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Environmental
Social &
Governance

ESG Strategy: A Corporate Roadmap

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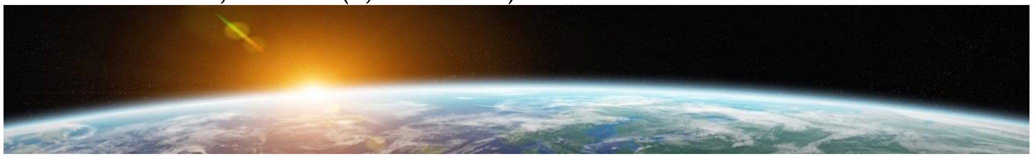
"People are very open-minded about new things - as long as they're exactly like the old ones."
- Charles Kettering

An Introduction to Corporate ESG Strategy

The View From 30,000 Feet (9,144 meters)



Corporate Social Responsibility is not ESG. Similarly, Environmental Health & Safety is not ESG. There, I said it. No taking it back now.

Yet even today so many firms begin their conversations about ESG with a summary of the amount of money they have spent building a local school in Country X, the jobs they have created for the residents of a town in Country Y, the excess electricity they are able to share with the local grid from their power plant in Country Z, or the success they have had in reducing lost-time injuries or work-related fatalities. All are positive outcomes for communities and employees, to be sure. But the question we need to ask is why do people rebrand their CSR or EHS efforts as “ESG” and conclude that their “ESG box” has been checked? The answer is most likely that they do not understand what ESG is. And without that understanding, they are unaware of the opportunities which an ESG implementation would offer them.

With that in mind, I decided to spend a bit of time writing about ESG strategy and implementation within a corporate setting. I believe the principles we will discuss apply broadly to both private and publicly listed entities. Much of what we discuss will also relate to non-for-profits (with some obvious exceptions), although I will not make specific reference to these organizations here.

I have found that outside of the pricey pay-to-play consulting behemoths (no offence, behemoths), there is very little practical guidance available to corporate leadership teams as they make their way through the murky alphabet soup of ESG. Furthermore, in my conversations with company management teams, I have learned that many simply do not have the personal bandwidth to fully flesh out ESG concepts sufficiently to speak with confidence on the topic.

Another incentive for writing this series: it has been my experience that too many companies still feel obligated to include in their corporate presentation decks a single slide with “ESG” somewhere in the title and bullet points below detailing the jobs they have created, the local infrastructure they have contributed to, or the percentage of a country’s GDP or tax revenue their company/industry represents.

I’m making the case here that this “template” ESG slide is of limited value to most stakeholders. So what would I suggest instead? Hopefully this series of notes will answer that question more completely than I could in a sentence or two here. But I will say this to begin the discussion – to present the market with any useful information on your company’s ESG efforts, you must begin with (1) a better understanding of what ESG is and (2) a complete list of your stakeholders.

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There are many excellent and easily accessible sources of information available online defining ESG, and so I will leave that with you. Regarding stakeholders, ESG performance has become an important aspect of corporate evaluations of all kinds. Of course in financial circles, most think primarily of its impact on profitability, risk, growth prospects, valuation and ultimately long term business viability. In the broader stakeholder universe, there are many other users of corporate sustainability disclosure whose objectives can be quite different. Labour unions consider the interests of their members. NGOs consider the company's external impacts on the environment and society writ large. Securities regulators look at whether companies are disclosing all financially material information to providers of capital. Governments consider the information in the context of introducing or revising legislation, or perhaps adjusting fiscal policy to better address the interests, safety and general wellbeing of their citizens.

From even these few examples, I hope it is becoming clear that an analysis of ESG performance extends well beyond the traditional notion of Corporate Social Responsibility or Environmental Health & Safety. Both certainly fall within the scope of ESG, but to limit an ESG discussion to these fails to address the interests of many stakeholder groups. In fact for virtually every corporate activity it is probable that at least one stakeholder group will be impacted and have an interest. That is not to suggest that companies have a disclosure obligation to every stakeholder group, but spending the time to identify both primary and secondary stakeholders allows companies to track the movement which often occurs between the two groups, and not be caught off guard when the landscape shifts.

We will look more closely at the concept of "stakeholder capitalism" shortly, but for now we can think very broadly about stakeholders as those who are impacted by the activities of the organization. When we do so, we can begin to appreciate how long that stakeholder list might be. Through the process of stakeholder mapping, companies can identify and prioritize all of their stakeholders.

So why do companies need an ESG Strategy? Again, there are a number of reasons to think about ESG strategically. The first is perhaps the most important, yet one which many companies may not fully appreciate. The effective implementation of ESG best practices makes a company better at what it does. It's really as simple as that. Designing and executing on an ESG Strategy adds real value to the business, and we will speak to the specifics on that shortly. In addition, many investors today consider a company's performance on key ESG metrics a proxy for company "quality." For something this important, a thoughtful and systematic approach is absolutely essential.

Once we begin thinking about a company's strategic approach to anything, delegation of this task to a summer intern is no longer an option. To build and deploy an effective ESG Strategy, there must be leadership and sponsorship at the highest levels of the organization. It is crucial that both the C-Suite and the Board demonstrate their buy-in and commitment to the effort, and further that they allocate sufficient resources to the task.

We have introduced in this initial note the extent to which ESG applies to an organization's general business activity, the large number of stakeholders who are potentially impacted by corporate activities, and the value of a successful ESG Strategy implementation. One final point relates to the heightened level of corporate scrutiny which exists today. It has increased dramatically in recent years, and there are real world costs to falling down on ESG. Be aware that failing to be proactive on ESG allows others to control your ESG narrative, and that in turn can result in a series of challenges for your business in both the short and long term.

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