



ALEXANDER YUKHNO, Ph.D

ICT governance and ESG factors: new agenda for the boards of directors

In early 2005, the then UN Secretary-General, Kofi Annan, invited a group of the world's largest institutional investors to join a process to develop the Principles for Responsible Investment. The Principles were launched in April 2006 at the New York Stock Exchange.

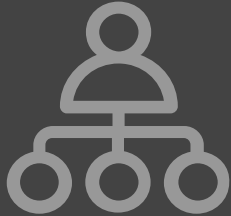
The six principles are as follows:



1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

ESG issues are becoming increasingly important to internal and external stakeholders. Whether it's from employees, customers, activist or institutional investors, companies and their Boards are feeling the pressure to review strategies and invest in proper processes, measurement and reporting to address concerns and comply with evolving regulations.

Lack of ICT governance and commitment to ESG principles



2016 - Sustainable Development Goals

Lack of ICT governance and commitment to ESG principles exposes organizations to significant risks (losses, higher operational expenses, higher cost of borrowed capital, undermining the organization's reputation, poor experience of introducing innovations, etc.)

Reasons:

- The need for greater technical knowledge than on other items of the agenda;
- Look at ICT as a separate matter from the enterprise's business;
- The complexity of the topic, especially for enterprises operating in the network economy.

Source: IT Governance Institute, 2003.

ESG RISK MANAGEMENT



Technology solutions

Technology solutions can mitigate risks and contribute to decision-making and resource distribution



Focus of BoD

Focus of BoD is gradually shifting towards environment protection



Technologies

Technologies that can be already widely applied for HSE risk management:

- Software enablement and advanced analytics;
- Virtual reality;
- Drones and robotics, etc.



BoD members

BoD members overseeing ICT do not have the required technical and professional knowledge and competences

ESG RISK IDENTIFICATION QUESTIONNAIRE

| RECOMMENDATION | QUESTIONS FOR DIRECTORS TO ASK |
|--|--|
| Consider how ESG risks could affect your company. | What kinds of risks could ESG issues pose to the company? How could these risks interrelate? When could these risks manifest? |
| Evaluate whether existing processes allow the discovery of ESG risks | What is the company's process to identify risks from ESG factors? Which ESG risk factors is the company already tracking? |
| Look to a range of sources in identifying ESG risks | What sources were consulted to determine the company's ESG risks? What are our corporate peers doing on ESG risks? What ESG issues do our top investors think are most relevant to our sector? |
| Be aware of assumptions in the risk identification process | Did management assess ESG risks that the company could face in 1, 5, 10 and 20 years? What blind spots about ESG risks may exist in the risk identification process? |
| Integrate identified ESG risks into the Enterprise Risk Management (ERM) process | Who owns the ERM process internally? Does the ERM process consider ESG risks? Is the ERM process agile? |
| Assess the information the board receives on prioritized risks | Does the heat map/risk assessment appropriately reflect ESG risks? Has the company performed a scenario analysis on the most relevant ESG risks and their possible impacts on the company? |
| Use a materiality lens | Do the prioritized ESG risks materially affect the company? Have we considered stakeholder and shareholder input in making this determination? Have we considered how the ESG risks may interrelate? |
| Consider the board's skills to evaluate ESG risks | Do we discuss our ESG risks at regular intervals? Is the board regularly briefed on relevant ESG trends and how these trends could pose risks to the company? |

ESG RISK IDENTIFICATION QUESTIONNAIRE

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|--|--|
| Ensure that prioritized ESG risks are surfaced appropriately in board discussions about corporate strategy, whether at the committee or full-board level | <p>Do we discuss our ESG risks at regular intervals?</p> <p>Are ESG issues addressed systematically?</p> <p>How are ESG issues integrated into our strategic planning and execution?</p> |
| Consider how prioritized ESG risks affect organizational strategy | <p>What is our risk tolerance for ESG-related factors?</p> <p>Is the company prepared to respond in case ESG risks manifest?</p> <p>Who has responsibility for managing identified and/or prioritized ESG risks?</p> <p>Could the ESG risks we face disrupt our business model?</p> <p>What business opportunities do these ESG risks present?</p> |
| Understand what strategies are available to mitigate or adapt to ESG risks | <p>Can the company avoid the risk?</p> <p>Does the company have a plan for managing the risk?</p> <p>If the company can neither avoid nor manage the risk, what adaptation measures might lessen the impact?</p> |
| Hold executives accountable for addressing ESG risks | <p>To what extent are prioritized ESG factors linked with executive goals and performance?</p> <p>How are ESG factors incorporated in executive compensation plan design in the short term and in long-term?</p> |
| Formalize oversight of ESG risks at the board level | <p>How is the board currently structured to oversee ESG risks?</p> <p>Would explicit reference to ESG in a committee charter enhance our approach?</p> <p>How should the audit committee address ESG risks?</p> <p>When should ESG factors be elevated for consideration by the entire board?</p> |
| Ensure coordinated deliberations on ESG risks across committees | <p>How could ESG risks fit into deliberations taking place across the board committees?</p> <p>How could these deliberations be better coordinated?</p> |

ESG RISK IDENTIFICATION QUESTIONNAIRE

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|--|---|
| Disclose the board's role in overseeing ESG risks | What should the company disclose about the board's role in ESG risk oversight? |
| Formalize oversight of ESG risks at the board level | How is the board currently structured to oversee ESG risks? Would explicit reference to ESG in a committee charter enhance our approach? How should the audit committee address ESG risks? When should ESG factors be elevated for consideration by the entire board? |
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IT OVERSIGHT FRAMEWORK AND DOMAINS OF IT GOVERNANCE

- NO UNIVERSAL MODEL FOR ICT GOVERNANCE BY THE BoD

- IT OVERSIGHT FRAMEWORK

1. Assess the role of information technologies for the company;
2. Define who will control and monitor the use of IT within company;
3. Set IT priorities within company;
4. Define what place IT priorities take in the company's overall business strategy;
5. Integrate IT risks in the company's overall risk management process;
6. Continuously monitor the company IT development

Source: Cloyd, 2013.

FIVE DOMAINS OF IT GOVERNANCE:

1. IT strategic alignment
2. IT value delivery
3. IT risk management
4. IT resource management
5. Performance measurement

Source: IT Governance Institute, 2003

BoD MEETINGS
AGENDAS AND
COMPANY'S
ORGANIZATION
AL STRUCTURE

COMMON TOPICS:

- Use of new technologies;
 - Data security;
 - Mobile devices;
- Data confidentiality and information security issues;
 - ICT-related capital and operating costs;
 - Emerging compliance issues;
 - Social media;
 - Cloud services and software rental;
- Optimization of business processes with the help of digital tools

DO WE NEED ORGANIZATIONAL CHANGES?

- Bank of Russia recommends that BoD consider whether they need to create an IT committee
- only 8% of 200 surveyed major US technology companies have established a BoD committee on science and technology.
Source: U.S. Technology Spencer Stuart Board Index 2019 research
- dedicated IT committee needs extensive advance consideration

THANK YOU!
