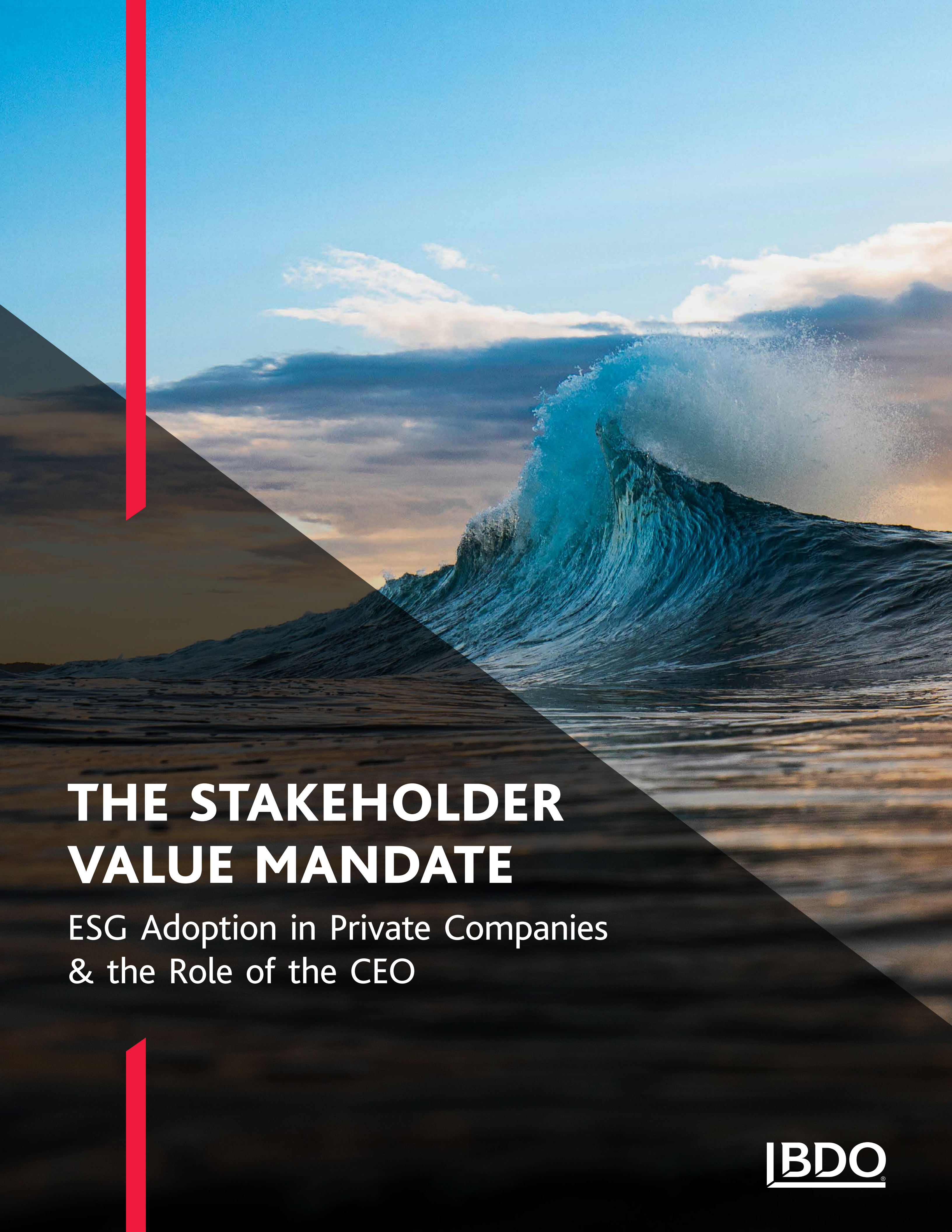
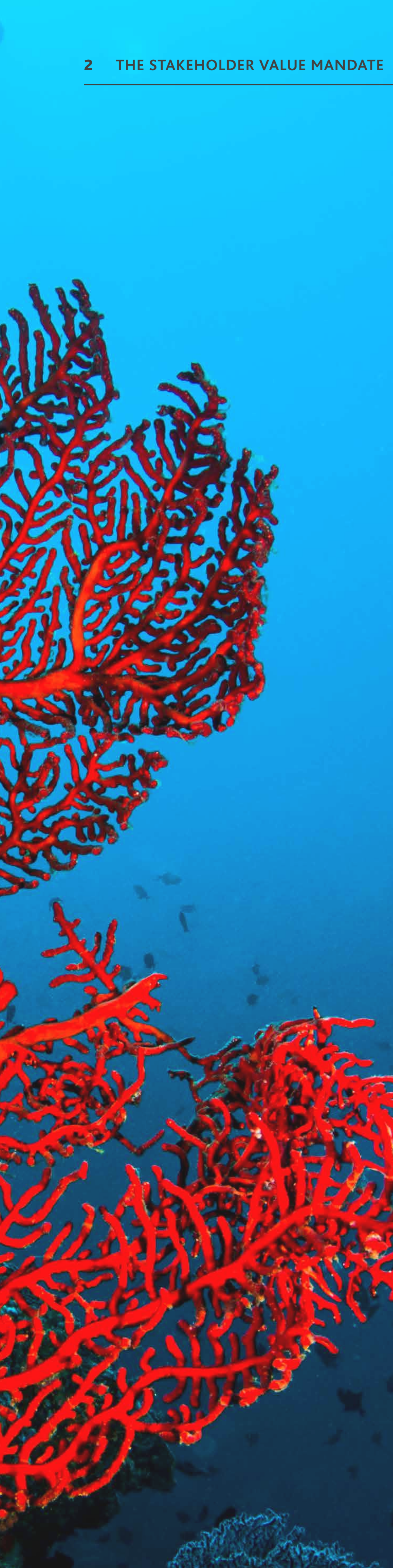


THE STAKEHOLDER VALUE MANDATE

ESG Adoption in Private Companies & the Role of the CEO



From stakeholder buy-in to supply-chain transparency and beyond, companies across the globe face a variety of challenges when developing and implementing ESG strategies. But this has not deterred CEOs from incorporating ESG principles into their core business strategy, embracing corporate visions that:

Deliver long-term **value** for **all stakeholders**

Contribute to the betterment of the **planet** and **society**

Support the well-being of their **employees** and the **communities** in which they operate

While publicly traded companies have taken the lead on ESG, it is quickly becoming a strategic imperative for private companies as well.

To prepare business leaders to integrate these principles into their organizations, BDO discusses ESG and the stakeholder value mandate, key considerations for company stakeholders, and the CEO's critical role in achieving ESG success.

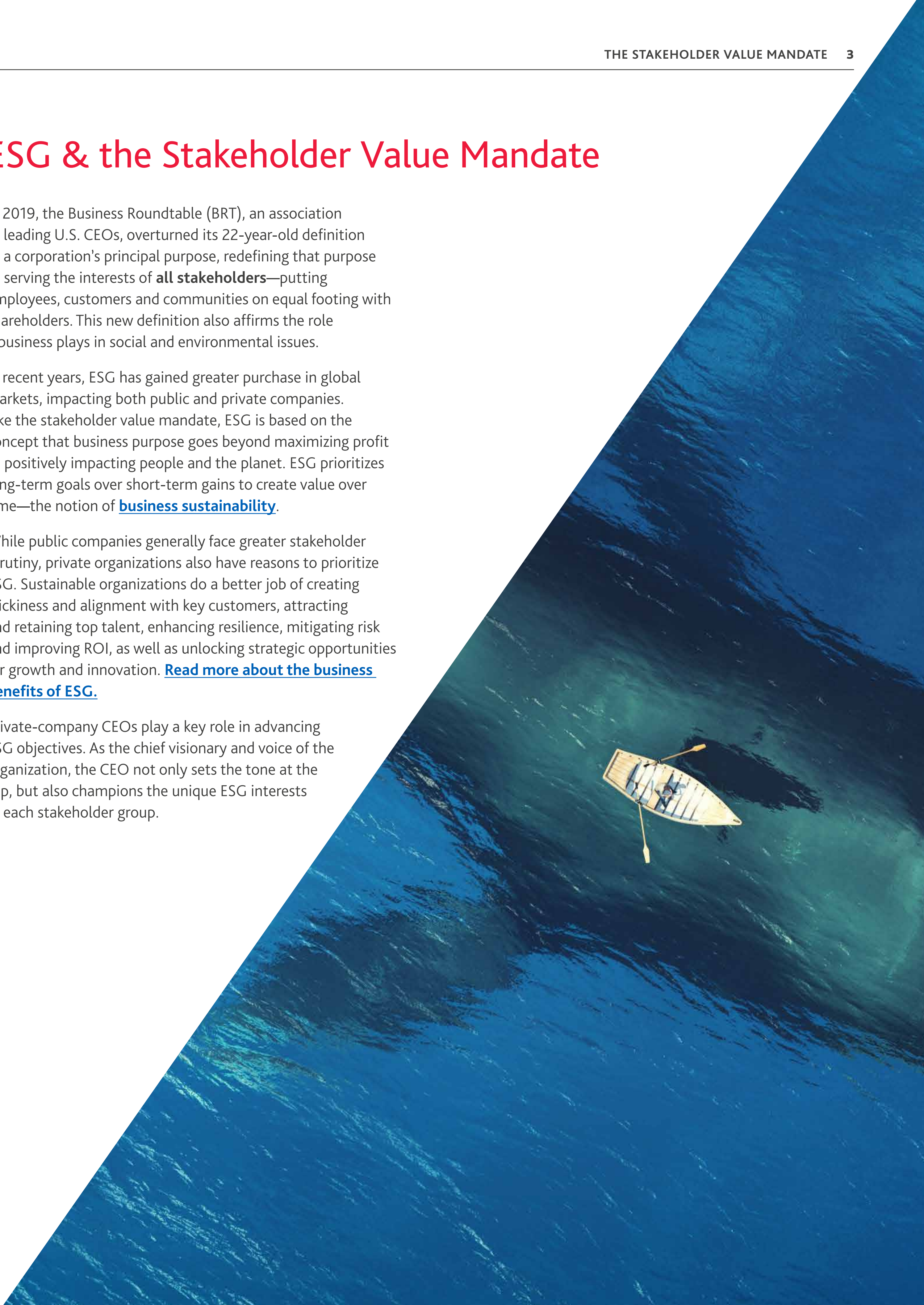
ESG & the Stakeholder Value Mandate

In 2019, the Business Roundtable (BRT), an association of leading U.S. CEOs, overturned its 22-year-old definition of a corporation's principal purpose, redefining that purpose as serving the interests of **all stakeholders**—putting employees, customers and communities on equal footing with shareholders. This new definition also affirms the role a business plays in social and environmental issues.

In recent years, ESG has gained greater purchase in global markets, impacting both public and private companies. Like the stakeholder value mandate, ESG is based on the concept that business purpose goes beyond maximizing profit to positively impacting people and the planet. ESG prioritizes long-term goals over short-term gains to create value over time—the notion of **business sustainability**.

While public companies generally face greater stakeholder scrutiny, private organizations also have reasons to prioritize ESG. Sustainable organizations do a better job of creating stickiness and alignment with key customers, attracting and retaining top talent, enhancing resilience, mitigating risk and improving ROI, as well as unlocking strategic opportunities for growth and innovation. **Read more about the business benefits of ESG.**

Private-company CEOs play a key role in advancing ESG objectives. As the chief visionary and voice of the organization, the CEO not only sets the tone at the top, but also champions the unique ESG interests of each stakeholder group.



How Are Key Stakeholders Thinking About ESG?

Interest in ESG is rising across all stakeholder groups. CEOs should consider each stakeholder's unique interests, as well as how competing interests are addressed and managed. The CEO should also ensure the company's vision and brand remain aligned as ESG is stitched into the fabric of overall business strategy. Understanding stakeholder motivations and prioritizing their interests can help CEOs gauge how each audience will evaluate the success of the company's ESG efforts.

INVESTMENT COMMUNITY

ESG-related investment strategies, themes and objectives vary widely in the investment community. For over a decade, institutional investors across asset classes have driven much of the momentum around global ESG adoption. From impact investing to active ownership, investors are major stakeholders in the ESG conversation. CEOs should seek to understand their investors' ESG and investment criteria to inform the design and implementation of an ESG program.

To navigate this complicated landscape, private-company CEOs should engage with their investors to clearly understand their ESG priorities and expectations. Companies that address the material issues raised by their investors—and clearly articulate and substantiate their ESG efforts through effective reporting and communication—will attract more investment and better manage their cost of capital.

CUSTOMERS

Consumers are increasingly seeking out companies that align with their values. They are willing to pay more for products and services from these companies. As consumers exercise their power to drive change, companies need to listen to their customers and address the issues they care about. In the retail sector, for example, customer engagement is creating new market segments and product categories such as retail resale platforms and recycled products.

Pressure for **alignment** is also on the rise for B2B businesses. Supply chain issues can pose significant reputational risks to a company, making responsible and sustainable sourcing a key area of ESG strategy. Businesses are communicating their expectations to key suppliers and conducting supply chain due diligence to understand where those suppliers are on their sustainability journeys.

Engagement with key suppliers takes many forms, from sustainability codes of ethics to detailed sustainability surveys, which delve deep into the supplier's sustainable activities and supply chain management. Some businesses are requesting key suppliers be assessed by sustainability rating organizations, while others require key suppliers to reduce their carbon footprints or commit to providing services on a carbon-neutral basis. Through these assessments, processes and expectations, companies can demonstrate to customers their commitment to sustainable business practices.

EMPLOYEES

Employees are growing ever more vocal about their work preferences. Workers around the world have demonstrated a willingness to change jobs in search of alignment in purpose, better working conditions, greater diversity, and stronger corporate culture, among other factors. A corporate ESG strategy can help address these issues to attract the best talent. By embedding ESG into the cultural fabric of the company, CEOs can not only improve recruitment and retention in a competitive talent market, but also help maintain an engaged workforce.

REGULATORS

Globally, regulators are adopting mandates to provide more structure, rigor, and standards related to ESG disclosures. In some jurisdictions, regulations are solely focused on publicly traded companies, while others include private companies as well. In the European Union, for instance, the Corporate Sustainability Reporting Directive (CSRD) has proposed substantial regulation targeting all companies that meet a certain size threshold. In the U.S., ESG has been a focus for the Securities and Exchange Commission (SEC), which recently proposed new climate reporting standards.

The Role of the Private-Company CEO

Despite the introduction of ESG-related positions like the chief sustainability officer, the CEO plays a leading role in implementing a corporate ESG strategy. Because the CEO sets the tone for the organization's values, priorities and culture, their sponsorship of ESG strategy and adoption is critical. The CEO's responsibilities should include:

- Establishing **ESG** as a **strategic priority** and key consideration in decision-making—not a "check-the-box" activity, "one and done" activity or marketing exercise
- Driving the **integration** of ESG into everyday business **operations** and **risk** management
- Setting a **tone** of urgency and **accountability** for ESG strategy
- Identifying **gaps** in **ESG knowledge** and expertise; hiring talent or engaging external advisors accordingly

The above-mentioned responsibilities are key when it comes to designing and running an effective ESG program. Private-company CEOs who embrace ESG and recognize it as a differentiator will position their companies to drive meaningful impact and stand out among competitors.

10 Key Elements of an Effective ESG Program

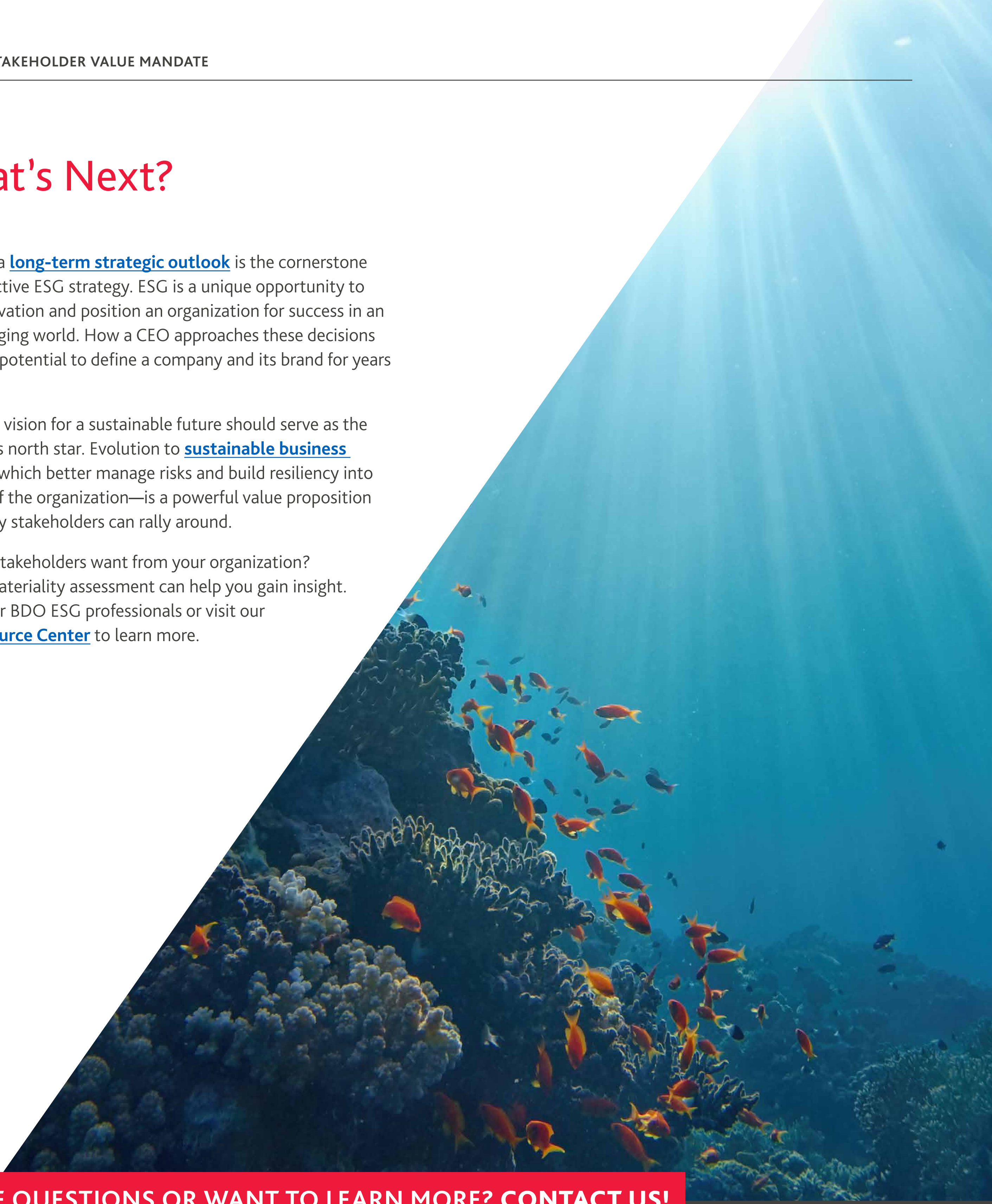
- Vision & Goals
- Active Leadership
- Policies & Procedures
- Training
- Communication
- Accountability
- Incentives & Benefits
- Performance Measures
- Program Management
- Reporting

What's Next?

Adopting a **long-term strategic outlook** is the cornerstone of an effective ESG strategy. ESG is a unique opportunity to drive innovation and position an organization for success in an ever-changing world. How a CEO approaches these decisions offers the potential to define a company and its brand for years to come.

The CEO's vision for a sustainable future should serve as the company's north star. Evolution to **sustainable business models**—which better manage risks and build resiliency into the core of the organization—is a powerful value proposition that all key stakeholders can rally around.

What do stakeholders want from your organization? An ESG materiality assessment can help you gain insight. Talk to our BDO ESG professionals or visit our **ESG Resource Center** to learn more.



HAVE QUESTIONS OR WANT TO LEARN MORE? **CONTACT US!**