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From vision to implementation: Harnessing ESG best practices for stronger compliance in LATAM

By Emanuel Batista, Patricia Marinho, and Chris DeSa

Over the past decade, environmental, social, and governance (ESG) standards and metrics have become an increasingly important methodological framework for assessing a company's management of—and performance on—various environmental, social, and other sustainability-related factors. Despite the recent anti-ESG backlash in the United States, on the global stage, recent research by Kroll found that ESG leaders had annual returns of 12.9% vs. 8.6% for ESG laggards.^[1] Moreover, ESG on the global stage continues to rapidly evolve as a key indicator of good corporate governance and social responsibility—and, relatedly, compliance. That is also true in Latin America (LATAM). The global financial community, investors, and other stakeholders have increasingly focused on the broader social and environmental impact of an enterprise's operations, goods, and services. Investors and companies in LATAM have also responded by attempting to adopt and align with global and local ESG best practices to enhance their performance on the sustainability spectrum (both on an absolute and relative basis).

However, although ESG has clearly risen to the top of corporate agendas, it is still a work in progress—both globally and in LATAM. Fundamental questions about the proper functional ownership of ESG and sustainability issues within an organization, for example, as well as the related governance roles and responsibilities, continue to be hotly debated. Many significant ESG factors—like those related to anticorruption, antitrust, and various business ethics issues—have historically been addressed by the compliance function. Others—particularly those related to environmental or climate-related issues—have not traditionally fallen under the purview of compliance (or any other senior executive function) and often require new technical and subject matter expertise. Many ESG proponents argue that a dedicated sustainability-focused professional (such as chief ESG officer or chief sustainability officer) is necessary, while others continue to advocate in favor of having traditional executive management and teams in legal (general counsel), compliance (chief compliance officers), finance (chief financial officer), or risk (chief risk officers) oversee ESG.^[2] These debates are not likely to be resolved in the near future.

However, what is clear is that ESG is cross-functional by nature, and whoever is ultimately responsible for it in

LATAM will eventually play a critical role, not only in ensuring their organization operates sustainably and responsibly, but also in understanding and aligning their programs with the constantly evolving regional and global ESG regulations, norms, and best practices. Compliance should clearly play a lead role in these issues. That includes advancing a company's long-term sustainability-related goals and objectives, providing key inputs on materiality assessment processes and procedures, protecting its reputation, and ensuring it is operating in a socially responsible and sustainable manner.

The importance of compliance in advancing ESG and sustainability is only likely to grow significantly in the region. Investors, regulators, creditors, and other financial stakeholders focused on LATAM increasingly rely on nonfinancial sustainability information and ESG factors to assess an organization's performance on long-term value creation and maximization criteria, as well as their core commitments to broader environmental and social objectives and goals. However, in addition to traditional financial stakeholders, broader stakeholder groups are also highly focused on ESG and sustainability—in most cases more so than investors or financial firms. ESG will, therefore, continue to play an essential role in this region, and compliance will and should be an essential partner in its advancement. With that in mind, it is imperative that compliance leadership and teams in LATAM understand the evolving global and regional best practices when thinking about ESG and sustainability. After all, ESG best practices are still evolving in LATAM and face organizational obstacles concerning implementation. Compliance can and should assist in ensuring that the ESG norms, goals, objectives, and targets discussed below are effectively and adequately implemented and executed within an organization.

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