Starting Your ESG Journey: Pave the Way for a Sustainable, Resilient Future

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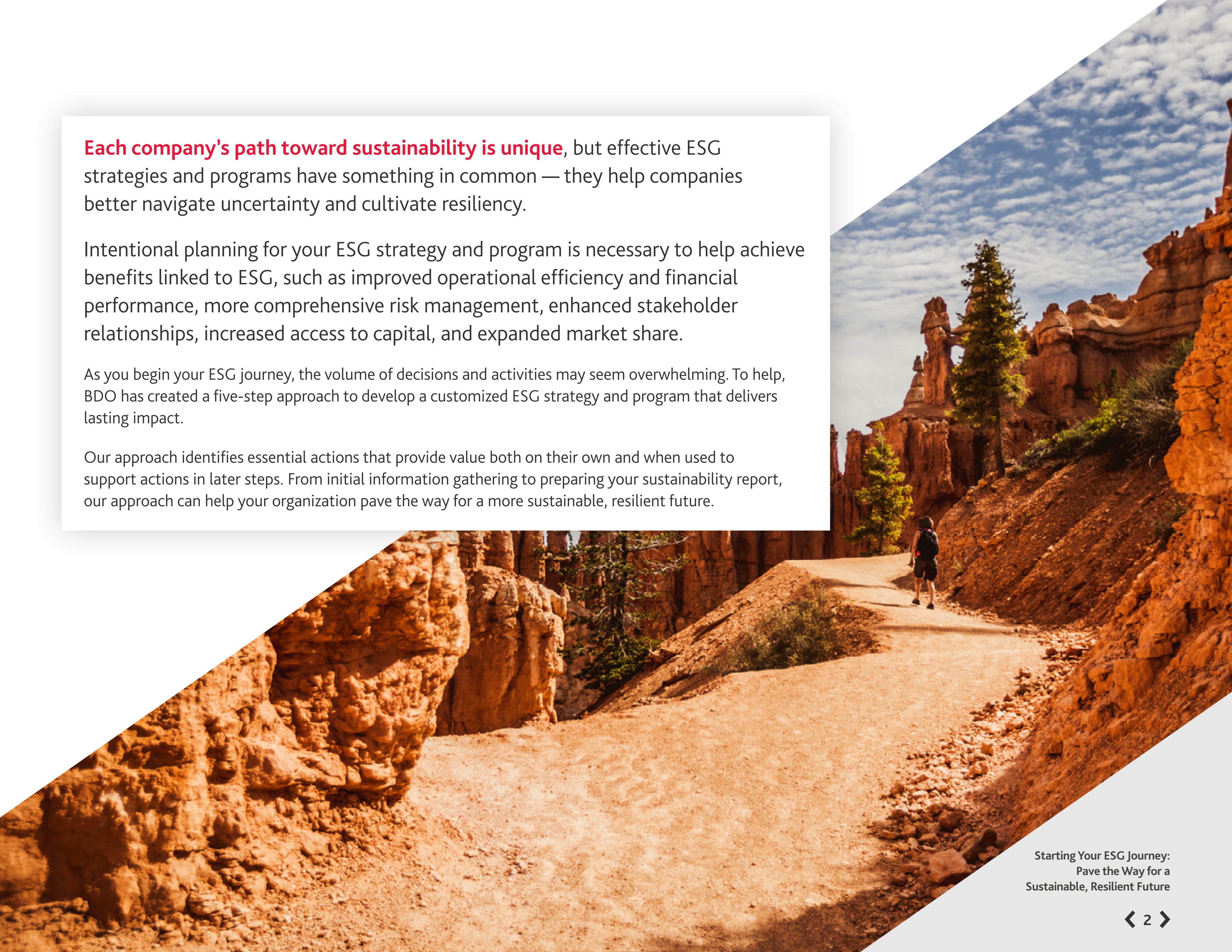
Each company's path toward sustainability is unique, but effective ESG strategies and programs have something in common — they help companies better navigate uncertainty and cultivate resiliency.

Intentional planning for your ESG strategy and program is necessary to help achieve benefits linked to ESG, such as improved operational efficiency and financial performance, more comprehensive risk management, enhanced stakeholder relationships, increased access to capital, and expanded market share.

As you begin your ESG journey, the volume of decisions and activities may seem overwhelming. To help, BDO has created a five-step approach to develop a customized ESG strategy and program that delivers lasting impact.

Our approach identifies essential actions that provide value both on their own and when used to support actions in later steps. From initial information gathering to preparing your sustainability report, our approach can help your organization pave the way for a more sustainable, resilient future.



1. Perform a Readiness Assessment

Perform a readiness assessment to evaluate your organization's current practices and to identify enhancements to consider incorporating as you design your ESG strategy and program. A benchmarking exercise and gap analysis facilitate this understanding.

Benchmarking is conducted to assess current disclosures and sustainability maturity for your organization, your peers and others in your industry. Regulations, voluntary ESG reporting standards and frameworks, ESG raters and rankers' reports, and focus areas for stakeholders can all inform which topics to focus on during this exercise.

This research is used to conduct a gap analysis to identify how your organization's disclosures and performance compare to your peers and to the industry as a whole. These insights will help guide your future strategy and program development.

2. Understand Your Stakeholders and Determine Materiality

There is increasing expectation for businesses to [address the needs of not only shareholders but of all stakeholders]. Stakeholder groups will be unique for each organization but often include investors, financial institutions, suppliers, customers, communities and employees.

An ESG materiality assessment can help you understand which topics matter most to your stakeholders and which topics are likely to have the most impact on your business.

An ESG materiality assessment engages both internal and external stakeholders. Stakeholder engagement initiatives can be tailored to your organization's available resources and program maturity. They can take the form of stakeholder surveys, interviews or more robust engagements, such as roundtables and town halls. Insights from your benchmarking exercise and gap analysis can be used to guide these communications.

Results of your ESG materiality assessment should be formalized in a report that includes a materiality matrix, which visualizes topics by business impact and stakeholder importance.

3. Develop Your Strategic Roadmap

The information you gathered during your readiness assessment and the priorities you set during your materiality assessment are then used to develop your strategic roadmap. Your strategic roadmap will outline short and long-term milestones and your plans for achievement.

Defining roles for the governance and implementation of your program is an important part of this step. The roles and responsibilities of members of the C-suite and the optimal level of input and oversight from the board of directors must be defined. To set strategy and put initiatives into action, companies often choose to form both an ESG leadership team and an ESG working team. The leadership team is made up of senior employees from multiple departments and is responsible for strategy. The ESG working team drives projects forward and provides ESG-specific training and expertise to the organization.

Setting goals and targets and defining the key performance indicators (KPIs) to measure performance are also a crucial part of this step. The goal-setting process is an opportunity to realign with your business strategy, act on opportunity and mitigate risk. Goal and target setting is becoming a must-have component of corporate disclosure and a necessary tool when communicating with investors, clients, employees and other stakeholders.

The most effective approach is to set goals that are 'SMART' — specific, measurable, achievable, relevant and time bound. Applying SMART criteria helps ensure that goals and targets are specific and actionable, rather than vague or generic, and can stand up to external scrutiny. Here's an example of a 'SMART' version of a generic company goal to 'Reduce our environmental footprint.'

- **SMART Goal** — Minimize our environmental footprint by reducing companywide absolute Scope 1 and 2 greenhouse gas (GHG) emissions 45% by 2030, against a 2019 base year.

4. Collect Data and Establish Controls

Once you determine which ESG metrics you will track and disclose, it is critical to implement controls for data accuracy and consistency. Doing so will enhance data integrity and accountability as well as significantly reduce any reputational risks associated with "greenwashing."

If your organization operates in a jurisdiction where assurance over ESG-related data and metrics is required, then both regulators and public accounting firms will be focused on assessing controls. Even if not mandated for your organization, ESG assurance can be a competitive differentiator for your organization.

At BDO, we have developed an approach to help companies solidify internal controls and procedures for ESG metrics. It is important to note that this approach is not a one and done exercise. Controls will need to be routinely assessed to determine if they remain relevant (fit for purpose) and effective.

EXAMPLES OF IN-DEPTH INTERNAL CONTROLS ACTIVITIES

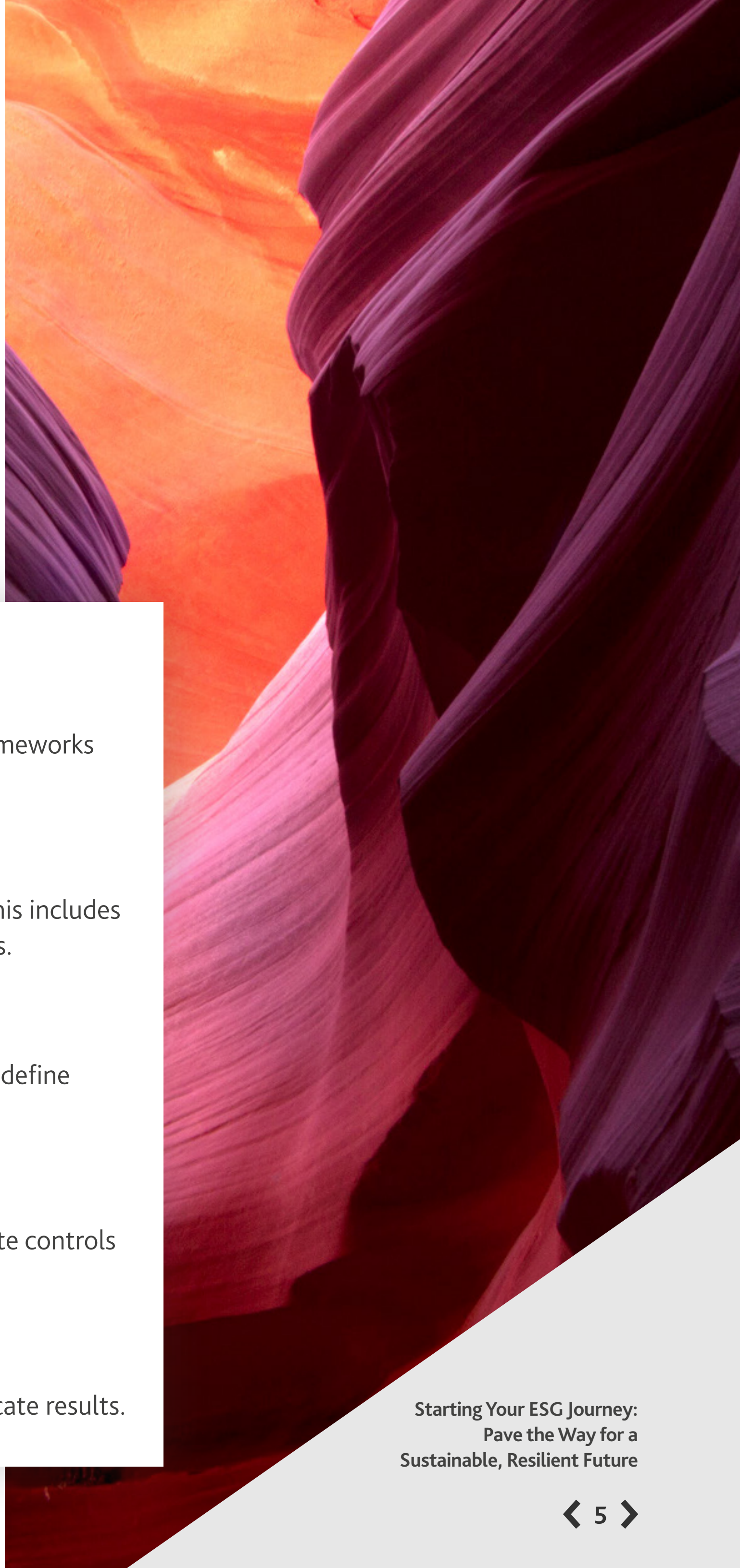
Assess Background Information
Study existing data governance structures and processes and their alignment with ESG frameworks and methodologies. Use this information to identify any data or reporting gaps.

Conduct Process Mapping
Document significant processes and relevant data sources, systems and process owners. This includes the types of controls and the risks they manage that could impact ESG reporting objectives.

Design Internal Controls
Assess accuracy and completeness of current operations to measure ESG disclosures, then define controls and identify areas for future improvement.

Assess Effectiveness
Develop test plans for all key controls and identify remediation recommendations. Integrate controls over ESG disclosures into enterprise risk management processes and internal audit plans.

Conclude and Document Engagement
Validate and finalize documentation with management, assess deficiencies, and communicate results.



5. Prepare Your Sustainability Report

Sustainability and ESG reporting is fundamental to an effective strategy and program. Annual reporting supports accountability, risk management and transparency. Audiences for disclosure include investors, regulators, customers, employees, vendors and the general public.

Your organization has several voluntary reporting standards, frameworks and initiatives to choose from to help guide your reporting. The Sustainability Accounting Standards Board (SASB) Standards and the Global Reporting Initiative (GRI) Standards are two of the most widely used. The Task Force on Climate-Related Financial Disclosures (TCFD) framework and the U.N. Sustainable Development Goals (SDGs) may also be used for different purposes and to report on specific topics. The International Sustainability Standards Board (ISSB) is also expected to issue its first two standards in an effort to establish global baseline sustainability standards for capital markets.

Emerging mandatory requirements may impact your organization's compliance requirements. For example, your organization may be required to comply with the European Union's Corporate Sustainability Reporting Directive (CSRD) and its associated European Sustainability Reporting Standards (ESRS) instead of the voluntary reporting standards, frameworks and initiatives noted above. The U.S. Securities and Exchange Commission has also proposed climate disclosure requirements.

Reporting also provides ESG rating organizations with information to score and rank companies on their ESG performance. Investors may consider these scores as they evaluate organizations. Ratings also help determine whether a company is included in sustainability-focused indices and traded in the funds that track them. Prominent rating organizations include Institutional Shareholder Services (ISS), MSCI, Bloomberg, Sustainalytics and RobecoSAM.

In today's business environment, companies can look to ESG as a way of reducing risk, driving business performance and improving corporate reputation. Taking the actions outlined above to create a new strategy and program, or incorporating these actions into existing structures and practices, can help maximize the value of your sustainability efforts.

BDO helps organizations build ESG strategies and programs that create long-term, sustainable value. Contact us to learn more about BDO's ESG Strategy & Program Development services and other solutions in our ESG Center of Excellence.

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