ESG Planning and Performance Survey

OCEG 2021

OCEG®
Driving Principled Performance

SPONSORED BY Diligent

ABOUT

OCEG is a global, non-profit think tank and community. We invented GRC.

We inform, empower and help advance more than 100,000 members on governance, risk management, and compliance (GRC). Independent of specific professions, we provide content, best practices, education, and certifications to drive leadership and business strategy through the application of the OCEG GRC Capability Model and Principled Performance®. An OCEG differentiator, Principled Performance® enables the reliable achievement of objectives while addressing uncertainty and acting with integrity.

Our members include c-suite, executive, management, and other professionals from small and mid-size businesses, international corporations, non-profits, and government agencies.

Founded in 2002, OCEG is headquartered in Phoenix, Arizona.

Learn more at oceg.org

We understand that it's not enough to know just how you're doing, but to know what the market thinks about your progress as well as how you stack up against your peers.
Our goal is to meet you wherever you are on your ESG journey, whether you're completing your first disclosure and report or whether you've already set up a mature program based on materiality assessments with near- and long-term goals and reporting against multiple frameworks.

Our ESG platform is designed to help organizations stay up to date, its flexibility giving you the ability to respond to new regulatory requirements and changing disclosure frameworks as they arise.
Alongside the utilization of robotic process automation – which allows you to import unstructured data effectively and on an automated basis – the platform offers the ability to set integrated thresholds, targets and goals as well as sentiment monitoring to keep a pulse on alignment between ESG reputation and achievements.

At Diligent, we've approached the ESG data problem from a different angle. At its core, we believe that a strong ESG program is a value creating by-product of an integrated GRC program. We also believe that reporting against various frameworks is not the final objective, but again a by-product of a strong program. In a future defined by the issues of the world around us, it's the only way forward.

Learn more at diligent.com

INSIDE THIS BOOK

Thoughts from Diligent

Now more than ever, a considered approach to ESG is essential for organizations of all sizes. ESG permeates organizations at every level and remains at the top of the agenda for an array of interested (and invested) parties, from shareholders and suppliers to regulators, customers and employees.

As a result of an ongoing global pandemic, continued social justice issues, geopolitical risk, intense regulatory scrutiny and more, the spotlight on ESG remains bright – and will likely continue to get brighter. The findings of this research survey crystallize the thinking around many of these issues and highlights where progress has been made – and where there is still work to be done.

The report makes clear that inbound inquiries around ESG are no longer just coming from customers. Investors are seeking information too. It's clear that companies are now seeing a correlation between a lackadaisical approach to ESG and the impact on investor satisfaction and financial outcomes. The ramifications of a half-hearted attempt to engage with ESG now go far beyond the usual reputational and customer-centric problems of old.

Coupled with that, the lack of confidence in the maturity of ESG programs is striking. When it comes to ESG, data rules. Having systems in place to review data not only helps organizations to map their own progress against goals, but allows them to tackle crucial next steps centered around disclosures and reporting. As the regulatory grip around ESG continues to tighten, establishing and utilizing a mature ESG program is essential for organizations large and small.

Although the report highlights that spending and focus on ESG is increasing – a positive step - almost two thirds (61%) of respondents do not have the necessary software for data collection or analysis. That represents a huge and increasingly brazen risk given the ever-sharpening trajectory of regulatory required disclosure.

ESG data collection can't be an annual exercise anymore. Increasingly the focus is on performance over time and continuous improvement. Looking at ESG data annually is not conducive to this type of progress. Instead, diverse data sets from multiple systems of record with different levels of security and access requirements must be brought together to report in a world where data quality is receiving increased scrutiny.

WHAT IS ESG?

Generally, ESG is used as the acronym for Environmental, Social and Governance factors to consider in investment decisions. It first came into use in 2005, in a report issued by the International Financial Corporation (IFC) of the World Bank as part of the Who Cares Wins conference held that year. This gathering of institutional investors, asset managers, research analysts, consultants and government bodies and regulators set the stage for today's focus on environmental, social and governance (ESG) value drivers in investment management and financial research for long-term growth. As a leading Forbes contributor noted in 2018, looking at ESG factors from a financial relevance perspective, rather than the moral criteria that formed the base of the prior Socially Responsible Investment (SRI) movement, has led to rapid growth in ESG investing, consideration of ESG factors as a part of fiduciary duty, and maturation of ESG investing "to the point where it can greatly accelerate market transformation for the better."

Today, ESG is taking on an even broader role in changing the way businesses operate. Not only are investors interested in how ESG factors are addressed, customers and communities where businesses operate are also driving attention to environmental, social and governance issues.

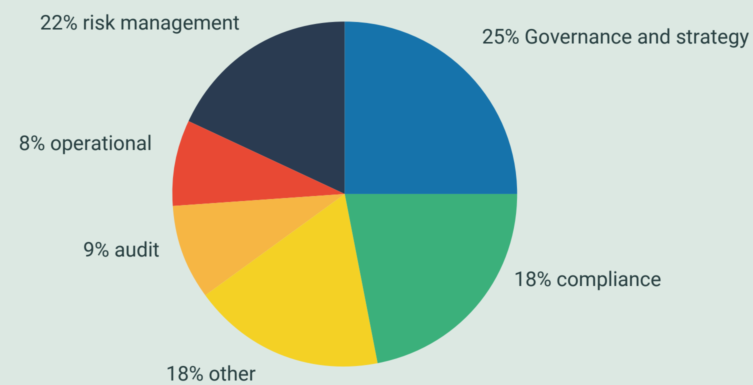
> **Businesses are beginning to see that they can do well while doing right for the societies that support them.**

ABOUT THE SURVEY

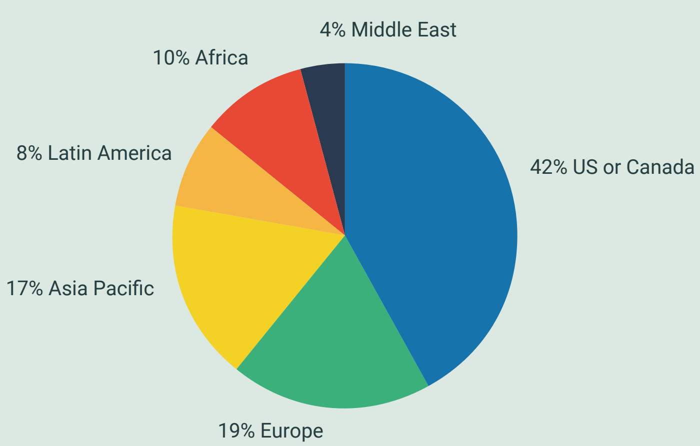
OCEG and survey sponsor Diligent undertook this survey to assess the current state of ESG planning and activity. We looked at how organizations are addressing Environmental, Social and Governance reporting requirements, who in the organization is involved in managing ESG and how both GRC capabilities and technologies support ESG efforts today.

ABOUT THE SURVEY PARTICIPANTS

Areas of Responsibility



Global Participation - Organization Domicile



Snapshot of Survey Respondents

500+ Participants

66% have a role in managing or reporting on ESG, policies for ESG, and/or selecting technology

53% hold board, c suite or other senior executive titles

They come from organizations of all sizes from fewer than **500 employees to 25,000 employees**

46% have more than 1000 employees

Wide range of industries with finance topping the list at **21%**

THE CURRENT STATE

Stakeholder demand for ESG consideration is quickly expanding and survey participants indicate that they are responding in kind. On the whole, they aren't there yet, but enhanced capabilities for ESG management and reporting are ripe for development. Those who are addressing ESG are relying on multiple frameworks for guidance, with the top three being the Global Reporting Initiative (GRI) at 49%, The Sustainability Accounting Standards Board (SASB) framework at 33% and the World Economic Forum (ESG) at 24%.

Formal Program Elements

Building an ESG capability involves several steps, starting with performance of an assessment of the current ESG related operations, measurements, controls and outcomes. Notably, only 30% indicate having an assessment within the past year, and another 13% note older assessments. This may be because many respondents hadn't yet had a formal, fully integrated ESG program to evaluate.
Once an understanding of the current state is clear, a formal ESG program can be established or improved, including a set budget and Key Performance Indicators (KPIs).
Survey respondents indicate that development of these capabilities is on the rise.

Formal documented ESG program

46%

of respondents have a formal documented ESG program

34%

of respondents are planning for a formal documented ESG program

KPIs on ESG

43%

of respondents have KPIs on ESG

30%

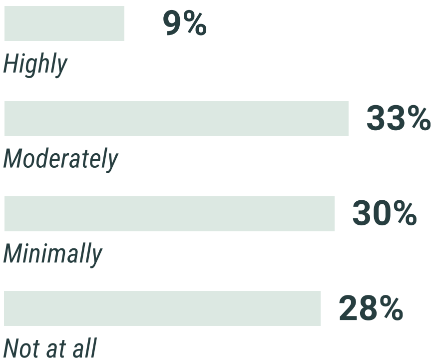
of respondents are planning KPIs on ESG

We also asked those with a formal program about budget and 55% report having a structured budget. In addition, 73% of those with a budget indicate it will be increasing this year. This aligns with what we are seeing overall as businesses are finding that their stakeholders beyond the investment community are pushing for more effective ESG efforts.

Lack of Confidence in ESG Maturity

When we ask about level of confidence that the programs established are mature and well documented, even those with a formal program are less than fully confident.

Confidence there is mature, well-documented ESG capability



The lack of confidence may reflect the outcomes of the ESG assessment, where one has been undertaken. It may also arise from weakness in the KPIs and other metrics established for the ESG

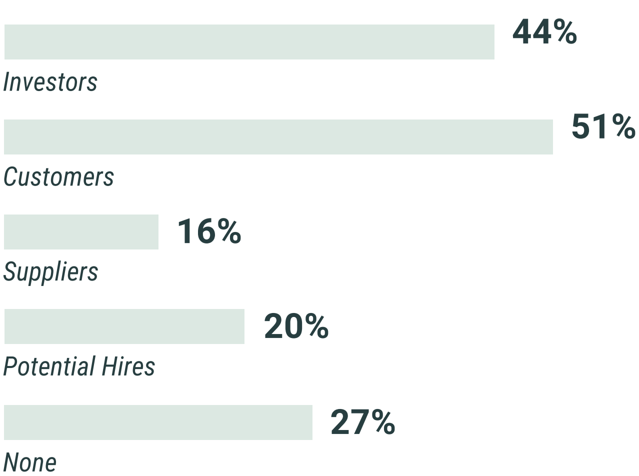
Fewer than 10% of respondents indicate they are highly confident in the maturity of their ESG capabilities, with nearly 28% not at all confident in their efforts

---

Impacts of ESG Interest

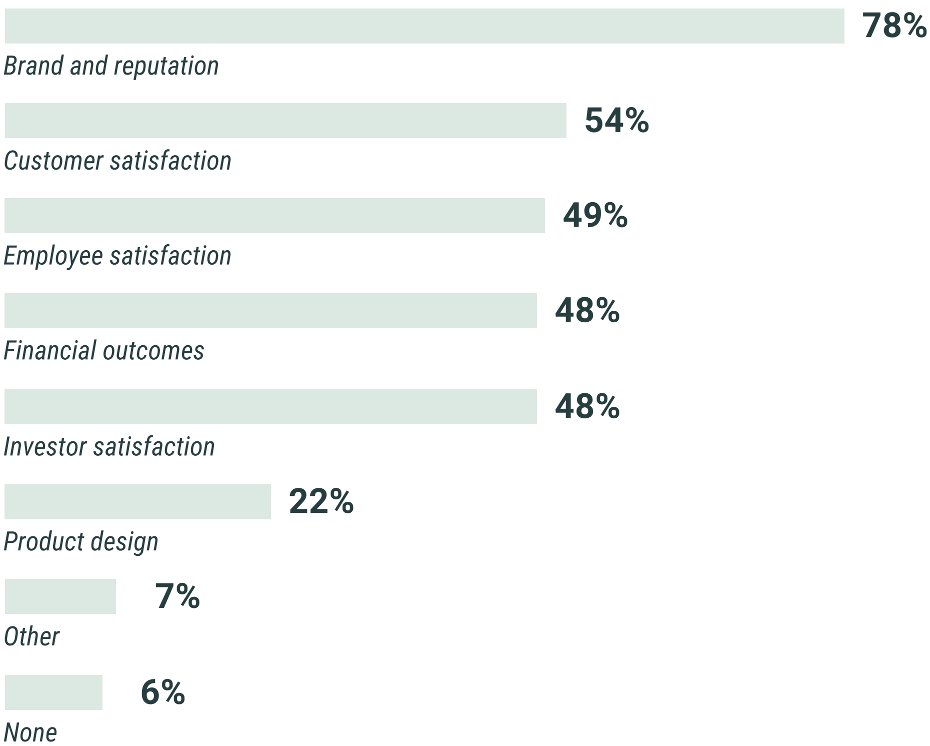
We looked at the outcome of ESG efforts from two perspectives – where inquiries to the business comes from and what impacts are being felt from ESG efforts or lack thereof. With regard to ESG inquiries, we might have thought that the highest number would be from investors and that virtually every business would have those questions. Instead, the highest level of inquiries is reported to be from customers (51.4%) with investors second (44%). Nearly 27% report no ESG inquiries.

Inbound ESG Questions or Requests



Similarly, customer and employee satisfaction edge out investor satisfaction and financial outcomes as areas affected by ESG efforts, with brand and reputation topping the list of affected areas.

Areas of ESG Impact

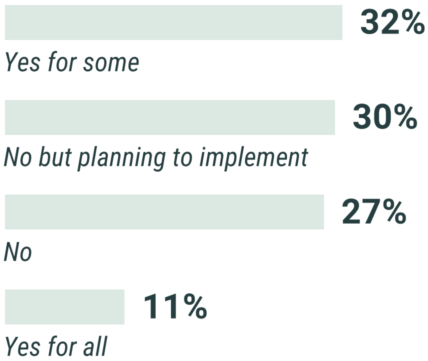


The relationship between these different areas of impact is symbiotic, they do not stand alone. Customer satisfaction impacts investment decisions. Both customer and employee satisfaction affect brand and reputation. Financial outcomes tie to both customers and investors. Overall, whichever is currently "in the lead" as reported, ESG impacts will continue to grow both positively as businesses make their ESG efforts more visible and negatively as ESG related failures in aspects of environmental and social concern occur

ESG METRICS

Approximately 50% of respondents indicate that their businesses publish ESG metrics, but only 12% do so as part of an integrated ESG report. A larger number (30%) do so within a sustainability report and the rest use a different format. Notably, most sustainability reports would not address the governance aspects of ESG and many would only consider environmental aspects. This indicates an area in need of maturation, both in terms of metrics collected and form of reporting. Having clear and complete ESG metrics is important as more and more investors are considering them in making investment decisions. Even within our survey, 56% report that some or all of their investors consider ESG metrics.

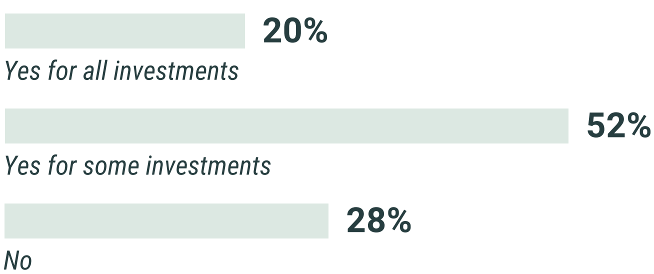
Formal KPIs aligned to ESG focus areas



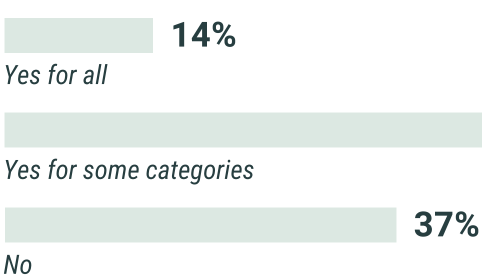
ESG Metrics are considered by investors

Interestingly, more respondents indicate that their own businesses use ESG metrics when making decisions about investments or evaluating vendors and suppliers.

ESG metrics considered in investment decisions

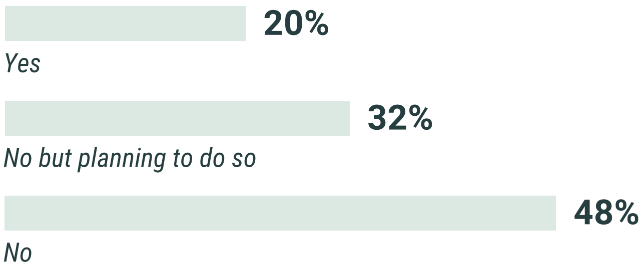


ESG metrics considered for vendors and suppliers

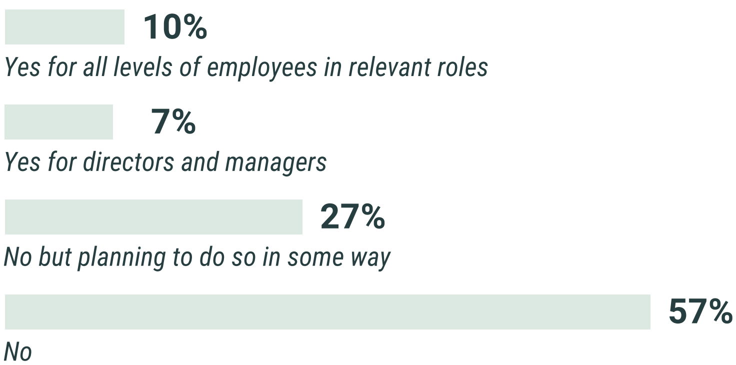


An area where reliance on ESG metrics is on the rise is compensation. More than 50% indicate that ESG metrics are considered in executive team compensation or is in the planning stage. Consideration for employee compensation is also underway or planned.

ESG metrics considered for executive compensation



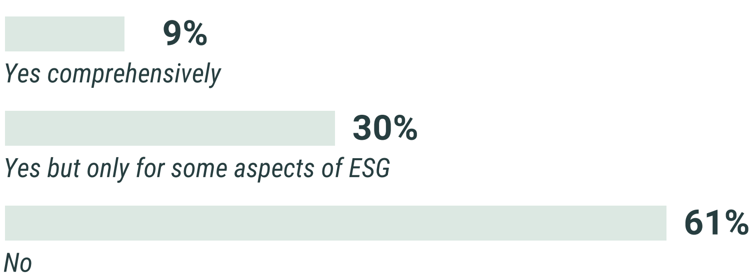
ESG metrics considered for employee compensation



ESG TECHNOLOGY

The last area of inquiry in the survey addresses the use of technology for ESG data collection, analysis and reporting. Respondents indicate that their use of technology for ESG is not well developed yet, with only 10% applying technology comprehensively and another 30% doing so for only some aspects of ESG. More than 60% are not applying technology for these efforts at all.

Currently using software for esg data collection, analysis and reporting



The maturing of ESG efforts and reporting will depend on application of software designed for this purpose. The effort required to collect, standardize, consolidate and analyze ESG data without the use of suitable technology will be too time consuming and likely too inaccurate to be reliable for reporting purposes.

CONCLUSION

So, where does this leave us? Organizations must realize that – in a landscape marked by heightened regulatory and investor scrutiny - information is the fuel which drives a mature ESG program forward. They must ensure that they have the systems in place to collect, aggregate and review data, allowing them to both map progress against their own goals and tackle crucial next steps centered around disclosures and reporting.

ESG data collection comes with a variety of challenges, like changing regulations and requirements, the lack of a single reporting standard and numerous reporting methodologies – as we saw in the survey, where respondents report relying on multiple frameworks for guidance.

Looking toward next steps, those responsible for ESG on the frontline must embrace its ability to bring together diverse data sets from multiple systems of record with different levels of security and access requirements. The effort required to collect, standardize, consolidate and analyze ESG data means a flexible technology platform will soon be a requirement for timely and accurate reporting.

Ultimately, these disclosures are just the beginning. Once an organization uses its ESG data to understand its current state, it can establish or improve a formal ESG program, with a set budget and KPIs. As ESG moves away from a box checking exercise towards legal requirement, organizations need to be certain they have the structures and processes in place to allow them not only to comply, but to thrive.

OCEG®
Driving Principled Performance