Getting started with ESG
Is your company doing good things in environmental, social impact or corporate governance?

Is there appetite to do better?

If you answered yes to either of those questions, your company could be ready for ESG reporting.

Public companies already know investors are clamoring for information about their environmental, social and corporate governance practices—known as ESG. Increasingly, ESG data is seen as a measurement of a company’s resiliency and exposure to risk.

But what about smaller and privately held businesses? Are there sufficient market factors in play to make ESG efforts worthwhile? And why is it such a hot topic all of a sudden?

The individual elements of ESG are intertwined. Together, they fuel a powerful business strategy.

Environmental
The energy you use and waste you discard, such as paper usage and carbon emissions.

Governance
Your internal practices, controls and procedures that ensure you make effective decisions and follow regulations.

Social
The relationships you have and your impact on people and communities, such as diversity and inclusion or labor relations.

63% of companies reported ESG has a positive impact on equity returns.
ESG investments are expected to reach $50 trillion of global assets under management by 2025.

New ESG reporting regulations in the European Union and proposed rules from the U.S. Securities and Exchange Commission have helped push ESG up the news feeds. Meanwhile the growth in ESG-based investing continues to grow. ESG investments are expected to reach $50 trillion of global assets under management by 2025, according to Bloomberg Intelligence.

Beyond financial resiliency and investor value, other catalysts driving ESG momentum are:

- Consumers, who want to do business with ethical companies, reflected by their ESG
- Prospective employees, who want ESG data during the recruitment process
- Vendors, who want to be aligned with ESG-strong companies

Strong ESG involves a lot more than a bunch of numbers. It’s about a strategy that’s a core part of your culture and financial plan.
Building your ESG strategy in 7 steps

Most businesses are not required to report ESG data. However, participating in voluntary reporting can be a way to drive momentum and accountability within your organization.

Because there is no single framework that sets the standard for ESG, companies can decide for themselves which values they’ll track and report on. Critical first steps include identifying your company’s drivers and building internal momentum. Gathering input from your stakeholders will help you craft a meaningful, strategic approach to ESG.

ESG acceleration is driven by heightened social, governmental and consumer attention on the broader impact of corporations.
1. Build buy-in

As with any corporate change initiative you’ll need to build buy-in at the executive level. Educate your board or senior leadership on ESG and its value to your business. Talk about how ESG feeds into risk reduction, near-term performance measures and long-term value creation.

As you scope out internal sentiment, tap into those who are most excited about pursuing an ESG agenda. ESG can be purpose-driven work for many employees. Draw from a cross-functional team, which could include human resources, procurement, finance, risk, facilities and others.

Because ESG programs can take any number of directions, there’s value in having a wide range of knowledge and perspectives around the table. It’s possible you may discover pockets of ESG activity already underway that haven’t been incorporated into a larger strategy or communication effort.

2. Determine what’s important

ESG can encompass such a wide variety of issues that it’s easy to get overwhelmed. As an organization, you need to establish your own goals and priorities. Identify your stakeholders and the trends and opportunities that directly impact your organization.

Consider:

- ESG issue areas with the biggest materiality to your business
- ESG issues most relevant to your stakeholders
- How your company stands up against peers and competitors

Social issues, like diversity in hiring, for example, may be a more important local issue than greenhouse gas emissions. If you’re a manufacturer, waste diversion practices may be compelling. Take the time to decide what’s most meaningful to your company.

To start, focus on no more than five priorities.
3. Consider ESG frameworks

Consider whether you’ll use one of the many available ESG frameworks or whether you’ll build your own roadmap. You may find established reporting tools, or even performance standards, that align well with your priorities. On the other hand, you may find a more custom approach makes sense for your business as you build your ESG capabilities.

4. Benchmark your data

Now that you know where you plan to prioritize, you’ll need to assess your current state. Identify what data is already being collected and what data you need to begin tracking. Benchmarking will be a critical step in establishing your goals and demonstrating progress for the future.

3M has saved $2.2 billion since introducing its pollution prevention program.
5. Set your ESG goals

Once you know your current state, you can start setting measurable improvement targets. Work with your ESG committee to consider:

- Existing efforts that simply need to be maintained and communicated
- Low-hanging fruit and early wins that could help provide momentum
- Incremental improvements that would better align you with peers
- Opportunities for meaningful industry leadership
- Critical, strategic improvements with the greatest value to the organization or its stakeholders

Identify measurable outcomes and define what success will look like for your organization.

“When it comes to ESG, a do-nothing approach is usually an eroding line, not a straight line.” –McKinsey
6. Take action and report

Now comes the heavy lifting—integrating ESG goals into your everyday business practices. Set a regular cadence for updates and communication. Invest in the resources (e.g., technology, training, best practice groups, outside support) you need to stay on track.

Develop a clear, public reporting process to share your ESG goals and progress. Highlight where your organization is on track to meet its targets and where more work needs to be done.

7. Implement controls

To maintain integrity, build an ESG program that would stand up to an audit. Implement internal controls around data governance. Accountants and other consultants can help determine what these controls should be. Third parties will also be valuable in validating data, as they can attest to its accuracy.

Being honest and transparent about ESG can feel uncomfortable in the beginning, but it will enhance your long-term value.
The team at Wipfli can work with your team to turn confusion into clarity and theory into action. Let’s get started today.

Visit wipfli.com/ESG.

Perspective changes everything.