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ESG ROADMAP TO RESILIENCE:

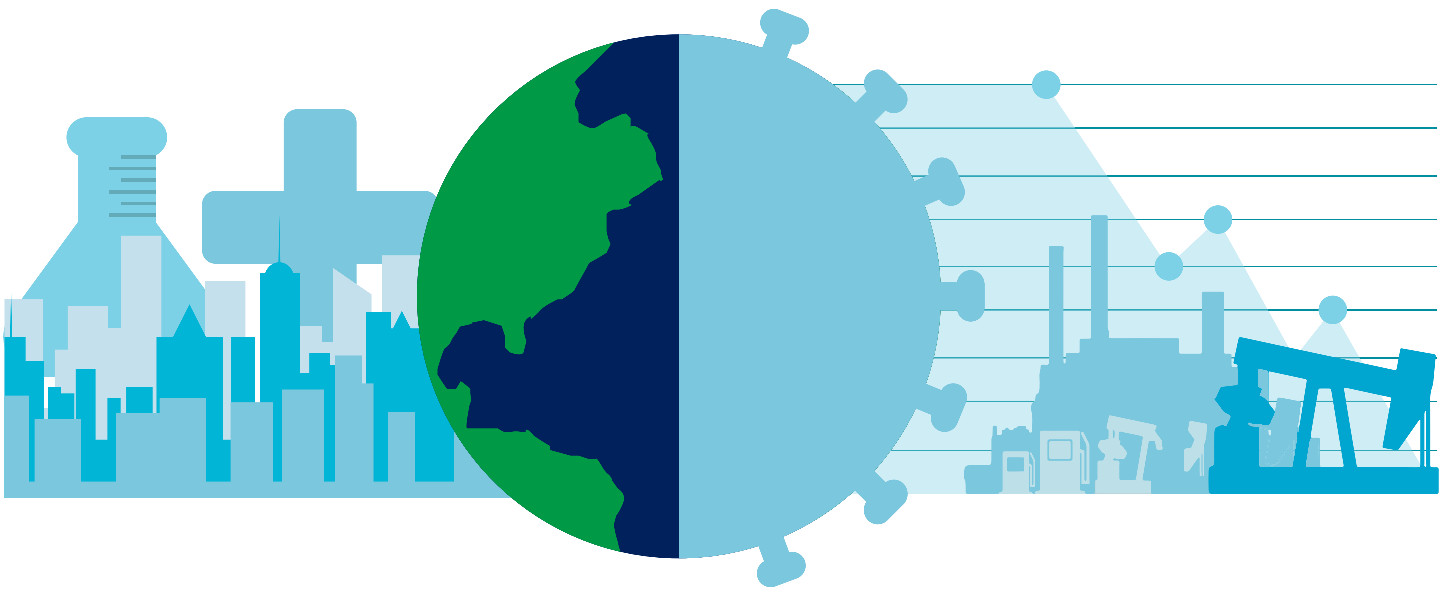
How to Innovate and Thrive During a Global Crisis

WHERE IMPACT MATTERS

In 2020, businesses around the world have pivoted to stay afloat, reach new customers, and help their communities. Grocery stores went "dark" to limit service to pickup and delivery.[1] Craft distillers and perfumeries shifted production to manufacture much-needed disinfectant for health care facilities and other essential services.[2] Tech companies, knowledge workers, and many others shared resources, raised funds, and worked together to create solutions for new issues as they came to light. Amidst a global pandemic that has forced every business to adapt to this new environment, resiliency has become the key to growth and innovation.

The novel coronavirus 2019 (COVID-19) is not the first modern global crisis communities and businesses have faced and been forced to adapt to. Time and again, we have seen resiliency hinge on a willingness and preparedness to adapt and innovate. After the US stock market crashed in 1929, multinational food manufacturer Kellogg doubled its ad budget, stood out when others were backing down, and became the industry's dominant player.[3] During the Great Recession, media service provider Netflix invested $40 million—almost 60% of its 2007 net income—on a streaming service that, at the time, seemed like a gamble.[4]

Today, we are experiencing a similar crisis. By the end of June 2020, the World Health Organization reported more than 8 million COVID-19 cases and over 440,000 deaths worldwide.[5] More than 30 million people in the US filed for unemployment in a six-week span, oil prices reached new lows, and in early June, World Bank forecasts predicted that the global economy will shrink by 5.2% in 2020.[6]



The world is changing. 2020 brought new challenges to many businesses and communities, and it will not be the last time we face global adversity.

The term "resiliency"—the ability to recover from or overcome challenges—has been bandied about frequently, in marketing campaigns as well as board room discussions, with companies, nations, and municipalities eager to bounce back from the current crisis.

Rather than focusing strictly on surviving the current challenges, **resiliency is about looking at your organization holistically**; understanding possible risks and opportunities within your current business model, strategies, and context; and adapting your model.

Global crises are felt by every individual within every organization. Understanding your company holistically and building a sustainable resiliency strategy will empower you to face whatever comes next.

ESG PRINCIPLES SUPPORT RESILIENT STRATEGIES

Overwhelmingly, companies with strong ESG policies are weathering the current storm better than those who lack such policies and are now being forced to react.[7] Companies with higher ESG ratings performed notably better and were more resilient during the outbreak of the coronavirus pandemic compared to those with lower ESG ratings.[8] In fact, more recently, companies with strong ESG standards often outperform, as poor risk management and corporate governance are often correlated with weaker financial performance.[9]

The result is that many investors are still, and increasingly, asking for companies to implement ESG policies. Sustainability is being evaluated at the center of investments. As time passes, ESG-focused companies are proving that they are both profitable in the long term and aligned with the values of investors.

What is ESG?

ESG (environmental, social, and governance) describes areas that characterize a sustainable, responsible, or ethical investment. The term is often used by investors to evaluate corporations and determine the future financial performance of companies.

ESG factors have a material impact on the long-term risk and return of investments, and are incorporated into risk mitigation, compliance, and investment strategies.

Investors also use ESG criteria as a framework to evaluate companies, screen investments, and assess risk in investment decision-making.[10]

RECENT ESG-FOCUSED CHANGES MADE BY LARGE INVESTORS

BlackRock

- Focus investment in sustainable funds and avoiding high-risk funds
- Encourage companies to disclose alignment with the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD)[11]

Vanguard

- Offer low-fee ESG fund offerings (ESG Investing)[13]

Wells Fargo

- SASB Reporter and provide financing to sustainable businesses and projects (USD$ 200B)
- Climate-related goals[14]
- CDP Supply Chain Member

State Street

- Set emission, waste, and water reduction targets
- Supply Chain Vendor Selection Process to ensure supply chain has a low risk of environmental impact[12]

TRANSPARENCY AND REPORTING ARE GROWING INCREASINGLY IMPORTANT

Reporting to ESG indices demonstrates a company's willingness to be transparent and show that it is aware of its risks and opportunities, as well as its industry, supply chain, and operations as a whole. There are many reporting protocols to choose from, depending on a company's needs. These indices also provide a standardized way for investors, customers, and other stakeholders to assess and compare ESG performance.

Reporting—using an established framework or building your own—can also provide your company with a structured way of measuring and benchmarking ESG performance, performing scenario analyses, or analyzing risk. These types of analyses give companies the insight that forms the building blocks for their risk management strategies.

Are you looking at both short- and long-term risks? What about risks that are either low probability (e.g. a sudden global disruption like COVID-19) or high probability (e.g. increased demand for sustainable products)? Have you thought about what parts of your business may be impacted by these risks and to what extent? Most importantly, what action have you taken or programs have you implemented to mitigate these risks? Regular reporting on ESG factors helps companies take a closer, in-depth look at their operations, strategies, industry, and communities. It gives them a benchmark to aim for and a structured framework to work within. This is where resiliency starts: understanding your risks from an ESG context.

POPULAR REPORTING INDICES, PLATFORMS, AND PROTOCOLS

CDP	CDP is a global nonprofit that coordinates environmental impact disclosures for both companies and cities. Respondents complete a questionnaire and receive a score to benchmark ESG performance, with high performers recognized on the annual "A List." CDP's questionnaires are aligned with the TCFD recommendations and are available in the areas of Climate Change, Water Security, and Forests.
ECOVADIS	EcoVadis's sustainability assessment is a single questionnaire that results in a scorecard. The assessments are designed to help companies improve performance, share results with customers, and compare scores against competitors and peers.
GRESB	The GRESB assessments—a part of the Green Business Certification Inc. (GBCI) family—specifically target commercial real estate portfolios and assets. GRESB provides real estate investors with access to key sustainability performance information such as energy consumption, GHG emissions, leadership management, and design and construction.
DJSI	The Dow Jones Sustainability Indices (DJSI) are a family of indices that capture high-performing publicly traded companies based on their ESG practices. Select companies are invited to participate in the SAM Corporate Sustainability Assessment (CSA) each year, allowing them to self-report key sustainability metrics and benchmark performance.
FTSE4GOOD	A part of the Financial Times Stock Exchange (FTSE) Group, the FTSE4Good Index Series indexes companies with strong ESG performance, with criteria requirements across specific themes such as biodiversity, human rights and community, anti-corruption, and tax transparency.

POSITIVE RESULTS FROM ESG ARE NOT EXCLUSIVE TO THE PRIVATE SECTOR

Municipalities similarly strive for an urban planning framework at the intersection of sustainability and resilience, that supports growth and change while also managing resources in a way that ensures the wellbeing of future generations.[15] A 15-year study from the University of Oxford has shown a positive association between firm-level ESG scores and macroeconomic performance indicators such as GDP per capita and a reduction in unemployment.[16] The importance of ESG factors in building resilience can also be seen in the more than 800 cities around the world that disclose their sustainability data to global non-profit CDP every year.[17] As CDP collects more data year over year, participants are able to use this data as a form of collaboration with other cities and private industry, to reevaluate and update risks, hazards, and climate policy as an investment in long-term resilience and wellbeing.

> More than 800 cities around the world disclose their sustainability data to global non-profit CDP every year

RESILIENCY IS HOLISTIC, ADAPTABLE, AND MULTIFACETED

Understanding risk and taking action to mitigate those risks can help your organization in several ways.

STRONG ESG PRINCIPLES TOUCH EVERY ASPECT OF YOUR BUSINESS

A truly sustainable, resilient strategy is not just sustainability for sustainability's sake—also known as "greenwashing." The work behind building a strong, actionable ESG strategy should have measurable impacts across your company, from creating strong governance and clear responsibilities, to identifying climate risk and opportunities with associated management plans.

A hypothetical automobile manufacturer has manufacturing facilities largely based in areas at risk for water scarcity. To mitigate water risk, they dedicate resources to developing more water-efficient systems and techniques and invest in updated technologies that use water more efficiently. These changes mitigate foreseeable operational risks. They also bring down costs through efficiencies and serve local communities by preserving precious freshwater resources.

ESG PRINCIPLES DRIVE AGILITY AND ADAPTABILITY

Companies with strong governance have established clear roles and responsibilities with decision-making authority. This allows these companies to act quickly and decisively—an important quality for agile companies and a vital one during a crisis.

In addition, a future-focused, forward-thinking mindset encourages creativity and spurs innovation, keeping your company agile. Resilient companies move early—ahead of downturns, but also ahead of peers.

RISK MITIGATION AND PLANNING HAVE MULTIPLE APPLICATIONS

Companies with strong ESG principles tend to have business continuity plans and established risk management strategies. In other words, they have a process to identify and analyze what types of events could disrupt their business and how the company plans to manage and adapt.

For example, if your company has already created a business continuity plan around extreme weather events that may shut down production or supply chains, those plans can help cope with COVID-related disruptions as well. Already existing strict health and safety measures in manufacturing help prevent the spread of the virus. Ethical sourcing often means stronger supplier relationships overall, reducing disruptions to supply chains even in times of crisis.

Even now, the COVID-19 crisis is moving organizations, governments, communities, and individuals to adapt, create, and innovate in ways both large and small. Companies that had never offered caregiver benefits are now implementing them. Offices with nonexistent or partial work-from-home policies are now a 100% work-from-home workforce. As the pandemic continues, companies' policies on health and wellbeing also continue to evolve, with some offering paid "mental health days" to employees, financial assistance with home offices, and child and elder care reimbursements. Companies are shortening their supply chains, shifting production or introducing new product lines, and tightening up health and safety protocols in manufacturing operations. These are likely to be lasting changes, and the better-suited your company is to move quickly and adapt—or, if these changes had already been made pre-emptively—the more resilient to change your business will be.

IN FACT, MANY OF THE SAME TYPES OF PRESSURES THAT WE SEE FROM COVID-19 ARE VERY SIMILAR TO TOPICS DISCUSSED IN THE TCFD RECOMMENDATIONS

Addressing transitional risks, for example, will help you build a more robust strategy to face any crisis that may lie ahead.

The TCFD Recommendations

In 2017, the Financial Stability Board's Task Force for Climate-related Financial Disclosures (TCFD) released its recommendations report, with the mission to help companies provide consistent climate-related financial disclosures to investors, lenders, and other stakeholders. The TCFD recommendations provide a framework to help companies more effectively disclose on climate-related risks in mainstream financial reports. Recommendations include disclosing whether companies are conducting a scenario analysis and how climate-related issues impact their business strategy and financial planning.

TRANSITIONAL RISK TYPE	EXAMPLE OF APPLICATION WITHIN **COVID-19 CRISIS**	EXAMPLE OF APPLICATION WITHIN **ESG FACTORS**
REGULATORY	Health regulations worldwide change almost daily as the situation develops, affecting how—and often if—companies are able to operate.	Environmental, health and safety, and other regulations are constantly evolving, causing potential disruptions if unprepared—particularly for global operations.
MARKET	Demand is constantly fluctuating, as is access to materials, as many offices, factories, and other facilities are forced to close or reduce operations.	Consumer preference for ethically sourced and environmentally friendly products is up, and so is the number of companies rising to meet this challenge.
REPUTATIONAL	Corporate responses to COVID-19 are under severe scrutiny and will affect consumer and stakeholder perception of your company.	Slow or underwhelming action on ESG factors can and will affect a company's reputation among consumers, investors, and other stakeholders.
TECHNOLOGY	Technology will be a huge driver in coping with and recovering from the current crisis—as well as how companies will innovate in order to survive.	Investment in better technology—for example, low-carbon technologies as they are developed—could put companies ahead of the curve with competitors.

CREATING AN ESG ROADMAP WILL HELP YOU ALIGN YOUR REVENUE WITH POSITIVE ENVIRONMENTAL AND SOCIETAL IMPACT.

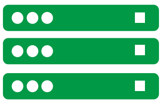
The private sector can make a difference—and, indeed, is key to shifting the balance—in major issues that impact populations around the world, including global crises like climate change and COVID-19. Companies that can create value for stakeholders while managing ESG risks, opportunities, and programs gain the support of stakeholders and policymakers, as well as the market. In fact, managing those ESG risks and opportunities can, in itself, create value as well.

HOW DO YOU ALIGN YOUR REVENUE WITH POSITIVE ENVIRONMENTAL AND SOCIETAL IMPACT?

To answer this question and give direction to your strategy and your action plan, create your ESG Roadmap.

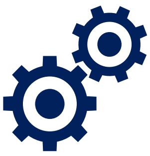
STEP 1: PAINT A COMPLETE PICTURE.

Start by understanding your different risks. Piece together a more complete picture of your organization from an ESG perspective—and start as early as possible to get ahead of any external reporting deadlines or potential challenges. This may include obtaining technical analyses such as a GHG inventory, water risk assessments, and scenario planning. Then, use those analyses to set ESG goals for your organization, such as science-based targets for GHG.



STEP 2: BUILD YOUR SYSTEMS.

Build data management systems to accurately and consistently obtain the data needed for analysis and reporting. Depending on the size of your organization, this may include assembling an internal team, and mapping out internal resources who can support your targets and maintain communication and collaboration efforts. You should be able to demonstrate how you are able to achieve these targets, as well as demonstrate your progress towards your goals over time.



STEP 3: START AUTOMATING.

Systemize and automate data collection and compiling. Optimize your systems in a way that allows you to limit the amount of resources spent to maintain them.

STEP 4: ENGAGE IN DISCLOSURE AND REPORTING.

Pull all your analyses, goal setting, and data management together into a format that will let your stakeholders know that you are looking ahead. Moreover, disclosure will also demonstrate that you have the technical data and insight that you need to inform the type of decision-making that allows you to affect change within your organization. Examples of disclosure include corporate annual sustainability reports, standardized reporting frameworks such as the Global Reporting Initiative (GRI), internal benchmarking and management reports, and reporting indices and registries like CDP.

STEP 5: EVALUATE AND IMPROVE.

Monitor the effectiveness of your ESG plans and systems. These should be dynamic and are meant to be assessed and improved upon over time.

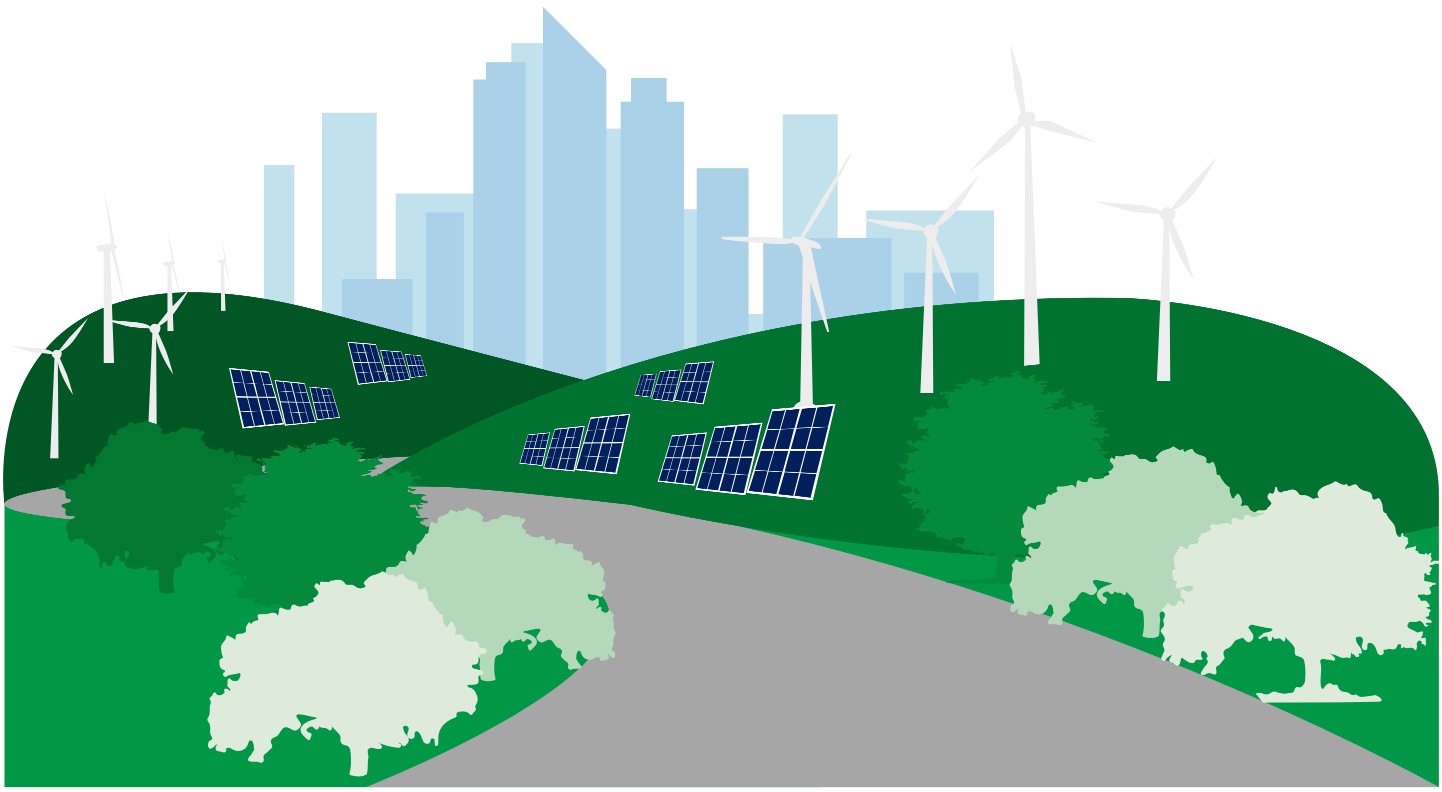
CREATING YOUR ESG ROADMAP TOWARD RESILIENCY

Resiliency is about looking at your company holistically and understanding possible risks and opportunities given your current business model, strategies, and context, and adapting your model.

Creating your **ESG Roadmap** will help you get there, and every company is at a unique place in their journey.

ADEC ESG Solutions provides services to help you measure, develop, and implement an ESG Roadmap, no matter where you are on your sustainability journey. We work to transform the way the world does business, in an effort to curb the impacts of climate change and protect our natural resources.

Contact our team to learn more about how your organization can build a resilient, sustainable strategy for the future.



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