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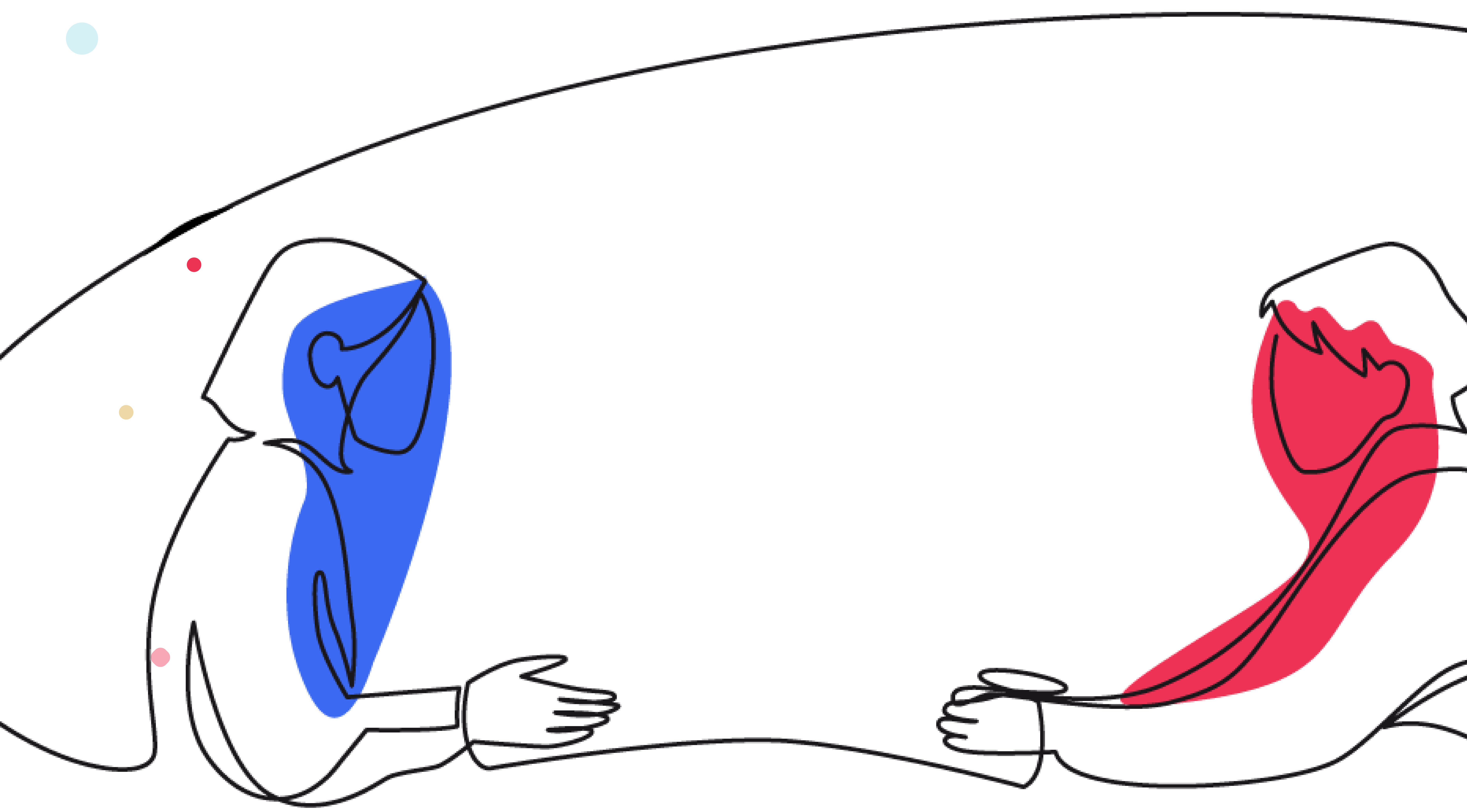
Advancing ESG in 2024: The Future of Corporate Responsibility

A Guide to ESG Reporting, Investor Expectations, & Governance Best Practices



Written in collaboration with Stephanie Ford from Obiter Marketing

Obiter Marketing is a content marketing consultancy focusing exclusively on the legal industry. It caters to the unique marketing needs of lawyers, law firms, and legal technology providers.

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Over the past decade, corporate stakeholders have become more concerned about environmental, social, and governance factors. These factors, known as ESG, became even more important during the pandemic. During this period, companies faced unprecedented supply chain demands and uncertainty. So it's not surprising that we're seeing increased interest in ESG issues from investors, consumers, and regulators this year.

This ebook explores investor sentiment about ESG reporting, hones in on governance trends in North America, and discusses the emergence of the ESG Officer.

Investor Expectations & ESG Reporting

ESG Reporting requirements are increasing globally. Multiple countries in the Asia Pacific region adopted mandatory ESG reporting, including Australia in 2003, followed by China, Malaysia, The Philippines, Hong Kong, and Singapore. Europe introduced mandatory reporting in December 2022. Mandatory ESG reporting may soon be a reality in the US and Canada too.

European Trends: The Corporate Sustainability Reporting Directive

The EU's ESG Regulations came into effect in January 2024. These regulations ask almost all large and listed companies in the EU to report on their ESG risks and opportunities. European companies don't need to submit these reports until 2025 at the earliest. But the directive provides clues about what the future of ESG reporting might look like in North America.

The European Commission's Corporate Sustainability Reporting Directive (CSRD) aims to address 'greenwashing' by publicizing corporate societal and environmental impacts. It asks companies to report on their impact on people and the planet. Interestingly, the CSRD asks companies to disclose information about ESG plans, including targets and the progress made towards those targets.

Investors & ESG Reporting in the US

> **US investors rank worker health and safety as the most important ESG issue for companies to prioritize followed by reducing greenhouse gas (GHG) emissions.**
>
> ***– PWC's 2022 Investor Survey***

Investors want standardized reporting from US companies. If they don't get it from ESG reporting mandates, they would prefer companies adopt a single set of reporting standards. Some common standards: Sustainability Accounting Standards Board (SASB) Integrated Reporting (IR) Framework (International Integrated Reporting Council) Climate Disclosure Standards Board (CDSB).

The SEC planned to introduce climate and ESG rules by October 2022. This timeline has been pushed back. However, it appears likely that the SEC will adopt a version of the ESG disclosure rules - especially in light of the strong support from US investors.

The proposed ESG rules would make companies share information about their greenhouse gas emissions. Specifically, they would be asked to disclose:

- Direct greenhouse gas (GHG) emissions,
- Indirect GHG emissions from purchased energy,
- Certain GSG emissions in their supply chains, and
- Risks that are "reasonably likely to have a material impact on their business, results of operations, or financial condition".

Nonetheless, companies must think carefully about how they report on their ESG factors, even in the absence of specific rules in the US.

7 Corporate ESG Reporting Best Practices

1. Disclose material ESG risks and opportunities (accurately).
2. Integrate ESG reporting with financial reporting.
3. Identify ESG targets, deadlines, and historical data points to highlight progress.
4. Assure ESG metrics and KPIs at the same level as a financial statement audit.
5. Provide details about the environmental or societal issues' impact on business performance.
6. Link ESG risk and opportunities to executive pay and incentives.
7. In the absence of mandated reporting, adopt external benchmarking standards.

Key Takeaway:

Investors Want More Than Reporting. They Want Action

Recent reporting shows that US investors want companies to embed ESG into their operations and governance. They also want companies to respond to ESG risk.

PWC found that 55% of US investors agree that companies should address ESG even if doing so reduces short-term profitability. And that 63% of investors agree companies should embed ESG directly into their corporate strategy. So, how can companies respond to these investor demands?

ESG & The Corporate Board

Responsibility for a company's ESG reporting and efforts ultimately lies with its board. Yet, less than half (48%) of investors agree that board directors are sufficiently knowledgeable about the ESG issues their companies face. There's a clear disconnect here.

The Role of the Board in ESG

The International Federation of Accountants lists the board's ESG responsibilities as being "responsible for ensuring:

- Relevant sustainability and ESG matters are incorporated into purpose, governance, strategy, decision-making, risk management, and accountability reporting.
- Understanding and alignment of sustainability and ESG priorities throughout the organization.
- Defined targets and metrics are identified and monitored.
- High quality reporting, with the aim that material sustainability and ESG-related information is connected to, and at the same level of quality, as financial information.

For boards, keeping pace with these key responsibilities is no small feat. Compliance, risk, and consumer demands are increasing across a range of fronts. As a result, boards must split their attention between other top priorities. In 2024, these include entity management, privacy and cybersecurity, capital strategy, uncertain economic conditions, and talent acquisition and retention.

3 Key Steps For Boards To Align With Investor Expectations

Boards Should Establish Clear Links Between Purpose and Strategy

Boards are essential in aligning a company's purpose with its strategy. Yet 43% of respondents to an EY survey indicated that their board lacked commitment when making decisions that fully integrate ESG factors and create long-term value.

In 2024, companies should consider prioritizing establishing a link between purpose and strategy. Once this happens, management is better positioned to make operational changes that allow ESG priorities to filter through the company ranks.

> "The why needs to link to the what, which is your fundamental business strategy. Which markets and product categories do you participate in and which ones do you stay out of? What is your bold commitment to the people and the planet? Finally, the how is the operating model. It is relatively easy to get to a purpose statement that would appear at the top of your website. What is more challenging is making it live in the organization."

- Robin Nuttall,

Partner at McKinsey and Company

The G in ESG: Corporate Governance

Companies are now familiar with the substantial financial incentives that come with good corporate governance. And as many companies embed more mature governance programs, we're seeing some interesting trends emerge.

The Rise of the Chief Sustainability Officer

Nike and DuPont appointed the first known Chief Sustainability Officers (CSOs) in 2004. And growth in the number of companies selecting a CSO since then has been rapid, with a notable increase since 2019.

Boards Must Define Governance Infrastructure

To better align with investor expectations, boards must first define their governance infrastructure.

Deloitte outlined five steps for boards to achieve this:

1. Understand how ESG factors impact strategy, opportunities, and risks.
2. Get familiar with measurement criteria to monitor progress.
3. Regularly review how the program is maturing.
4. Agree on how and when the E, S, and G owners will provide reports and to whom.
5. Work with management to understand how and when ESG topics are presented.

Before we move on, it's worth noting that selecting an appropriate oversight structure is crucial for the successful implementation of any governance infrastructure. Common approaches include:

1. Full-board oversight,
2. Dedicated sustainability committees, or
3. Adding ESG accountabilities to an existing committee.

Board Must Align ESG Priorities Throughout The Organization

Ensuring that ESG risks, opportunities, and targets are broadly understood and appropriately prioritized throughout the organization is a key challenge for the 2024 board.

A majority of investors believe that tying executive remuneration and incentives to ESG performance is a good strategy. A 2022 EY study found that this lever is being widely adopted in Europe to support ESG and long-term value.

ESG Considerations for Corporate Governance Professionals

Another trend worth noting is the rise in ESG accountabilities amongst the corporate ranks.

The 2022 Ethics and Governance Report highlights that executive and senior leaders and middle managers played a vital role during the pandemic in:

- Responding to challenges in a manner that is consistent with the company's purpose and values; and
- Integrating ethics and compliance considerations into decision-making.

Meanwhile, Chief Legal Officers (CLOs) are also seeing an increase in ESG accountabilities. Corporate Counsel reported that 90% of legal departments lead ESG initiatives. The same report notes that 54% of General Counsel are extremely involved in the development of organizational ESG strategy.

Generally speaking, some of the CSOs responsibilities are:

- Making sense of ESG risks and opportunities;
- Sharing key insights with relevant stakeholders;
- Embedding ESG into corporate strategy;
- Ensuring compliance with regulatory requirements;
- Publishing targets and the progress towards them; and
- Reporting on sustainability performance.

CSOs, Deloitte notes, are 'strategic thinkers who can clarify the issues at stake, mobilize their colleagues and orchestrate purposeful change'. The same report highlights that companies that give their CSO executive support and a broad and strategic mandate are seeing benefits - particularly when it comes to governance.

The CSO's contribution to governance is captured as:

- Advising the board and chairing ESG sub-committees;
- Ensuring ESG governance structures are equipped to reduce risk;
- Implementing processes to promote decision-making that represents stakeholder interests at all levels of the organization

An Ethical Culture: Strengthen ESG & Organizational Performance in One Fell Swoop

The LRN 2022 Ethics and Governance Report identifies an ethical culture as the essential element driving more effective ethics and compliance programs. It pinpoints a values-based approach to governance as the cornerstone of an ethical culture (as opposed to an increase in prescribed rules).

> "Our research shows that an organization dedicated to sustainable human values will exhibit superior performance across operations and be significantly more successful at integrating ethics and compliance into its day-to-day operations. Values-based governance is also a foundational part of ESG (environmental, social, and governance objectives), an area of increasing importance for organizations"
>
> **- LRN 2022 Ethics and Governance Report**

Other factors behind high-performing ethics and compliance programs include:

- Measurement of value metrics.
- Proactivity.
- Leadership buy-in and support.
- Increased resources.
- Assessments and training, including enhancements that make access to training easier for remote employees.

High-performing organizations also integrate an expectation of ethical behavior into hiring and talent retention, performance evaluation, promotion, and bonus or incentive programs.

Further Resources:

For more information about ESG in 2024, read:

Optimizing ESG Compliance Through Entity Management Software

https://www.athennian.com/post/optimizing-esg-compliance-through-entity-management-software

Corporate Governance Tech Trends to Expect for 2024

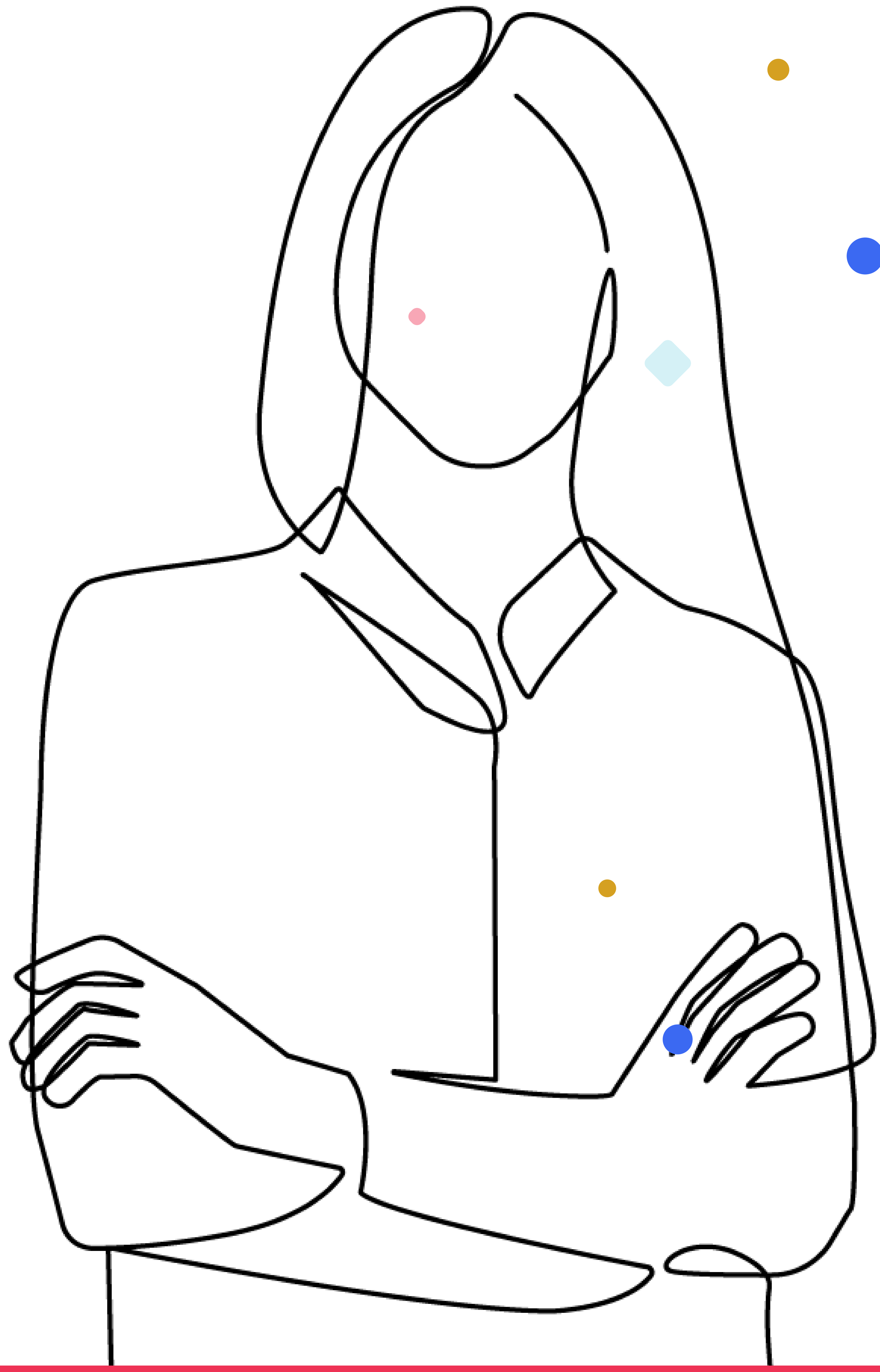
https://www.athennian.com/post/tech-trends-to-expect-for-2023

ESG and Entity Management Software

Athennian's entity management software streamlines every element of compliance - including ESG reporting and disclosure.

Effortless Collaboration, Elevated Outcomes

Centralize entity, subsidiary and business data in one place. Accelerate multi-step transactions and automate administrative work so that your team can focus on high-value, strategic goals.



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