NAVEX™

A NAVEX **One**® Definitive Guide

Definitive Guide to ESG

- Getting Started with ESG

Contents

Overview

This Definitive Guide to Getting Started with an ESG Program is a comprehensive resource full of tips, advice and examples to help companies implement and manage and manage ESG as a part of a complete risk and compliance strategy.

Organizations with strong ESG programs have better visibility into risks that stem from sustainability, social, and business ethics issues. Reducing ESG risk and capitalizing on opportunity is now table stakes for businesses seeking resiliency and long-term profitability.

This guide is divided into three main sections: PLAN, IMPLEMENT, and AUTOMATE. Each section provides important information and tools needed for a strong foundation for ESG management.

Foreword

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Welcome to the **NAVEX ESG Definitive Guide**. This guide comes at an exciting time for companies and their stakeholders as we tackle Environmental, Social and Governance (ESG) challenges around the globe. By proactively addressing impacts of ESG, like climate change, companies can better predict future innovation to avoid supply chain disruption by advancing ways in which materials are sourced and ensuring the global economy drives value creation with ESG elements in mind.

As companies continue to grapple with finite natural resources, material sourcing from conflict zones and working to address economic inequality around the world, ESG is a means for organizations to address these concerns. By examining their overall carbon footprint along with seeking to reduce or refine as appropriate, companies can achieve success while maintaining sustainable business practices. With added pressure from investors, customers, government, and competitors, it's important to align with strategic goals with commitments towards reduction targets. And while not all companies are ready to make a "net zero" emissions commitment or establish a multitude of social responsibility goals all at once, there is no excuse for delaying a focus on improving ESG factors any longer.

The key to a quality ESG program is to set a clear vision, communicate the plan and begin executing. Companies are best positioned if they're able to be transparent with auditable data and reports, and by making this information publicly available. In the end, it's about measurement, management of unique data sources, reporting progress, and taking action to improve performance.

Introduction

What is ESG?

Environmental, Social and Governance (ESG) factors are aspects of business operations that impact the natural environment – think carbon footprint and climate change. These factors are gaining attention from investors, customers and increasingly, employees. ESG performance, particularly lapses, are frequently in the news as public expectations for sustainability and ethical business practices continue to grow.

Measurable **Environmental** factors include, but are not limited to:

- Greenhouse gas emissions
- Water and wastewater management
- Air quality impact
- Other waste production and disposal

Social factors focus on the people parts of the business. This includes how the company treats employees, but also the conditions of associated parties like vendors and subcontractors. Some of the measures under social include:

- Employee engagement
- Diversity, equity and inclusion (DEI)
- Personal data security
- Human rights
- Community impact
- Employee health and safety

Direct and Indirect Impacts - Quick Guide to Scopes 1, 2 and 3

When discussing the carbon accounting component of ESG, the terms "scope 1, 2 and 3" are imperative to understand.

Scope 1 measures "direct emissions" from resources owned and controlled by the company. This includes emissions from the company's own facilities and vehicle fleet.

Scope 2 refers to "indirect emissions" which are generated from purchased energy, or utilities. These encompass all GHG emissions stemming from the consumption of purchased electricity, heat, cooling, etc.

Scope 3 emissions encompass all emissions generated throughout the corporate value chain, including all aspects of the business beyond physical assets and people operations (which are defined as Scope 1 and 2 risks). All ESG risks – including climate-related, social capital, human rights, and governance risks – apply to third parties as Scope 3 risks.

Finally, **Governance** factors are those more directly related to the way the company manages itself and conducts business. Governance factors include:

- Business ethics
- Competitive behavior
- Board diversity and structure
- Executive remuneration
- Internal incident risk management
- Systemic risk management

The materiality of ESG matters within the business varies by industry and company size. As a broad example, a manufacturing business will have significantly different impacts on the environment compared to a software company.

Current and pending disclosure regulations and increased attention on ESG from investors, employees and the public contribute to the urgency in measuring and disclosing ESG metrics. As such, understanding how to get started, what to measure, and how to disclose ESG metrics and progress is a pressing need for business leaders.

Why is ESG Growing in Importance?

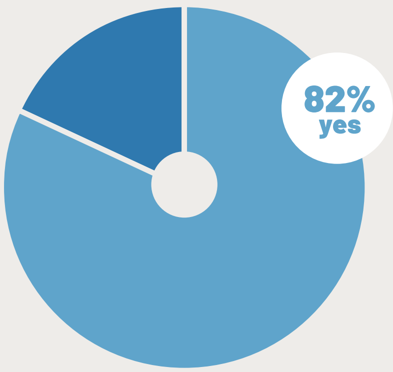
According to EY's 2022 CEO survey: 82% of respondents view ESG as a value driver to their business. 73% (up from 43% 2 years prior) of respondents stated to have adopted ESG for strategic reasons, such as for a competitive advantage and to lower the cost of capital.

The growing importance of ESG comes from 3 key drivers:

- Shifts in consumer and employee preferences
- Investor focus
- Evolving regulatory guidance

What ESG Measures:

Do you view ESG as a value driver for your business?



30%

increase over two years of those who adopted ESG for strategic reasons

Source : EY's 2022 CEO survey

These factors have led to growing consensus that ESG factors are "financially material" - meaning that poor corporate performance on ESG will negatively impact the bottom line. This realization has placed ESG at the forefront of investor consideration as they look to reduce volatility and generate "alpha".

ESG Regulatory Drivers and the Risk of Non-Compliance

The increased focus of corporate and investment leaders on ESG factors has ignited a renewed focus on ESG regulation. These laws exist to promote ethical business practice as well as to ensure that reported ESG information is transparent, comparable, and collected without undue reporting burden on corporates.

Examples of current and expected regulations are provided below:

Locale	Current Drivers	Expected Rules
European Union	• Non-Financial Reporting Directive (NFRD) • Sustainable Finance Disclosure Regulation (SFRD) • The EU Taxonomy • EU Conflict Minerals Regulation • German Supply Chain Act	• Corporate Sustainability Reporting Directive (CSRD) • EU Commission's Supply Chain Due Diligence
U.S.	• 2010 Climate Change SEC Guidance • Uyghur Forced Labor Protection Act • Equal Opportunity Act • Dodd-Frank	• California's Climate Corporate Accountability Act (CCAA) • Required SEC disclosure on climate, human capital, and cybersecurity

Being out of compliance with these rules puts companies at risk of reputational damage, fines, and losing customers. A specific risk for ESG reporting comes in the form of "greenwashing". Greenwashing is a term used to describe marketing promotions around sustainable initiatives that are exaggerated or false.

Greenwashing poses a significant financial and compliance risk. In France, for example companies found guilty of greenwashing could be fined up to 80% of the cost of a false promotional campaign. In the US, the SEC signaled that while many companies make "net-zero" targets, there is lack of transparency on how pledges will be achieved – this indicates focus on greenwashing will be a part of the SEC's proposed ESG disclosure rules.

The Necessity and Value of an ESG Program

Strong ESG program management has a positive impact on the bottom line. By focusing on value creation through ESG strategy, companies can not only improve corporate responsibility but also financial performance. Benefits of a well-managed ESG program include:

Regulatory Compliance

Many ESG-related laws and regulations are already in place – especially in environmentally intensive industries such as oil and gas, mining, manufacturing – with more coming every year.

When looking at the contemplated new laws, "climate-first" reporting based on existing disclosure guidance is a strong starting point. For example, in the UK it is expected that companies will need to disclose following the Task Force on Climate Related Financial Disclosures (TCFD) by 2023.

Beyond "climate-first" reporting rules, ESG regulatory compliance pushes businesses to be more socially responsible, transparent and inclusive. Local, state, national and even global regulations, and anticipated federal regulations will require data collection and reporting on a scale not seen before.

In the coming years, regulatory compliance will require organizations of all types to measure and report performance across a range of social and governance factors not previously contemplated.

Improved resource management and sustainability

Companies focused on ESG see benefits in efficiency and cost reduction. These efficiencies accrue thanks to more efficient resource allocation, employee retention, and avoiding regulatory non-compliance issues. Many of the costs and risks associated with resource consumption – for example, resource needs for data centers, or transportation costs – can be reduced with ESG-focused resource allocation.

Mitigate financially material risks

Intelligent ESG risk management includes business continuity planning and supply-chain management, which in turn mitigates the effects of business disruptions large and small.

Greater profitability

Recent studies have found that companies that purposefully manage ESG risk also tend to manage all risk within their business. There is a strong correlation between better ESG Risk Management and higher profitability.

Additionally, a growing number of investors, individual consumers, B2B buyers, and job seekers, are passing on companies that cannot demonstrate a commitment to addressing ESG issues.

Improved cost of capital

There is evidence that sustainability is as good for the bottom line as it is for society and the planet. According to Barron's, in 2020, ESG stocks outperformed the stock market by 46% in the U.S., by 20% in Europe, and by 77% in Asia.

ESG investors want to incorporate values, such as responding to climate change, into their portfolio – in addition to the traditional factors of potential profitability and risk. Companies that act on ESG initiatives are attractive to this segment of investors.

It is not hard to make the case for a focus on ESG: According to Blackrock's first Global Client Sustainable Investing Survey, $23 billion was invested in ESG companies in 2020, compared to $450 million in 2019. Dow Jones also noted that investment flowing into ESG funds was up 102% in 2020 compared to 2019.

Employee retention

Employees have an increasing preference to engage with businesses that prioritize purpose alongside profitability. This is true of both consumer buying habits as well as a company's ability to attract and retain top talent. According to Barron's third annual ranking of America's Most Sustainable Companies, employee turnover is 25-50% lower at sustainable operations.

The following graphic highlights the positive financial impacts of having an ESG program and making progress towards those goals.

Attracting Investment	Creating Enterprise Value	Mitigating Material Risks
>3,750 signatories to the **Principles for Responsible Investment**	**70%** of **buyers are willing to pay more** for sustainable products	**$16T** of estimated **US economic value lost** since 2000 because of racial discrimination
$53T in **potential** ESG investment by 2025	**59%** of surveyed companies who report **revenue growth** resulting from sustainability efforts	**$116B** total **environmental violation penalties** since 2000
85% of surveyed **investors considered ESG factors** in 2020	**$160B** **revenue generated** over a 9-year period by one large company's green innovation initiative	**91%** of surveyed executives whose businesses have felt the **impact of climate change**

Plan

Six-Step Checklist to Getting Started

Both new and maturing programs face the challenge of efficiently monitoring and reporting ESG-factor data that meets stakeholder expectations, new standards, and evolving regulations. The data required to demonstrate performance and make informed decisions spans several areas of the business including human capital, social capital, corporate governance and more. This data also comes from disparate sources, so inefficient processes put your ESG program at risk of becoming reactionary instead of strategic – especially for teams with limited resources. This checklist will help new ESG programs get started with efficiency, accuracy, and repeatability in mind.

1 Conduct a Current vs. Future State Assessment

Identifying where the business is now vs. where it needs to be is the first step in building an integrated ESG program. The good news is there may be many pieces in place already. An important exercise is to conduct a materiality assessment. Materiality could be influenced by legal and compliance requirements, financial impact or brand exposure risk. This will help stakeholders prioritize what ESG metrics are impactful to the business and chart a future course to address these issues.

Ideal Outcome: A better understanding of material issues and a strategic roadmap in place.

2 Define Program Scope for the Next 1-2 Years and Who Needs to be Involved

When the strategic vision is clearly understood, the next step is to determine what resources are available to actualize the plans within the next 1-2 years. Stakeholders involved in sustainability, supply chain, HR, investor relations, and compliance will be key contributors. They will help define scope, what internal ESG "champions" can help lead the program.

Ideal Outcome: Internal subject matter experts identified, committee formed.

3 Select Communication Plan for Internal and Public Progress Including Disclosure and Reporting

Once the internal scope and key stakeholders are identified, the next step is to determine which reporting methods will best fit internal needs and external communication plans.

Consider: Does the business face regulatory requirements? What material factors are most relevant to the industry? What will help address risks and find opportunities?

Answering these questions will help any team select a reporting framework that is appropriate and provides a realistic, obtainable, and repeatable reporting structure. Key Standards, Frameworks, and Reporting Guidance include: the Value Reporting Foundation's SASB Standards, CDP, and the Task Force on Climate-Related Financial Disclosures (TCFD).

ESG leaders must stay informed on current regulations and be prepared to update policy and business operations accordingly when regulatory requirements change.

Ideal Outcome: Specific reporting metrics and guidelines established with executive buy-in.

4 Establish Repeatable Workflows and an ESG Measures Database

Establishing automated workflows is arguably the most important step and the best opportunity an ESG team has for creating a program that is streamlined and easily managed.

ESG reporting requires multiple contributors across departments, each needing to submit specific data to fulfill reports and assessments. Having a unified system that automates data collection workflow (from utility systems, Human Resources, finance, and supply chain partners) and collects standardized, verifiable data is vital.

Many teams become stuck in the paradigm of do-it-yourself solutions such as spreadsheets. However, ESG is too complex, and these manual systems will likely lead to inefficient ad hoc reporting, errors, and incomplete disclosures.

Ideal Outcome: Data collection assignments, repetitive workflows automation, and a single "source of truth" established.

5 Report Results Regularly for Benchmarking and Trends

When repeatable, trusted data collection workflows are in place, ESG teams can begin to consistently measure their progress against month-over-month, quarter-over-quarter, and year-over-year targets.

Instead of only relying on a yearly Sustainability or Corporate Responsibility report which are usually time intensive, ESG data is best used when it is accessible for at-a-glance snapshots and dashboards. This approach provides stakeholders the information they need, when they need it. This repository also serves as a go-to resource for easy data pulls when "reporting season" comes around and/or other stakeholder requests need to be addressed.

Reaching this step is a breakthrough from setting the foundation to creating an environment of simplified, consistent reporting. And all the better if the results are presented graphically rather than in spreadsheet tables or text only.

Ideal Outcome: Data is consolidated, with clear charts and dashboards available to easily update. Completed assessments stored and easily accessible.

6 Plan for Actionable Improvements

Finally, with a vision, team, workflow, and reporting structure in place, corporate ESG teams have access to a unified, automated control center for ESG-related initiatives.

By taking these steps, ESG can become a consistent business practice and key performance indicator instead of an ad hoc exercise. As such, a cycle of workflow, planning, improvement, and reporting is integrated across departments, and is consolidated to satisfy all stakeholders such as customers, investors, regulators and the Board.

Ideal Outcome: ESG becomes more than an ad hoc or once a year manual reporting exercise, but an ongoing program that is continuously tracked and improved upon.

Unifying and Acting on ESG Factors

Given the broad scope of ESG, there are likely some metrics already available for most organizations. Unifying an ESG program is difficult to do in an ad hoc manner, given the scope, complexity and cross-functionality of information needed.

For organizations looking to start evaluating their ESG maturity, one of the first issues to address is the process by which data will be collected, stored, analyzed and presented. Is a manual, spreadsheet-based process feasible or sufficient? Below are key risks and factors to consider with a manual approach:

- ESG buy-in leads to considerable change management. Are the current systems scalable enough?
- ESG data is cross-functional. The information you need exists across multiple departments and likely different systems of record.
- Work hours required for manual data collection, administration, and assurance outweigh the cost of a centralized, auditable system.
- ESG management requires a view of resources across environmental, social impact, human capital, and governance. How can the business centralize its view of performance?
- Disclosure fatigue and undue reporting burden threaten an ESG strategy's ability to create value. A do-it-yourself approach to ESG is likely to cause extra and inefficient work.
- Assurance becomes easier when data collection, progress tracking, and disclosures are stored and managed from a central place

A modern ESG program unifies sustainability, social impact, and ethical governance. DIY approaches are simply not able to cost-effectively manage all these areas. Additionally, when it comes time to act on your ESG goals, you need a solution that easily leads to action – e.g. policy creation, employee training, and third-party risk management.

Maturity Questionnaire

Those tasked with leading an ESG program must understand the work cannot be done overnight. To establish reasonable goals and timelines, it is important to first assess the maturity and readiness of the organization to prioritize ESG. The questionnaire is designed to assist organizations in establishing a baseline and sheds light on where efforts should be focused.

ESG Foundation	Strongly Disagree	Somewhat Disagree	Undecided / Unsure	Somewhat Agree	Strongly Agree	We use software to help with this
1. Executive Buy-In Our leadership team and board are prioritizing ESG						
2. Incentivization We are clearly incentivized to act on ESG						
3. Risks & Opportunities We understand our ESG risks and opportunities						
4. Strategy We have a well-defined strategy for addressing ESG						
5. Collaboration Our cross-functional groups are well aligned on how to execute						

ESG KPI Identification	Strongly Disagree	Somewhat Disagree	Undecided / Unsure	Somewhat Agree	Strongly Agree	We use software to help with this
6. Materiality We are confident that our ESG KPIs are financially material						
7. Collectability We can collect the data and information we need to measure our KPIs						
8. Baselines We have a well-defined internal benchmark or baseline of progress						
9. Goal Setting Our goals are clearly defined, easily measurable, and realistic to obtain						
10. Acheivability We can clearly see where, how, and why we are on or off track of our goals						

ESG Program Management	Strongly Disagree	Somewhat Disagree	Undecided / Unsure	Somewhat Agree	Strongly Agree	We use software to help with this
11. Environmental Resources We are effective in managing our environmental and carbon footprint						
12. Social & Human Resources Our social and human impact is understood and transparent						
13. Governance, Risk, and Compliance Our ESG, Compliance, and Enterprise Risk initiatives are linked						
14. Supply Chain Management We evaluate Supplier ESG performance						
15. ESG Action We act when we see areas of ESG improvement						

ESG Disclosures	Strongly Disagree	Somewhat Disagree	Undecided / Unsure	Somewhat Agree	Strongly Agree	We use software to help with this
16. Voluntary Disclosures We can easily report to voluntary standards boards and frameworks						
17. Mandatory Disclosures We are confident in our ability to meet current and/or future required disclosures						
18. Ratings Agencies We know ESG raters have the best view of our ESG performance						
19. Owned Media Our annual ESG / Sustainability report is efficiently produced						
20. Dynamic Reporting We have dynamic data that helps us quickly view progress v. goals						

How Did You Score?

	Strongly Disagree	Somewhat Disagree	Undecided / Unsure	Somewhat Agree	Strongly Agree	We use software to help with this
Tally up our score based on these points	**0**	**+1**	**+2**	**+3**	**+4**	**+1**
Program Score	A = 72 - 80	B = 64 - 71	C = 56 - 63	D = 48 - 55	F = 0 - 47	
Software Score	A = 18 - 20	B = 16 - 17	C = 14 - 15	D = 12 - 13	F = 0 - 11	

An Integrated Approach is Key

As ESG continues to be top of mind for investors, executives, and regulators, adopting an approach based on ESG integration is crucial to success.

The Value Reporting Foundation (formerly SASB, and now a part of the newly formed International Sustainability Standards Board, ISSB) provides an Integrated Thinking framework that helps executives adhere to principles that assist in bringing ESG into businesses.

The 6 Integrated Thinking Principles provided by this group are:

1. Purpose
2. Risks and Opportunities
3. Governance
4. Strategy
5. Culture
6. Performance

Following these principles are an effective way to integrate ESG as an overall business strategy, rather than a separate "do good" initiative.

Prioritized Goal Setting

The breadth of ESG metrics combined with often ambitious goals for improvement means progress must be made in steps. All organizations will be at a different starting point in their ESG journey, and prioritizing goals is essential.

First, organizations must define short-term (1-2 years) and long-term (3-5-10 year) goals for environmental, social and governance aspects of the business. Examples shown in the table at right.

Accountability and progress are key here, and there is a general expectation that organizations disclose their baseline and goals, and then regularly disclose progress. There are varying options for choosing where and how to disclose, and as ESG programs mature, annual ESG reports for consumers and investors are becoming the norm.

Go Beyond Reporting

When ESG goals, data collection, and performance starts to take shape, the next step is to act on areas that need improvement. Examples include:

- Implement new sustainability policies
- Conduct employee training around DEI
- Improve data privacy practices
- Develop ESG-focused supplier code of conduct

It all starts with an understanding of the current ESG state, where the business aspires to be in 3-5 years, and how ESG teams can iterate going forward using data results to communicate progress to stakeholders for stakeholders.

	Short-term	**Long-term**
Environmental	Change to sustainable packaging	Carbon neutrality
	Evaluate corporate real estate footprint needs	Retrofitting plants for sustainability
	Switch to renewable energy and water-efficient solutions	Develop product lifecycles that align with circular economy
Social	Update job requisitions, communications materials, and code of conduct for inclusivity and accessibility	Supply chain that promotes human rights and resiliency
	Ensure data privacy policy, procedures and controls are aligned with corporate goals	Improve company diversity in leadership
Governance	Assess maturity of ethics and compliance program	Grow integrated risk management program across areas of risk including sustainability
	Review existing policies related to ESG governance concerns	
	Understand ability to address critical incidents	

Understanding ESG Risks

To gain a full understanding of what an ESG program encompasses, it is important to discuss the various ESG risks a business faces, which also includes those imposed by third-parties.

All companies should consider climate-related risks and opportunities when assessing their own and third-party risks. In addition to direct environmental impacts to the business, potential supply chain instability can occur if suppliers are located in areas that face increasingly extreme weather events, significant sea level rises, or droughts as a result of climate change. It's important to understand upstream and downstream commitments and timelines. Where they don't exist or need to be expedited, work with their third parties to jointly address these risks, or consider doing business elsewhere. Organizations should also develop business continuity plans to account for climate related business disruption.

Companies should also assess the human rights and modern slavery risk mitigation efforts of their tier 1 suppliers, as well as those of their contractors and sub-contractors. This is to ensure all employment is being managed legally and a fair and living wage is being paid under acceptable (and ideally better than "acceptable") working conditions.

From an ESG perspective, it is important to also include social capital when considering human capital. Social capital risks include the impact of your business and the third-party companies you do business with on local communities. There may be opportunities to initiate or partner with third parties to improve local infrastructure, assist in providing better education and childcare to the community, and mitigate environmental effects. All of these endeavors help secure the supply chain beyond basic compliance and improve communities for future generations.

Governance risks are critical to the business, and also relevant to third parties. Explore procurement policies to encourage supplier diversity, codes of conduct to mutually align on ESG and general ethics and compliance goals, data acquisition through assessments or other tools. The latter is especially useful in helping organizations understand a third party's greenhouse gas emissions, compliance with modern slavery acts requirements, and its overall alignment to your ESG goals.

Like assessing IT and cybersecurity risks for third parties, a simple questionnaire sheds light on how your suppliers are addressing ESG in their own organizations. Below is an excerpt from the ESG supplier questionnaire as an example of the type of questions that will be most helpful when addressing third-party ESG impact and risk.

1. **Does your company measure GHG emissions?**
2. **Before beginning a business relationship with a manufacturing facility, do you evaluate their quality of production and capacity for production?**
3. **Do you invest in community development activities in the markets you source from and/or operate within?**
4. **Do you provide trainings on workplace's health & safety, fundamental human rights, anti-corruption to your employees?**
5. **Is there any department or responsible person for compliance to applicable labor laws, labor standards, compensation & benefits etc.?**

Implement

Cross-functional alignment and communication is imperative to the success of ESG measurement, compilation of data, disclosure, and progress

Engaging Stakeholders & Cross-Functional Alignment

ESG touches all aspects of the business and as such, requires stakeholders from across the business to measure, report and make progress on goals. Common stakeholders in ESG matters include:

- Risk and Compliance
- Human Resources
- Sustainability
- Legal
- Supply Chain

As noted earlier, ESG programs require stakeholders from across the organization to develop and implement plans, track progress and manage disclosures. The "owner" of ESG does not need to be a subject matter expert in all things environmental, social or governance. Instead, they should serve as a figurehead and project manager who oversees a cross-functional committee.

For example, when measuring Scope 1,2 or 3 emissions, many stakeholders need to be involved to identify the environmental impact of office buildings, data centers, regular employee commutes and additional travel, and (where applicable) manufacturing of company products and collateral. To measure these impacts, leaders from building operations, human resources, and production would all need to be involved. Additionally, when discussing metrics related to diversity, human resources will need to partner with department leaders to ensure accurate measurement of demographics across the organization – and as the organization grows, this task becomes more complex. Finally, when assessing the state of governance, leaders from IT, cybersecurity, legal, and other functions, will have valuable metrics that help paint a complete picture.

The ESG & GRC Connection

A recent OnePoll survey of corporate compliance leaders across the U.S., U.K., France, and Germany shows 89% of respondents include ESG reporting as part of their compliance program. And of the 11% of organizations that do not include ESG as part of their compliance programs, 71% strongly or somewhat agree that compliance should be involved with ESG management.

89% of respondents already include ESG reporting as part of their compliance program

Additionally, when Bloomberg recently analyzed the contributing factors for ESG ratings by MSCI, the top 5 identified factors were as follows:

1. Conduct an annual employee satisfaction survey
2. Adopt a business ethics policy
3. Adopt anti-corruption policies
4. Institute policies against money laundering
5. Have a whistleblower protection plan

This indicates a strong alignment with the risk and compliance function for leadership and management of ESG – especially as risk and compliance leaders are well versed in maintaining regulatory compliance in other areas of the business. However, other stakeholders may be well suited to own oversight depending on their organizational structure and industry.

Initiate Key Activities

Once a maturity questionnaire is completed, ESG stakeholders are identified, and short and long-term goals are established, the next step is to initiate key activities towards progress. Key activities are determined by the goals set during the planning phase, and leaders in their respective areas of the business should make regular reports on the progress to the ESG leadership committee.

To initiate the key activities needed to make progress on the defined goals, ESG leaders must:

1. Gain buy-in on the goals with top-down messaging and bottom-up adoption
2. Allocate the required budget to procure resources and staffing
3. Assign tactical roles to execute projects outlined in the goals
4. Track and measure progress, ideally with automated software which allows for a holistic view of all projects

Selecting Disclosure Channels

Disclosure and reporting are an essential outcome of implementing ESG programs. A main challenge facing the current ESG disclosure paradigm is the volume of different issuers of disclosure guidance. However, there are distinctions around how existing standards view materiality, specificity, and whether they are industry agnostic. Below is an example of popular groups in the ESG disclosure ecosystem, and the purpose they serve.

To be successful in disclosing ESG performance data, companies need to consider their view of ESG and financial materiality, the unique aspects of the industry in which they operate, and how they can easily collect both qualitative and quantitative data without undue burden on corporate teams.

Traditionally, corporates also publish annual ESG, Sustainability, or Corporate Responsibility reports. These reports are produced to contextualize ESG goals and performance through owned media. However, the auditing and assurance of ESG data continues to grow in importance to reduce the chance that promises made regarding ESG objectives are not overblown – a concept widely known as "greenwashing."

Disclosure Ecosystem	Examples	Purpose
Voluntary Disclosures and Frameworks	International Sustainability Standards Board (ISSB)	Strategic frameworks and specific line-item disclosure guidance exist to help companies determine what to measure and report on.
	Task Force on Climate-related Financial Disclosures (TCFD)	
	Global Reporting Initiative (GRI)	
	Carbon Disclosure Project (CDP)	
Mandatory Disclosures	Non-Financial Reporting Directive (EU's NFRD)	Global regulations continue to evolve to balance comparability with efficient ESG data collection. Some mandatory rules rely on existing disclosure guidance.
	Sustainable Finance Disclosure Regulation (EU's SFDR)	
	Equal Employment Opportunity (US's EEO-1)	
ESG Raters	MSCI	Ratings agencies deploy scoring methodologies so investors can compare and rank ESG performance of individual companies when making investment decisions.
	Institutional Shareholder Services (ISS)	
	Sustainalytics	
	Dow Jones Sustainability Index	

Moving Towards Standardized, Regulated Disclosure

The US is following the EU and international directives to address global ESG initiatives through actions by the Security Exchange Committee (SEC) and International Finance Reporting Standards (IFRS). In late 2021, the IFRS Foundation announced the formation of the International Sustainability Standards Board (ISSB) which reflects the consolidation with the Carbon Disclosure Standards Board, an initiative of the well-recognized Carbon Disclosure Project, used by many US companies, and the Value Reporting Foundation. This is a huge step forward for global adoption of ESG disclosure that goes beyond traditional Sustainability management and reporting that has been an initiative for global companies for more than ten years.

The Value Reporting Foundation, formerly the Sustainability Accounting Standards Board (SASB), was established several years ago to develop industry-level standards and materiality mapping to create a standard with investors in mind. With investor focus on ESG, the need for high-quality ESG disclosure standards will address the investor community's desire to make informed decisions beyond financial considerations. The plan is to complete the consolidation of these standard bodies by June 2022. When this is in place, global companies will be better positioned to meet the disclosure requirements needed for financial markets and investors to drive transparency and value creation and mitigate risk. The technical groundwork to streamline corporate sustainability disclosures is in place for market adoption.

Automate

Resource Data Automation

Managing ESG data manually is a cumbersome and inefficient process. As noted in the maturity questionnaire, the addition of software to assist in tracking ESG metrics improves an organization's ability to track and disclose progress and mature their program. Below are some benefits of ESG software and automation:

1. Collect sustainability data from across the enterprise.

Collect sustainability data from across the organization and suppliers. Set goals and focus on KPIs that are required for disclosure.

2. Automatically convert resource usage to determine carbon footprint.

Import environmental resource usage from around the world to understand specific emissions, generation, resource mix, and other attributes related to managing carbon footprints and emission estimates.

3. Enable quick response to internal, supplier, and customer requests.

The growing demand for ESG disclosure means organizations should prepare to provide information upon request from employees, suppliers and customers. Given the breadth of ESG programs, and often disparate information, this can be a lofty task. By automating processes and compiling ESG data, organizations can more quickly respond to requests for information – saving time and resources in completing these requests.

4. Unify your stakeholders for reporting.

Manage users, stakeholders, and their assignments to ensure timely data collection, follow-ups, questionnaires, and other sustainability initiatives.

ESG software helps companies aggregate investor-ready data and address metrics that decision-makers care about. Whether your goal is values-based business development or making the world a better place, ESG software can help you build a best practice program and put you on a path for sustainable future growth.

Conclusion

As ESG matters continue to gain public and regulatory attention, organizations will see a shift from disclosure and progress moving from "nice to have", to "need to have" in the coming years.

Developing an ESG program that satisfies consumer, employee, investor and regulatory demands requires dedicated resources and a thoughtful approach in order to make an impact and lasting change.

Organizations of all sizes should dedicate time and resources to assess their maturity levels, assign stakeholder responsibility, and create a plan to measure, make progress on, and disclose their efforts in ESG. Given the fluidity of ESG matters and varying levels of maturity, organizations will need to tailor their programs accordingly – and with dedicated resources and software to aid leaders, organizations today are equipped to make a lasting impact on their ESG journey.

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NAVEX is the recognized leader in risk and compliance management software and services, empowering thousands of customers around the world to manage and mitigate risks with confidence. NAVEX's mission is to help customers promote ethical, inclusive workplace cultures, protect their brands and preserve the environment through sustainable business practices.

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