

# Learn Your ESG Business Context

Effectively incorporating ESG standards demands understanding of intersecting environmental, social, and governance factors, both internal and external to the business. ESG frameworks, operational objectives, and stakeholder demands are all variables that influence a value-generating ESG strategy. To ensure stakeholder trust in your ESG operations and the preparation of accurate, insightful, and defensible ESG reports, continually monitor changes in external and internal business contexts.

## Understand the External Business Context

Regulations, macroeconomic events, and other factors orient ESG objectives, detailed strategies, and operational resiliency. To respond to a rapid evolution of external ESG variables, stay abreast of changes and evaluate how they may affect both ESG and overall business objectives and outcomes.



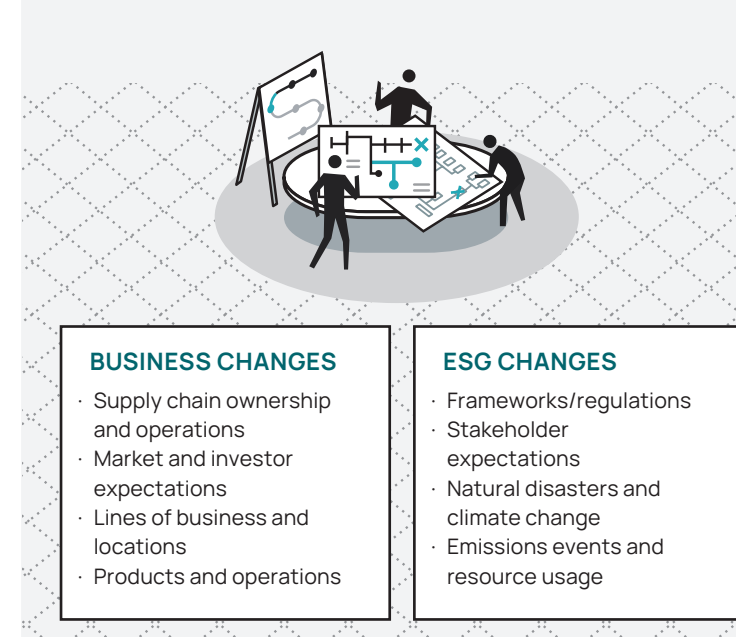
## Evaluate the Internal Business Context

Internal factors, including defined business objectives, strategies, operational structures, and culture, shape the foundation of appropriate ESG objectives and management. Ensure these facets align with broader business strategies and operations.



## Define Points of Impact & Relationships

Shifts across external and internal ESG factors and business operations will impact both ESG and overall business operations, objectives, and outcomes. Map relationships and potential effects across organizational structures to provide timely information-enabled and proactive responses.



## Establish Priorities & Process

Monitoring ESG-related items ensures consistent visibility into significant changes. Adjust priorities and controls as new information arises or changes occur in either ESG or overall business objectives, strategies, or operations.



### KEY STEPS

1. Map ESG priorities to corporate strategies to establish a baseline view of external variables that could impact your organization.
2. Identify practices that affect climate change, sustainability and biodiversity preservation, human rights and fair labor practices, corruption, privacy rights, and others germane to the organization. Assess each key area's functioning against current business objectives, and install ongoing monitoring based on defined priorities.
3. Set up workflows, feedback loops, and key triggers to enable real-time response, as external influences shift, threats surface, and opportunities become apparent.
4. Track business-changing events with each external priority area, and modify reporting processes if needed.
5. Define how reports discuss established processes, evaluations, and determinations with granular transparency.

### KEY STEPS

1. Develop a comprehensive understanding of your business ecosystem, including third-party operations and risk, and compare it to desired ESG outcomes.
2. Identify current and planned ESG-specific actions and controls that could affect executing on defined priority objectives.
3. Keep pace with possible changes in objectives, strategies, or operations that may require re-evaluation of ESG goals and actions.
4. Note internal stakeholder—including leadership, Board, personnel, and third parties—expectations of ESG goals and outcomes.
5. Define governance strategy, policies and procedures, as well as how reports discuss monitoring scope, analyses,

### KEY STEPS

1. Determine potential effects on business objectives, operations, and outcomes.
2. Measure potential impacts on ESG objectives, operations, and outcomes.
3. Map each change contingency to relevant controls, policies, technology, business units, and roles within each unit.
4. Implement a communication structure for pushing and pulling change notifications.
5. Identify sources for essential ESG data (both structured and unstructured sources are likely).

### KEY STEPS

1. Develop multiple channels ensuring high-impact changes are quickly identified and elevated for analysis.
2. Ensure all operational relationships and risks—including third parties—are fully mapped when setting priorities.
3. Establish pathways to report on potential, planned, and actual ESG or business changes, including cumulative impacts.
4. Change monitoring for any revised objectives, strategies, risk assessments, operations, or actions and controls.
5. Ensure reports are up to speed with changing ESG or business tactics, strategies, or objectives.

ESG covers many topics



**Environmental Factors:** Climate change mitigation & adaptation, Sustainability, Pollution prevention, Circular economics, Biodiversity & environmental protections



**Social Factors:** Labor relations, Human rights, Diversity, ethics and inclusion (DE&I)



**Governance Factors:** Cybersecurity & privacy, Shareholder rights, Tax avoidance, Executive pay, Company leadership, Corruption

# Align ESG for Principled Performance®

ESG standards must be aligned with overall business objectives, structures, and practices, so your organization can manage risk and function with integrity. To maintain Principled Performance standards, connect ESG practices and supporting data to HR, ERP, and other source systems and broader enterprise operations.

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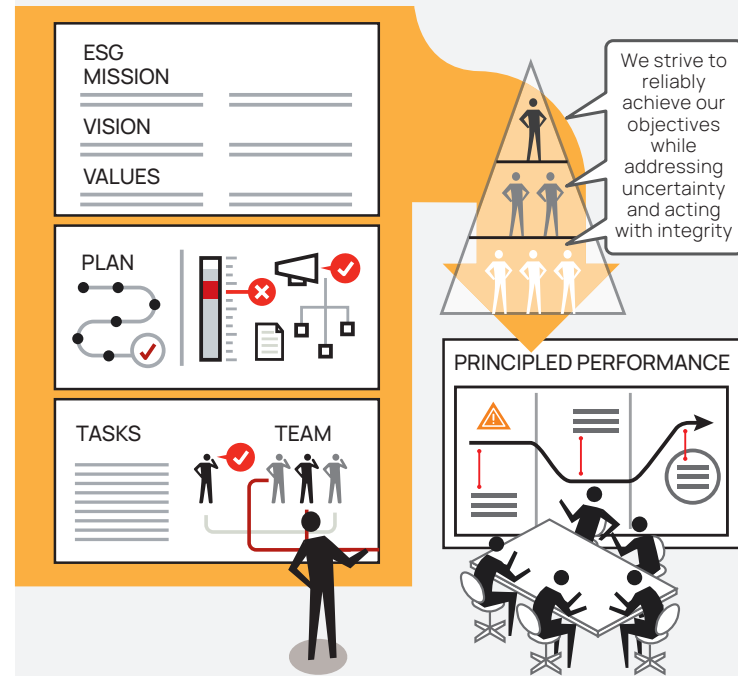


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## Set the Direction for Principled Performance in ESG

Leaders at all levels should articulate ESG Principled Performance targets by identifying ESG practices within the mission, vision, and values of the organization and linking them to stated business objectives and decision-making guidance.

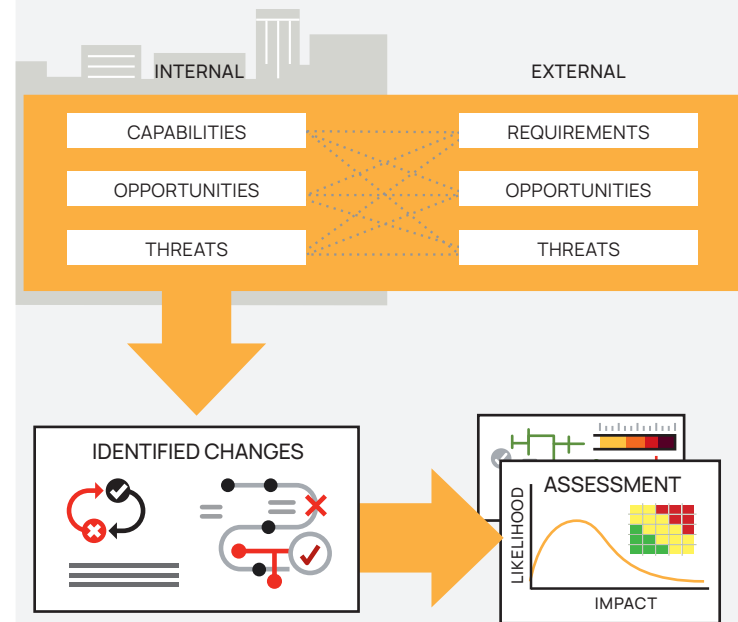


### KEY STEPS

1. Prepare statements with ESG aims and their relationship to business objectives and decision-making guidance.
2. Outline where and how ESG efforts align with business strategies at every level.
3. Demonstrate each business unit's contribution in achieving ESG goals.
4. Prepare statements for key ESG factors and ESG-informed brand values so they're accessible to each business unit.
5. Ensure ESG outcomes are measurable and consistent with acceptable levels of performance, risk, and compliance criteria.

## Assess Requirements, Capabilities, Opportunities and Threats

Many factors determine if ESG objectives are attainable or may compel the organization to conduct itself in certain ways. Ensure that ESG management is integrated and aligned with business operations and relevant ESG frameworks/standards through ongoing enterprise-wide evaluations.



### KEY STEPS

1. Regularly appraise internal and external business environments to ensure ESG requirements are being met.
2. Observe identified trends, patterns, and events that may demand adjustment of ESG goals or strategies.
3. Evaluate existing business practices to see if they meet ESG standards, and remediate any gaps.
4. Assess if business-wide ESG requirements, opportunities, and threats map to each other and if they're managed comprehensively.
5. Oversee current and planned approaches to manage ESG requirements, threats, and opportunities while considering possible revisions to ESG objectives or their strategic direction.

## Develop an Integrated Business Strategy

Create a cohesive strategy to holistically integrate ESG measures across the enterprise. Embed ESG functions, such as specific ESG actions and controls, data systems, applicable business units and roles within each, and reporting processes into broader operations.

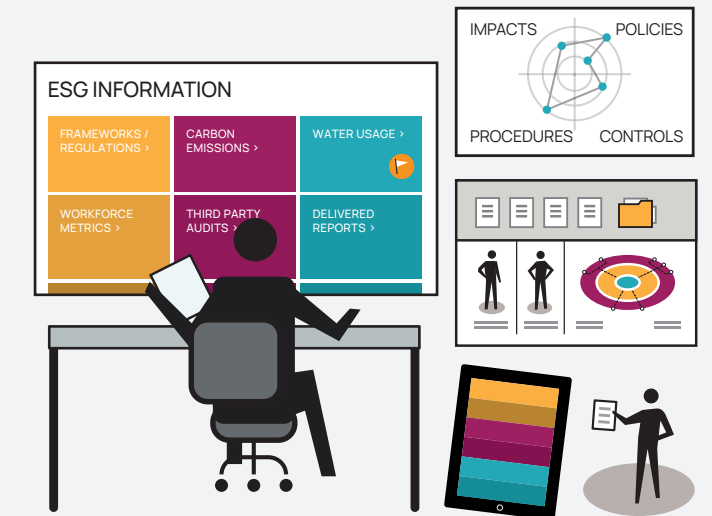


### KEY STEPS

1. Align each factor to areas of management or business operations and identify overlaps.
2. Design actions and controls to mitigate potential ripple effects to workflows caused by ESG changes.
3. Tie-in ESG metrics with financial performance, e.g., integrate relevant ESG disclosures with 10-K and 10-Q reports.
4. Automate and integrate ESG workflows across the organization to increase efficiency and maximize impact.
5. Prepare reports with cross-disciplinary user access to enable data transparency, which furthers desired ESG outcomes.

## Ensure Technology and Information Management Support

Business-wide ESG technology enablement with integrated workflows enhances data accessibility, reporting agility, and resilience, which all drive successful ESG strategy execution.



### KEY STEPS

1. Combine ESG-specific technologies currently in use into one integrated technology ecosystem.
2. Re-evaluate where technology, such as automated reporting platforms and analytics, can aid your ESG program.
3. Ensure that ESG objectives, actions, controls, change monitoring, business units and their employees, and stakeholders are incorporated into technology infrastructure to foster timely notifications and responses to changes.
4. Establish information and communication plans and policies, including a reporting structure and permissions for each stakeholder group.
5. Create reports for each stakeholder group, with automated delivery and drill-down capability to confirm data accuracy and reliability.

## Tips to Align ESG for Principled Performance

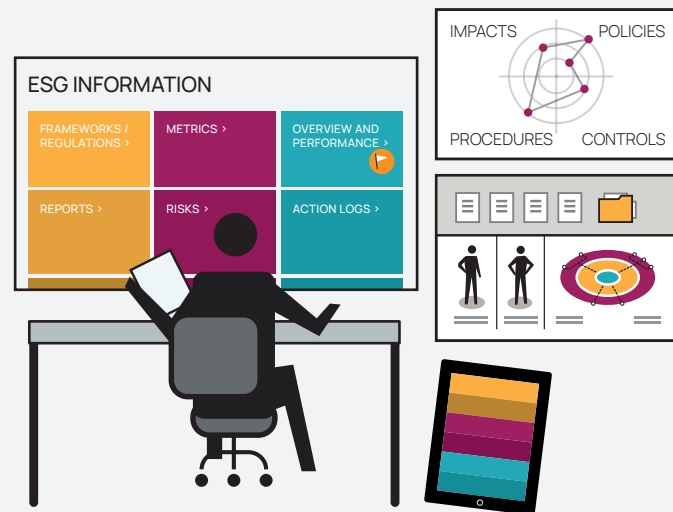
1. Inventory your items and ensure that the technologies currently being used are end-to-end and integrable solutions.
2. Identify areas where your tech stack can be modernized and workflows where automation can be used to improve data connectivity.
3. To develop a reporting structure that promotes transparency and drives growth, consider areas where ESG technologies can work in tandem with financial and other business goals

# Review ESG Capabilities

To achieve Principled Performance® goals, run ESG risk assessments of established practices and controls to ensure they're functioning at heightened levels. Changes to the external or internal business environment may require reassessment of ESG goals and functions.

## Monitor Defined Actions and Controls

Evaluate the performance of your ESG processes, technologies, and organizational structures to ensure they are optimized for stated objectives. Mix and layer the various types of monitoring actions and controls based on identified ESG requirements, opportunities, and threats, and how each ranks in importance to the organization.

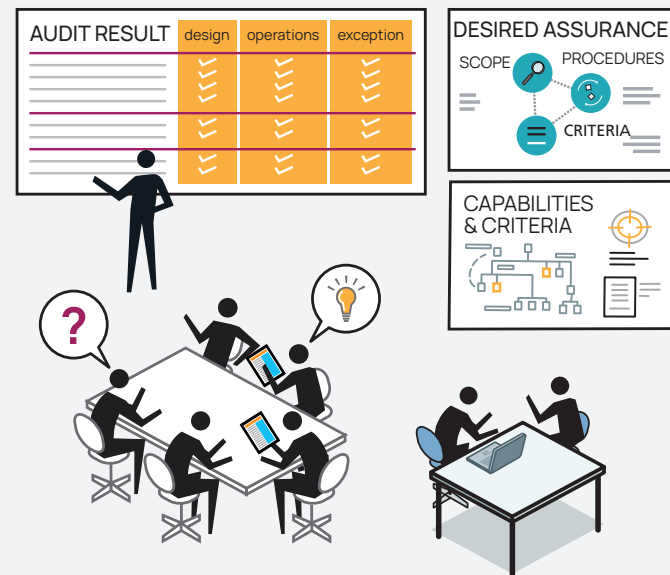


### KEY STEPS

1. Schedule periodic re-evaluations of ESG and overall business objectives, opportunities, threats, requirements, and changes to business environments.
2. Identify both structured and unstructured data that support ESG functions.
3. Perform ESG monitoring activities and evaluate results to pinpoint weaknesses and opportunities for systemic improvements.

## Provide Assurance and Data Governance

The level of assurance may vary at different times and for different purposes, but ESG management must be assessed to confirm that it is effective, efficient, and responsive to change. Independent assurance personnel with experience in relevant subject matter and professional standards provide the highest level of assurance.



### KEY STEPS

1. Determine scope, procedures, and criteria required to provide the desired level of assurance to key stakeholders.
2. Use a risk-based approach toward assessments of ESG functions while using consistent decision-making criteria for acceptable levels of reward, risk, and compliance.
3. Perform procedures, evaluate results against criteria, make relevant recommendations, and report results and conclusions.
4. Certify that relevant recommendations are adequately implemented, and re-evaluate previous conclusions and the level of assurance achieved.

## Improve ESG Risk & Resiliency

Identify opportunities to improve ESG practices by reviewing information from monitoring results and assurance reports. Continuous systemic enhancement is the hallmark of a mature and high-performing ESG program. When operations are subpar or business changes are significant and/or frequent, revise acceptable actions and controls consistent with established decision-making criteria.



### KEY STEPS

1. Review information from monitoring and assurance to identify opportunities for improvements to ESG capabilities.
2. Develop and act on a prioritized plan for implementing improvements to capabilities, including change management activities, to ensure employees are aware and accepting of changes.
3. Allow for implementation of new innovations and technology as they become available.
4. Incorporate feedback loops and post-assessment (lessons learned, root-cause analysis, etc.) activities into organizational processes to ensure that areas of needed improvements are identified and addressed.

## Drive Future Transformation

Information gathered during the monitoring and assurance processes should be consolidated, analyzed, and prioritized for follow-up planning. Design a mature but flexible analytics process to provide insight into performance levels of each ESG practice, determine the root causes of weaknesses for remediation, and enable sufficient foresight to respond to emerging changes—including a reconsideration of objectives and strategies.



### KEY STEPS

1. Determine the format, content, and sources of information required to analyze the enterprise-wide performance of critical ESG capabilities.
2. Using advanced analytics techniques, consolidate information and findings across the enterprise to obtain the required level of ESG intelligence.
3. Evaluate the impacts of identified patterns and trends on business contexts, the degree of alignment of ESG activities, and the level of actions and controls performance.
4. Consider the top-down and bottom-up changes required to optimize the alignment of ESG functions with enterprise-level objectives.

Technology aids ESG efforts, and automates some activities

**1.** Automates and simplifies the collection, aggregation, analysis, and reporting of ESG data to provide a single source of truth. Enhances collaboration and proactive management of ESG impacts.

**2.** Streamlines the documentation and mapping of ESG risks, policies, and controls to support a well-governed ESG program.

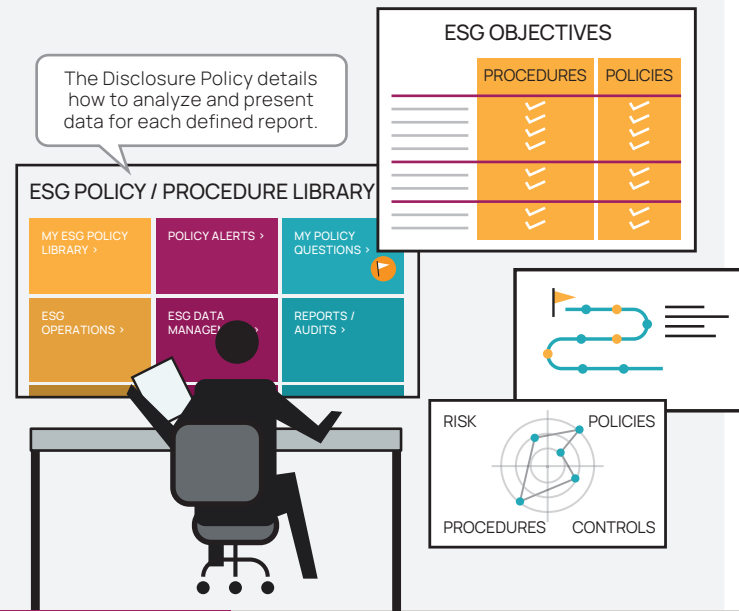
**3.** Supports the assurance of ESG reporting, providing the catalyst of organizational change on ESG behaviors.

# Perform ESG Actions and Controls

The ESG function is more than just creating and issuing reports. It starts with the setting of ESG objectives appropriate for the business and then implementing actions and controls to meet these objectives. For example, manufacturing divisions may take actions to reduce waste and limit emissions, control use of natural resources, or ensure proper labor practices in all operational regions. Or procurement may establish controls to evaluate and oversee third-party ESG compliance requirements.

## Define and Operate ESG Policies and Procedures

Policies and procedures are designed to prevent undesired conduct, encourage high standards in ESG practices, and deliver transparent and trustworthy reports. Training and communication further aids in defining objectives and ensuring accurate disclosures. Proactively establish a range of policies and procedures for each operational stage of your ESG program.

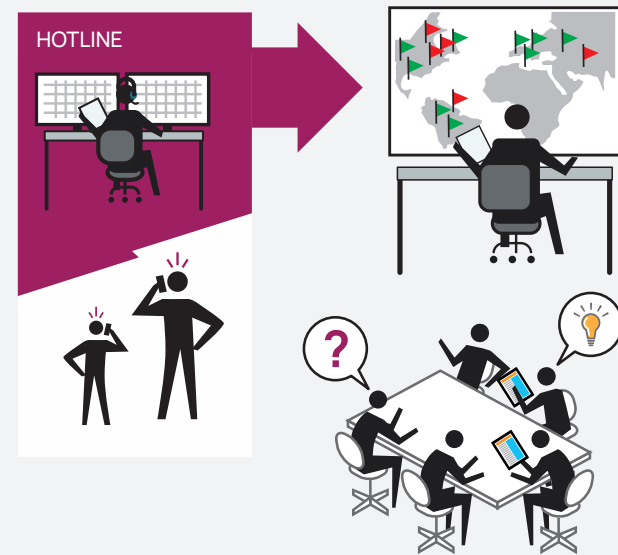


### KEY STEPS

1. Embed ESG policies within your organization's broader policy management structure to address both ESG operations and defined disclosures.
2. Develop pertinent training and education appropriate for each role.
3. Communicate ESG decision-making guidance and expectations through multiple channels.
4. Monitor key indicators and operational data to confirm ESG functions are intact. Note changes in the external or internal environment that call for adjustment to ESG analyses, plans, and reports.
5. Establish policies and procedures for periodic review or audit of your ESG program.

## Establish Preventative and Detective Actions and Controls

Keeping pace with desirable or undesirable conduct is vital for ESG performance. To avoid reputational risk, pinpoint and remediate weaknesses in data-gathering processes, controls, and broader operations.

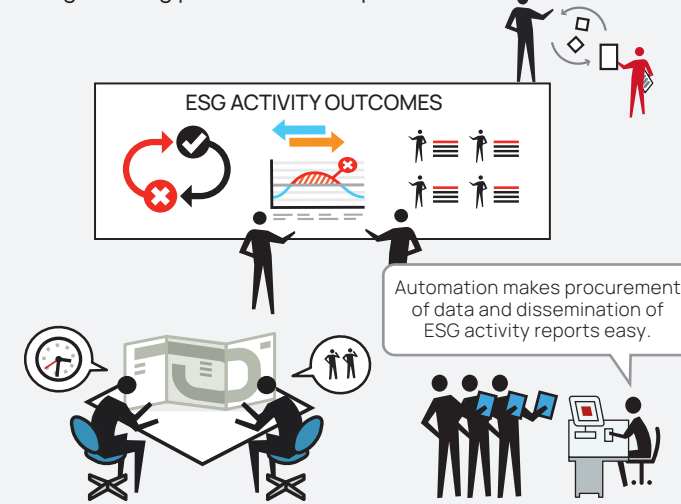


### KEY STEPS

1. Use multiple channels to pull internal and external information to detect threats, damaging conduct or conditions, and opportunities for better ESG performance.
2. Utilize technology to detect variances, anomalies, controls avoidance, and early warnings about possible violation of policies/procedures or disclosure requirements.
3. Tighten controls to detect ESG-related fraud for required and voluntary disclosures, including those from third parties, and to ensure ESG data is verified and integrated into the controls framework.
4. Define monitoring policies and procedures to confirm all relevant ESG data is discovered, evaluated, and used consistently, applying automation where possible.
5. Conduct monitoring and periodic reviews to expose any discrepancies in ESG data and how it is used across all required and voluntary disclosures or reports, both internal and external.

## Deliver Dynamic Real-Time Reports

Many stakeholder groups—including investors and other financial partners, regulators, customers, and employees—are demanding information on ESG activities, risks, and enhancements. Ensuring provided information is timely, accurate, complete, and responsive to stakeholder interests can be challenging. Address this need with transparent, real-time reporting, such as direct access to material reports. And automate data procurement processes where possible to allow visibility into data-gathering procedures and policies.

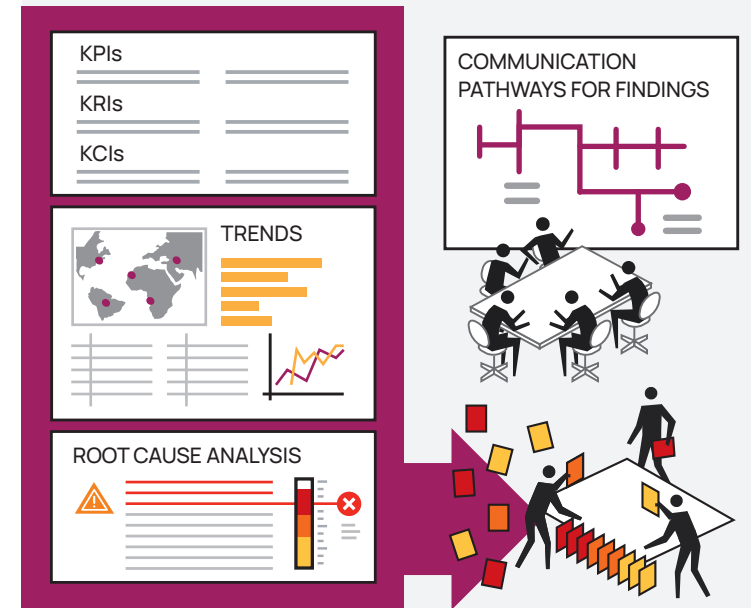


### KEY STEPS

1. Design a robust ESG risk control framework to issue stakeholder-trusted disclosures.
2. Develop report templates based on applied ESG frameworks, standards, regulations, and key stakeholder requests, as well as voluntary disclosures from competitors and industry peers.
3. Create central repositories for ESG data from varied sources and locations. Standardize and reconcile this data, and always evaluate its quality and accuracy.
4. Establish processes for gaining assurance regarding quality, accuracy, and completeness of ESG data. Use technology that can be used both internally and by independent auditors.
5. Coordinate all planning and ESG disclosures processes with disclosure committees within the business, and establish board oversight.

## Utilize Analytics for Insights

The utility of unstructured and structured data is harnessed through analytics. Use analytics to examine ESG trends, identify root causes of problems, predict behaviors and conditions, and gain insight for risk-based decisions. Also, employ data to forecast potential impacts and increase agility to meet ESG performance objectives.



### KEY STEPS

1. Establish key indicators for ESG performance and risk and compliance tied to strategic objectives. Then develop processes for collecting data and analyzing results.
2. Implement technology to support the analytics framework. Use reliable internal and external datasets to provide contextual insights that leadership can act upon.
3. Continually upgrade your analytics framework as it begins to yield richer information from trends, emerging threats, vulnerabilities, and predicted conditions from within and outside the enterprise.
4. Collaborate with the board, senior management, and business operators to establish a "tone from the top" mindset. Engage stakeholders from adjacent GRC processes, such as risk management and compliance, to drive more value from your ESG efforts.
5. Apply automation wherever available, with clear oversight and ownership assignments for each analytics framework aspect.

### Common ESG Frameworks include:

- Climate Disclosure Standards Board (CDSB)
- Science Based Targets initiative (SBTi)
- Sustainability Accounting Standards Board (SASB)
- Task Force on Climate-related Financial Disclosures (TCFD)
- UN Principles for Responsible Investment (PRI)
- World Economic Forum (WEF) Stakeholder Capitalism Metrics

Ensure you have a tech stack in place that allows you to automate, customize, prioritize and concisely report all of your ESG data.