

Challenges and Opportunities for Sustainable Finance

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Abstract

With the move toward sustainability on the rise, significant challenges and opportunities arise as investors and analysts attempt to evaluate how companies incorporate ESG factors in their strategies in order to generate long-term competitive financial returns with positive societal impact. Since the current businesses landscape and reporting environment provides for limited, voluntary disclosures on ESG issues and rewards short-term performance, management is often reluctant to reallocate capital toward long-term sustainability goals and investors struggle to evaluate the impact of ESG factors on performance. Boards of directors are, therefore, uniquely positioned to develop and enact long-term business visions that clearly articulate the role that ESG factors play in the business and align current business performance with long-term sustainable finance factors. This would allow management to execute and forecast against objectives that address the strategic guidance given for the business and also provide a clearer sense of direction to analysts and investors as they evaluate the financial impact of ESG considerations.

Keywords: *Sustainable Finance; Fiduciary Duty; Boards of Directors; Corporate Responsibility.*

Introduction

Most investment professionals would agree that environmental, social and governance (ESG) considerations are no longer just a niche within the investment arena. The growth of socially responsible investing (SRI), which steers money to businesses and organizations that pledge to have a positive effect on the planet, has grown stateside over 200% from the past decade. The worldwide SRI market is now worth about US\$23 trillion in assets, with over US\$10 trillion of assets managed in Europe and almost US\$7 trillion in assets in the United States (J.P. Morgan, 2018). The growth of ESG assets is driven by investors who wish to 'do good' with their financial resources by aligning their investments with their values or with mandated goals arising from reputational or political considerations, and by those who believe that 'responsible' companies will outperform over a long-time horizon.

The popularity of ESG-themed Exchange-Traded Funds (ETFs) has also surged since 2016, with \$11 billion in assets under management (AUM) across 120 funds around the world (J.P. Morgan, 2018). Responsible investing is of particular interest to the next generation of investors and philanthropists, including millennials and Gen Z, who are expected to inherit more than US\$30 trillion in wealth by 2050 (Accenture, 2014). These investors want to be agents of change who use their money to help others and wish to support socially responsible organizations while also earning positive returns. They embrace 'socially responsible' investing, and it is anticipated that their desire to bring positive change will help make sustainable investing mainstream.

In addition, the move for sustainable development has achieved important milestones in recent years, following the adoption by the United Nations of a comprehensive set of sustainable development goals aimed at pursuing sustainable development and ending poverty, fighting inequality and protecting the environment. With the move to sustainable development on the rise, investors are now needed to provide capital that brings impact so that sustainable development goals (SDGs), including mitigation of climate change, can be achieved. The investment required to meet SDGs is between US\$3.5 and US\$5 trillion per year over the period of 2015 – 2030 (United Nations Economic and Social Commission for Asia and the Pacific, 2017). At current levels, this indicates a shortfall of at least US\$2.5 trillion in developing countries alone. The implication is that business involvement is crucial, and private capital is needed to address pressing global challenges.

As such, the debate on how companies disclose and use ESG factors has received considerable attention over recent years, as management and analysts seek to measure the impact of ESG factors on business valuations and the decision-making process. With companies facing increased pressure from investors and stakeholder groups to build their corporate reputation with customers, or to comply with regulatory requirements, significant issues emerge as managers, analysts, and investors incorporate ESG factors into decision-making. The quality of corporate disclosures has emerged as one such area of concern, with investors expressing dissatisfaction with the quality of information provided by issuers (EY, 2017). For example, studies report that about one-third of investors do not use nonfinancial information because it is often of poor quality. When asked why they do not consider ESG issues in their decision-making, up to half of respondents indicate that nonfinancial information is often inconsistent, unavailable, or not verified and also note that nonfinancial measurements are often unavailable for comparison with those of other companies (EY, 2017).

With signs that businesses do support sustainability agendas and given the many opportunities arising as the world embraces sustainability, it is, therefore, important to also recognize and address the significant challenges resulting from issues related to valuation frameworks and data reporting. This study explores some of the challenges and opportunities that governments, businesses and investors face as they increasingly seek to drive social impact, with an emphasis on fiduciary duty, stakeholders and perception, and disclosure and data transparency.

Research Design and Contribution to Existing Literature

Despite much academic literature on various aspects of corporate social responsibility, researchers and practitioners often acknowledge that existing academic literature does not target practitioner audiences or attempt to critically review practitioner guidelines or practices (Dumay et al., 2016). As some studies suggest, there is a need for more communication and coordination between practitioners, policy makers, and academic researchers (Evans et al., 2013; Guthrie and Parker, 2011). In fact, it has been noted that, since the 1960s, much debate has taken place in journals aimed at academics rather than practitioners, without much attention to practitioner perspectives (Bartunek and Rynes, 2014).

Our study is a survey of current scholarly and practitioner literature and is intended to contribute to a much-needed body of literature focused on bridging the gap between academic research and practitioner points of view as related to the incorporation of sustainability into finance. Such a bridge is necessary in light of the ongoing academic debate about relationships between rigorous research and relevance to management practitioners. Despite much literature in the field, there are still many practical considerations to be addressed as companies incorporate ESG considerations in their strategies in order to produce long-term competitive financial returns and positive social impact. It is our hope that this study will help academics and practitioners develop insights and critical reflections leading to relevant future paths and research questions that ultimately lead to identifying an appropriate course of action for addressing the issues related to incorporating ESG factors into finance practice.

Existing Literature

Financial sustainability has become an increasingly important topic in the scope of responsible business practices. Companies have been facing increased societal pressure to add sustainability factors to their mission statement and objectives, and business managers are shifting focus from maximizing shareholder wealth to provide innovative solutions to deep-seated problems of human misery. With the current world population exceeding seven billion people, managers are having a harder time differentiating between 'us' and 'them' in typical business transactions. Managers face a very difficult reality when it comes to making decisions on behalf of the shareholders and must find a way to do their work in the face of seemingly dissenting financial and societal pressures (Margolis and Walsh, 2003).

Sustainability requires that organizations seek financial success while also assuming responsibility for their actions impacting on society and stakeholders. As a result, organizations must add sustainability elements to their mission statements and must learn to find ways to maximize sustainability while also being successful on a purely economic basis. Sustainability has been referred to as a commitment to economic, social and environmental well-being for both the present and the future, balancing needs of today with the demands of tomorrow. This encompasses behaviours, processes, tools and technologies

that can be perpetuated and replicated in ways that achieve economic, social or environmental benefits (Morgan Stanley, 2016).

Yet, sustainability is difficult to measure, and businesses can only be viable and competitive with proper analysis and execution. While measuring the impact of sustainability is often difficult, there have been documented cases of positive effects from businesses engaging in highly sustainable acts, including job creation, neighbourhood building, educational and safety programs in lower-income areas, or high employee satisfaction which has been associated with positive risk-adjusted returns (Edmans, 2011).

In addition, since investors have been one of the main drivers behind sustainable practices, a question of much interest has been whether a correlation exists between financial performance and sustainable practices. Various studies have recognized that firms act in the best interests of stakeholders and shareholders when engaging both social-profiting and financial-profiting methods. These studies found that the two performance measures were actually not only correlated, but the relationship between the two performance measures appears to be bidirectional and simultaneous, and reputation appears to be an important mediator of the relationship (Orlitzky et al., 2003). It has also been noted that the two forms of action as 'corporate financial performance' and 'corporate social performance' are phrased as measures representing an apparent dichotomy of mutually exclusive approaches to business, suggesting that managers are caught between what is best for the community or society, and what is best for the firm or business entity (Margolis and Walsh, 2003; Orlitzky et al., 2003).

More recently, however, it has been argued that it is in the best interest of shareholders for corporate managers and investors to incorporate sustainability considerations into decision-making processes (Clark et al., 2015). For example, companies that lead in sustainability show better operational performance and are less risky. Investment strategies that incorporate ESG issues appear to outperform comparable non-ESG strategies, with companies also reporting that sound sustainability lowered the cost of capital. Stock price performance appears positively correlated with sustainability practices, suggesting that ESG integration is key to producing stable long-term returns. Sustainability topics can also have a material effect on a company's risk profile, performance potential and reputation and hence have a financial impact on a firm's performance. These findings suggest that it is in the interest of asset owners to influence companies to produce goods and services in a responsible way because active ownership creates value for companies and investors.

Overall, studies suggest that integrating ESG issues into fundamental investment analysis can lead to improved financial performance, and research supports a positive relationship between sustainability and financial performance. For example, using industry-by-industry materiality guidance issued by the United States' Sustainability Accounting Standards Board (SASB), studies have found significant risk-adjusted returns for portfolios that include companies with superior ESG performance on material sustainability issues (Mozaffar et al., 2016).

Given the apparently tangible link between a firm's integration of material sustainability issues and enhanced shareholder value, companies could improve their financial performance while improving performance on various ESG dimensions. Yet, despite much academic literature on integrated reporting, there is a growing need for developing integrated reporting into practice (Dumay et al., 2016; Lodhia, 2015). Many investors and asset managers cannot fully relate to or conceptualise how to incorporate ESG criteria to identify investment strategies that generate long-term competitive financial

returns and positive societal impact. More concerning, data shows a large variation of ESG integration practices and suggests that sustainable investing is still at an early stage of development.

It has been suggested that ESG integration may add unnecessary burdens and costly constraints to the investment process. For example, some studies found that mutual funds engaged in ESG investing charge higher expense ratios, with an average statistically significant difference of 13 points (Kempf and Osthoff, 2008). Similarly, when reviewing the empirical literature on the performance of SRI investing, some authors note that socially responsible investing does not yield significant positive risk-adjusted returns (Galema et al., 2008; Renneboog et al., 2008) and investing in 'irresponsible' stocks (such as tobacco, alcohol, gambling) might result in extra financial returns (Hong and Kacperczyk, 2009).

As evidenced by surveys of investors who say they already practice sustainable investing, the depth of ESG integration into investment activities varies considerably, and adjustments to valuation models to integrate ESG considerations could be made even among those who are considering ESG factors for decision-making. Survey data shows that about one third of respondents practicing ESG integration apply it to a selection of companies in specific sectors or based on specific risks, with less than half applying it on a case-by-case basis or to each company in the investment portfolio (Eurosif, 2010). In addition, ESG ratings are often not included in standard valuation analyses, and general investment management staff are rarely provided with ESG training even when analysts are expected to work directly or on a regular basis with ESG analysts (Eurosif, 2010), with both sell-side and buy-side analysts focused mostly on short-term outcomes.

Current studies also suggest that, despite evidence of positive impact of incorporating sustainable factors into decision-making, executives are often reluctant to reallocate capital toward long-term sustainability goals as they wish to avoid missing short-term consensus estimates and disappointing shareholders (EY, 2014). Given that executives would delay or sacrifice projects creating long-term value in order not to miss short-term earnings targets, it is difficult for firms, especially multinational or global firms to act toward incorporating sustainability goals into current strategies (EY, 2014). For example, environmental factors are one area of disagreement among various stakeholders. The significance of environmental factors cannot be underestimated for entities such as pension and retirement funds, where long-range forecasts of the impact of climate change and other ESG factors significantly impact valuation ranges. Given the significance of such factors, it has been noted that virtually all large pension funds surveyed have integrated some form of ESG considerations into their investment and risk management processes or have at least initiated the process of evaluating ESG practices (OECD, 2015). While these findings are encouraging, definitions of green investments or ESG investment processes can vary significantly from one fund to another and, despite broad support of ESG considerations, few funds reported exposure to green investments (OECD, 2015).

Equally concerning are surveys documenting increasing pressure on publicly traded companies to maximize short-term results (McKinsey, 2013). At the executive management level, there appear to be increased pressures to demonstrate strong financial performance over a period of just two years or less, or using a strategy time horizon of less than three years, despite executive management declaring that using a longer time horizon to make business decisions would affect corporate performance positively in a number of ways, including strengthening financial returns and increasing innovation. In response to executive management stating such pressures stem from their boards, boards argue they

often just channel increased short-term pressures from investors, including institutional shareholders (McKinsey, 2013).

Challenges to Incorporating Sustainability into Decision-Making

As discussed above, there appears to be broad consensus that public awareness and understanding of corporate externalities is growing with more information that becoming available, and also because of an increasing number of studies that quantify corporate externalities. As awareness of corporate externalities is growing, stakeholders are increasingly acting to protect their interests. Nonetheless, as organizations pursue sustainable business projects, the main challenge for both for-profit and non-profit companies in this field is that they have to be financially stable and also pursue their mission in an efficient manner that does not negatively impact the quality of the business overall (Sontag-Padilla et al., 2012). Companies must, therefore, determine whether any financial trade-off has resulted in any impact or improved sustainability. Current theories and hypotheses explain the positive relationships between financial performance and ESG performance, yet fail to substantiate how corporations allocate costs and what managers should do in order to get past the barriers presented by their shareholders' unwillingness to participate in something that may or may not reduce their wealth. This issue is also significant for fiduciary investors, who do not invest for themselves and must fulfil strict fiduciary duties where the risk of underperformance is a major concern.

It is currently difficult for businesses to determine the impact, from a business perspective, specifically within a social or environmental framework because of many limitations, including data availability and government regulations impacting accounting reporting. As noted by the literature reviewed in this paper, there is a dichotomy of financial performance and social performance, and studies have found it difficult to separate these two measures and convey their impact into relevant business practices. It is difficult conveying to corporations that social and financial practices can be intertwined successfully without financial goals or methods of measurement, and without valuation frameworks that consider them in any systematic way. Externalities have had little or no impact on the key drivers of corporate value in traditional valuation frameworks (i.e. revenues, costs and risk), yet this is changing. With estimates such as that of social carbon cost of climate change amounting to \$250 billion (Ricke et al., 2018), the effects of negative externalities such as pollution, carbon emissions and ecosystem damage are impossible to ignore as population and wealth growth drive consumption ever higher.

Risks that appear latent may suddenly become significant and brought to the forefront of public scrutiny. For example, following estimates that the overall financial impact of plastic use in the consumer goods sector each year is \$75 billion, plastics are now recognized as a global issue and various countries are issuing policies to reduce plastics pollution (UNEP, 2014). More than 60 countries have introduced bans or levies on single-use plastics in order to reduce the use of disposable plastic items (UNEP, 2018). Similarly, assets such as fossil fuels may be rendered unburnable by future policy actions on climate change, and represent a financial risk to investment portfolios, potentially leading to a rapid repricing of carbon intensive companies and assets. Increasingly, institutional investors are concerned about potential impacts on investment portfolios, while the regulatory environment is slowly beginning to change in response to climate change.

Various surveys seem to suggest that financial managers are aware of ESG factors, and analysts are committed to integrating ESG factors into valuation frameworks (Bourghelle et al., 2009; Nofsinger &

Varma, 2014). In fact, financial analysts and investors would likely agree that climate change affects the financial sector and financial stability through physical risks, liability or litigation risks, and transition risks. Nonetheless, government policies to encourage corporate social responsibility policies vary widely across countries, as do approaches toward SRI (Knudsen et al., 2015). For example, in France, SRI selection is based on a 'best in class' approach, with portfolios composed through active selection of those companies that meet well-established ESG criteria, while in the UK an 'exclusionary' approach is used, with companies simply excluded from the portfolio if those companies are involved in activities that are deemed unacceptable or controversial (Crifo and Motis, 2016).

To ensure investors support and finance companies that act on sustainability issues, a new valuation framework would be needed to help investors recognize the link between corporate and societal value. Within this framework, reporting and quality data are critical to the decision-making. With increased awareness that business revenues and costs are impacted by regulations, market dynamics and stakeholder action, new metrics are required for companies to quantify their societal value creation and communicate the potential impacts of that societal value on financial performance. Incorporating ESG issues into valuations must be done quantitatively and qualitatively to arrive at better investment decisions, and the valuation framework must be redesigned to incorporate responsible investing practices in such a way that there is minimal or no conflict with fiduciary duty.

Currently, a significant challenge arises from the fact that ESG data reported by companies is of low quality, and no consistent standards or methods of reporting exist. This makes it difficult for analysts and investors to produce reliable comparisons. In addition, despite investors increasingly integrating ESG factors into their analyses, the current reporting environment provides for limited disclosure on ESG issues, and there is widespread disagreement as to whether disclosure should be voluntary or mandated through increased regulations.

For example, countries such as Finland and Sweden have mandated sustainability reporting for state-owned enterprises. France was among the first countries to pass legislation addressing climate change risk requiring French institutional investors to disclose their carbon footprint as well as their green investments, defined as those assets that aim to reduce greenhouse gas emissions. South Africa's Pension Fund Act calls on funds to consider ESG criteria in the investment process, and the Code for Responsible Investment in South Africa provides guidelines for institutional investors on how to integrate ESG factors into investment processes.

ESG reporting is, however, voluntary in most other countries and there are no specific standards for reporting that are enforced. For example, in the US and Canada reporting is, for the most part, entirely voluntary and there is not one recognized set of standards. In the United States, SASB, whose mission is to develop and disseminate sustainability accounting standards that help public corporations disclose material, decision-useful information to investors, has recently published a comprehensive set of industry-specific sustainability accounting standards covering financially material issues. These standards are intended to help investors and companies make more informed decisions and are designed to help businesses to better identify and communicate opportunities for sustaining long-term value creation by addressing the subset of sustainability factors most likely to have financially material impacts on the typical company in an industry (SASB, 2018). However, while the concept of integrated reporting is not new, the path toward adoption of integrated reporting in practice is still in its incipient stages (Generation Foundation, 2015). Proponents of integrated reporting argue that companies

should disclose how they integrate the triple bottom line (i.e. environmental, social and economic) through holistic reporting of inputs and outputs. Such integrated reports are intended to emphasize the material status of sustainability factors, alongside financial ones, allowing investors to make better informed decisions.

There is evidence that an increasing number of companies are voluntarily complying and are viewing voluntary compliance as a signal of good corporate citizenship and commitment to transparency, which may lead to increased firm value and may force competitors to report as well. Companies that mostly or completely address their material sustainability issues appear to benefit from their sustainability strategies (Kiron et al., 2013). Yet, even when such reports are available, surveys show that the quality of the content reported varies. For example, a recent study of companies included in the S&P 500 index shows that an overwhelming majority of these companies offer sustainability information on their websites, although not all included a comprehensive report and the majority provide partial or no external assurance, despite numerous complaints from investors about the lack of external verification of sustainability data (Si2, 2018).

Thus, following increased demands from investors and consumers for companies to improve transparency, for example, the U.S. Securities and Exchange Commission (SEC) has unveiled its Disclosure Effectiveness Initiative. It is intended to review current requirements and the disclosures that companies make to investors and states that companies should report on all material information in form 10-K, although the regulation does not specify whether this information is financial only or even quantitative. This leads to a great deal of confusion for businesses and raises the question of what is considered financially material, especially in the context of environmental, social or governance issues.

Much work, however, remains to be done before significant regulatory changes will be implemented. For example, while the SEC has been considering potential changes on reporting climate-related risks, radical changes are yet to be proposed due to an apparent lack of consensus between investors and preparers regarding the relevant information that should be disclosed, including SEC's limited ability to compel disclosures outside of current regulation.

In fact, as noted in a report by the United States Government Accountability Office (2018), some of the constraints faced by the SEC in reviewing climate-related and other disclosures arise from reliance on information provided by companies. Currently, climate disclosure varies in formats and specificity and the SEC does not have authority to subpoena information outside of the material risks required under federal securities law. In addition, the report states that any additional disclosure requirements around climate risks could have mission and resource implications for SEC's Division of Corporation Finance. More importantly, the aforementioned report notes that investor groups have yet to agree on the scope and breadth of climate-related disclosures, despite investor groups generally agreeing that climate-related disclosures are needed.

Even in those instances where sustainability disclosures have been mandated, the process toward increased disclosure of ESG factors has been met with resistance. For example, as a result of new regulation in the European Union (EU), in 2018 many companies have issued their first annual reports containing mandatory nonfinancial disclosures, and EU currently seeks regulations intended to improve consistency and clarity on how institutional investors, including pension funds and insurance companies, should integrate ESG in investment decision-making processes. In response to increased

regulatory pressures, some institutional investors have responded that decisions related to sustainability should be left to the pension funds rather than prescribed by law (PensionsEurope, 2018).

Opportunities for Fiduciaries

As discussed above, investors generally agree that factoring sustainability into financial decision-making is important, yet surveys also note significant areas of concern related to the strategic direction as set by boards of directors. As fiduciaries, directors are increasingly expected by investors and other stakeholders to be proactive about evaluating competitive threats and disruptive market factors, including ESG concerns. Yet, most CEOs appear disengaged and sustainability efforts do not have strong board-level oversight (Kiron et al., 2017). There is also no mandate for boards of directors to assume risk oversight role, even though risk oversight is a key competence of the board (SEC, 2009) and despite increased recognition among boards that risk management is integral to every aspect of a company's long-term well-being.

Prior studies have attempted to explain which characteristics of the board of directors most likely influence integrated information dissemination models. For example, using data from 2008 to 2010, Frias-Aceituno et al. (2013) show that growth opportunities, the size of a company and its management bodies, together with gender diversity, are the most important factors in the integrated dissemination of information. These studies, however, provide limited discussion of the challenges that boards of directors face when attempting to implement business strategies that are sustainability-friendly, along with any possible performance trade-offs that professionals must address when incorporating ESG factors into decision-making. For example, in 2015, the United States Department of Labor (DOL) issued guidance that fiduciaries should not be unduly discouraged from considering ESG factors in selecting investment funds. Then, in 2018, the DOL issued revised guidance cautioning retirement plan fiduciaries against giving too much weight to the social justice mission of mutual funds when selecting investments for employee benefit plans (Miller, 2018). This change in guidance added an additional level of confusion to the challenges raised by the lack of standardization and transparency of sustainability disclosures.

With increased expectations that businesses integrate sustainability into strategy and risk management practices, boards of directors should become a crucial tool for developing and enacting a long-term vision for businesses that emphasizes accountability for aligning current business performance with long-term sustainable finance factors. Directors are pillars to establishing a sense of trust and confidence among investors and board oversight is critical to defining and implementing a long-term business strategy that ensures the organization is well-positioned for the long-term.

The way boards of directors design and implement long-term strategic philosophies seeking management alignment with the long-term direction best fit for the entity is an issue of corporate governance (Aguilar, 2015). Boards of directors are critical to implementation of strong corporate governance practices, and it has long been recognized that good corporate governance practices enhance the effective deployment of shareholder capital that ultimately contributes to growth and positive long-term performance (Eisenhofer, 2010). The quality of a company's corporate governance structure is correlated to the effectiveness of the board of directors' oversight of the company for the long-term benefit of shareholders. Active oversight from boards of directors is critical given the increased risk of class action litigation arising from various plaintiff groups taking aim at companies'

voluntary sustainability disclosures. Such cases reflect the importance of such communications and highlight the fact that certain investors and consumers will challenge the veracity of such statements, particularly in connection with their investment and consumer-product purchasing decisions (Orr and Kempf, 2015).

It is, therefore, appropriate to re-evaluate the role that boards of directors have in determining corporate strategy and assessing the allocation of capital investments to accomplish corporate strategy. Directors serving on boards act as fiduciaries and should be responsible for examining the objectives of the company and resource allocation, and for measuring corporate progress toward achieving these objectives given the resources available. Directors have the overarching responsibility to faithfully represent the interests of shareholders, including significant oversight responsibilities with respect to executive management and for the overall direction of the company. In addition, directors play a critical role in setting the appropriate long-term direction for the business and are responsible for assessing management recommendations about the future direction of the entity.

In the current business landscape, however, management is often not organized or required to deal with corporate strategic choices, and boards of directors are often poorly equipped to fulfil this responsibility. For boards of directors to fulfil such responsibilities, they should establish well-defined long-term strategies with set criteria for evaluating funding strategies for the business. There is a growing need for boards to bring fresh viewpoints to the table, and to be willing to challenge the status quo in the pursuit of constructive change (Dailey and Koblenz, 2012).

Boards must take the initiative by engaging in long-term strategic planning ahead of management and must be willing to be catalysts for change when their company's best interests demand it. Given the growing importance of ESG factors as voiced by shareholders, it would thus be appropriate for Boards to discuss the extent to which the traditional goal of financial management as stated in terms of shareholder wealth maximization should be reframed to address the issue of value creating for both society and shareholders. As fiduciaries for shareholders, boards of directors should also strive for increased engagement and communication between management and owners, and work toward establishing a strong foundation for good corporate governance. Given the increasing importance of ESG factors in valuation frameworks, a strong corporate governance framework would enhance the role that boards of directors should play in overseeing the risks posed by increased ESG considerations in today's highly volatile business environment.

Concluding Remarks

Existing data seems to support the positive correlation between sustainability, financial performance, and corporate valuation over the long run. Nonetheless, companies face trade-offs in capital expenditures and operating expenses that affect both short-term financial performance and long-term financial performance. Boards of directors should lead the process of aligning ESG factors and business vision by developing strategic philosophies that clearly outline the core beliefs to be used in meeting long-term objectives. Such strategic philosophies must articulate the role that ESG factors play in determining the long-term positioning of the business. This would then allow management to execute and forecast against objectives that address the strategic guidance given for the business.

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