ARTICLE

Talk is cheap - it's time for business to put ESG into ACTION

In a four-part series, FTI Consulting's Strategic Communications experts delve deeper into how, specifically, organisations and management teams can **ACTION** their ESG efforts to remain ahead of the curve and best equipped to weather any storms in the future.

A	C	T	I	O	N
Agreement	Comprehensive	Tactical alignment	Implement	Ongoing review	Never forget

This first instalment offers a broad view on several of the key considerations to employ from the onset. Following this, each article will offer a more in-depth assessment on each of the three core components of any company's ESG strategy.

Those Who Care, Win

There is no doubt that we live in a dynamic, evolving and unpredictable world – and COVID-19 has made it all the more real. Today's investors are being confronted with tougher investment decisions and more complex risk profiles, both of which they need to analyse when choosing which assets to invest in. And when making these decisions, ESG investment considerations are increasingly taking centre stage.

The term ESG identifies three core pillars which are made up of **E**nvironmental, **S**ocial and **G**overnance factors, all of which are used to assess a business, the standards it represents and its sustainability performance. Once this information has been gathered, it can be embedded into an investment process to help decide which investments are closely aligned to the ESG ethos of having a positive long-term impact on the planet and its inhabitants, combined with the potential to deliver a strong financial performance.

ESG data includes company disclosures on its environmental impact through to its social policies, from data security and privacy, to human capital and employment standards. It also encompasses several key corporate governance themes such as internal controls, systems and risk management procedures, which a business complies with in order to govern itself in line with the law, regulations as well as meeting the ethical disclosure obligations for all key internal and external stakeholders.

ESG criteria assess an investment's potential risks and opportunities, far beyond just financial modelling alone. It has the potential to deliver a more holistic assessment, which many argue forms the cornerstone to deliver better, more sustainable long-term returns vis a vis the competition.

In fact, industry research* has shown that those companies which rank highest on their ESG score recorded better performance than the average S&P company over the last five years. There is no doubt that sustainable investing will likely become the norm with some industry commentators predicting that ESG fund inflow could increase by $15-20 trillion over the next two decades. Just to underpin this idea of momentum, in 2005 the UN created the "Principles for Responsible Investment", which from modest beginnings has grown to having 2000 plus signatories today and, according to reports, represents many trillions of dollars in assets under management with a focus on being ESG conscious.

There is no doubt that change is coming, and that by 2030 ESG disclosures will likely become a standardized requirement for companies of all shapes and sizes, underpinned by higher quality and more transparent data analytics. Its adoption will be driven by investor demand and compliance will be supported by even greater regulatory scrutiny.

So, what do companies need to do to develop their ESG preparedness?

In order to initiate the beginning of an institutionalised structure the following **ACTION** points should provide useful guidance.

Agreement at Board level to ensure that ESG is central to the company's business strategy and reporting obligations. Once this has been achieved, it will be crucial to agree on which reporting frameworks, standards and guidelines to use. There are many to choose from and they are usually industry specific, so some specialist consultant guidance here could be required. It would also be strategic to conduct a benchmarking exercise during this process to fully understand ESG best practice within the company's sector and to understand the company's ESG preparedness against its peer group. It will be key to do this both at the outset and to continue the exercise on an annual basis, in order to effectively benchmark progress and performance.

Comprehensive review of day to day business operations to fully understand and map out the ESG risk and opportunities landscape for the business, and to identify key objectives in line with the agreed reporting frameworks.

Tactical alignment of ESG strategy with business strategy so that they become mutually dependent on one another – all business decisions going forward should be made, or certainly influenced, through an ESG-focused lens.

Implement enhanced ESG-centred business strategy which is focused on clear objectives and deliverables and held accountable within a robust management structure – accurate data analysis and reporting are crucial, so it is worthwhile to seek specialist guidance to ensure the most appropriate systems are in place for the specific needs of the business, and it's sector.

Ongoing review of ESG strategy to ensure effectiveness and assurance that targets are being met. This should be combined with regular adjustments, made as and when needed with peer benchmarking, to provide helpful market context and guidance. The quality of reporting is as key as transparency, so it is critical to develop ESG disclosure policies which are clear, consistent and systematic with all public domain ESG reporting. It is essential too that such reporting and associated ESG metrics are delivered with the same level of due diligence and controls as for traditional financial reporting.

Never forget that there are always experts than can be utilised as and when required to address any significant challenges along the way.

The usual adage goes that in times of crisis, emerge opportunities. All things considered, the recent pandemic has shone a bright light on the need for businesses and industry to remain as open, transparent and well-governed as possible. So, there is an opportunity for all organisations to review, assess and implement the necessary measures to put their ESG strategy front and centre. The ability to do this, and the effectiveness of its outcome, can be facilitated by having the right support and the right guidance in place. Constant collaboration between companies and their advisors will prove key in delivering that success for now and for the long-term.

**Bank of America Global Research Study, January 2020*

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0986 - 05/20