INTEGRATING ESG INTO YOUR ORGANIZATION: SELECTING THE RIGHT MODEL

BUSINESS ETHICS LEADERSHIP ALLIANCE™
An Ethisphere Community

TABLE OF CONTENTS

INTRODUCTION

At Ethisphere, members of our Business Ethics Leadership Alliance (BELA) come together through our events, roundtables and in working groups to discuss emerging ethics and compliance challenges, and to collaborate on best practice approaches based on experiences and guidance.

Environmental, social and governance (ESG) is such an issue. Investors, consumers, employees, and other stakeholders are demanding transparency from companies about practices and performance.

However, unlike the highly regulated, mandatory, and uniform financial performance measures used to compare one company's performance to the another or to the overall marketplace, ESG performance measures lack uniformity, have piecemeal regulatory components across the globe, and are largely voluntary. This is changing rapidly as new regulations and regulatory scrutiny accelerate.

Just as companies needed to develop programs to successfully adhere to the increased financial and compliance regulations more than a decade ago, each company is now on their own journey toward ESG management and integration. Some are just starting to grapple with increased scrutiny as they look to identify material issues, set achievable goals, and produce their first set of disclosures. Others have been incorporating aspects of ESG into their business for years and have been publicly disclosing activities as a normal course of reporting cycles. The ideal end goal is seamless integration into the business, in a similar way to how financial goals and performance are integrated into a business.

This guide presents a workflow for developing an ESG program and models for integrating ESG management with existing business functions, including compliance, legal, and enterprise risk management. We look at structure, roles, and reporting, and offer guidance on the pros and cons of each model. In short, we look at who does what and why a certain model may be best. It was developed by a working group of legal, compliance, ESG, and sustainability leaders coordinated by BELA.

The models on the following pages are representative of a few that are being used by members of the BELA ESG Frameworks Working Group and are offered for consideration as companies continue to assess, re-assess, and evolve their path to integrating ESG into their business. This is not meant to represent the totality of models that may be successfully used or to rate or rank any particular model.

If you'd like to learn more about BELA or our working groups, get in touch.

Craig Moss
Executive Vice President
Ethisphere
Craig.Moss@Ethisphere.com

Emily Rickaby
Director, Shared Expertise and Strategic Projects
Ethisphere
Emily.Rickaby@Ethisphere.com

ACKNOWLEDGMENTS

Thank you to the members of the Business Ethics Leadership Alliance (BELA) ESG Frameworks Working Group for their engagement and contributions that made this guide possible.

3M Company

Michael Duran, Senior Vice President and Chief Ethics & Compliance Officer
Roberta Paoloni, Director of Ethics & Compliance

Arthur J. Gallagher

Tom Tropp, Global Chief Ethics Officer
Pooja Knight, Director of Global ERM

DuPont

Francisco Hernandez, Chief Ethics & Compliance Officer
Matthew Morrison, Sustainability Strategy Leader

KKR

Mark Howard, Chief Compliance Officer for International Markets
Kapil Kirpalani, Chief Compliance Officer for the Asia-Pacific

Minesa

Maria Dávila Restrepo, Compliance Officer

Novo Nordisk

Cory Potomis, Director, Ethics & Compliance Strategy & Operations

The Coca-Cola Company

Amanda Tucker, Senior Manager, Risk & Disclosure

Amazon

Yousri Omar, Senior Corporate Counsel, Business Conduct & Ethics
Tessie Petion, Head of ESG Engagement

Control Risks

Clare Morton, Head of ESG Consulting
Maria Knapp, Compliance and Forensics, EMEA

Facebook

Jeannine D'Amico Lemker, Director & Associate General Counsel, Compliance Programs
Emil Bova, Director & Associate General Counsel, Compliance Counseling

Liberty Latin America

Lesley Kenny, Director, Ethics & Compliance

Mott MacDonald

Brenda Begg, Chief Risk Officer
Sally Sudworth, Global Head of Sustainability and Climate Change

Snap, Inc.

Nicole Diaz, Global Head of Integrity & Compliance Legal
Emily Barton, Head of Global Sustainability

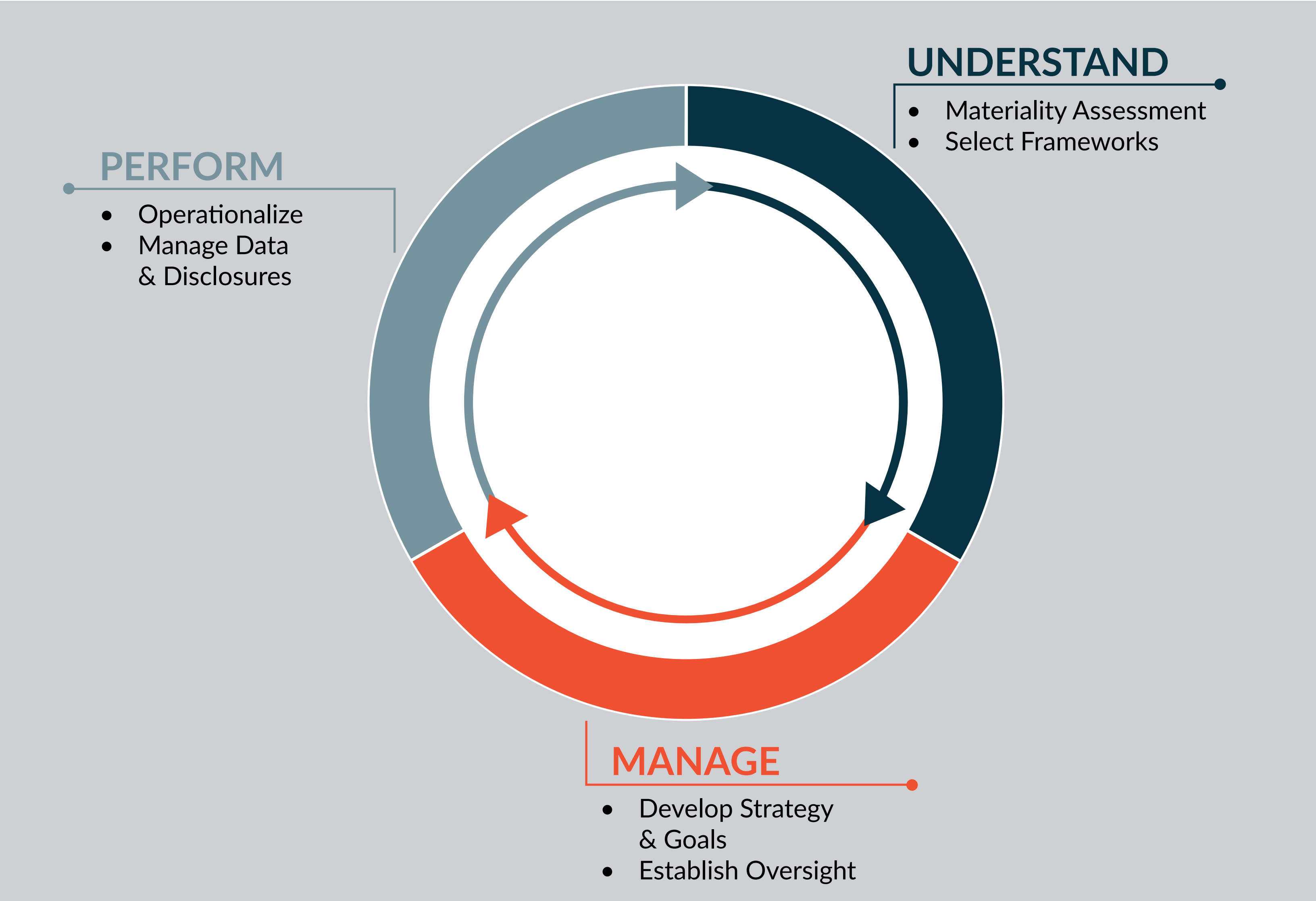
Control Risks

Special thanks to our working group partner, Control Risks, for their insight, perspective and support.

PROCESS FOR DEVELOPING AN ESG PROGRAM

Integrating ESG into a business and embedding it in operations is an ongoing process. Business models evolve. Market and regulatory realities change. Stakeholder priorities shift. These dynamics demand that an ESG program is flexible and responsive but built on a solid foundation of corporate values and culture. As with many aspects of business operations, developing a continual improvement cycle is an effective way to achieve this balance.

The Understand-Manage-Perform cycle of continual improvement represents a high-level view of the activities and processes that make up the core elements of an ESG program. Built around six key elements, every company needs to work through the phases of Understand, Manage, and Perform in the development and ongoing evolution of an ESG program.



PHASE ONE:
UNDERSTAND

Regardless of maturity of practices, it is imperative to understand the salient material issues to the business. The process can be started by doing a Materiality Assessment and Selecting Frameworks appropriate to the company's industry, business, and stakeholders. Given the evolving landscape of ESG and other external business drivers (regulatory pressures, investor scrutiny, etc.), this is something that should be revisited as necessary. ESG is an area where companies must look beyond regulations to satisfy the entire sphere of stakeholders.

Typically, companies start with a materiality assessment to Identify stakeholders and their expectations, and to determine what is important to the business. The process of selecting frameworks can also add to the understanding of what is most relevant to the business in addition to determining how performance will be measured.

MATERIALITY ASSESSMENT

- Stakeholder mapping, engagement, and assessment
- Business purpose and priorities
- Alignment with external initiatives from governments and civil society organizations

FRAMEWORK SELECTION

- Map against framework requirements
- Gap analysis

Tips for success in UNDERSTAND:

- Examine your business and what is important to your stakeholders first, before selecting a framework for reporting
- Identify those parts of E, S, and G where you could gain a competitive advantage through excellence
- Consider your entire ecosystem, including your suppliers and customers
- Recognize that stakeholder engagement is an ongoing process and early engagement in the UNDERSTAND phase will pay dividends during the PERFORM phase related to disclosures

PHASE TWO:

MANAGE

The second phase in the workflow is developing the management structure of the program. Building on the results of Phase One, it is time to Develop Strategy & Goals, and Establish Oversight. Defining the strategy and setting the ESG goals is an important step towards embedding ESG in operations, but goals without appropriate oversight are empty. Oversight centers around governance. There are two ways to speak of governance in the context of ESG. There is the capital-G, “Governance” as one of the three pillars of ESG which concerns the governance of the business writ large. Then, there is the governance of the ESG program which concerns the policies, procedures and authority required to manage you ESG program. Every organization needs to set goals and targets that are relevant to the business and also further the ESG priorities of its stakeholders. It is critical that the company’s governance can support the achievement of the goals and objectives of the program.

A company must develop a strategy and goals for ESG that are integrated into the overall corporate strategy. The strategy informs the process of establishing oversight and providing the governance structure for the ESG program.

Tips for success in MANAGE:

- Think about “how to achieve” when you set goals – make the goals specific
- Integrate ESG into the core business reporting for the Board as opposed to making it separate, and make sure the Board is educated and prepared to fulfill their role
- Get cross-functional input when setting goals and targets
- Make sure decision-making authority is aligned with goals

DEVELOP STRATEGY & GOALS

- Cross-functional team and viewpoint
- Specific goals, frequency for disclosures, metrics
- Peer research and benchmarking
- Board and Executive Leadership approvals

ESTABLISH OVERSIGHT

- Board involvement
- C-Suite reporting line
- Approval of goals and initiatives
- Establish appropriate governance to support goals and initiatives

PHASE THREE:
PERFORM

The third phase in the workflow covers Operationalization and Data Management & Disclosures. To a large extent, the success or failure of operationalizing the ESG program hinges on cross-functional involvement and commitment. Similarly, data management becomes key not only to support the actual work toward achieving the goals, but to provide timely and accurate data for the reporting function. It is hard to get this phase right if you haven't successfully completed the first two phases.

This phase is about getting the work done to meet the goals. One important aspect is making sure consistent data is being captured and shared internally to keep leadership, cross-functional teams, and other project participants informed of progress. The data is also needed for preparing external disclosures. One of the challenges companies face in external reporting is to make sure that the data used is accurate and consistent with the internal data, but that it does not reveal confidential business information.

OPERATIONALIZE

- Who does what? Ownership of processes and practices
- Goal flow-down to business units/functions/third parties
- Ongoing monitoring and auditing

MANAGE DATA & DISCLOSURES

- Data coordination, collection, and analysis
- Review, signoff, assurance/audit
- Ensure consistency of information across platforms and formats
- Report drafting/publication

Tips for success in PERFORM:

- Communicate company wide as to what is happening and why it is important
- Ensure performance incentives do not conflict with achieving your ESG goals
- Focus on data accuracy, consistency, controls, and access. If not done well, this will significantly hamper not only your ability to report out but could also be damaging if it leads to misreporting.

In a mature program, this cycle is dynamic. The operational results and related disclosures feed back into the materiality assessment and the framework selection. As your program evolves it may make sense to shift to using a new framework based on achieving certain targets or evolving external and regulatory conditions.

The models presented on the following pages attempt to illustrate how companies may organize around these efforts to successfully implement and integrate their ESG program. As the business begins to treat ESG reporting in a manner akin to financial disclosures, it will likely give the ESG function increased authority to drive targets and goals. Therefore, each of the models below might evolve along with the increased attention to the reports themselves and an understanding of their importance to the business.

The integration models presented focus on how to establish oversight. But they also touch on how to develop strategy and operationalize. The oversight is foundational to the "G" in ESG. It will define reporting, decision-making and authority levels that directly impact how you set targets and adapt your business models to meet them.

UNIVERSAL CONSIDERATIONS FOR ALL ESG MODELS

Some things are commonplace across all ESG integration models. The following are assumptions we used in making this document that are true regardless of the integration model.

THE NEED TO REMAIN AGILE

- Companies are using any number of recognized frameworks, regulatory schemes, or disclosure requirements in addition to stakeholder input as part of their ESG program. We do not prescribe or recommend any particular frameworks in this guide as availability and adoption rates have a history of fluctuating. As a company's ESG program changes and matures over time, each company must determine which frameworks best fit their needs and which regulations impact their business.
- Some companies may start with a particular ESG integration model and over time change their model as they learn and develop their capacity in the ESG space. Some companies may select a hybrid approach. There is no one correct model.

AUTHORITY AND LINE OF SIGHT

- The seniority, status and reporting structure of the ESG leader(s) (or highest-level role(s) responsible for oversight of ESG) is important to effect real programmatic change. Regardless of the official title or role of an ESG leader, the ESG leader's status, authority and influence will determine how successfully they can develop ESG within the broad organization. The ESG leader(s) needs to have a mandate to create accountability across the organization and drive change. Without this mandate, the ESG function may primarily serve as a data collection and reporting center.
- The ESG leader(s) needs to be positioned so that they have a line of sight to the whole breadth of the organization in terms of: (1) where there are high impact risks (with reference to the baseline materiality assessment), (2) where progress is being made, and (3) where remediation actions should be prioritized. The ESG leader(s) needs clear communication channels, dashboards, monitoring tools, etc. to work effectively.

ALIGNMENT WITH THE BUSINESS

- ESG strategy should align with business strategy, and ideally be seen as a competitive advantage. Metrics and targets/goals should be aligned with company-wide objectives and KPIs used by various business functions. At the very least, ESG and business goals should complement and relate to one another and should not conflict.

- Each company should determine a model for ESG integration that best aligns with their current management, operational structure, and corporate culture.

- When it comes to operationalizing the ESG strategy and goals, consideration should be given to existing performance measurements and incentives for departments and individuals. If there are significant changes to be made to the company's operations, there must be corresponding changes to the performance metrics and incentives.

- Companies need to be practical in evolving from existing business goals to the integration of ESG goals, in terms of scope and timeframes. Part of this is to determine how to make progress and how to transform the way you do business, if necessary, while you are still operating the business. Understand to what degree and how quickly you can transform your operations to achieve your ESG goals.

- Definitions are important. For example, the term "sustainability" can be broadly or narrowly defined. It is important to clearly communicate the scope of what is meant in using the term "sustainability." In some cases, the term "sustainability" could be narrowly defined to mean product sustainability, where the entire lifecycle of a specific product is designed to incorporate sustainable practices (e.g., recycled materials, low carbon footprint, fair labor practices). In other cases, the term "sustainability" could be broadly defined to mean that the company itself incorporates sustainability into its purpose and core business strategy. The general use of the term "sustainability" to be synonymous with ESG can lead to confusion.

ROLES AND RESPONSIBILITIES COULD BE UNIQUE TO EACH ORGANIZATION

- Any effective integration model will include some level of cross-functional coordination and input, although the specific composition, roles, and responsibilities of the cross-functional team may vary among approaches.

- The ESG leader(s), regardless of title, needs a team scaled to the size of the company and work required to meet goals and targets. If they are only relying on the cross-functional committee or team for work product, implementation will be difficult.

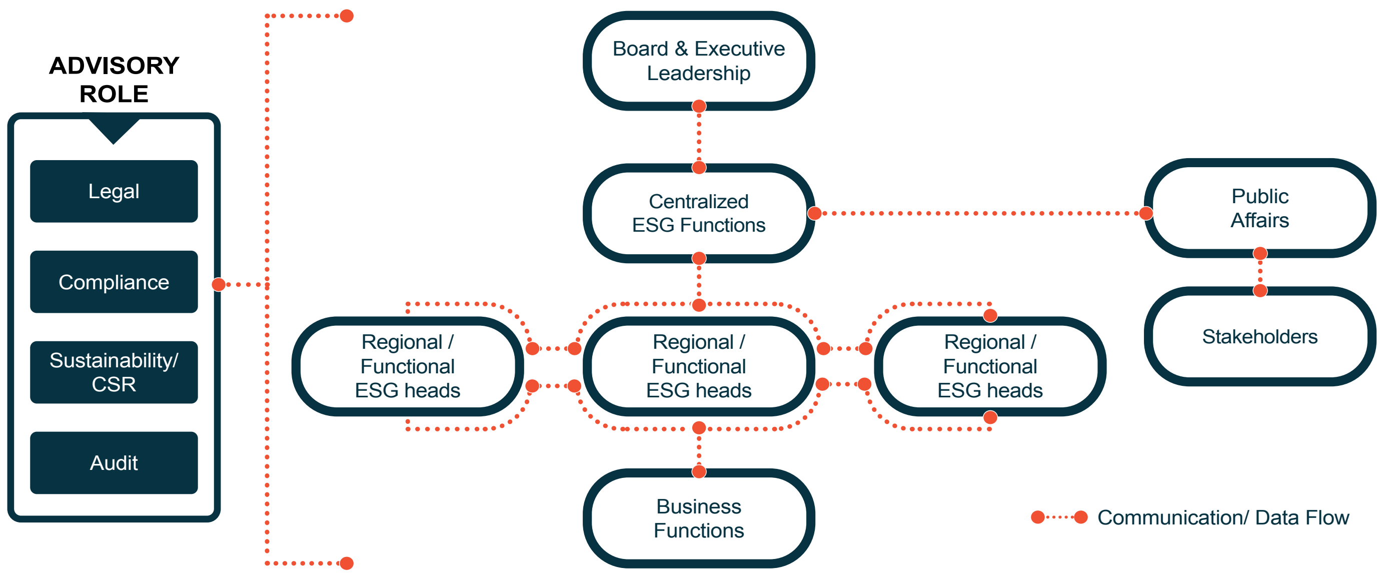
- There are many references in this Guide to the Public Affairs or Communications function. We still hear of many companies whose Sustainability or ESG function sits within, Public Affairs, Corporate Communications, or Marketing. This seems to be born out of a history where the function responsible for corporate communication first initiated public disclosures around certain ESG-related issues, particularly for companies with ESG programs that have grown out of a history of Corporate Social Responsibly (CSR) reporting. While this function will continue to have a role to play in a company's ESG program, with increased scrutiny around "greenwashing," demands for more rigor around metrics and data, the need for ESG roles to be filled by those with greater technical expertise, and the expectation that leadership at the highest levels have oversight for ESG matters, companies should carefully consider the appropriate role for this function in their overall ESG integration strategy.

- Finance will also have a critical role to play in your ESG program. ESG related commitments and goals will have a financial impact and will require funding and resources to implement actions to achieve goals.

- Compliance and Legal are often listed in the models in terms of their advisory roles as necessary to ensure compliance with regulatory requirements. But they could play a broader role in helping to operationalize certain ESG initiatives, such as driving awareness of employee obligations through online training tools, communication channels, or leveraging existing monitoring programs. They may also have a key role to play in the overall governance of an ESG program or in stress testing certain elements. As more ESG related regulations come into being, there will need to be a closer relationship between Compliance, Legal and ESG.

- There are others who will play a role within a company's ESG program that are not included in these ESG integration models as the models are representative of the chain of authority and the most direct link between strategy or goal setting and taking action to make progress toward the goal. We invite you to read this Ethisphere Magazine article, "Collaboration Required: Getting the Right People at the ESG Table", which talks about how these many roles can support your ESG program.

MODEL ONE:
CENTRALIZED COMMAND & CONTROL



ROLES AND RESPONSIBILITY DESCRIPTIONS

- **Board & Executive Leadership** – Provides oversight, authorizes resources, and grants decision making authority to Centralized ESG Function. Approves goals and ensures alignment with business strategy. Provides tone at the top on importance of ESG.
- **Centralized ESG Function** – Determines the metrics, establishes a baseline, sets targets, and prioritizes issues across E, S, and G. This function is advised by legal, compliance, sustainability, and other functions as needed, but Central ESG has final decision-making authority (with Board & Executive Leadership approval). May assemble cross-functional group or otherwise seek input from business leads.
- **Regional/Functional ESG Heads** – Receive goals and priorities from Centralized ESG and work with business functions to pull together implementation teams around targets including creating specific initiatives and milestones. Advises on regional/functional concerns and localization issues.
- **Business Functions** – HR, Finance, IT, Manufacturing, Sales, Product Development, Supply Chain, etc. align their processes to meet targets and incorporate ESG metrics into overall business metrics.
- **Public Affairs** – Manages reporting and disclosures. May create quarterly updates internally or externally against the overall plan/goals. Takes the lead on stakeholder engagement.
- **Legal** – Provides advisory role as necessary on legal and regulatory issues.
- **Compliance** – Provides advisory role as necessary to comply with regulatory requirements and assists in promoting effective governance.
- **Sustainability** – Provides advice and expertise on technical aspects of underlying ESG topic areas.
- **Audit** – Provides advisory role as necessary and will test and validate ESG reporting processes.

GENERAL BENEFITS AND CHALLENGES

BENEFITS

- Consistent ESG targets throughout the organization
- Clear prioritization of efforts in each pillar of E, S, and G aligned with overall business strategy
- Single source of authority and clear chain of responsibility or command
- More efficient for Board and Executive leadership in terms of oversight
- Better aligned reporting with a more cohesive and connected message across topics

CHALLENGES

- Risk of targets being set at headquarters and dictated to operating units without appropriate input at the regional or operating level
- Loss of clear messaging going through regional/functional interpretation
- Disconnect between Central ESG group and operational reality of business functions

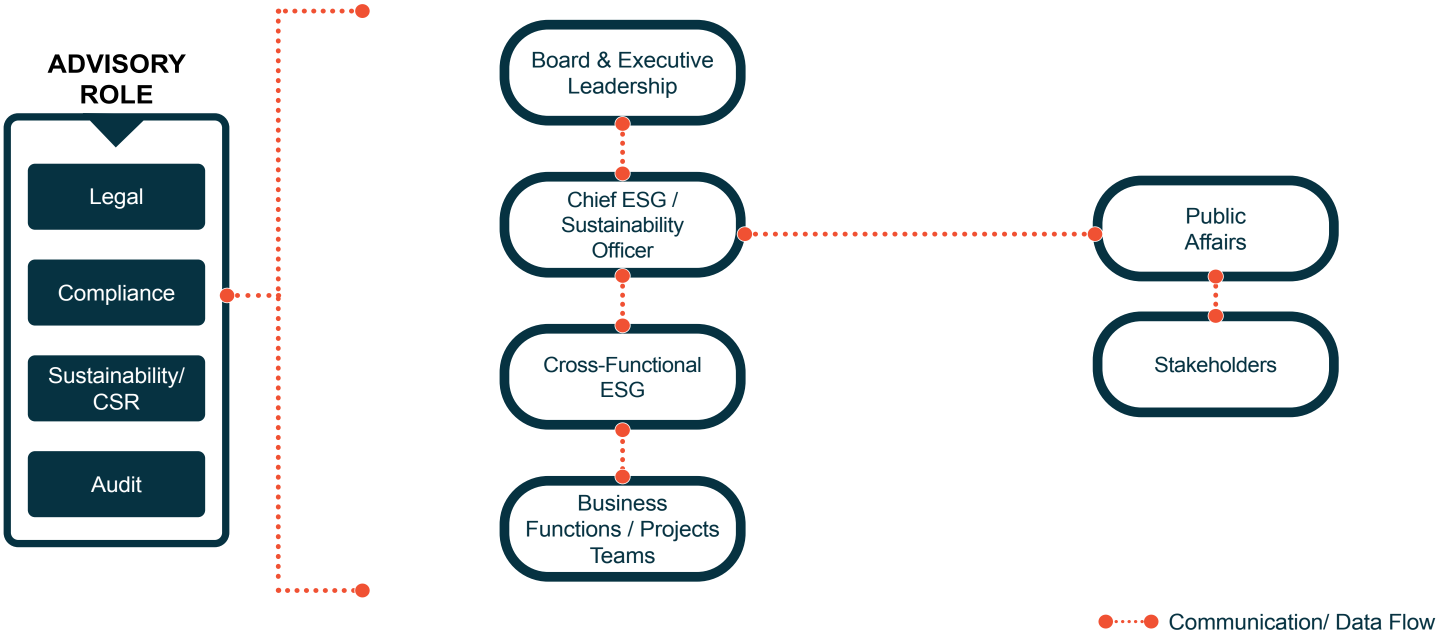
KEY SUCCESS FACTORS AND CONSIDERATIONS

- Clear lines and scope of authority at each level
- Fluid two-way communication – ongoing reporting on progress at the business function level
- Implementation plan to meet targets is developed in collaboration between Central ESG, Regional heads and business functions

COMPANIES THAT MIGHT BENEFIT FROM THIS MODEL

- Highly centralized corporate functions and hierarchical organizational structures
- Geographically structured organizations
- Organizations with highly differentiated and separately managed business lines

MODEL TWO:
C-SUITE MODEL



ROLES AND RESPONSIBILITY DESCRIPTIONS

- **Board & Executive Leadership** – Provides oversight, authorizes resources, and grants decision-making authority to Chief ESG/ Sustainability Officer. Approves goals and ensures alignment with business strategy. Provides tone at the top on importance of ESG.
- **Chief ESG/Sustainability Officer (CSO)** – Coordinates and oversees cross-functional ESG committee. Responsible for recommending goals and strategy to Board & Executive Leadership. Point person for reports to the board. Provides oversight and approval for ESG/Sustainability report as well as approving any public commitments or statements around ESG. Becomes the face of ESG for the company.
- **Cross-Functional ESG Committee** – Determines and coordinates implementation of strategy. Members would have technical expertise in various areas. Could also be charged with developing stakeholder networks.
- **Business functions/project teams** – Works under the direction of the cross-functional committee to implement strategies, establishes baselines, create specific initiatives and milestones, and provides data for reporting.
- **Public Affairs (Communications)** – Manages reporting and disclosures. May create quarterly updates internally or externally against the overall plan/goals. Takes the lead on stakeholder engagement.
- **Legal** – Provides advisory role as necessary on legal and regulatory issues.
- **Compliance** – Provides advisory role as necessary to comply with regulatory requirements and assists in promoting effective governance.
- **Sustainability** – Provides advice and expertise on technical aspects of underlying ESG topic areas.
- **Audit** – Provides advisory role as necessary and will test and validate ESG reporting processes.

GENERAL BENEFITS AND CHALLENGES

BENEFITS

- Better integration with the Executive Leadership team
- Consistent ESG targets throughout the organization
- Clear prioritization of efforts in each pillar of E, S, and G aligned with overall business strategy
- Single source of authority and clear chain of responsibility or command
- More efficient for Board and Executive Leadership in terms of oversight
- More senior role – greater visibility and authority

CHALLENGES

- The CSO is expected to have a certain level of personal expertise across E, S, and G pillars
- CSO may lack necessary authority to drive cross-functional targets
- Members of cross-functional ESG committee may lack bandwidth to fulfill their role on the committee
- Leadership could be too removed from the actual work of implementation – may lack a true line of sight into activities. May not be able to set realistic targets due to lack of knowledge of on-the-ground practicalities
  This framework can also exist with an ESG lead below the executive level, presenting the additional challenge of ensuring that ESG reporting receives appropriate management and board oversight

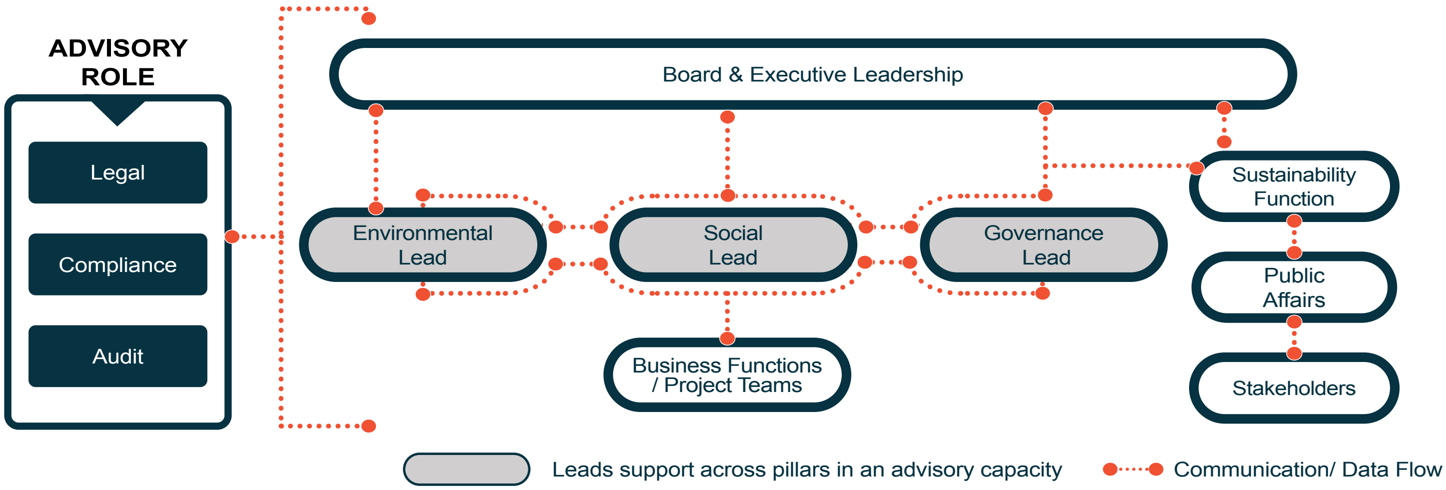
KEY SUCCESS FACTORS AND CONSIDERATIONS

- Strong communication protocols and ability for CSO to work directly with business functions/project teams
- Selection and competency of CSO is critical from an ESG perspective and knowledge of the business
- CSO needs respect of and influence with internal and external stakeholders
- CSO should not be a shared or split role – for example not CEO/CSO
- In very large, geographically dispersed organizations, may require the addition of regional/functional sustainability/ESG leads

COMPANIES THAT MIGHT BENEFIT FROM THIS MODEL

- Companies that want to be perceived as a leader in ESG in their industry
- Could work for companies under a variety of organizational structures – hierarchical, matrix, flat, functional, etc.

MODEL THREE: PILLAR MODEL



ROLES AND RESPONSIBILITY DESCRIPTIONS

- **Board & Executive Leadership** – Provides oversight, authorizes resources, and grants decision-making authority. Approves goals and ensures alignment with business strategy. Provides tone at the top on importance of ESG.
- **Environmental Lead** – Could be the Sustainability Officer or other with technical expertise (for one member of the working group, Enterprise Risk Management owns this). Proposes strategy or goals to Board & Executive Leadership. Coordinates with business functions or establishes project team to execute on strategy. Reports out to Board & Executive Leadership as well as to Sustainability (if not a member of that function). May assist in the development of annual ESG report or work with Public Affairs or another similar role.
- **Social Lead** – Could be Head of Human Resources (or other with technical expertise). Proposes strategy or goals to Board & Executive Leadership. Coordinates with business functions or establishes project team to execute on strategy. Reports out to Board & Executive Leadership as well as to Sustainability, if Sustainability leads disclosures & reporting.
- **Audit** – Provides advisory role as necessary and will test and validate ESG reporting processes.
- **Business Functions or Project Teams** – Work under the direction of pillar leads to implement strategies, establish baselines, create specific initiatives and milestones, and provide data for reporting.
- **Governance Lead** – Could be Legal or Compliance (or other with technical expertise). Proposes strategy or goals to Board & Executive Leadership. Coordinates with business functions or establishes project team to execute on strategy. Reports out to Board & Executive Leadership as well as to Sustainability, if Sustainability leads disclosures & reporting.
- **Public Affairs** – Manages reporting and disclosures. May create quarterly updates internally or externally against the overall plan/goals. Takes the lead on stakeholder engagement.
- **Legal** – Provides advisory role as necessary on legal and regulatory issues.
- **Compliance** – Provides advisory role as necessary to comply with regulatory requirements. Could also take the lead in the Governance pillar.
- **Sustainability** – If not taking the lead role for the Environmental pillar, will provide advice and expertise on technical aspects of underlying ESG topic areas. Reports out to Board & Executive Leadership and may develop annual sustainability report or work with Public Affairs or another similar role.

GENERAL BENEFITS AND CHALLENGES

BENEFITS

- Leads of each pillar have technical expertise and can focus on the pillar
- Allows for deeper development of expertise and knowledge
- Ability for leads to stay more current on trends in their pillar topic
- Create more credibility with stakeholder networks
- Governance function plays a role in providing governance for the other pillars

CHALLENGES

- Overall ownership of ESG is less clear (who is the highest-level person accountable for ESG?)
- Each pillar can become myopic in focus or priorities and there could be uncertainty regarding accountability
- Pillars could find themselves in competition with each other over priorities, resources, etc.
- If Legal owns Governance, risk of focusing too much on only those aspects of the other pillars that are regulatory in nature
- Can have a lack of coordination around efforts
- Competition for the attention and time from business functions

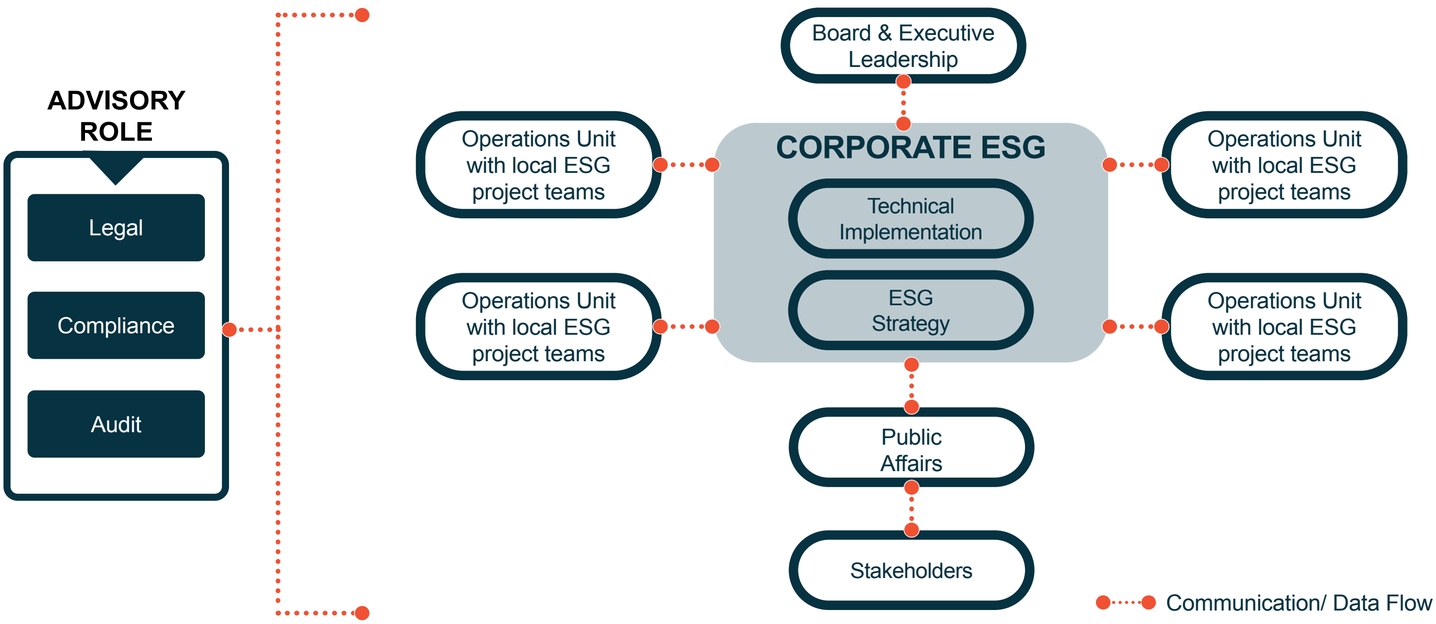
KEY SUCCESS FACTORS AND CONSIDERATIONS

- Clear tone from the top on priorities
- Pillar leads must collaborate to coordinate and prioritize activities between the pillars
- Leads of each pillar should have technical expertise in the subject area
- Consider adding a cross-functional committee or team to the model that could help mitigate lack of coordination and prioritization

COMPANIES THAT MIGHT BENEFIT FROM THIS MODEL

- Companies with risk profiles or in certain industries where there is one pillar that must be more mature than others due to the nature of the business.
- Companies in highly regulated industries
- Companies with a functional or matrix organization structure

MODEL FOUR:
NETWORK OR PROJECT BASED



ROLES AND RESPONSIBILITY DESCRIPTIONS

- **Board & Executive Leadership** – Provides oversight, authorizes resources, and grants decision-making authority to the Corporate ESG Team. Approves goals and ensures alignment with business strategy. Provides tone at the top on importance of ESG.
- **Corporate ESG** – Could be made up of two teams: one with communications and sustainability executives, and another with technical advisors who focus on the technical aspects of implementing the ESG program. Team has final authority to set strategy or goals with approval from Board & Executive Leadership and input from each operations unit. Coordinates with operations units to execute on strategy. Has authority to hold operations units accountable for progress. Reports out to Board & Executive Leadership and produces public facing disclosures and reports. Manages interactions with stakeholders.
- **Audit** – Provides advisory role as necessary and will test and validate ESG reporting processes.
- **Operations Units** – Each operations unit has its own ESG/sustainability lead roles who may also have expertise in public affairs, communication, and sustainability. These leads work with project teams to modify operations and business processes as necessary to implement strategies, meet goals, establish baselines, provide data for reporting. Project teams form to address specific goals. Once the goal is met, the project team dissolves.
- **Public Affairs** – Manages reporting and disclosures. May create quarterly updates internally or externally against the overall plan/ goals. Takes the lead on stakeholder engagement.
- **Legal** – Provides advisory role as necessary on legal and regulatory issues.
- **Compliance** – Provides advisory role as necessary to comply with regulatory requirements and assists in promoting effective governance.
- **Sustainability** – Provides advice and expertise on technical aspects of underlying ESG topic areas.

GENERAL BENEFITS AND CHALLENGES

BENEFITS

- Consistent ESG targets throughout the organization
- Clear prioritization of efforts in each pillar of E, S, and G aligned with overall business strategy
- Corporate ESG function could provide a single source of authority and clear chain of responsibility or command
- More efficient for Board and Executive Leadership in terms of oversight
- Integration of sustainability and communications expertise
- Sustainability and communications expertise available at the operations units
- Local teams can be project based to align with individual goals
- Strategy teams have close contact with technical experts

CHALLENGES

- The Corporate ESG Team may be removed from the actual work of implementation – may lack true line of sight into activities – leading to inability to set realistic targets due to lack of knowledge of on the ground practicalities
- Goals may not align with capacity to implement at operations unit level
- Sustainability team would need broad expertise
- Reliance on operations unit and technical advisor for feasibility assessment and deep knowledge of the business
- There may be tension between the strategy team and the technical team at the Corporate ESG function
- Risk of too many project teams spreading resources too thin and the overall management of project teams are regulatory in nature

KEY SUCCESS FACTORS AND CONSIDERATIONS

- Strong communication protocols between corporate and operations
- Selection and competency in corporate ESG team is critical
- High degree of trust between ESG teams and technical advisors
- Have good local ESG teams

COMPANIES THAT MIGHT BENEFIT FROM THIS MODEL

- Companies that want to be perceived as a leader in ESG in their industry
- Companies that seek to make greater integration of ESG into operations
- Companies moving to a project based or network organization

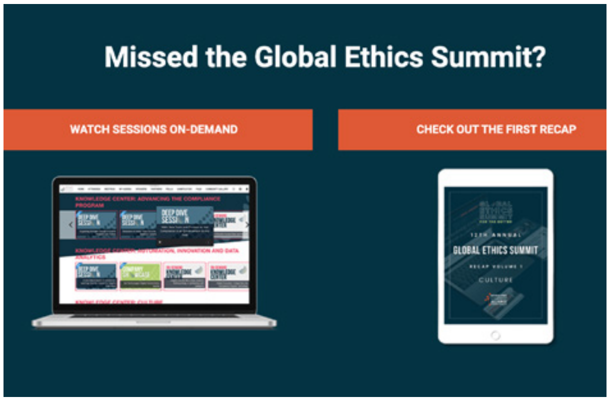
CONCLUSION

Selecting an integration model is just one of many decisions organizations must make to build a successful ESG program. As the requirements, standards, and expectations around ESG continue to evolve, so will your ESG program. Organizations will need to build in a certain amount of agility into their ESG program management as we anticipate ESG management models will evolve in response to regulatory and market pressures. This is perhaps the most critical reason to determine an integration strategy that best reflects the way your organization has already experienced success in managing other key business and performance initiatives.

The ideal end goal is seamless integration of ESG into the business, in a similar way to how financial goals and performance are integrated into a business. For this to happen, companies need to develop a mature governance program that helps to manage the relevant risks and enables the ESG goals to be met. Without a mature governance program, companies risk setting goals that they do not have the capability to meet.

Increased scrutiny from regulators, investors and consumers can quickly tarnish a company with the “greenwashing” label. Beyond that, each company should consider identifying those specific elements in the environmental and social pillars that are most essential to their corporate strategy and critical to their customers, employees, investors, and other stakeholders. Achieving excellence in those specific ESG elements can provide a competitive advantage in the market and truly integrate ESG into your operations.

ADDITIONAL RESOURCES

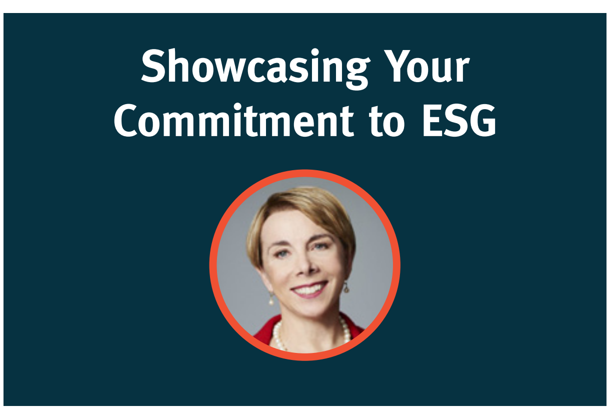


Global Ethics Summit Highlights: ESG with Extra "S"

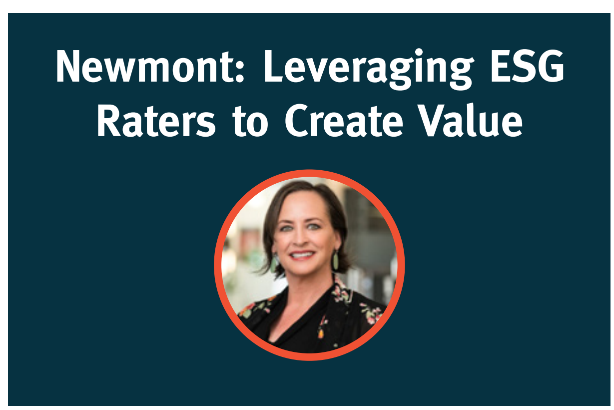
The Social in ESG, and the False Long/Short-Term Debate

ESG Trends Infographic

Marvell & Western Union: ESG for E&C Leaders



Showcasing Your Commitment to ESG with Human Capital Reporting



Newmont: Leveraging ESG Raters to Create Value

BUSINESS ETHICS LEADERSHIP ALLIANCE™
An Ethisphere Community

Ethisphere's Business Ethics Leadership Alliance (BELA) is a global community ofcompanies who recognize the inherent value of ethical leadership and who are working together to move business forward with ethics and integrity. BELA members are senior legal, ethics, and compliance leaders from 60+ industries in more than 350 companies worldwide. The community shares best practices and expertise and has access to exclusive data, benchmarking, and opportunities to showcase their programs.

ETHISPHERE®
GOOD. SMART. BUSINESS. PROFIT.®

Ethisphere® is the global leader in defining and advancing the standards of ethical business practices that fuel corporate character, marketplace trust, and business success. Ethisphere has deep expertise in measuring and defining core ethics standards using data-driven insights that help companies enhance corporate character. Ethisphere honors superior achievement through its World's Most Ethical Companies® recognition program, provides a community of industry experts with the Business Ethics Leadership Alliance (BELA), and showcases trends and best practices in ethics with Ethisphere Magazine. Ethisphere also helps to advance business performance through data-driven assessments, benchmarking, and guidance. More information about Ethisphere can be found at https://ethisphere.com.

6991 E. Camelback Rd., Ste. B-210 | Scottsdale, AZ 85251
Phone: 888 229 3207 | Fax: 480 219 7670
www.ethisphere.com