Navigating the Pathway to ESG Maturity

ESG is no longer just a "nice-to-have."

It is now the rule, rather than the exception. Where once ESG-related inquiries only came from customers, today investors and government agencies are leading the way with demands.

A company without a well-planned, comprehensive ESG program in place will likely not only experience poor investor satisfaction, but a considerable impact on financial outcomes too.

Whether you're leading the market in ESG disclosure or you're just completing your first report, you should always consider the next steps on your journey. How do you take your ESG program from mere "Compliance" all the way to "Value Creation"?

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"With ESG, metrics are just outcomes. What you really have to think about, first of all, is what's your long-term strategy as an organization?"

Carmine Di Sibio, Global Chairman & CEO, EY — Diligent's *The Climate Agenda* webinar

"Organizations must realize that — in a landscape marked by heightened regulatory and investor scrutiny — information is the fuel which drives a mature ESG program forward. They must ensure that they have the systems in place to collect, aggregate and review data, allowing them to both map progress against their own goals and tackle crucial next steps centered around disclosures and reporting."

ESG Planning and Performance Survey Report, Diligent/OCEG, September 2021

Phase 1: Compliance

With the regulatory net around ESG continuing to tighten, compliance with emerging ESG regulations is essential. At this level, a failure to grasp basic ESG protocols could lead to severe penalties in the future.

At the Compliance stage, organizations:

- Are reactive rather than proactive in their approach to ESG
- Only address existing and immediately impending ESG regulations
- Work from broad policies in a siloed approach
- Do not prioritize ESG at board level
- Do not communicate about ESG internally
- Do not promote ESG as a key strategy from management teams
- Do very little to build their data infrastructure in order to tackle the regulatory environment ahead
- Tend not to see the bigger picture relating to ESG, encompassing both opportunity and risk
- Frequently hold the opinion that ESG is a fad or a passing trend

Phase 2: Ethical

The pressure to act on core ESG principles will come from all angles: not just customers and investors, but regulators, communities, connected third parties and potential hires too. At this stage, the organization's approach starts to move beyond a simple box-ticking exercise.

At the Ethical stage, organizations:

- Are beginning to define their ESG objectives and targets
- Are still bound by a reactionary approach to ESG, complying with regulations but only as they arise or come due
- Seek out advice and guidance on how to implement ESG processes and solutions
- Monitor peers and competitors to educate themselves on ESG initiatives
- Understand that ESG is more than just a PR exercise
- Find themselves under pressure from regulators, investors, employees and third parties to implement a more focused approach to ESG
- Address in general terms how to approach ESG, from board level downwards
- Remain limited in their approach to disclosures, which are likely anecdotal and typically prepared manually
- Put forward-thinking policies in place, but not defined or focused objectives (e.g., around emissions)

"We've seen many benefits [in adopting ESG as a reporting mechanism]. In the pure business sense, [that includes] high customer engagement, increased customer conversation and really shifting ESG to front of mind for an organization that is thinking about these issues in a sophisticated and strategic way."

Megan Belcher Senior Vice President, General Counsel and Corporate Secretary, Scoular — The GC's Role in ESG Webinar

Phase 3: Risk-Focused

Organizations — irrespective of size — are now aware that the potential ramifications of not tackling ESG far outweigh the time and financial investment required to set up a functioning ESG program. A well-structured approach to managing ESG issues is one way of minimizing risk across the business.

At the Risk-Focused stage, organizations:

- Undertake metrics-based disclosures based on convenience and availability of data
- Satisfy disclosure requirements from a qualitative and textual perspective
- Seek to mitigate risk through a systemic, automated approach to regulatory compliance
- Begin the process of putting structures and systems in place to handle future inevitable risks such as climate change
- Give greater focus to implementing ESG strategies in day-to-day operations, with significant input from management teams
- Begin to gather existing data from previous initiatives that fall under the ESG umbrella, in order to pinpoint where work needs to be done going forward
- Reach out to any parties associated with the organization who will have an impact on the future direction of ESG strategy
- Proactively scope out and begin preparing for upcoming ESG regulatory changes
- Broadly align to standards based on qualitative discussion items

Phase 4: Value Opportunity

ESG doesn't just have to be another item on the corporate checklist. Done right, an ESG program can provide value for organizations at every level of the business. Aligning your ESG goals and acting upon them can set you down a path that will eventually lead to self-sustainability and success.

At the Value Opportunity stage, organizations:

- Actively monitor peers and competitors to compare progress on ESG
- Provide shareholders and stakeholders with accurate, quality data on priority ESG issues
- Tie their ESG strategy directly to their financial strategy
- Strengthen business strategy and governance through an ESG lens
- Increase efficiency and identify cost-savings

- Are able and willing to share hard cost-benefit analyses such as life-cycle costing of energy, waste and water use, metrics on worker productivity, or rates of worker injury and fatalities
- Capture the data required for metrics-based disclosures (e.g., Scope 3 emissions)
- Adhere to consistent, time-bound targets (e.g., "We will reduce emissions by 25% percent by 2030")
- Embrace automation, allowing for increased efficiency and greater visibility into ESG issues

Phase 5: Value Creation

Achieving best-in-class when it comes to ESG is attainable for all businesses. Here, ESG is fully integrated into an organization and is nested comfortably within corporate strategy, with a symbiotic relationship between day-to-day business and ESG goals. At the Value Creation stage, organizations can be satisfied they have taken all the necessary steps on their ESG maturity journey while still looking for room to improve in line with any emerging regulations.

These organizations:

- Maintain a steady level of ESG progress, and look to evolve as opportunities and new regulations arise
- Enlist a third-party to audit disclosures for quality assurance
- Fully integrate sustainability goals into corporate strategy (i.e., ESG is entwined in annual planning, sits alongside the financial budget, is considered in all business decisions and so on)
- Increase top-line growth as a result of a strong ESG proposition
- Decrease internal costs — energy consumption, for example — as a result of the ESG processes implemented
- Keep regulatory and legal interventions at a minimum as a result of subsidies and government support
- Dedicate time to conveying the organization's ESG principles to customers and shareholders, and convey the progress
- Increase productivity, through both higher employee morale and an ability to attract the best talent through greater social credibility directly attributable to the investment in ESG

Diligent ESG

Whatever phase you're starting from, find an ESG solution that can evolve with you. Diligent ESG can help your organization turn its ESG promises into measurable action. From benchmarking and automation to reporting and sustainability, our innovative, comprehensive ESG solution can benefit your organization both now and in the future.

Find Out More

About Diligent

Diligent is leading the way in modern governance and is relied on by more than 25,000 organizations and 1,000,000 leaders in over 90 countries. Diligent empowers leaders to turn governance into a competitive advantage through unparalleled insight and highly secure, integrated SaaS applications. Thrive and endure in today's complex global landscape with Diligent.

Learn more and explore our solutions at Diligent.com