ESG MANAGEMENT

INTRO GUIDE

As more companies prioritize environmental, social, and governance (ESG) values and principles, many leaders wonder how to incorporate ESG strategies into their organizational plans. With no current regulations around ESG scoring, organizations have been free to share their ESG frameworks or not while they persuade the public that their products, aims, and policies are environmentally friendly and socially aware.

Nonetheless, today's investors are more interested in longevity and sustainability than what they typically see on a traditional balance sheet, so they want ESG data and disclosures before making investment decisions.

What Are ESG Scores, and Why Do They Matter?

ESG measures a company's exposure to long-term environmental, social, and governance risks that fall outside traditional financial analyses. ESG rating firms develop independent criteria and algorithms for assessing ESG performance based on things like energy efficiency, worker safety, and board diversity.

Environmental issues may include:

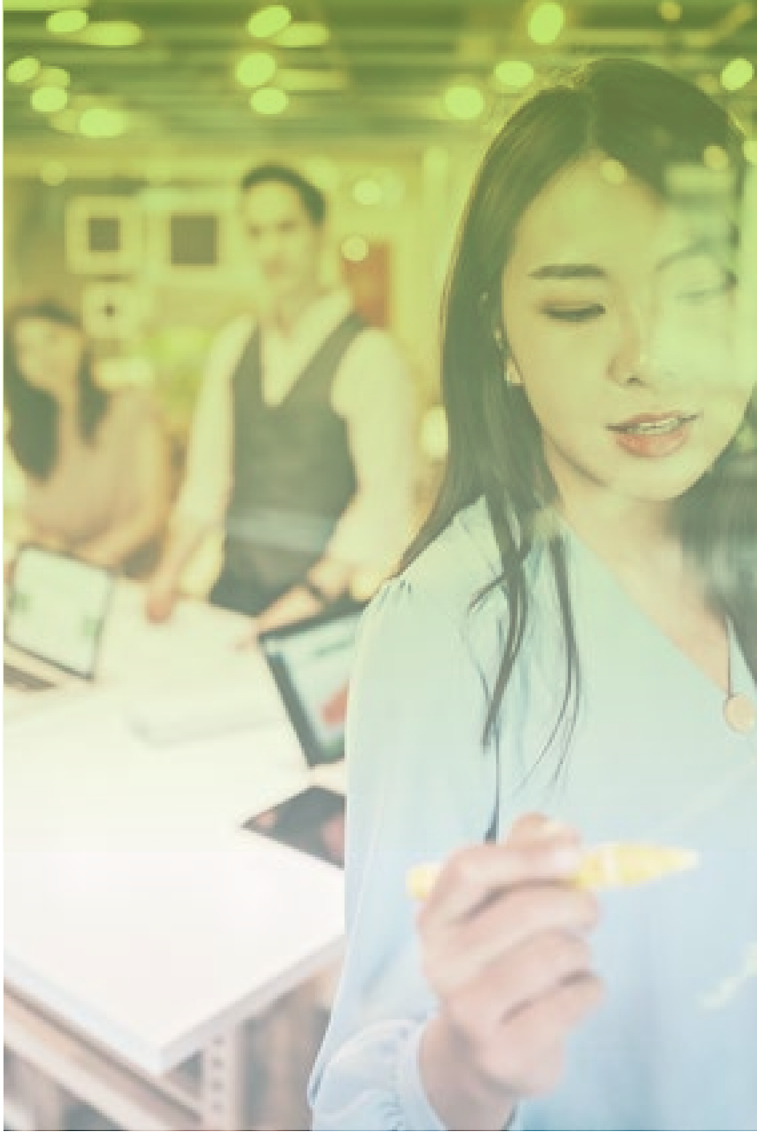
- Carbon emissions
- Climate change vulnerability
- Water sourcing
- Biodiversity and land use
- Toxic emissions and waste
- Packaging material and waste
- Electronic waste

Social scores may include:

- Labor management
- Worker safety training
- Supply chain labor standards
- Product safety and quality
- Consumer financial protection

Governance issues may include:

- Composition of the board in terms of diversity and independence
- Executive compensation
- Accounting practices
- Business ethics
- Tax transparency



ESG data can be gathered from security filings, voluntary business disclosures, governmental databases, academic research, and media reports. These firms then convert ESG metrics into siloed environmental, social, and governance scores, which are then merged into a single primary rating.

Organizations with a strong ESG score (70 or above) manage their ESG risks well compared with their peers. Conversely, those with a poor score (50 or below) have a higher ESG risk exposure.

The ESG assessment combined with an organization's financial analysis helps investors better understand an investment's long-term potential. And while it's not prudent to make investment decisions based solely on ESG ratings, they are a great indicator of long-term sustainability.

https://www.gobyinc.com/esg-scores-why-they-matter/

Getting Started

If ESG has not yet become a familiar turn of phrase in your space, then you have the opportunity to become an industry leader in ESG awareness. Setting ESG goals, capturing key indicators relevant to your market, and ensuring your ESG data and disclosures are transparent and consistent are great starting points for beginning your ESG initiative.

Planning Your ESG Strategy:

1. Get buy-in from your leadership team. Ensure there is a willingness to allocate resources to meet your ESG goals. Without buy-in, you can still conduct a baseline assessment of existing ESG policies.
2. Determine the most material topics. While there is a plethora of ESG issues, you should focus only on the ones most likely to impact your organization’s financial condition or operating performance.
3. Check your ESG scores. ESG scoring agencies, such as MSCI and Sustainalytics, conduct annual reports using publicly available information, which is extremely helpful to understand specific risks and benchmark your organization against peers.
4. Report on ESG disclosure frameworks. Dissimilar to ESG scores, reporting against a framework is completely voluntary and provides many benefits. It signals to shareholders and potential investors your organization’s ESG efforts.
5. Analyze the market. Investigate key competitors in the industry to understand what they are doing to improve your ESG strategy.

https://www.getirwin.com/blog/how-to-get-started-with-esg

As you continue to implement and refine your ESG strategy, it’s essential to understand that you may not be able to embrace every environmental and social initiative that enters the marketplace. But taking steps to assess and evaluate those options before deciding demonstrates an informed perspective on critical issues and a strategy to address potential risks and opportunities.

Avoid These 7 ESG Management Mistakes

There is currently no legislation regarding reporting rules for ESG, with some exceptions, so leaders must understand best practices and the common roadblocks that may arise while building a solid ESG program. Here are the most common mistakes leaders make in ESG management, as outlined in the Harvard Law School Forum on Corporate Governance.

- **Excessive Focus on Ratings**
  If a company only focuses on ratings, it could end up only "checking boxes" with its resources instead of providing a unique program for its business's specific needs and risk exposures.
- **Treating ESG as Just a Communication Effort**
  Communications can help with messaging, but they should not take the place of an actual management system that mitigates risks. "Greenwashing" is an example of this mistake.
- **Lack of Board and Management Oversight**
  ESG management strategies should be a core value of the entire company, not just one department. The board and senior management must drive policies forward.
- **Disconnect from Business Strategy**
  A company's ESG strategy should consider its business strategy and vice versa. A lack of oversight or a proper materiality assessment may cause a disconnect between the two.
- **Compliance-Oriented Approach**
  A compliance approach is more reactive and might only meet the bare minimum. However, a strong ESG program goes beyond and exceeds the minimum requirements.
- **Inconsistencies Across the Organization**
  Companies should coordinate their programs across all departments so there are no gaps in the overall policy and to make sure there is consistency.
- **Lack of Assessment and Monitoring**
  Companies should collect data to monitor progress going forward to make changes and get full credit for the work being done.

Ensuring your ESG strategy is genuine and consistent will keep your organization near and dear to like-minded consumers, employees, and investors. ESG is a key component in today's sustainable investment strategies. The byproduct of ESG reporting is that organizations today embrace a proactive sustainability planning model that positively impacts the environment, engaging employees, encouraging customer loyalty, and drawing investors.

The Benefits of ESG:

- **Attracting Investments**
  Many organizations are finding they must share their ESG priorities to attract investor interest. However, those without solid green credentials will struggle to raise capital.
- **Environmental Impact**
  Turning ESG goals into actionable plans across your organization can make lowering emissions, sourcing ethically produced materials, or whatever your goal may be accessible and attainable.
- **Customer Loyalty**
  Consumers are choosing brands that align with their beliefs and ideologies. Increasingly, consumers will pay more for goods that support their ESG interests. Be sure to stay authentic; consumers are more likely to identify and react negatively to being misled.
- **Building Corporate Culture**
  Organizations can use ESG data to help attract and retain diverse talent, support equity and inclusion by facilitating mentoring programs and professional development, and guide how employees interact internally and with customers.

https://www.businessinsider.com/sc/4-benefits-of-esg-planning-and-reporting

Lastly, communicating your organization's commitment and plans to address ESG issues is a great way to attract and retain customers, engage employees, and strengthen your corporate image. Ensure successful communication of your ESG priorities, challenges, and opportunities by establishing these four elements as the pillars for communicating your strategy: consistency, transparency, internal alignment, and reporting. As more and more organizations enter the ESG arena, this strategy will ensure your organization maintains a clear and sustainable image, both internally and externally.