



Environmental Social Governance: **How Enterprises Can Safely Advance Sustainability Initiatives**



Introduction

The world is on fire—in some places, quite literally. From climate change to racial inequality to corporate malfeasance, there's no shortage of environmental, social, and governance (ESG) issues for shareholders and investors to discuss. As consumers and other stakeholders are becoming increasingly interested in ESG concerns, they are demanding more action and accountability from organizations and making financial decisions based on ESG factors.

According to a [Havas Group report on global consumer attitudes](#), 73% of consumers believe that brands should promote social and environmental progress. Nearly two-thirds (64%) prefer to buy products and services from companies that are known for their purpose, up 10 points from 2019, and 53% would be willing to pay more to buy from a brand that addresses social issues. To a lesser but still noticeable extent, a Gallup poll showed that [almost half \(48%\) of investors are interested in sustainable investing](#).

In short, ESG programs are not a luxury for enterprises that want to thrive in today's economy—they're a necessity. But when an organization overstates its ability to deliver on an ESG promise, it opens itself up to major legal and financial risks. That's why organizations must learn to strike an appropriate balance between the internal steps they're taking to achieve their sustainability goals and their public campaigns publicizing those initiatives and boasting of the likelihood of their success.

In This Guide

In this guide we explore:

- establishing enterprise ESG programs
- review the relationship between ESG and sustainability
- discuss how organizations are staffing their ESG programs
- highlight dangers associated with improperly promoting or greenwashing sustainability initiatives
- best practices for managing ESG programs



What Is ESG and How Is It Related to Sustainability?

The [World Bank Group's International Finance Corporation defines ESG](#) as a set of factors that companies and investors consider regarding the “*risks, impacts, and opportunities*” of environmental, social, and governance issues. Those include:

- **environmental** concerns such as climate change, carbon emissions, natural resource depletion, and pollution;
- **social** considerations such as diversity, equity, and inclusion as well as other community- and employee-based concerns; and
- **governance** issues related to how an organization is structured and how it operates as well as how it handles questions concerning ethics and risk management.

How does sustainability relate to ESG?

Sustainability initiatives are actions that organizations take to achieve their environmental, social, and corporate governance goals. Although the term “sustainability” is most strongly linked with environmental concerns, sustainability describes a perspective that encompasses social and economic health as well as environmental longevity.

ESG and sustainability are not new concepts, but they have become increasingly important for organizations in recent years.



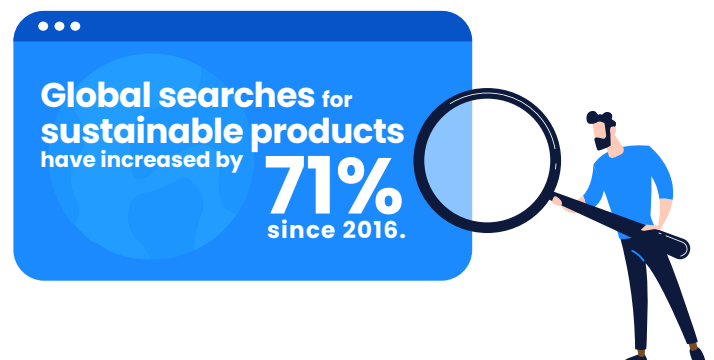
How Important Are ESG and Sustainability for Enterprises?

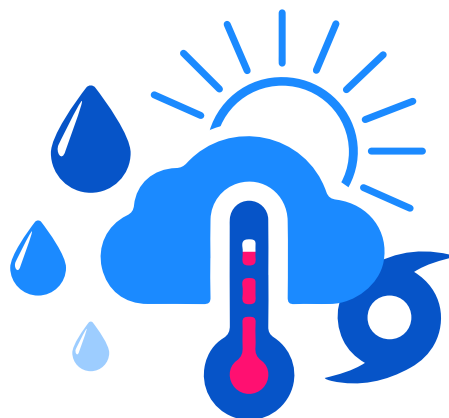
As we touched on above, consumers and stakeholders are beginning to insist that corporations behave more responsibly. That means ESG is essential for an enterprise's continued success in today's marketplace.

Consider environmental sustainability, for example. A study by the Economist Intelligence Unit revealed that [hundreds of millions of people are concerned about the environment](#) globally, and that number is growing, especially in newer markets. Consumer trends reflect this concern for the environment; global searches for sustainable products have increased by 71% since 2016.

Corporations in the beauty, pharmaceutical, clothing, and food industries in particular are responding by offering products that fit these labels. For example, the “*clean beauty*” market—which prioritizes products that are safe, ethically produced, and environmentally friendly—is [estimated to reach \\$22 billion by 2024](#).

How did ESG gain such prominence? According to Christine Uri, the Chief Sustainability and Legal Officer at ENGIE Impact, industry is the main driver of ESG progress in the United States. U.S. stakeholders such as shareholders, investors, and insurance companies are placing ESG considerations—and climate change in particular—at the forefront of corporate business agendas. Likewise, consumers, clients, and employees are expressing an increased interest in purchasing and working with sustainable companies.





What Factors Are Likely Contributing To This Heightened Interest In ESG?

First, ESG issues themselves are intensifying. One of the public's biggest concerns is climate change, which mental health professionals now consider to be a major source of stress. According to the National Institute for Health Care Management (NIHCM), [55% of people report feeling anxious about the impact of climate change](#). From water shortages and wildfires in the western U.S. to increasingly intense hurricanes and heat waves across the southern states, individuals are [experiencing firsthand the effects of our changing climate](#)—and they're starting to demand that companies do something about it.

Additionally, smartphones have provided people with unrelenting, 24/7 access to news and social media, providing a greater awareness of ESG issues from racial disparities to corporate misconduct. This increased appetite for enterprise sustainability demands that organizations take meaningful steps to achieve sustainability goals.

ESG is an opportunity for enterprises

ESG isn't just about responding to consumer pressure. Sustainability programs allow organizations to: Sustainability programs can also allow organizations to:

- compete with other enterprises in the marketplace,
- conserve resources and set themselves up for long-term environmental stability,
- lower their operating costs,
- gain the loyalty of their customers and clients,
- attract and keep quality employees by providing better working conditions and promoting shared values, and
- potentially avoid government investigation by demonstrating the ability to self-regulate.

The New Staff Roles Emerging to Manage ESG and Sustainability

As ESG becomes integral to business operations, organizations have created new staff roles to help them manage their ESG programs. The people who occupy these emerging roles are typically called chief sustainability officers (CSOs). The role of CSO varies greatly, with some CSOs juggling multiple responsibilities within their organization. CSOs may carry other titles as well, such as vice president or director. Whatever the specific arrangement, the CSO is the person who is primarily responsible for managing sustainability within an organization.

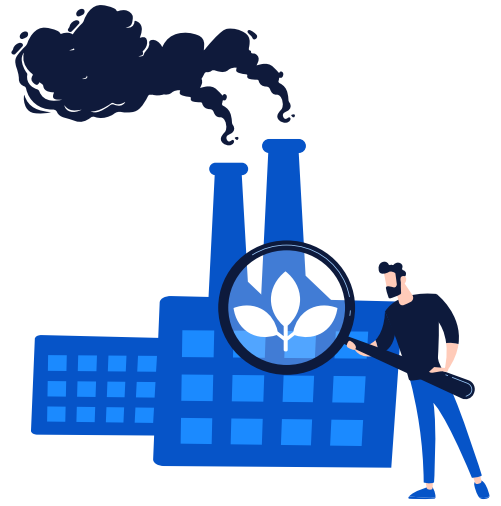
There are benefits to be found for organizations that have a single CSO role and for those that combine their sustainability programs with another role. A CSO who is only responsible for sustainability initiatives is likely to have more expertise and bandwidth to focus on ESG. On the other hand, a combined role—such as Uri's title as Chief Sustainability and Legal Officer—can give the individual greater visibility into the organization's overall practices and contribute to stronger relationships throughout the organization.

Regardless of how an organization structures its CSO role, appointing someone to head up ESG programs—rather than distributing sustainability considerations across general counsel, compliance officers, and various department heads—is crucial to increased sustainability performance. As Uri explained,



But bandwidth isn't the only consideration. For an organization to truly move the needle on sustainability, its CSO must also have the authority to make decisions and the power to implement new measures. Uri advised, *"The organization and executive team have to take the role seriously, give it a voice at the table, connect it to leaders across the organization, and create accountability."* CSOs must have good relationships and contacts throughout their organization to make a difference.

Once enterprises have ensured the appropriate staffing for their ESG programs, they might be tempted to publicize the steps they're taking. And while marketing should certainly promote ESG efforts, there are several pitfalls that organizations would be wise to avoid—which brings us to greenwashing.



The Dangers of Greenwashing and the Risks of Litigation

Proactive organizations want to demonstrate that they're participating in ESG movements, but they must be very careful not to overstate their commitments or their ability to follow through on those commitments. To do otherwise could open them up to public scrutiny and even litigation, including claims of greenwashing.

What is greenwashing?

Greenwashing occurs when an organization makes false or inflated claims about the environmental soundness of its practices or products. As more organizations make public—and often impressive-sounding—environmental sustainability claims, greenwashing is becoming a bigger concern.

Greenwashing is a global concern. According to a report from the Energy & Climate Intelligence Unit and Oxford Net Zero, **over 20% of the world's 2,000 largest public companies have made net-zero commitments**, promising to lower human-caused carbon emissions to an amount that would be canceled out by greenhouse gas removal from the atmosphere.

Who oversees the claims and holds organizations to their promises?

But who is overseeing these claims or holding organizations to their promises? At this point, there is no global or U.S. regulatory body that scrutinizes corporate net-zero claims or monitors commitments. There is an **organization** that sets standards for net-zero targets, and the U.S. Securities and Exchange Commission (SEC) is taking a more active role in terms of setting requirements and monitoring carbon footprint accounting, but carbon emissions are essentially on the honor system for now. That lack of accountability might tempt organizations to overstate their ESG claims and commitments—but that can be a risky move.

Why overstating claims can be risky for enterprises

For starters, section 5(a) of [the U.S. Federal Trade Commission \(FTC\) Act](#) prohibits unfair or deceptive business practices. The FTC enforces the FTC Act as well as other consumer protection statutes, many of which are based on section 5(a) of the FTC Act. The FTC has also issued various [administrative rules](#) regarding environmental marketing claims specifically. [One such rule](#) includes the admonition that,



The FTC Act gives the FTC the authority to [conduct investigations and seek compensation for injury to consumers](#). If the violator had actual knowledge of the unfair or deceptive practice, the FTC can levy [civil fines of up to \\$10,000 per violation](#). And regulatory oversight of ESG claims could easily increase as government agencies continue to see heavy public reliance on organizations' ESG commitments.

Nor are enforcement actions the only legal proceedings that organizations should be wary of. Private citizens can also sue organizations for false advertising and unfair competition under state consumer fraud laws. Courts have allowed such claims to proceed past the motion to dismiss stage in lawsuits challenging [grocery chain ALDI Inc.'s label claiming its salmon was "sustainable"](#) and [Kroger Co.'s advertising of certain sunscreens as "reef friendly."](#)

Of course, organizations may also face enforcement actions and false advertising lawsuits over non-environmental ESG claims. Therefore, organizations should use caution when making statements regarding issues such as diversity in hiring practices or procurement of raw materials from conflict-free zones.

As many organizations are well aware, the risks of litigation can extend far beyond civil damages. In addition to being expensive, litigation can divert employees' valuable time and attention and cause substantial reputational damage and loss of business. That's why it's so important for organizations to make sure their publicly stated positions are accurate and defensible.

Let's turn to a few best practices for managing ESG programs.

4 Best Practices for Enterprises Implementing Sustainability Initiatives

As consumers continue to call on corporations to drive meaningful change, organizations will need to learn how to run their ESG programs in a way that demonstrates their progress without opening themselves up to liability. Here are four ways organizations can responsibly advance their ESG programs and sustainability initiatives.



Appoint a CSO or other sustainability leader.

First, an organization should appoint—and empower—a leader for its ESG programs. Whether that person is exclusively responsible for sustainability programs or also assumes other responsibilities, they should have:

- expertise in the specific ESG areas the organization seeks to address;
- sufficient bandwidth to manage the ESG program, implement sustainability initiatives, and provide regular updates;
- the authority to make decisions;
- the power to implement new measures;
- accountability for the outcome of those measures;
- strong relationships and contacts throughout the organization; and
- visibility into the organization's overall practices and operating procedures.

Without a designated CSO who possesses these qualities, ESG programs can quickly become unwieldy and ineffective.



Start small.

ESG issues are multifaceted, complex, and slow to change—but even small steps can move an organization closer to its goals. Don't be afraid to start small. A narrow sustainability initiative is much easier to manage and can still be effective. *"Don't let yourself get overwhelmed,"* Uri advised. *"Start with one action, even if it feels small, and then measure it, report on it, and cycle back. Every action counts."* An organization can always gradually expand its ESG program to achieve maximum results without taking on too much too soon.

3

Stick to the facts about your ESG and sustainability programs.

Organizations cannot exaggerate or falsify their ESG programs. ESG claims should be clear, specific, devoid of meaningless filler terms (such as “eco-friendly”), honest, and backed by measurable data.

To avoid claims of greenwashing, false advertising, and deception, an organization’s marketing team must be on the same page as its sustainability, legal, and financial teams. Just as an organization relies on redundancies to thoroughly review and verify financial statements before releasing them to the public, it should have its legal and financial teams analyze ESG statements before giving final approval.

Organizations can also avoid greenwashing in particular by following the FTC’s [Green Guides](#), which provide standards for making environmental marketing claims, insights as to how consumers generally view certain claims, tips for how organizations can substantiate their claims, and sample qualifications that organizations can include in their statements to avoid deception.

4

Use metrics to ensure accurate tracking and reporting.

Finally, an organization must track and report data to support its ESG claims and insulate itself from liability. *“If you’re going to back up any kind of claim,”* Uri stated, *“you have to be able to get that data from every area of your company. You have to have a record of it. That information has to flow through to the right people and systems so that it can come together in reportable, verifiable numbers.”* Net-zero or other carbon reduction claims are particularly data-intensive; be sure you know what you’re promising before making such claims publicly.

Creating a Sustainable ESG Program

Enterprises should expect that consumer and investor demands for meaningful, measurable sustainability initiatives will only grow over time. This means that organizations must commit resources to their ESG programs and invest in tools to track and interpret the data they need to substantiate their claims.

Modern technology can make this prospect significantly less daunting by helping organizations understand their data, saving them time and money.

Hanzo designs technology that helps organizations protect, manage, collect, and analyze their data quickly and easily. For more information, visit hanzo.co.