ESG, The New Bottom Line

6 Reasons Why Your Organization Should Adapt

The New Bottom Line

An Environment, Social and Governance (ESG) report sounds complex, but it's based on basic nonfinancial fundamentals your company already has, whether or not you've decided to share them publicly.

Profits and losses and your company's financial strategy are important factors in an investor's decision to add your company to their portfolio, but more and more, investors are factoring in a company's ethical and values-based track record in their decision-making process. In fact, evidence is mounting that the financial performance of companies corresponds to how well they contend with ESG issues. A substantial body of research shows that companies that manage ESG issues well achieve superior financial results.

An ESG report arms customers, consumers, potential investors and other various stakeholders with a comprehensive look at your company's values, ethics and everyday actions. Think about how often you see a company on the news because of its mistreatment of workers, negative impact on the environment or lack of transparency. An ESG report is an opportunity for an organization to tell its own story proactively.

Often companies react to negative press too late, and are forced to take a defensive stance to repair their reputation in the public sphere. An ESG report serves as an investment in avoiding miscommunication and preserving your hard-earned corporate identity in an ever-changing market. No one knows what your company does and how you do it better than your organization, and your ESG report should be viewed as a personal statement in solidifying your company's position in the world.

Environmental:
energy and water use, waste and recycling, pollution, life cycle impacts of products, natural resource conservation and treatment of animals

Social:
human rights, business relationships, labor practices, talent retention, healthcare, pay equity, product safety and data security, commitment to volunteerism and the community

Governance:
board diversity, executive pay, lobbying practices and business ethics

1 Transparency Establishes Trust

Trust is built on credibility. Stakeholders want to do business with corporations they believe uphold their own values and philosophies. An ESG report reveals a clear picture of the details of your business' "behind-the-scenes" day-to-day operations to investors and stakeholders.

Although ESG reports are not (currently) mandated by regulatory agencies inside the U.S., there is a clear trend to increased ESG disclosures by large and small companies. They are a standard report for companies who maintain multinational operations or who conduct business in Europe.

According to an informal survey by a major U.S. law firm, an increasing number of companies discussed ESG or sustainability issues in their 10-ks filed with the U.S. Security Exchange Commission.

With complete transparency, this report answers questions which can clarify the longevity of a corporation, the direction of its managing officers and their corporate ethics philosophy, and how the business contributes to, and affects, the world we all live in.

2 Clearly Defined Commitment

People trust companies who can clearly state that they:

(1) know who they are;

(2) know what they want; and

(3) know where they're going

Communicating your company's ESG metrics in concise, straight-forward terms is crucial to providing investors with the information they're looking for. A recent report by State Street Global Advisors found that 80% of investment institutions have an ESG component to their strategic planning process. Increasingly, we are also seeing investment firms place high precedence on investing only in corporations who present ESG data.[1]

An ESG report provides information not only the basics of your business, i.e., the number of products you produce and what the product is made of, but also includes:

- the efficacy and safety of that product from the point of sourcing to delivery to end-user;
- the impact of materials sources, costs and methods of transport;
- Management's compensation structure;
- carbon emissions, carbon offsets; and
- any practice your company undertakes to conduct business and ensure its ability to continue business

1 BlackRock Investment Institute.

③ Actions Speak Louder Than Words

Convey the actions your corporation takes to benefit its employees. After all, an organization with a solid employee base is a successful one.

- What benefits do employees enjoy?
- How are employees compensated?
- Is the workplace safe for employees?
- Does the company face any societal concerns?
- Is the company diverse?
- Does the company support gender equality?

Answering these types of questions positions your organization as a thought leader and trusted entity in the marketplace. When potential investors compare you to the competition, the difference will be clear in the transparency and insights you provide in your ESG report, which allows for a clearer, more complete picture of your company, its practices and a glimpse of its future beyond historical and projected financial conditions.

④ Environment Extends Beyond the Workplace

It's no longer good enough to say, "We source our materials from sustainable sources," or "We hit our year-end goals toward sustainability." An ESG report digs deeper to reveal what the materials are and how environmentally sustainable they are, what resources are used to create those materials, and how your supply chain practices end-to-end sustainability.

Are some of the materials you use in your manufacturing process toxic or potentially harmful to the environment or end-users? An ESG report can lay out information on what your company is doing to ensure a safe environment for all, with easy-to-understand charts, tables and "in-practice" examples.

5 Proactivity Pays

The 3Ps—People, Planet and Profit—measures an organization's success. This concept has evolved into a long-term plan for sustainability that leads to cost savings. With new technology, companies are optimizing their operations to not only positively impact the environment, but also cut down on overhead and operational costs.

Taking proactive steps to be more sustainable sometimes has a higher upfront cost, but over the long term it saves companies tenfold. A recent report by the U.S. SIF Foundation (The Forum for Sustainable and Responsible Investment) showed that 1 out of every 6 investment management dollars was invested with ESG as a prime criterion for qualifying a company to consider investing in. Many market watch groups have begun to rank corporations and even score them against others based on their ESG reporting.

This means that a sixth of the investment market is already paying attention to the metrics an ESG report outlines. This practice will only continue to grow as members of Gen Z and the Millennial generation become employees, consumers and most importantly, investors. Companies that fail to act proactively will see loss of interest from new investment interest and market share, and will experience inevitable pressure to adhere to the changing corporate climate as ESG reporting becomes more commonplace.

Since 2014 groups using sustainable, responsible and impact (SRI) strategies have reached over $8 trillion of investment funds (which is an increase of over 33% from 2014 and a fifteenfold increase since 1995 according to NASDAQ). Companies who have been able to adapt to changing socio-economic, political and environmental conditions have reaped the benefits in cost savings and profits. They are better able to navigate trends and capitalize on strategic opportunities with proactive approaches and ESG reporting. Highlight how your company takes steps to:

- Reduce its impact on the environment
- Demonstrate its corporate philosophy on complex issues and world changes
- Show its commitment to employees and consumers

⑥ Your ESG Report — It's All About Transparency

In 2000, the Global Reporting Initiative published its first sustainability reporting guidelines. Several other frameworks have emerged since then encouraging corporations to disclose information on sustainability including the Greenhouse Gas Protocol (World Business Council for Sustainable Development and the World Resources Institute), UN Global Compact and the Carbon Disclosure Project (now CDP), International Integrated Reporting Council the Sustainability Accounting Standards Board and and Task Force on Climate-Related Financial Disclosures (TCFD).

Transparency is a large part of reputation management. Now, more than ever, investors and stakeholders are looking for concrete answers to tough questions.

- What goals do you hold as a company?
- How are you working toward those goals?
- What resources does your organization utilize to conduct business successfully and sustainably? What effect does your process and supply chain have on the planet?
- What is being done to curb or offset any environmental impact?
- Are workers treated and compensated fairly?
- How is your executive team compensated?

All of these questions, and ones like them, are answered with your ESG report. Maintaining your standing with all stakeholders with ESG-reporting practices could gain an advantage over your peers.