

# How To Develop and Implement an ESG Strategy



In today's environment, it's no longer acceptable for organizations to passively address their Environmental, Social, and Governance (ESG) planning.

ESG criteria refer to the set of standards a company uses for its operations.

Having them publicly available in your disclosures and annual reports is crucial as many socially conscious investors look to ESG initiatives as they screen potential investment opportunities.

It's more important than ever to stay on top of it as employees, customers, and investors are paying attention to companies' strategies, ESG performance, and practices when deciding who to conduct business with, partner with, or invest with.

Before you start working on your company's ESG strategy, to keep things from getting too overwhelming, it's a good idea to build a cross-functional team who are qualified to identify and evaluate your ESG opportunities, risks, and performance across the company, from various points of view so you have all the necessary support to be successful.

# Step One: Conduct a Materiality Assessment

A materiality assessment is a formal exercise designed to engage stakeholders and find out how important specific ESG issues are to them.

With these insights, you can guide your strategy and communication so you can tell a more meaningful story regarding your sustainability, environmental impact, and so on.

Today's materiality assessments are about more than business impact - considering the financial perspective, and the environmental and social perspectives.

You can scale your assets meant to provide the level of insight you need to get started on your planning. How important ESG topics are varied by company, industry, and stakeholders.

Working a benchmarking exercise into your assessment is another good way to get information on how mature ESG initiatives are among your competitors and analyze industry opportunities and challenges.

Your materiality assessment should:

- Give you an understanding of how important each ESG topic is to your business and to investors.
- Provide insight into where your company stands on specific topics in comparison to your peers and competitors
- Guidance for emphasizing topics with your annual reports and disclosures.
- Methodical ways to define your priorities to take action.

When properly executed, the materiality assessment will help validate your ESG priorities for your strategy.

## Step Two: Establish Your Baseline

If you don't know where you are right now, how can you properly determine what

you need to do and how you're going to do it?

Without an assessment of your current situation, you may run into issues with sustained focus or keeping your attention on the right priorities.

All ESG issues are important, but you can't assign them all the same priority if you want to make real progress.

Your materiality assessment will help you determine the topics you need to prioritize, but you still have to see how well your existing programs are doing at meeting those priorities.

Work directly with your cross-functional shareholders in your organization that have expertise in each of your priority topics.

Gather information from policies, data systems, and reports first, then supplement with interviews with your internal stakeholders to get more detailed insights and information on specifics.

Conducting this assessment allows you to get a bird's-eye view of your company's current state and gauge how much your ESG strategy is across the organization as a whole.

It's often found that silos of ESG activity are active within your organization but have not been included as part of larger communication or strategy.

By getting an idea of what's already going on with ESG at your company, you can better determine attainable goals.

## **Step Three: Determine Objectives and Goals**

Now that you're aware of your baseline ESG situation, it's time to start setting your objectives and goals so that you know how to focus your efforts moving forward.

It's a good idea to set up topic-focused working sessions with your key stakeholders to get them to help you in defining your strategic objectives.

In these sessions, cover:

- **What you can maintain:** Are there things you're already doing well that need to be communicated or maintained? This could be something as simple as complying with applicable safety regulations as this is considered important for the business to maintain, but not something you would necessarily prioritize resources for in the short-term to get the greatest ESG value. In this situation, you may decide it's best to maintain your current efforts so that you remain in compliance.
- **What you can improve:** Are there any areas where you can make smaller improvements to better align with your competition, demonstrate your commitment to ESG, and meet expectations from stakeholders? For instance, because human rights are important to your company, you may have internal inclusion and diversity programs but there isn't much communication of this fact to external audiences regarding how and why these are important for your company. As such, a strategic objective may be to include inclusion and diversity metrics in external reports and start setting your goals.
- **What you can optimize:** Are there any areas where you can double down on your existing effort to move toward becoming an Industry leader in ESG? Maybe because climate change is an important issue to your company, you've already calculated and communicated your carbon footprint and set greenhouse gas emissions targets so you add a strategic objective to complete a decarbonization plan and aim for science-based targets.

Once your objectives are in place, it makes sense to set goals.

Goals are a wonderful way to measure the impact of your activities while also improving company performance and positioning your company well against the competition.

Establishing public goals also ensures that stakeholders are informed and reinforces your commitment to these ESG initiatives.

When setting goals, consider:

- What context is needed for these goals?
- How will you assess performance?
- How ambitious are you being with your target dates?
- What needs to be done either directly or indirectly?

There are no one-size-fits-all ESG goals because they need to be tailored specifically for your business and the impact you seek to make.

It's a good idea to set Broad and aspirational goals with supporting sub-goals that are more easily attained so that you can complete them in shorter periods of time.

Consider what your goal drivers are when you decide when and how to communicate those goals externally.

Present a draft of your goals to your leadership team, sustainability council, and your board of directors.

When you engage the stakeholders early in the process, you get a general idea of the direction and support that may be required to build programs or resource teams.

## **Step Four: Gap Analysis**

Consider the first three steps as a health screening to get you in position for a successful ESG sprint.

In step four, you moved to making sure that you're aware of all the potential issues your organization may encounter as you would try to achieve your goals.

Conduct a gap analysis between your current state and your objectives to identify what is missing so you can plan and strategize accordingly.

Depending on where you are, your gaps may be as small as only needing to collect additional metrics or as large as needing to set up a sustainability council so that you can make bigger decisions moving forward.

Make it a point to understand your gaps between now and 5 years from now as this can help you to find the level of ambition before getting to the small details.

By understanding the end result, it's easier to realistically achieve your goals and allows for better strategic guidance company-wide.

## **Step Five: Develop Your ESG Roadmap and Framework**

No matter how big or small your ESG program is, it won't withstand the test of time without a framework that clearly outlines where your organization's vision and purpose meet your priorities.

Developing a roadmap ensures everyone remains accountable for key actions and a compelling framework gives shareholders and stakeholders a clear picture of your goals and strength.

Now is the time to remind the organization of your ambition level and set a reasonable plan in motion so you can commit to it with a phased plan that is measured at predetermined points along the way.

Include this framework and roadmap as part of your overall business strategy. Talk with your supply chain to find out how you can work together to support each other's goals to add long-term value to your partnerships.

*Regularly review and update your ESG strategy to ensure your company remains aligned with business and stakeholder expectations. This is not a one-time assessment and planned the rather and ongoing, living and breathing strategy that you must continue to nurture if you expect it to grow.*

## **Step Six: Put the Plan into Action and Measure Key Performance Indicators (KPIs)**

To effectively implement your ESG program, you must integrate ESG into your business practices and processes.

You need to outline your programs to stay in place all year so you're prepared when the ESG Spotlight shines. Here are some best practices to implement:

- Identify a set of clear and measurable outcomes to define what success looks like for your company.
- Use centralized management systems or other data software to easily track your key metrics in performance.
- Set up regular communications and updates for your key stakeholders so that you're continuously updating data evaluating goals and comparing best practices. By constantly monitoring your plans you can stay on top of adjustments that you may need to make so that you can stay on course to reach your goals.

Of course, you need corporate oversight of ESG, but it's also important to remember that actual progress happens on the ground.

Your teams will need detailed recommendations and guidance about how to achieve the tangible results you're looking for as you drive accountability for the team members who are responsible for implementing the required actions.

## **Step Seven: Progress Reporting**

As with goal-setting, there isn't a one-size-fits-all approach for ESG reporting.

Regardless of the Frameworks, guidance, or standards used to tell your story, the most important part of reporting is communicating the information in a clear and compressed manner.

To develop your report you need to decide what you want your report to accomplish. Ideally, this should be a combination of:

- Communicating your ESG strategy to your stakeholders while demonstrating alignment to business objectives
- Highlighting your policies and programs that are already in place
- Evaluating your progress and engagement in key areas
- Sharing organization-specific goals and metrics

Beyond deciding what to report, you also must think about how.

You need to disclose your information clearly and concisely to ensure that you report on topics most material to your company.

Because your company's important stakeholders can easily access your ESG

information, consider having a PDF report available on your website or a dedicated ESG landing page on your website.

Adding the information to your website signals to those interested in ESG investing that you are committed to your initiatives and to providing clear and timely communication.

As you progress and mature through your programs, you may add key information into broader company reporting such as your annual reports, proxy Reports, customer communications, and investor presentations.

Besides external communication, you should also plan on providing regular internal updates to reinforce how important the ESG initiatives are to your organization and the knowledge employee contributions toward achieving goals.

## **Final Thoughts**

No matter what business model you use, you'll deal with risk management, asset management, and corporate governance.

With good ESG practices, you can develop a business strategy that focuses on value creation through reduced costs, boosted productivity, solid asset management, and sustainable investing.

Ultimately, focusing on your company operations' environmental and social impact is good for everyone - especially our planet.

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