Three keys to a meaningful ESG strategy

Increasingly, leaders need to consider, determine and then communicate how they are incorporating environmental, social and governance (ESG) issues into their businesses. This guide helps companies move their ESG strategies into practice.

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Sustainability is increasingly the name of the game. The urgency of the climate crisis, growing social inequality — which the pandemic has laid bare and will no doubt exacerbate — and increasing public scrutiny together explain why so many companies want to present their businesses as truly sustainable ASAP.

However, making an honest pitch about the real impact of environmental, social and

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governance (ESG) criteria on a company requires time, determination and often a change in mindset. This is the view put forward by Philip Muller and Joan Fontrodona, holder of the CaixaBank Chair of Sustainability and Social Impact, in a new report which invites executives to review their thinking, actions and communications on ESG issues.

1. Think

First, consider your company's ESG strategy in terms of three key elements: the corporate mission, the materiality of the ESG metrics and, finally, employee incentives. Asking pointed questions helps:

Mission: To what extent do ESG criteria affect or define the core mission and values of the organization?

Materiality: Which risks or opportunities related to sustainability and ESG issues are most relevant to the business and its value chain?

Incentives: Will managers and employees at all levels benefit from obtaining good ESG results?

2. Do

Putting an ESG program in place involves five steps:

Analyze the business using ESG criteria. Compared with a traditional CSR assessment, an ESG evaluation provides a fresh perspective because its criteria are directly related to the risks and opportunities generated by the business model itself. Investors and other stakeholders are particularly interested in that direct relationship.

Identify which operations hide ESG risks and opportunities. With this analysis, specify what is truly material to the value chain and which activities and operations contain valuable and relevant information from a sustainability perspective.

Set goals. Since ESG metrics link sustainability issues to the economic performance of a business, their aims include promoting resilience, innovation, and other objectives that, rather than contradicting environmental and social concerns, feed off of them for positive impact.

Establish an ESG data collection system and follow through with it. This is surely the

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most technical and time-consuming step because many companies aren't in the habit of collecting information about greenhouse gas emissions, for example, and, at the same time, not all ESG metrics lend themselves to simple measurements.

Appoint a person to be responsible for sustainability. The ESG Director's job will be to promote ESG issues throughout the organization, strengthen the consistency in measuring ESG performance throughout the organization, reinforce the evaluation of non-financial risks and their impacts, and ensure that stakeholders' expectations are identified and incorporated into decision-making processes.

3. Spread the word

When it comes to addressing various stakeholders on issues of sustainability, three actions are key:

Provide quantitative *and* qualitative data. Supplement a report filled with numbers with qualitative information and storytelling in order to help your audience make sense of the figures and put them in a context that matters.

Commit to transparency. In addition to publishing progress on ESG issues with transparency, it is important to respond to the concerns of the different interest groups, hence the importance of active listening in order to learn.

Choose effective channels. Each communication channel requires a message customized to its audience, but the messages must all be consistent with each other and accurately reflect the degree of ESG commitment.

Integrating ESG criteria effectively and developing a corporate culture that promotes sustainability, both internally and externally, will allow your company to acquire three great habits: seeing value creation through the eyes of your stakeholders, taking a long-term view, and substantiating stated commitments with facts.

Thus, to the four Ps that benefit directly from the implementation of ESG criteria — planet, people, principles of good governance and prosperity — it is worth adding a fifth, perhaps the most valuable and fragile of all: the value of a promise.

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