Diligent

Outlook 2022

Five Priorities for Boards, Management & Governance Professionals

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Many organizations are undergoing fundamental transformations. As the pandemic lingers, companies are navigating various market forces and evolutions, including new business models, changing workforce equations and increased demands for equitable workplace practices, supply chain improvements and greater diversity. Organizations are undergoing these changes not only as a means of survival and business resilience, but also in response to elevated stakeholder expectations that go beyond shareholder returns.

This shift from shareholder-centric to stakeholder-centric capitalism is accelerating, and the 2021 proxy season revealed the heightened focus on environmental, social and governance (ESG) issues – climate change; board diversity, equity and inclusion (DE&I); and executive compensation – that were the key focus areas this season. Over 467 shareholder resolutions on ESG issues were passed, setting a new record.

As companies and leaders define their strategies for 2022, it is critical for their operational and governance practices to be strategic, fluid and sustainable. The governance technology, processes and skills that organizations need must evolve as quickly as the business landscape itself. Companies must be all at once more agile, more informed, more secure and more purpose-driven.

In this governance outlook, we outline five priorities that all board, executives and governance professionals should have on their radar.

Rise of stakeholder capitalism

Diligent Institute conducted a survey to determine the sentiments of over 400 corporate leaders on stakeholder capitalism and how that would translate into action and systemic change. When asked if we are in the midst of a fundamental change in capitalism from a primary focus on shareholder return toward a system in which corporations must have a societal purpose and serve all stakeholders, 84% of the directors agreed and 50% strongly agreed.

> "We have entered a new era in business where hitting financial metrics isn't enough for leading organizations; managing broader stakeholders is now critical to success. This stakeholder-centric era introduces opportunity, but also complexity, increased scrutiny and unforeseen disruption."
>
> – **Brian Stafford**, CEO of Diligent Corporation

Key Stats From the 2021 Proxy Season

- 30 environmental and social proposals had passed – the highest number on record and a 50% increase over the 2020 proxy season
- More than one-third of environmental shareholder proposals passed
- Record-breaking support for shareholder proposals focused on board diversity and political contributions

5 Priorities Driving Governance in 2022

1 ESG Will Remain Center Stage

Organizations will need to be cognizant of changing expectations and their evolving role in society. They will need to take stakeholder considerations into decision-making, not only because it's the right thing to do, but also because investors will demand it. In an episode of Inside America's Boardrooms, Paula Loop, Leader of PwC's Governance Insights Center, frames boardroom priorities:

"It's no longer acceptable to step back and do nothing related to ESG. So, I would say to boards, first and foremost, figure out what is out there already on your company. Understand the position you're in – and think about putting your toe in the water and driving your own messaging."

With ESG disclosure regulations likely to pass in 2022 (both in the U.S. and in Europe), there will be increased scrutiny on ESG reporting, requiring companies to identify the data and tools they will need to tell a more comprehensive story in 2022. Boards need to ensure that management teams are setting the right ESG goals, and management should take steps to operationalize those goals across each business unit – in ways that can be measured. This will entail making environmental sustainability an engagement priority, reassessing operations and supply chain management from an ethical lens, bringing more transparency to business practices and taking steps to address socioeconomic inequality by mitigating income gaps and wage disparities.

"The pandemic has shown us that we need to rethink the role of the company in society and therefore also the role of governance. Board members all over the world are starting to see we have a role that is bigger than ourselves. I think we will see smart and courageous board members taking a stand."

– **Helle Bank Jorgensen**, Founder and CEO, Competent Boards

Recommended Actions

- ☐ **Boards:** Focus on materiality. Standardization of ESG metrics and reporting will continue to be a key focus for 2022, but boards shouldn't wait around or get caught up in framework selection. Boards must identify the aspects of ESG that are most material or relevant to their organizations and then set goals for improvements.
- ☐ **Management:** Focus on operationalizing ESG throughout the business. Large concepts such as equality or environmental sustainability can be examined through quantitative metrics on wage inequality or water usage. Invest in the data and technology you will need to report more thoroughly in 2022.
- ☐ **Governance Professionals:** Start benchmarking. Investors are already looking at ESG metrics for your company. Ensure you have access to data on your own organization and your peer companies. Diligent ESG is a good place to start.

2 DE&I is Non-Negotiable

Concern over systemic racial, gender and ethnic discrimination will need to be addressed. COVID-19 and the Black Lives Matter movement have renewed the spotlight on the need for diversity across organizations and leadership ranks. Directors must demonstrate intent to keep diversity and inclusion at the top of their agenda, request metrics on progress and ensure management implements actionable policies.

State governments, institutional investors like BlackRock and regulatory authorities like Nasdaq are calling for greater board diversity. Companies are also increasingly acknowledging the positive impacts of greater board diversity: enhanced value creation, improved customer experience, increased innovation and increased profitability. In turn, boards should plan to self-report on diversity statistics – a practice that should extend throughout all levels of the organization – and be upfront about the areas of improvement across their disclosures and engagements.

According to Julie Daum, Leader of Spencer Stuart's North American Board Practice, 90% of the board searches they're doing now have a diversity component.

"It's in response to the institutional investors, but it's really more in response to their own employees and their customers," said Daum in a recent episode of Inside America's Boardrooms. "[Boards] want to make a statement that [diversity] is indeed important to this board and to this company."

According to the Director Confidence Index, 46% of public company board members surveyed are in favor of diversity mandates, indicating that we may have reached the tipping point in the board diversity conversation – one that welcomes regulatory intervention if boards aren't going to drive the necessary changes themselves.

> "My boards began to [...] focus more directly on the impact that these conversations had on both our investors and our employees. And as a board, we felt a bit of urgency to think about what we needed to do in [response]. Most boards have been so focused on their business that they frequently forget that there are issues that impact their ability to do their business in an effective way - and this is one of them."
>
> – **Rose McKinney-James**, Board Member with MGM Resorts International and Toyota Financial Savings Bank

Diversity & Inclusion Resources

- LISTEN Recruiting for More Diverse Boards
- LISTEN Meeting the Moment for Board Diversity
- WATCH Battling Racism: How Boards Can Have a Positive Impact
- WATCH Recruiting New Corporate Directors in a Virtual Environment
- READ Diversity Playbook: A Roadmap to Driving Board Diversity

Recommended Actions

- ☐ **Boards:** Self-report diversity data. If your board is not yet under mandate, it likely will be soon. Use disclosure as an opportunity to showcase the thought and attention that's gone into your board composition. Be open and honest about gaps and prioritize them.
- ☐ **Management:** Cultivate a diverse pipeline. Diversity in leadership requires focus on the front lines – on talent acquisition and on development. How can management use metrics to track the organization's progress?
- ☐ **Governance Professionals:** Consider how technology can advance the organization's diversity agenda. Consider equipping the board with a database of diverse candidates. And consider how you can connect qualified candidates in your own organization with other boards. Learn more about Diligent's Modern Leadership initiative.

3 Executive Compensation Is Under Additional Scrutiny

A vital part of strategic oversight and subject to critical shareholder votes, executive compensation structures must meet the current landscape characterized by evolving workforce strategies, digital transformation, the need for business resilience resilience, and increased demands from stakeholders.

In 2021, shareholder support for U.S. executive bonuses is the lowest since 2011. This year, the average support for payment packages has dropped to 87.6% from its high of 91.8% in 2015. According to Lisa Edwards, President and Chief Operating Officer of Diligent: "Last year there was a pandemic and perhaps increased awareness of layoffs and pay against general suffering." Edwards predicts that bonus pay is likely to stay high, but that the increase in failed votes could be the beginning of a trend. Dating back to the start of the pandemic, 246 Russell 3000 companies issued adjustments to their incentive plans to reflect the unusual performance year. As boards consider compensation strategies for 2022, they will need to apply discretion to determine executive emoluments and to assess whether compensation is tied to performance over which the executive has control.

Many companies are also tying ESG and DE&I metrics to executive compensation. As of April 28, 2021, 58% of S&P 500 companies had included ESG metrics in their annual incentive plans, according to a study by Meridian Compensation Partners. Of the plans containing ESG metrics, social metrics (including DE&I, workforce health and safety, product quality and safety, human capital, and culture) were the most prevalent, appearing in 95% of plans. Environmental metrics (including carbon, climate and other holistic CSR metrics) appeared in 39% of pay plans containing ESG metrics.

While there is an appetite for ESG-related metrics from the shareholder community, it is important to note that investors are not aligned on how these should be integrated. In turn, companies should use internal drivers – not external forces – as the foundation for compensation program design.

At the least, the compensation committee should be having conversations about ESG metrics to assess the relevance for their organization.

> "Compensation committees have had to figure out how to ensure that executive teams have been incentivized to navigate through what have probably been the roughest waters that many companies have seen – whether companies have done really well and seen a boost to their earnings or companies have been really challenged. Being able to navigate through those waters [and] ensuring that teams are appropriately engaged and compensated and incentivized are all things that comp committees have been having conversations about."

– **Susan Chapman-Hughes**, Board Member, The J.M. Smucker Company

Recommended Actions

- ☐ **Boards:** While setting the pay of the CEO and other executive officers, structure pay packages that incentivize the appropriate performance and receive the support of shareholders. Consider integrating ESG metrics into those compensation packages to ensure they align with company purpose. Ensure your boards and leadership teams have access to accurate data on the current compensation landscape and what your peers are doing.
- ☐ **Governance Professionals:** Support the compensation committee by providing the data, tools and legal counsel they need to anticipate shareholder reactions and make decisions about executive compensation. Learn more about Diligent's Executive Compensation Solutions for peer benchmarking, pay-for-performance modeling, stakeholder monitoring and CD&A disclosure search.

4 Board Effectiveness Will Be Increasingly Critical to Success

Employees weren't the only ones who made the virtual transition during the pandemic; board members did as well. And, like the thousands of companies that were surprised by their own capability to change, boards have also settled into new and more efficient ways of meeting, communicating and making decisions.

According to Dawn Zier, Board Director, The Hain Celestial Group, one silver lining from the pandemic has been the strides in board effectiveness:

"There were more frequent conversations between management and board directors," explained Zier, in the Diligent Institute's Ask a Director Series. "There was less formality, fewer presentations, and more candor and transparency as we all tried to address issues for which there was no playbook."

As a result, Zier said, boards spent more time on discussions that really mattered: "I'd like to see this focus continue post-pandemic [...] Quarterly meetings should be reframed to allow more time for really discussing and measuring progress rather than business presentations."

Over the last several months, virtual board meetings have also begun to shed their stigma. According to Diligent's recent Director Confidence Index, only 32% of board members expect to go back to 100% in-person meetings, with the other two-thirds opting for either fully virtual or hybrid models.

As companies start implementing their return-to-work strategies, boards and executive teams will require the right digital tools and resources to conduct business, spot opportunities and make decisions quickly. Security will continue to play an increasingly critical role in protecting an organization's data and safeguarding its key targets – board members and senior management – from cyberthreats.

> "Board members are beginning to realize that a healthy mix of in-person and virtual attendees will not affect the effectiveness of the board. I also think that this in-person and virtual mix will make for more international and diverse boards."
>
> – **Doris Honold**, Chair of Board Risk Committee, Credit Suisse International; Senior Fellow, Advanced Leadership Initiative, Harvard University

Board activities will retain virtual elements

32% of board members expect to go back to 100% in-person meetings

62% of board members expect a significant portion of board activities to remain online

6% of board members expect over 75% of board activities to remain online

Recommended Actions

- ☐ **Boards:** Re-examine onboarding. As you bring new talent onto the board, it's never been more important to get them up to speed and contributing quickly. Consider the challenges of virtual onboarding and how you'll overcome them.
- ☐ **Management:** Leverage the board as strategic advisors. For many executives, the board was an invaluable resource during the COVID-19 pandemic. What worked well? How can you formalize those aspects in your board meeting processes?
- ☐ **Governance Professionals:** Lead the transformation. We're entering a new era of governance. How can you empower your boards with better connectivity and information? Boards will increasingly turn to governance professionals for advice and process expertise in uncertain times.

5 Digital Resilience Will Continue to Be a Differentiator

As companies transition to new forms of workspaces, including home offices, digital resilience continues to be critical in defining long-term business strategies. According to Maria Morris, board member with Wells Fargo and S&P Global, an organization's ability to succeed will depend on how quickly and how adeptly it harnesses technology to enable growth, respond to change and protect its workforce in this new normal.

"Digital resilience is business resilience," said Morris in a recent webinar hosted by Diligent and Unqork. "The more digitally resilient we are, the more operationally resilient we are." The webinar panel touched on a few critical areas of board focus, including the cybersecurity implications of the virtual world and company investments in more agile technologies/operations.

Consequently, businesses will need to reprioritize vital technology initiatives around digital operations that enable and enhance productivity, responsiveness and collaboration among distributed teams. Terms like operational governance have been key in 2021 as organizations began viewing processes such as data management, security and collaboration more holistically. This will continue to grow in 2022.

Another key area where technology can support efficiency in organizations is to reduce the burden on staff around regulatory and compliance issues by streamlining processes and implementing controls for continuous monitoring of risks. "You can bring the data to light with different key risk indicators or performance indicators, whether leading or lagging indicators," says Robert Luu, Acting Managing Director and Director of Client Partnership, Asia-Pacific and Japan, Galvanize. "Then you can use that data, pulling in from multiple areas of continuous monitoring to share it with the rest of the group. That allows us to stay on top of regulatory changes and ensure that policy is being followed and attested to." A best-in-class governance, risk and compliance (GRC) solution can help connect the different teams associated with your risk management process and provide them with deep insights to help manage risk and guide priorities.

> "There's still an inclination when there's a digital problem to turn to technology and say, 'Fix it.' But it really needs to be resolved cross-departmentally – as a business challenge."
>
> – **Gary Reiner**, Board Member, Citi, HPE; Operating Partner, General Atlantic; Former CIO, GE

> "Cybersecurity is not an IT problem. It is an enterprise-wide risk management issue. We need oversight from the board of directors to set the environment for a good cybersecurity culture […] so the entire organization can embrace cybersecurity and follow best practices."
>
> – **Larry Clinton**, President, Internet Security Alliance

Recommended Actions

- ☐ **Boards:** Ask questions about technology investments that the organization is making. The board must move beyond the metrics of on time and on budget, and focus on value. Consider implementing a cyber risk dashboard this year to ensure boards are asking the right questions.
- ☐ **Management:** With the pandemic's crisis response phase behind us, turn your attention to growth. In what ways will customer experience or data integration be a differentiator for your business? What innovations need to be prioritized now to reach the organization's three-, five- and 10-year goals?
- ☐ **Governance Professionals:** Consider how disparate processes become part of a broader operational governance strategy. In a virtual landscape, secure workflows and reporting must continue to streamline and integrate. What innovations in governance, data and collaboration need to be achieved this year?

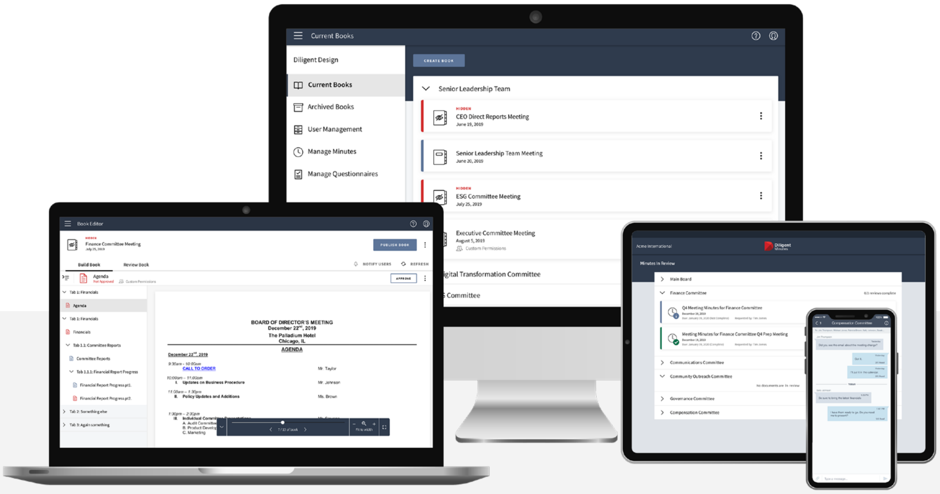
The Need for Modern Governance, Risk Management & Compliance Practices in 2022

For organizations to thrive, leadership and governance practices will need to continue evolving in order to meet the moment.

Organizations need to reassess, reprioritize and reinvent their risk management, compliance and audit strategies to balance global operations, hybrid workforces, growth goals, regulatory demands and stakeholder relationships. Boards, meanwhile, need to elevate their governance practices, transforming corporate governance into a strategic business advantage while keeping their company's purpose at the heart of the organization.

The Diligent platform equips organizations with the security, foresight and accountability to withstand challenges and power positive change. Diligent enables this transformation through its best-in-class solutions that empower boards, management teams and organizations with the technology, insights and processes they need to endure and thrive.

The people, processes and information fueling these critical transformations are more important than ever. In 2022 and beyond, an integrated approach to governance, risk management, compliance and audit will be foundational to long-term organizational resiliency.



To learn more about Diligent's modern governance solutions and how they can position your organization for success, schedule a call with a Governance Advisor.

SCHEDULE A CALL

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a MODERN GOVERNANCE company

About Diligent

Diligent is the leading governance, risk and compliance (GRC) SaaS provider, serving more than one million users from over 25,000 organizations around the globe. Our modern GRC platform ensures boards, executives and other leaders have a holistic, integrated view of audit, risk, information security, ethics and compliance across the organization. Diligent brings technology, insights and confidence to leaders so they can build more effective, equitable and successful organizations.

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The Future of GRC

Create Value by Bringing Risk, Audit & Compliance into the Boardroom

Governance, risk management and compliance (GRC) combine three business areas critical to the daily operations of today's organizations, each with a rapidly evolving landscape of its own. As the nature of this dynamic suggests, board members and risk, audit and compliance (RAC) teams must weave their efforts together to establish a holistic GRC function within an organization. However, GRC strategies and initiatives are too often driven by siloed RAC functions, which are, in turn, siloed from the board – the leaders responsible for governance. These unintegrated GRC efforts expose organizations to enormous risks and gaps in strategic decision-making.

When things go wrong, organizations can face hefty penalties, including fines in the billions and the imposition of a corporate monitor for several years, not to mention damage to reputation, revenue and growth.

How can organizations unearth the most pressing risks in a timely fashion, then escalate them to the board agenda? What shifts must occur to establish greater visibility across business frameworks? Leading RAC professionals are paving the way for these crucial changes.

A recent Diligent webinar highlighted three key takeaways including best practices that RAC professionals and their boards can enact within their organizations right now.

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1. Risk, Audit and Compliance Leaders Must Effectively Articulate Their Vision and Value

Gone are the days when risk, audit and compliance teams could simply show up at a board meeting, present a new regulation, and insist upon compliance without further explanation.

Organizational leaders want to know more. Why does this new regulation matter to our company? What do our stakeholders think about it? What are our priorities, and what's our plan?

Busy board members want complex, cross-functional topics boiled down for them in a short amount of time — think 15 minutes. Boards also want RAC professionals to connect the dots. When board members see compliance and audit as separate from business, these areas can receive the "checklist" treatment rather than the careful attention they deserve.

Best Practices for Communicating GRC Issues:

- Don't present data to the board without context. Use storytelling to connect risk, audit and compliance metrics to business impact and, in turn, demonstrate the value of the RAC functions.
- Don't misrepresent or sugarcoat negative news. Boards don't expect RAC professionals to be perfect, but they do expect them to be organized and thoughtful. If there is an issue, RAC professionals need to demonstrate they've examined the root cause and can present a plan to fix it.
- Keep it succinct, relevant and truthful — and don't read word-for-word from your slides. Instead, provide the highlights and insightful color commentary that adds value to those highlights.

"The more that we can sell that story that we really are aligned with [business] initiatives, how we're aligned with the initiatives, why we're making them go faster and be cheaper — that story is really compelling and effective. And the more we can frame it in that positive light, the more likely we are to get buy-in."

Kristy Grant-Hart
CEO, Spark Compliance Consulting

2. Today's Boards Must Take a Proactive, Not a Reactive, Approach to GRC

Many traditional sources of risk and compliance data, such as audits and regulatory updates, are backward-looking by nature. Yet survival in today's GRC landscape increasingly requires a forward view.

Consider the environmental, social and governance (ESG) issues that have emerged over the past 15–20 years, and the urgent questions that have surfaced as a result. How will the SEC, EU, UN and other governing bodies respond to world events and shape the future of compliance, reporting and business strategy?

Absent a crystal ball, boards and RAC professionals can ensure the organization monitors the right moving pieces and anticipates change before the risk landscape evolves.

Best Practices for Obtaining Proactive Insight:

- Start with an end point in mind and move backward. What are the pieces that are going to need to happen in order for your organization to arrive at that end point? Which obstacles might get in the way?
- Use tabletop and what-would-you-do exercises to translate metrics into strategic, proactive insights.
- Employ frameworks and methodologies, such as agile or design thinking and trend analyses, to productively guide conversations with the board about risk management and compliance.

"I'm not so sure that predictive indicators are as effective as conversational insight based on trend analyses."

Dan Clark
Principal, D. Clark Risk Advisory Services

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3. Organizations Must Break Down Risk, Audit and Compliance Silos

From data privacy to modern slavery, the ESG issues organizations face today are complex and intertwined. Such an environment demands that risk, audit and compliance leaders work together in an integrated GRC program and work more closely with the board to ensure alignment on GRC initiatives. Yet, all too often, risk, audit and compliance are siloed not just from the rest of the business, but they are also siloed from one another.

Nearly half of participants polled in the "Future of GRC" webinar reported that they communicate RAC issues separately to the board, instead of presenting joint findings and commentary. Moreover, fewer than half rotate personnel between RAC functions to obtain key insights into how these functions are interrelated and to give these professionals invaluable leadership experience.

Best Practices for Staying Ahead of Risk and Change:

- Have representatives from compliance, audit, risk and legal teams present common issues to the board as a group.
- Embed GRC within the business, with professional development and rotation opportunities for RAC professionals.
- Treat GRC as an ongoing commitment and prioritize it within your organizational culture.

"I'm presenting what the business is doing, not just me or my team. So it's integrated, it's holistic, it's part of who we are and part of our culture."

Kim Yapchai
Senior Vice President & Chief ESG Officer, Tenneco

"It's just like sports: If you want to be a home run hitter, you practice, practice, practice. After five, six, eight months of doing that, you will then have an opportunity to actually contribute to a board or a senior management discussion with much more value, much more insight and much more contribution."

Dan Clark
Principal, D. Clark Risk Advisory Services

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Risk, audit and compliance officers' deep understanding of risk, combined with their mandate to prevent, detect and respond to misconduct, are critical parts of the GRC puzzle. With the right collaboration and communication practices, along with enabling technologies and a supportive culture, boards can ensure these valuable voices are heard on time-sensitive and mission-critical GRC issues.

Subscribe to the Diligent GRC newsletter to get key insights into integrating governance, risk and compliance in today's complex global environment.

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About Diligent Corporation

Diligent is the leading governance, risk and compliance (GRC) SaaS provider, serving more than one million users from over 25,000 organizations around the globe. Our modern GRC platform ensures boards, executives and other leaders have a holistic, integrated view of audit, risk, information security, ethics and compliance across the organization. Diligent brings technology, insights and confidence to leaders so they can build more effective, equitable and successful organizations.

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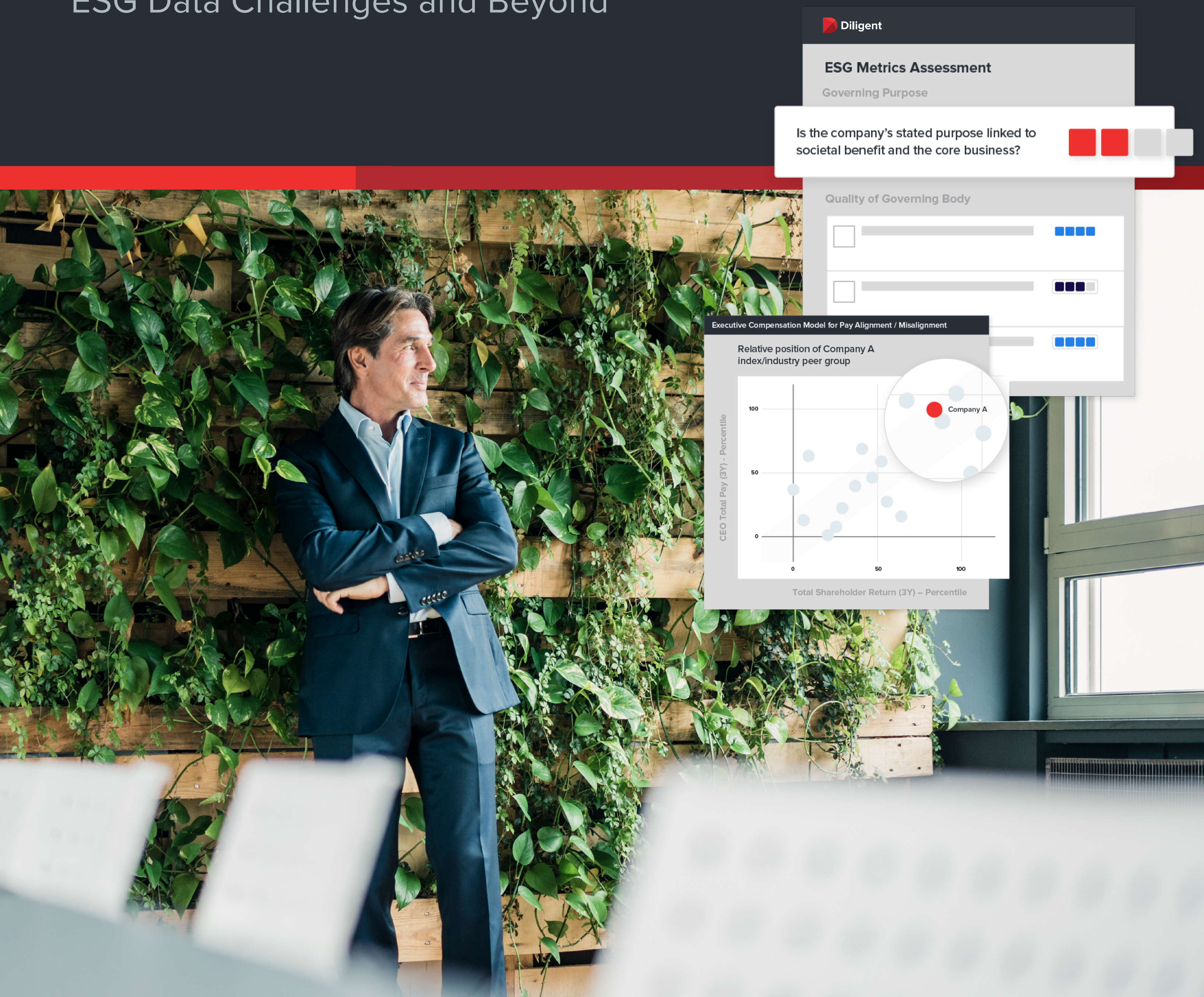
A Buyer's Guide to ESG Data Management Software

Preparing Your Organization for Today's ESG Data Challenges and Beyond



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Leading from the Front on Environmental, Social and Governance Issues

Environmental, social and governance (ESG) issues have become more complex and multifaceted than ever before. At the same time, ESG continues to ascend on board and leadership agendas.

On the environmental side, corporations must accelerate their response in areas from water and fossil fuel consumption to environmental waste and climate change, all while navigating social issues such as pay equity and fair labor standards. They must also consider the increased attention to responsible, efficient governance, particularly in areas such as executive compensation and CEO succession. Meanwhile, ESG standards continue to be refined and are gaining increasing importance alongside shareholder questions and expectations.

The scope of ESG spans across all areas of an organization and touches many parts of the business, both internally and externally. It can be challenging to connect complex and evolving ESG issues with operational objectives, business strategies and organizational risk, at the same time as delivering the right information to the right people for informed, timely decisions.

Organizations need quality data to benchmark their ESG activities and monitor their progress in real time, particularly as shareholders, investors and regulators are keeping a closer eye on the topic than ever before. Yet today's manual processes are prone to data gaps and errors and are unable to keep up with the rapid pace of change in and around ESG. Nor are they able to deliver a panoramic view of the current landscape or provide insight as to what lies ahead, two key tools in helping leaders conduct meaningful conversations and make important decisions about progress and risk.

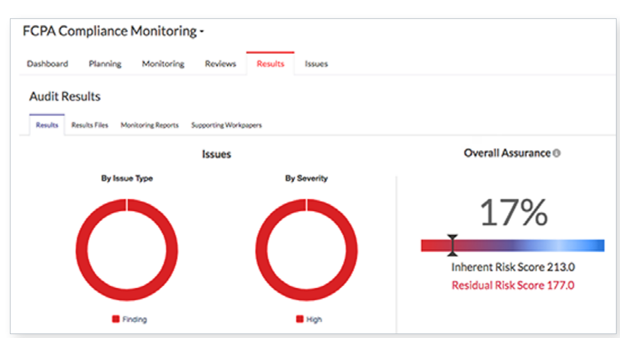
Throughout, stakeholders, investors, activists and the general public are demanding greater transparency about ESG initiatives, and an increasing number of regulatory bodies are requiring it. Where once the concept of measuring climate was vague and arbitrary, accessible and auditable metrics are fast moving from "nice to haves" to "must haves." In France, for example, business owners, asset managers and insurers are required by law to disclose climate risks in their portfolios. In the U.S., a May 2021 executive order from the Biden Administration prioritized the disclosure of climate-related financial risk, and the House of Representatives recently passed legislation requiring publicly traded companies to annually disclose "certain environmental, social and governance metrics and their connection to the long-term business strategy of the issuer."

As forward-thinking corporations fold ESG into a holistic approach to governance, risk and compliance, the right technologies and tools play a significant role. An ESG data management solution can help coordinate the moving parts, report on progress and stay ahead of activists, investors and competitors.

Not all ESG solutions are created equal, however. Organizations seeking the right solution should prioritize five key criteria and areas of functionality:

- Flexibility
- Data collection
- Monitoring and reporting
- Specialized functionality in climate/sustainability and executive compensation
- Service and support

Read on for the questions to ask and the answers to seek when evaluating ESG providers and solutions.



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Flexibility

In the months and years ahead, regulations and reporting frameworks will evolve. The operational and disclosure needs of your organization will also change. Organizations will need to establish an ESG operating system that can grow with them.

Given the complexities and variability of ESG tracking, monitoring, reporting and compliance, a solution that doesn't need configuring and calibrating can be hard to find. Different industries use different ESG frameworks and have differing stakeholder expectations. Laws and regulatory requirements vary across jurisdictions and each organization has its own people, processes and practices for managing ESG issues.

Consider the many parties involved in ESG activities: the CEO, board, corporate secretary, general counsel and audit and compliance teams — not to mention shareholders, business partners and other stakeholders. A good ESG solution must enable them to act quickly and easily, now and in the future. Boards must be able to tailor features to their specific roles, regulatory environments and reporting requirements.

There's also ESG maturity and scalability to consider. A solution needs to accommodate an organization wherever it stands in its ESG journey, easily integrating with existing systems and growing with the organization.

Flexibility Q&A

Does the solution include the latest disclosure frameworks and requirements?	The solution should maintain up-to-date ESG standards and frameworks — including SASB, GRI, TCDF, WEF and CDP — and automatically update as new regulations arise. It should be customizable for different territories and should support bespoke frameworks or an amalgamation of existing frameworks.
Does the solution enable you to easily track shifting investor and stakeholder expectations?	The solution should seamlessly integrate with internal systems and third-party providers for activities such as public perception monitoring. It should also enable you to benchmark progress in areas such as executive compensation.
Are you able to map ESG data to your internal objectives?	The solution should easily integrate with your existing board portal solution and meet the needs of whoever is using it: corporate secretaries, general counsel, sustainability committees and so on. You should be able to set and monitor KPIs, customize peer groups for analysis and track your ESG progress against your peers and competitors.
Will the solution work with your current level of ESG maturity, with the flexibility to evolve and grow?	A gold-standard ESG solution should offer tools that allow you to analyze and orient information in ways best suited to your business. It should offer a clear roadmap to evolve with the needs and requirements of global boards, and should have the ability to seamlessly augment features and capabilities as your ESG initiatives mature.

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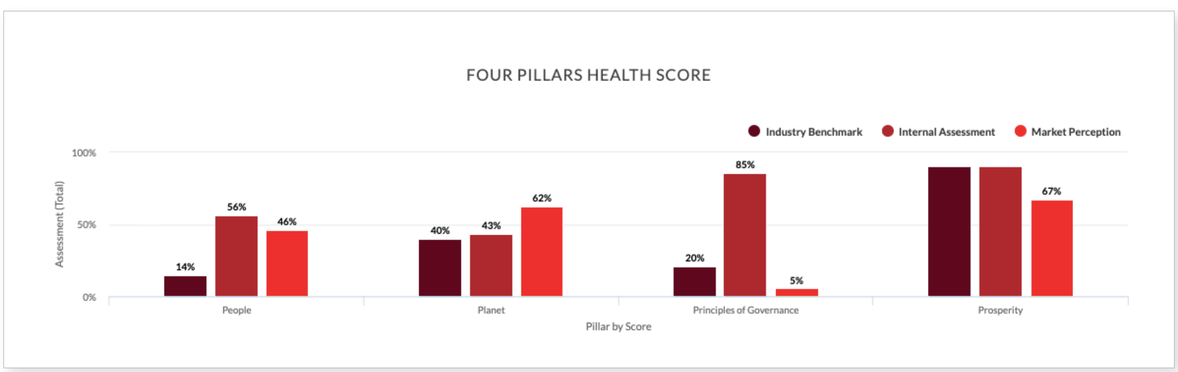
A Guide to Major ESG Standards

- **The Sustainability Accounting Standards Board (SASB)** Based in the U.S., this independent board creates, ratifies and amends sustainability standards for 77 industries, outlining the key ESG issues within each industry. In 2021, SASB merged with the International Integrated Reporting Council (IIRC) to form the Value Reporting Foundation.
- **The Global Reporting Initiative (GRI)** Founded in Boston in 1997, this global, independent standards organization helps entities such as governments and businesses assess their ESG impacts and create a plan for improvement. Though not certifiable, their standards offer a framework by which organizations can report and compare their impacts.
- **The Task Force on Climate-Related Financial Disclosures (TCFD)** The Financial Stability Board created this task force to enhance reporting on financial risk related to climate. This enhanced transparency allows investors, insurers and lenders to make climate-informed financial decisions.
- **The World Economic Forum (WEF)** Headquartered in Geneva, Switzerland, this international NGO hosts an annual gathering where global business and government leaders discuss the world's most pressing issues. In 2020, the WEF published a list of ESG global metrics that consolidates those from SASB, GRI, TCFD, and others.
- **CDP** Based primarily in the U.K., U.S. and Germany, this international nonprofit (formerly the Carbon Disclosure Project) provides a platform through which entities — ranging from businesses to entire cities and states — can analyse, disclose and manage their environmental impact.



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Data Collection

Data-rich organizations operate more efficiently, more decisively and with greater foresight than their peers — and this is particularly true in the complex, evolving area of ESG.

Consider the many parties involved in monitoring and reporting on ESG issues: sustainability officers, general counsel, compliance departments, audit teams, investor relations representatives and more. These members of the ESG ecosystem need to collect and tailor data in the most efficient manner, while minimizing impact on the data's owners. To operate with maximum efficiency, speed and accuracy, they require a solution that simplifies and automates data collection and keeps it moving smoothly across multiple processes and business functions.

The methods of collection and means of storage also matter. Can the right people access the data, and is it secure from those with ill intentions? Will data collection practices stand up to the scrutiny of a third-party audit? And does the solution gather the timeliest data from the right sources, so ESG practitioners can make informed decisions?

Data Collection Q&A

How does the solution collect ESG data, and from which sources?

Data collection should be as automated and comprehensive as possible. The solution should offer multiple ways of pulling data from spreadsheets, surveys and systems of record, using workflows, reminders and robotic automation. You should be able to easily integrate ESG data from multiple internal systems and manual data sources to get a complete picture, without duplications or gaps.

Where and how is the data stored?

Whether stored in the cloud, on-premises or in a hybrid solution, data should be secure and easy to access, with credentialed permissions that you can customize by role. The ESG software provider should meet the highest security standards and maintain key certifications. Ask about encryption for data in transit and at rest. The provider should also use data cleansing and validation to ensure a robust, reliable and complete data set.

What proactive information-gathering capabilities does the solution offer?

Surveys, questionnaires and assessments are valuable ways of collecting ESG data. The solution should offer these capabilities and save you time and effort. It should enable you to automatically assign tasks, deploy and monitor questionnaires and assessments, send requests and follow-ups and track progress against goals.

Does your solution allow you to transform complex datasets into usable information?

APIs are great for retrieving structured data, but for multinational organizations, robotic process automation is necessary for advanced data collection requiring you to apply treatments and transform the data to convert it into usable information.

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Monitoring and Reporting

Are ESG initiatives meeting expectations, deadlines and commitments? Is data being consistently disclosed across stakeholders and frameworks? An ESG solution can help boards and executives keep their fingers on the pulse of activities and progress — and spot red flags before they escalate into issues. For these reasons and more, monitoring and reporting capabilities are core to an effective ESG solution.

A dashboard, particularly a customizable one with real-time data, can give organizations visibility into KPIs, metrics and commitments. And automated monitoring can help ESG teams sift through mountains of information in a fraction of the time.

Articulating meaning behind the numbers and percentages is essential when it comes to getting buy-in from stakeholders and value from a data solution. An ESG solution should help organizations present their findings in a compelling way, mapping data to frameworks for easy publishing, with finely honed tables and graphs, simple takeaways and custom reporting based on the audience and their needs.

Monitoring and Reporting Q&A

To what degree does the solution use automation in the monitoring process?

Automated workflows, particularly for repeatable processes, will enable you to scale your team's ESG activities quickly and easily.

Look for automated analyses and alerts that will enable you to regularly evaluate risk, test controls and monitor compliance. Seek out a solution that provides notifications when third parties aren't meeting ESG-related KPIs, for example, or alerts when diversity, equity and inclusion ratios skew away from your goals, enabling your organization to take timely action.

What features does the solution offer for streamlining and supporting internal tasks and activities?

With ESG monitoring and reporting, a single weakness can cut across multiple business processes and can require a complex series of remediation steps to fix. Look for a solution that guides users through the process, with documented checks and balances and the ability to monitor progress and escalate the issue if something doesn't get done.

An ideal solution should offer both customizable and preconfigured workflows for ESG use cases. It should also include collaboration tools for coordinating with committees and across different locations and different business functions.

What capabilities does it offer for C-suite and board reporting?

The solution should seamlessly display all data relevant to ESG decisions: key business metrics, ESG program impact, curated news and alerts, ESG "health scores," partner relationships and ESG obligations, and tasks and controls based on any framework. The solution should use dashboards and visual storyboards to make data easy to consume and act upon.

Your organization should also have the ability to strictly control the dissemination of reports and what recipients can do with these results. This protects the data from unauthorized dissemination.

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Monitoring and Reporting Q&A (Continued)

What capabilities does it offer for regulatory reporting?

The ESG solution should map to all relevant frameworks and standards, with the most up-to-date regulations and requirements.

For internal guidance on external issues, it should let you set KPIs and controls and monitor whether you're meeting commitments in key areas, such as public disclosures or executive compensation.

Importantly, the solution should automatically and seamlessly generate auditable disclosures, tracking all changes and values throughout for a robust audit trail.

Driving Value - Internally and Externally

The right ESG solution serves multiple purposes and users. For example:

- **CEOs, CFOs and the board** can use an ESG solution to track ESG trends, stakeholder expectations, peer activity and metrics related to ESG programs
- **The general counsel and corporate secretary** can use an ESG solution to draft disclosures and support ESG-related reporting and decision-making
- **The chief sustainability officer or head of ESG/ CSR** can use an ESG solution to communicate ESG costs and impacts — information critical for achieving buy-in and budget on ESG initiatives
- **Procurement and legal teams** can use an ESG solution to find and execute contracts with ethical, reliable suppliers
- **HR, audit and compliance teams** can use an ESG solution to monitor performance in areas such as pay equity, workforce diversity and fair labor standards
- **PR and investor relations professionals** can use an ESG solution to monitor the organization's reputation and stakeholder attitudes
- **Subsidiaries and business operating units** can use an ESG solution to comply with organizational policies and achieve sustainability targets

Meanwhile, as organizations contemplate the need for an ESG solution and evaluate their options:

- **Institutional investors** are using ESG information to mitigate portfolio risk, identify new investment opportunities and assemble proxy season proposals
- **Employees** are requesting more details about an organization's ESG activities, such as commuting and travel carbon footprints, energy efficiency, supply chain sustainability and ethics
- **NGOs** are using ESG information to identify companies to engage
- **Consumers and business partners** are factoring an organization's ESG behavior into purchasing decisions

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Functionality for Climate and Sustainability

With climate remaining a top priority for investors, employees and consumers, digital ESG solutions can help organizations prepare for upcoming regulatory changes and a future that remains uncertain. From monitoring performance to reporting progress against expectations and goals, a digital solution can help to lay the foundations for progress in the months, years and decades ahead.

But climate is a complicated, multifaceted and evolving issue, filled with nuances, complexities and moving parts. The ESG solution must be designed with climate and its challenges in mind. Does it accommodate data collection and reporting for multiple frameworks or multiple levels within a framework, like the Greenhouse Gas (GHG) Protocol's Scope 1, 2 and 3 standards for measuring and managing climate-warming emissions? Will it adapt to the frameworks of the future? Does it enable enterprise-wide climate tracking and reporting across multiple metrics?

Climate and Sustainability Q&A

Does the solution track relevant climate metrics?

A climate-ready ESG solution will include the range of emissions and sustainability reporting frameworks, from carbon-specific factors to broader GHG measures and should also include leading forms of accreditation like the CDP carbon reporting framework. The solution should automatically keep these metrics — which can number in the tens of thousands — up to date.

Does the solution help you prepare for the future?

Ideally, the solution should curate news and filings to include regulatory developments and stakeholder sentiments from around the world, customized to your organization's jurisdictions, industry and operations. Predictive modeling capabilities are also a plus.

Does the solution let you monitor carbon and climate activities across your operations and supply chain?

The GHG Protocol, among other frameworks, requires this level of monitoring. A climate ready ESG solution will cover the range of business activities: water and waste treatment, business travel, shipping and logistics, employee commuting, energy analytics and waste creation.

Does the solution connect climate regulations and expectations to organizational goals?

An ESG solution should map climate frameworks against an organization's internal activities, making it easier for leaders to track obligations and recommend corrective action.

Is the climate solution audit-ready?

The solution should automatically and seamlessly generate auditable disclosures, tracking all changes and values throughout for a robust audit trail.

Functionality for Executive Compensation

Amid the many environmental and social issues that boards need to keep up with, it's easy to overlook or undervalue the "G" in "ESG." But shareholders, investors and increasingly regulators are watching corporate governance, with a particularly close eye on executive compensation. Meanwhile, board members, investors and corporate issuers rely on modeling to understand the impact of executive compensation on ownership, voting and long-term sustainable business growth.

An ESG solution should offer support with critical executive compensation decisions. Look for technology that delivers benchmarking data on peers and competitors, specialized dashboards for comparisons and analysis, and modeling for specific compensation plans, such as equity compensation.

Executive Compensation Q&A

Does the solution offer compensation benchmarking and analysis?

An ESG solution should reveal other CEO, CIO and CFO salaries for insight on what to pay your own. Look for detailed peer group analyses and ways to determine how an executive's monetary value correlates to their job effectiveness.

Does it offer compensation modeling, including modeling of equity-based compensation plans?

Modeling guides compensation plan creation and much more. Investors use it to test their portfolio companies' equity plans, benchmark plan costs and evaluate the risk of dilution to enhance their engagement and voting decisions. Meanwhile, corporate issuers use modeling to understand shareholder concerns and gain the support to legally grant equity compensation.

Does the ESG solution provide access to key financial metrics and ownership data?

This functionality lets you view executive compensation, including equity compensation, in a greater financial context. A better understanding of the present helps create a detailed assessment of what is likely to come in the years ahead.

Are you able to align your organization's executive compensation plans against key ESG metrics?

The solution should allow you to pull ESG data from across your organization and map it against a variety of standards, as well as peers and competitors.

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Service and Support

ESG activities are essential in today's business environment and too time-sensitive and high-stakes to be left to chance. Board members, executives and governance professionals should seek a vendor committed to service, performance, innovation and continuous improvement.

Look for a solution with around-the-clock support and in-person training. The right vendor will be available 24/7, every day throughout the year, to eliminate gaps and address issues. They will also expand, evolve and improve the solution on an ongoing basis, allowing you to remain one step ahead of the rapidly changing ESG landscape.

Service and Support Q&A

How many years has the solution provider been working with ESG and governance issues?

Providers with several years of experience in both ESG and your industry will understand your challenges and be able to address your pain points. In addition to being an ESG and industry expert, the provider should have a track record of innovating software solutions that address and satisfy board and governance needs.

What kind of ongoing support does the provider offer alongside the solution?

Ongoing support is critical to sustained adoption. The provider should offer in-depth training for the duration of a contract at no extra charge — by phone, online chat, or virtual meeting — as well as crucial information on updates and enhancements, plus insights into how the solution is evolving.

What are the hours for tech support and customer service, and what is the typical wait time for support calls?

It's important to seek out an ESG solution provider that offers immediate support 24/7/365, without call-backs or lengthy hold times. Support representatives should be in-house experts trained to resolve issues efficiently and effectively.

Who are some of the solution's top customers, and what is its annual attrition rate?

Look for a breadth and depth of experience with ESG and within your specific industry. An experienced provider will offer customized implementation, specialized support and insights on how to maximize efficiencies across roles. A focus on ESG should also be an integral part of their platform rather than an afterthought.

When seeking information about customer attrition, ask for the total number of customers who leave annually divided by the total number of customers. Work with a provider that has a high retention rate.

What awards or recognition has the provider received?

Awards are an important independent benchmark for performance. Look for recognition in critical areas such as customer service, application usability or innovation.

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Diligent ESG

The Diligent ESG solution simplifies ESG data collection, benchmarking and reporting, and provides audit-ready documentation and reports for every step of the process. Diligent ESG is intuitive to use and highly flexible, so it can scale as your ESG needs evolve.

With Diligent ESG, organizations can:

- Map their own ESG program against the latest requirements and standards, including SASB, GRI, TCFD, WEF and CDP
- Accommodate data collection and reporting for multiple frameworks or multiple levels within a framework, from carbon-specific factors to broader GHG measures
- Access top quality datasets and the same tools used by institutional investors, so they can track and benchmark ESG progress against peers and competitors
- Monitor carbon and climate activities across operations and supply chains
- Make the most of robotic process automation to process and monitor complex data with ease
- Automatically and seamlessly generate auditable disclosures, tracking all changes and values throughout for a robust audit trail
- Seamlessly integrate a digital ESG solution within a broader governance, risk and compliance ecosystem
- Generate ESG dashboards and visual storyboards, making data easy to consume and act upon
- Align their executive compensation plans against key ESG metrics
- Curate news and filings to include regulatory developments and stakeholder sentiments from around the world, customized to your organization's jurisdictions, industry and operations

Increased investor, stakeholder and regulator scrutiny of ESG initiatives is here to stay. Now is the time to equip your organization with the ability to collect, monitor, track and analyze ESG data, so boards and leaders at every level have the right information at the right time. Diligent ESG will help guide your organization through the environmental, social and governance challenges that it faces today, tomorrow and beyond.

LEARN MORE ABOUT DILIGENT ESG