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The essential guide to ESG reporting

How listed companies can simplify disclosure

Action on Environmental, Social and Governance (ESG) issues is no longer a 'nice to have'. It's essential if you're seeking investor capital and the social license to operate.

Around the world, organizations are on the path to net zero. When the UN Intergovernmental Panel on Climate Change (IPCC) sounded a 'code red' for humanity with its 2021 assessment[1], it became all too clear the time to act is now.

Many corporations were already on that journey. Although ESG is more than environmental, it is a key driver for change. Organizations recognise that climate change presents a real and significant risk to future operations. Under growing pressure from government regulators, investors, customers and employees, leaders of listed companies understand the economic realities of ESG – and its impact on people, planet and prosperity.

Investors are leading the charge in demand for ESG data, disclosures and credentials. Sustainable investments have now reached $4 trillion,[2] and ESG mandates continue to grow. Following the COP26 climate change conference, a coalition of 450 major investors, banks and insurers committed their collective $130 trillion in assets to target net zero emission investments by 2050.[3]

More recently, the US Climate Bill (Inflation Reduction Act) will now see an unprecedented $370 billion invested in cutting US greenhouse gas emissions, along with tax incentives to encourage consumers and businesses toward clean and efficient energy solutions.[4] This bill is expected to see a transformational shift of investment funds away from fossil fuels, and into renewables and clean energy technology.

As demand for action intensifies, it will be increasingly important for companies to share comprehensive information on tangible metrics and goals, and how they plan to achieve them. More than 90% of S&P 500 companies now publish ESG reports in some form, and the US Securities and Exchange Commission (SEC) is considering requirements for detailed disclosure of climate-related risks and emissions.[5]

Disclosure requirements vary around the world. According to Deloitte's 2022 survey of C-suite executives, almost a third of Australian companies believe they're falling short on their ESG commitments. And 62% don't even publish their ESG plans.[6]

This may be a missed opportunity. Investors value transparency and clear communication about ESG initiatives and their potential impact on performance and enterprise value. Many companies already have important ESG-related policies, mechanisms and data in place. Yet measuring and reporting on ESG seems to fall into the 'too hard basket', even for listed companies.

ESG reporting is, quite simply, about transparency, risk mitigation, and new opportunities to unlock value. It opens the door to a more diverse group of investors, improves your ability to retain talent, and identifies opportunities for business efficiency and growth you may not otherwise see.

This practical guide will help you take the first steps on that journey.

> ***"Many small caps feel the urgency, but ESG looks complex. There are so many frameworks and acronyms, and it feels time-consuming. Yet at its heart, ESG is really about doing good business that creates value for everyone."***

Dr Tim Siegenbeek van Heukelom,
Chief Impact Officer, Socialsuite

The opportunity:
6 ways ESG creates value

Months after minerals exploration company Latin Resources began reporting against the World Economic Forum's Stakeholder Capitalism Metrics ESG Framework, it raised a "transformational" A$35million, anchored by A$15million from a Canadian ESG fund.

"Latin Resources was already doing a lot of ESG work, but needed to make that more visible by capturing those metrics in a clear framework. They are now leading by example in the junior exploration space," says Dr Tim Siegenbeek van Heukelom, Chief Impact Officer with Socialsuite.

Opening the door to new investors is one of the six ways we see companies create value through ESG.

1 Access to capital

Nearly 80% of global investors say ESG issues are an important factor in investment decision-making, according to PwC's Global Investor Survey – with 49% willing to divest from companies that aren't taking sufficient ESG action.[7]

Building your ESG credentials gives you a better chance to attract long-term capital – and lower the cost of capital with more favorable financing conditions.

"Access to capital is not a right. It's a privilege. And the duty to attract that capital in a responsible and sustainable way lies with you."

Larry Fink, Chairman and CEO BlackRock in his 2022 letter to CEOs

2 Profitability and Growth

ESG reporting can also help your bottom line. We often see companies identify opportunities for cost savings or efficiencies by reducing energy or resource use.

On the revenue side, ESG can give you a market advantage if you want to tap new markets or expand in existing ones. McKinsey research has shown that customers say they are willing to pay more to 'go green.'[8] What's more, ESG agendas can encourage continuous improvement and innovation in product or service development. All these factors can help you differentiate in increasingly competitive markets.

Since 2019, the European Union (EU) has been considering how to make sustainability an integral part of its financial policy and organizational business practice to support the European green deal (footnote). This means that companies working in Europe will inevitably have to adhere to these regulations when they come into effect. Those with ESG in progress will gain competitive advantage in these markets. [9]

3 Compliance and risk management

While regulatory requirements and enforcements vary around the world, it is universally expected that mandatory disclosures will become increasingly prevalent. That's why it's important to start benchmarking performance now – ideally against a globally recognized framework like the World Economic Forum's Stakeholder Capitalism Metrics.

Being an early adopter can protect your company's market position while local regulations continue to evolve – and will also give you a robust model for mitigating compliance risks.

4 Brand reputation

Investors are not the only stakeholders demanding visible action on ESG goals: your customers, employees and communities expect it as well. Forrester research suggests companies with a sustainability focus will generate revenue growth from new opportunities, as well as improved employee retention.[10]

ESG reporting shows you are walking the talk. And by sharing incremental progress with tangible impact, it avoids being seen as 'greenwashing'. In Australia, corporate watchdog the Australian Securities and Investments Commission (ASIC) is actively cracking down on companies that are believed to be misleading the public when it comes to their sustainability and ESG credentials.

5 Improve investor relations

Investors use ESG ratings to screen opportunities by emissions levels, human rights, diversity in the boardroom and other metrics. And they are using company sustainability reports and ESG disclosures to find that information.

By regularly reporting on your ESG record, you give them what they need: relevant and up-to-date non-financial information to make informed decisions about your company's ability to create value in the short-, medium- and long-term.

The Principles for Responsible Investment (PRI) has even developed a framework for considering ESG factors as part of investment decisions and active stewardship. With frameworks like this in place, some companies are now being screened out of investment opportunities for not having a position on ESG.

"ESG is not an end-of-year sprint at the eleventh hour. It should be embedded in everything you do – the lens you put on business as usual."

Dr Tim Siegenbeek van Heukelom,
Chief Impact Officer, Socialsuite

6 Measure achievements

As Peter Drucker famously said, if you can't measure it, you can't manage it.

Making ESG metrics transparent and visible will keep your teams accountable for continual improvements. This needs to be embedded across the day-to-day activities of your business to have meaningful impact – it requires complete commitment at every level of the organization with a shared purpose.

Has your company made a commitment to the Sustainable Development Goals (SDG's)? ESG reporting enables stakeholders to evaluate a company's adherence to its contract with society and its contribution to the SDGs. It is important to remember that while the SDG's represent global goals and targets for society overall, ESG represents methods and processes for the business community to gather and transparently report data. ESG frameworks allow companies to measure responsible and sustainable corporate growth and business continuity in a structured and standardized way.

A universal standard

The World Economic Forum Stakeholder Capitalism Metrics provide a comprehensive and standardized framework of corporate ESG disclosure, including the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

At the 2020 Annual Meeting in Davos, 120 of the world's largest companies developed a set of common metrics and disclosures on non-financial factors for their investors and other stakeholders – resulting in a universal standard for ESG reporting. This widely adopted framework is industry-agnostic and focuses on 21 core (and 34 expanded) metrics across people, planet, prosperity and governance principles.

Learn more at **weforum.org/stakeholdercapitalism/our-metrics**

The myths: Addressing 5 common ESG reporting misconceptions

When we talk with CEOs, we hear common concerns and challenges. For example, when Elixir Energy's managing director Neil Young was looking for a tool to share his firm's energy transition and diversity strategies with investors, he knew he didn't have the time or background to come up with a best practice ESG process. ESG appeared complicated and time consuming.

"I didn't want to reinvent the wheel. It was key to find a methodology and system that made my life easy, so I could spend time contributing towards improvements," he says.

He says Socialsuite gave him that globally recognized and easy-to-understand framework. And it also helps his team stay accountable for action.

"When it comes to small caps, a number of common misconceptions still exist. Some executives discount the value of ESG entirely, while others feel the pressure and urgency but don't know how to action affordable solutions."

Dr Tim Siegenbeek van Heukelom
Chief Impact Officer, Socialsuite

Here are a few other misconceptions we hear from small caps.

MYTH 1 — ESG is only for sustainable businesses and industries.

ESG is business model- and industry-agnostic. Every business should be reporting their performance on non-financial issues. ESG reporting demonstrates how you transparently and responsibly govern your business.

MYTH 2 — ESG perfection must be attained before reporting

ESG is a journey without a defined finish line. Institutional investors tell us they are more interested in organizations that are embracing ESG reporting and show they're on the journey as early as possible.

MYTH 3 — My investors don't care.

The days of investors focusing solely on financial statements are long gone. If you want to attract institutional investors or fund managers, you'll need to meet strict ESG criteria. Without any ESG credentials, you may even be screened out of potential investment without ever knowing it.

MYTH 4 — ESG does not align with our core priorities.

As Larry Fink wrote in his 2022 letter to CEOs, "It is through effective stakeholder capitalism that capital is efficiently allocated, companies achieve durable profitability and value is created and sustained over the long-term."

That means long-term profitability needs to consider the needs of the employees, customers, suppliers and communities your company relies on to prosper – and that is the heart of ESG.

MYTH 5 — ESG is expensive, difficult and time consuming.

This may have been true in the past, so you need a simple, standardized solution fit for your size. That's why we developed an affordable and accessible way for micro- and small-cap companies to start their ESG journey.

ESG reporting vs ESG ratings

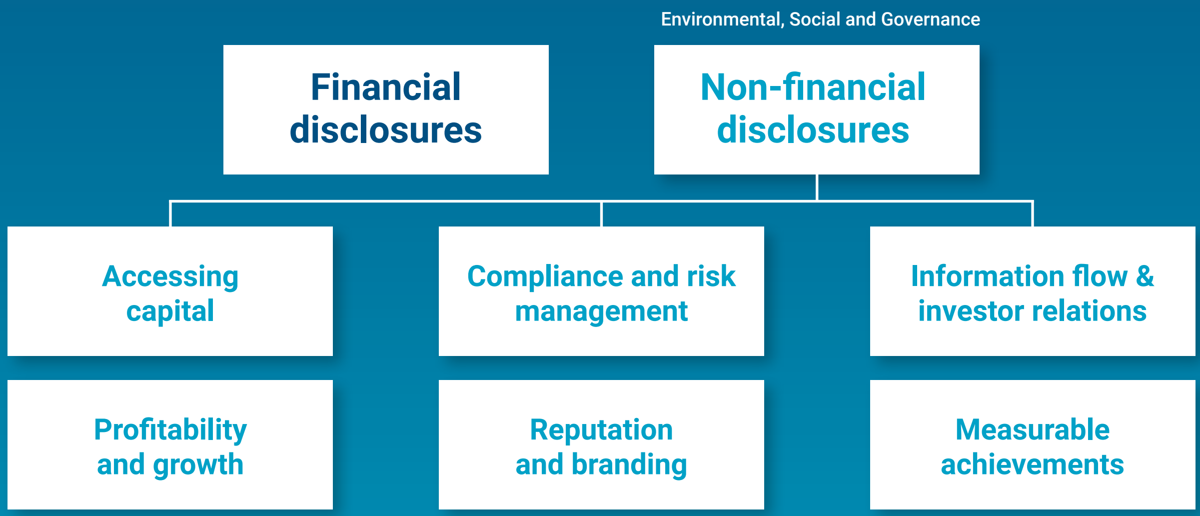
ESG reporting brings together many different activities, including measurement and disclosure of data related to material environmental, social and governance metrics. In an ESG report you transparently disclose your performance and progress against these metrics. You are responsible for measuring, reporting and improving your performance over time. As such, an ESG report enables stakeholders to see how you are managing, for instance, greenhouse gas emissions, human rights, diversity and inclusion, and cybersecurity.

ESG Ratings are a scorecard for that performance. They are typically provided by a third-party ESG ratings provider, such as Morgan Stanley Capital International (MSCI), who analyze ESG reports. Investors use these ratings to compare relative ESG risks – and how effectively you are managing those risks.

While these two things are connected, it's important to remember a wider audience is interested in your ESG reports. They will be read by customers, employees, rating providers, researchers and regulators in addition to investors.

ESG disclosure: the benefits of showing your commitment

ESG value drivers



Partly adapted from: United Nations Sustainable Stock Exchanges (SSE), The Model Guidance on Reporting ESG information to investors (8 September 2015) https://sseinitiative.org/wp-content/uploads/2015/09/SSE-Model-Guidance-on-Reporting-ESG.pdf

Getting started: 5 steps to your ESG journey

Many companies start ESG reporting in response to stakeholder demands for ESG disclosures. But it often turns out to hold far more value.

As an early pioneer of corporate governance research, Oneview Healthcare CEO James Fitter understood the correlation between good governance and shareholder value. His healthcare technology company, which operates across four continents, began its ESG reporting journey in 2021 to strengthen its social credibility, community relations and talent retention.

One of his first steps was to set up an internal ESG team across senior leadership, mid-level managers and employees. "It was encouraging to see those 10 roles were oversubscribed," says James. Since then, Oneview has taken concrete action to address a lack of diversity at Board level, and its transparency around diversity and inclusion initiatives has been particularly well-received.

Oneview already had ESG initiatives in place. They just needed an easy way to make them transparent and keep themselves accountable.

Dr Siegenbeek van Heukelom says the small caps he works with already have great initiatives to publicly disclose – often more than they realize, because they've never been collated in one place before.

"There's so much you're already doing. This is about making it visible to the market."

He starts by asking what companies are already doing around planet, people and governance. "Let's find the quick wins. Then we can talk about how you can improve and be better."

Here are five steps to embarking on your ESG reporting journey:

1 Set a baseline

Choose a global framework, such as the WEF Stakeholder Capitalism Metrics, and start populating it with the data you already have. Think about the risks and opportunities that matter most to your company and your stakeholders, across:

- People metrics – such as diversity and inclusion, pay equality, modern slavery policies, workplace health and safety
- Planet metrics – from greenhouse gas emissions, land and water use to resource circularity and waste
- Prosperity metrics – your contribution to local economies, job creation, and the social value of your products or services
- Governance principles – including a purpose statement, Board and management diversity, remuneration and ethical behavior standards.

Once you understand where you currently are, you can work out priorities for improvement.

2 Embed ESG with new structures and processes

Build an ESG team and empower it to regularly measure, aggregate and disclose this data. Then make sure ESG is on the Board's agenda and allow that team to highlight improvement opportunities and emerging risks.

For example, Elixir Energy realized the diesel consumed by its drilling operations was the main component of its scope 1 emissions. Now that it can calculate those emissions, it can target solutions – such as partnering with a local carbon offset business.

3 Seek an external view

Working with expert partners can help you stay accountable and also build knowledge within your teams.

They can also help you validate your findings, identify opportunities to improve key metrics and tap into the right solution. Dr Siegenbeek van Heukelom connected Elixir Energy with a global expert forester to explore forestry projects in Mongolia to offset carbon emissions, for example.

4 Amplify your message and own your narrative

Once you have a regular reporting cycle of quarterly updates and annual disclosures, you can share those messages with investors and other stakeholders. Amplify your ESG credentials by seeking media exposure; everyone loves a good ESG story. Make sure your reports are clear – avoid technical ESG jargon, and visualize your data. For companies that report on ESG now, you have a chance to own your narrative around ESG.

5 Maintain the momentum

ESG is a continual journey of positive change and striving to do better. Think of ESG reporting as a roadmap – and know that your investors, employees, customers and society will use it to hold you to account.

"We were already practicing ESG before Socialsuite came along, but their technology has transformed the way we communicate our work. It has given us structure and clear actions and accelerated our ESG journey."

David Frances, CEO – Province Resources

ESG Reporting Checklist

The race towards a net zero future is just beginning. And it's never too early (or too late) to begin – so start today.

- [ ] Identify which ESG metrics are material for your business. Use a recognized ESG framework to start reporting on them.
- [ ] Set a baseline. Where are you today? What do you already have?
- [ ] Seek support. Socialsuite also provides coaching to help you improve your metrics over time.
- [ ] Report frequently. You should be able to show progress quarterly.
- [ ] Disclose annually. Release standardized ESG reports every year.
- [ ] Build internal capacity. Share knowledge and ensure everyone feels empowered to deliver on your ESG agenda.
- [ ] Embed ESG across the business. Look beyond risk mitigation to new opportunities to create value.

How Socialsuite can help

More than 90 organizations already use Socialsuite's ESG disclosure platform – including ASX-listed, NASDAQ, NYSE, TSX-listed and private companies. Our easy-to-use software platform operationalizes the globally recognized WEF Stakeholder Capitalism Metrics framework, and is ideal for micro- and small-caps.

With this fit-for-purpose approach, smaller listed or private companies no longer need large ESG teams to provide robust and transparent ESG reporting. They can share ongoing progress through quarterly updates, publish investor relations reports, access comprehensive ESG resources and make incremental progress with the support of a dedicated ESG coach.

Socialsuite's cost-effective, action-oriented platform is so simple you can kick start your ESG journey within an hour – and start reporting publicly in just 30 days.

Once they build ESG practices across their business, our customers report that they can more easily tap into a much wider investor base, mitigate more risks along the way and generate sustained value in the long-term.

And this is ultimately the key to building a more resilient and sustainable company that can evolve to meet future demands.

Find out how Socialsuite's ESG solution can help your businesses set up corporate ESG reporting, and demonstrate ongoing disclosure of your ESG progress.

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[1] Climate change widespread, rapid, and intensifying – IPCC, August 9 2021

[2] Source: Morningstar, Simfund, Broadridge. Data includes Sustainable Mutual Fund, ETF, Institutional and Alternative AUM. MF and ETF data as of Oct 2021, Institutional & Alternatives data as of Jun 2021.

[3] Global finance industry says it has $130 trillion to invest in efforts to tackle climate change, NY Times, November 2021

[4] US Climate Bill makes ESG a reality, Socialsuite August 2022

[5] Does ESG really matter – and why? McKinsey, August 2022

[6] Deloitte 2022 CxO Sustainability Report, 2022

[7] The economic realities of ESG, PwC October 2021

[8] Five ways that ESG creates value, McKinsey Quarterly 2019

[9] https://www.google.com/url?q=https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en&sa=D&source=editors&ust=1668659760119021&usg=AOvVaw0FGtJVGVDmxE-UXHpfImPN

[10] The ROI Of Sustainability, Forrester, 2021