and bought into the sustainability agenda, the finance team, together with the CFO, should review its own sustainability competencies and mandate to ensure that it is compatible with embedding sustainable solutions.

The **Embedded Strategies for the Sustainability Transition** guide by the Embedding Project sets out a five-step process to develop contextual goals and embedded strategies, taking into account longer timeframes and a broader understanding of value creation.

The **A4S Essential Guide to Managing Future Uncertainty** (pages 10–21) provides guidance on identifying risks from macro sustainability trends and understanding and assessing their impact.

Use the **A4S Finance Sustainability Competencies Tool** to understand the skills, knowledge, and behaviours necessary for the finance team to succeed in embedding sustainability.

STEP 1: PREPARE

1.2 Assess the executive management alignment around the need to embed sustainability

The CFO is a key member of the EM team and may (in some corporate structures) also be a member of the board, thus having direct access to engage them on sustainability. Where the CFO is not a member of the board, there are still ways to engage and influence the board, see 'Step 2: Engage'.

In organizations where the CFO is engaged with, or has oversight of, sustainability, then embedding sustainability into the finance function and throughout the organization may happen more quickly. Where the CFO does not currently have sustainability in their remit or does not see it as a priority, the finance team would need to engage the CFO first and get them on board. Where there is a Chief Sustainability Officer or sustainability team in the organization, the finance team should work with them to engage the CFO, and then support the CFO to engage and align other EM members, before engaging the board.

The finance team can first consider the level of awareness, responsibility and accountability among the EM team to assess their alignment around the need to embed sustainability. One way to ensure leadership alignment is to develop a vision and business case for change. This will take time and is not necessarily a linear process. From raising awareness, articulating the business case for change, embedding sustainability into day-to-day activities and processes, to setting targets and establishing accountability (linking sustainability targets to executive pay for example), finance can provide support and monitor progress along the way.

The A4S Essential Guide to Finance Culture (pages 18–21: Leadership Alignment) provides guidance on aligning leaders on the need to embed sustainability.

A Guide on Supporting Your CEO and Their Decision Making Around Sustainability by the Embedding Project provides insights on how corporate change agents can help influence the CEO's thinking on sustainability and their role in embedding sustainability into the strategies and day-to-day decisions of their organizations.

Watch two short videos of CFOs from the A4S CFO Leadership Network talk about:
- Leading by example
- The importance of leadership and champions

STEP 1: PREPARE

1.3 Understand the board characteristics

The characteristics of the board have a significant influence on the way that its directors execute their responsibilities, interact with each other, make decisions and lead the organization. Before engaging the board on sustainability, it would be useful for the CFO and finance team to understand the board characteristics: governance, competencies, composition and behaviours. The company secretary, the CEO and other EM members who have regular communication with the board would be able to offer insights. Start with understanding:

- Their perspective on the corporate purpose and commitment to creating long-term value for the business and for society.
- Their level of interest, understanding, experience and behaviour towards environmental and social matters.
- The way they approach business decision making (rational, political, emotional, competitive).
- How the board's mandate and oversight responsibilities have evolved.
- The narrative infrastructure (the key stories) they rely upon to justify their decision making.
- The dynamics of the board, the personalities, responsibilities and standpoints of individual members – who may be difficult to convince and who will likely give support.

There are several ways to build a sustainability-competent board, such as through integrating sustainability into the nomination process, educating them on material environmental and social matters, supporting more systems and anticipatory thinking, and deepening engagement with relevant stakeholders and experts. The CFO and finance team may be directly involved or have influence in some of these areas, as evident in the 'Applying the steps in regular board activities' section.

Overall, finance should stay abreast of the practices that are being implemented to build the board's sustainability competencies. It may be useful to assess individual board members, in particular the ease with which they make connections between environmental and social matters and the business context.

Use the A4S Board Characteristics Review Tool to review the characteristics of the board and understand how these influence the board's ability to provide steer and make decisions on sustainability.

Use the A4S Stakeholder Analysis and Change Management Tool to determine which board and EM members are friends, foes or fence sitters, and to prioritize each member in terms of their effect / impact.

Modernizing governance: ESG challenges and recommendations for corporate directors by the World Business Council for Sustainable Development (WBCSD) gives recommendations to assist boards on their journey towards modernizing governance.

A Guide on Shaping Your Organization's Narrative Infrastructure by the Embedding Project explores how to shift organizational narratives to support strategic decision making aligned with sustainability.

The A4S Essential Guide to Strategic Planning, Budgeting and Forecasting (pages 101–104) gives guidance on the governance structure and oversight responsibility of the board and board committees in embedding an integrated approach.

Practical example – Yorkshire Water
Read about how the board-level committees at Yorkshire Water, including the social value committee, adopted the six capitals approach.

STEP 1: PREPARE

CHECKLIST

This checklist helps to ensure that you have worked through Step 1 and are well prepared to move on to Step 2 – Engage.

- ◯ Have you understood where your organization is on its sustainability journey?
- ◯ Have you understood what sustainability means for your organization?
- ◯ Have you discussed sustainability with other teams across your organization?
- ◯ What are the material sustainability risks and opportunities?
- ◯ How do they impact long-term value creation for your business and for society?
- ◯ Have you considered how finance can be an enabler for the transition to a sustainable business model?
- ◯ Have you identified the finance team's sustainability competencies and where upskilling may be needed?
- ◯ Have you reviewed the finance function mandate and where changes may be needed to support embedding sustainability?
- ◯ Have you reflected on your financial processes and how they may need to shift to enable better decision making?
- ◯ How does the CFO approach sustainability?
- ◯ How will this affect the way you engage the board and EM?
- ◯ Have you assessed whether the EM understand the need to embed sustainability?
- ◯ Have you considered the board characteristics?
- ◯ How will this affect the way you / the CFO engage(s) the board on sustainability?

STEP 2: ENGAGE

Based on the preparation work in Step 1, the finance team may need to engage the CFO and EM members first to get their buy in and support. The CFO may start to identify sustainability champions among the EM members and work with the corporate (company) secretary before engaging the board. During board engagement, finance can add value by providing information and data that is useful for decision making and explaining sustainability in the business context.

2.1 Engage the CFO and EM

Depending on the level of understanding among EM members and how aligned they are on the need to embed sustainability (discussed in Step 1), the finance team may need to engage the CFO and EM members first before going to the board. This may be the most common path, but not the only one, and it is not necessarily a linear process.

Not all EM members will necessarily be persuadable at first, so finance may need to seek support from the more relevant or 'on side' members to begin with, eg those involved in strategic planning, risk management, and sustainability initiatives. Change is difficult, so make it easy for people to accept by ensuring a few leaders are demonstrating commitment. It is not necessary to have total buy in across the EM team before you start engaging the board; finance can bring others in iteratively over time as momentum builds.

Engaging the CFO

To get the CFO's support and buy in, the finance team can start by demonstrating:

- How sustainability impacts the value drivers of the business
- How competitiors are responding
- How emerging sustainability risks could lead to business disruption
- How environmental and social factors can be integrated into what finance does
- How external pressures, from investors and regulators, for example, are causing businesses to rethink and change their business models

Once engaged, the CFO can leverage their unique role in rallying support among the EM members. They will have direct access and reporting duties to the CEO and the board, so are well placed to explain sustainability in the business and financial context and to present the long-term value creation benefits of a sustainable business.

Engaging the EM

Consider the vested interest of EM members, eg Chief Sustainability Officer in integrating sustainability across the organization, Head of Strategy in developing the corporate strategy, the Chief Risk Officer in assessing climate-related risks, and their involvement in engaging the board, eg through board committees. The CFO may take the lead in getting their broad support for embedding sustainability into board decision making. This could be done through board policy, the executive committee, or other existing organization structures. It may be useful to have regular cross-functional discussions on sustainability and to identify champions among the EM members. The CFO can leverage the existing engagement channels and relationships these EM members have with the board. Working with EM peers, the CFO can influence the CEO and the board on sustainability.

Shaping Your Organization's Narrative Infrastructure – guidance from the Embedding Project that builds on **Storytelling for Sustainability** and helps you to understand and develop your organizational narratives to support better strategic decision making aligned with sustainability.

The **A4S Essential Guide to Finance Culture** (pages 18–21: Leadership Alignment) provides guidance on aligning leaders around the strategic vision and the business case for change.

Use the **A4S Leadership Alignment Tool** to help leaders understand the business case for change and align them behind a common vision and collaborate to achieve a common goal.

STEP 2: ENGAGE

2.2 Engage the board

Get their buy in

Depending on the board characteristics (discussed in Step 1), time may be needed at the start to set out what the board may perceive to be new and complex ideas and concepts relating to sustainability. To get their buy in, the finance team should support the CFO and EM members to draw the board's attention to:

- The environmental and social matters that are most relevant to the activities of the organization, the associated risks and opportunities, and how these may impact long-term business performance and value creation.
- Their fiduciary duties in addressing ESG matters, and the risk of inaction and the longer-term financial impact. Apply urgency but not alarmism.
- The regulatory requirements and investor requests concerning sustainability as a way to encourage questions and discussion, keeping the organization's purpose, vision, and strategic objectives at the forefront.
- The ESG expectations of stakeholders and communities and how the organization could be affected when these expectations are not responded to, drawing on real-life examples, eg new headlines and insights.
- What industry peers are doing with respect to sustainability, especially any success stories you are able to draw their attention to.

Draw on their expertise and bring in external experts

Each board member is expected to lend expertise to solve organizational challenges and capture opportunities based on their unique background and experience. They can offer industry and stakeholder insights, and a wide range of perspectives that lead to a more creative and balanced approach to decision making. The CFO and EM team should draw on this when seeking inputs from the board on the transition to a sustainable business. Some board members may be harder to convince than others, so the CFO and EM team should build on the points raised by members who give support and be prepared to be challenged. Consider bringing in external experts to present the hot topics and broader trends and to explain the technical aspects of sustainability, while ensuring that implications for the organization itself are emphasized.

Board directors' duties and ESG considerations in decision making – a report by WBCSD and Baker McKenzie, explains why sustainability matters and why it should be included on board agendas as a matter within their remit. It draws primarily upon perspectives and insights from the UK and US legal and regulatory structures.

Use CPA Canada's briefing: Environmental and Social Risks and Opportunities: Questions for Directors to Ask to suggest questions to ask the board to help them understand their role in overseeing environmental and social risks to the organization.

Use B Lab UK's Boardroom 2030 Activation Kit to encourage a new approach to running a board or executive management meeting. It compiles resources to help businesses plan their 'Boardroom 2030 activiation' and suggests questions to add to the agenda.

Use Chapter Zero's Board Toolkit to help structure a board discussion about climate change. It explains a five-step process to help the board understand the implications of climate change on the organization and how ready it is to address climate challenges.

STEP 2: ENGAGE

2.2 Engage the board *continued*

Apply finance skills

Finance understands the value drivers of an organization and can assist in the measurement and analysis of social and environmental factors and their value to the organization. By providing multicapital information and explaining how it links to value creation and financial performance, eg revenue growth, access to finance, and production rate / efficiency, the board will be able to make more informed business decisions. Acting as a business partner across the organization, the finance team can provide multicapital context and allocate resources to support a sustainable business strategy.

Working together with the in-house sustainability team or experts, finance can help to interpret, apply, and communicate sustainability accounting guidance and standards to inform decisions for the organization. Finance also plays a key role in ensuring compliance with ESG regulatory and reporting requirements and responding to investor requests. As a trusted adviser to the board, finance is well placed to raise these matters with the board and propose the necessary responses to the board.

Finance should be ready to present any financial analysis and metrics to help decision making, but also help advise on any organizational, process, and policy changes that may be required to transition to a sustainable business in collaboration with relevant EM members.

Build relationships and establish accountability

The CFO, along with other EM members, may consider meeting with individual board members outside of the scheduled board meetings and / or inviting them to experiential events related to sustainability on a regular basis. These will provide opportunities to build relationships and to have more in-depth, strategic discussions on sustainability. The board members will then be more equipped to hold informed and strategic discussions on sustainability during board meetings. They will also have a better understanding of their responsibilities for sustainability oversight and establishing accountability.

A4S Essential Guide to Strategic Planning, Budgeting and Forecasting (pages 28–46) – Guidance on integrating sustainability into opex and capex budgeting processes.

A4S Essential Guide to Management Information – Guidance on management reporting and developing the information needed to respond to social and environmental risk and opportunities. It includes delivering material information, reporting to meet user requirements, and developing the types of report and insight for strategic decision making.

A4S Essential Guide to Capex – Guidance on embedding sustainability into capital investment appraisal processes.

A4S Essential Guide to Natural and Social Capital Accounting and A4S Essential Guide to Social and Human Capital Accounting – Guidance on evaluating value drivers for sustainable business and determining the natural, social and human capital factors to include in your scope, how to measure them, and how to use the information for decision making.

A4S Essential Guide to Debt Finance – Guidance on embedding ESG considerations into debt finance decisions.

Use the A4S Board Engagement Tool to identify ways to engage the board outside of the regular board meetings that will help board members make informed decisions and establish accountability.

STEP 2: ENGAGE

CHECKLIST

This checklist helps to ensure you have worked through Step 2 and reflected on the outcomes before moving on to Step 3 – Embed and improve.

- ◯ Have you engaged the CFO and EM members (including EM champions identified) who can support you in engaging the board on sustainability?
- ◯ Have you applied your finance skills and leveraged the role of finance to enable more informed decision making by the board, aligned with sustainable business?
- ◯ Have you explained the board's fiduciary duties in addressing ESG matters and investor expectations with respect to the board's understanding of ESG matters?
- ◯ Have you secured buy in or identified a champion from the board on the transition to sustainable business?
- ◯ Have you noted questions or feedback from the board and considered how you will address them?
- ◯ Have you addressed specific points raised by individual members that signify their support or resistance?
- ◯ Have you suggested questions to add to the board agenda, to encourage a discussion on your organization's action on sutainability?
- ◯ Have you identified follow-up actions based on the consensus reached or decisions made?

STEP 3: EMBED AND IMPROVE

Engaging the board and EM is not a one-off exercise but a continual process of improvement. Over time, the finance team will identify areas for improvement and begin to embed sustainability into regular board activities so that it becomes part of the regular board decision making. The finance team should continually monitor and improve the outcomes in the organization's changing economic, environmental, and social context. Examples are provided in the 'Applying the steps in regular board activities' section.

3.1 Identify areas for improvement

The process of engaging the board and EM is not necessarily a linear process. At this stage, finance should review the previous steps taken in 'Prepare' and 'Engage' and consider what has worked well and what areas need further work. Finance should also review the actions taken to embed sustainability into regular board activities, consider the changing stakeholder, economic, environmental, and social contexts within which the organization operates, and identify areas for further improvements.

The finance team should work with other functions and business units to articulate the broader changes that are necessary to embed sustainability across the organization, eg cultural change, new ways of working, awareness raising and upskilling, and new structures to facilitate collaboration. They should provide support to the CFO in presenting the case for change to the EM, then the board. The finance team should also ensure that improvement activities are prioritized on a risk basis, such that resources are applied to those areas which can deliver the most impact.

Use the A4S Engaging the Board and Executive Management maturity map to help you assess what you are currently doing and how you can progress on engaging the board and EM on sustainability.

STEP 3: EMBED AND IMPROVE

3.2 Embed sustainability across board activities

To strengthen buy in and commitment from the board and EM over time, sustainability should be embedded across regular board activities. In the 'Applying the steps in regular board activities' section, there are suggestions and examples to help finance to:

- Review the regular board activities and the role of finance.
- Consider how sustainability can be embedded into each of these activities and what an engaged board looks like.
- Plan how to embed sustainability into these board activities consistently over time.
- Act on the plan and review the results so improvements can be made.

The CFO may take the lead in formalizing a structure for accountability as the board and EM become more engaged and discussions on sustainability become more frequent in board meetings, eg set up a board-level sustainability committee, include sustainability in the Terms of Reference of board or board-level committees, and include sustainability in EM responsibilities.

See '1.2 Assess the executive management alignment around the need to embed sustainability' section about establishing accountability by linking sustainability targets to executive pay, for example.

The finance team may be involved in developing or updating policies, procedures, and internal control frameworks to integrate environmental and social factors into business and finance processes. They may be called on to assess the impact of the associated changes and facilitate continual improvement.

Next Generation Governance: Developing Position Statements on Sustainability Issues – A guidebook for supporting your board by Embedding Project.

A4S Essential Guide to Finance Culture – Guidance on embedding change and ensuring that the change is sustainable, and the benefits are realized.

A4S Essential Guide to Strategic Planning, Budgeting and Forecasting (pages 101–104) – Guidance on board governance structure and oversight responsibility and accountability to support an integrated approach to sustainability across the organization.

A4S Essential Guide to Management Information – Guidance on reporting and developing insight, including multicapital information for strategic decision making.

Use the Embedding Sustainability Self-Assessment tool by the Embedding Project to help you understand what embedding sustainability across business operations and into business decision making looks like, and to assess your organization's progress and prioritize your efforts.

STEP 3: EMBED AND IMPROVE

3.3 Report progress

Supported by the finance team, the CFO should report to the board and EM members the progress made on embedding sustainability across the organization on a regular basis, in particular any action items agreed at board meetings. An effective way of doing this is to present information that connects their contributions and decisions around sustainability to the resulting impact on the organization, its stakeholders, and communities. The CFO should ensure that EM members are engaged when preparing this information, such that their inputs can be considered and included.

In external reporting, in addition to meeting mandatory reporting requirements, finance should highlight the role the board and EM play in embedding sustainability, the individual commitments they have made and how they are driving change and collaboration across the organization. This can be done by using short videos, podcasts, blogs, and quotes to tell the story. Working with the investor relations team, for example, provides opportunities for the board and EM to have direct dialogues with stakeholders and communities where possible, in particular those who have a vested interest in the decision making for sustainability. The exchange of views will help inform the purpose, direction, strategy, and sustainability of the organization. The results of such communications and engagement should be used to inform reviews of these and associated activities such that the organization continues to improve both in the eyes of its stakeholders and communities.

Shaping Your Organization's Narrative Infrastructure – Guidance by the Embedding Project that builds on Storytelling for Sustainability and helps you to understand and develop your organizational narratives to support better strategic decision making aligned with sustainability.

STEP 3: EMBED AND IMPROVE

CHECKLIST

This checklist helps to ensure you have worked through Step 3 – Embed and improve.

- ◯ Have you identified the areas for improvement in engaging the board and EM – both in preparation and in the engagement itself?
- ◯ Have you reviewed the actions taken to embed sustainability into regular board activities and any changes to the organization's stakeholder, economic, social, or environmental contexts?
- ◯ Have you developed a plan to embed sustainability fully across regular board activities over time?
- ◯ Have you considered what an engaged board looks like and what finance can do to build an engaged board?
- ◯ Have you got a process in place to report regularly to the board / board committees (eg audit committee, risk committee, nomination and governance committee) and EM the progress of embedding sustainability across the organization?
- ◯ Have you identified opportunities for the board and EM to speak directly to investors, stakeholders, and communities about their commitments to sustainability?
- ◯ Have you established a process to ensure that this effort is continued such that outcomes are continually improving?

APPLYING THE STEPS IN REGULAR BOARD ACTIVITIES

WHAT DOES AN ENGAGED BOARD LOOK LIKE?

We selected four regular board activities to illustrate how the steps 'Prepare', 'Engage', 'Embed and improve' can be applied, with examples of practical actions finance can take to build an engaged board. Some of these actions involve finance working with or supporting other teams, rather than necessarily taking the lead. Not all the recommended actions in a particular step need to be completed before moving on to the next step. At each step, there should be a process of review and continual improvement when finance will enhance its contribution to building an engaged board.

Use the A4S survey tool to help you assess how engaged your board is currently and what finance can do to build an engaged board.

#1 Business strategy and planning

What does it look like?

What can finance do?

#2 Governance and risk management

What does it look like?

What can finance do?

#3 Corporate development and investment

What does it look like?

What can finance do?

#4 Corporate reporting and internal controls

What does it look like?

What can finance do?

#1 – BUSINESS STRATEGY AND PLANNING
WHAT DOES IT LOOK LIKE?

BOARD RESPONSIBILITIES

- Understand the needs, interests and expectations of stakeholders and communities, as well as the demands and constraints of the economic, social, and environmental contexts within which the organization operates.
- Ensure that among its members and committees it has the necessary competence and experience to respond to the above.
- Establish a sustainable business vision, mission, and strategy to fulfil the organization's purpose and drive long-term value creation.
- Demonstrate commitment and direction to transition to a sustainable business.
- Drive the necessary change in organizational culture to implement a sustainable business strategy.
- Monitor and challenge the short-term business performance against long-term value creation.

WHAT DOES AN ENGAGED BOARD LOOK LIKE?

- The board actively oversees the transition of the organization to a sustainable business, ensuring that the associated activities continue to meet the changing stakeholder and contextual conditions.
- The board is fully committed to the transition, demonstrating this commitment in appropriate resource allocations, effective governance policies, and transparency in its disclosures.
- The board provides an appropriate 'tone at the top' by adopting a sustainable business vision, mission, and strategy.
- In-house or external sustainability experts, where necessary, are involved in the strategic and business decision making processes.
- The board receives and deliberates on the results of stakeholder and community engagements, external context reports and internal management reports to monitor short-term business performance and long-term value creation.
- The board drives transformational change in organizational culture to support the integration of a sustainable business strategy throughout the organization.

#1 – BUSINESS STRATEGY AND PLANNING
WHAT CAN FINANCE DO?

Prepare to engage the board | Engage the board | Embed into regular decision making

FINANCE TEAM TO:

- Work with the sustainability and risk teams to understand the macro sustainability trends and the corresponding risks and opportunities that are material to the organization.
- Determine their potential financial impact (revenue streams, savings / costs) across short-, medium-, and long-term time horizons.
- Work with relevant teams to pull together data and analysis to show how environmental and social factors affect the business strategy in key areas (eg products and services, supply chain / value chain, operations, and investment).
- Provide information on matters that are important to value creation and protection.
- Where new strategic initiatives are proposed, to support the integrated strategy, prepare, or review the financial projections and assess the financing required.
- For new products, services, or business lines proposed, perform financial analysis on market trends and opportunities.
- Evaluate the contribution of new products, services, and business lines to sustainable business growth.

THE CFO TO WORK WITH THE CHIEF SUSTAINABILITY OFFICER AND OTHER EM MEMBERS TO:

- Establish a common understanding of how the business strategy is affected by macro sustainability trends and how to engage the board on the transition to a sustainable business.
- Propose changes to the business strategy to address the environmental and social risks and take advantage of the opportunities.

FURTHER RESOURCES:

A4S Essential Guide to Managing Future Uncertainty
Guidance on integrating macro sustainability trends into decision making

A4S Essential Guide to Finance Culture
Guidance on aligning leaders around the strategic vision

A4S Essential Guide to Strategic Planning, Budgeting and Forecasting (pages 16–27)
Guidance on the process of strategic planning

A4S Essential Guide to Debt Finance
Guidance on embedding sustainability into debt financing decisions.

#1 – BUSINESS STRATEGY AND PLANNING
WHAT CAN FINANCE DO?

Prepare to engage the board | **Engage the board** | Embed into regular decision making

THE CFO TO:

- Present, with the Chief Sustainability Officer / other EM members, the financial impact of environmental and social risks and opportunities that are material to the organization and highlight the risk of inaction.
- Explain the impact in business / financial terms, supplement with qualitative / nonmonetary metrics to aid decision making.
- Highlight any regulatory requirements and pressures from investors, stakeholders, and communities concerning ESG factors.
- Deliberate on how the business strategy should change in response.
- Where new strategic initiatives are proposed to support the transition to a sustainable business, present the projected costs and benefits of these initiatives.
- Demonstrate how these new initiatives contribute not only to business growth but long-term value creation. Where relevant, benchmark against what peer companies are doing.

THE BOARD TO:

- Reach a consensus on the level of ambition for sustainability and a framework on how to get there – long-term objectives with short-term targets embedded in the corporate strategy – to be owned by the board.
- Discuss and sign off on strategic goals and targets.
- Discuss and approve new strategic initiatives and review their progress over time.

Note, where there is a sustainability subcommittee of the board, they will play a key role in reviewing in depth, before presenting to the full board.

FURTHER RESOURCES:

A4S Essential Guide to Strategic Planning, Budgeting and Forecasting (pages 97–100)
Guidance on the governance areas of strategic management and business goals

#1 – BUSINESS STRATEGY AND PLANNING
WHAT CAN FINANCE DO?

Prepare to engage the board | Engage the board | **Embed into regular decision making**

Once the strategy has been agreed, the EM has the responsibility to implement the strategy.

THE CFO AND FINANCE TEAM TO:

- Integrate environmental and social factors into the regular strategic planning, budgeting, and forecasting processes.
- Develop an effective Integrated Management Information (IMI) framework to support the transition to a sustainable business.
- Collaborate with the sustainability team and others to provide robust and useful environmental and social information for decision making.
- Monitor performance and demonstrate how the strategy drives long-term value creation, and report back to the board regularly and consistently.
- Allocate financial resources to support the transition to a sustainable business.
- Work with the Chief Sustainability Officer / other EM members to integrate sustainability into financial and business decisions.
- Work with the Chief Sustainability Officer / other EM members to include sustainability targets and metrics in performance measurement so that senior leaders are personally invested, sending a positive message to the rest of the organization.
- Work with investor relations to prepare the board for answering questions from investors on the integrated strategy and how it drives long-term value creation.
- Review results of the strategy implementation and recommend improvements.

FURTHER RESOURCES:

A4S Essential Guide to Strategic Planning, Budgeting and Forecasting (pages 13–53)
Guidance on integrating sustainability into business processes

A4S Essential Guide to Management Information (pages 16–18)
Guidance on developing the IMI framework with key questions for the board, executive management, and finance

A4S Essential Guide to Enhancing Investor Engagement
Guidance on engaging with investors and explaining to them your sustainable business strategy and model and how it creates value.

How to Set Up Effective Climate Governance on Corporate Boards: Guiding principles and questions
Tools for the board of directors. Governance principles to increase directors' climate awareness, embed climate issues into board structures and processes, and improve navigation of the risks and opportunities that climate change poses to business.

#1 – BUSINESS STRATEGY AND PLANNING
WHAT CAN FINANCE DO?

Some organizations have a board-level sustainability committee to decide on environmental and social matters and oversee the organization's performance against the integrated strategy. The committee members are likely to be 'on side' and championing sustainability, but they would still rely on the support of the CFO and finance team, eg in integrating sustainability within performance management, corporate reporting, and management information processes, and advising on the potential financial impact of sustainability risks and opportunities for decision making.

PRACTICAL EXAMPLE – TELUS

At TELUS, the CFO and finance team played a leading role in integrating sustainability considerations into strategic planning and decision making. The sustainability function was aligned with finance and both teams leveraged the strong relationship they had with the board through quarterly reporting to engage them on sustainability. These efforts were complemented by initiatives that furthered the education for board members in areas such as climate change, bridging digital divides, and online safety and security.

See full case study for further information

PRACTICAL EXAMPLE – YORKSHIRE WATER

At Yorkshire Water, finance led the organization to adopt a capitals approach, including engaging the board on the six capitals, such that it was integrated into the strategy, business model, and decision making at all levels

See full case study for further information

#2 – GOVERNANCE AND RISK MANAGEMENT
WHAT DOES IT LOOK LIKE?

BOARD RESPONSIBILITIES

- Oversee the conduct of the business and supervise management.
- Review the governance framework, policies, and codes of conduct to promote effective governance practices and ethical behaviour, and drive continuous improvement.
- Oversee the organization's management of current and emerging risks and ensure that risks associated with its activities and decisions are managed.
- Ensure that the adequacy and effectiveness of the organization's internal control system are regularly reviewed and improved.
- Ensure compliance with applicable laws, rules, regulations, and voluntary commitments.

WHAT DOES AN ENGAGED BOARD LOOK LIKE?

- The board and relevant subcommittees (eg Risk Committee) fully understand the current and emerging trends affecting the organization and the associated risks and opportunities over a short to long time horizon.
- They are well informed so as to incorporate all material risks and opportunities in business decision making.
- They promote organizational innovation such that opportunities are optimized.
- The board may have established a board-level committee to lead oversight of environmental and social matters and, if not, has taken on these responsibilities in full.
- The board, collectively, has the right competencies and experience to provide oversight, insight, and foresight on environmental and social matters.
- Board-level accountability to the organization for environmental and social responsibilities is established in the Board Charter / Terms of Reference.
- The board has delegated responsibilities for sustainability matters to the organization's EM members directly, or indirectly via the CEO.
- The board requests and receives reports on the delegated responsibilities and oversees and directs associated activities based on these reports and other relevant information.
- The organization's environmental and social targets are incorporated into executive pay.

#2 – GOVERNANCE AND RISK MANAGEMENT
WHAT CAN FINANCE DO?

Prepare to engage the board → Engage the board → Embed into regular decision making

FINANCE TEAM TO:

- Work with other teams, eg strategy, risk, and sustainability to understand the current and emerging sustainability risks and opportunities that are material to the organization.
- Assess their potential financial impact and consider them alongside the 'traditional' financial risks.
- Support the risk team to conduct risk assessments and interpret the results, in particular in applying scenario planning to assess business resilience to sustainability risks. Assess the impact on future income, assets, and liabilities in different scenarios. Adopt a longer-term focus and plan for multiple possible scenarios to accommodate the uncertainty associated with these impacts.

THE CFO TO WORK WITH:

- Chief Risk Officer / Chief Sustainability Officer to prepare to engage the board on the organization's aggregate exposure to sustainability risks and the risk management systems in place to mitigate risks and ensure business resilience.
- EM to articulate the business case and commercial rationale by highlighting the value at risk from inaction and the associated costs, while also addressing the potential business opportunities.
- EM (and corporate / company secretary) to consider the governance structure, management systems, and policies in place to monitor environmental and social matters, from management to board level.

FURTHER RESOURCES:

A4S Essential Guide to Managing Future Uncertainty
Guidance on adapting traditional risk management processes to respond to macro sustainability trends.

A4S Essential Guide to Strategic Planning, Budgeting and Forecasting
Guidance on good governance to achieve an integrated approach.

Applying Enterprise Risk Management to Environmental, Social and Governance-related Risks (WBCSD)
Guidance on applying enterprise risk management concepts and processes to ESG-related risks.

Audit Committees and Effective Climate Governance: A Guide for Boards of Directors (Canada Climate Law Initiative)
Draws together current legal and best practice guidance for audit committees to assist them in taking a leadership role in effective climate governance.

#2 – GOVERNANCE AND RISK MANAGEMENT
WHAT CAN FINANCE DO?

Prepare to engage the board | **Engage the board** | Embed into regular decision making

THE CFO TO:

- Support the Chief Risk Officer / Chief Sustainability Officer to present the overall assessment and management of sustainability risks, the influencing factors, key developments, and mitigations. In particular, explain their potential impact on financial and operational performance, in the short to long term.
- Explain how the principle of materiality was applied to identify the material sustainability risks and opportunities.
- Invite, where helpful, external experts to elaborate on the current and emerging risks and their implications for the organization and make recommendations to the board.
- Link the risk assessment results to strategic decision making, eg reviewing the organization's strategic objectives against the risks identified.
- Support the company secretary in updating the board on corporate governance developments, particularly in the effective monitoring of, and decision making for, environmental and social matters. The focus should be on enhancing accountability and transparency to stakeholders and communities and going beyond regulatory compliance.

THE BOARD TO:

- Understand the impact of material sustainability risks and opportunities and to incorporate all material risks and opportunities in their decision making.
- Provide oversight and foresight of current and emerging risks and risk exposures over time.
- Review and sign off on risk appetite.

FURTHER RESOURCES:

A4S Essential Guide to Strategic Planning, Budgeting and Forecasting
Guidance on good governance to achieve an integrated approach.

#2 – GOVERNANCE AND RISK MANAGEMENT
WHAT CAN FINANCE DO?

Prepare to engage the board → Engage the board → **Embed into regular decision making**

THE CFO AND FINANCE TEAM TO:

- Support the scenario planning work, applying multiple scenarios to consider the inherent uncertainty of the risks arising from macro sustainability trends.
- Work with the risk team and business units to consider the impact of these risks along the entire value chain.
- Source reliable data and build robust information to support the process.
- Provide insight into the changing ESG regulatory and investment landscape.
- Work with the Chief Risk Officer / Chief Sustainability Officer to ensure board and EM level oversight, regular monitoring, and review of new trends, emerging risks, and stakeholder concerns. Integrate into existing risk management processes, with enhancements where needed.
- Work with the EM to lead the implementation of enhanced or new governance structures, management systems, and policies to monitor sustainability matters effectively.

FURTHER RESOURCES:

A4S Essential Guide to Strategic Planning, Budgeting and Forecasting
Guidance on good governance to achieve an integrated approach.

#2 – GOVERNANCE AND RISK MANAGEMENT
WHAT CAN FINANCE DO?

PRACTICAL EXAMPLE – BRITISH LAND

At British Land, our 2030 Sustainability Strategy includes a commitment to be net zero carbon in our standing portfolio. By demonstrating a strong business case for more sustainable buildings and close alignment with our corporate strategy, our board has been engaged and supportive from an early stage. Our CFO has played a key role in demonstrating the business case for sustainability and its relevance to a range of business areas.

See full case study for further information

PRACTICAL EXAMPLE – MANULIFE

At Manulife, our Board's Corporate Governance and Nominating Committee oversees our sustainability framework. We formed the Executive Sustainability Council, which is supported by the Sustainability Centre of Expertise, a cross-functional team tasked with integrating sustainability into our business. We also have a dedicated climate change taskforce, chaired by the Chief Risk Officer, which drives the environmental pillar of our sustainability strategy.

See full case study for further information

PRACTICAL EXAMPLE – WATERCARE

At Watercare, we refreshed our strategy to ensure that the short-term financial value we were creating was not at the expense of long-term value for us and our stakeholders. To make the strategy succeed, we needed to equip our board and executive management with the knowledge and skills to make informed decisions. We developed a new template for board papers that uses the six capitals to embed integrated thinking into every strategic decision.

See full case study for further information

#3 – CORPORATE DEVELOPMENT AND INVESTMENT
WHAT DOES IT LOOK LIKE?

BOARD RESPONSIBILITIES

- Establish the organization's investment objectives and policies and ensure effective decision making.
- Approve selection of external portfolio investment adviser / fund managers, asset allocation, and appointment of custodians as necessary, ensuring that they reflect the required sustainability practices.
- Delegate authority and responsibilities to management but reserve the authority to make decisions with respect to major capex projects over a defined financial or impact threshold.
- Steer and oversee corporate development activities, with the primary aim of protecting and enhancing shareholder value, ensuring that such activities consider the needs, interests, and expectations of stakeholders and communities.
- Ensure the processes driving investment decision making align with the organization's purpose as well as any specific environmental and social commitments.

WHAT DOES AN ENGAGED BOARD LOOK LIKE?

- The board and relevant subcommittees (eg Investment Committee) consider all relevant environmental and social factors in regular investment decision making, in the capex appraisal process, and when deciding on major corporate development initiatives.
- They are provided with accurate and timely reports on the impact of environmental and social factors on the organization and its projects, as well as the associated value chains.
- They consider the assessment of material environmental and social risks and opportunities in corporate development strategies and activities.

#3 – CORPORATE DEVELOPMENT AND INVESTMENT
WHAT CAN FINANCE DO?

Prepare to engage the board → **Engage the board** → **Embed into regular decision making**

FINANCE TEAM TO:

- Ensure that the organization's strategic objectives to address sustainability risks and opportunities are reflected in the organization's investment objectives and policies. Propose any necessary changes to the CFO and EM.
- Identify and prioritize sustainability factors for capital investment decisions. Consider materiality, the whole lifecycle, and the value chain. Develop a framework for decision makers to assess these factors in the capital investment appraisal.
- Incorporate sustainability factors when assessing the commercial rationale for mergers and acquisitions (M&A), joint ventures, strategic alliances, and other non-organic growth strategies.
- Assess the impact of M&A activities on the achievement of sustainability targets.
- Ensure that sustainability factors are included in due diligence activities when executing strategic transactions.

THE CFO TO WORK WITH THE EM TO:

- Agree on the approach and any changes to existing policies and processes to incorporate sustainability factors into corporate development and investment decisions.
- Identify major changes and new initiatives that would require board approval and prepare to present these to the board.

FURTHER RESOURCES:

A4S Essential Guide to Strategic Planning, Budgeting and Forecasting
Guidance on good governance to achieve an integrated approach.

A4S Essential Guide to Capex
Guidance on integrating social and environmental matters into existing capital investment appraisal processes in a pragmatic and systematic manner.

A4S Essential Guide to Debt Finance
Guidance on incorporating ESG risks into debt financing decisions.

Implementing a Sustainable Finance Framework: Top Tips
Guidance to help treasurers implement a sustainable finance framework.

#3 – CORPORATE DEVELOPMENT AND INVESTMENT
WHAT CAN FINANCE DO?

Prepare to engage the board → **Engage the board** → Embed into regular decision making

THE CFO WITH CEO AND OTHER EM MEMBERS TO:

- Propose changes to the investment objectives and policies to support the achievement of the organization's strategic objectives.
- Present major capex projects to the board and take them through the capex appraisal process, explaining the sustainability factors.
- Explain, in regard to major corporate development initiatives, how sustainability factors were considered when assessing the commercial rationale. Where appropriate, incorporate findings from external assessments and invite external experts into the discussion.

THE BOARD TO:

- Discuss and approve changes to the investment objectives and policies, major capex projects, and corporate development initiatives, considering the relevant sustainability factors and their impact.
- Provide advice and direction for corporate development strategies and maintain oversight over their implementation.

#3 – CORPORATE DEVELOPMENT AND INVESTMENT
WHAT CAN FINANCE DO?

Prepare to engage the board → Engage the board → **Embed into regular decision making**

THE CFO AND FINANCE TEAM TO:

- Implement changes to the investment objectives and policies and prepare regular reporting to the board on the outcomes.
- Refine the capex appraisal process to incorporate all the sustainability factors that are material to the organization / project.
- Prepare regular reporting to the board on how the capex projects are meeting sustainability targets and enhancing the overall sustainability performance of the organization and its value chain.
- Monitor ongoing corporate development activities, including M&A, and how they support the achievement of sustainability targets.

#3 – CORPORATE DEVELOPMENT AND INVESTMENT
WHAT CAN FINANCE DO?

PRACTICAL EXAMPLE – BRITISH LAND

As a property company, we need to consider our impact on the local community and the surrounding environment. We developed a checklist to ensure that the board considers these key factors in our development and investment decisions. The checklist also helps ensure we fulfil the requirements of section 172 of the Companies Act 2006 and is used for papers going to the investment committee, exco, or the board.

See full case study for further information

British Land

PRACTICAL EXAMPLE – BROOKFIELD ASSET MANAGEMENT AND BROOKFIELD RENEWABLE PARTNERS

The Capital Markets and Treasury team at Brookfield Renewable Partners played an instrumental role in engaging the board and executives to enable the launch of a green bond framework. Initially, green bond issuance broadened our asset and corporate debt investor base. It was later expanded to include other capital market instruments, such as preferred shares. To date, we have raised CA$4 billion in green financing in Canada and the United States.

See full case study for further information

Brookfield

#4 – CORPORATE REPORTING AND INTERNAL CONTROLS
WHAT DOES IT LOOK LIKE?

BOARD RESPONSIBILITIES

- Ensure the integrity of the organization's information, including the organization's accounting and corporate reporting systems.
- Monitor and review the effectiveness of internal controls and compliance with associated laws, rules, regulations, and voluntary obligations.
- Monitor and review the adequacy of the external and internal audits, as applicable.
- Select and appoint the external auditor, where applicable, and ensure the independence of the external auditor.
- Provide timely and accurate corporate reports, including annual financial statements and results announcements.
- Ensure accurate and timely disclosure of material sustainability risks and sustainability performance.

WHAT DOES AN ENGAGED BOARD LOOK LIKE?

- The board and relevant subcommittees (eg Audit Committee) oversee the organization's control environment and obtain independent assurance (as necessary) on the organization's ability to provide complete, accurate, and timely reporting of sustainability information.
- Internal audit of the control environment and internal controls is performed regularly, with findings reported to the audit committee.
- The board steers the organization towards an integrated approach to accounting for environmental and social matters and reporting with clear presentation of long-term value creation to investors, stakeholders, and communities.
- The board actively monitors compliance with existing and impending laws and regulations related to sustainability and applicable to the organization.
- The board drives business performance and standards to go beyond compliance.

#4 – CORPORATE REPORTING AND INTERNAL CONTROLS
WHAT CAN FINANCE DO?

Prepare to engage the board | Engage the board | Embed into regular decision making

FINANCE TEAM TO:

- Work with sustainability and investor relations teams to understand investors' expectations regarding ESG disclosures and reporting, and the regulations / voluntary standards on sustainability / ESG reporting, eg the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
- Assess the emerging / evolving regulatory and reporting environment. Review any ESG ratings and ranking metrics relevant to the organization.
- Work with the sustainability team and other relevant functions to determine the best course for the organization to pursue a more sustainable business model and integrated reporting.
- Work with the sustainability team to engage with internal audit to understand the implications of sustainability performance reporting on the control environment and internal controls. Assess whether the control environment is effective and the internal controls adequate to ensure the integrity of sustainability information.
- Engage with the external auditor to understand their sustainability credentials and nonfinancial information assurance services.

THE CFO TO:

- Engage the EM, in particular the Chief Sustainability Officer, on integrating sustainability into the annual reporting and auditing processes. They may nominate their team members to form a working group to drive this.
- Work with the Head of Internal Audit to prepare for engaging the board on the necessary changes to the control environment and the reporting and internal audit processes.
- Work with the Head of Investor Relations to discuss proxy voting guidelines with the board and propose investor engagement activities where members of the board and EM can be the spokesperson for sustainability, leveraging the relationships and communication channels built around corporate reporting.

FURTHER RESOURCES:

A4S Essential Guide to Management Information
Guidance on ensuring the control environment is sufficiently robust to provide complete and accurate reporting under an integrated management information framework.

A4S Essential Guide to Enhancing Investor Engagement
Guidance on engaging with investors and explaining to them your sustainable business strategy and model and how it creates value.

Navigating the Reporting Landscape by A4S
This guide offers a brief introduction to the changing corporate reporting landscape. It summarizes recent developments in sustainability reporting.

A4S guidance on adopting the TCFD recommendations

#4 – CORPORATE REPORTING AND INTERNAL CONTROLS
WHAT CAN FINANCE DO?

Prepare to engage the board → **Engage the board** → Embed into regular decision making

THE CFO TO:

- Present, with the Chief Sustainability Officer, the case for sustainable business and ESG / integrated reporting in response to investors' expectations and impending mandatory disclosure requirements. Present and explain key ESG ratings and recommend areas for improvement.
- Explain, with the Chief Sustainability Officer, how integrated reporting can drive improvements in the organization's sustainability performance.
- Keep, with the General Counsel / Chief Sustainability Officer, the board abreast of regulatory developments and what peer companies are doing.
- Explain how the reporting process and audit process will change over time.
- Provide information on the sustainability credentials of the external auditor candidates to inform the external auditor selection process.
- Explain, with the Head of Internal Audit, changes to the control environment and internal controls to enable the complete, accurate, and timely reporting of sustainability information, including performance against sustainability goals.
- Discuss, with the Head of Investor Relations, proxy voting issues with the board and propose investor engagement activities with a focus on sustainability, highlighting the role the board and EM can play and the value they bring.

THE BOARD TO:

- Discuss and agree on the approach to building a sustainable business model and to integrated reporting.
- Commit to developing a control environment and internal controls that support integrated reporting.
- Review and sign off on internal controls and the annual report.
- Review and agree on proxy voting guidelines that incorporate sustainability factors.
- Prepare for investor engagement activities where they can have direct dialogues with investors on the organization's sustainability performance and impact.

#4 – CORPORATE REPORTING AND INTERNAL CONTROLS
WHAT CAN FINANCE DO?

Prepare to engage the board | Engage the board | **Embed into regular decision making**

Once the board agrees on the approach to building a sustainable business model and developing integrated reporting, the EM has the responsibility to ensure its implementation.

FINANCE TEAM TO:

- Work with the sustainability team to interpret sustainability / integrated reporting standards and develop reporting policies and manuals.
- Embed sustainability factors in performance management information and corporate reporting processes.
- Review the adequacy of both internal and external reporting, including the existing management information framework.
- Stay abreast of regulatory developments and investors' expectations around ESG.
- Work with investor relations to explain the organization's approach to long-term value creation to investors and analysts and address their questions.
- Work with investor relations to update the board on the evolving ESG regulatory and investor landscape and propose the necessary responses.
- Work with internal audit to monitor the adequacy of internal controls and effectiveness of the control environment regarding sustainability information.
- Work with internal audit to provide regular updates to the audit committee on the progress of integrated reporting and effectiveness of control environment for sustainability information.

FURTHER RESOURCES:

A4S Essential Guide to Management Information
Guidance on ensuring the control environment is sufficiently robust to provide complete and accurate reporting under an integrated management information framework.

A4S Essential Guide to Enhancing Investor Engagement
Guidance on engaging with investors and explaining to them your sustainable business strategy and model and how it creates value.

The International Integrated Reporting <IR> Framework

#4 – CORPORATE REPORTING AND INTERNAL CONTROLS
WHAT CAN FINANCE DO?

PRACTICAL EXAMPLE – MANULIFE

At Manulife, we developed an ESG infographic tool for communicating concisely with the board what each ESG pillar means to Manulife's business, what we are doing about it, how we disclose our performance, and how it is viewed by credit rating agencies and financial index providers. We have also enhanced our internal risk policies and accounting controls to enable us to anticipate, measure, manage, and track our environmental and social performance.

See full case study for further information

Manulife

TOOLS

A4S BOARD CHARACTERISTICS REVIEW TOOL

To review the characteristics of the board and understand how these influence the board's ability to provide steer and make decisions on sustainability.

DOWNLOAD A COPY

A4S BOARD ENGAGEMENT TOOL

To identify ways to engage the board outside of the regular board meetings that will help board members make informed decisions and establish accountability.

DOWNLOAD A COPY

A4S 'WHAT DOES AN ENGAGED BOARD LOOK LIKE?'

Survey to help you assess how engaged your board is currently and what finance can do to build an engaged board.

DOWNLOAD A COPY

A4S CFO LEADERSHIP NETWORK

Essential Guide to
ENGAGING THE BOARD AND EXECUTIVE MANAGEMENT

PRACTICAL EXAMPLES

Organization	Business strategy and planning	Governance and risk management	Corporate development and investment	Corporate reporting and internal controls
British Land Engaging the board and EM on the new sustainability strategy, including a commitment to net zero carbon by 2030		✓	✓	
Brookfield Asset Management / Brookfield Renewable Partners Engaging the board and EM on green bond issuance			✓	
Manulife Engaging the board and EM in accelerating the integration of sustainability across the organization		✓		✓
TELUS Engaging the board and EM on integrating sustainability into strategic planning and decision making	✓			
Watercare Services Engaging the board using the six capitals framework for an integrated approach to decision making		✓		
Yorkshire Water Getting the board and EM buy in to the six capitals approach and embedding it into long-term business planning	✓			

BRITISH LAND: ENGAGING THE BOARD AND EXECUTIVE MANAGEMENT ON SUSTAINABILITY

WHAT?

British Land is a UK property company that manages £12.7 billion of assets. We launched our new sustainability strategy in May 2020. Our specific commitments include transforming our portfolio to net zero carbon by 2030 and introducing a new Transition Vehicle to accelerate progress towards this goal. By demonstrating a strong business case for more sustainable buildings and close alignment with our corporate strategy, our board has been engaged and supportive from an early stage.

This approach has enabled us to integrate sustainability considerations into business planning, reporting and decision making. To deliver on our goals more effectively, members of our Executive Committee (exco) have clear sustainability objectives and these are cascaded down to staff at all levels of the business. Underlying this is a strong belief that to be successful, sustainability should be considered part of everyone's role, from the board down.

WHY?

Sustainability matters to our customers who are increasingly concerned about the environmental and social impact of the buildings they occupy and our investors who think about the long-term value of their real estate investments. We need to mitigate the physical climate-related risk that our properties are exposed to, and we need to work closely with local communities to develop places where people want to visit, work and live.

This strong business case for sustainability is recognized at board level so sustainability is embedded in strategy and risk management. At a broader level, the property industry is a significant producer of carbon emissions, so we are aware we have a real responsibility to reduce our carbon footprint.

HOW?

Our then CFO, now CEO, played a key role in demonstrating the business case for sustainability and its relevance to a range of business areas. As a champion and sponsor for our sustainability strategy, he raised the profile of sustainability at board level and across the organization. Sustainability is increasingly part of everyone's role at British Land, and individuals focused on sustainability sit across the wider finance and development teams.

We engage our board and exco members on sustainability across four areas of activity: business strategy and planning; governance and risk management; corporate development and investment; and financial reporting and internal controls. We have summarized our work in these areas on the following pages.

British Land

BRITISH LAND: BOARD ACTIVITY 1: BUSINESS PLANNING AND STRATEGY

The commitments we have made in our 2030 Sustainability Strategy – including to be net zero carbon by 2030 – have implications for the way we invest in, develop and manage our assets. We have also introduced a Transition Vehicle to accelerate progress towards net zero carbon in our standing portfolio.

SECURING BOARD APPROVAL

We approached the end of our 2020 Sustainability Strategy as climate change was rising up the national agenda and becoming more relevant to our key investors. Benefiting from our own experience, the experience of others and using the United Nation's Sustainable Development Goals as a framework, we were well placed to design a comprehensive but targeted new strategy for 2030. Recognizing that sustainability touched every area of our business, we established a cross-function working group to embed sustainability within our corporate strategy more effectively. We were able to identify a clear business case on both the environmental and the social side, with more and more businesses looking to occupy space which is sustainable and to be based in places which support local communities. Together these factors strengthened the case for our new 2030 Sustainability Strategy, which we tested and refined with our board-level CSR Committee.

SUSTAINABILITY OBJECTIVES

To support the new strategy, objectives have been set and allocated to our exco members. Finance has been central to developing these objectives. This approach is cascaded down throughout the organization, so that sustainability becomes part of performance management for all leadership and staff. All board and exco members are set sustainability objectives against which they are evaluated so progress on sustainability directly influences their compensation.

In this way, we are embedding sustainability as a central concern throughout the organization. Our goal is for sustainability 'champions' to become unnecessary as sustainability becomes business as usual and part of everyone's role.

British Land

BRITISH LAND: BOARD ACTIVITY 1: BUSINESS PLANNING AND STRATEGY

TRANSITION VEHICLE

We have an internal carbon price of £60 per tonne, of which one third is used to acquire certified offsets and the remaining two thirds is allocated to an internally ring-fenced Transition Vehicle for retrofitting properties. The board recognizes the fund as an innovative and effective way of increasing the sustainability of our property portfolio.

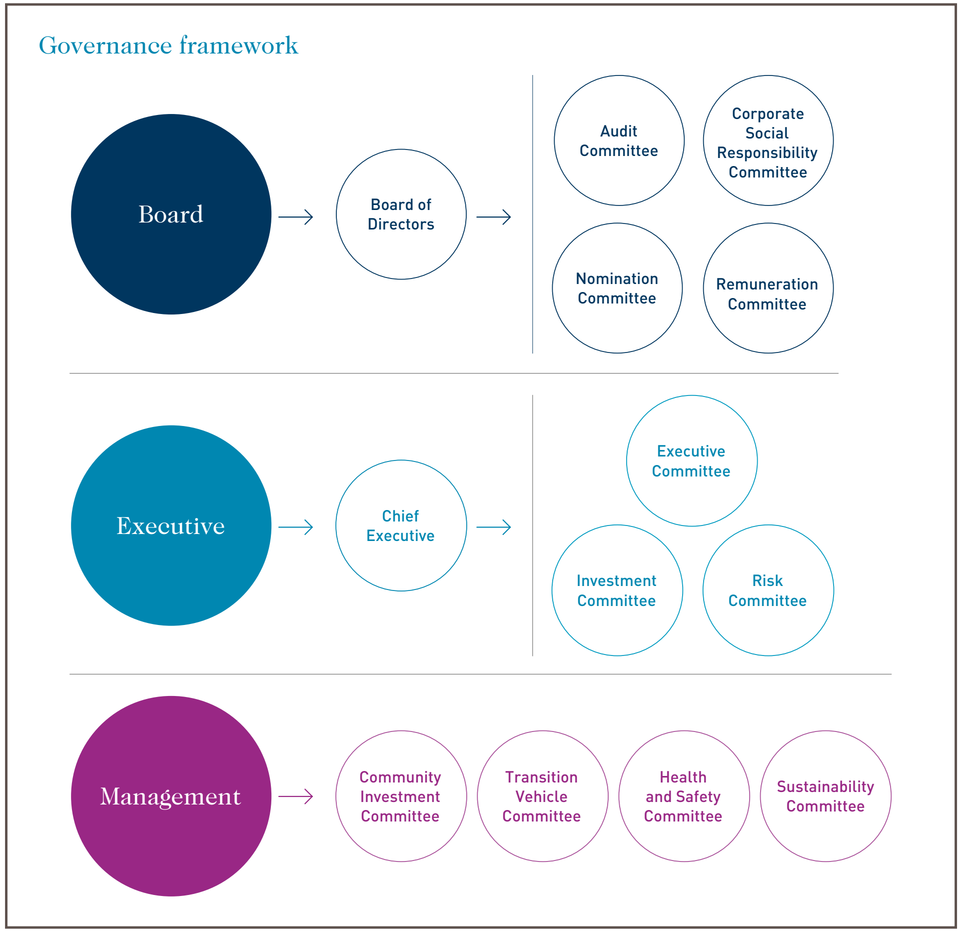
To make the Transition Vehicle work, we need a clear and rational approach to allocating money for retrofit projects. The finance team has developed funding criteria, payback targets and identified clearly what we will – and will not – invest in, providing a clear structure for allocating funds. Template application forms have been developed to simplify the process for staff who identify investment opportunities which make our buildings more sustainable.

Finance is responsible for setting up the Transition Vehicle, tracking the spending over time and reporting to our CSR Committee. The structure of approvals depends on the project value: low-value projects may be approved by the Transition Vehicle Committee whereas high-value projects may need to be authorized by the Investment Committee. We will also report on the activities of the fund as part of our wider financial reporting, creating transparency on progress towards our 2030 goal.

A4S CFO LEADERSHIP NETWORK

Essential Guide to
ENGAGING THE BOARD AND EXECUTIVE MANAGEMENT

BRITISH LAND: BOARD ACTIVITY 2: GOVERNANCE AND RISK MANAGEMENT



Source: British Land Annual Report and Accounts 2021, p.93

GOVERNANCE STRUCTURE

The CFO is the sponsor of our sustainability strategy and is supported by dedicated sustainability experts across the wider finance function, including treasury and investor relations, and the development team.

The Sustainability Committee, chaired by the CFO as a board member, is responsible for delivering our sustainability programme. Management staff from across the business – including finance, strategy, asset management, leasing, and development – are represented on this committee. It operates as a working group, reviewing and refining our strategy, and reports to the board-level CSR Committee.

The CSR committee meets three times a year. It oversees the delivery of our sustainability strategy, including the delivery of the pathway to net zero and the management of climate-related risks. The committee is made up of non-executive directors only, but senior management team members, including the CFO, are invited to attend each meeting.

We are committed to achieving full disclosure against the TCFD recommendations by 2021/22 and established a TCFD steering committee in 2019 to lead this. This committee, sponsored by the CFO, includes representatives from across the business and reports to both the risk and sustainability committees. Any resulting disclosure requires approval by the audit committee, which also takes the responsibility for overseeing the effectiveness of risk management, including climate risk.

The board has ultimate oversight of risk management and is updated on climate and other material ESG risks at least annually.

BRITISH LAND: BOARD ACTIVITY 3: CORPORATE DEVELOPMENT AND INVESTMENT

To ensure that the board takes account of our impact on the community and the environment, and to fulfil the requirements of section 172 of the Companies Act 2006, we have a process in place to embed sustainability in board-level decision making. This includes a section 172 checklist we have developed for papers going to the Investment Committee, exco or the board.

By following the checklist, the board considers the impact of our decisions on our wider stakeholders to ensure that British Land acts fairly between stakeholders, including shareholders, employees, suppliers, customers, the community and the environment.

As a property company, we know that we need to consider our impact on the local community and the surrounding environment. We work closely with local communities in our development projects, so we can create spaces which have a positive impact – spaces which provide opportunities for education and employment, and support local business and wellbeing. The section 172 checklist also helps us to consider these key factors in our development and investment decisions. Our adoption of a place based approach means we will focus our activities on a key local issue, where we can deliver the greatest positive impact. This aligns us more closely with the interests and aspirations of the communities where we operate, increasing their influence.

BRITISH LAND: BOARD ACTIVITY 4: FINANCIAL REPORTING AND INTERNAL CONTROLS

The annual reporting process, including our sustainability reports, is led by finance. The sustainability team is integrated within the finance function and development team, and this is reflected within our reporting.

This structure also strengthens how we communicate internally and externally about sustainability issues. Regular financial reports are presented to exco and the board, and we are currently working to integrate sustainability KPIs into our quarterly reports.

The finance team, through its role in managing the Transition Vehicle, will be involved in monitoring the internal carbon price over time and how this fee is allocated between offsets and the Transition Vehicle. The finance team ensures that controls are in place so that the Transition Vehicle is used appropriately, and all financial information is tracked and reported.

"The board wanted to have the sustainability strategy completely embedded into the corporate strategy. Since finance speaks to all stakeholders across the business, including the board and commercial divisions, and understands their particular motivations, we played a key role in supporting the sustainability team to get buy in from the business and to present the commercial case to the board. With the strategy in place, finance is involved in setting sustainability objectives, from the board through to exco and all staff, and monitoring progress against them on an ongoing basis. Another area where finance adds value is embedding sustainability into decision making. An example of this is by ensuring that the price of carbon is factored into our property investment and development decisions."

Simon Carter, CEO (former CFO), British Land

BRITISH LAND: TOP TIPS

HAVE A SUSTAINABILITY CHAMPION

Our CEO (former CFO) is a champion for sustainability within our organization. He attended **The Prince of Wales's Business & Sustainability Programme** organized by The Cambridge Institute for Sustainability Leadership soon after assuming his position. He acts as the board sponsor for sustainability at exco and oversees the implementation of the sustainability strategy. Having a committed member of senior management helped to move sustainability up the agenda and position it as central concern for the business. Although we want to get to a point where 'champions' are no longer needed, having a committed, engaged CFO was essential to getting us to where we are today.

MAKE A STRONG BUSINESS CASE

Building a persuasive business case has been critical for demonstrating to the board and exco that sustainability is relevant to, and important for, British Land. Customers increasingly ask for more sustainable buildings and staying ahead of this demand enables us to achieve higher rents and lower vacancy rates. By showing the extent of interest in sustainability from customers, investors and regulators, we have achieved strong buy in from senior leadership and our finance team has taken the lead on this.

TAP INTO ENTHUSIASM FROM YOUR STAFF

Buy in on sustainability also works from the ground up. We have raised awareness of sustainability among staff through 'lunch and learn' sessions. These have included presentations on a range of sustainability topics in general and our sustainability strategy in particular. We have found that our staff are engaged on this subject and we are leveraging their interest to spread awareness of sustainability throughout the organization. An employee-led network, SustainaBLe, has been set up to promote sustainability internally and build a more sustainable organization at every level.

BROOKFIELD ASSET MANAGEMENT: ENGAGING OUR BOARD OF DIRECTORS AND EXECUTIVES ON GREEN BOND ISSUANCE

WHAT?

Brookfield Renewable Partners, a subsidiary of Brookfield Asset Management, owns and operates one of the world's largest publicly traded renewable power platforms. Our portfolio is globally diversified across 17 countries and four asset classes: hydro, wind, solar and transition. As a renewable energy business, sustainability is core to our operations. This means we are uniquely positioned to meet the needs of environmental, social, and governance (ESG) oriented investors and deliver on the growing demand for sustainable finance products.

In 2018, we issued our first green bond. Actively engaging our Board of Directors (the board) and executives was key to this process. Initially, issuing green bonds broadened our asset and corporate debt investor base. We later expanded to offer other capital market instruments, such as preferred shares. To date, we have raised US$4 billion in green financing in Canada and the United States.

This case study highlights the steps we took to engage the board and executives to educate, build consensus, and get financial approval for our green bond issuance. These steps, taken by our capital markets and treasury teams (our finance teams), were instrumental in enabling our Green Bond Framework launch.

WHY?

Due to our pure-play status in renewable power, the Brookfield Renewable Partners board and executives have always been engaged in ESG strategies that could help us maintain deep and diverse sources of capital. So when we started to explore the possibility of issuing a green bond in 2017, the board and executives were naturally interested to learn more and understand the process.

By that time, green bonds had become a well-established debt capital markets product that aligned well with our status as a renewable power pure-play business. Despite having an already engaged board and executive team, our finance teams still had to build the business case and show that we could practically apply a Green Bond Framework to our business in a seamless, efficient, and cost-effective manner.

HOW?

Four key levers were integral to how we engaged the board and executives on our green bond issuance:

- Providing education and business cases
- Demonstrating credible frameworks
- Testing the draft programme
- Conducting regular programme updates

Our finance teams played a leading role in developing the Green Bond Framework and engaging the board and executives throughout the process.

Details on these steps on next page.

Brookfield

BROOKFIELD ASSET MANAGEMENT: ENGAGING OUR BOARD OF DIRECTORS AND EXECUTIVES ON GREEN BOND ISSUANCE

Providing education and business cases

Engaging the board and executives started by enhancing their knowledge of green bond instruments, peer benchmarks, and the benefits for our business. There were a handful of precedents in the market – other Canadian and international power companies had created similar frameworks. Thus, we could show effectively how a green bond issuance would not only increase our access to capital but also help broaden our asset and corporate debt investor base.

Our finance teams helped to create the initial business case alongside a peer and market analysis. This education was invaluable in creating a common understanding among the board and executives of the value of green bonds for our renewable energy business.

The executives and finance teams both thought the green bonds would provide access to an incremental source of capital over the long term. This further strengthened the board's understanding of the importance of sustainability in creating long-term value for our business and the compelling case to broaden our investor base.

Demonstrating credible frameworks

Once we built consensus, we set out to develop a robust Green Bond Framework. It was important to the board and executives that we aligned our process with recognized international standards and investor expectations. Therefore, we worked closely with an experienced Canadian bank, who helped develop the content and scope of our Green Bond Framework and guidance on the "use of proceeds" language in the bond documentation.

Our collaboration with the bank, to support the development of our framework, accelerated the green bond issuance process. Through its established relationships, the bank helped us access a broader investor base and helped with our inclusion in bond indices that increased our bond's liquidity. Our finance teams engaged with a second opinion provider, whose willingness to recognize our business's unique attributes enabled collaboration throughout the review process.

Our finance teams reported our progress to the board and executives quarterly, giving them confidence about how we were using international green bond standards to ensure our framework would be well recognized by investors.

Testing the draft programme

Before presenting the Green Bond Framework, our finance teams created a draft programme to help them work through all the operational details with our executive team. The draft programme helped address questions from the board and executives on ensuring efficient, cost-effective execution. Firstly, we could show that the Green Bond Framework simply formalized our business operations by using proceeds to fund renewable power projects and could be seamlessly integrated into existing processes. Secondly, we confirmed that issuing a green bond would not prevent other financing options. The Green Bond Framework sits alongside other financing instruments to support the business and growth strategy. Lastly, the second opinion provider for the programme provided their opinion that the Green Bond Framework aligns with the four core components of the Green Bond Principles.

Conducting regular programme updates

The finance teams continue to deploy the Green Bond Framework, review market trends, and conduct in-depth analysis to track bond performance and pricing benefits. Working closely with the CFOs at Brookfield Asset Management and Brookfield Renewable Partners, they have expanded the framework to include preferred share securities with a focus on expanding our pool of capital and broadening the markets.

Ongoing communications with the board and executives on our green bond performance have been key to ensuring engagement. Our finance teams report on issuance execution, with a focus on "green" or "ESG" dedicated investor participation and the pricing benefits realized, where relevant. Finally, we publish information on our website on the use of proceeds associated with all our green issuances. This reflects our commitment to transparency with our stakeholders, including employees, investors and the communities in which we operate.

Brookfield

BROOKFIELD ASSET MANAGEMENT: TOP TIPS

COMMUNICATE EARLY AND REGULARLY

By having our executive team actively involved in developing the Green Bond Framework and throughout the entire process of issuing a green bond, we achieved greater buy in.

DEMONSTRATE THE BUSINESS VALUE

By using market data to show how green bond issuance would broaden our asset and corporate debt investor base, the board and executives better understood the value of green bonds for our renewable energy business.

Brookfield

MANULIFE: ENGAGING THE BOARD AND EXECUTIVES TO ACCELERATE SUSTAINABILITY ACROSS OUR ORGANIZATION

WHAT?

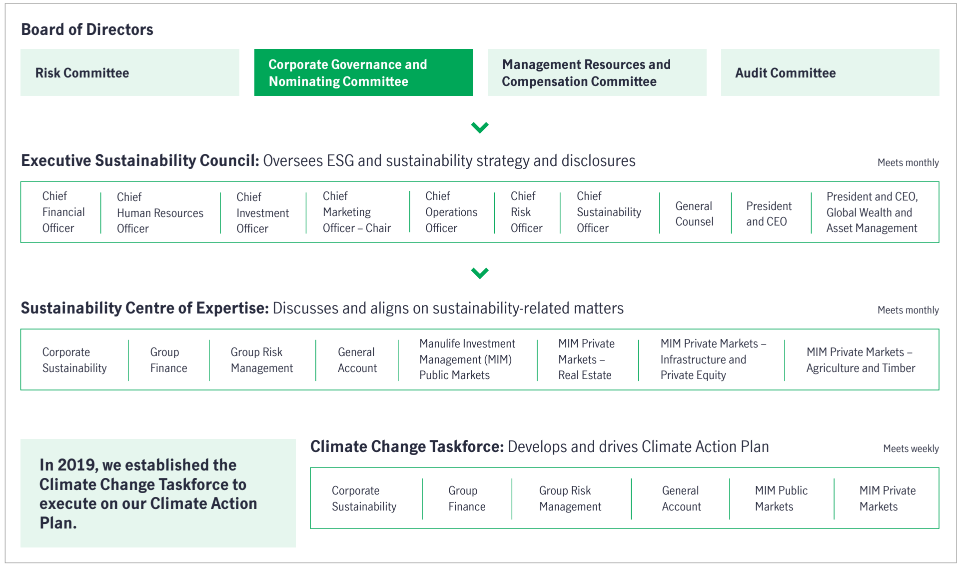
Manulife Financial Corporation is a leading international financial services provider that aims to help people make their decisions easier and lives better. With our global headquarters in Toronto, Canada, we operate as Manulife across our offices in Canada, Asia, and Europe, and primarily as John Hancock in the United States.

Inspired by Accounting for Sustainability (A4S) in 2017, Manulife's former Chief Financial Officer (CFO) challenged the company to think big about how Manulife could drive sustainability throughout the organization. He laid out the foundation of the sustainability governance structure for Manulife's Executive Leadership Team to execute, before transitioning the responsibility to Manulife's current CFO in 2018. Manulife's finance leaders played an important role in transforming the finance function and driving the sustainable growth of our business. By acting as a catalyst, finance leveraged traditional financial analysis, risk management, accounting, and reporting expertise to inform leadership across the organization about strategic sustainability risks and opportunities. It further led the formation of the governance structure for sustainability to drive action and address the physical and economic transition risks of climate change.

In 2018, Manulife formed the Executive Sustainability Council, which comprises ten members, including our first Chief Sustainability Officer, who was hired in 2020. The council's mandate is to anticipate and manage relevant environmental and social risks and opportunities. It reports to the board's Corporate Governance and Nominating Committee, which oversees our sustainability framework. The council is supported by the two internal cross-functional teams chaired by the Chief Sustainability Officer – the Sustainability Centre of Expertise and the Climate Taskforce – tasked with integrating sustainability into our business (see Table 1).

The council and the cross-functional teams work continuously to evolve our sustainability strategy and performance. They provide quarterly updates to the board to track Manulife's performance against its sustainability goals. After getting the right teams in place, our CFO, an active member of the Executive Sustainability Council, now has oversight of the sustainability strategy.

Table 1: Manulife Sustainability Governance



Source: Manulife's Sustainability Report and Public Accountability Statement 2020, page 10

This case study describes how Manulife engaged the board and executive team to accelerate the integration of sustainability across the organization.

Manulife

MANULIFE: ENGAGING THE BOARD AND EXECUTIVES TO ACCELERATE SUSTAINABILITY ACROSS OUR ORGANIZATION

WHY?

Our ongoing engagement with the key stakeholders – our customers, employees, and shareholders – showed that sustainability is becoming increasingly important to them. We saw a need as a global organization to function more sustainably. Stakeholder feedback acted as the backdrop that pushed our former CFO to engage the board and executive team to accelerate our organization's sustainability transition.

- **Shareholders:** Over the past few years, through the annual activities of our Shareholder Outreach Program, we have observed an increase in shareholders' interest in how the board oversees Manulife's environmental, social, and governance (ESG) performance. Investors also asked for the reporting of this performance through disclosure frameworks, such as the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board.
- **Employees:** An interest in sustainability came through in executive leaders' meetings with their teams. At the finance employee town hall meeting, our former CFO received questions about what Manulife is doing about climate change, and how we measure our progress and hold ourselves accountable.
- **Customers:** We have conducted research into consumer demand for sustainable products that uncovered various demographics, particularly millennials, female investors, and high-net-worth individuals, who increasingly seek investments with green credentials and social purpose.

HOW?

From the first Executive Sustainability Council briefing to the board in 2018, our CFO has played a key role in relaying the investors' questions about the board's oversight of environmental and social risks. We also continuously track the ESG evaluations by the ratings agencies and emerging ESG disclosure standards.

Activity 1: Identify strategic opportunities

To support the creation of the Executive Sustainability Council, the CFO facilitated a series of briefing meetings that identified opportunities and risks for incorporating sustainability across the organization, as well as collaboration opportunities among the executives.

For the first meeting with the board, finance produced an infographic that distilled concisely what each sustainability risk and opportunity mean to Manulife's business. The tool showed how we addressed the challenges, disclosed our performance, and how Manulife's ESG risk and opportunity profile was evaluated by credit rating agencies and financial index providers.

Activity 2: Commit to robust disclosures

Finance reviewed the emerging global trends in sustainability regulation and voluntary disclosure expectations. This led to the CFO's decision to sign A4S's Statements of Support on TCFD and Net Zero Emissions. Since 2019, Manulife has started to embed climate-risk disclosures aligned to the TCFD recommendations in the strategic risk section of our annual reports, which are approved by the board.

Activity 3: Issue a green bond

Manulife became the first global life insurance company to issue a green bond. The issuance process spurred a tangible internal discussion at the executive and the board level on what is 'green' and the role Manulife plays in environmental sustainability. Finance has taken the lead in identifying, measuring, and reporting internally and externally the total value of green assets. The green bond annual disclosures now show the environmental benefits of our renewable energy, energy efficiency, and sustainably managed forestry assets, such as the tonnage of avoided carbon emissions.

Activity 4: Develop metrics and targets

The next major step was to establish performance baselines and define targets and key performance indicators. Having committed to the A4S Statements of Support, finance led the measurement of the investment portfolio's carbon emission profile. Finance also offered emission accounting and accounting controls expertise to enable the reduction target setting for operational emissions in Manulife's Climate Action Plan and provided all the reporting to the Board as part of the overall sustainability strategy.

Manulife

MANULIFE: RESULTS AND NEXT STEPS

The CFO continues to provide strategic oversight on strategic sustainability initiatives and has challenged the organization to sharpen the strategic sustainability focus and set meaningful targets for greater sustainability performance. In keeping with Manulife's mission to make lives better and decisions easier, the organization is investing in the health and wellbeing of customers, employees, and communities in the transition to a zero-carbon economy:

- In addition to the measurement of portfolio emissions, Manulife has committed to net zero emissions in our investment portfolio by 2050. The plan is to set meaningful emission reduction targets for the carbon-intensive sectors by May 2022 and have them validated by the Science-Based Targets Initiative within two years.
- Manulife is already carbon neutral in operations and will further reduce scope 1 and 2 emissions by 35% by 2035. Finance has played a key role in the choice of emission accounting boundaries, methods, and controls.
- Having established the inventory of green assets, Manulife has committed to grow its CA$39.8 billion portfolio of green investments, including renewable energy, energy-efficient real estate, clean transportation, and sustainably managed forestry and agriculture.
- Beginning in 2021, Manulife's Climate Action Plan will be included in the executive leadership's performance goals, in addition to diversity, equity, and inclusion, employee engagement, and leadership accountability.

As a result of our board and executive engagement and strategic decisions, we are receiving external recognition for our efforts. In 2020, Manulife was upgraded by key ESG rating agencies: MSCI ESG Research from 'A' to 'AA' on a CCC–AAA credit rating scale, and Sustainalytics has reduced the risk profile from 'Medium ESG Risk' to 'Low ESG Risk'. Manulife is included in the Bloomberg Gender-Equality Index (GEI), and the organization has won numerous sustainability-focused awards.

Manulife

MANULIFE: TOP TIPS

KEEP IT SIMPLE. DISTIL THE INFORMATION AND PRESENT IT AS A CATALYST, A FIRST STEP.

To present clearly how ESG factors affect Manulife business, finance developed an infographic tool for the board. It defined sustainability and what it means to the organization, what has been done to date, proof points and opportunities, how external agencies evaluated the ESG performance, and how sustainability fits into disclosure frameworks.

ENSURE STRONG GOVERNANCE

Manulife's Executive Sustainability Council, composed of all nine members of the Executive Leadership Team, as well as the Chief Sustainability Officer, meets monthly and reports results quarterly to the board. The Council has a rotating chair, with two-year mandates, and is supported by the Sustainability Centre of Expertise and the Climate Taskforce, which is made up of cross-functional teams.

Manulife

TELUS: ENGAGING THE BOARD AND EXECUTIVE ON INTEGRATING SUSTAINABILITY INTO STRATEGIC PLANNING AND DECISION MAKING

WHAT?

TELUS is a Canadian communications and information technology company with over 16 million customer connections spanning wireless, data, IP, voice, television, entertainment, video, and security. With TELUS Health, we are also Canada's largest healthcare IT provider. Our social purpose is to leverage our technology to keep Canadians safe and connected while creating meaningful social change and enabling remarkable human outcomes.

Sustainability has been a long-standing commitment for our organization; we issued our first sustainability report 20 years ago. As the organization has developed, we have seen a growing interest in environmental, social, and governance (ESG) performance alongside financial performance. Driven by this heightened interest among stakeholders, our board and executive team recognized the need to integrate sustainability further into strategic planning, decision making, and the organization's operations. To achieve this, the CFO was given oversight of sustainability.

This case study describes how finance, within each functional area, took ownership of the sustainability agenda and ensured our board and executives were actively engaged throughout the process.

WHY?

In the early years of our sustainability journey, our focus was on reporting on corporate social responsibility across the organization. Over time, we saw investors, customers, and employees placing increasing value on ESG performance. When engaging with various stakeholders, investors in particular, our CFO noticed that besides concerns about the competitive and regulatory risks our organization was facing, there was a significant increase in discussions about sustainability risk.

With the intersection between ESG and financial performance, it is essential to put sustainability across our business. Embedding our sustainability team into finance enabled our organization to improve how we incorporate sustainability factors into our investments and wider financial decision making, shifting from a risk-based to an opportunity-based approach.

With finance being a trusted business partner, the team was in a strong position to keep the board and executives abreast of changes made and ensure they understood and bought into the underlying business need.

HOW?

The CFO and finance team were pivotal in strengthening the knowledge and understanding of the board, integrating sustainability factors into analyzing business cases, and transforming decision making. Throughout this process, we have seen the importance of focusing on education as we continue to inform our organization, including our board members, about the value of sustainability.

The process is described on the following page.

TELUS: ENGAGING THE BOARD AND EXECUTIVE ON INTEGRATING SUSTAINABILITY INTO STRATEGIC PLANNING AND DECISION MAKING

Strengthening knowledge and understanding

To embed sustainability into strategic planning and decision making, it was important to first strengthen the board's knowledge and understanding of the changing agenda and issues at stake.

Led by the CFO, we began by enhancing the board's knowledge of stakeholder interests to gain a clearer understanding of the importance of sustainability and how it was fast becoming a business imperative. This laid the groundwork for further education and discussions on sustainability risks and opportunities, and the financial implications for the organization. We also looked at the practices of industry peers.

With this knowledge, the board saw the need to have the right functions reporting on sustainability at its quarterly meetings. This led to the decision to merge corporate affairs, which was responsible for sustainability, with the finance team under the CFO to better align the sustainability and finance functions.

The case for integrating sustainability and finance was further enhanced by the strong relationship each team had already established with the board through quarterly reporting and engagement with face-to-face discussions in the meetings. Merging the two teams ensured robust and integrated quarterly reporting of sustainability performance and environmental compliance to the board and its committees.

This alignment of sustainability and finance has allowed us to integrate sustainability into our strategic planning and decision making. The work carried out by the finance team has enhanced the board's awareness and commitment. It let us see sustainability as an investment in the business, shifting from a risk basis to an opportunity basis. Controllers of each business unit have seen an increase in employee engagement, a decrease in cost, and an increase in productivity.

Equipping the finance team

The finance team recognized that the first step to integrating sustainability into the business case analysis process was to educate themselves. We reviewed internal processes, budgeting, and planning to better understand the sustainability risks and benefits to the business. Among other things, they looked at how strong sustainability performance can have a positive financial impact on factors such as employee engagement, productivity, and recruitment and retention. In particular, the controllers responsible for human resources (HR) understand the metrics used by HR to measure performance in these areas.

The finance team held review sessions with the controllers, who play a significant role in budgeting and planning. By showing successful sustainability-related project outcomes, the controllers began to see how financial investments in "nontraditional" business cases could pay off over time, particularly when assessed cumulatively. We saw how these cases offered not only financial benefits but also positive environmental and social outcomes for the organization and its communities.

With this information, the finance team further educated the board and executive team on the material risks to the organization, as well as the opportunities. We addressed sustainability topics, such as climate change, bridging digital divides, and online safety and security.

Transforming decision making

Since the board and executive team started considering sustainability more systematically, we have set several strategic objectives related to environmental and social outcomes. For example, we set transformational climate-related goals, including net carbon neutrality for our operations by 2030, which were approved by the CFO. The action plans for meeting these objectives include managing the utilities budget and projects to retrofit lighting. The sustainability team is responsible for these actions, and the finance team is responsible for providing the funding and assessing the financial benefit of the lower energy use and greenhouse gas emissions. We also found that employees want to work for an organization with bold environmental goals and performance. This is listed as a top reason for joining and staying with the organization. So, we can also expect our climate-related goals to lead to financial benefits from enhanced employee engagement, retention, and productivity.

TELUS: TOP TIPS

EDUCATE THE TEAM

As a finance team, we realized that the first step was to develop our own knowledge and understanding of sustainability. This helped us explain to the board the material sustainability risks and opportunities, as well as the financial implications for our organization.

LEVERAGE STAKEHOLDER INTEREST

Understanding and communicating the growing interest in sustainability from our stakeholders helped show the imperative for action to the board.

WORK WITH OTHERS

The finance team is not alone on this journey. We work with other departments to engage the board and transform decision making. For example, working with HR allowed us to measure the increase in employee engagement and productivity from integrating sustainability into strategic planning and decision making.

TELUS

WATERCARE: INTEGRATING THE CAPITALS INTO BOARD PAPERS

WHAT?

Watercare Services Limited provides water and wastewater services to 1.7 million Aucklanders and the many visitors to the region from around New Zealand and overseas. We are New Zealand's largest company in the water and wastewater industry. We supply around 356 million litres of water to Auckland every day.

At Watercare, we developed a new template for board papers to engage the board on an integrated approach to decision making. We used icons and descriptions of the six capitals on every paper we submitted to the board to ensure that discussions use integrated thinking.

The six capitals are:

- **Natural environment**
- **People and culture**
- **Customer and stakeholder relationships**
- **Assets and infrastructure**
- **Intellectual capital**
- **Financial capital and resources**

WHY?

In 2017, we refreshed our strategy to ensure that the short-term financial value that we were creating was not at the expense of long-term value for us and our stakeholders. We looked to the Integrated Reporting (<IR>) framework to help us communicate this both internally and externally.

To make the strategy succeed, we needed to give our board members and executive management the knowledge and skills to make informed decisions. They needed to understand the potential trade-offs between the six capitals. We wanted a way to embed integrated thinking into every strategic decision we made.

Watercare

WATERCARE: INTEGRATING THE CAPITALS INTO BOARD PAPERS

HOW?

The finance team plays a central role in bringing together other teams from across the business who are involved in preparing board papers. The company secretary and governance manager are also key because they coordinate and edit all board papers.

We offered training to those who prepare board papers and to the executives and other leaders who review and approve them for submission to the board. We continue to offer refresher training as the process develops. We have also organized integrated thinking refresher workshops for our extended leadership and supply chain teams. The people and culture team is also looking to include a training module on integrated thinking that introduces the six capitals to all new employees.

The first year was a period of adjustment. The governance manager worked closely with the teams to develop a new template for board papers (see the example at the end of this case study), which included prompts for all the capitals. Now, as papers are being drafted, the governance manager works with the author to ensure that the capitals are considered and referenced in the board papers. This has been an iterative process, with the teams submitting board papers learning as they went.

The board had a similar learning period. We were fortunate to have a board member who was passionate about the six capitals and championed the adoption of integrated thinking from the start. This helped other board members move towards this new way of thinking.

In the second year, having used the integrated thinking approach and the template for some time, we noticed a marked increase in holistic decision making. Board members would challenge papers when capitals had not been included in the decision-making process.

The process in action

An example of the process in action occurred in 2019 with the board and executive management's response to a particularly long dry period. The extended dry weather caused our major water sources (our dams) to reach historically low levels as we entered the warmer summer months. This prompted an urgent change to our water production strategy and an increase in supply from a river source, which reduced demand on our dams. Historically, the river only accounted for 15% of total water production. Since the change in strategy, the river now accounts for 38% of water production. Water production from this source is significantly more costly than from our dams. This is partly due to additional treatment of the raw water, and partly due to costs of pumping the potable water over longer distances.

If the board had used a traditional decision-making approach, the financial capital would have dominated, and we may have chosen the cheapest option, ie continue to draw from our dams and hope rain would eventually replenish them. Instead, the board assessed the options across our six capitals and chose to draw more water from the river. Although this had an adverse impact on our 'financial capital and resources' capital (river water is six times more expensive to treat than gravity-fed dam water), the board understood the potentially greater adverse effects on our 'natural environment' and 'customer and stakeholder relationships' capitals. If our dam storage levels got too low, we would need to invoke unpopular water restrictions on Aucklanders. Aside from disrupting the daily lives of households, there would be wider economic implications for many large corporates (eg breweries), who rely on our water supply as part of their production processes. We also needed to consider the environmental effects of taking more water from the river source. Fortunately, the river is our most drought-resistant source, and the extra take was within the existing resource consent bounds. Taking this into account, the board was confident there would be no adverse effects on the natural environment.

We weighed up the impact across the six capitals and chose the more expensive short-term option because it would create longer-term value in relation to the natural environment and customer and stakeholder relationships capitals (and it would be more financially beneficial for our customers and Aucklanders).

Watercare

WATERCARE: INTEGRATING THE CAPITALS INTO BOARD PAPERS

What is an integrated approach?

An integrated approach uses the concept of the six capitals (natural, social, human, manufactured, intellectual, and financial) to provide insight into how the company creates value over the short, medium and long term, both for itself and for its stakeholders. At Watercare we define the six capitals as follows:

The <IR> Framework	At Watercare	Inputs
Natural capital	Natural environment	Our water sources, ecosystem health, and discharge points for treated wastewater.
Human capital	People and culture	The competencies, capabilities, and experience of our employees.
Social capital	Customer and stakeholder relationships	Our relationships with customers, communities, iwi,[16] our owner, regulators, government, unions, suppliers, and advisors, who are essential to maintaining our licence to operate.
Manufactured capital	Assets and infrastructure	Our dams, plants, pump stations, and third-party infrastructure (eg roading, energy) that are critical to the delivery of our services.
Intellectual capital	Intellectual capital	Our technology, processes, systems, datasets, and documented practice and procedures.
Financial capital	Financial capital and resources	Our shareholder, operations, investments and our equity, debt and cash flow provided by banks.

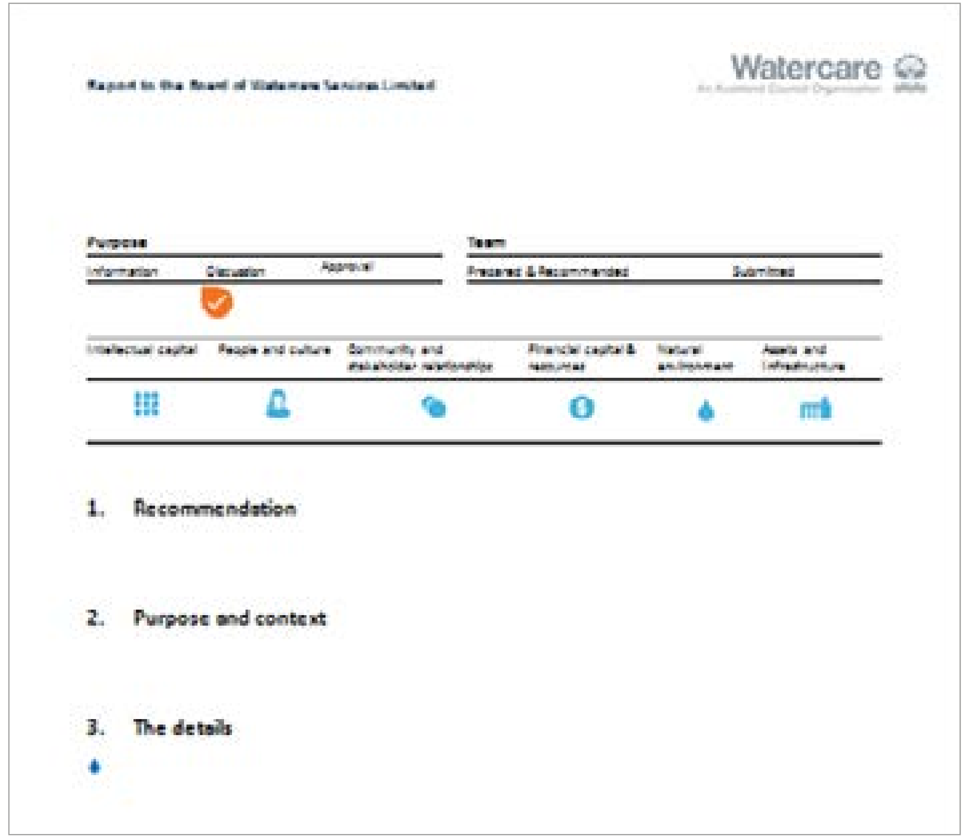
12. Maori word for extended kinship group, tribe, race – often refers to a large group of people descended from a common ancestor and associated with a distinct territory.

Watercare

WATERCARE: INTEGRATING THE CAPITALS INTO BOARD PAPERS

The new template for board papers looks to provide the directors with a quick overview of the context and key aspects of the paper. This includes:

- The purpose of the paper, ie whether it is for information only or for starting a discussion, or whether a board approval is required.
- Who within the Watercare team has prepared, recommended, and approved the submission of the paper to the board.
- What capitals are discussed within the body of the paper. For example, if the natural environment, people and culture, and finance capital and resources are the key discussion points in the paper, only those three icons are shown under the capital headings. The icons are used throughout the body of the paper to highlight where specific capitals are discussed in more detail.



Watercare

WATERCARE: TOP TIPS

FIND YOUR CHAMPION

Identify and leverage champions on the board who can advocate for the change to accelerate adoption.

ACT WITH CONVICTION

Trust the approach and make decisions with conviction with the holistic view an integrated capitals approach can provide.

YORKSHIRE WATER: ENGAGING THE BOARD ON A CAPITALS APPROACH

WHAT?

Yorkshire Water provides water and sewerage services in the north of England. In 2017, we adopted a capitals approach – the "six capitals" – and integrated this into our strategy, business model, and decision making at all levels.

The six capitals are:

- Financial
- Manufactured
- Natural
- Human
- Intellectual
- Social

Each capital is an essential resource for our organization.

Finance led the approach. The Group Director of Finance, Regulation and Markets at the time was a major driving force behind the change – including engaging the board on the six capitals. Now our Chief Executive, she continues to champion capitals thinking throughout the organization.

We scheduled nine strategic insight sessions with the board on topics such as: the natural environment; carbon and climate; land and partnerships; and water and resources. External experts took part, challenging and supporting the board's learning about sustainability and sustainable finance. Board-level committees have remits that together cover each of the six capitals, and they meet throughout the year.

WHY?

Our sustainability work started well before our shift to a capitals approach. Initially, we wanted to make sure we were planning for long-term resilience in the face of climate change. As an organization that completely depends on – and affects – the communities we serve and the environment in which we operate, we recognized we needed to make social and environmental sustainability central to our decision making.

Our thinking progressed and it became clear that sustainability for our organization was much broader than financial capital and climate change. Adopting the six capitals helped us to identify and focus on the big issues in our industry and to become a more resilient, responsive business. To ensure that the six capitals were integrated into strategic and business planning, we needed the board to be involved too.

HOW?

For business planning, the concept of the six capitals was quite abstract. We needed to explain the six capitals approach in ways that would connect with our board members, who were more used to traditional manufactured and financial capital. We focused on the commercial benefits, making a clear case for why this approach should be important to us as a business and our customers. We then needed to integrate the six capitals into regular reports to the board. Our integrated board pack covers financial information and financial resilience but is also much broader. The pack links back to our strategic goals and the six capitals, and contains both quantitative and qualitative information. We were prepared to go beyond the numbers to provide a narrative for parts of the six capitals that were not quantifiable.

Our board-level committees also had to reflect our commitment to the six capitals. We considered our needs and proposed a new structure of meaningful, strategic committees. The company secretary reviewed the structure, checking the terms of reference of all the committees to make sure that each of the six capitals was covered. Our committees include:

- **Audit and risk committee** – as well as being responsible for internal and external audit, this committee looks at our financial strength and business resilience.
- **Remuneration committee** – focuses on human capital, including diversity, social mobility, retention, culture, and succession planning.
- **Social value committee** – encompasses societal, environmental, and intellectual capital, looking at the way we make decisions, the way we behave, and the way we interact with customers and stakeholders.

YorkshireWater

YORKSHIRE WATER: ENGAGING THE BOARD ON A CAPITALS APPROACH

BRINGING THE SIX CAPITALS TO LIFE

In January 2020, we held a strategy workshop with the board. We talked about what the board is for, using the five Ss in governance: strategy, stretch, scrutiny, support, and stewardship.

The concept of stewardship helped to bring the capitals to life for our board. Good stewardship means we are making the right decisions for the organization and looking after our assets – and, for us, those assets are represented by the six capitals. Explaining it this way helped show that the six capitals make up our organizational value.

Our board includes representatives from investors. This is a group that can be more concerned with hard financial data and cash flow models than sustainability as they focus on meeting their own organizations' financial goals. To bring them with us on our sustainability journey, we had to speak their language and make a clear case for why a capitals approach worked for investors too. We are looking at statistical models to show that sustainable businesses generate a much more resilient return and so are better for investors over the long term.

Explaining our thinking about the six capitals and our business rationale helped us to win the support of a range of members on our board.

Major external threats, such as COVID-19, have also underlined the importance of capitals thinking for resilience and the value of having a resilient business.

Board members no longer ask what the payback is for investing in the six capitals because they have shifted to a new way of thinking – they can see the value in what we are doing. We continue to look for ways to engage the board so they can see first hand the impact of our integrated approach and directly hear our stakeholders' views on factors that impact our capitals. For example, our former CFO arranged an on-site visit for board members to see the Living with Water initiative in Hull and, on a separate occasion, invited the chair of the board to the Yorkshire Land Anchor Network Event, which brought landowners together to tackle climate change for Yorkshire.

YorkshireWater

YORKSHIRE WATER: ENGAGING THE BOARD ON A CAPITALS APPROACH

PREPARING AN INTEGRATED BOARD PACK

For financial data, we build on standard reporting by talking about financial resilience and the sustainability of our financing structure. This includes topics such as gearing, credit ratings and sensitivities of the data, rather than focusing on EBITDA. Our reporting is not only about finance; we have developed our reporting across all key strategic areas.

As an organization, we have five big goals covering people, water, the environment, partnership, and affordable bills. Our big goals represent what we are trying to achieve. We linked them to the six capitals, which represent the resources that we rely and impact on to deliver our goals, ie how we'll get there. In our board reporting, we provide information on our progress against these goals, such as our customer service performance and our performance against carbon and pollution reduction measures.

There is also plenty of narrative information about our stakeholder relationships, how we are working with partners to improve the environment and being a responsible employer. For example, we provide information on how we are working with farmers in the region to improve carbon sequestration, water management, and food supply chain management. We also explain our work to improve organizational culture.

This means that our board pack is no longer solely about operational performance and money. It includes key information about our environmental, social and people performance, and how we are enhancing the six capitals. By presenting an integrated board pack, the board gets a holistic insight into how we are performing and creating value. We have found that more comprehensive information sparks better conversations – and that strengthens our governance and our organization.

More details of our application of the capitals approach, including the findings and methods used for our impact and value assessments, and case studies are here.

NEXT STEPS

We have already done a lot of work with the board and on embedding capitals thinking into our organization. The next step is to keep the capitals approach central to our corporate strategy.

To achieve this, we invited external advisers to our board sessions to stimulate our thinking on issues such as the environment, climate change, technology, and people – and what will be important over the next five to ten years.

These sessions, combined with other ongoing initiatives, are helping to ensure that the six capitals are embedded at the core of our corporate strategy, driving sustainable decision-making, increasing resilience, and protecting long-term organizational value.

YorkshireWater

YORKSHIRE WATER: TOP TIPS

KEEP IT SIMPLE

Talk straightforwardly about sustainability when you engage with the board. Keep it simple. Use language and models they are familiar with and give them space to think about the issues and ask questions.

BE PATIENT

Stay calm and be patient if people are struggling to understand new concepts. If board members don't get it, then it's because you need to explain it better. Don't get deterred – find a different way of expressing the issues and try other methods of connecting people with your ideas.

SHOW THE BENEFITS

Be prepared to put forward the business case and the benefits. Even if you cannot quantify the benefits, you must show why sustainability and using multiple capitals is important to your business. Articulate what the payback will look like whether or not you have specific numbers to go with your explanation.

BRING IN EXTERNAL ADVISERS

Welcoming external advisers can be a sign of a mature board. It helps to spark useful conversations and bring new ideas into the mix. The challenges we are facing now are profound and cannot be solved in isolation. It can only help for us all to share our thinking more often and openly than we have in the past and get input from outside of our organizations.

YorkshireWater

MATURITY MAP

The maturity map is designed to help you to assess what you are currently doing and how you can advance to a leading position. It has been developed to capture the three key steps of engaging the board and EM on sustainability.

Sustainability factors integrated into finance's engagement with the board and executive management team

How far is sustainability integrated into regular board and executive management activities and decisions?

Category	Limited engagement with the board and EM	Moderate engagement with the board and EM	Comprehensive engagement of the board and EM
Prepare	• Finance has started engaging with relevant teams to discuss sustainability and what it means for the organization. • Finance recognizes what the macro sustainability trends are and their implications for the organization. • The CFO and some EM members are aware of the strategic vision and business case for change. • Finance has some level of understanding of the board characteristics and their implications for engaging the board.	• Finance understands how sustainability risks and opportunities affect long-term business performance and value creation. • Finance works with or supports relevant teams to develop the business case for change and to understand how the requirements and expectations of stakeholders and communities on sustainability affect the organization. • The CFO and all EM members are aligned on the strategic vision and can articulate the business case for change. • Finance knows how to leverage some of the board characteristics to engage the board more effectively.	• Finance takes on the role of an enabler and actively embeds environmental and social factors into business and financial decision making. • Finance actively supports other teams to embed sustainability into day-to-day activities and processes. • The CFO and all EM members are accountable for implementing a sustainable business strategy and for meeting sustainability targets. • Finance actively supports building a sustainability-competent board and considers all the board characteristics when preparing for engaging the board.
Engage	• Finance works with other teams to solicit support from the more relevant or 'on side' EM members on sustainability. • The CFO has identified a few sustainability champions among the EM members. • The CFO and some EM members have started to engage the board on the business case for change, highlighting the risk of inaction, and the regulatory requirements and investor requests on ESG.	• Finance collaborates with other teams, eg sustainability, to ensure that they are aligned with the strategies and priorities being presented to the board. • The CFO and EM sustainability champions leverage existing engagement channels and relationships they have with the board to discuss environmental and social matters more regularly. • There is buy in from the board and finance can draw on the expertise of a few board members when discussing sustainability. • Finance has started measuring multicapitals and analysing their value to the organization.	• The CFO and all EM members are fully engaged on sustainability and there are regular cross-functional discussions on sustainability. • The board is fully engaged, and finance can solicit input from across the board when discussing sustainability. • Finance provides regular updates to the board on the implementation of a sustainable business strategy. • Finance acts as a business partner across the organization, providing multicapital information and allocating resources to support the achievement of a sustainable business strategy.
Embed and improve	• Finance has started to identify how sustainability may be embedded into regular board activities through their interactions with the board. • Finance has begun discussions with other teams to articulate the broader changes that are necessary to embed sustainability across the organization.	• Finance is embedding sustainability into regular board activities through their interactions with the board and, where needed, supports other teams to do the same and ensures alignment. • Finance collaborates with other teams to improve structures and processes so that sustainability can be embedded into regular board activities. • Finance has established a mechanism to monitor the results of the associated board activities.	• Finance, together with other teams, have fully embedded sustainability into regular board activities such that the board fully considers sustainability in their decision making. • Finance supports the board to have direct dialogues with investors, stakeholders, and communities about sustainability on a regular basis. • Finance ensures that expected outcomes of associated board activities are established, reports on the results, and recommends improvements.
	Beginner	Intermediate	Leader

RESOURCES

Please find below a list of resources referenced in the guide.

A4S

- A4S Essential Guide to Capex
- A4S Essential Guide to Debt Finance
- A4S Essential Guide to Enhancing Investor Engagement
- A4S Essential Guide to Finance Culture
- A4S Essential Guide to Management Information
- A4S Essential Guide to Managing Future Uncertainty
- A4S Essential Guide to Natural and Social Capital Accounting
- A4S Essential Guide to Social and Human Capital Accounting
- A4S Essential Guide to Strategic Planning, Budgeting and Forecasting
- A4S Finance Sustainability Competencies Tool
- A4S Leadership Alignment Tool
- A4S Stakeholder Analysis and Change Management tool
- Guidance on adopting TCFD
- Implementing a Sustainable Finance Framework: Top Tips
- Navigating the Reporting Landscape

B Lab UK

- Boardroom 2030

Canada Climate Law Initiative (CCLI)

- Audit Committees and Effective Climate Governance: A Guide for Boards of Directors

Chapter Zero

- Board toolkit

CPA Canada

- Environmental and social risks and opportunities: Questions directors should ask

The Embedding Project

- Supporting Your CEO and Their Decision Making Around Sustainability: A Guide
- Embedding Sustainability Self-Assessment
- Next Generation Governance: Developing Position Statements on Sustainability Issue
- Shaping Your Organization's Narrative Infrastructure
- Storytelling for Sustainability

International Integrated Reporting Framework

- International <IR> Framework

World Business Council for Sustainable Development (WBCSD)

- Modernizing governance: ESG challenges and recommendations for corporate directors
- Board directors' duties and ESG considerations in decision making
- Applying Enterprise Risk Management to Environmental, Social and Governance-related Risks

World Economic Forum

- How to Set Up Effective Climate Governance on Corporate Boards: Guiding principles and questions

THE A4S CFO LEADERSHIP NETWORK

The Prince's Accounting for Sustainability Project (A4S) was established by HRH The Prince of Wales in 2004. Our aim is to transform finance to make sustainable business, business as usual.

A4S has partnered with Chartered Professional Accountants of Canada (CPA Canada) to run the Canadian Chapter of the A4S CFO Leadership Network. CPA Canada is one of the largest accounting bodies in the world, with more than 220,000 members in Canada and internationally. CPA Canada has a long track record of raising awareness of sustainability issues and supporting its members to deliver on that key role.

The network has worked on several projects, including this guidance. The outputs from the other projects are available from the A4S website www.accountingforsustainability.org.

Our project team would value feedback on this guide from other organizations working in this area. Please send any comments to info@a4s.org.

NETWORK MEMBERS – CANADA

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Andy Agg, National Grid
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Paul Boote, Pennon
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Harmit Singh, Levis Strauss & Co
Claus Aagaard, Mars
Mark Kaye, Moody's
Ewout Steenbergen, S&P Global
Salesforce.com, Amy Weaver
Warren Zaccaro, Securian Financial Group
Matthew Ellis, Verizon
Zane Rowe, VMWare

THE A4S ESSENTIAL GUIDE SERIES

LEAD THE WAY

Developing a strategic response to macro sustainability trends

- Managing Future Uncertainty
- Engaging the Board and Executive Management
- Finance Culture
- Incentivizing Action*

TRANSFORM YOUR DECISIONS

Integrating material sustainability factors into decision making

- Strategic Planning, Budgeting and Forecasting
- Management Information
- Capex

MEASURE WHAT MATTERS

Developing measurement and valuation tools

- Natural and Social Capital Accounting
- Social and Human Capital Accounting
- Valuations and Climate Change

ACCESS FINANCE

Engaging with finance providers on the drivers of sustainable value

- Enhancing Investor Engagement
- Debt Finance
- Implementing the TCFD Recommendations
- Implementing a Sustainable Finance Framework

*coming soon

A4S ACCOUNTING FOR SUSTAINABILITY

GET IN TOUCH OR FIND OUT MORE

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