

What ESG Means for Organizations and Directors



David Swinford

CHAIRMAN

The following is based on a conversation with Pearl Meyer's Chairman David Swinford.

Q. We know the broad definition of ESG is environmental, social, and governance issues, but how should directors define this term, in the context of their role in an organization?

A: Think about ESG as a series of concerns amongst shareholders, employees, and management, as well as the public at large, that ultimately relate to sustainability. Then define sustainability as the ability of the organization to function in the very long term—financially, legally, and socially.

Q. This is no doubt a topic for the full board. But at the committee level, are there current discussions about ESG?

A: Absolutely! There is pressure on the compensation committee because many people believe if you want to enact change, you do it through a compensation program. That's true in many cases, but certainly not all. Directors are having to consider many more factors now, not just focus on financial performance, but also think about all of the quickly emerging concerns in the ESG arena.

Q. Is it the right approach to include performance measures based on ESG concepts in executive incentive plans?

A: It depends. What is critical to the achievement of your business and leadership strategies? On some level, your strategy must include sustainability for the very long term. Today, we're all beginning to think about the definition of success a little bit differently, more broadly. My advice is to objectively evaluate the key drivers of your future success as an organization. You're probably going to find some significant non-financial elements, for example a healthy corporate culture, specialized talent, or access to natural resources. We are naturally going to see corresponding incentive plans that balance both financial and non-financial goals.

About the Author

David Swinford is chairman of Pearl Meyer. He is a senior advisor to the firm's leadership team and serves on the firm's board of directors. In his consulting role, Dave works closely with companies to align executive compensation with business and leadership strategies, helping clients build and maintain strong executive teams that create value over the long term.

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