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WHITE PAPER

ESG finance: Kickstart your sustainability strategy now

When it comes to how environmental and social concerns factor into a company's business model and practices, one thing is becoming abundantly clear: **Implementing and executing a strong sustainability strategy is no longer a "nice-to-have."** It's a must-have, and not just because of the sustainability reporting mandates starting to take effect around the world.

Beyond ticking compliance boxes, your company needs to care about its impact on the environment and the communities it serves simply because it's the right thing to do. Finance teams—already equipped with knowledge of and experience with accounting and reporting, governance, and data and risk management—can and should be leading the charge on these initiatives, which fall under a sustainability framework known as ESG.

The basics of ESG

ESG

stands for **environmental, social and governance,** and it refers to the risks and opportunities that affect a company and its stakeholders.

ESG stands for environmental, social, and governance, and it refers to the risks and opportunities that affect a company and its stakeholders. A strong ESG strategy ultimately creates value for the organization.

Here's a closer look at each of the three pillars:[1,2,3]

ESG Pillar #1: Environmental

This refers to the effect of an organization's operations on the environment, such as:

- Energy usage
- Waste reduction
- Greenhouse gas emissions
- Carbon footprint
- Climate change strategy

ESG Pillar #2: Social

This pillar covers an organization's relationship with people and institutions, and its reputation—based on its policies and actions—in the communities it serves. This includes:

- Diversity, equity, and inclusion
- Fair pay and benefits
- Supply chain transparency
- Philanthropic efforts and community engagement
- Working conditions

ESG Pillar #3: Governance

Governance refers to how a company governs and holds itself accountable through a system of practices, controls, and procedures. This might look like:

- Risk management
- Compliance
- Ethical business practices

96%

of the S&P 500 published sustainability reports in 2022

Source: Governance & Accountability Institute

Why businesses need an ESG strategy

The term ESG was first introduced in 2004, when the United Nations released a report called "Who Cares Wins." It offered recommendations by the financial industry to better integrate environmental, social and governance issues in analysis, asset management and securities brokerage.[4]

Since then, a rising number of companies have pledged their allegiance to sustainability, with 96% of the S&P 500 Index publishing sustainability reports in 2022, an all-time high, according to the Governance & Accountability Institute.[5] PwC predicts that ESG-oriented funds will reach $33.9 trillion by 2026, up from $18.4 trillion in 2021.[6]

If ESG is a concept that has been around for nearly 20 years, why the spike in interest, investments and reporting now?

"There's an increased scrutiny and expectation around how companies are managing climate risks in particular, as well as [advocating for] human rights and supporting communities," explains Kim Kerry-Tyerman, Billtrust's Vice President of ESG Strategy and Engagement.

Environmental and social justice issues have thrust the ESG framework into the spotlight, but there are also international regulations emerging that mandate sustainability reporting.

60%

of respondents said their finance chiefs were highly or moderately involved in ESG reporting efforts

Source: EY

ESG regulation around the world

United States

The Securities and Exchange Commission's proposed climate disclosure rule would require registrants to include certain climate-related information in their registration statements and periodic reports, such as climate-related risks and financial statement metrics, as well as greenhouse gas emissions. As of this writing, a final ruling on this proposal has not been issued.[7]

United Kingdom

As of April 2022, the largest U.K.-registered companies are required to report descriptions of how the company manages climate-related risks, and the actual and potential impacts of those risks on the company's model.[8]

European Union

The Corporate Sustainability Reporting Directive, which went into effect in January 2023, requires large and listed companies to publish regular reports on the social and environmental risks they face, and how their activities affect people and the environment.[9]

Why finance teams should care about ESG

While the mindset of responsible business has been around for a long time, it's largely been seen as a separate part of the business, says Kerry-Tyerman. "Now, the implications reach across the business to investor relations, finance, procurement, human resources and corporate development," she says. "I like to say that every job is a sustainability job."

With skills spanning data management and analysis, plus experience with internal and external reporting, finance departments are primed to play a lead role when it comes to developing and executing an ESG strategy.

In a recent EY report, 60% of respondents indicated that chief accounting officers, chief financial officers, heads of SEC reporting and internal audit teams were highly or moderately involved with ESG reporting efforts.[10]

60%

of respondents said their finance chiefs were highly or moderately involved in ESG reporting efforts

Source: EY

How finance departments can lead ESG

Finance teams can:[11,12]

- Track the information and collect the data necessary for ESG reporting.
- Design internal and external reports, and audit those reports for accuracy.
- Inform decision-making by presenting both financial and nonfinancial data to identify how to allocate resources.
- Identify gaps in the ESG information collection and reporting process.
- Develop a strategy for measuring performance of ESG initiatives.
- Secure funding for sustainability initiatives, such as applying for ESG-focused loans or purchasing green bonds to fund environmental projects.
- Evaluate investments in terms of financial return and sustainability.
- Audit current and potential partners to ensure they share a commitment to ESG practices.

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3 ways to jumpstart your ESG strategy

Whether you're structuring an ESG strategy from the ground up or realigning current finance practices for greater sustainability, here's how to get started.

1. **Conduct a materiality assessment.** Executed in house or with a third party, this formal exercise engages a broad set of stakeholders to help you identify and understand material ESG topics—which will vary widely by industry and location—for your organization. "It's a great way to build that foundation for what is most important to your company," says Kerry-Tyerman.
2. **Conduct cross-functional education.** To get buy-in from employees on your ESG strategy, "there's typically some level of communication you need to do to ensure everyone understands why sustainability is important to the business," says Kerry-Tyerman. "I believe that starts with your executive leadership team and the board, and making sure they can communicate that sustainability strategy and those material topics."
3. **Establish governance structure.** As you're building your ESG strategy, work on the governance structure as well. "Any value-creating sustainability model will be truly cross-functional, and every organization should have accountability for that performance," says Kerry-Tyerman. "Setting up some kind of committee or governance council, or nominating a sustainability champion for your board, is likely going to be the most effective way to ensure accountability and success."

At a glance: Internal and external benefits of ESG initiatives and reporting

Internal benefits

- **Maintain compliance** with ESG regulations, thus minimizing legal interventions.
- **Create cost savings**. Sustainable sources of energy have become more cost-effective and may qualify your company for tax benefits. Plus, an ESG strategy ensures you'll avoid penalties and fines in areas where reporting is mandatory.[13]
- **Foster employee satisfaction and retention**. Employees increasingly want to understand how their company is affecting the climate and its communities. A sustainability strategy can lift employee morale and productivity.
- **Gain a competitive edge** over business rivals that don't have an ESG strategy in place.

External benefits

- **Attract top talent**. Sustainability is important to the younger generations entering the workforce.
- **Increase customer and investor loyalty**. Individuals and other companies increasingly want to do business with organizations that are conscious of their sustainability footprint.
- **Speed regulatory approval in new markets** by creating goodwill with an ESG strategy.
- **Rebuff any concerns over greenwashing**, the process of presenting false or misleading information about how eco-friendly a company's products or processes are.[14]

To-dos for executing ESG strategies

The role of CFOs and other finance leaders reaches beyond financial reporting and compliance to direct the overall strategy of an organization. With experience in accounting, governance, and data and risk management, finance leaders are primed to execute ESG initiatives, including:

- Engaging stakeholders to identify and understand ESG topics
- Getting buy-in from employees on ESG strategy
- Setting up a governance structure to ensure accountability success

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