A chance to redefine and reimagine business

Board perspectives

Several years ago, when Curtis Ravenel submitted a proposal to Peter Grauer, the chairman of Bloomberg LP, he never imagined how quickly his memo on sustainability expertise would help the news and information company embark on money-saving projects and new lines of business.

Now, as Bloomberg's Global Head of Sustainable Business & Finance, Ravenel's seven-person team reports directly to the office of the chairman and works across operating groups globally. Ravenel is also a director of the independent Sustainability Accounting Standards Board, which is working with operating companies to establish core disclosure metrics for sustainability, and a member of the secretariat of the Task Force on Climate-related Financial Disclosures, which is developing recommendations for voluntary, consistent, climate-related financial risk disclosures in financial filings.

The KPMG Board Leadership Center interviewed Ravenel at Bloomberg LP's New York headquarters. Following are edited excerpts.

***Board Leadership Center (BLC):** For years, "sustainability" has been lost in a sea of "green." What's changing?*

Ravenel: Sustainability is really about good corporate governance. It's inherent to your social license to operate. In practice, "sustainability" is moving from the silo of risk management to enterprise-wide operating management and product strategy. Think about it: If environmental impact is a corporate byproduct, that company is producing waste. With waste comes inefficiency...and opportunity.

Business in general has a reputation for causing environmental and social problems. Sustainability provides a chance to redefine and reimagine business as a solution to these issues. You could solve problems, and not only does it not cost you anything, it benefits you financially. It benefits your reputation. Your operations become more efficient.

The problem is mindshare. When investors see sustainability housed within risk or communications or compliance, they just discount that as window-dressing, not a strategic part of the firm.

***BLC:** Referred to as sustainability, corporate social responsibility (CSR), and environmental, social, and governance (ESG), why do these factors matter in operating and governing a modern firm?*

Ravenel: Operating in this manner makes good business sense…and it's the right thing to do. At Bloomberg, we call it the transition from "values to value." It will never take hold if corporations only view these initiatives as a moral imperative alone. People just don't operate that way. But if it makes good business sense, they'll do it.

There's more and more evidence that some of the sustainability issues and metrics are very useful in trying to understand how a company is managed and what its long-term prospects are. People who are managing these issues well are likely managing their firm for a different world—a global, hyper-transparent economy that is incredibly competitive for talent. Younger people care about sustainability in ways that we've never seen before.

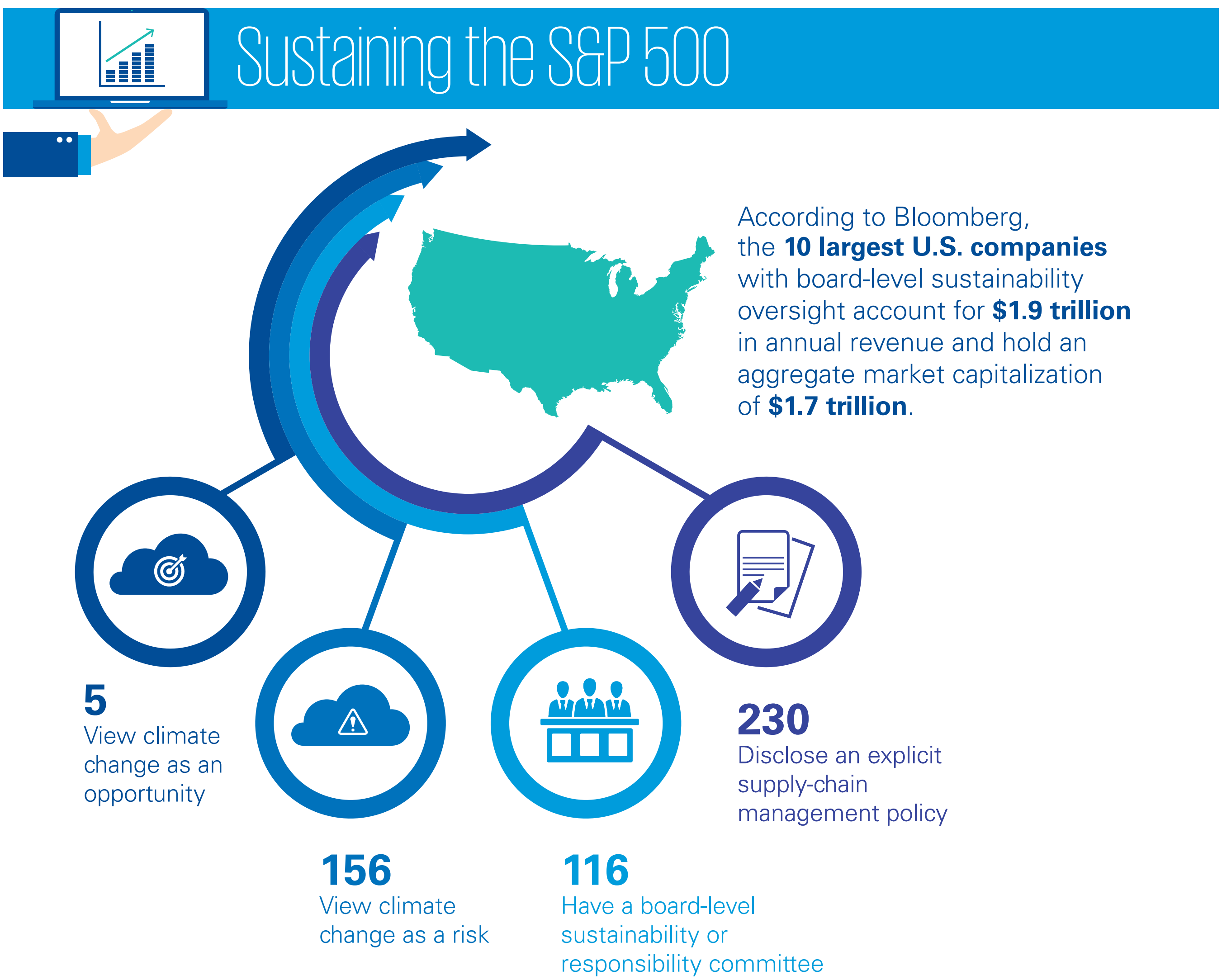
BLC: *How are those tenets put in practice at Bloomberg?*

Ravenel: From an operating perspective, we want to decouple our growth with environmental impact when and where it makes sense. We look at projects that reduce our environmental impact, have a real financial return on investment, and are consistent with our culture as a firm. Projects must satisfy at least two of these factors to proceed.

We take a portfolio approach to find the efficient frontier of environmental and financial returns. For example, updating to LED (light-emitting diode) lights has a very high return on investment, and that gain can offset higher-cost projects that have a very high environmental return, such as printing *Businessweek* on (more expensive) Forest Stewardship Council-certified paper. If you only chose projects that are purely ROI positive from a financial perspective, you're only halfway there.

Making a sustainability program successful requires a business mind-set, partnering with operating and product development groups, and real governance. When we started, we had to find projects that made financial sense—easy wins. Our group became an opportunity partner for the operating groups as opposed to compliance. We find ideas that we think might work for them, do the homework and the math, and they get to decide whether to go forward. If the ROI is high, they keep the savings and related revenue.

When these issues go before the chairman and CEO, the sustainability group doesn't make the presentation. Each group details their projects and their savings/revenues. Most projects come to us now. And many of these groups, often previously toiling in obscurity, feel more empowered. They get the exposure and the recognition. They take ownership and want the projects.



As of 2014 for 505 S&P 500 securities tracked. Market capitalization and annual revenue through most recently reported quarter as of December 19, 2016. Source: Bloomberg LP.

BLC: *Are there areas where sustainable options don't add up?*

Ravenel: You have to do what makes sense for your business. We're a high-touch firm. Air travel is part of our business model. We are not going to make material reductions there. We're not going to introduce a project that significantly disrupts the business model. And even an item like purchasing carbon offsets for travel, our leadership said, "You're paying a recurring cost for something that you don't control. Let's take that money and invest it in permanent reductions with recurring savings and revenue instead of costs."

BLC: *You are a board member of the Sustainability Accounting Standards Board (SASB). The organization, supported by your company and its ownership, has taken on the task with companies to build industry frameworks for sustainability reporting. How does it differ from established groups?*

Ravenel: SASB is really focused on securities issuers and investors. We're figuring out which sustainability issues are material to each sector, and we're doing this in a rigorous way. We're developing accounting metrics that reflect those issues the best we can. Think five to eight issues and metrics per sector. We're trying to improve the signal-to-noise ratio on this reporting set. And we're trying to prove materiality in some cases, which changes the way issuers will think about this. (It helps to have Bob Herz, former chairman of FASB, on the board.)

We think the SASB approach is smart. It doesn't require policy intervention at all. Banks and investors are looking for consistent information. Companies want to minimize the number of items they feel like they are required to report. Leading firms across sectors are participating in the standard setting, but adoption will take years.

BLC: *You are also a member of the secretariat of the Task Force on Climate-related Financial Disclosures (TCFD). What is the Task Force trying to achieve?*

Ravenel: Whereas SASB is focused on the disclosure of broader ESG metrics by U.S. companies, the Task Force has been working on developing consistent, comparable recommendations for companies globally to guide them on how they can disclose decision-useful information specifically related to climate risks and opportunities in their financial filings. We really want to institutionalize climate disclosures in financial filings and foster shareholder engagement around climate-related risks and opportunities. Once companies adopt our recommendations, they can turn to SASB for more specific guidance on how to disclose. And investors, insurers, and lenders will have more transparent information available to base their decisions upon.

The Task Force's work is driven by 31 industry experts (including Wim Bartels, Global Head, Sustainability Reporting and Assurance, KPMG) covering a wide range of expertise, from asset managers and owners to preparers of financial information in industries such as fossil fuels, utilities, and automobiles. We are at an exciting point of our work, following the release of our Phase II Report that outlines the recommendations as of December 14, 2016. The report is available for a public consultation period through February 14, 2017.

BLC: *What are some of the management and governance challenges that come with a top-down view of sustainable business?*

Ravenel: Leadership sign-off is very important from a signaling point of view. You have to convince them—be a partner, not compliance. You have to figure out what is material to your firm. Overall, the business opportunity is to solve problems, build competitive advantage, and attract and retain employees.

There's great support at the top and the rank and file. The challenge is in the middle.

Even though my group is only seven people, it is a relatively large sustainability team given our company size. There are employees in the supply chain organization who have completely redone how we route and ship equipment. Our terminal keyboards are 25 percent lighter. Everything is recyclable. Engaging designers, engineers, architects—it cuts across business lines to the core of Bloomberg's culture. Same in product, we've built new tools to help investors interrogate new data sets and integrate them into their investment process. We built an environmental, social, and governance product; acquired Bloomberg New Energy Finance, the leading provider of clean energy investment information; and launched the Bloomberg Sustainable Finance Brief that has become a must-read for leading institutional investors looking to stay on top of trends in sustainable investing. It is an exciting time to be involved and, more specifically, to be working at Bloomberg where we have a real opportunity to make a difference.

About the KPMG Board Leadership Center

The KPMG Board Leadership Center champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programs and perspectives—including KPMG's Audit Committee Institute and Private Markets Group, the WomenCorporateDirectors Foundation, and more—the Center engages with directors and business leaders to help articulate their challenges and promote continuous improvement. Drawing on insights from KPMG professionals and governance experts worldwide, the Center delivers practical thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting and audit quality, and more—all through a board lens. Learn more at kpmg.com/blc.

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