Assuring ESG efforts improve Sustainability and Business Performance

Integrating business objectives with ESG initiatives elevates compliance from a requirement to a way to build robust and sustainable organisations.

Investing in ESG is a must for companies that want to be competitive, but despite increased spending, many are failing to derive maximum value from their efforts.

Making and fulfilling ESG commitments is imperative for attracting investors and customers, finding and retaining employees, managing supply chains risks, and gaining access to government support in the form of tax breaks and subsidies. The challenge is that for many organisations, the connections among ESG, sustainability, and financial performance are unclear.

That lack of clarity leaves those organisations investing time, effort and resources to demonstrate ESG commitments to employees, investors, regulators, customers, shareholders and stakeholders but failing to capture the value of their ESG efforts by making sure they drive business improvement.

It is evident that companies need a way to ensure ESG investments underpin their sustainability goals such that they add to, rather than subtract from, the bottom line. Certification bodies, through assurance services such as certification, validation, and verification and processes that ensure conformity, can help companies identify common ground from which to progress these interdependent goals.

As Sara Brandimarti, Global Product Performance Manager, Sustainability, at **TÜV SÜD**, says, while *"sustainability"* and *"ESG"* often are used synonymously, *"it is the impacts related to the three elements of ESG that collectively support sustainability development."*

Making the connection between the wider ESG agenda and a company's business objectives is the critical first step.

Identifying the challenges

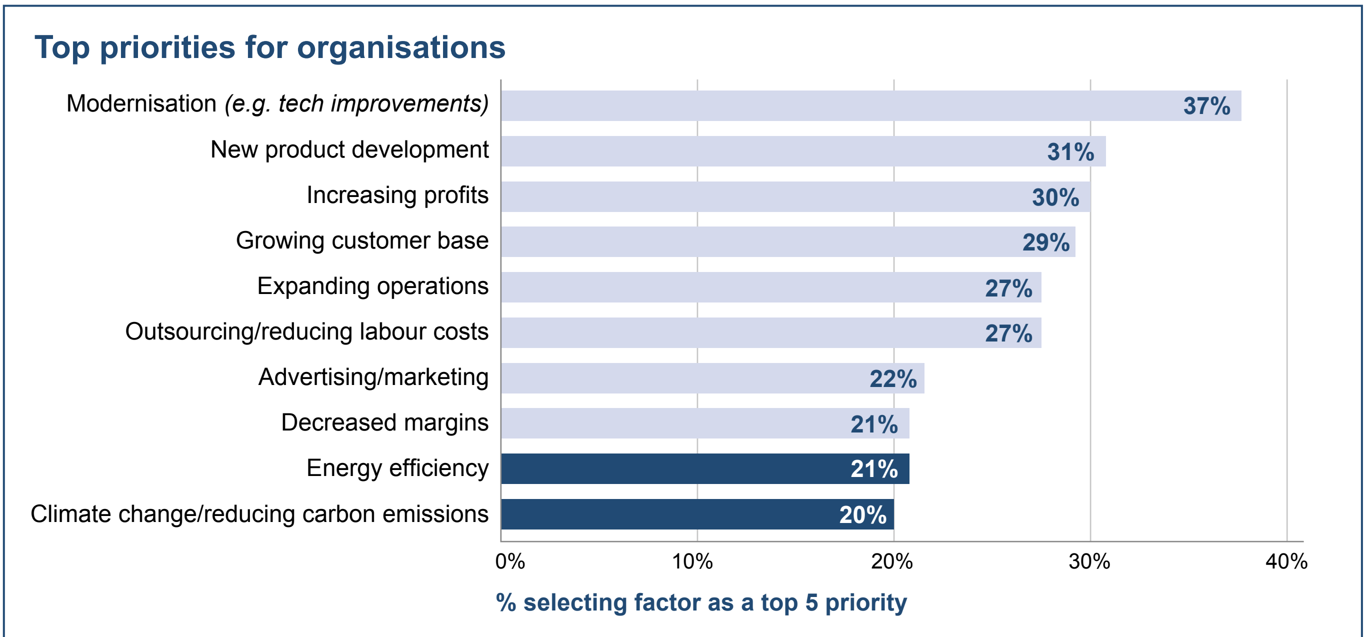
The results of a recent survey commissioned by the Independent International Organisation for Certification (IIOC) to assess the ESG landscape illustrates the scope of the challenge companies are facing. Responses from the 2,000 participants, comprising decision-makers representing multiple business sectors around the globe, identify a broad range of sustainability concerns that are weighted nearly equally in importance by participating organisations.

Survey results show that companies of different sizes across a range of business sectors face the same challenges. The fact that so many issues are worrying for so many companies is telling. Even though these organisations are committed to meeting their ESG goals, they are having difficulty mapping the best way forward.

Compounding these concerns is the need to make investment decisions on issues that are directly tied to profitability and competitiveness. Survey results reveal uncertainty across the board, implying that most companies have yet to establish an optimal approach for achieving ESG goals in line with their business objectives. It is a concern that organisations are finding difficult to address on their own.

Optimising a large sustainability/ESG budget	**29%**
Maximising a small sustainability/ESG budget	**29%**
Building trust among the public	**29%**
Anticipating problems before they emerge	**28%**
Accessing materials/resources we need to achieve our goals	**27%**
Identifying and gathering relevant data from internal sources	**27%**
Implementing changes quickly	**26%**
Identifying and gathering relevant data from external sources	**26%**
Compliance with legal requirements	**25%**
Compliance with client requirements	**23%**
Staying ahead of the curve	**23%**
Building trust among other businesses	**23%**
Creating public relations impact	**21%**
Lack of industry standardisation	**20%**

Companies of different sizes across multiple business sectors face the same challenges in achieving business sustainability.
Source: IIOC Sustainable Solutions Survey. *(Response to question, "Which, if any, of the following are the biggest challenges for your business/organisation around improving sustainability?")*



Companies are contending with a range of challenges that impact decisions about ESG investments.
Source: IIOC Sustainable Solutions Survey. *(Response to question, "Please rank the following in order of priority for your business to take action on/improve?")*

Certification bodies step up

Certification bodies are working with companies to help them identify their most pressing issues and pinpoint areas that could be improved for more streamlined and sustainable operations. The certification process can cut through the confusion about what to do by helping companies get clarity on ESG issues and their relative importance.

> "In the initial stage, companies aren't able to evaluate all the elements associated with E, S and G. That's why we spent years developing sustainability sector maps to help them identify the key areas to start with in implementing ESG programmes."

Jeff McDonald, SGS

Better insights lead to better decisions that help companies meet compliance goals and improve sustainability at the same time.

ABS Quality Evaluations (ABS QE) Global Certification Manager, Cy Sharp, explains how the certification process challenges companies to identify their external and internal needs in the context of the organisation.

"We drive companies to assess and to clearly define their processes and understand why it's important that those processes include and cover elements of sustainability," he says.

Because maintaining certification requires improvement from one audit to the next, investing in processes that advance sustainability goals kills two birds with one stone. Continuously improving is challenging, he says, *"but it's important to bear in mind, that progress doesn't have to happen overnight."*

It also is important to understand that setting a goal to better understand the issues is a legitimate objective. A *"study goal"* allows a company to study areas it wants to focus on and establish a baseline from which it can measure progress on its ESG journey, Sharp says.

Audits highlight areas of expertise companies can capitalise on to achieve their ESG and sustainability objectives more quickly, says Heather Moore, Technical Director for Sustainability at **LRQA**.

"They force companies to change their internal systems and improve them to meet their goals," Moore explains. For example, companies have environmental, health and safety (EHS) departments, but often manage sustainability separately. *"Sustainability principles are engrained in EHS systems,"* Moore says, so aligning EHS and sustainability goals multiplies progress. *"The potential gap between sustainability strategy and the achievement of results can be narrowed by using the management system tools already in use by EHS departments."*

For example, as energy efficiency and water become material topics, ISO management systems already have answers for effectively evaluating and managing those resources using **ISO 50001:2018** – Energy management systems and **ISO 46001:2019** – Water efficiency management systems. *"These management system standards follow the same format as more common standards like ISO 9001 and 14001 and allow companies to easily integrate strategies into their business systems,"* Moore explains. *"Using audits as tools to better understand energy demands and water usage helps companies with their sustainability goals."*

> "When companies solve their own problems, the solution sticks, business improves, and they keep incrementally improving. Certification and auditing set this in motion and through periodic audits, act as a ratchet in the cog to keep companies from backsliding."

Mark Fraser, Bureau Veritas

Mark Fraser, Sustainability Services Product Manager at **Bureau Veritas** (BV), is a proponent of building on ISO requirements. *"Over the last 20 years, ISO has done an incredible amount to make businesses responsible and accountable for environmental impacts as well as the safety and social aspects of business,"* he says.

The ongoing certification process requires companies to continue to improve, but each company determines where those improvements should be made and how they will be achieved. This approach is successful because businesses personalise priorities based on individual goals. *"Smart organisations are reinventing themselves,"* he says, *"which is particularly important because if regulations are not imposing requirements today, they will soon."*

Companies need to take things a step farther, Fraser says. *"They need to look at 'ESG', which tends to be more risk terminology, and 'sustainability', which tends to be more impact terminology, and recognise that if they manage both risk to environment and risk to business, they are well placed to make improvements for future competitiveness."*

> "We don't talk in terms of products. We talk in terms of solutions."

Murray Sayce, BSI

> "Companies should use the tools they already have – management systems – to drive innovation, efficiency, and continual improvement."

Heather Moore, LRQA

Clarifying standards, regulations

ISO standards underpin traditional audits. Thirty years ago, audits to ISO standards were performed at the behest of companies that wanted to demonstrate compliance with internationally recognised guidelines. But times and the playing field have changed, and those changes present formidable challenges.

Simona Romanoschi, VP of Innovation at **Intertek**, says companies are becoming overwhelmed with the proliferation of what in some cases are redundant reporting standards. She expects to see more harmonisation among the new regulations, but in the meantime, she says, companies are frustrated trying to comply with the different ways of measuring. *"They feel like they are not comparing apples to apples,"* and they are looking for reliable help. *"They need a light at the end of the tunnel,"* she says.

Certification bodies have the expertise and insights to help. Part of their role is interpreting standards and talking with clients to educate them on ways to connect with their true sustainability needs.

Brandimarti says the approach TÜV SÜD takes, in many cases, is conducting audits that function as a sort of maturity check.

The rapidly changing regulatory environment sees ISO and an increasing number of players providing guidance, Brandimarti says. Although a company might be certified in ISO 14001 or ISO 45001, the question that must be addressed is whether the company is integrating the indicators required by management system standards with indicators coming from the Global Reporting Initiative (GRI), the global sustainability framework for reporting economic, environmental, social and governance performance.

Doing this correctly puts a system in place that integrates the management system with the GRI and the reporting, and Brandimarti believes most companies will benefit significantly from integrating systems that currently might not be aligned to create a more consistent process for data management.

"Separate systems don't work," she says, *"because when you have mandatory reporting on certain topics, you have to repeat and repeat and repeat, which increases bureaucracy and confusion."*

> "Creating awareness is a fundamental step in understanding the requirements. Companies really need to understand what is needed and how to interpret requirements to cascade this through the organisation."

Sara Brandimarti, TÜV SÜD

TÜV SÜD helps companies integrate the requirements and benefit from the standards and best practices to set up a system for governance around ESG in an integrated way in a single system.

Murray Sayce, Global Head of Sustainability Solutions at **BSI,** says one way his organisation is providing leadership is by keeping its finger on the pulse of regulatory changes and market trends.

"BSI produces standards against all the big sustainability themes and works closely with clients to pilot these and include them as part of the thinking and part of the solution," he explains. *"We are able to share insights with clients at the early stages,"* and that allows them to be proactive in developing solutions to meet their unique goals and commitments. *"We are with them for the entire journey, and that's quite powerful."*

Jeffrey McDonald, Executive VP for the Knowledge Business at **SGS**, says his company has been disclosing around sustainability for 15 years and has invested in developing sustainability maps to build support and services for companies implementing ESG programmes. *"We can share a generic sustainability materiality assessment for an individual industry that lays out a generic road map and thus the groundwork for a conversation,"* he says, noting that having a map tremendously simplifies setting ESG and sustainability priorities and making investment decisions.

Delivering holistic help

Most companies do not realise the breadth of understanding certification bodies have or the scope of their ability to provide support. *"Organisations like BSI address everything you can imagine, from big ticket carbon issues to smaller social, ethical issues,"* Sayce says.

BSI provides two critical functions: certification against ISO standards and assurance (which comes with other services). Individualised support means that each company receives what it needs based on where it stands at the moment. *"That might mean a certificate if they need to prove they are managing energy and environmental H&S well, or we might add value over and above compliance with pragmatic recommendations in our reporting,"* he says. *"The scope is huge and changing all the time."*

Although other types of organisations have stepped into this space, BV's Mark Fraser is not convinced they assess the full scope of issues companies are facing. *"Because we have boots on the ground, certification bodies are a lot closer to environmental impact and social impact categories, and we are not just counting financial metrics and numbers. We are assessing implementation in the field."*

Paul McNeillis, Regional Manager Europe Supply Chain and Product Assurance at **DNV**, says that differentiator is vitally important because companies derive value from having *"technical boots on the ground."* In practice, he says, *"DNV can wear a hard hat and take a seat at the board room. When we talk about materiality and measurement on the ground, we can tell board members – We've been in your factories. We've been on the gantries. We know because we've seen. We have the expertise and direct evidence to pinpoint your most material ESG risks."*

DNV

> "Our role is to add value to our customers' Board level assessment of ESG risks by our direct and detailed expert assessments. Addressing solutions to complex environmental, social, and governance risks takes more than a desk-based assessment or a purely financial calculation. It requires direct operational evidence and expert insight into the complexity of the issues and their solutions, and that's what we bring to the table."

Paul McNeillis, DNV

Having the proper assessments is critical, says David Salmon, Head of Strategic Development at **DEKRA**, because sustainability programmes need to be built on a solid foundation. *"It's down to the right information. It's not about just throwing money at a problem,"* he says, because judicious spending determines a company's viability. *"If a company doesn't do what it should and others do, the company falls behind."*

Moore puts it simply: *"LRQA knows the right questions to ask. We understand ESG impacts and how they apply to various industries' supply chains, and our experience and expertise help companies manage their risk."*

Offering specialised support

McNeillis says the most important message for customers is that certification and assurance are evolving constantly to keep pace with their needs. *"At DNV, we are a trusted voice to tackle global transformation, and our goal is to ensure we connect this statement to everything the company does."*

That means understanding the transformation issues each customer is facing and helping them address them with the best tools and digital assurance technologies available, he explains. *"Most companies have recognised and invested in their digital transformation, but not all of them have captured the opportunity to link this to their ESG transformation. That's where our leadership in digital assurance of ESG comes into its own – to help them bring the two agendas together to navigate this twin transition."*

Sustainable finance is another example of bringing deep domain expertise to add value to an ESG investment, McNeillis says. *"Green bonds are an attractive way for companies to demonstrate their ESG credentials while at the same time raising finance for their GHG emissions reduction projects and other ESG risk-reducing programmes."*

To raise finance successfully, they need a credible independent expert to establish trust by giving an expert opinion that the use of proceeds will indeed be green according to a recognised objective standard relevant for their industry. *"DNV is leading in providing such second-party opinions on green bonds, sustainability bonds, and social bonds,"* McNeillis says.

According to McDonald, one of the critical things SGS has done is develop tools to simplify ESG reporting by introducing a certification process companies can use as evidence that they have a fully functioning system in place. *"The certification system covers an audit of the materiality done by the organisation and then a full assessment of all applicable ESG requirements that they need to cover and address. Successful organisations receive a certificate as evidence of ongoing compliance and commitment to all the ESG areas. Organisations may then pro-actively disclose such information and performance where required,"* McDonald says.

"Besides the above, in SGS we also have been doing sustainability report assurance since 2003, which provides verification that an organisation's sustainability report is materially complete and correct from the information sampled."

Delivering training

Introducing new tools is helpful only if the end users understand how to use them. SGS work with companies to develop a road map on key KPIs and offers both e-learning and detailed training courses to support them on their journey.

"For example, when Compliance and Innovative Strategies Division (CISD) regulations were introduced by the U.S. Environmental Protection Agency in 2002, SGS provided training and support and worked with organisations issuing carbon offsets," McDonald says.

SGS also provides associated certification services around GHG and has developed a platform to help companies collect emissions information from suppliers to improve reporting around Scope 3 emissions.

Intertek's Romanoschi says the opportunity for training in this area is huge. Companies want to raise the capabilities of their suppliers, so there is a need to *"train the value chain."* This constitutes what she calls *"deeper dive training"* that targets calibrating skills, which takes on a whole new dimension in the digital age.

Brandimarti says TÜV SÜD has introduced open courses taught by professional trainers who help companies understand changing requirements to equip them to implement solutions.

Getting a handle on materiality

Because every company has its own unique challenges, it is important to help them understand materiality and what is truly vital to their sustainability strategy.

"We are part of a renaissance in the concept of materiality," McNeillis says. *"We have deep conversations with senior leadership about key issues to help them understand what needs to be done to develop sustainability plans."*

McDonald says materiality assessments are the foundation for the sustainability maps, and SGS spent years developing them as resources for implementing ESG programmes. *"A materiality assessment identifies all of the key issues and areas relating to ESG/ sustainability for a company, and the company can follow the map to achieve its sustainability goals."*

For example, he says, *"We looked at pressures the food industry faces around sustainability, identified the key issues and focus areas, and produced a sustainability map based on generic sustainability materiality assessment."*

The areas for improvement – packaging, disclosure of carbon information, fertiliser use – are clear.

With this information in hand, *"companies can begin thinking about useful things they can do without a huge assessment,"* McDonald explains. This is especially valuable for small organisations. *"They can use these materiality assessments to justify focusing on specific issues and defend themselves with a logical reason to customers and stakeholders."*

Capitalising on circularity

One thing a company can investigate to improve sustainability and their business overall is waste reduction, McDonald says, explaining that circularity can significantly impact the bottom line. *"We can help companies achieve a 10% increase in efficiency and at the same time improve sustainability simply by focusing on reduction in waste."*

BV's Mark Fraser concurs. *"The present is about climate change and regulation, but the future is about smarter involvement in understanding what the ESG impacts are to the things we consume."* That means manufacturing methods will change. *"You need to know what is in something when you make it so when you 'un-make' it, you can re-use it,"* he says.

Companies that recognise this opportunity will be leaders in this space, according to Fraser, because, for example, inside the EU, taxonomy is going to provide access to capital for products that are not damaging to the environment.

Addressing greenwashing and claims verification

A critical component of all these advances is managing stakeholders, and that is a challenge, says DEKRA's Salmon. *"Most companies are very poor at communicating their goals and achievements outside the company,"* he says, and that can be tremendously counterproductive.

In some cases, companies have a difficult story to sell, but sometimes it is possible to recast the story. *"An airline can't suddenly stop using jet fuel, but it could be making progress on that front"* he explains. *"A better message would be one that focuses on reductions achieved, with fuel replacement as a goal down the road."*

Data is the key, Salmon says. *"With the right data, a company can demonstrate improvement year on year."* His reasoning is that when claims are data-rational, companies are more likely to be believed.

The ability to verify claims also puts paid to greenwashing accusations.

Romanoschi says too many green claims are made without supporting evidence, but certification from an organisation like Intertek can validate their claims. *"The right elements are there with certification and management system programmes to validate claims, and periodic audits ensure claims are reviewed regularly."*

Moore illustrates how LRQA combined its expertise in data-driven verification and its experience in supply chain due diligence to provide assurance, supporting a company's claim against deforestation in its supply chain. The company needed to ensure its suppliers were not in violation of this claim. The objective, third-party assurance process reinforced the company's internal procedures and established safeguards in the event that supplies from a verified vendor were disrupted. *"This required internal teamwork among departments to make sure the processes were robust, the data was accurate, and the vendors were reliable, but in the end, a third-party verification proved the claim is true,"* she says.

"Companies are flying into greenwashing headwinds," says BV's Fraser, *"but science-based assessments provide proof that companies are reducing emissions."*

That is why DNV approaches verification with a suite of tools that provides digital assurance, McNeillis says, explaining that his organisation is committed to expanding its technology tool kit.

"Five percent of our revenue goes toward R&D, allowing us to invest in the future of assurance, which we believe is digital. We are committed to shaping a new era of digital assurance, not only in our research, but also in practice. For example, today, we can provide a digital product passport to help organisations meet the requirements of the EU Green deal, such as the Eco-design for Sustainable Products regulation, which they will need new solutions to comply with."

Making ESG a pillar

Some companies have fully embraced ESG principles as core values, which not only enables significant improvements in efficiencies but also transparency of metrics and reporting used for benchmarking against themselves and sister organisations says ABS' Sharp. In these companies, there is consistency in understanding and alignment of goals from floor workers to executive management, and new employees are trained so they understand why the work they do is important and how it impacts the company.

One of the advantages that stems from establishing ESG as a pillar is consistent monitoring to safeguard against potential disruptions that could emerge from geopolitical unrest, market dynamics or a global pandemic. As an example, Sharp points to a company that sourced most of its raw products from China prior to the pandemic and recognised this as a potential weakness.

The company invested in warehouse space where it could to stockpile chemicals, allowing manufacturing to meet product demand through the pandemic without disruption. *"That is an amazing achievement,"* he says.

BV's Mark Fraser agrees that adopting ESG values is an advantage. *"Making Sustainability and ESG an opportunity is being brave enough to redesign your business models in light of these new risks,"* he says.

That means, *"being cold and hard-eyed"* about the risks the company is facing so the appropriate decisions can be made.

Although understanding the nuanced value of biodiversity, preserving the ecosystem, and delivering social benefits is difficult, companies that want to be competitive need to accept the importance of these grey areas. It's *"adapt or die,"* Fraser says.

> "Leading companies make sure ESG is embedded, embraced, managed and supported with training to achieve far-reaching efficiencies in consumption and production."

Cy Sharp, ABS QE

Moving from 'environment' to 'execution'

Viewing ESG as a business objective allows companies to invest in ESG in ways that improve competitiveness and sustainability rather than simply spend money to demonstrate compliance.

DEKRA

> "Companies should not look at sustainability separately from profit and loss. They should be able to walk hand in hand in the right direction."

David Salmon, DEKRA

"It's not about just throwing money at a problem. It's about refining systems, processes, and product design," Salmon says, *"and all these are things DEKRA can assess."*

Romanoschi says the benefits of certification and assurance are clear and that results she has seen at Intertek demonstrate that focusing on ESG and sustainability requirements is helping companies be more competitive rather than constraining them.

The first steps can be small, says ABS QE's Sharp, *"like setting up an ESG group to consider the options, bringing employees into the fold, and setting clear, attainable goals."* Eventually, with expert support, companies can address data-gathering and the use of advanced technologies.

All companies have challenges. Many small companies are resource constrained, while large companies sometimes struggle to align efforts in operations that span international borders and multiple cultures.

Whether a company is ready for advanced digital solutions or just starting out on the path to improving ESG and sustainability, support from certification bodies in the form of training, certification, and assurance can help smooth the road at any stage of the journey.

intertek

> "Mature companies are implementing ESG and sustainability programmes not because of requirements but because the programmes make them more competitive."

Simona Romanoschi, Intertek

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