Defining Your ESG Strategy

Identifying sources of value for a business creates the foundation for prosperity. When present, the sustainability strategies of companies have historically been distinct from the main corporate strategy and separate from financial planning and risk management. The increasing demand for disclosure of environmental, social, and governance (ESG) risks and opportunities has highlighted the importance of integrating sustainability considerations into the overall corporate strategy because they are business relevant, financially material, and central to strategic planning. The good news is that the identification and incorporation of ESG strategies into the overall business strategy not only drives growth, reduces risk, and reduces costs, but it also enhances reputation, drives employer attractiveness, and helps to define value and purpose.

Analyzing ESG information alongside financial information in both internal and external reporting helps businesses gain a more comprehensive view of the opportunities and risks facing their company and their overall industry. Companies can use this information to not only increase their enterprise value, but to better manage performance, position for growth, and secure the best workforce talent. The analysis of ESG information begins with defining an ESG strategy.

What if we don't have an ESG Strategy?

This is a question we frequently hear from companies. What we find in fact is that many already have existing business processes and priorities that can be categorized under the broad topics of either environmental, social, or governance. It is just a matter of identifying them. Once identified, the foundation for an ESG strategy is created. We recommend a graduated, staged approach. Begin with the topic areas where information is readily available, then build upon your strategy in subsequent years.

Although each company will have its own assortment of ESG risks and opportunities, below we have identified several general issue categories from the SASB Materiality Map® that overlap across varying sectors and are considered to be material for more than 50% of the industries. These topic areas are prime examples of metrics that companies most likely already measure and address when defining and assessing their business strategy:

- Product Design & Lifecycle Management
- Product Quality & Safety
- Energy Management
- Materials Sourcing & Efficiency

Keep in mind that how ESG issues are framed for discussion across the company will influence whether they are viewed as essential sources of value or as soft topics that link more appropriately to a marketing strategy or brand reputation.

For example, in the Food & Beverage industry, a company's approach to the topic of *Materials Sourcing & Efficiency* might be considered relevant as it relates to the overall branding strategy. However, a more in-depth analysis related to priority food ingredients and potential sourcing risks due to environmental considerations would provide more meaningful data when considering the business strategy as it relates to impacts to the company's manufacturing operations and supply chain considerations.

CASE STUDY

USING ESG METRICS TO IMPROVE BUSINESS PERFORMANCE

At one company, data was collected for gallons of fuel consumed by company fleet due to the environmental impact and related GHG emissions generated from this business activity. The focus on this data was a catalyst for further conversations and initiatives over streamlining the supply chain and ways to ultimately reduce costs.

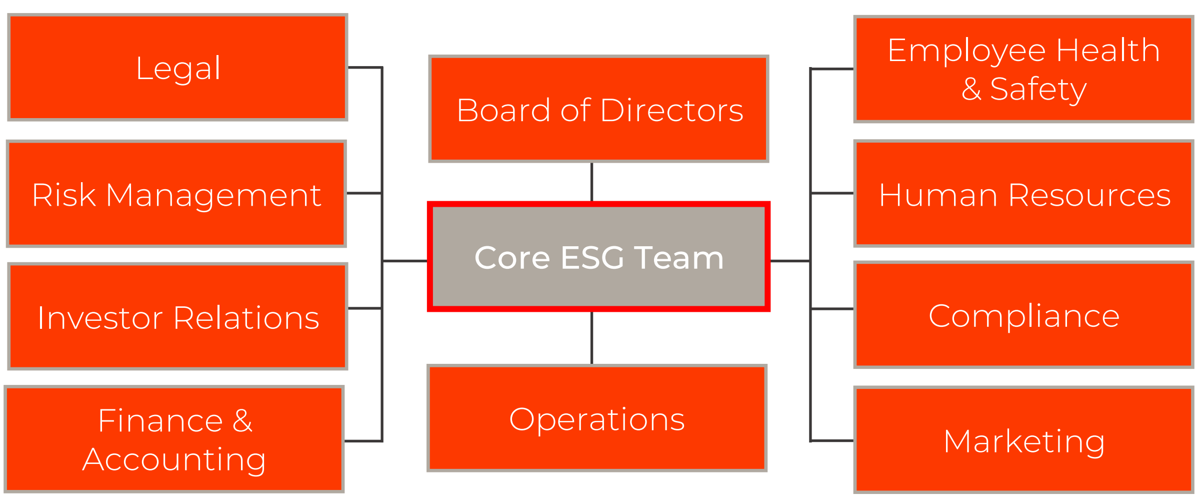
Use the ESG Reporting Process as Your Guide

Many companies believe they must have a comprehensive ESG strategy in place before initiating their reporting process. This is not always the case. The reporting process itself can be used as a guide to introduce much needed conversations, create assessments, and collect valuable information. The ESG strategy is revealed during this process. Because the method of reporting begins with the end in mind, it helps management develop a deeper understanding of the ESG risks and opportunities that may have been previously undefined. It also helps to integrate strategy and brand, broaden conversations regarding "tone at the top", improve data collection methods, redefine an understanding of compliance and ethics, and promote overall corporate culture. It's a win-win scenario.

An effective ESG report tells the company's story – one that was set in motion long before the term "ESG" was commonplace. This story can evolve and grow over time, which is why we recommend a graduated and buildable approach to ESG reporting. A focus on *improvement* from year-to-year and quality of information is more important than quantity. SASB standards are intended for easy integration into a company's existing processes and SASB metrics are cost-effective because they consider the data already being collected by most companies. This is why SASB standards make the most sense to those who are just initiating the reporting process.

Establish Cross-Functional Teams

Part of the process of appropriately defining an ESG strategy involves the creation of cross-functional collaboration between groups. Organizational silos often exist between departments within a company. Ideally, a Core ESG Team would lead the ESG reporting and strategy development effort with the addition of members from the Board and operations, as well as the involvement of all other departments in order to ensure ESG priorities are integrated across the organization.



How We Can Help

By partnering with firms that are experienced in ESG reporting, understand controls documentation, and have expertise in linking financial and non-financial data, companies are better positioned to appropriately define their ESG strategy.

ESG Lynk was founded on a mission to simplify the sustainability reporting process to help companies communicate their sustainability efforts, attract capital, and lead long-term performance. **We help define your ESG strategy and tell your story.** Our mission is to accelerate the sustainability of businesses and the world in which they operate. By bringing the discipline of SEC financial reporting to the ESG reporting process, we create a cost-efficient process of identifying and reporting on financially-material ESG metrics to company stakeholders.

Please visit www.esglynk.com to stay informed about our latest research and guidance on sustainability reporting recommended best practices.

SUSTAINABILITY REPORTING MADE SIMPLE