

KEYNOTE INTERVIEW

From the top down



*Governance is often overlooked when discussing a company's ESG strategy, but strong relationships and alignment at board and CEO level can mitigate against this, say Instar's **George So** and PRT Growing Services' **Randy Fournier** and **Kim Stangeby***

Governance rarely receives as much attention as an organisation's sustainability imperatives, social initiatives and other "E" and "S" factors. Despite this, governance could be viewed as the foundation of ESG, integrating a company's purpose, the role and diversity of its board of directors, its stakeholder engagement practices and the many facets of decision-making.

In an increasingly complex era, deeply shaped by remote-possibility, high-impact events, strong governance practices rest at the heart of any sustainable business.

George So, managing partner at Instar Asset Management, Randy Fournier, CEO of PRT Growing Services, and Kim Stangeby, an independent director at PRT, discuss the importance of corporate governance and the role

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that boards and executive leadership teams play in successfully integrating ESG into a company's core business strategy.

Q Does the "G" in ESG get enough consideration in sustainability discussions?

George So: We lead with the "G", but conversations around ESG largely focus on the "E" and the "S", exploring the ways that businesses engage with stakeholders, give back to communities and contribute to a more sustainable, equitable future.

ESG is all about people, and a strong business strategy that integrates

all components of ESG starts with good governance. It is the people who will ultimately shape the culture of a business and, in turn, determine a company's approach to sustainability.

People lie at the heart of our business, which is why we believe good governance is a key tool in successfully integrating ESG at the corporate level and across our portfolio companies. We have found that the first step in connecting ESG with a company's core business strategy is a governance approach that earns the buy-in of the management team.

Kim Stangeby: In many ways, governance is the most important factor of ESG. Firstly, ESG is all about sustainable business models and ensuring your corporate strategy can endure

the tests and pressures of today's complex environment. For this reason, governance is fundamental to strategy. It is also all about how decisions are made, including decisions around the "E" and the "S". In a way, everything starts and ends with the "G".

Randy Fournier: When I look at the role of governance in PRT's ESG framework, it is really about ensuring

accountable and proper corporate oversight and stewardship of risk management and functional controls. This is specific to our investment in our people for the long-term success of the organisation. We look to incorporate governance within our sustainability ethos to structure for long-term financial success and positively impact our people, the communities in which we operate and the environment.



Navigating change with purpose

Macro trends such as changing demographics, rapid technological advancement and sustainability imperatives are shaping our future

A shift in the boardroom is underway, from traditional competencies to a growing need for interpersonal skills, adaptability and values-driven leadership. These traits help to foster communication, alignment and transparency throughout an organisation, which mitigates uncertainty during times of change and underpins resilience.

“Earlier this year, we announced our acquisition of the International Forest Company (IFCO), establishing PRT as North America's leading provider of premium-quality container and bare root seedlings. IFCO's values and vision strongly align with PRT's purpose, business strategy and growth plans, with our people at the centre of the partnership,” says Randy Fournier, CEO of PRT Growing Services.

“Businesses built around a strong purpose connect more deeply with customers, engage more effectively with employees and do more for their communities. While proper decision-making infrastructure and having the right individuals at the table are both critical to informing and guiding an organisation's strategy, it is purpose and people – at all levels of the business – that are truly key to its success.”

Q What is the connection between good governance and strong performance?

KS: When we think of governance or performance, it is typically dehumanised. However, the personal relationships between the CEO and board are crucial to setting and approving strategy – and any ESG conversation ties to strategy.

The relationship and dialogue between the board and CEO is critical to connecting good governance with strong performance, but this balance – and keeping the conversation in the right place – is tricky to achieve. There is discomfort where long-term strategy is uncertain, and this creates a level of challenge and discipline to ensure the more difficult conversations are not avoided.

While there is a spectrum of understanding regarding the board's authority and role in developing strategy, strong alignment and dialogue between the board and CEO will help to create a governance structure for robust strategic exchanges that help to deliver good performance.

GS: At a governance level, we work closely with our executive teams and portfolio company boards of directors to move beyond measurement and monitoring to integrate ESG into the fabric of their culture, operations and value proposition for customers and employees to create long-term value. We believe good governance is a key tool to driving sustainable, long-term value, working alongside our management teams and engaging industry experts and credible resources to provide additional support and build internal capacity.

RF: Governance goes beyond just people. In addition to the human element, the relationship between good governance and performance depends on creating executive-level responsibility and foresight to prioritise transparency and

create open lines of communication at all levels of the organisation. Governance is not just about optics – companies need to walk the talk, too.

Q ESG is about results, not just good intentions. How does the board help to embed these principles?

KS: There is pressure on organisations to demonstrate that they go beyond good intentions because what is more tangible than a strong metric? Organisations must ensure they are internalising ESG principles and approaching metrics with a degree of caution to avoid falling into the trap of chasing these numbers rather than outcomes. The board plays a critical role in ensuring that all the gears are in place to look beyond numbers and create a purpose statement that serves as the anchor of all decision-making to reflect the true intent of ESG.

GS: Today, you need a clear organisational purpose and social licence to operate. A project can meet all its financial and technical specifications, but it is really only successful if it is perceived to be in the eyes of the community. It is important to engage with people to understand what they need and develop products and solutions around that need.

When you have a clear purpose and good governance, the decisions around societal engagement and sustainable initiatives become easy. We believe our board philosophy and the accompanying annual and quarterly structures give our portfolio companies a meaningful competitive advantage that helps to drive value.

Q Have you seen strong governance practices grow in importance for business sustainability?

RF: Compared to half a decade ago, it is increasingly clear that ESG has become more of a focal point today and affects long-term profitability, talent

“Good governance is a key tool to driving sustainable, long-term value”

GEORGE SO

attraction and retention, and strategic direction of a business in an evolving sector. A critically important element in governance and sustainability is having a clear corporate purpose – that is the impetus or North Star for driving long-term success.

People lie at the heart of an organisation so, when we look at governance, it is really about cultivating and retaining talent. Companies must strive to connect with their employees, and having a North Star will help a company to foster a true understanding between employer and employee and create a company that individuals at all levels of the organisation can be proud of.

Q How do you ensure good governance is observed across all companies within a portfolio?

GS: When I think about our contribution, there is a lot that we have actively promoted through governance and an established committee structure with standing agendas and independent and sectoral expertise.

We help instil best practices, whether that is creating safety policies, remuneration alignment, having diligence around business strategy or developing business plans that stretch beyond a year to achieve short-, medium- and long-term corporate objectives. We also identify and help our companies to manage key performance indicators and quantify their real-world impact.

We look at each company’s progress in all aspects of the business. Our role is to help build internal capacity and knowledge and define what is most material for the business while identifying opportunities to do better.

Q What future developments do you foresee for governance and ESG generally?

KS: ESG may be a new set of letters, but it has always existed. However, it is undoubtedly true the people and communities that companies are impacting are changing along with society’s shifting expectations and needs. There is a greater degree of expectation that companies do a better job of taking care of our planet, people and future generations.

A clear sense of purpose is now a requisite for the long-term success of a business and defines the corporate playing field and how it evolves along with society. Governance is also shifting, broadly taking on the role that governments have traditionally played.

Where are the correct stewards within this new paradigm? A lot of organisations are grappling with this, and it goes well beyond operating decisions and metrics around the boardroom table. ■