From EHS to ESG: How Do I Get There (And Why Should I Care?)

Operationalizing an Overall ESG Strategy to Improve Performance and Satisfy Stakeholders

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A powerful confluence is occurring today in the world of sustainability and environmental management. Corporations have long worked to incorporate environmental, health and safety (EHS) as enforced by OSHA, the EPA and other government regulations. Evolving in the twenty-first century, organizations are increasingly being asked to create comprehensive environmental, social and governance (ESG) programs with accurate reporting that will satisfy a variety of stakeholders, from customers to boards to investors and beyond.

Additionally, companies are finding that it's no longer enough to accurately report on what they're already doing: they're expected to set bold goals, announce them to the world, and follow through with programs that significantly improve the environmental, social and governance elements of their organizations — while also contributing to the financial sustainability of the company, making it more resilient and able to manage risk.

It's a complex web of responsibility — and mostly, the responsibility for handling it is falling on the shoulders of over-committed EHS teams. As they grapple to meet the increasing demands for ESG information, the most effective EHS leaders are shifting on the fly, morphing their existing programs into more holistic and far-reaching ESG programs that will help their organizations maintain long-term environmental and financial sustainability. This sphere of responsibility makes sense, says Amanda Petzinger, associate vice president of product management and marketing with Benchmark Digital, a provider of software solutions for ESG professionals. "After all, about 70% of ESG metrics are already being driven by EHS priorities, so it makes sense that EHS leaders are being pulled into these requests." But it's not an easy task. It demands shrewd leadership, effective teamwork, the ability to carry out multiple initiatives across a variety of sectors, aptitude in telling a compelling story, and a system that allows for communicating, tracking and managing all these disparate elements.

WHY ESG INSTEAD OF EHS?

The definition of EHS and ESG differs depending who is doing the defining, but much of the conversation centers on the reporting aspect of ESG. That is, many consider EHS programs to be those that take action on environmental and sustainability initiatives, while ESG is considered to be those elements of an environmental management program that can be measured and tracked, and that can ultimately be used to disclose — to investors and other stakeholders — the overall environmental and financial sustainability of a company.

But companies that focus ESG solely on the reporting aspect are doing themselves and their stakeholders a disservice. After all, in order to report on ESG results, there must be something about which to report. If a company takes action to improve performance in a certain area based solely on the fact that they are being asked to report on it, it may or may not be an area that is of most importance to the company. “Regardless of where a company is in its maturity, they should make sure requests for ESG information don’t become ‘the tail wagging the dog,’” says Petzinger. “Organizations should consider having an overall strategy, determining what issues are important to their organization and to their stakeholders, as opposed to trying to fit ESG programs into a particular framework or request.”

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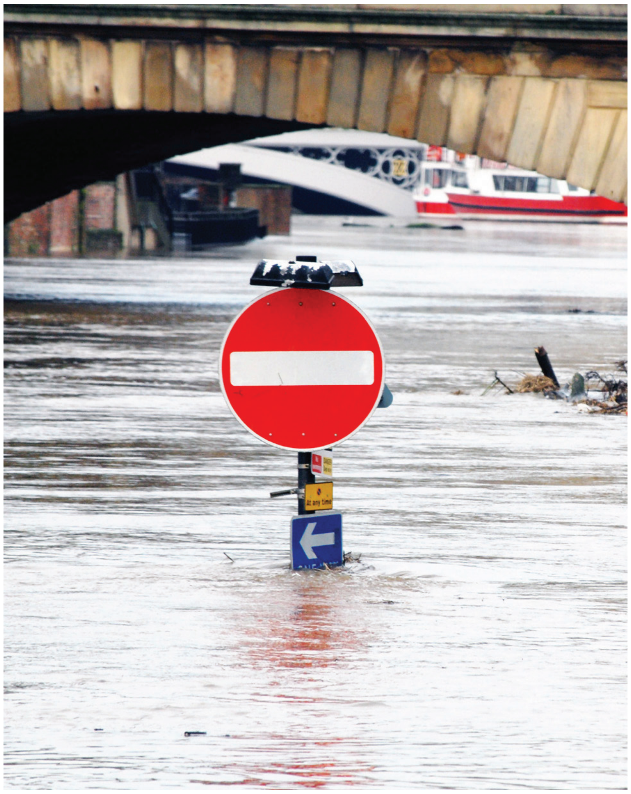
Even when a company’s ESG disclosure and reporting is based on the efforts of its existing EHS program, the two often exist in separate spheres within an organization. This means that, particularly for companies with less mature EHS programs, data exists in its own silos and is often unable to be shared across the organization. Some data is not available at all, or is not being tracked and monitored. This is often the case with onsite water use, for example. Many organizations may only be tracking their water use by receiving a bi-monthly water bill, with no idea of where or how that water is being used across an entire site. Without data that can be compared and analyzed across locations and business divisions, it is challenging to improve environmental management initiatives, and near impossible to accurately report on them when ESG requests are made.

ESG considerations also tend to be thought of in terms of a company's overall sustainability, whereas EHS is more focused specifically on strengthening environmental sustainability and compliance. As a corporate EHS and sustainability director for a privately held healthcare device manufacturer told Donavan Hornsby, corporate development and strategy officer with Benchmark: "ESG considerations enhance our company by reducing investor risk and enhancing value. It creates a greater level of resilience and output so we can outperform our competitors."

Resilience can often be a more compelling word from a financial standpoint, particularly in today's business climate. "The interesting thing about Covid is that it's shifted people from [focusing on] sustainability to resilience," says Chris Spain, CEO and president of HydroPoint, a smart water solutions management company. "I find I have a more engaging and less political conversation if I focus on resilience and not on sustainability."



One of the most compelling reasons to shift to an ESG mindset is to mitigate risk. By failing to address ESG factors, companies face the traditional risks of loss of reputation or being penalized for non-compliance. But new risks are emerging, including the fact that companies are beginning to find it more expensive, or downright impossible, to raise capital if they're perceived as being below the benchmark for sustainable performance, according to Peter Walsh, director of business development in Europe with Benchmark Digital. Additionally, environmental risks such as extreme weather events are very real. "At their most extreme, these risks could stop your operations," Walsh says.

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START WITH DATA

Making a shift from an EHS focus to a mindset that embraces a more holistic ESG approach requires work, and often, the first step of the process depends upon data and the ability to measure results — a factor that is usually driven by technology. In fact, one element driving the focus on ESG is the fact that companies are increasingly adopting digital technology to help improve business outcomes — the so-called "digital transformation."

"Some distinguish ESG from corporate social responsibility and corporate sustainability saying ESG is outward focused, providing investors with metrics…," wrote Jeff Civins, senior counsel with corporate law firm Haynes Boone, in an article for Environment+Energy Leader. "Regardless, a key issue to utilizing any of these concepts relates to metrics."

Ensure all concepts in your ESG strategy are being tracked. The importance of collecting data is key to setting or tracking any ESG metric. One example would be an ESG goal of reducing water use across properties: you can't expect to measure how you are ranking against your goals if you aren't collecting the water use data effectively.

Once data is being collected and managed, then building a digital ecosystem that connects people, processes and other systems is a key to a mature holistic ESG program.

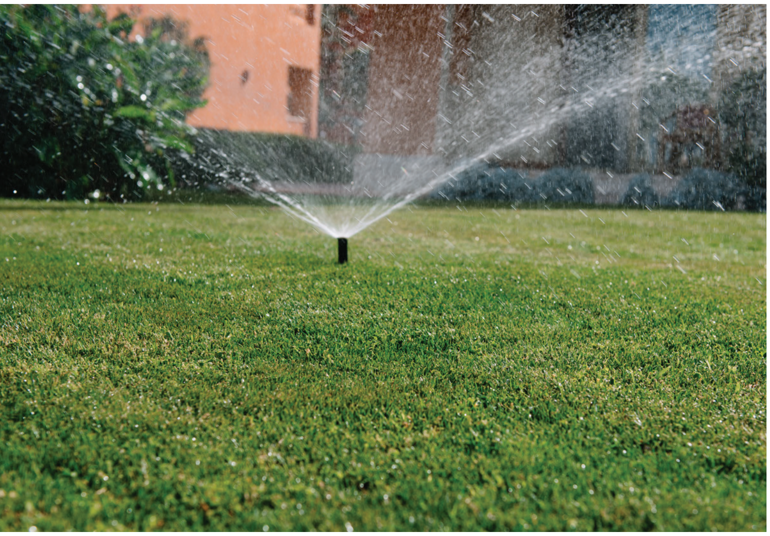
Accurate data management is important in that it is:

—***Repeatable:*** When data is standardized and integrated into a single platform, it simplifies reporting, whether for voluntary disclosure for entities like CDP or GRI, or for responding to stakeholders, customers or suppliers. "You may be constantly asked about your business ethics as related to your supply chain, and having to answer that question fifty different times is not the best use of your team's time," explains Hornsby. Being able to pull that data again and again, and to know it is accurate every time, is invaluable.

—***Traceable:*** When it comes to demonstrating your company's value to investors and stakeholders, it is vital that the numbers you are reporting are accurate — and that, if scrutiny is placed upon the data, you can show where the numbers came from and how they were arrived at.

For example, are you able to separate water use amounts by indoors versus outdoors? Are you able to attribute a single large water bill to a water leak event that you already fixed and will not be repeated?

—Shareable across business sectors: Getting the right data to the right person at the right time is a necessity for making data actionable. The University of Utah, for example, recently replaced all outdated irrigation controllers campus-wide with controllers which feature advanced water-flow-management functionality and system-wide coordination via the cloud for managing water windows and scheduling. Features such as automatic adjustment of watering periods based on weather reporting and mobile alerts enable fast response to leaky pipes and gushing sprinkler heads. “It gives us better alerts, and more information we can use to be more reactive to what’s going on in the system,” says John Walker,



university sprinkler system manager. With the new controller system, the landscape team anticipates reducing outdoor water use by as much as 25%.

This water use data can then be attributed towards their organization-wide sustainability goal of water conservation.

‘IT ISN’T EASY BEING ESG’: STEPS TO OPERATIONALIZE YOUR ESG PROGRAM

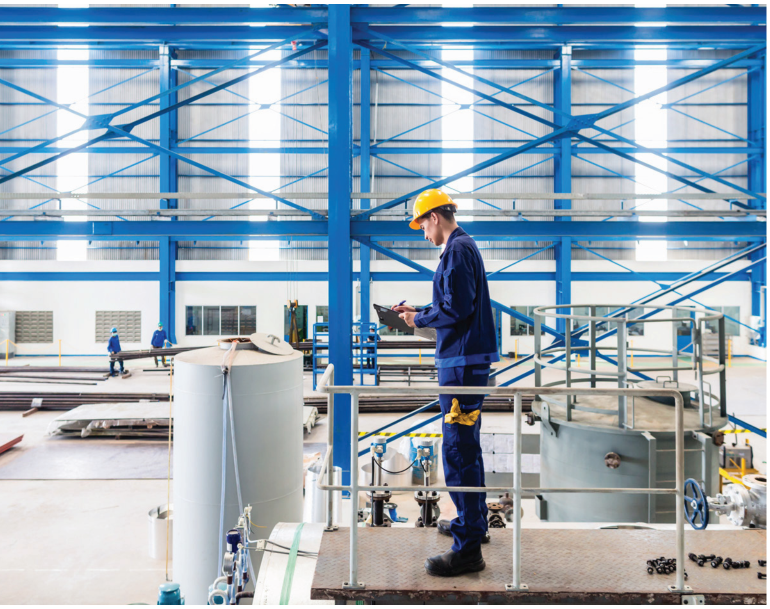
One main challenge EHS leaders face when shifting to an ESG mindset is operationalizing ESG programs. “It’s one thing to disclose info and to set some targets and make some commitments, but it’s quite another — and a much harder task — to make those commitments a reality,” explains Petzinger. “It takes engagement from folks on the shop floor all the way to the C-suite. And that’s a challenge.”

Depending on an organization’s maturity along the EHS/ESG spectrum, they may consider implementing some of the following steps:

Step #1. Materiality assessment.

A materiality assessment can help stakeholders understand what is most important to the business. Such an assessment might shape some of the commitments they make, internally or to the outside world,” says Hornsby.

Taking the time to conduct an ESG materiality assessment for your



organization is one of the most critical first steps in developing an ESG strategy, according to Kelly Vickers, VP of ESG Strategy & Solutions for SitelogIQ. "By first identifying and prioritizing the ESG topics most relevant and important to your business and stakeholders and understanding where you can make the most impact ensures you're setting a solid foundation to build from and that you're focusing your energy and time on what matters most," she says. "Every business is unique and not all ESG strategies are the same."

Step #2. Name a quarterback.

A strong ESG program includes a committee of leaders who represent the key functions that have a stake in its initiatives and outcomes. In addition to EHS leaders, the committee might include product development, human resources, legal, marketing and more.

"When you have these types of committees, you need the engagement of all of them and they need to work together, but you also need to have somebody who understands the makeup of the team and who has the ability to influence and lead," says Petzinger. "If you haven't identified that person, sometimes the EHS team is well-placed to play that role because they have already learned how to wield those skills very well and apply them to EHS programs to move their commitments forward. That's an important first step."

Step #3. Consider outcomes for each initiative.

When planning for initiatives to improve ESG, consider very specific data-driven goals. For example, one company might say, "We're not as focused on a short payback period; we need to show volume reductions in our water footprint." Because there's an energy cost in water, the energy reduction is likely to reduce costs, "but really, water reduction is the goal," says Ben Slick, senior vice president of business development with HydroPoint. "Another company's outcomes for the same project may be different. They might say, 'We want to improve net operating income because we have certain assets we want to sell and we'll get a better rate if energy expenses are lower.'"

It may also be useful to set secondary goals — which are often associated with risk management, Slick says. By reducing water waste, you are managing costs

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associated with repairs, for example. "If you have sprinklers that are broken or cascading water into a parking lot, the lot starts to buckle. You may have it in your budget to re-slurry the parking lot every ten years, but now you have to do it every seven years instead," Slick explains. Or if you have too much water at the base of stucco outside an apartment, that creates structural issues, which lead to insurance considerations: what are your water-related claims? How did your deductible change after a claim?

"These are all secondary things that contribute to the bigger picture beyond the water bill," Slick says.

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Step #4. Digitize and define.

Digitizing can be a key piece of streamlining your ESG program, says Petzinger. "You can certainly do this in spreadsheets and emails, but as your ESG universe starts to expand, managing these things in a manual way takes more time and is more prone to error," she explains. "And it doesn't have those controls you need in order to be confident in what you're reporting."

Additionally, choosing to digitize elements like energy or water management across properties will help improve your control over them. "You know the old adage, you can't manage what you can't measure? It's true," says Slick.

Before starting an initiative, identify what you already know, and start with baseline metrics. Then identify what you want to know. "You might want to know how much you spend, and is it going up or down? Are you using less but spending more because rates are rising? What are companies outside your company doing, and what are their metrics? Understand your basic metrics that are unique to your business," Slick explains.

Step #5. Wave your magic wand.

When moving forward, it can be helpful to first look back and ask questions: Where have you spent your time and budget in the past? Which programs worked and which didn't? How did you select a vendor? What went right? What lessons did you learn? If you could wave a magic wand, what would you do differently?

Asking these simple questions can help inform next steps. "It's really helpful to

use lessons from the past to inform future decision-making and guide you forward," says Vickers. "I also strongly believe in learning from others, so soliciting feedback from external stakeholders can help unlock ideas and strategies that you may not have thought about or avoid costly mistakes. So tap into your village."

Also, pick a reliable and proven vendor that has a track record of success, and that is truly a partner. Your vendor should be invested in your outcomes and will be with you through every step of the journey, from on-boarding to training to monitoring your data.

FINALLY, HONE YOUR 'EQ'

ESG is not a "new thing." Rather, it is the continuation of a conversation being driven increasingly by a broader audience. "It focuses on the different aspects of environmental, social and governance risks and opportunities that make a business more sustainable in general, and not just on the compliance or environmental aspects," says Petzinger. "It's really a more holistic approach."

Approaching ESG from a holistic business perspective rather than an environmental one may also be a smart move in terms of "selling it" to stakeholders. "It's a matter of emotional intelligence," says Spain. "You can't just come barging in and pointing a finger and saying, 'It's our planet, we have to save it!'"

Encourage stakeholders to understand the importance of ESG in business terms: customer retention, cost reductions, saving resources, reducing liability, managing risk of business interruptions, and more. "Help them understand that wasting resources is wasting money and is absolutely worth stopping," Spain explains.

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Companies are increasingly struggling to adapt as they continue to face both economic and valuation pressures to demonstrate their success at environmental, social and governance considerations. The struggle, however, is worth it, from both an environmental and business standpoint, experts agree.

The true potential of the best types of ESG initiatives lies where meaningful environmental conservation is able to scale because it is economically and operationally sustainable. "When you are able to save real money by eliminating needless waste, your entire world view of the problems before us is transformed from seeing an endless landscape of challenges to realizing that, if managed right, 'There's gold in them darn hills,'" Spain concludes.

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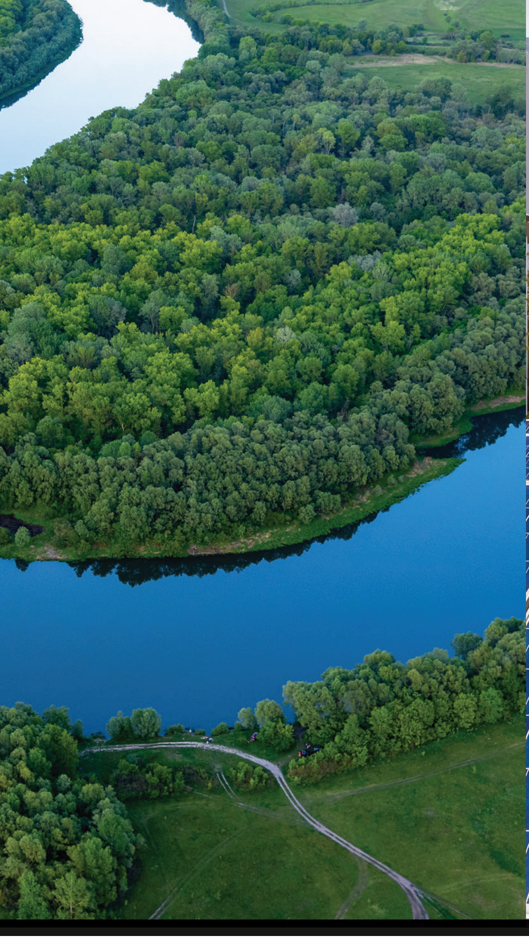

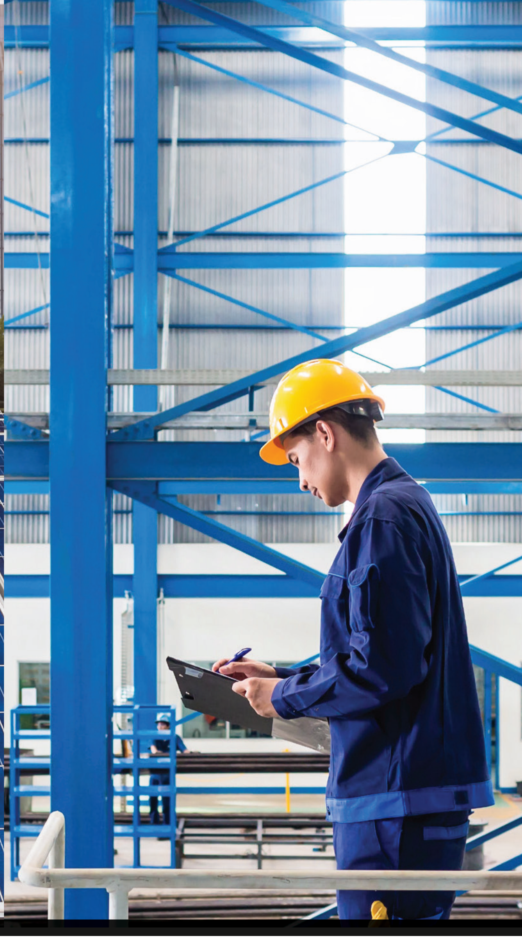

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