Diligent Institute | INSTITUTE OF DIRECTORS IN IRELAND

ESG Strategy, Leadership, and Integration in Irish Companies

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About Diligent Institute

Diligent Institute seeks to help corporate leaders be more effective by providing cutting-edge insights on corporate governance, by amplifying the voices of diverse corporate leaders, and by sharing broadly all that we are learning about modern governance practices.

Founded in 2018, Diligent Institute serves as the global corporate governance research arm and think tank of Diligent Corporation, the largest SaaS software company in the Governance, Risk and Compliance (GRC) space. We produce original research both on our own and in collaboration with partners, including institutions of higher education and thought leaders in the corporate governance space. We produce over a dozen reports each year, ranging from our monthly Director Confidence Index, which measures how corporate directors are feeling about the economy, to in-depth reviews of issues such as ESG (environment, social, governance) practices, to our AI-powered Corporate Sentiment Tracker that analyzes data from thousands of public sources to discern what's on the minds of corporate leaders. Diligent Institute is funded solely by Diligent Corporation.

Learn more about the Institute at diligentinstitute.com.
Learn more about Diligent at diligent.com.

About the Institute of Directors in Ireland

The Institute of Directors (IoD) in Ireland is a dynamic network with members drawn from companies large and small in the private, public and not-for-profit sectors. As the leading voice in the debate on improving corporate governance standards, IoD Ireland is dedicated to developing and improving the effectiveness and performance of directors and boards throughout Ireland. Our focus is the professional development of our members by offering key services such as: director training; board services, such as the Boardroom Centre and Board Evaluation Service; access to insight and expertise through online and print resources; and networking opportunities through inspirational events.

Learn more about IoD Ireland at iodireland.ie.

The Rise of ESG in the Boardroom and Beyond

Mounting acknowledgment of the importance of climate and environment, social and governance (ESG) issues presents both risks and opportunities for organisations and boards. There are many things to consider on the risk side, including regulatory risk and physical risk. On the opportunity side, companies stand to attract talent to themselves as younger generations of workers, especially, are now putting a premium on companies they feel share their values. Investors are also looking at sustainability and holistic ESG profiles before deciding to inject capital. Hence, there is a huge opportunity to attract more capital when ESG is embedded into a company's overall strategy.

The pressure around ESG action is not likely to subside. In 2021, Blackrock[1] and other big institutional investors sent strong warnings to issuers that ESG would be central to their decision-making and voting. The activist Big Oil campaigns[2] this year on climate action issues echo this sentiment. The importance of good governance has perhaps never been greater than when faced with the uncertainty and lightning-fast developments the world is encountering today. Boards must ensure that they are able to stay abreast of new and evolving issues to lead and guide their companies effectively. Clearly, ESG leadership, strategy and integration have never been more important than they are now.

1. Larry Fink's 2021 letter to CEOs, https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter

2. Tima Bansal in Forbes, "Big Oil Under Fire: Climate Activists Win Big Against Exxon And Shell," May 2021, https://www.forbes.com/sites/timabansal/2021/05/27/big-oil-under-fire-climate-activists-win-big-against-exxon-and-shell/?sh=210346f3118c

Executive Summary

ESG factors have gained traction and visibility over the years, not only among investors and stakeholders but also among governments and regulators, leading to increased pressure for companies to incorporate ESG policies and measures into various parts of their businesses. In response to these trends, the Diligent Institute, in conjunction with the Institute of Directors (IoD) in Ireland, conducted a survey to learn more about how companies, their directors and leadership are thinking about ESG strategy and leadership in Ireland.

Methodology

The survey is based upon the responses of 262 members of IoD Ireland, representing independent directors, non-executive directors, executive directors, senior management and company secretaries. Thirty-four percent of those surveyed work with an organisation with more than 250 employees. The questionnaire was administered to respondents in private companies, public companies, state/semi-state bodies and non-Governmental organisations. Respondents coming from private and public companies accounted for approximately 54% and 24% of our sample, respectively. Sector-wise, the highest percentage of our respondents came from the financial sector at 27%. The lowest sector indicated was the materials sector, accounting for less than 2% of our respondents. As expected, a large percentage of our respondents (73%) indicated that their companies are headquartered in Ireland. Another 9% indicated that they are headquartered elsewhere outside the EU and the United Kingdom.[3]

Key Findings

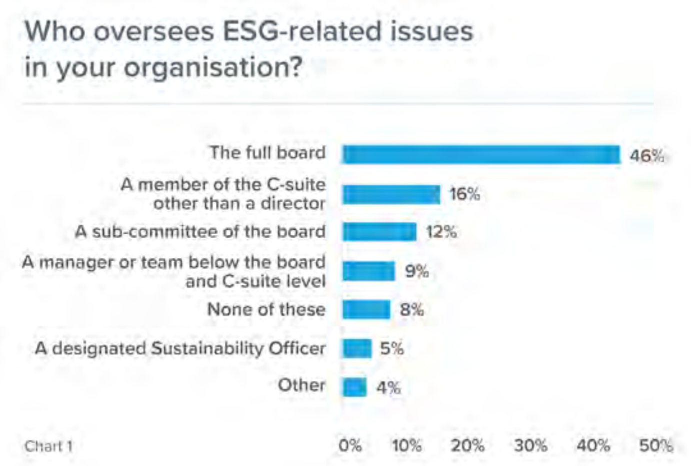
- 59% of respondents said that ESG issues are dealt with at board level.
- 82% of respondents said that ESG issues are now discussed at board level at least annually. Comparatively, only 52% said their board had discussed ESG-related matters before March 2020.
- Respondents indicated only slight confidence in ESG strategy and overall alignment with long-term strategy. An average score of 6 out of 10 was recorded when we posed the question to those we surveyed.
- Only 17% of respondents indicated that ESG related metrics are included in executive compensation plans.
- Private companies seem to lag their listed peers in ESG strategy and implementation. 44% of respondents from the public sector said they have included ESG expertise in their skills matrix for recruiting new board members, compared to 20% from private companies.

3. Percentages have been rounded up to the nearest decimal point.

Analysis

ESG Ownership and Oversight: Board Level

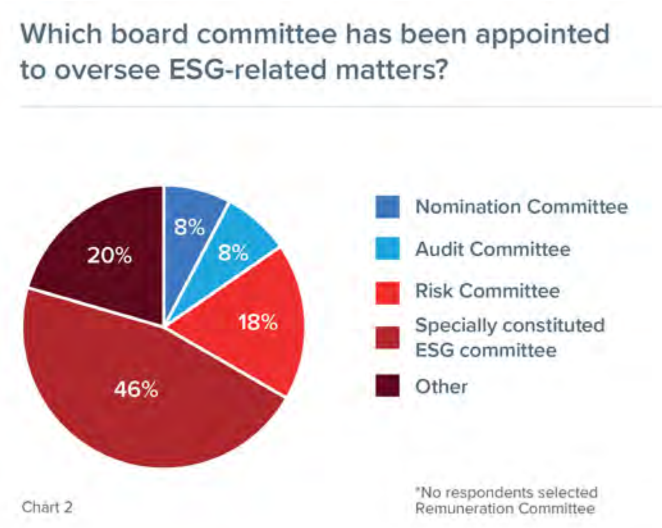
We first asked respondents who oversees ESG strategy within their organisations. A majority indicated ownership at board level, with 59% stating that ESG is dealt with at board level or by a subcommittee of the board.



Irish boards are constituting special ESG committees to oversee rather than delegating ESG oversight to existing committees

As ESG issues are added to the board agenda, some companies opt to delegate ESG oversight to an already existing committee of the board. However, due to the scope of ESG issues, other boards may choose to constitute a special committee to focus solely on ESG.

When it comes to ESG ownership at the board committee level, 48% of respondents who said ESG is dealt with at the committee level of the board indicated that they have set up a special committee to oversee ESG matters. Meanwhile, 18% said that their risk committee is taking on the responsibility for ESG oversight, while 21% indicated that other committees, such as the executive and finance committees, have been appointed to oversee ESG in their organisations.[4]



ESG Reporting to the Board

Eighty-six percent of respondents indicated that their board receives an update at least once a year from ESG owners below the board level, with 36% saying that the board receives an update every quarter.

4. This seems to be aligned with research conducted by Norton Rose Fulbright on Canada's TSX 60. Respondents of that research indicated that there is a preference for a specialised ESG committee or the governance committee. Thirty-two percent of the respondents indicated that their board has constituted a specialised ESG committee, compared to 27% who also indicated that ESG-related matters have been delegated to the Governance committee or its equivalent.

COVID-19: A Turning Point for ESG

The COVID-19 pandemic has altered countless aspects of the business world, and the way that boards are monitoring ESG is no exception. When asked about the frequency of ESG-related discussions at board level prior to March 2020, when the World Health Organization (WHO) declared COVID-19 a pandemic, 46% of those surveyed indicated that their boards rarely or never discussed ESG. Meanwhile, only 22% indicated that their board discussed ESG at least once every quarter.

The tide clearly changed when the pandemic hit: Approximately 56% of our respondents said that their boards discuss ESG-related matters at least once every quarter since March 2020. Now, only 16% of those surveyed indicated that their board rarely or never discusses ESG-related matters.

Respondents also predicted that their boards would discuss ESG more frequently over the next three years: 29% said they expect that ESG will be discussed at every board meeting. Overall, we see an impressive 97% indicating that ESG will feature in boardroom discussions at least once a year.

> "ESG is becoming a main board agenda item going forward."
>
> **IoD Member and Respondent**

How frequently did your organisation discuss ESG-related issues at the full board?

Prior to March 2020

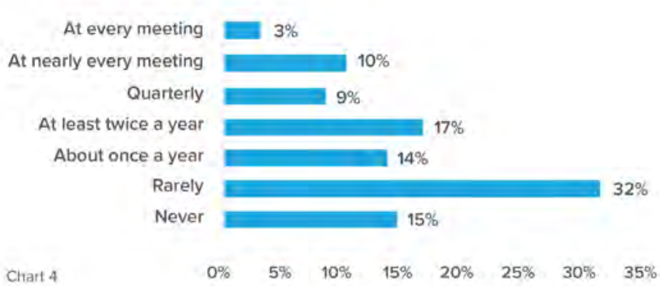


Chart 4

How frequently did your organisation discuss ESG-related issues at the full board?

Since March 2020

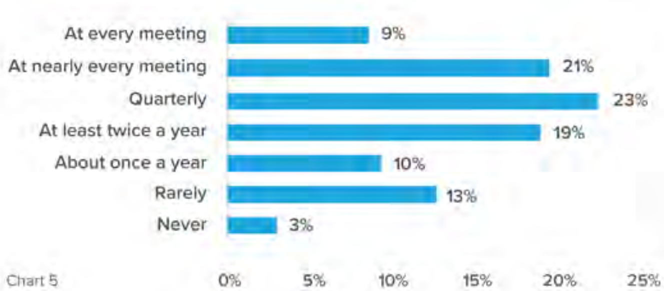


Chart 5

How frequently do you anticipate your organisation will discuss ESG-related issues at the full board in the next three years?

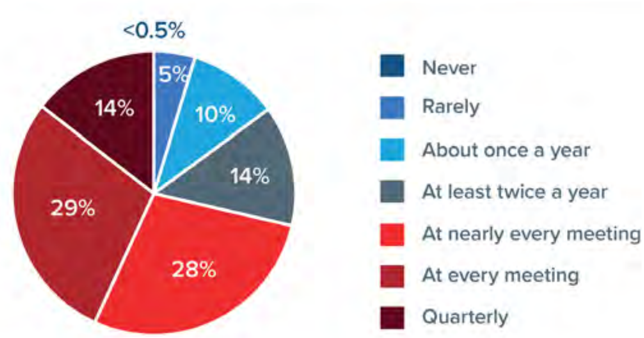


Chart 6

Aligning ESG Messaging with Long-Term Strategic Goals

As ESG scrutiny intensifies, it has also become important that companies' ESG messaging and goals align with the organisation's long-term strategy. So, we asked our respondents on a scale of 1–10 how well they feel their ESG messaging is aligned with the company's vision and long-term strategy. The results show a slight optimism at 6/10, showing that there is still room for improvement in aligning ESG messaging with long-term strategy.

Please indicate on a scale of 1-10 the degree to which you feel your organisation's current ESG messaging and activities align with its vision, purpose and long-term strategic goals.

Chart 7

ESG Integration and Metrics: Employee Training, Executive Compensation, Hiring and More

With focus and discussions around ESG ramping up in recent years, institutional investors are asking issuers and their remuneration committees to include ESG metrics in their remuneration policies. When asked if their board is integrating ESG metrics into their compensation plans for executives, only 17% of our respondents noted that they are currently doing so. Another 30% said they are planning to include ESG in executive compensation, and 49% of our respondents, almost half, are not integrating ESG metrics into executive compensation and have no plans of doing so soon.

This is aligned with findings from a recent Diligent Institute paper titled Aligning Pay, People and Planet[5], which utilised data from Diligent's compensation and governance intel (CGI). From the remuneration policies of the ISEQ companies analysed, the data suggested that 17% of companies in Ireland incorporated ESG metrics in executive compensation in 2020. This number is half the overall percentage of European companies incorporating ESG into executive compensation, which sits at 34%, according to the report. The percentage of companies in Ireland incorporating ESG metrics in executive compensation were, however, expected to more than double to 37% in 2021 when the forward-looking remuneration policies were analysed.

Frequently, companies include ESG metrics in executive compensation as part of an overall strategic and qualitative measure, making it difficult to quantify and track.

> "We do not directly include ESG metrics in individual plans, but rather in key overall performance metrics which then directly impact evaluation of executive performance. There needs to be a significant awakening to the need to pay close attention to ESG, including how we measure it."
>
> **IoD Member and Respondent**

5. The findings in this research are consistent with Diligent Institute's paper titled "Aligning Pay, People and Planet," published in August 2021.

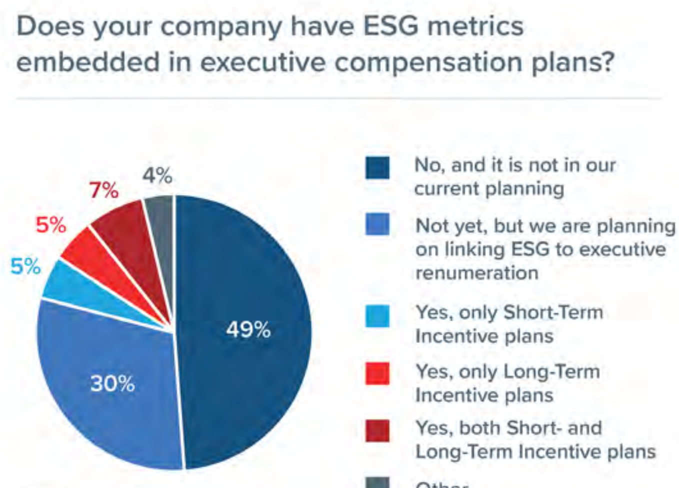


Chart 8

We have also seen increased emphasis on ESG integration throughout entire organisations and were curious to find out if Irish companies were incorporating ESG into employee training. Forty-one percent of our respondents said they are not doing so yet but have plans to do so. A further 33% said they are already doing so.

Chart 9

As noted above, conversations around ESG are occurring in the boardroom far more frequently. Many boards have, therefore, realised the need to have ESG-competent directors on their boards to ensure that they are able to understand and effectively oversee and account for ESG. When we asked respondents if they were including ESG experience in their skills matrices for identifying new board candidates, 28% said that they are currently including ESG expertise, another 30% said it is currently under consideration, and only a third (32%) said they were not including it. In the IoD Ireland's second quarter [Director Sentiment Monitor research](https://www.iodireland.ie/resources-media/research-publications/research-reports/director-sentiment-monitor-q2-2021), ESG came in second to strategy when IoD members were asked what they believe will be the most desired experience/expertise needed by their primary organisation's board over the next two years[6]. In the report, 35% of IoD members indicated that directors with strategy skills is the most desired and a noticeable 29% indicated that ESG is a future skill desired in their boardrooms.[6]

Chart 10

6. IoD Ireland, Director Sentiment Monitor for Q2 2021, https://www.iodireland.ie/resources-media/research-publications/research-reports/director-sentiment-monitor-q2-2021

Progress on World Economic Forum ESG Framework

In 2020, the World Economic Forum (WEF) launched a standardised ESG reporting framework[7] for companies to align their mainstream reporting on performance against ESG indicators and track their contributions towards Sustainable Development Goals (SDGs). The metrics hinge on four pillars — principles of governance, planet, people and prosperity — and are expected to serve as the foundation for ESG reporting standards. We asked our respondents about policies enacted in relation to these pillars.

When looking at newly enacted policies, climate change sustainability policies were the most frequently cited by our respondents.

According to our survey results, many companies are introducing or strengthening ESG policies.

- 58% responded that they have introduced measures to reinforce 'strong pillars of governance'.
- 42% had introduced measures to reinforce their diversity policies.
- 26% responded that they have introduced policies on climate change and sustainability.
- The data suggests that stakeholder and investor capitalism policies remain the least favoured of the ESG policies listed below. 56% of respondents said it doesn't apply to their organisation.

Note that diversity policies took the second-highest spot on this list. Historically, environmental and governance indicators were more frequently used by companies. However, recent events such as the pandemic and the resurgence of the Black Lives Matter movement have resulted in more focus on the "S" in ESG.

> "E and G aspects focused on previously. Recently, S has become part of the reporting/discussion."
>
> **IoD Member and Respondent**

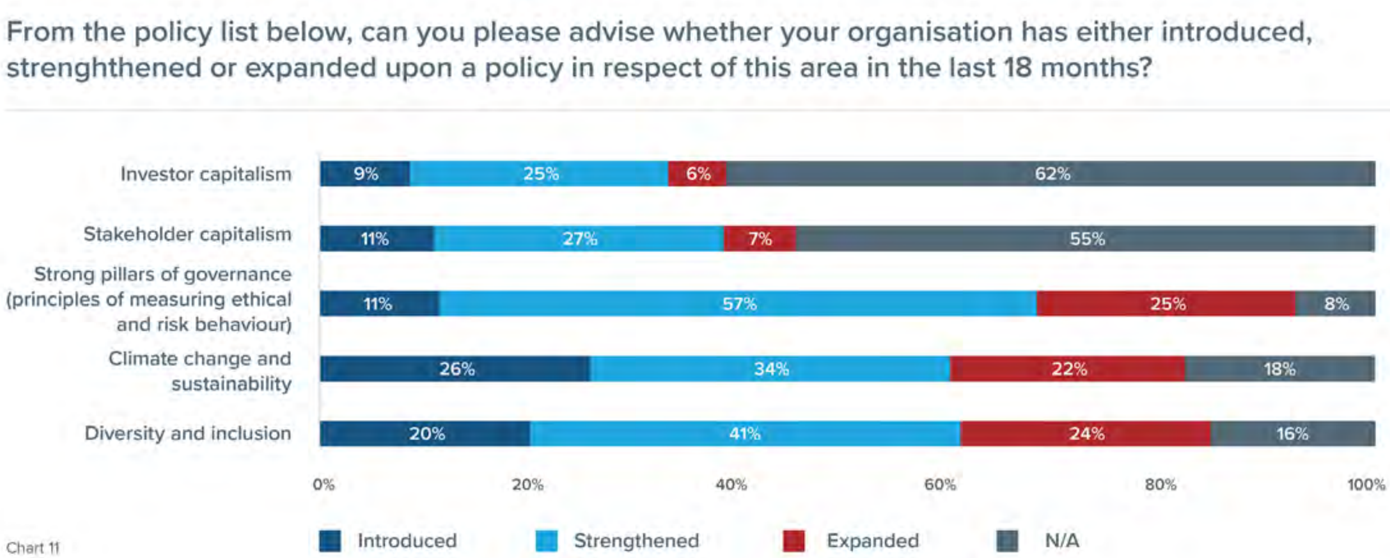


Chart 11

7. Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation, September 2020, https://www3.weforum.org/docs/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf

Private Companies Lag Their Listed Peers in ESG Strategy and Implementation

The Securities and Exchange Commission (SEC) in the United States is one body that has sent a signal that greater ESG and climate oversight is on the horizon[8]. Though this regulation is geared towards public companies, it is expected to impact private companies that will likely go public, as they will have to meet certain diversity and environmental reporting standards well before their IPOs. The Irish Stock Exchange is yet to implement a similar action, however within Europe and Ireland, the Sustainable Finance Disclosure Regulation (SFDR)[9] — which came into effect in March 2021 — will also likely impact start-ups, venture capital funds and the private market in general. Start-ups and venture capital funds that would like to attract investors will have to embed sustainability into their strategy, as the regulation is designed to drive capital towards sustainably oriented investments. There are significant private-sector initiatives in Ireland for ESG. In 2017, Sustainable & Responsible Investment Forum (SIF) Ireland was established to serve as the national platform for all members of the financial services industry, policy makers and intermediaries to advance sustainable and responsible investing best practice across all financial services sector activities in Ireland.

Our findings suggest, however, that privately held companies lag their quoted peers in ESG strategy and its implementation.

20% of respondents in the private sector indicated that they have included ESG expertise in their hiring matrix. Comparatively, **44%** of respondents from public companies have done so.

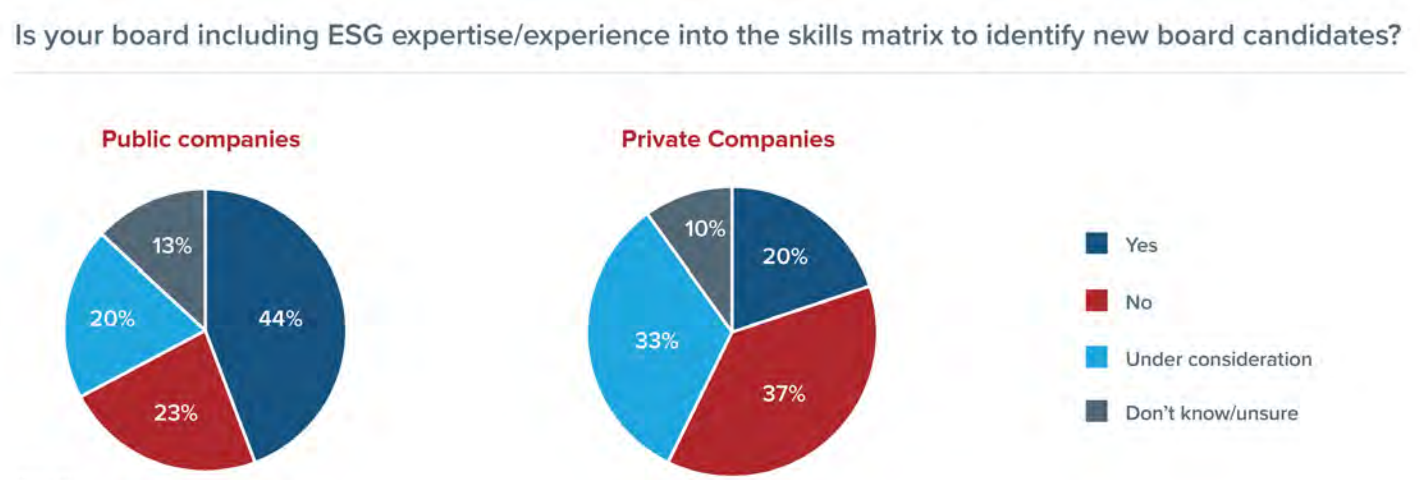


Chart 12

8. Anthony Cimino in Techcrunch, July 2021, https://techcrunch.com/2021/07/14/what-the-growing-federal-focus-on-esg-means-for-private-markets/?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAAMhTYk0A4VTldCDE-Nh-qBv_d-wtF_Nd3nCHVZle8jxqllmtjWAEhc-0XXbRQylaOO4sbN2fBBQd0j7PplF-GYt-EBQlvByovc0-8lu5Fgf50u0CVj5kW9b0Pz08glQkP68x2WlScyAaXdS8KGtlfqgEZlaSo4rf3L39FaZgnwl8r

9. Alicia Karspeck in Triple Pundit, August 2021, https://www.triplepundit.com/story/2021/new-esg-regulation-europe/726291

46% of respondents from listed companies said they are incorporating ESG in employee training compared to **28%** from private companies

Chart 13

49% of those surveyed in privately held companies said they have tied ESG to executive compensation or are planning to do so; comparatively, **59%** of respondents from quoted companies indicated that they have included ESG-related metrics in executive compensation or are planning to do so.

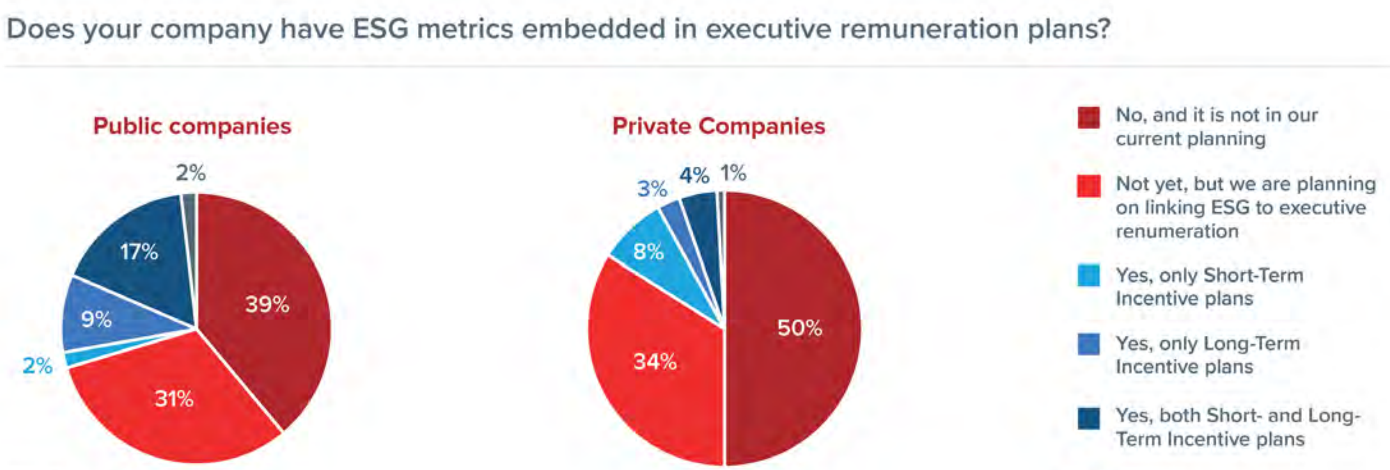


Chart 14

Respondents from listed companies showed higher confidence in their ESG strategy and its alignment with their organisations' long-term strategy at a **7** on our 10-point scale relative to those surveyed from private companies, who were at a **5** out of 10.

Please indicate on a scale of 1-10 the degree to which you feel your organisation's current ESG messaging and activities align with its vision, purpose and long-term strategic goals (average score)

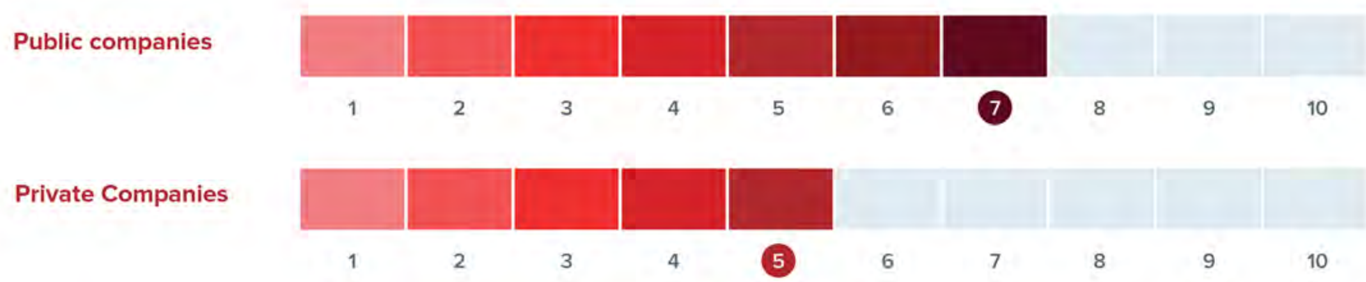


Chart 15

Conclusion

Continuous public debate on ESG is leading to countries worldwide addressing the issue at a legislative level, investors and regulators applying pressure, and companies themselves developing internal policies and incentives for upper management to lead businesses in a more sustainable direction.

The analysis drawn from the survey shows that companies in Ireland are moving towards adopting strong ESG fundamentals, though there is room for improvement.

Progress notwithstanding, we recorded several less-than-optimistic sentiments from our respondents. Some directors still feel that ESG is just a trend that will fade in the future. One of the respondents noted,

> "ESG is trendy but not what business is all about."
>
> **IoD Member and Respondent**

Another respondent said,

> "There is the need for perspective, ESG is not everything!"
>
> **IoD Member and Respondent**

Comments like these aside, the significance of ESG to organisations' short- and long-term financial performance has been well documented. According to Robeco[10], sustainable funds and Sustainable Exchange-Traded Funds (ETFs) outperformed during 2020 when there was a global economic downturn during the pandemic. As the investment company puts it, this was because sustainable funds have relatively reduced exposure to the energy sector and have more to do with other sectors such as technology and healthcare. These are the sectors that profited during the pandemic, as they are considered more innovative and socially beneficial.

While corporations are putting greater emphasis on ESG, they should also endeavour to ensure a holistic view of its impact on the long-term strategic goals of the company. When designing ESG metrics, companies must ensure alignment with sustainability materiality using global accepted frameworks. Boards also need to ensure that their ESG messaging is aligned with their vision and is created and communicated with all stakeholders in mind.

The results we have reported above show encouraging progress. However, our results indicate that Irish companies still lag other European countries[11] more broadly when it comes to ESG; Irish companies seem to attach ESG KPIs to executive compensation at lower rates compared with European levels. Data from our research report titled Aligning Pay, People and Planet[12] suggests that 17% of Irish companies incorporate ESG metrics in compensation plans compared to 74% of companies in France who link executive compensation to ESG. Additionally, private companies lag their public counterparts in the region when it comes to incorporating ESG into skills matrices, hiring practices and executive compensation plans. As more companies move towards meaningful ESG action, strategy, leadership and integration, it's important to remember that ESG will look different for each company. As boards continue to think about the long term, this journey towards sustainable value creation will never truly be completed, but it can always be started, maintained, and improved.

10. Masja Zandbergen-Albers in Robeco, 2020 – the year that ESG finally became mainstream, February 2021, https://www.robeco.com/en/insights/2021/02/2020-the-year-that-esg-finally-became-mainstream.html

11. The rise of ESG: the evolution of environmental regulations in Europe, https://gresb.com/nl-en/the-rise-of-esg-the-evolution-of-environmental-regulations-in-europe/

12. Sections of this statement appeared in Diligent Institute paper titled Aligning Pay, People and Planet, https://www.diligentinstitute.com/research/aligning-pay-people-and-planet/

Appendix

Respondents' Demographics

Chart 16

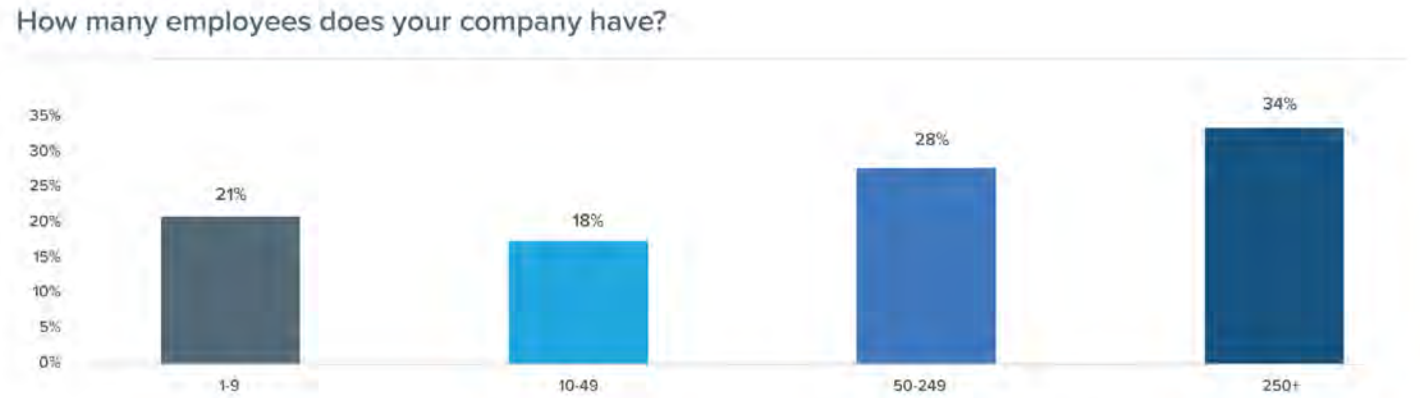


Chart 17

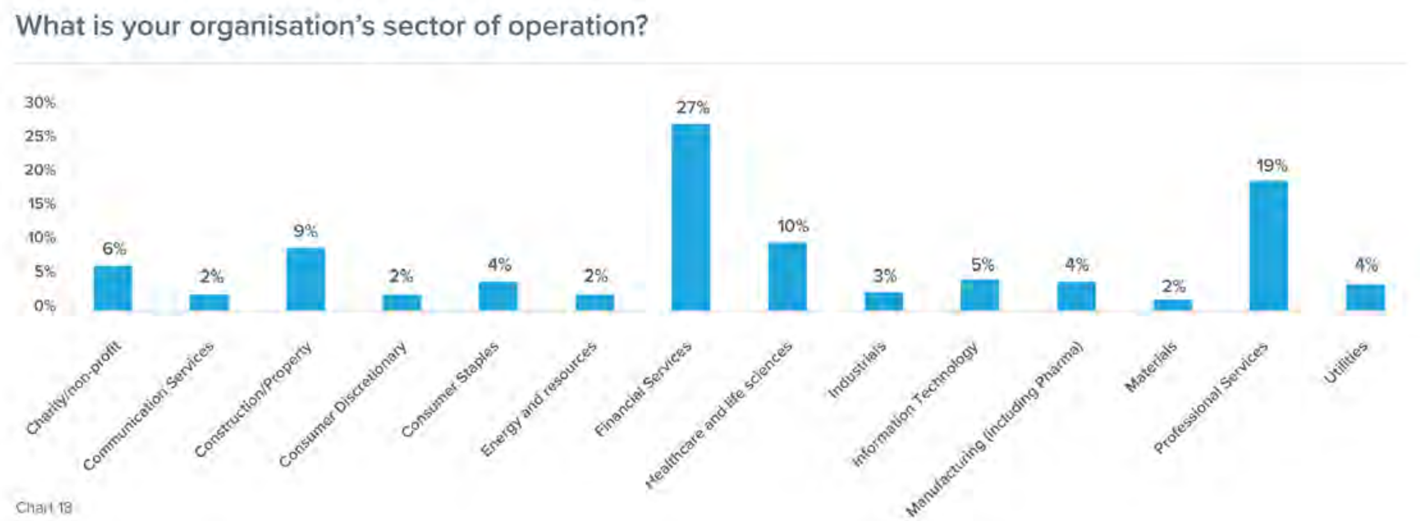
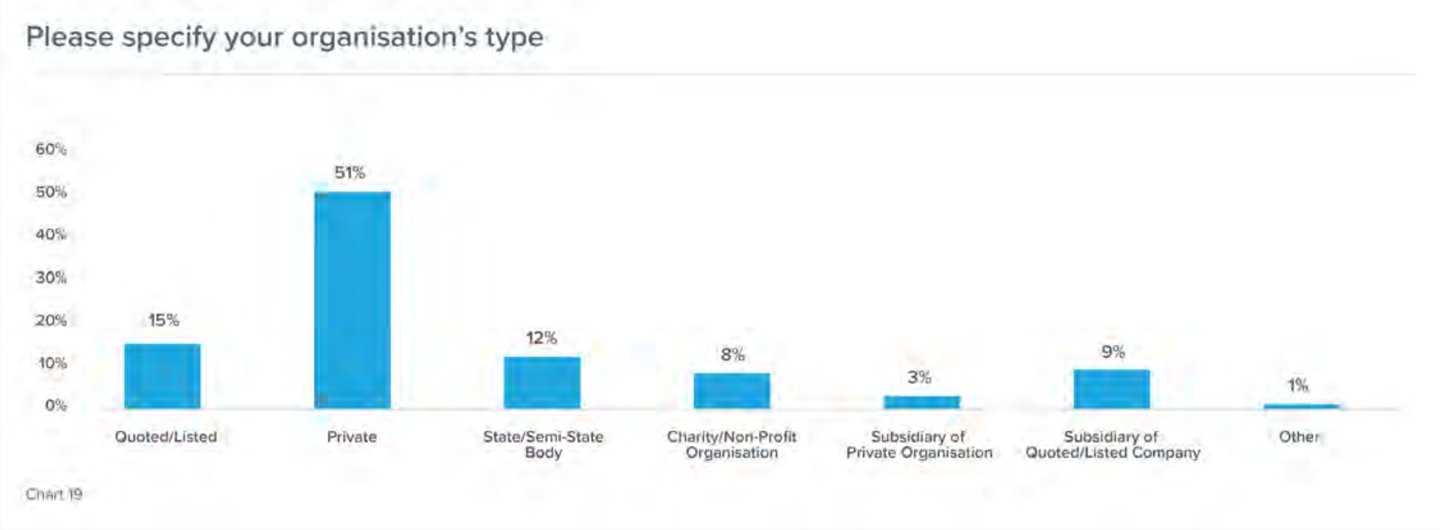
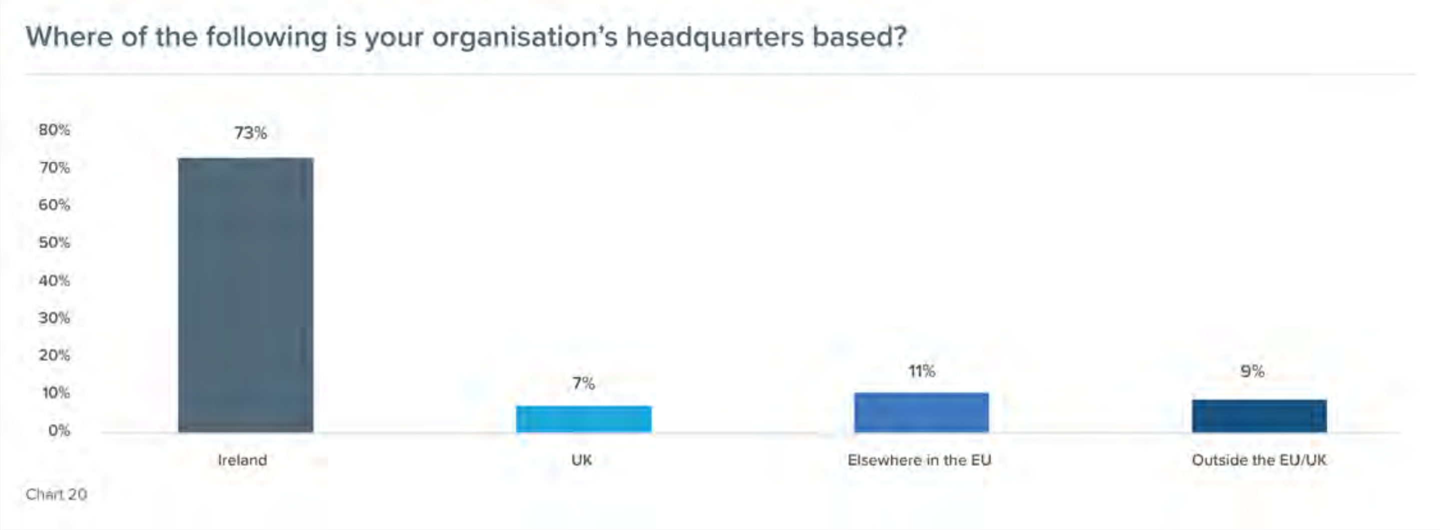


Chart 18

Appendix


Please specify your organisation's type
60%
50%
40%
30%
20%
10%
0%
15%
51%
12%
8%
3%
9%
1%
Quoted/Listed
Private
State/Semi-State Body
Charity/Non-Profit Organisation
Subsidiary of Private Organisation
Subsidiary of Quoted/Listed Company
Other
Chart 19


Where of the following is your organisation's headquarters based?
80%
70%
60%
50%
40%
30%
20%
10%
0%
73%
7%
11%
9%
Ireland
UK
Elsewhere in the EU
Outside the EU/UK
Chart 20

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