Pearl Meyer

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ESG: It's Not What You Think

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Some of the more material subjects sweeping through the boardroom fall under the broad category of environmental, social, and governance ("ESG"). But what does ESG mean, really? ESG issues are wide ranging from safety to diversity, greenhouse gas emissions to proxy access—and that doesn't even scratch the surface. At a quick glance, the list of ESG issues may seem clear. However, when we start look at ESG holistically, we go beyond tactical challenges, quantifiable metrics, and checklists and we move into an emerging area of investor interest and scrutiny: *long-term sustainability*.

At the heart of ESG is a company's ability to survive over the long term. If we think of ESG as an organization's license to conduct business under today's complex matrix of laws and social contracts, we can see the corporation as a citizen of society. The issues under ESG push a company to operate, turn a profit, and thrive in a responsible manner. These issues also reflect some pressure from society on companies to focus less on short-term profits and more on the behaviors and/or actions needed from the board and management to drive longevity (e.g., world-class business ethics, strict data privacy procedures, strong fiduciary oversight of compensation programs, clear emissions policies, etc.).

The list of issues that can fall under the ESG category is long, growing, and should be on every board committees' agenda. From a pure compensation committee perspective, it's not enough to integrate a few safety measures into an incentive program and say you've covered ESG. Compensation committees need to look at the breadth of issues and begin asking whether the company's compensation practices support or hinder the long-term health of the organization.

These are tough conversations that should bring many important questions to the forefront. What are your company's ESG priorities? Where is the most risk and pressure? How can a company appropriately balance certain issues and continue to be profitable? Are there subjects that need to be addressed more openly before the public forces the issues? How can the compensation committee ensure that pay program designs support ESG-related initiatives without creating incentives with too much short-term focus?

We know that the investor community is focused on ESG and the likelihood that a company will be there for the next generation. We know that the proxy advisory firms have ESG on their radar screens. We know that the public is demanding more transparency around specific ESG issues. If you haven't started the ESG conversations in your committee meetings, it's time to start.

About the Author

Mark Rosen is a managing director and consulting team leader at Pearl Meyer. In his management role, he oversees a team of senior compensation consultants in the execution of the firm's growth strategy and in the development of consultants at various stages in their careers. Mark has consulted on executive and board compensation issues for more than 20 years for a broad range of public companies, as well as tax-exempt organizations and academic institutions. He has extensive experience with benchmarking, retirement plan design, governance issues, and tax and accounting considerations.

About Pearl Meyer

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