

ESG value creation opportunities

and best practices for action





Now is the time to implement **Environmental, Social, and Governance (ESG) practices.**

ESG investment has progressively increased throughout the 21st century. At the beginning of 2020, 3,657 signatories representing \$90 trillion in assets under management signed the UN-backed Principles for Responsible Investment (PRI). A significant increase when considering that the PRI started with 63 signatories in 2006.

Both the public and workforce have joined investors in ESG interest. A 2019 Fortune Magazine study found that 72% of adults believe social responsibility should drive business strategy. The study also determined that 80% of 25 to 34-year-olds prefer to work for socially responsible companies. The current market and societal shift to investing and pushing corporate sustainability and responsibility policies offers a window of opportunity for ESG engagement.



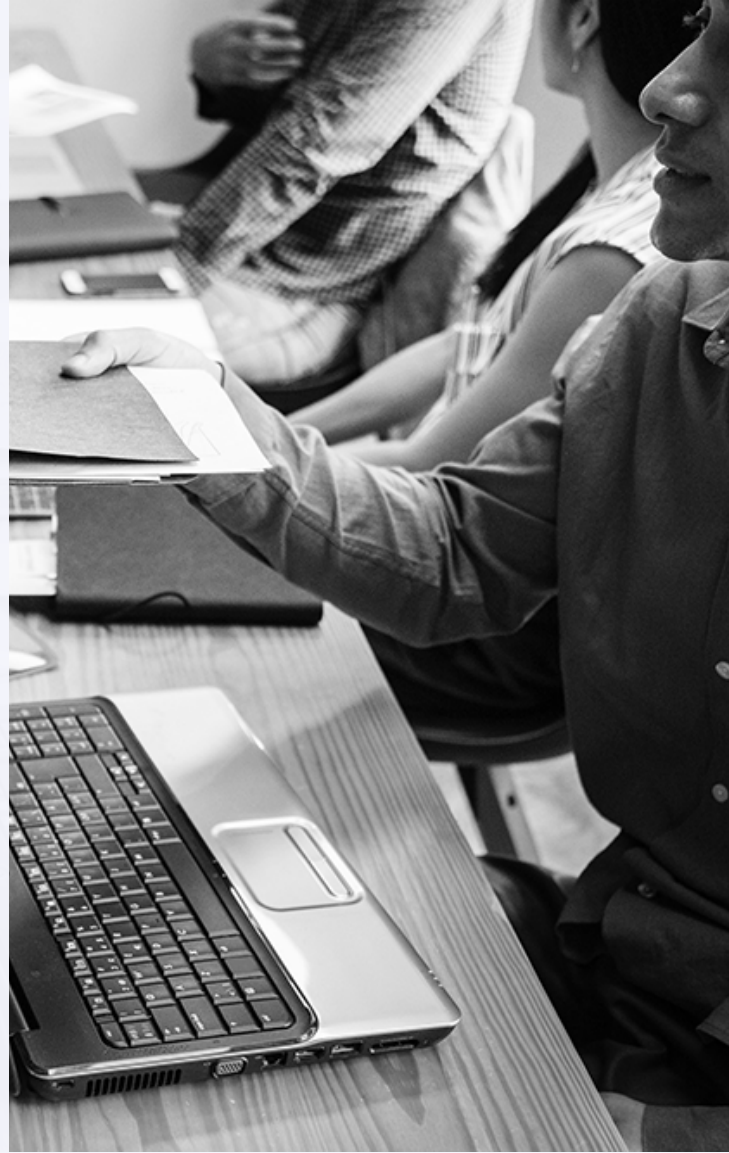
**Comprehensive ESG investor,
shareholder, & stakeholder
engagement actions will
increase value for your
company in ten ways**



One

Aligning with ESG investor values & expectations

Many investment companies establish Investment Belief Statements, mission statements, or investment policy statements that guide all ESG investment decisions. A large majority of these investors have data that verifies they will produce long-term wealth by supporting companies that excel in the ESG priorities of their statements. Companies can attract investments by organizing transparent performance reports or dialogues that speak to investor ESG priorities.



Two

Accurate valuation

ESG engagement helps a company provide shareholders and stakeholders with the most accurate and quality data. Shareholders and stakeholders make decisions from the information they know. If a company does not share metrics on a priority ESG issue, then stakeholders will look elsewhere for that information. Many large asset managers have turned to third-party ESG rating systems such as those developed by Sustainalytics to fill these data gaps. If they can't resort to these third-party ratings, investors could assume your company does no or minimal work on a chosen ESG metric. The investor receives incomplete information in both situations. This can lead to them leaving your company off their portfolio and taking their business elsewhere.

Three

Strengthening of business strategy & governance

Many investors believe that good ESG strategy translates to competent and efficient governance. These asset owners will focus their investments on companies that meet or exceed a set of governance criteria. The California State Teachers Retirement System (CalSTRS), for example, investigates governance questions such as

- “Has there been a controversial proxy vote or a controversy in general?”
- “Has the company been unresponsive to majority votes on shareholder proposals?”
- “Has the company worked against shareholder rights without shareholder approval?”

Companies can easily provide context for these questions by devoting time and resources to meet or exceed ESG reporting standards such as the Global Reporting Initiative (GRI).

Four

Staying ahead of ESG trends & legislation

Each ESG stakeholder provides valuable insight for the long-term prospects of your company. Investors often shift their ESG priorities based on market trends, new regulations, or increased risks. Legislators pass policies that can directly or indirectly impact your company's governance and operations. Finally, your customers change their purchasing behaviors and opinions based on current events and the information they receive. Companies that practice ESG engagement proactively seek opportunities and strategies to innovate and adjust to new expectations and rules, as opposed to pushing against these inevitable changes.

Five

Efficiency & cost savings

Extracting, handling, shipping, and disposing of raw materials, energy, and water directly impact the bottom line. ESG fosters cleaner and more efficient practices that drive down your company's operating costs and environmental footprint. Reporting platforms of LEED, GRESB, and GRI assists companies with identifying and addressing these inefficiencies.

Six

Managing risks

Covid-19 highly disrupted markets globally. However, early data suggests companies that implemented ESG practices performed better financially during the pandemic. ESG's roots in proactiveness and risk management may explain why these companies avoided extreme value deprecation during Covid-19. Companies that leveraged ESG strategies to adjust and cope to the pandemic now have the structures and systems in place to handle future inevitable risks such as climate change. Investors, in particular, prefer to commit their assets to companies with superior risk management and long-term viability.

Seven

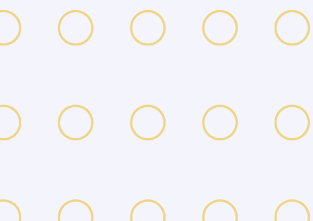
Increasing worker productivity

Engaged workers can create significant value for your company. A 2019 Gallup study found that the top quartile of most engaged employees outperformed the bottom quartile in customer ratings, productivity, profitability, and other performance metrics. ESG programs of mental health support, paid sick leave, and charity donations can increase employee satisfaction and induce positive outcomes environmentally, socially, and financially.

Eight

Maintaining & heightening your reputation

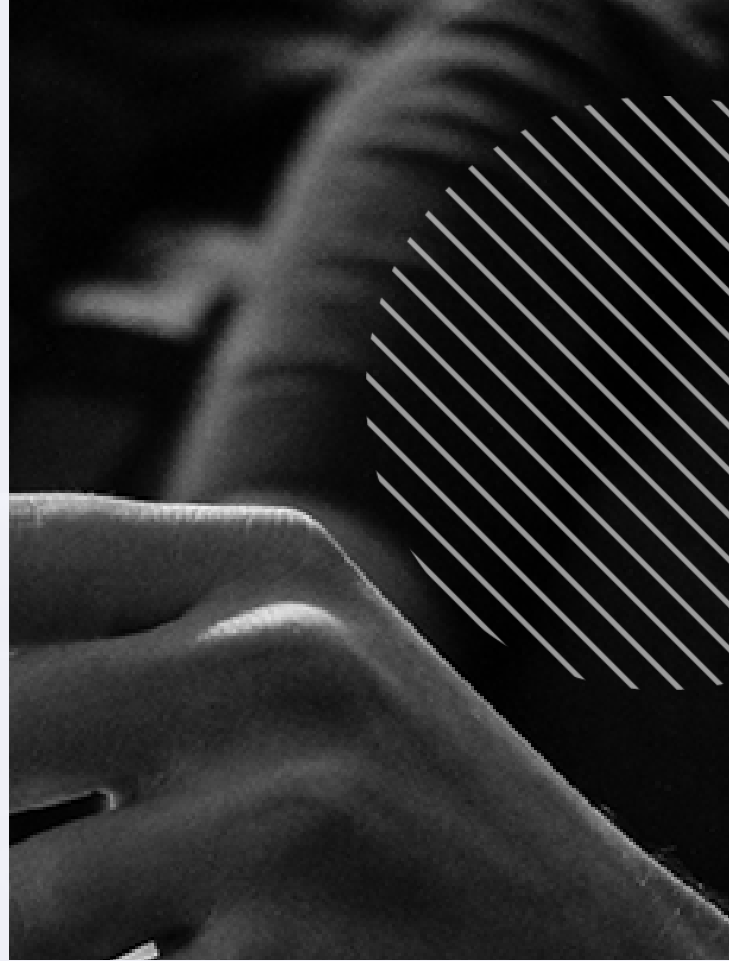
A company's reputation determines the interest, labor, and investment received from asset owners, employees, customers and the general public. These stakeholders often use ESG engagement information to form their opinions of a company. In 2017, Morgan Stanley surveyed 118 asset owners and found that at least 84% of these owners have "actively considered" incorporating ESG criteria into their investments. Meanwhile, Nielsen found that 66% of customers willingly pay more for products from reputable and socially responsible companies.



Nine

Fostering innovation

Future markets, policies, and social systems will demand for cleaner and healthier products and services. Your company's internal and external stakeholders can possess the expertise and work ethic to help meet these future demands. Effective ESG engagement and relationship building reveals hidden knowledge, expertise, and values that nurture future innovation.



Ten

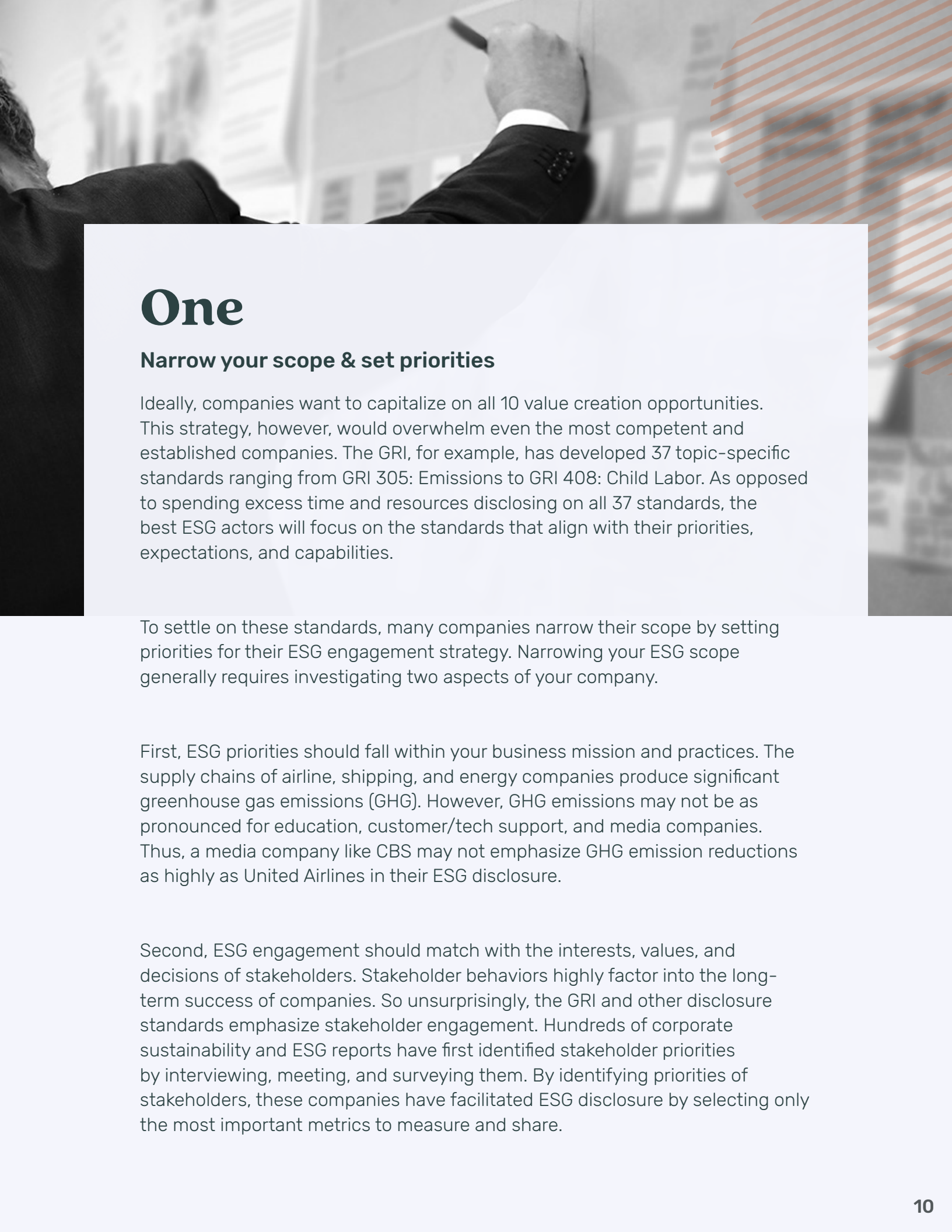
Earning long-term loyalty

All ESG principles of financial performance, reputation, worker productivity, risk management, and more prioritize long-term metrics. Long-term success will build the trust of shareholders and stakeholders. This loyalty creates a solid foundation for your company to handle or overcome most economic, environmental, or social challenges.



How to capitalize on these ESG value creation opportunities

Building value from ESG engagement is an art form within itself. The three following practices could help create value, but these tips should not act as a definitive list for ESG engagement



One

Narrow your scope & set priorities

Ideally, companies want to capitalize on all 10 value creation opportunities. This strategy, however, would overwhelm even the most competent and established companies. The GRI, for example, has developed 37 topic-specific standards ranging from GRI 305: Emissions to GRI 408: Child Labor. As opposed to spending excess time and resources disclosing on all 37 standards, the best ESG actors will focus on the standards that align with their priorities, expectations, and capabilities.

To settle on these standards, many companies narrow their scope by setting priorities for their ESG engagement strategy. Narrowing your ESG scope generally requires investigating two aspects of your company.

First, ESG priorities should fall within your business mission and practices. The supply chains of airline, shipping, and energy companies produce significant greenhouse gas emissions (GHG). However, GHG emissions may not be as pronounced for education, customer/tech support, and media companies. Thus, a media company like CBS may not emphasize GHG emission reductions as highly as United Airlines in their ESG disclosure.

Second, ESG engagement should match with the interests, values, and decisions of stakeholders. Stakeholder behaviors highly factor into the long-term success of companies. So unsurprisingly, the GRI and other disclosure standards emphasize stakeholder engagement. Hundreds of corporate sustainability and ESG reports have first identified stakeholder priorities by interviewing, meeting, and surveying them. By identifying priorities of stakeholders, these companies have facilitated ESG disclosure by selecting only the most important metrics to measure and share.

Two

Continue to link ESG actions to financial performance

Shareholders continue to have the largest influence on business decisions. Your company can best build trust with shareholders by tying ESG practices to long-term financial success. This requires engagement and sharing of hard cost-benefit analysis such as life-cycle costing of energy, waste, and water use, metrics on worker productivity, or rates of worker injury and fatalities.

The European Federation of Financial Analysts labeled these ESG metrics as Key Performance Indicators (KPI) and outlined nine KPI topical areas. Companies that already narrowed the scope and priorities of their ESG engagement strategy can easily identify the KPI's to measure and report to shareholders.



Three

Welcome stakeholder feedback

Investor, employee, and customer ESG values constantly evolve. Almost all companies need to progressively refine the scope and priorities of their ESG engagement strategy due to changing stakeholder belief systems. Companies should create avenues to readily receive feedback from stakeholders so they can adequately respond to changing ESG perceptions and values.

For investors, this could entail organizing one-on-one or collective meetings. Organizers of these meetings should set clear guidelines to ensure you receive actionable feedback from investors. These guidelines should allocate leadership of the meeting to an appropriate staff member, board, or committee, set an agenda for ESG topics to address, and establish a protocol for turning a suggested ESG change from the meeting into a formal policy or program.

Strategy meetings with employees can, also, contribute insight to the effectiveness of your ESG engagement. Surveys, on the other hand, offer a less time-intensive option to receive feedback. Reporting standards such as LEED and WELL provide simplistic survey templates to quantify employee satisfaction and performance. Meanwhile, you may find that employees actively seek opportunities to do environmental and social good. Companies can leverage this interest by creating sustainability teams or roles that empower these employees in ESG decision-making. For example, the British multinational retailer, Marks & Spencer, assigns sustainability champions to each of its 1,380 clothing stores.

Finally, tracking research from ESG investor networks, NGOs, and governments or active participation in corporate sustainability networks will help your company stay on top of ESG trends and issues. Ceres, ICCR, and UN PRI regularly engage investors in ESG knowledge and resource sharing efforts. This work can provide companies with practical information regarding the ESG values and interests of investors. At the same time, countless nonprofits, companies, and governments have published market research reports and analyses to gauge customer ESG behaviors and values.



Act today!

Our three ESG engagement strategies only touch the surface of opportunities to build value. Each of them, however, require limited time and resources to implement. The positive financial performance of ESG actors this century, and even during a global pandemic, makes a strong case to start participating in corporate social responsibility.

QUESTIONS? **CONTACT US!**

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