EHS Daily Advisor
ESG Week

SETTING THE STANDARD FOR ESG GROWTH STRATEGIES

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BACK TO BASICS: THE FUNDAMENTALS OF ESG

Back to Basics is a weekly feature that highlights important but possibly overlooked information that any EHS professional should know. This week, we examine the definition, history, and workplace implementation of ESG, and how it can lead to a more sustainable workplace.

The modern workplace is changing because of many different factors, including the COVID-19 pandemic, the Great Resignation, and younger generations entering the workforce. Employees are demanding more from companies, in terms of what the company can do for them, and within a broader social context. To deal with this shift in values, employers are turning to metrics such as environmental, social, and governance (ESG) impact to create a more sustainable workplace for everyone. Lawyer Adele Abrams and senior risk control consultant Abby Ferri discussed ESG in a recent webinar to provide more context behind the idea, and how employers should be implementing it at their companies.

Definition

ESG as a concept is an evaluation of an organization's collective consciousness for social and environmental factors. More specifically, it is a metric to assess an organization's impact beyond its internal mission-driven operations and financial performance. In 2021, the U.S. Securities and Exchange Commission (SEC) provided an overview describing a range of factors that ESG can encompass from an investor's perspective:

- Environmental: a company's impact on the environment, the risks and opportunities associated with climate change, and its impact on an organization's business and industry.

- Social: an organization's relationship with people and society, in terms of diversity, equity, and inclusion (DEI), safety and health, human rights, and community investment.
- Governance: the way that a company is run, in terms of its transparency and reporting, ethics, compliance, shareholder rights, composition, and the role of the board.

The theory is that the companies that align with ESG values, including both for-profit and non-profit organizations, are likely to outperform in their respective markets, according to Abrams and Ferri. In fact, the United Nations (UN) has published 17 Sustainable Development Goals that cover ESG and will have an impact on multinational employers.

History and legal context

In 2016, the Occupational Safety and Health Administration (OSHA) released a publication on sustainability that read, "Employers are only sustainable when they ensure the safety, health, and welfare of their employees." This was inspired by a UN Commission report from 1987, which stated that "sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

According to Abrams, there are those who say that ESG is the "new Sarbanes-Oxley" when it comes to impact on risk-based internal audits for EHS and other organizational or regulatory areas. The Sarbanes-Oxley Act of 2002 includes provisions for corporate and auditing accountability, responsibility, and whistleblower protections, which are enforced by OSHA.

There is currently no concrete legislation requiring ESG reporting, but institutional investors are calling for clear regulatory guidance or rules for sustainability disclosures. Right now, the issue is figuring out what information is relevant to the investment decision. Reporting could include an organization's performance on climate change, DEI efforts, political spending, supply chain management, community support, and human capital management.

Currently, ESG reporting is voluntary, other than PAC contributions, Equal Employment Opportunity Commission (EEOC) requirements for federal contractors, and SEC reporting of some Mine Safety and Health Administration (MSHA) citations for publicly traded mining companies. However, the SEC is moving towards issuing new rules requiring disclosure of ESG activities with a focus on more transparency. After the Sarbanes-Oxley Act, many companies went ahead and formed disclosure committees to cover information required by the SEC. Abrams and Ferri said that these committees could expand to include ESG reporting and audits, or subcommittees could be used for non-reportable information.

Application in EHS

Environmental, health, and safety (EHS) professionals need to understand ESG and the role that they play in its workplace implementation. Employers have a responsibility to attract and retain young talent through sound safety practices and results, because workers will ultimately migrate towards companies that treat them better. There is another metric called employee value proposition (EVP) that reflects purpose over profit, which is something that younger employees especially are seeking out at companies.

In terms of the environmental component of ESG, there exists both a direct and indirect relationship between the work of EHS professionals and corporate ESG goals, according to Abrams and Ferri. The direct relation includes the concrete environmental impact that their work has, along with the risks and opportunities related to climate change. The indirect relation involves items such as PPE and gear procurement, wildfire and waste resources, and fleet management, for example.

In the social component, EHS professionals have a direct impact on employee health and safety, including human rights, DEI, total worker health, and the use of technology and innovation. Indirectly, they impact stakeholders and the supply chain, meaning safety management systems and subcontractor management, and clients, investors, and communities.

Lastly, in the governance component, EHS professionals must have a commitment to the rule of the law. This means remaining in compliance with rules from OSHA, the EPA, ISO, DOT, and other organizations that provide EHS guidance. They must also value ethics along with compliance, because as mentioned previously, younger generations are looking for that alignment of their job and personal values.

Additionally, EHS professionals also need to consider insurance policies, coverage, and liability. Many organizations have risk management personnel specifically for this purpose, but at others, this falls under the EHS professional's sphere of influence. Ferri and Abrams emphasized that EHS is an investment, not just a cost, and that sentiment will help drive ESG values forward in the workplace.

HOW TO MAKE SURE YOUR CORPORATE HEALTHCARE ESG STRATEGY IS APPEALING TO YOUNGER GENERATIONS

Whether publicly traded healthcare companies have verified sustainability plans in place or have been accused of "greenwashing," environmental, social, and governance (ESG) standards have trended upward over the past year, in which a record $649 billion was poured into ESG-focused funds worldwide in 2021.

As investors continue to put their money into healthcare companies making a difference, one misconception for these companies jumping on the ESG bandwagon today is that a majority of these investors are more likely to belong to younger generations. New research shows 54% of Gen Z and millennials holding ESG investments, compared to only 42% of boomers and 25% of Gen Xers.

From combating climate change to expanding the company's diversity, or calling for more corporate equitable policies, healthcare companies need to now understand what younger generational investors care about to not only build an effective ESG strategy, but also increase the company's financial portfolio.

What ESG standards do younger generations care about?

While there is no denying that ESG has been around for a long time, the recent acceleration of widespread reporting on ESG principles and practices has created the shift of power, money, and jobs from baby boomers to millennials and Gen Z, in which passive investing, COVID, social injustice issues, the "Great Resignation" and talent shortages have all been contributing factors.

Despite there not being an exact right way to go about your company's ESG strategy, contributing to fighting climate change, specifically the threat of global warming, seems to be the most concerning for today's Gen Z and younger millennial investors. However, social and economic equity throughout the entire corporation also seems just as significant due to these individuals consuming more related news articles, blogs, and videos through social media.

Even if it's not investing into ESG funds, Millennial and Gen Z individuals have also started to shift healthcare companies' workforce in terms of attracting and retaining younger talent that can grow within the company. Gen Z talent currently makes up 46% of the full-time workforce in the U.S, where governance factors, such as flexible vs. one-size-fits-all healthcare plans, including mental healthcare, and charitable support, like having days off for volunteering and donation matching, are of particular concern. Moreover, mentorship and employer engagement are also key to retaining this younger generation of workers.

As a result of reporting ESG principles and practices that younger generations care about, investors, along with employees and customers will all benefit in continuing to mold an environmentally and socially conscious world. Nevertheless, a lack of ESG transparency remains, impacting how younger generations view the specific healthcare company.

The current lack of ESG transparency

With a healthcare company's ESG practices being scored on a rating scale by proxy advisors, such as Institutional Shareholder Services (ISS), younger generational investors rely on these ESG scores to determine what company's efforts align most, whereas younger talent looking for employment also gravitate toward healthcare companies with ESG scores 25% higher than average.

Unfortunately, ISS and other proxy advisors scoring healthcare companies' ESG practices, are the main culprits when it comes to the lack of transparency in the ESG rating systems created to analyze a public healthcare company's ESG efforts. Investors, employees, and customers do not have the same transparency into what specific factors lead to this rating. These proxy advisors continue to mislead well-intentioned young investors of ESG funds that are “doing good” through conflicted incentive rating structures.

Given the power of these ESG ratings, publicly traded healthcare companies and healthcare shareholders must have direct access to how these ratings are calculated. However, proxy advisors call that information proprietary and refuse to disclose it. What began as a public relations and marketing effort for corporations to show employees and customers they are responsible actors now functions as a corporate credit score where those who refuse to play the game are denied access to investor capital.

How can healthcare companies engage Gen Z & Millennial investors?

If a healthcare company’s ESG rating by proxy advisors, like ISS, does not appear transparent as to what ESG practices were listed in the initial reporting and does not seem to engage younger generational investors, the best approach for corporate boards to think about is a digital one, in which companies should further utilize all channels of social media and other popular smartphone tools to engage this demographic.

One example of interacting digitally with millennial and Gen Z investors can be through virtualizing annual general meetings (AGM); better known as the most important shareholder meeting of the year. According to packaging software company, Lumi, they received a 70% increase in the average number of attendees attending AGMs in 2021 compared to 2020, which proves beneficial for Gen Z investors, but also shareholders as a whole in increasing quality of participation.

Moreover, healthcare companies can also think beyond the virtual AGMs and continue to invest in investor relations, whether its inviting directors to make regular contact with younger shareholders or just helping maintain a loyal younger shareholder base and value perception. Although younger investors may rely more on social media and influencers to judge whether an investment is worthwhile, healthcare companies can still have the power to take back control and tell the healthcare company's story using a more positive lens.

Just by generating more authenticity in the company, especially when it comes to ESG issues, will ultimately help fend off proxy advisor ratings from what is true and what is false. If a younger investor feels they're being greenwashed, younger investors will switch off and find their own information from other sources.

Even though engaging the next generation of investors is no easy task, healthcare companies must find innovative ways to capture the attention of younger investors. Thinking digitally, communicating any ESG triumphs, and engaging younger investors year round are just some of the ways to ensure healthcare companies encourage loyalty in this new generation.

ASK THE EXPERT: ADELE ABRAMS ON ESG

In this special Enviro, Social, & Governance Week installment of Ask the Expert, we hear from Adele Abrams, who is an attorney, safety professional, and trainer. She is the president of the Law Office of Adele L. Abrams P.C., a multi-attorney firm focusing on safety, health and employment law nationwide. She is a certified mine safety professional, and she provides consultation, safety audits, and training services to MSHA and OSHA regulated companies. We reached out to ask her about the legal contexts and potential future of ESG in the workplace. Here's what she had to say.

Q: For those new to the concept, what is the definition of ESG? How is it applicable in EHS?

Looking at the environmental prong, there would be examination of the organization's impact on the environment, but also the risks and opportunities associated with climate change, and how environmental conditions impact corporations value to investors as well as the carbon footprint—not only of the company or organization itself but flowing downstream to look at subcontractors, and vendors through its supply chain, to see if they also have positive EHS values, culture, and performance.

"The "ESG" initiative addresses an organization's activities with an eye toward their Environmental, Social and Governance (ESG) impact."

The societal prong of ESG examines how the organization interfaces with society, starting with its employees and whether they are treated fairly and provide a safe and healthful work environment, but extending into examining the diversity of corporate boards and C-suites. Finally, when examining an entity's "Governance" track record, there would be scrutiny of how the company in run in terms of ethics, transparency, reporting and compliance with applicable codes and standards.

Q: What are the current legal requirements for ESG reporting?

Currently, there are minimal mandatory reporting requirements relative to "ESG" but that is about to change. The federal Securities & Exchange Commission (SEC) focuses on disclosure of information considered material to the investment decision, the items about the company's ESG performance that are substantially likely to be considered by an investor when making a decision on whether to purchase a stock or invest in the company.

In addition to environmental information, it could include data on political spending, diversity efforts, impact on the community from an environmental justice perspective, and more. But these remain voluntary reports, and the SEC has responded to concerns from investors about transparency and truthfulness by issuing a proposed rule on April 11, 2022, that would require certain environmental information to be reported to the SEC, specifically climate-related information and data on the company's carbon footprint. The comment deadline is May 20, 2022, and this is expected to be a contentious rulemaking. The SEC rule would only impact publicly traded companies, but larger entities would also have to report on their downstream partners.

Q: Do you predict more ESG legislation in the future, and what will that look like?

Congress has a full plate right now, and I think the SEC rulemaking will be the first step in ensuring some transparency and in allowing investors, community leaders, and even workers to discern if the company shares its values in the ESG arena. If the Democrats continue to hold both chambers of Congress after the 2022 elections, then ESG legislation might be a possibility but currently there is little change of any measures gaining traction.

Q: What are companies getting wrong about ESG?

Companies get it wrong when they see ESG as a burden or hardship, instead of a feature that will attract investors and quality employees. The ESG concept doesn't require companies to change how they are doing things but it will allow the public to know what a company really values and emphasizes internally in its practices and externally as it interfaces with the rest of the community and world. ESG is a way of raising the bar for publicly traded entities and helping them lead smaller companies by example. It's aspirational at this point, not a mandate, but if a company is ignoring existing obligations in the environmental, safety, and health, or employment area, it will not score very well in an ESG assessment.

Q: How important is leadership buy-in to an effective ESG program?

Leadership buy-in is the most critical feature, because that sets the entire EHS culture and—by extension—its ESG performance. That means committing the resources to go beyond minimal compliance in the EHS areas, but also leading by example and encouraging diversity at all levels within the corporation and in all the ways it impacts its community.

Q: Once you get your ESG initiative in place, what then?

ESG should be a living initiative, flexible to respond to changing regulatory requirements and external challenges that may warrant revision of programs, policies, and procedures over time. This is not a static document that goes into a binder on a shelf. Everyone involved must be committed to the program, and it should be hallmarked by a desire for continuous improvement. Beyond that, for publicly-traded companies, or those who do business with them and may also be impacted, make sure to be engaged in the SEC rulemaking and monitor federal, state, and local EHS agencies for changing requirements.

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Boldly Forward: Embracing the Net Zero Imperative in the Face of Economic Uncertainty, Defying the Recessionary Status Quo

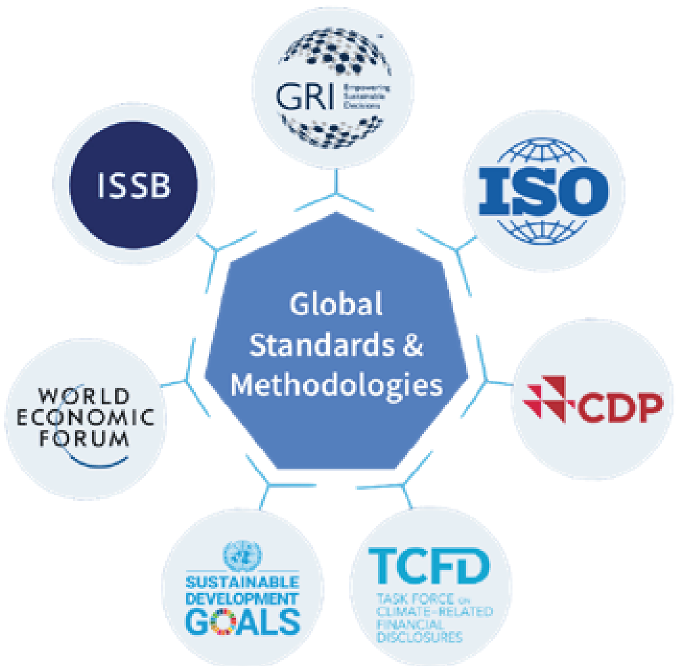
In recent years, there has been a significant shift in attitude and cultural changes that are impacting the focus on the environment. Since the last recession, there has been a heightened awareness of environmental, social, and governance (ESG) issues, with businesses and governments around the world taking action to reduce carbon footprint and other negative environmental effects. Governments are supporting ESG efforts through grants, rebates, and tax credits, while also implementing regulations that require companies to disclose climate risks and evaluate their supply chains for social governance and human rights abuses.

ESG initiatives are not only benefiting the environment but also improving businesses in other areas. For example, ESG improvements in supply chain management can lead to better sourcing, reduced human rights abuses, and improved compliance and reporting, resulting in cost savings, increased productivity, and optimized assets. The introduction of regulations such as the Climate Disclosure Rules by the SEC in the United States and the Supply Chain Due Diligence Act in Germany are driving companies to consider environmental and social governance factors in their operations and reporting. Voluntary standards like the Global Reporting Initiative (GRI) Standards and the Sustainability Accounting Standards Board (SASB) in Australia are also providing guidelines for sustainability reporting, helping companies align with ESG goals and provide transparency to investors.

Streamlining the supply chain is seen as a crucial step in achieving ESG goals, as it is a significant source of business carbon emissions. Companies are actively evaluating their supply chains to identify and address sustainability risks, such as ESG and sustainability, GHG and carbon reporting, and diversity, equity, and inclusion. Tools like Avetta provide support in evaluating, tracking, and reporting on sustainability efforts, helping businesses stay organized and execute on their ESG strategies. Overall, there is a growing emphasis on integrating ESG considerations into business operations, driven by government regulations, cultural changes, and the recognition of long-term cost savings and benefits for both the environment and businesses.

Quantify and Achieve Your Sustainable Supply Chain Goals

Up to 90% of an organization's ESG footprint is in the supply chain. As the leader in supply chain risk management, Avetta provides a single platform to define, measure and remediate ESG compliance issues - along with all of your other supplier qualification needs. Uniquely, our results map back to the same ESG standards used to report back to investors.



Evaluations developed by experienced sustainability experts based on extensive research, global standards, code of conduct, and industry-recognized methodologies

Avetta's ESG offering is customized to your supplier due diligence programs, collecting information focused on compliance and risk. Avetta calculates an ESG Index that characterizes supplier levels of awareness and understanding by measuring ESG compliance across a range of global standards.

How does it work?

Plan
Avetta helps organizations determine which suppliers apply to which ESG requirements.

Analyze
Supplier ESG Index is generated against multiple standards and code of conduct.

Execute
All applicable suppliers are guided through the registration process and evaluation completion, based on their maturity levels.

Act
Collaborate with suppliers to remediate gaps. Optimize resource allocation, enable stakeholder awareness, and source new suppliers from the network.

Learn More Here