

First Steps for Developing an ESG Program

What This Presentation Helps You Accomplish

Environmental, social and governance (ESG) issues are increasingly important to investors, employees and regulators. Companies with strong ESG programs can help companies meet investor criteria, attract and retain top talent, and prepare for potential social and environmental regulations.

Too often, the sheer number of ESG issues that an organization **could** address prevent its leaders from setting specific, achievable ESG goals. This presentation can help you understand your first steps for developing your ESG program, and it can also help you explain those steps to the board, the C-suite and your employees, by:

- Defining the ESG issues your organization could address
- Assessing the materiality of those issues to the organization and its stakeholders
- Creating a governance structure to support action on material issues.

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ESG Definition

ESG refers to a collection of corporate performance evaluation criteria that assess the robustness of a company's governance mechanisms and its ability to effectively manage its environmental and social impacts.*

ESG Issues

Illustrative Example



Environmental Issues

Examples:

- Carbon emissions
- Water usage
- Clean air
- Waste disposal
- Renewable energy
- Recycling
- Land use
- Green products
- Disaster management
- Habitat and biodiversity

Governance Issues

Examples:

- Decision transparency
- Separation of powers
- Share-class structure
- Shareholder relations
- Business ethics and integrity
- Government relations
- Responsible advocacy and public policy
- Board leadership
- Executive compensation

Social Issues

Examples:

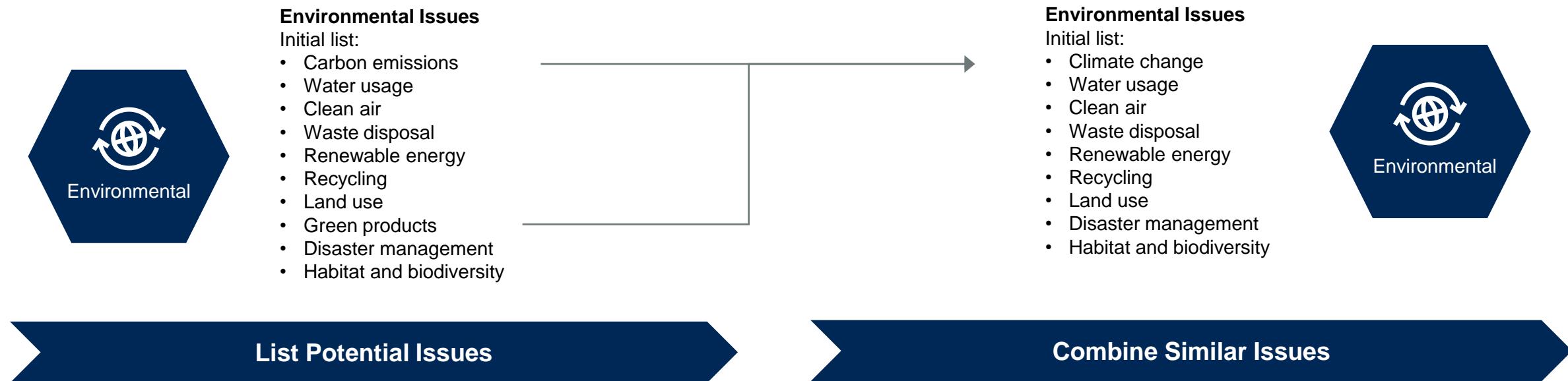
- Diversity, equity and inclusion (DEI)
- Women's empowerment
- Fair pay
- Workplace safety
- Employee well-being
- Consumer safety
- Responsible marketing
- Responsible innovation
- Economic development
- Data protection and privacy

*Source: Gartner

List Potential Issues for Materiality Assessment

Forming an ESG List

Illustrative Example



First, create a long list of potential ESG issues that could materially impact the organization or be of interest to its stakeholders. Sources that could inform your list include:

- Peer company ESG reports
- Proxy advisory firms
- Activist investor reports

Then, reduce the length of the list by combining similar issues. To help evaluate whether to combine or separate related issues, consider whether:

- Issues require similar solutions or tracking metrics
- Stakeholders have a specific interest in one issue or the other
- Issues can share a governance structure

Identify Key Stakeholders

How to Prioritize Stakeholders

Two Criteria



Priority of Stakeholders

Illustrative Example

- 1 Key shareholders
- 2 Largest suppliers/buyers
- 3 Largest buyers
- 4 Employees
- 5 Regulators
- 6 NGOs
- 7 Community members
- 8 General public

Solicit Input From Key Stakeholders

To properly rank the issues by their impact on the company and importance to stakeholders, solicit input from key stakeholder groups. For each key stakeholder group, select appropriate method(s) for soliciting input by: 1) sourcing information from investor relations, HR and other functions who already track stakeholder sentiment, and 2) considering the size, diversity and importance of the stakeholder group.

Techniques for Gauging Stakeholder Interest

Illustrative Example

	Survey	Interviews	Focus Group	
	An anonymous questionnaire sent to select stakeholder groups	Individual meetings with a few key stakeholders to discuss the most important ESG issues	A facilitated discussion with a sample of 8-12 stakeholders from each group	
Key Shareholders	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Largest Suppliers/Buyers	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
Employees	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Regulators	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
NGOs	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Community Members	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Focus groups can provide very in-depth insight but require a time commitment of at least two hours and a skilled moderator. They should be reserved for stakeholder groups with a high impact on company success and high level of concern.

Stakeholder groups whose interests are highly dispersed (e.g., shareholders, community members) should be surveyed, while interviews are more appropriate for groups where a few key stakeholders have most of the impact.

Conduct a Materiality Assessment

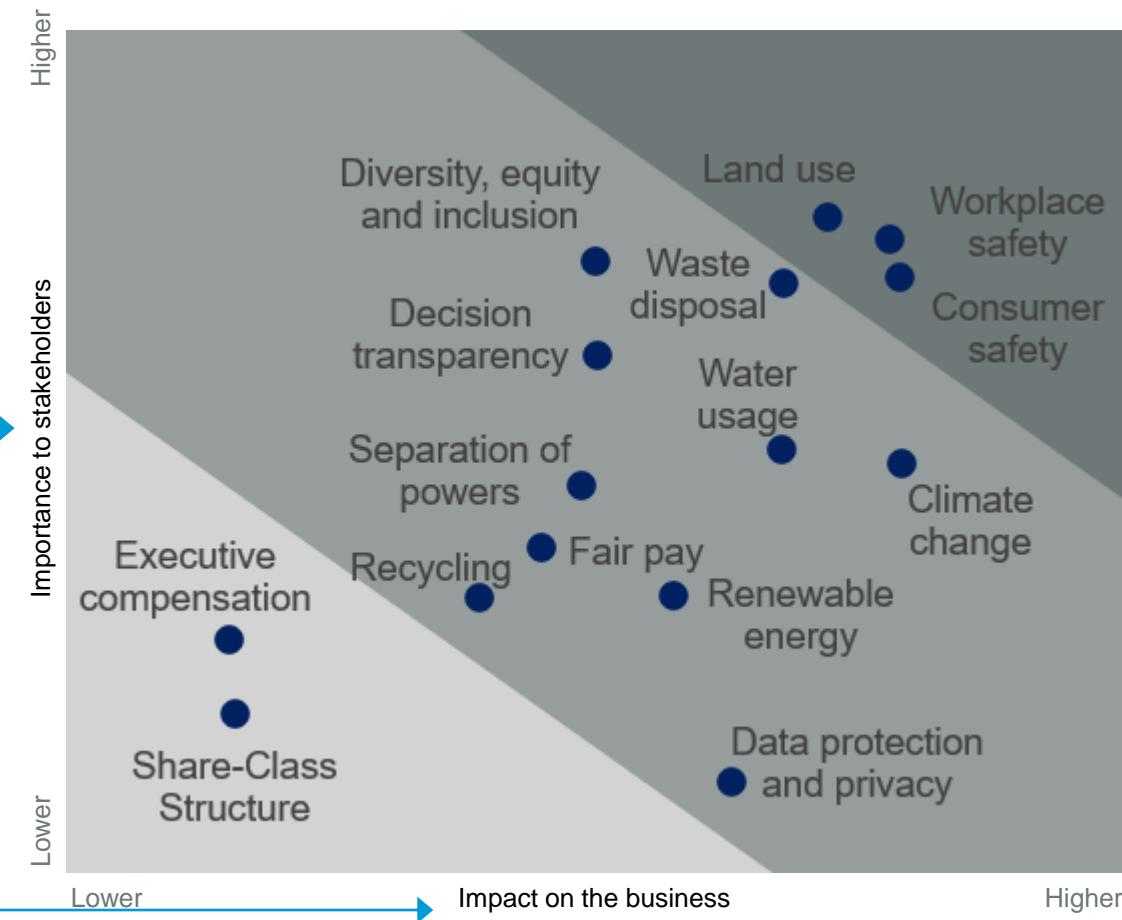
A company must decide the range of issues that its ESG program should govern. A **materiality assessment** is a formal exercise that works from the perspective of stakeholders to rank the importance of specific environmental, social and governance (ESG) issues. By assessing the importance of ESG issues, business leaders can filter out nonessential ones.

ESG Materiality Assessment

Illustrative Example*

An issue's **importance to stakeholders** indicates expectations or desire for action on the part of investors, NGOs, employees and the general public.

An issue's **impact on the business** indicates its capacity to slow the firm's growth or shrink its profit margins.

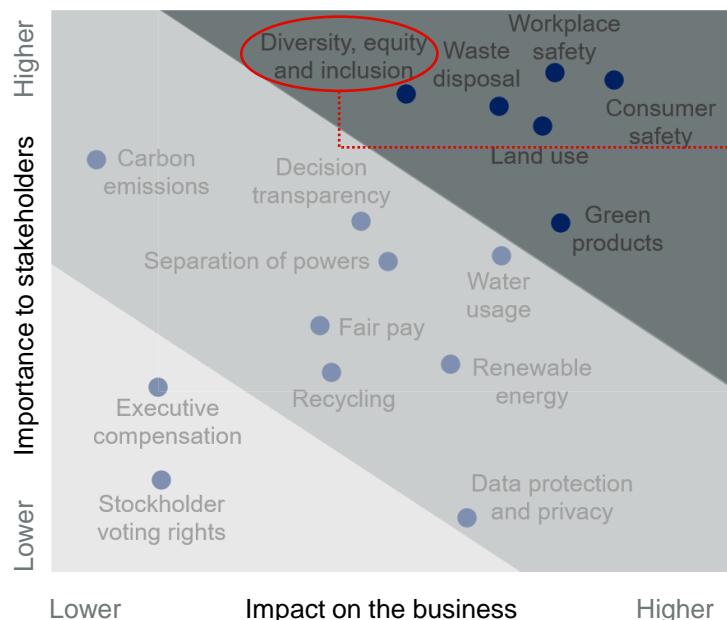


*For illustrative purposes only. Not a real ranking.

Use the Materiality Assessment to Define Next Steps

ESG Materiality Assessment

Illustrative Example



Initial Action Plan

Illustrative Example

Issue	Goal	Governance	Reporting Metrics	Action Steps
Diversity, equity and inclusion	Include employees from underrepresented groups by distributing promotions justly; achieve a balance of perspectives in decision-making bodies	General Counsel and DEI Committee	<ul style="list-style-type: none">% of board members belonging to underrepresented groups% of management belonging to underrepresented groups	Form DEI group to determine key metrics and find the root cause of cultural problems in the workplace
Land use				
...				

*For illustrative purposes only. Not a real ranking.

1 Set goals that create win-wins. For each issue in the upper right triangle, set a goal that addresses stakeholder concerns while also having a long-term positive impact on the company's risk, growth or profit margins. The impact should be concrete, but the time horizon for payoffs can be longer than other investments.

2 Create an initial action plan that pursues those goals. The action plan should include:

- People or committees responsible for governance
- Objective, interpretable metrics
- Next steps to gather more qualitative information

Example: Sustain ESG With a Governance Structure

ESG Governance Structure

Illustrative Example



The Board

Board members may choose to arrange themselves into a single “Corporate Responsibility” committee or issue-specific committees, such as compensation, sustainability, risk and governance.

Executive Council

- Senior leaders, led by the GC and including the CHRO and head of DEI, should define and drive the firm’s ESG strategy.
- This council can meet monthly or quarterly.

(Optional) ESG Taskforce(s)

The taskforce should include representatives from functional areas across the organization, meet at least every month, and be encouraged to make recommendations to the executive council based on their findings.

1

The GC should ensure a real governance structure, with clear accountability and executive support.

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2

Brief the full board on the materiality assessment and any ESG reporting metrics, and periodically brief them on the firm’s ESG strategy.

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3

To enact the organization’s ESG strategy, the executive council can assign specific fact-finding, stakeholder engagement or communication tasks to an ESG taskforce. For example, the council may ask a taskforce to discover which of several sustainability issues would have the greatest impact on cost and growth.

Establish Steps to Update the Materiality Assessment

Steps General Counsel Can Take To Keep Materiality Assessment Timely



Establish an annual cadence for soliciting new stakeholder feedback to ensure the order of the issues will be up to date.

Example: The importance of diversity, equity and inclusion to stakeholders might increase as a result of political or social movements.



Changes in strategic goals should trigger further review. Over time, as the organization enters or exits specific geographies, changes its supply chain or adopts a new profit model, the same ESG issues may require very different kinds of actions to remedy. In this case, it makes sense to treat them as different issues.

Example: A company that shifts from a domestic to a global supply chain may wish to distinguish between “carbon emissions” and “green products” rather than grouping both under “climate change.”

Source: Gartner

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