Q&A 2021

The RIMS Strategic and Enterprise Risk Center presents:

Melanie Steiner
Board Member
US Ecology, Inc.

ESG Needs ERM

By Russ Banham

RIMS

Through September 2020, Melanie Steiner served as the Chief Risk Officer of PVH Corp., a large American clothing company whose fashion brands include Tommy Hilfiger, Calvin Klein and IZOD. At PVH, Steiner was responsible for overseeing ERM, as well as the company's transformation into an environmentally sustainable organization and its crisis management policies and practices during the COVID-19 pandemic.

In July 2019, she joined US Ecology, Inc., a leading North American provider of environmental and waste management services. She is a board member and chairs the Corporate Responsibility and Risk Committee. RIMS sat down recently with Steiner, who holds a Master of Environmental Laws from the University of London, to discuss the increasing importance of ESG issues like environmental sustainability, diversity and inclusion, and human rights to corporate strategy.

RIMS: It's a pleasure to talk with someone whose background aligns with issues of increasing importance to businesses, particularly during the past year when subjects like climate change and racial equality were center stage.

Steiner: These issues were in the spotlight through 2020, but they've been around for some time. I've seen many iterations of ESG through the years, well before the acronym was coined. No investor wants to risk an ESG failure that tarnishes an organization's reputation, resulting in revenue and profit declines, in addition to making talented employees consider employment elsewhere. ESG is not going away, not with large institutional investors focused on it.

RIMS: What got you interested early on in your career in ESG?

Steiner: I've always had a love of animals and biodiversity. I'm a lawyer by training and after practicing for a few years, I looked for a way to marry my interests in global business issues with environmental sustainability. So, I returned to school and got a Master's in environmental law about 20 years ago. I then worked for several global nonprofits as an international environmental policy adviser, where I was involved in various UN treaties and processes including the Climate Change Convention. After that, I went into corporate consulting at EY and developed the sustainability services client-facing program in Canada. In many ways, sustainability has been a part of everything I've done and do.

RIMS: As you mentioned, the failure to assure care for the planet's resources, respectful treatment of people, and actions promoting equality and fairness can result in severe and even lasting reputational damage.

Would you agree that ESG, at least in recent years, is now a crucial risk management and board consideration?

Steiner: Issues like environmental damage and climate change are not just reputational risks, they also represent financial and investment risk, as well as operational risk. This is why we see institutional investors like BlackRock (the world's largest asset management firm) take such a keen interest in ESG. BlackRock CEO Larry Fink made it clear that a company's long-term financial success is directly linked to its ability to manage ESG risks. There's no going back to the way things were before, where ESG was talked about but companies didn't walk the walk.

RIMS: As a former Chief Risk Officer overseeing ERM at PVH, does ESG fall within the aims of the ERM program?

Steiner: Yes, and for so many reasons. For example, ESG can be a major people risk, referring to employees as well as customers. If you want to recruit and retain the most talented people, particularly younger generations, you need to align with their values and perspectives, and really live those values. On the consumer side, purpose, values and sustainability are increasingly being seen as a core path to purchase, with many consumers choosing not to buy products from companies that harm the environment. It will resonate poorly with many Millennials and Gen Z'ers, as well as shareholders and other stakeholders if you do not have a strong ESG program. Now more than ever, this sentiment extends to diversity issues, including whether a company is diverse and inclusive in its hiring, marketing, governance and in other areas. ESG is widely seen as both a risk as well as a value driver; consequently, it must be embedded in overall strategy and operating models.

RIMS: How might a company go about this? Acronyms are handy, but these are three very different risks—environmental, social and governance. From an ERM standpoint, how would an organization effectively manage ESG?

Steiner: I agree that ESG is about so many things—environment, human rights, diversity & inclusion, good governance, community and philanthropy, and more. As a result, a key part of a chief sustainability officer's job is to embed sustainability into core business functions – to transform through influence, not authority. Most of the functions that need to be involved to make sustainability transformation a success do not report up into the ESG function, so it is important to build relationships and create a proper internal governance function to manage and coordinate the process. ERM can be a handy way to bring all of the ESG-related risks and issues together and to properly oversee them.

RIMS: You headed up ERM at PVH. Did ESG fall under your oversight?

Steiner: It did. It was my task to craft ESG strategy and help drive change. My job as the CRO was to ensure that all critical risks were identified, managed and reported on. ESG by definition fell into this bucket. Ultimately, corporate responsibility was a global function that reported into me, but there were many ESG 'owners' who were involved in making the corporate responsibility function a success – this underscores my point above, that you need to get the business bought in and behind you to truly be successful.

RIMS: Any advice on how to manage critical ESG risks organizationally?

Steiner: There's no one way, but I would start by making it part of ERM, and to ensure the sustainability and risk leads have a good relationship. ESG-related risks can be standalones, or a set, or they can be embedded in other risks. For example, if a company needs water to make its products, climate change risks like the possibility of more frequent and severe droughts, become a critical operational risk. You can add this risk to the other critical operational risks you monitor, manage and report on, putting some structure around it. The alternative would be to have climate change as a stand-alone risk, for which access to water would be one sub-point. Another example is diversity & inclusion risks. In this case, HR could add D&I to other talent risks it has identified, and be tasked with monitoring, managing and reporting on D&I. Alternatively, D&I can be a stand-alone risk. I have seen it both ways. It doesn't matter, as long as the risk is identified and dealt with. In both examples, the risk register, and related mitigation oversight would roll up to the CRO/head of risk.

RIMS: As someone involved in environmental sustainability business issues for quite some time, where are we in this trajectory, insofar as companies beginning to take this threat seriously and acting upon it?

Steiner: We're not at the beginning of the beginning, but we're still nowhere near full maturity, particularly when it comes to ESG reporting. If you compare ESG reporting to financial reporting, you can understand that there is still a ways to go in terms of maturity. One critical step will be the harmonization of standards so investors and other stakeholders can compare like with like. Data needs to be comparable, accurate, reliable and complete, just like with financial reporting.

RIMS: You bring up a good point, as third-party firms that analyze, measure and report on a company's ESG performance, such as ISS Corporate Solutions, Sustainalytics, and S&P Global, use different factors in developing their scores.

Steiner: Over the years, there has been a proliferation of ESG and climate-related disclosure standards and reporting frameworks. It has been a long journey, and we are finally starting to see a movement in the direction of harmonization, as there has been a growing demand for better ESG disclosures across sectors. This year, there has been a much needed move to align the world's most used ESG and climate-related standards including GRI, SASB, and the CDSB to name a few. This alignment should help in the uptake and use of the standards, and is a great step in reporting maturity.

RIMS: The momentum seems to be in that direction.

Steiner: Where we are today is encouraging. As I said earlier, there's no going back. ■

Russ Banham is a Pulitzer-nominated financial journalist and best-selling author.