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ESG

Dos & Don'ts



A New Ethical Landscape

Many investors are now using non-financial measures to decide which companies to invest in. Environmental, Social and Governance (ESG) investing - sometimes referred to as sustainable investing - can lead to top-line growth as well as having benefits for the planet and society, hence its growing importance.

Environmental criteria relate to how an organization safeguards the environment, including efforts to combat climate change. How the organization manages employees, suppliers, customers, and the communities in which it operates makes up the Social criteria while Governance deals with the organization's structure; the leadership team, executive bonuses, audits, internal controls, and shareholder rights.

The rising importance of ESG has also led to a number of controversies as some organizations attempt to dupe investors. From Dieselgate to the offices of Deutsche Bank and DWS being raided, there are plenty of cases of ESG violations hitting headlines. This presents a huge challenge for investors: how can they cut through the noise and assess a company for its true ESG value that matches the investor's expectations and ethical stance without any hidden risks?



ESG is Business-Critical

It's not just investors that have a keen interest in ESG performance. Almost 70% of Gen Z workers say they would be more likely to apply for a job at a company that emphasizes a racially and ethnically diverse workplace. What's more, 88% of this generation agree that potential employers should ask people about their preferred gender pronouns. Employers with highly satisfied employees were found to have better ESG performances than global average employers, so there is a clear link between ESG, satisfied employees, and business growth.

Customers also believe in companies with high ESG standards. For example, a recent study found that over 70% of people would pay more for a green product, assuming they met the same standards as non-green alternatives. Another study found that companies with strong ESG practices frequently outperform their peers financially.

By incorporating ESG into your organization's purpose, mission, and culture, you're sending a strong message to stakeholders that you have a transparent plan that helps the environment, supports diversity and equal opportunities, and ensures ethical business decision-making.

Your Do's and Don'ts

When it comes to developing your ESG strategy and how to report on it, it's important that your organization has a genuine interest in what it's trying to do. Here are some of the key considerations to take into account when building and developing your ESG strategy.



01

Focus your Efforts — on What's Relevant

It's a good idea to focus your ESG strategy and the subsequent disclosures you make around the topics which are most relevant to your business and sector. By aligning your values and goals with relevant areas, it's easier for investors to assess your potential and identify any risks involved.

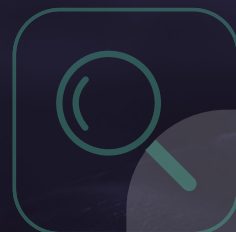


When it comes to environmental concerns, consider your organization's carbon emissions if business travel is frequent, or whether you can adopt renewable energy sources and clean technologies in your operations.

What are your pollution and waste practices and what does the organization do to lower its use of water and raw materials? Many investors are interested in how executive pay links to sustainability goals, which ties into the Governance of the organization.

You should also consider what communities you work in and the challenges they face. Does the organization have any beneficial or adverse effects on the local community, whether directly or indirectly?

These considerations should help you narrow down what ESG targets are most relevant to your business and how it can have the greatest impact.



02

Don't Withhold Your ESG — Performance Data

A clear sign of an organization that isn't taking its ESG obligations seriously is if it fails to release its ESG reports or back up any statements made in marketing materials and annual reports with evidence and data. Be sure to report on where you are with ESG metrics, even if you're simply setting a benchmark for improvements that you can share in future communications.

03

Don't Greenwash — Results

When it comes to measuring their environmental impact, some organizations choose to 'greenwash' their results. The term 'greenwashing' was introduced in 1986, initially used to describe the actions of a beach resort in Samoa. Reusable towels were being provided as a way to help the environment but at the same time, the resort was expanding its facilities, leading to a greater negative environmental impact.

Today, greenwashing is used to describe statements that exaggerate, mislead, or highlight certain facts and omit others in relation to environmental impact. Take note of the negative news stories that surround greenwashing allegations and how damaging they can be on even the largest brands - it's not worth the risk.



04 — Collaborate with Other Departments

ESG outputs and activities do not solely sit with E&C professionals but are shared right across the organization. One of the keys to successfully implementing an ESG strategy is gaining full support and buy-in from the Board and leadership teams who need to lead the charge and set the tone at the top.



People and HR colleagues also play an important role, particularly when it comes to diversity and inclusion and the social aspect of ESG. There are also a number of legal, risk, compliance, IT, and communication considerations when it comes to setting goals and reporting on ESG performance.

Finally, employees at all levels need to understand the organization's ESG position and results, as well as have an easy and accessible way of reporting back to the company when it's not meeting expectations.

05 — Be Consistent and Hold Yourself to Account

As well as building your ESG objectives around business-relevant areas, you should also think about what frameworks make sense for your business and align with investor requirements and expectations. When it comes to setting your KPIs, try and think long-term, as it's essential to prove that your ESG performance is improving year on year.

When reviewing your gender and diversity split, report honestly on where you are now and what could be done to improve this over time. Indicating that you are progressing while admitting that some work can still be done is often seen as a better practice than making fraudulent claims or omitting information outright.



06

Measure Your Supply Chain Performance

Stakeholders need a clear picture of the operational setup, treatment of workers, and use of resources right across your supply chain if they are to accurately measure your ESG risks.

ESG metrics should therefore expand beyond your organization to consider external organizations such as partners and suppliers. By holding these external organizations to the same standards as you hold your organization, you're sending a clear message to them and stakeholders that ESG is front of mind and a core part of who you are as a business.



07

Don't Run the Risk of Penalties

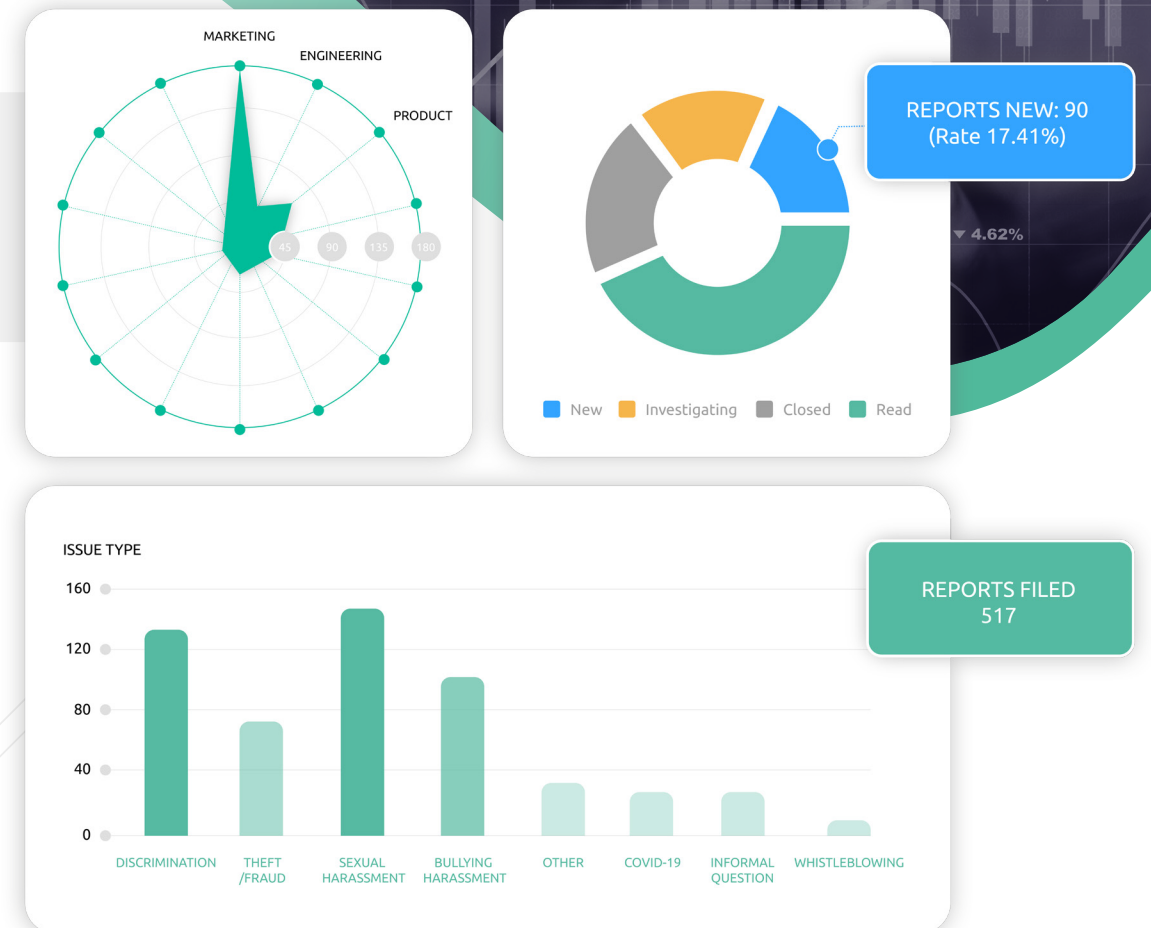
If an organization is greenwashing or otherwise misleading investors, customers, and the public, it may catch the eye of the U.S. Securities and Exchange Commission (SEC). In March 2021, SEC - an agency tasked with enforcing the law against market manipulation - created a Climate and ESG task force within its Division of Enforcement to focus efforts on identifying and investigating ESG-related violations. The task force looks for gaps or misstatements in an organization's disclosures for possible signs of mislabeling or in extreme cases, defrauding investors.

In 2012, for example, SEC charged BP Plc with misleading investors when oil from its Deepwater Horizon rig was flowing into the Gulf of Mexico. BP subsequently agreed to pay a \$525 million penalty. More recently, Ernst & Young agreed to pay \$100 million to SEC after some of its auditors cheated on the ethics portion of the exam required to become a certified public accountant. The jaw-dropping costs involved in these cases highlight the high risks that come with ESG violations and masking the truth.

08

Prioritise Data Collection and Analysis

At the heart of transparent ESG reports is data that facilitates greater accountability, traceability, and transparency, giving stakeholders a clear and concise picture of your business. It's likely that you'll need to consolidate data from multiple sources in order to get an accurate picture of your performance, so invest in the right infrastructure to make this process as smooth as possible. Remember to keep an eye on the standards set out by regulators as they attempt to standardize ESG metrics, as this may change what you need to include in subsequent ESG reports and disclosures.



When it comes to encouraging employees to report workplace misconduct and ESG violations, incumbent solutions like hotlines have proved to be ineffective. The adoption of a technology solution in the form of a safe, secure, and agile digital platform, meanwhile, demonstrates a company's willingness to truly support a Speak-Up, Listen-Up culture.

Vault's end-to-end platform provides employees with a robust, accessible, and trustworthy digital reporting system that lowers the barriers to coming forward. Businesses can use Vault Platform to drive operational efficiencies with automated triage and transform their case resolution with easy collaboration between teams. They can also connect the dots and identify risk patterns before they become problems.

09

Set Realistic & Ambitious Targets for Improvement

Above all, remember that ESG is an ongoing process. Inaccuracies will eventually be exposed to investors, employees, the public, the media, or all of the above, so rather than risking the damage to your brand, focus on what's achievable and truly represents who you are as a business.



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