E-book

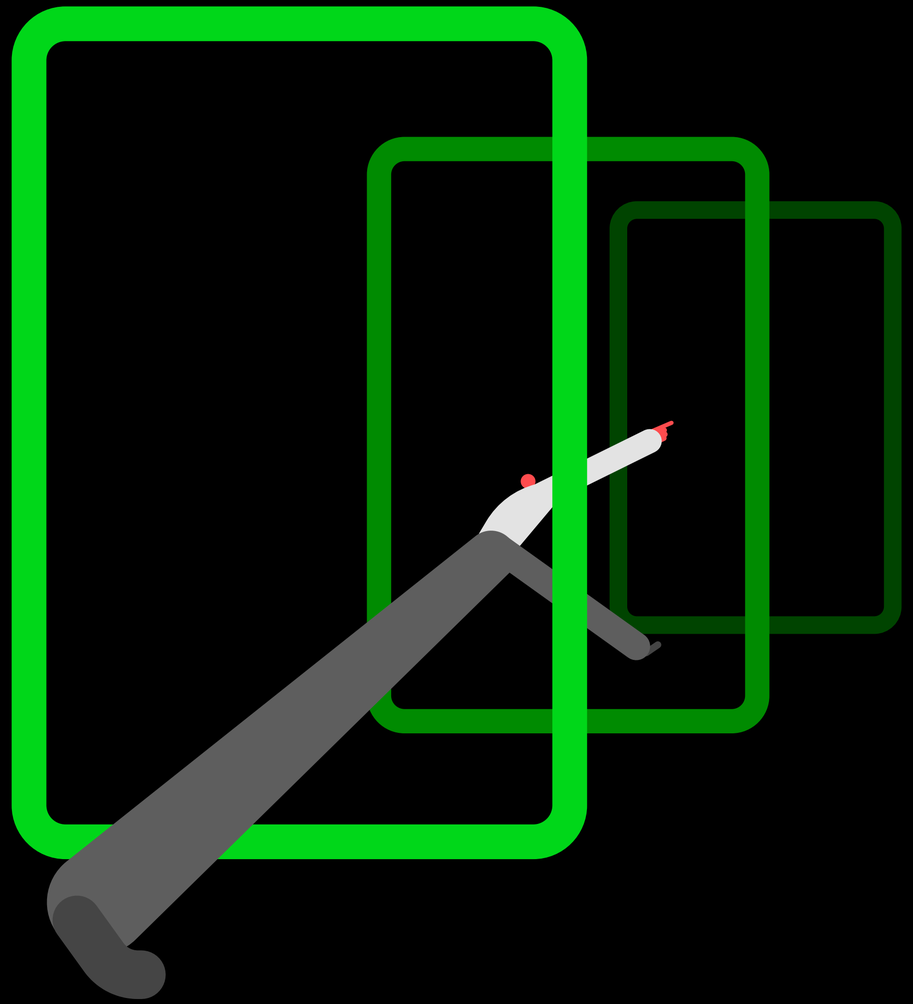
A guide to telling your ESG story



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Table of Contents

Introduction	**Page 3**
What is ESG?	**Page 4**
The evolution of ESG reporting	**Page 5**
How to write your ESG story	**Page 6**
Eight tips for writing an ESG report that works	**Page 11**
Conclusion: ESG is a journey	**Page 13**



Introduction

Businesses are being increasingly judged on their commitment to sustainability and how they treat their people and the planet. Employees, customers, and investors want companies to take a stance on social issues and are demanding greater accountability from brands in exchange for loyalty and funding.

Because of that, businesses need to change how they think about, deliver on, and improve their Environmental, Social, and Governance (ESG) credentials—or risk financial and reputational damage. But many aren't sure how to get started—that's where this guide comes in.





ESG needs to be engrained in your business culture. And this usually means making big changes to your strategy and operations. The time and effort are worth it, though.

A strong ESG proposition can create long-term value for your people, profit, and the planet. It can increase productivity and performance, reduce costs and risk, and help you to set yourself apart from the competition.

83% of consumers think companies should be actively shaping ESG best practices.[1]

This e-book is designed to help you on your ESG journey. We'll explain what ESG is, why it's important, and how you can organise and present your ESG information through a compelling, impactful story.

Let's jump in.

1 ***https://www.pwc.com/us/en/services/consulting/library/consumer-intelligence-series/consumer-and-employee-esg-expectations.html***

What is ESG?

ESG stands for Environmental, Social, and Governance. These are the main factors that your suppliers, employees, and customers look at when deciding whether to work with, work for, or buy from your business. When it comes to funding, investors use these criteria to decide if your business aligns with their values, and what kind of impact their investment might have on the world.

91% of business leaders believe their company has a responsibility to act on ESG issues.[2]

Remember the individual elements of ESG are often intertwined because the environment and community are impacted at all stages of your business operations. Social criteria overlap with environmental, and governance comes in when you want to comply with environmental and labour legislation. One way to hold your business accountable is through integrated reporting. But until now, ESG reporting has not been standardised, which makes it difficult to know which frameworks to use, what data to collect, or where to focus your attention when the list of potential issues is a mile long. But don't worry. We'll share some tips to get you started later on.

The table below covers the most common ESG criteria people look at:

Environmental	Social	Governance
• Attitude around climate change. • Biodiversity practices. • Energy use. • Fairtrade. • Greenhouse gas emissions. • Natural resource conservation. • Pollution. • Treatment of animals. • Waste production, management and disposal. • Water conservation.	• Charitable donations. • Community relations. • Customer satisfaction. • Diversity, Equity, and Inclusion. • Broad-Based Black Economic Empowerment. • Employee engagement. • Employee training and education. • Ethical supply chain. • Fair pay & benefits. • Health & safety. • Human rights issues. • Indigenous peoples and communities. • Prevention of harassment and discrimination in the workplace. • Working conditions.	• Accurate and transparent accounting methods. • Audit committee structure. • Board composition (skills, experience, gender and race balance). • Compliance. • Conflicts of interest procedures. • Corporate transparency. • Data protection and privacy. • Executive pay. • Financial reporting. • Fraud prevention (hotlines). • IP protection. • Political contributions. • Succession planning. • Whistle-blower schemes.

*2 **https://www.pwc.com/us/en/services/consulting/library/consumer-intelligence-series/consumer-and-employee-esg-expectations.html***

The evolution of ESG reporting

ESG reporting is nothing new. Businesses have voluntarily included ESG criteria in their corporate social responsibility (CSR) and financial reports for decades, proudly reporting on things like workforce diversity, the number of trees planted, and their clean, independent audits.



But because ESG reporting has not been standardised, many businesses would use these reports to only talk about the good stuff. They'd leave out things like overuse of natural resources, inadequate health and safety conditions, data breaches, and so on.

"Because of the diversity in what companies can do from an ESG perspective, the way they report is also diverse, which makes comparing two companies labour- and time-intensive for investors and other stakeholders," says Wayne Van Zijl, Associate Professor of Accounting at the University of the Witwatersrand. "And even then, you're not sure if you have the right answer."

Known as "greenwashing", companies would spend more time, money, and effort marketing themselves as sustainable businesses instead of putting in the hard work to make their operations more sustainable.

But things are changing. Consumers today are more climate-conscious than ever before and will call out companies that paint themselves as eco-conscious or sustainable while glossing over the negatives.

On the legal front, regulators and global stock exchanges are putting increasing pressure on businesses to measure, disclose, and improve on ESG-related issues.

There is also a push for standardised reporting around the world. The European Union has published its Non-Financial Reporting Directive, while in the US, the Securities and Exchange Commission has proposed rules that would require fund managers to give standard ESG disclosures.

Soon, businesses will need to report on the good and the bad, which will allow stakeholders to make better-informed decisions about who they buy from, what they invest in, and where they work.

But instead of seeing this as another compliance box to tick, think of it as an opportunity to build trust among your stakeholders and tell a **compelling story** about how you are making the world a better place.

How to write your ESG story

Here is a six-step process to start telling your ESG story:

Step 1: Get your bearings
Knowing where to begin can be daunting. So, why not start with what's already out there?

"Take advantage of someone else's early start to give you a head start. Use this publicly available information to get ideas," says Wayne. "Look at the integrated reports of the top 10, 20, or 30 companies from similar industries for guidance, and identify what will work and what won't for your business. Look also at the integrated reports issued by non-profit organisations, which aren't assessed on their financial performance but instead on their impact."

A good place to start is with **EY's Excellence in Integrated Reporting Awards**, which recognise standards of excellence in the quality of integrated reporting among listed South African companies.

Step 2: Decide what needs to change
Next, you need to identify the sustainability topics that are important—i.e., "material"—to your business and are likely to affect performance, your clients, employees, and other stakeholders.

You can do this by conducting a materiality assessment, which is a **four-phased approach** to help you define your purpose and scope, identify and categorise potential topics, and gather data about the impact and importance of the topics. Having a specific goal is a crucial starting point for your ESG journey. It allows you to structure your business and build a culture around your stated purpose. That means you can ditch the ad hoc efforts and can focus on your priorities.

For example, do you want to reduce emissions? Promote more Black women to leadership positions? Restructure your supply chain to include smaller, local, or more sustainable enterprises?

Garyn Rapson, an environmental law expert and partner at Webber Wentzel, suggests that you lead with your purpose—**your 'why'**—and use it to guide you through your ESG strategy. Having a clear and shared understanding of your purpose is essential if you want to create long-term value, not least because it gives you a competitive advantage.

"You can start your ESG journey by identifying the specific ESG priorities that you want to focus on. Consider taking each of the letters in ESG and list what issues fit under each letter and what you may already be doing or need to do about it," says Garyn.

Based on that assessment, decide what to:

- **Maintain:** Things you're doing well but that need to be maintained and communicated, such as product safety.

- **Improve:** Things that you can make incremental improvements on, such as transitioning to renewable energy.

- **Optimise:** Things you can do to streamline your ESG processes, such as getting your data into a standard format.

Then pick one thing and get it right. If you do one thing properly each year, then the following year, it can continue to run automatically in the background while you turn your attention to the next priority. Creating momentum this way helps you encourage sustainable change and is much easier than trying to do five things at once.

"Be radical in your ideas to understand what would be best suited to your business. Bounce these ideas around and identify the areas you want to start gathering information and reporting on," says Wayne.

Finding your 'one thing' lies at the intersection of three questions:

- **What we must do?**
- **What we can do?**
- **What we should do?**

But before a business starts reporting on ESG criteria, it first needs to design and implement systems to gather the necessary data. And that's where your accountants and accounting software come in.

Step 3: Gather data, set goals, and track your progress

Once you know where you want to—and can—make a difference, start collecting and analysing relevant information. This will help you to establish a baseline so that you can set achievable, measurable goals.

Suppose you want to reduce plastic packaging in your product line. In that case, you could start by measuring how much plastic you use and then set goals to reduce volumes. You could, for example, start by eliminating unnecessary packaging (e.g., individually wrapped T-shirts) and commit to recycling more of the plastics you do use or procuring recycled plastic or another packaging material.

"Once you know what information you need, you must establish how you'll get it. Will you collect it through your ERP [enterprise resource planning] system? A company survey? Fieldwork? You need a place to start," advises Wayne.

The good news is that your business probably already collects relevant ESG data. But one of the most challenging aspects of ESG reporting is determining what data exists, where it is located, and who owns it.

For example, the finance department might collect data on carbon audits. Production might track water usage and energy consumption. Human resources might keep track of employee wellness initiatives or the number of minority directors.

Often, this data is recorded in different solutions and multiple spreadsheets. With error-prone processes and no single version of the truth, the data can't be tracked or audited.

This problem is easily solved with **cloud-based ERP software**. ERPs connect different business processes—such as accounting, supply chain operations, procurement, project management, risk management, and compliance—and make it possible for data to flow between them more easily.

With all your data in one place, ERP systems give you a single source of truth, which also eliminates data duplication and ensures data integrity.

Step 4: Automate and tech-enable your strategy

Managing your ESG performance depends on accurate data collection, reporting, and analytics. Think of reporting as an opportunity to digitally transform your business by breaking down data siloes and doing away with spreadsheets.

Cloud ERP systems allow you to customise your system to track the metrics that matter to your business, such as energy usage, resource consumption, and waste production.

Here are some things to keep in mind when choosing an ERP platform for your business:

- Choose a cloud-based platform with a central data repository where all relevant ESG data is stored and easily accessible for reporting.

- The platform should support multiple reporting standards and frameworks.

- It should be customisable to display all ESG-critical information on a single dashboard. You should also be able to enhance your solution with additional features through secure, API-enabled functionality, such as warehouse management, support for salespeople in the field, and project and job management.
- It should seamlessly integrate with existing business solutions, including accounting, customer relationship management (CRM), and HR and payroll software, to make collecting, analysing, and sharing ESG data easier.
- It should offer the ability to standardise data, for example, a single currency across multinational entities, a single unit of measurement (e.g., Celsius vs Fahrenheit), or compliance with sector-specific metrics, such as quality control in the food and beverage or pharmaceutical industries.
- Robust data security, with the ability to support granular access control, workflow audits, and data encryption.
- It should support end-to-end business management, from your shop floor to your supply chain, to your financial management processes.

With your data in a standardised format and accessible from a single platform, it can be reused to work three, four, or five times as hard for the business.

For example, one dataset can help with compliance, certifications, and accreditations. It can also feed into other ESG metrics to ensure that your disclosure reporting is complete, comparable, and helpful in making decisions.

Once you've gathered your data and set up your systems to automatically gather and analyse it, you'll have a baseline to work from. And when you know where you're at, it's easier to set specific goals and identify the measures you can take to reach them.

Step 5: Choose an ESG reporting framework

The are many codes and guidelines on ESG reporting, but no universally accepted standards just yet. This makes it a challenge to know which reporting framework is right for your business.

In South Africa, **King IV** is probably the most important. The Johannesburg Stock Exchange requires listed companies to adhere to this code and **provides useful guidelines** on how to do that.



That said, the different ways of doing things are coming together, and a clear, common ESG reporting language is starting to take shape.

Below, you'll find some of the most widely used reporting frameworks out there today. The framework (or combination of frameworks) you choose depends on what ESG criteria you want to measure, track, and improve on.

Sustainability Accounting Standards Board (SASB)
The SASB standards focus on ESG issues that are likely to have a financial impact on the company and are of particular interest to investors. SASB standards are industry specific because not all sustainability issues matter equally to each sector.

Global Reporting Initiative (GRI) Framework
Considered the most widely used sustainability reporting standards, the GRI Framework covers topics ranging from biodiversity to tax, waste, and emissions.

Task Force on Climate-Related Financial Disclosures (TCFD)
The TCFD is the go-to template for climate risk disclosure. It was created by the Financial Stability Board to develop recommendations on the types of information companies should disclose to help them figure out how to price risks related to climate change.

GHG Protocol Corporate Accounting and Reporting Standard (GHG Protocol)
The GHG Protocol Corporate Accounting and Reporting Standard defines and provides guidance on how companies should report on their Scope 1, Scope 2, and Scope 3 emissions.

Climate Disclosures Standards Board
The CDSB started as an international group of business and environmental non-governmental organisations (NGOs) that want to improve and align the global mainstream corporate reporting model so that natural and social capital are treated the same as financial capital. It has since been consolidated into the IFRS Foundation.

Companies will still be able to use the **CDSB's Framework** and technical guidance on **Climate**, **Water**, and **Biodiversity** disclosures until the ISSB releases its IFRS Sustainability Disclosure Standards on these topics.

Science-Based Target Initiative (SBTi)
The SBTi defines and promotes best practices in setting targets to reduce greenhouse gas emissions. It helps companies figure out how much and how quickly they need to cut their emissions to prevent the worst effects of climate change and move towards a net-zero economy.

CDP
The CDP is a non-profit organisation that runs a global disclosure system for companies and governments to report on their environmental performance. CDP is one of the oldest and largest ESG reporting organisations. It helps businesses in various sectors measure and manage their risks and opportunities related to climate change, water security, and deforestation. CDP works with the SBTi.

The CDP framework enables corporations and governments to disclose information in a structured way and enables investors and other interested parties to compare the performance of respondents and is used to prepare a CDP Report. Companies can use CDP's standardised and globally recognised reporting system to reduce the burden of collecting and submitting data.

International Sustainability Standards Board (ISSB)
The ISSB has published the draft IFRS Sustainability Disclosure Standards.

The General Requirements Exposure Draft lays out the overall requirements for an entity to disclose sustainability-related financial information about all its significant sustainability-related risks and opportunities. This gives companies a full set of sustainability-related financial disclosures.

The Climate Exposure Draft includes industry-specific disclosure requirements based on SASB Standards. Its goal is to help businesses figure out how climate-related issues and the risks and opportunities they bring affect them. It is likely that the Exposure Drafts from the ISSB will replace the recommendations from the TCFD and the standards from the SASB. The board aims to complete and issue full initial guidance by the end of 2022.

The Taskforce on Nature-related Financial Disclosures (TNFD)
The Taskforce on Nature-related Financial Disclosures (TNFD) has released the first beta version of its nature-related risk management and disclosure framework. This is an important step by the market to deal with the risk of nature-loss to the global economy and reduce the impact on nature.

Its second iteration beta framework includes the Taskforce's approach to metrics and specific sector guidance.

The set of illustrative metrics in the TNFD will be expanded to include risk, opportunity, and response assessment metrics as well as disclosure metrics. Future updates to the beta framework are scheduled for November 2022 and February 2023. The Taskforce aims to publish its final recommendations in September 2023.

Step 6: Align your activists
Your leadership team needs to drive your ESG strategy. This is especially important because you might need to make changes to your operations and business structure or redefine your strategic priorities.

It's a good idea to create a governance, reporting, and accountability structure to oversee and track ESG activities and progress. Everyone in the business needs to understand how your ESG goals fit into the overall business strategy, and what their role is when it comes to achieving those goals.

"Boards may also consider including a standing agenda item to discuss ESG risks and opportunities. This ensures these issues are considered regularly and are given the same level of importance as financial matters," says Nokuphila Zobolo, candidate attorney at Webber Wentzel.

"Companies should consider the most appropriate structure for their board to deal with all three elements of ESG. Different elements may be allocated to different board committees, each with a focused agenda. These committees should then report to the board regularly."

4 ESG considerations for the board
Garyn Rapson, environmental law expert and partner at Webber Wentzel, raises four ESG considerations for boards of directors:

- Board diversity: "Board composition is an important consideration to drive ESG strategy forward. A diverse board will bring different perspectives to bear on issues, including on ESG."

- Employees as board members: "There has been considerable debate around employees' representation on company boards. While it is not uncommon in certain European companies to have employees represented on the board, companies elsewhere have expressed conflicting views on this proposal. It remains to be seen what will come of it."

- Handling ESG breaches: "Companies need to consider how they should deal with and respond to breaches of ESG principles in the organisation. Breaches should be disclosed and flagged to the organisation and key stakeholders since they may have significant reputational and financial consequences. Companies should consider delivering mandatory training on these issues."

- Integrating ESG into directors' remuneration: "Companies should consider whether ESG measures should be incorporated into executive remuneration to.



Eight tips for writing an ESG report that works

Successful social movements have one thing in common: to drive change in society, they tell emotional, compelling stories.

Your customers, employees, suppliers, and investors need to believe that change is possible and be inspired to get involved in something bigger than themselves.

Stories are an effective way to do this, even when you're commenting on your ESG initiatives. They simplify complex data and take readers on a complex journey of change that unites them behind your mission and motivates them to act, think, and work in different ways.





1. What to include in your ESG report
Some companies include their ESG report as part of their annual report; others publish a standalone ESG report that's written for a wide range of stakeholders.

Whichever format you choose, your ESG narrative should answer these questions:

- Why did we report on these specific issues?
- What progress have we made?
- What still needs to be done?
- How did we compile this report?

2. Start with your purpose
Your business purpose describes the reason your company exists, boiled down to one or two sentences. A purpose statement generally answers these questions:

- Why do you exist?
- What are your values?
- What do you do?
- How do you do it?
- How is your business unique or different?

Your purpose does not change over time, although it may inspire change.

3. State your commitment and approach to sustainability
What ESG goals have you committed to? Here are some examples:

- We aim to be net zero by 2030.
- Our vision is to source all our raw materials from local suppliers in the next five years.
- By 2025, 60% of our board will comprise people from minority groups.

Remember, your goals should be **SMART**:

- Specific.
- Measurable.
- Achievable.
- Relevant.
- Time-bound.

4. Share more information about the report
Your ESG report should cover all operations and activities that you are able to control and influence to accelerate meaningful change. Explain which framework you used to guide your reporting and why. Outline how you collected your data, and if you uncovered any gaps in the process.

5. Tell the story of the year that was
This section should highlight the progress you've made towards achieving your overall ESG goals and document your performance through stories.

What changes did you make and what was the result? Explain any improvements that you made to your products, processes, structures, or strategy.

Here are some examples:
"We transitioned two of our factories to renewable energy sources. As a result, our carbon emissions have decreased by 6%."

Tell the story of the transition. Include photos and anecdotes from the project. Did you use or upskill local labour and small and medium-sized enterprises (SMEs)? What was the impact on the community?

"We have audited our supply chain and now source 47% of our raw inputs from local suppliers, compared to 32% last year."

Share the stories of your new suppliers. Why did you choose to partner with them? What are their values and how are they committed to sustainability?

"We have appointed a Chief Diversity Officer (CDO), we have promoted two Black women and one differently abled person to the board, and we have committed to ensuring that 50% of all candidates vetted for open positions are women or from other minority groups."

Interview your new CDO and board members and share their journeys in your company. Share their learnings and views on diversity.

Making your ESG story human and personal makes it memorable and impactful. People relate to and can recall stories far easier than a bunch of stats and figures.

6. Paint a picture of the year ahead
Map your progress against your ESG goals. How close are you to achieving them? What will you change in the year ahead to accelerate you towards your goals?

Be honest about what could have gone better in the year that was, and how you plan to do better in the year ahead. Transparency is crucial in ESG reporting; stakeholders can see through greenwashing and are quick to point it out.

7. Be selective with the data you use
Without data to back up your sustainability claims, that's all they are—claims. And while your sustainability report is only as good as the data it contains, less is certainly more.

Only include the data that is relevant to your goals, and that demonstrates progress, provides clarity, and better articulates your ESG vision. What you choose to report on reflects not only your commitment to ESG principles but also your commitment to continuous improvement. To be credible, you need to use the same metrics and methodology every year.

8. Follow ESG reporting best practices
The most successful businesses know what their stakeholders want, pick a good reporting framework, include ESG strategies in their business plans, and give the same information in all their reports.

Here are a few other things to keep in mind when reporting on ESG:

- Don't shy away from the issues. If, for example, you haven't made progress on reducing your emissions, acknowledge this upfront. This helps to establish credibility with your readers.

- Improvement comes from self-reflection. In the process of writing your first report, you might identify areas where you lack relevant data. Note this in the report and then put the mechanisms in place to start collecting and tracking that data for next year's report.

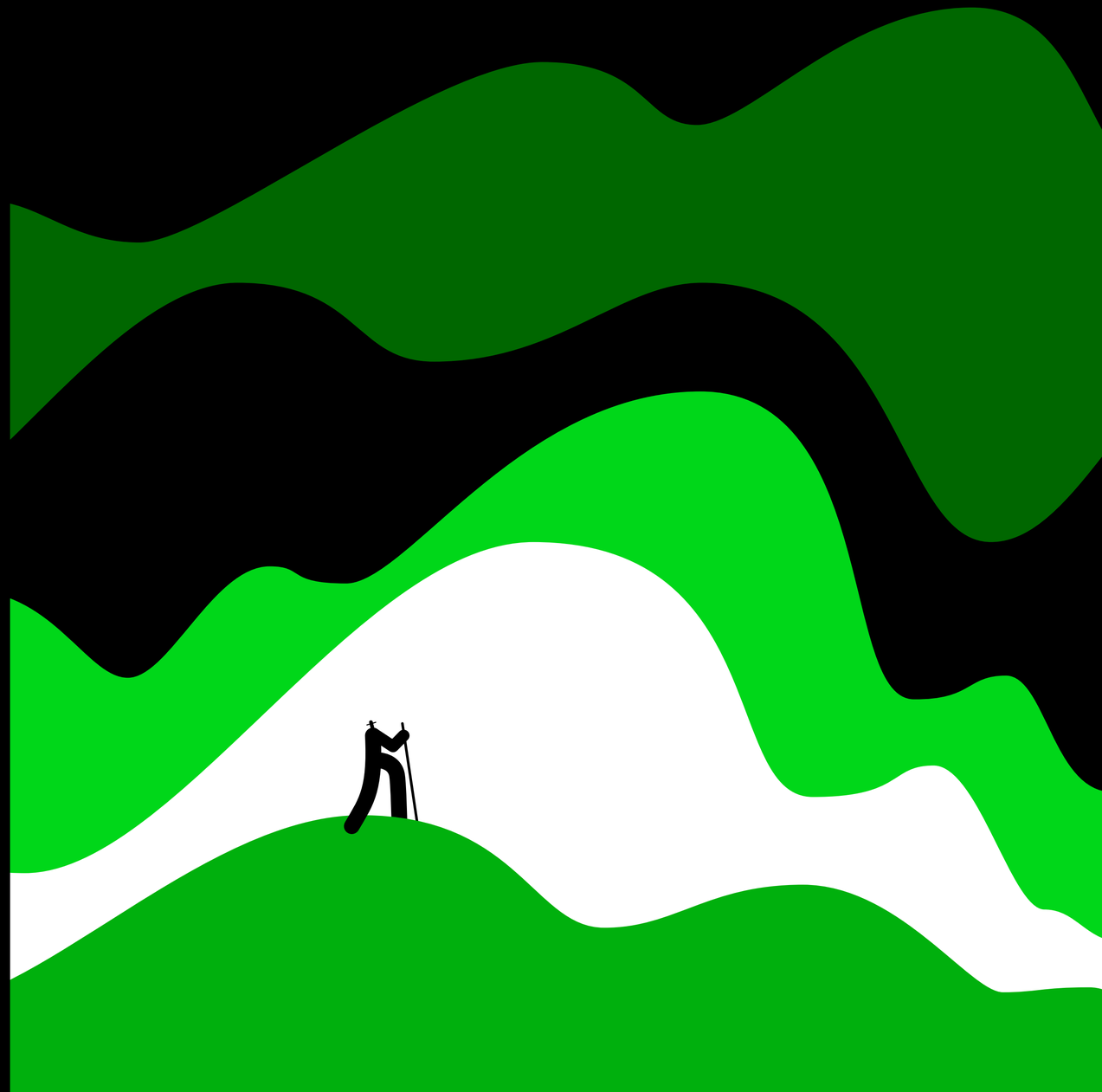
- Make it visually appealing. People process and remember information when it's paired with visuals. Use graphs, infographics, and images to communicate your key data.

ESG is a journey

Sustainable change takes time. Accountants, analysts, and researchers need time to build the systems and models to incorporate ESG data into their reporting and decision-making.

But when you combine your commitment to ESG with a more organised way to put it into practice, you'll see an immediate effect on your bottom line and your day-to-day work.

Setting up effective data collection frameworks will also improve operations and competitiveness, reduce your business's impact on the environment, and let you handle social issues with more care.



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