Pearl Meyer

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Are Boards Talking About ESG?



Mark Rosen

MANAGING DIRECTOR



Deb Lifshey

MANAGING DIRECTOR



Sharon Podstupka

MANAGING DIRECTOR

Transcript

Mark: So as we think about ESG, how would you define it?

David: Well, literally, it's environmental, social, and governance. It's really a series of shareholder proposals, investor concerns, employee and management, and board concerns that deal with the broader topic of sustainability—that is the ability of the

organization to function in the very long term.

Mark: Are people talking about this in the comp committee meeting?

Deb: I think people are starting to talk about it. Certainly outside of the compensation committee arena, it's a big topic of conversation, but I think what we always say is the compensation committee wants no surprises. And as this is really such a far-reaching piece of information that people are looking for and considering, it is making its way into the compensation committee forum.

Mark: We talk a lot in my compensation committee meetings about what ISS and Glass Lewis have to say. How do they think about ESG?

Deb: That's right, Mark. I mean, investors rely heavily on the proxy advisors, and not surprisingly ISS and Glass Lewis are deep into this business. ISS is internally collecting about 400 data points that they're using across all companies. Glass Lewis uses an outside company to collect a lot of this data, and they're issuing recommendations based on what the risk factors are. Just as they have been doing on governance, now they're getting into the business of environmental and social.

David: Yeah, Deb, actually there's a whole cottage industry around doing this analysis. So Sustainalytics, which is doing the work for Glass Lewis in the back room, if you will, is selling their data to investor groups, to pension funds and folks like that who are vitally interested in this. So there's a lot of information becoming available with, in effect, people's impressions of how companies are doing on these things that all companies have to pay attention to.

Mark: They're not doing this just because ISS and Glass Lewis want it. There's a groundswell that's creating this demand, isn't there?

Sharon: Absolutely. I think beyond the discussions in the board room and probably the reason why these discussions are happening in the boardroom is because it's happening in the mainstream, and it's being defined broadly, depending upon who's looking at the issues and what issues that they're looking at. So not just investors, but consumer advocacy groups, the workforce at large, the media.

Mark: Bringing it back to the compensation committee and the area that we tend to practice in, how is that being addressed in the compensation committee meetings? How are these ISS and Glass Lewis reports being used? And what are comp committees thinking about when they discuss ESG?

David: Well, there are pressures on compensation committees because many people outside the organization believe, truly believe, that if you want change within an organization, you have to build it somehow into people's compensation programs because people, from their perspective, only respond to how they're paid. We all know that that's not really the case, but they are looking for the corporation to, in effect, put their money where their mouth is on these issues with respect to how executives are evaluated and

compensated.

So it's coming to the compensation committee in a number of cases where it's probably inappropriate, but in some cases where it's really important because the compensation committee has to balance what has been largely a focus on financial performance and especially growing profits over time with some of these other things like preserving the environment or meeting certain social goals.

About the Authors

Mark is a consulting team leader who brings 20+ years advising on executive and board pay, including benchmarking, retirement plan design, and tax/accounting and governance considerations.

Deb advises on executive compensation from a legal and regulatory perspective, including securities disclosure, tax and governance matters, contract negotiation, and reasonableness opinion letters.

Sharon brings 25+ years guiding executive and broad-based pay communications and disclosure, helping boards and management manage change and respond to investor and proxy advisor scrutiny.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.