



# BEST PRACTICES IN ESG:

INTERNAL MANAGEMENT OF  
PUBLIC COMPANY ESG PROGRAMS

DECEMBER 2021



# INTRODUCTION

This report presents the results of our 2021 study of ESG internal management systems. Our study arose from client demand – so many of our clients were asking us what we were seeing other companies do. While surely reflecting some selection bias among companies that chose to accept our invitation to participate, it is notable that every company we spoke to had either just completed an internal reorganization of its ESG efforts or was just beginning one.

In this report, we have presented data and objective results from our study. These results came as part of a free-flowing discussion, however, and we also came away with some impressions we thought would be valuable to share.

Most participants in our study did not feel confident about their company's ESG efforts. A few who did are represented in our "best practices" case studies. Participants generally worried about data integrity and reporting – in particular, the process of gathering information company-wide on issues like greenhouse gas emissions, and about the process of reporting to a wide variety of standards

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and responding to a similarly wide range of surveys. They were unclear about existing and pending SEC reporting requirements and how they would impact existing voluntary reporting. Less frequently, but still commonly, participants worried about whether ESG efforts had appropriate visibility in company strategy setting, in some cases including Board oversight. Several described the changes underway as moving ESG from a peripheral effort largely focused on

brand and investor relations to a more integrated, strategic approach. Participants differed in their perceptions of their companies' interest in and progress toward the integration of ESG into the business. Participants had, by and large, made needed changes to reflect ESG oversight in their Board committee charters, though fewer had begun disclosing the ESG qualifications of any of their directors. Nearly all participants had established an executive-level ESG committee with relatively consistent membership.

Participants that seemed the most confident about their companies' ability to meet existing and upcoming ESG challenges were those who had not only designated ESG leaders but also ESG offices, some with responsibility for data and reporting only, and some also with responsibility for operationalizing the company's strategy. While those offices sat in the legal department more often than any other department, the prevalence was not enough to form a majority practice. ESG offices sat in a wide variety of places within companies. Participants with ESG offices were, unsurprisingly, more likely to have publicly identified climate and DEI goals. Unlike what one might expect, companies with ESG

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offices were not necessarily the largest companies we met with. What seemed, instead, to drive the creation of an ESG office was being part of a sector that had experienced heightened public and investor scrutiny about ESG issues for a significant period of time – for instance, consumer goods companies with supply chains in countries with challenging human rights records. As ESG scrutiny intensifies across sectors, we would expect to see a broader range of companies opening centralized ESG offices.

What we do not expect to see, however, are human capital management efforts (including DEI efforts) to be managed out of those offices. Almost uniformly, human resources and/or a specialized DEI office had primary responsibility for those aspects of ESG within companies. Participants did not

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note any discomfort with that arrangement or a desire to change it. Similarly, governance was uniformly handled within the corporate secretarial function, regardless of the existence or particular placement of the ESG office, and no participant expressed a desire to change that. In one company whose ESG office (sitting outside legal) had a separate sub-leader for each of “E,” “S” and “G,” the governance leader did not have responsibility for traditional Board-level governance, but instead had responsibility for management governance of the ESG program itself. Since human capital management and governance are major pillars of ESG, these well received

carveouts indicate that a successful ESG office does not need to be directly responsible for each and every ESG issue. There was nonetheless significant perceived value in having an ESG office take a broad view of company reporting, data practices, and (sometimes) strategy implementation.

We are especially mindful of selection bias when discussing legal review, as we are lawyers, and those we spoke to were our own contacts in legal departments, or the individuals they identified. That said, we did come away with some impressions about the role of legal review in ESG efforts that we believe are helpful to share. Uniformly, those companies whose ESG office sat in the legal department itself – either with the GC, in the corporate secretary’s office, in the compliance function, or in a bespoke responsibility function reporting to the GC – felt confident that their ESG goals and reporting received adequate legal review. For those companies whose ESG offices sat outside legal, or those with no ESG offices at all, confidence in that review tended to follow internal organizational culture. Some participants reported that there were no significant challenges in legal review of ESG reporting or goals because *“we all get along so well”* or *“everyone here understands how important legal review is.”* When participants noted concern about legal review, it was usually couched in cultural terms: *“you know, we get stuff at the last minute all the time; it’s*

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*frustrating.”* It may be useful for companies to be mindful of their own cultures when determining the creation and placement of ESG offices to ensure appropriate legal review – a matter that is going to be of increasing importance as SEC requirements increase.

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Similarly, we also expect to see an evolution in the role of financial reporting in ESG efforts. Few participants mentioned financial reporting personnel as significant players in their company’s ESG efforts – finance had a presence on many ESG executive committees, but often that was for budgetary, rather than reporting, reasons. Significantly less than half of participants reported using assurance for ESG reporting, and, of those, more than half reported using it for greenhouse gas emissions only. The use of assurance is very likely to increase going forward, and with it, we expect to see financial reporting play a greater role in ESG programs as well.

We very much enjoyed speaking with our clients about ESG internal management. We hope you find these results useful and look forward to collaborating with you to continue to benchmark in this evolving area.

# BEST PRACTICES IN ESG

With ESG continuing to gain in prominence, and program expectations increasing, many public companies are building or revising their ESG programs. In fact, every participant in our study had either just restructured their ESG program or was actively thinking about restructuring their ESG program. Details on our methodology are provided at the end of this report.

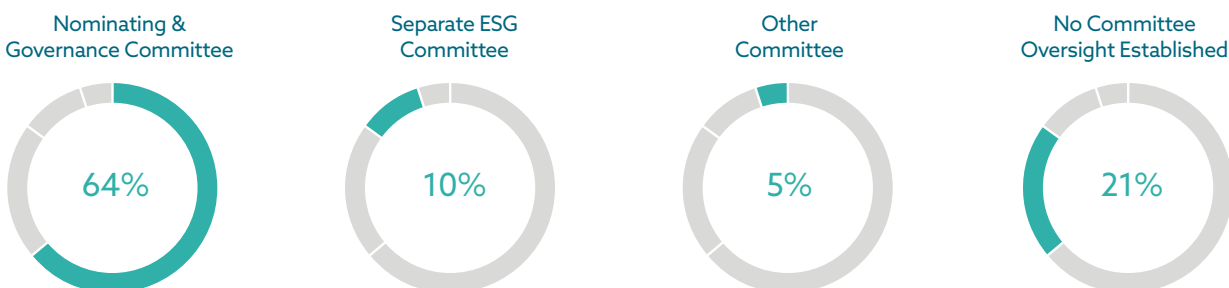
The 19 mid to large public companies that participated in our survey collectively identified a best practice approach to ESG. The core elements of this approach include:

- ⇒ [Effective Oversight by the Board](#)
- ⇒ [Ownership by Executives](#)
- ⇒ [ESG-Specific Functions](#)
- ⇒ [ESG Reporting](#)
- ⇒ [Setting Achievable ESG Goals](#)

## EFFECTIVE OVERSIGHT BY THE BOARD

ESG is a Board-level issue. Regulators, investors, and proxy advisors are focused on Board oversight of ESG given the impact on long-term value. In this context, we expect acute and increasing investor pressure to establish Board oversight, with concerns for directors on reelection and accountability for meeting ESG expectations.

Most participants have proactively addressed this topic: 79 percent of participants had established clear Board-level oversight of ESG through a dedicated committee. The most common location for ESG oversight was the Nominating & Governance Committee, with 64 percent of participants expanding the responsibilities of their Nominating & Governance Committee or equivalent to include oversight of ESG. 10 percent of participants had established a standalone sustainability or ESG committee, and five percent placed responsibility for ESG oversight with a different committee.



### A MULTI-COMMITTEE APPROACH

While there is a clear trend for oversight of ESG programs to sit with the Nominating & Governance Committee, oversight of certain ESG topics, such as cybersecurity and human capital management, was broken out into the committees where directors have the relevant knowledge and experience. In our study, 68 percent of participants set oversight of cybersecurity-related matters with their Audit Committee or equivalent, and 63 percent of participants established oversight for human capital management and DEI with their Compensation Committee or equivalent.

### BOARD ENGAGEMENT AND ESG SKILLS

Most participants described director engagement with and knowledge of ESG favorably; one participant noted that the absence of buy-in, direct engagement, and an understanding of the company's ESG risks and opportunities by directors would constitute *"a critical risk to the company."*

Despite the importance of director ESG skills, only 21 percent of participants disclosed director experience on ESG in their most recent proxy statements, suggesting that participants are not telling their full ESG story when engaging with stakeholders. Companies could improve the efficacy of oversight and address stakeholder demands for ESG governance by identifying Board members who have experience with relevant sustainability issues.

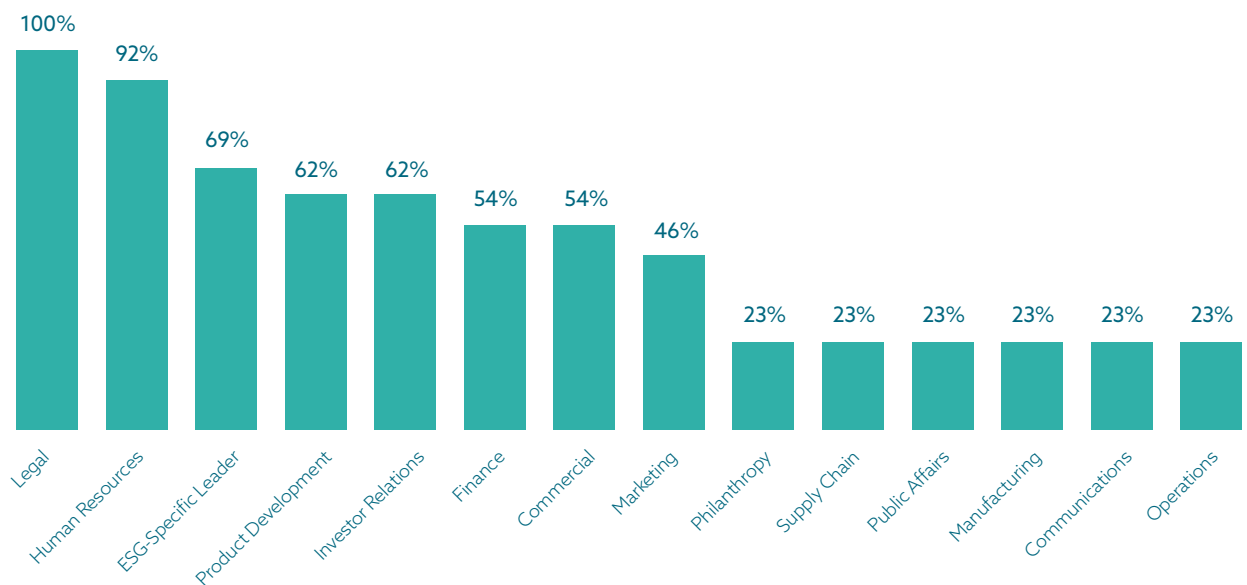


## OWNERSHIP BY EXECUTIVES

Several participants talked about a lack of clarity as to who owns ESG enterprise-wide, with sustainability initiatives siloed in different business units across the company. For most participants, a high-level concern was fully integrating ESG into the business and establishing effective executive oversight and accountability. A common solution to this problem across our study was the establishment of an executive committee, composed of senior members of management from across the business who are responsible for approving the company's priority ESG topics, approving ESG goals and strategy, organizing across business functions, and establishing accountability with respect to internal and external reporting.

74 percent of participants had an executive-level committee responsible for the company's ESG program. While membership differed across participants, our study found common themes. Legal has a clear role to play in ESG, with every executive ESG committee having a member from an internal legal function. Participants also expressed the importance of human capital and DEI as priority ESG topics, with 92 percent of executive ESG committees having a member from the HR function. It was common to include a dedicated ESG member (such as a Chief Sustainability Officer), and, as the chart indicates below, product development, investor relations, finance, and commercial aspects of the business were represented on more than half of executive ESG committees. As SEC reporting requirements increase, we expect to see more committees with representation from finance and, in particular, financial reporting.

### EXECUTIVE ESG COMMITTEE MEMBERSHIP



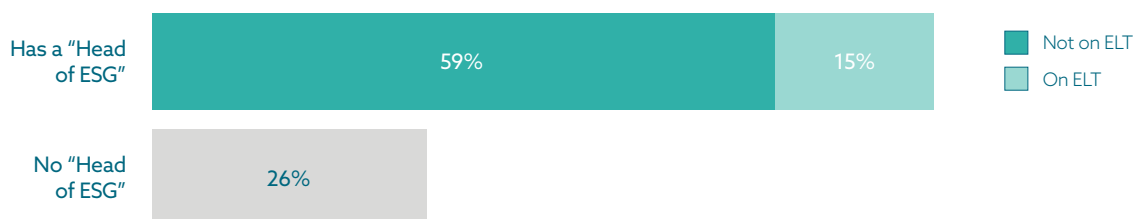
Percentage of executives on participant Executive ESG Committees

## ESG-SPECIFIC FUNCTIONS

In addition to executive leadership, most participants had a single leader for ESG, with two primary responsibilities: 1) ESG reporting, including the collection of data, and 2) executing the company's ESG strategy by operationalizing sustainability. In some cases, this leader was supported by a dedicated ESG-specific team (discussed below).

### THE HEAD OF ESG

74 percent of participants identified an internal head of ESG; however, this individual sat at different levels of management, and only 15 percent of respondents had a specific ESG leader on their executive leadership team. The placement of the ESG office also widely varied, with the legal function being the most common location (21 percent). Among those who put their ESG function within legal, the leader was either the general counsel, in the corporate secretary's office, in the compliance function, or in a bespoke ESG or responsibility function. Supply chain and sourcing (11 percent) was the most common function behind legal, and other locations for the ESG leader included operations, strategy, investor relations, communications, human resources, and marketing.



For most participants, the internal head of ESG was a tenured employee with experience in an operational role, such as supply chain management, environment health and safety, or engineering.

For one participant, their internal lead on ESG prior to the reorganization of their ESG program was *"a junior person very good at gathering data and reporting."* But this individual did not have the remit to drive change across the participant's divisions, which limited their ability to execute on the company's ESG strategy. Following the reorganization, the participant established a senior-level position responsible for ESG, which had been effective to date in driving the company's sustainability program.

Additionally, while most participants had an internal head of ESG who was responsible for the overall ESG program, certain ESG functions were not included in that leader's remit. Every participant had a separate representative from human resources or a free-standing diversity office who owned the company's human capital management and DEI goals and initiatives. And every participant maintained ownership of corporate governance matters within their legal functions. Our study found that the most robust ESG functions dove deep on "E" and aspects of "S" related to human rights, while core "G" elements were maintained by legal, and employee-related "S" topics held by human resources.



## THE ESG OFFICE

53 percent of participants had a dedicated ESG or sustainability office at the enterprise level, with 37 percent of participants having an ESG office that was responsible for ESG reporting (preparing the ESG report and website content, as well as providing ESG survey responses) and executing the company's sustainability strategy by operationalizing ESG.



For the larger companies in our study, major divisions or brands frequently also maintained their own ESG offices, which coordinated with a central office to roll up and publicly report sustainability data.

## ESG DATA AND REPORTING

ESG reporting, both in ESG reports and website content, and in response to ESG surveys, has a broad scope. Needed data is also often siloed across an organization. Companies need to collate disparate metrics from a wide range of internal stakeholders to meet annual reporting requirements and expectations. This data can include human capital and diversity data from HR, data about governance practices, emissions and water data from facilities, and/or procurement, sourcing, or manufacturing data, to provide a few examples. 37 percent of participants identified a dedicated employee responsible for collecting ESG data from across the company, and every participant with a larger ESG office identified data collection and reporting as a major responsibility for that office.

## OPERATIONALIZING ESG

The second primary function for the ESG office was to operationalize ESG. Several participants described their approach to ESG as “reactive,” with their ESG function focused on reporting rather than setting strategy and executing on a business plan. Participants who were most satisfied with their ESG programs described a centralized ESG office that not only had responsibility for ESG data and reporting, but also engaged with relevant aspects of the business to advance sustainability initiatives.

## CASE STUDY: BEST PRACTICES FOR ESG MANAGEMENT

While most participants had a management committee structure in place, one stood out for their approach to ESG management and ownership. The company, which is active in the consumer goods sector, had both Board- and management-level oversight of ESG, with a clear reporting line from the ESG office to the Board. While the company has had a strong ESG program for over a decade, they recently restructured their ESG management system to *"take sustainability from the brand level to the corporate level."* This management restructuring offered insight into best practices for an ESG management system, which include a strong "tone at the top," buy-in from senior management across business functions, and empowering a centralized, cross-functional ESG team to execute at the operational level.

### tone at the top

ESG management starts from the top. The company's CEO *"has really set the tone on ESG,"* writing a letter at the beginning of every sustainability report since the company's inaugural report. And for the past six quarters, the CEO discussed ESG topics on every earnings call. In our conversation with the participant, they stressed the role of the CEO in leading on ESG, with positive downstream effects for business support on ESG across the organization.

### BUY-IN FROM SENIOR MANAGEMENT

The CEO was supported by senior members of management who form an ESG Committee, which met bi-monthly to review the company's ESG program. The ESG Committee also reported quarterly to the Board's Nominating and Governance Committee, and annually to the full Board. The reporting structure established a positive feedback loop for the company's ESG program: *"the full Board is really engaged, [and] there is a lot of support from the top, which drives the direction"* of the ESG program.

The company recently restructured its ESG Committee. Membership in the new committee was based on the business units that are most relevant to its ESG strategy; this included C-suite support from operations, finance, human resources, legal, and product development as well as brand presidents. Each function had relevant expertise and capabilities that enhanced the efficacy of the company's ESG program. Buy-in from across the C-suite was vital for how quickly and comprehensively the participant stood up its ESG program: *"the more C-suite support, the faster we can go."*

### CROSS-FUNCTIONAL PROFESSIONALIZATION AND EXECUTION

The company's management structure was supported by a sustainability office, which surfaced ESG strategies, policies, and goals for management to review and approve. The sustainability team sat in the office of the Chief Operating Officer, with a global staff of 23 who worked across the enterprise.

The sustainability team brought deep professionalization to the company's ESG program and worked with partners across the business, including in-country sourcing teams, brand design, packaging engineers, retail operations, human resources, and supply chain operations. The participant emphasized how important a dedicated ESG staff was for executing the company's strategy: *"the world needs more professionalization, you can't just run this by committee."*

The company's sustainability office was supported by internal legal and audit as well. Legal formally reviewed all ESG disclosures, and an internal audit team reviewed the data collection process and provided internal assurance on ESG data. The company's executives also enabled ESG ownership by management across the company, with individual sustainability leaders at the brand level given an ESG mandate. While the management of ESG started at the top, ultimately individual business unit leaders were empowered to execute the company's ESG strategy.

## ESG REPORTING

Our participants had demands for ESG reporting from a wide range of stakeholders, including shareholders, ratings agencies, regulators, and civil society groups. These demands often play a significant role in the decision to stand up or advance an ESG program at the corporate level, and our participants put significant resources toward collecting, verifying, and reviewing content included in their ESG reports and securities filings.

While ESG reporting is often a priority, many participants described common challenges in their ESG reporting efforts. One participant with a long track record of sustainability reporting was challenged by new and emerging ESG standards, stating that *“even though we have been doing this work for a long time, the ESG packaging of it all feels new.”* Other participants expressed difficulty *“navigating the difference between looking good and doing good,”* with concerns that their actual sustainability efforts were not captured by leading ESG frameworks. Participants also described their approach to ESG disclosure as *“reactive,”* responding to external requests for information without having a cohesive sustainability strategy. And data collection and management for certain participants was a challenge, with data collection described as ad hoc and *“hodgepodge.”*

In addition to these challenges, ESG disclosures have legal risks that must be carefully considered, including risks related to legal disclosure requirements, risks relating to ensuring that data is accurate, and litigation and regulatory risks. Every participant in our study had some degree of legal review of the ESG report, together with legal ownership of ESG content in securities filings. But the type and degree of legal review varied, with many participants noting that legal review is sometimes sought only late in the process, or that it is distributed across different parts of the legal department in ways that may not drive consistency. Companies with a designated ESG office were significantly more positive about the role of legal review, and those companies where the ESG office was housed within the legal department were particularly positive.

## ESG REPORTING PRACTICES

95 percent of participants have published an ESG report. ESG disclosures are also common in securities filings, with 89 percent of participants including at least some ESG disclosures in their proxy statement, and 75 percent of participants including some ESG topics in their most recent 10-Ks.<sup>1</sup> Additionally, most participants had an ESG disclosure aligned with leading frameworks and standards, including CDP (89 percent), SASB (84 percent), the TCFD (53 percent), and the GRI (68 percent).



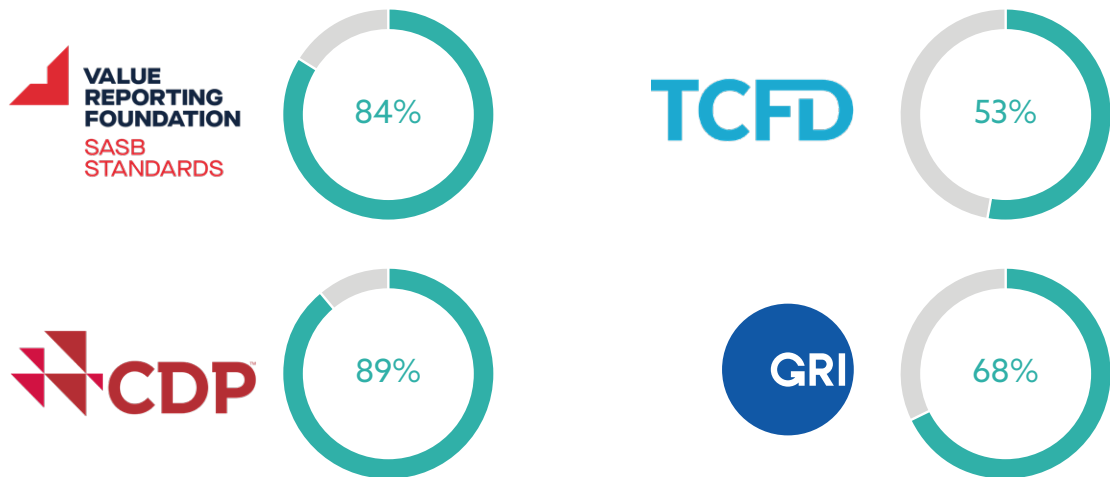
## THIRD-PARTY ASSURANCE

37 percent of participants received limited external assurance on their ESG reporting. For the participants who received external assurance, 57 percent had assurance that covered only their greenhouse gas emissions. The remaining 43 percent of participants who received external assurance had assurance that covered additional ESG topics, including water use and workforce diversity metrics.

<sup>1</sup> For the purposes of this study, ESG topics made in securities filings included descriptions of company ESG programs and governance features, including a description of the company's approach to ESG in the Business and MD&A section of the 10-K, together with disclosures on specific ESG issues as Risk Factors, such as climate change, environmental sustainability, DEI, and human capital management.

## USE OF ESG FRAMEWORKS

Within the 95 percent of participants that have published an ESG report, each report referenced at least one leading ESG framework. The most common framework across the participants was the CDP Climate Report, which 89 percent of participants completed in 2021. Additionally, 84 percent of participants prepared an ESG report aligned with the Sustainability Accounting Standards Board (SASB) Standards, with the remaining 26 percent of participants planning or considering an SASB disclosure for 2022. Other common frameworks included the Global Reporting Initiative (GRI; 68 percent) and the Task Force on Climate-Related Financial Disclosures (TCFD; 53 percent). Additionally, 68 percent of participants prepared a disclosure that identified progress toward the UN Sustainable Development Goals.



## CASE STUDY: BEST PRACTICES FOR ESG REPORTING

One participant in our study, a large multinational, had a standout approach to its ESG reporting process and disclosures. The company had numerous publicly posted policies on material ESG topics, a comprehensive sustainability report, and ESG disclosures in both the 10-K and proxy statement. The company also reported information using a wide range of leading reporting frameworks, including SASB, GRI, TCFD, the UN SDGs, and CDP. This participant had a centralized disclosure committee that oversaw ESG reporting; a systematic integration of legal review into the ESG disclosure preparation process; internal and external verification and assurance for a significant portion of their ESG disclosures, including progress against their publicly stated ESG goals; and a dedicated online reporting website that improved stakeholder access to ESG information.

### DISCLOSURE GOVERNANCE

The company had strong governance practices for its ESG disclosures. An internal management-level disclosure committee, consisting of representatives from functions including finance and legal, reviewed all ESG content prior to disclosure. Review by the disclosure committee helped ensure that voluntary ESG disclosures were consistent with public filings and legally required ESG disclosure. The company also had an executive-level committee that oversaw its overarching ESG framework and reviewed the annual ESG report prior to publication.

### INTERNAL LEGAL REVIEW

The company's ESG reporting benefited from active legal participation. Legal was responsible for drafting all ESG content in the 10-K and proxy statement, rather than simply importing ESG content from other disclosures. Additionally, language in the company's ESG report was reviewed by lawyers in the relevant business functions and supplemented by legal review at the corporate level prior to disclosure. The legal team was also functionally integrated into the broader ESG program and assisted with determining company goals and benchmarks.

### VERIFICATION AND ASSURANCE

The company's annual sustainability disclosure included independent review and assurance statements with respect to their sustainability performance. This included assurance for a range of topics, including progress against company ESG goals; progress against commitments to the UN SDGs; and assurance of their greenhouse gas emissions, select DEI metrics, and human capital metrics, including turnover and safety metrics. Internal review was provided by the company's global audit function, which reviewed ESG data for accuracy, completeness, and validity.

### REPORTING WEBSITE

The final best practice was the company's ESG reporting website. In addition to the company's sustainability report, topic-specific disclosures and policies were available on a dedicated ESG webpage, with ESG topics arranged alphabetically. These website disclosures allowed interested stakeholders to quickly identify the company's public policies and review ESG metrics of interest. The participant reported that they were very happy with the decision to implement this feature – among other things, it had led to *"lots of really good investor feedback on disclosures and reporting."*

# SETTING ACHIEVABLE ESG GOALS

Public and transparent ESG goals are an important component of corporate sustainability programs. Public goals help establish accountability and can protect against reputational risk; running an ESG program without defining specific goals and disclosing progress against them risks accusations of greenwashing. Our study found that ESG goal setting is a common corporate practice: 89 percent of participants had published at least one specific, measurable, and time-bound goal on an ESG topic.

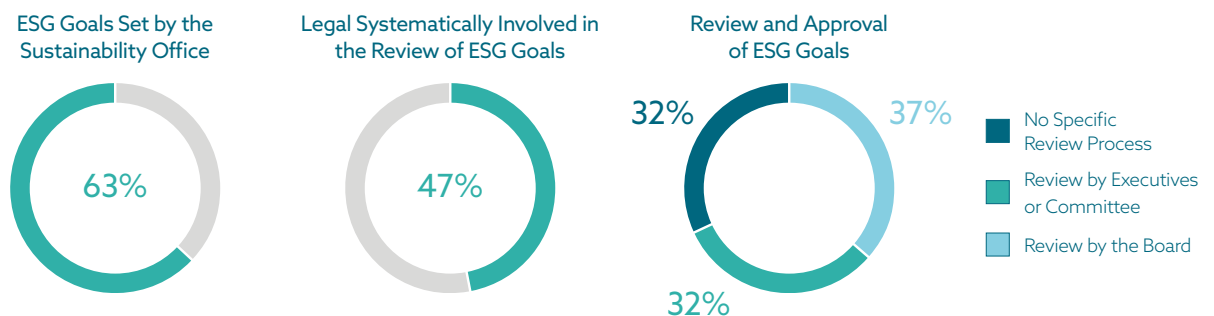
## OWNERSHIP OVER GOAL SETTING

63 percent of participants placed ownership for developing their ESG goals with their sustainability leader or office. Across the participants, having an ESG or sustainability office had a moderate positive relationship with having both specific climate and DEI goals, suggesting that a centralized ESG function is an important part of setting enterprise goals on ESG topics.

For 16 percent of participants, ESG goals were set by individual business unit leaders. Some participants who used this approach expressed concern, with internal stakeholders “worried” about the status of specific environmental and social goals set by divisions of the business without a centralized review process or reference to the company’s broader ESG efforts. 11 percent of participants had their ESG executive committee set ESG goals, and a further 11 percent did not have public ESG goals.

Dedicated legal review was part of the goal setting process for only 47 percent of participants.

Some participants also expressed concern that company ESG commitments and disclosures would run ahead of the company’s actual ESG program. One participant described their stated ESG goals as “aspirations” that the company will now have to meet, and expressed a worry that ESG goals were not integrated into the business strategy. For 69 percent of the participants, there was some type of concentrated review of ESG goals, including by the whole Board or a committee (37 percent of participants) or by an executive committee (32 percent of participants).

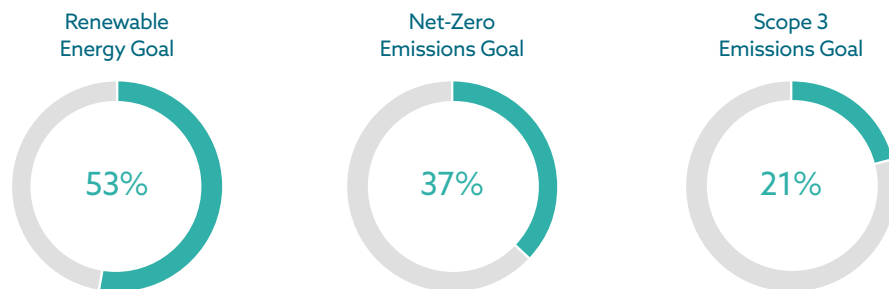




## CLIMATE CHANGE GOALS

Our study assessed three types of publicly articulated goals related to climate change: renewable energy, net-zero emissions targets, and Scope 3 emissions goals. 53 percent of participants disclosed a goal to increase their consumption of renewable energy either on an absolute basis or as a percentage of their total energy mix. Net-zero goals were less common; 37 percent of participants had a net-zero emissions goal, with net-zero dates set between 2020 and 2050.<sup>2</sup> Scope 3 emissions targets were even less common, with 21 percent of participants including Scope 3 emissions in their net-zero targets.

Our findings indicate that companies may be focusing on more manageable goals, and several times in our conversations with the participants the subject of overly ambitious goals came up as a risk. Without new technological innovations, some participants will be unable in the short- to medium-term to meaningfully address Scope 3 emissions that come from the use of their products and services. Reluctance to set net-zero targets was also due in part to the uncertain nature of pending SEC regulations on climate change disclosures. Without a clear path to measuring and reducing emissions, and given the regulatory uncertainty, many companies were hesitant to set concrete public climate goals.



## DIVERSITY, EQUITY, AND INCLUSION (DEI) GOALS

Across the participants, DEI programs were maintained by human resources or a free-standing diversity program and not fully integrated into the ESG program. One participant told us that “*HR is autonomous, operating in its own space,*” and many participants described a separate process for setting DEI goals. While most participants had climate-related goals, only 26 percent of participants had a publicly articulated goal to increase the number of women in the workforce or at the management level. Only 21 percent had a publicly articulated goal to increase racial and ethnic diversity across the workforce or at the management level.

<sup>2</sup> One participant achieved net-zero carbon emissions (including Scope 3 emissions) in 2020 with carbon offsets.

## CASE STUDY: BEST PRACTICES FOR SETTING ACHIEVABLE GOALS

One participant stood out for their disclosure of ESG goals and KPIs. The company has published sustainability reports for nearly 20 years, and their long-standing approach offers insights as to best practices. These insights include integrating ESG into the business strategy, standing up governance systems and visibility for goal setting, setting iterative and achievable goals, and prioritizing transparency.

### INTEGRATION INTO THE BUSINESS STRATEGY

The company's ESG goals were owned by a senior officer in a business strategy office. The officer held an operationalized ESG role and was *"actually doing the sustainability work, driving efforts, committing to goals, gathering data, creating disclosures, [and creating] the annual sustainability report."* This participant reported that placing responsibility for goal setting in the same office where the long-term business strategy is set helped integrate ESG goals into the broader business, and avoided issues seen in other participants where the personnel who set ESG goals did not engage with the company's strategy or growth functions.

### GOVERNANCE AND VISIBILITY

The company's goal setting was reviewed and approved by a Board committee and a senior leadership team focused on sustainability. This governance structure secured buy-in and promoted visibility on ESG goals across the company's operations.

### ITERATIVE GOAL SETTING

The company had an iterative approach to ESG goals, with a sustained maturation of their ESG program over time. For instance, the company started with goals relating to their supplier factories and, when those goals were achieved, broadened them to other aspects of the supply chain. This iterative approach helped the company continuously improve its ESG program.

### TRANSPARENCY

The most notable aspect of the company's approach to ESG targets was their prioritization of transparency. In their most recent sustainability report, the company set out more than 20 new measurable and time-based goals aligned with their most relevant ESG topics. Additionally, the company committed to an annual disclosure of progress toward those goals and provided detailed context on methodology and standards used in their ESG disclosures.

# CONTEXT AND METHODOLOGY

## CONTEXT OF THIS STUDY

This report presents the findings of an inaugural study conducted by Orrick from October to November 2021. The goal of this study was to identify and analyze current and emerging best practices in ESG governance and management at public companies, with the aim to help public companies identify and implement improvements to their ESG programs. This study was led by Carolyn Frantz, Co-Head of Orrick's Public Companies & ESG practice, in collaboration with J.T. Ho, Co-Head of Orrick's Public Companies & ESG practice; Ashley Walter, Partner-in-Charge, ESG; Hayden Goudy, ESG Business Intelligence Advisor; and Allison Marill, ESG Research Analyst.

## OUR METHODOLOGY

Orrick conducted interviews with 19 participating public companies and collected information on 1) their approach to ESG governance and management oversight, 2) their process for setting ESG goals and KPIs, 3) their process for preparing ESG disclosures, and 4) the overall satisfaction of the company's internal approach to ESG. Participants in our study consisted of large multinational companies primarily headquartered in the United States. We met with and interviewed approximately 40 representatives from internal legal and sustainability functions from across the participants, with the majority of interviewed participants sitting in internal legal functions with responsibility for ESG disclosures. Additionally, our interviews were supplemented by desktop research into the ESG programs of the participants, including a review of the participants' ESG disclosures and third-party ESG ratings.

For this study, we adopted a qualitative and exploratory approach to identify elements of best practice, rather than collect data from a statistically significant population. Our goal was to capture and understand different approaches to ESG management, rather than develop a quantitative understanding of current market practice.

We did not focus only on companies that had the most advanced ESG programs. Participants in our study have a wide range of ESG practices and different levels of maturity in their ESG programs. In our view the heterogeneity of our study sample helped to identify a wide range of market practices on ESG. Our goal was to identify the current shape of ESG governance and management systems, and to identify where there were common areas for improvements to be made.

## SAMPLE INTERVIEW QUESTIONS

- ⇒ If your company has an ESG committee, who is on it? Does this include a Board-level committee, management-level committee, or functional ESG team?
- ⇒ Does the company have a dedicated single leader for ESG? If yes, what is their background, and where in the organizational structure do they sit?
- ⇒ Who is involved in setting climate and other environmental goals?
- ⇒ What is your company's process for drafting and reviewing ESG reports and other disclosures, and what role does the legal department have in this process?
- ⇒ Does your company feel satisfied with the way ESG is managed internally? What are the areas most in need of improvement?

## ABOUT ORRICK

Orrick counsels companies in the technology & innovation, energy & infrastructure, and finance sectors globally. Our clients include eight of the top 15 tech companies by market cap, eight of the top 15 energy companies, and 10 of the top 15 financial institutions – giving us a broad perspective on market trends. We focus on delivering strategic advice on the day-to-day issues that concern management and Boards the most – and value-added support for transactions and litigation.

Our emphasis on innovation – in our advice and service delivery – has earned the firm top-three rankings in *Financial Times*’ Most Innovative Law Firms report six years in a row. And we provide our clients with inspired, consistent and inclusive teams by being a *Fortune* 100 Best Companies to Work For, also for six years in a row.

Our Public Companies & ESG practice advises on ESG best practices and execution in four principal areas: reporting and disclosure, governance and risk controls, analytics, and investigations and litigation.

### PLEASE CONTACT:



**Carolyn Frantz**  
[cfrantz@orrick.com](mailto:cfrantz@orrick.com)



**JT Ho**  
[jho@orrick.com](mailto:jho@orrick.com)



**Ashley Walter**  
[awalter@orrick.com](mailto:awalter@orrick.com)



**Hayden Goudy**  
[hgoudy@orrick.com](mailto:hgoudy@orrick.com)



**Allison Marill**  
[amarill@orrick.com](mailto:amarill@orrick.com)



[orrick.com](http://orrick.com)

Orrick, Herrington & Sutcliffe LLP | 51 West 52nd Street | New York, NY 10019-6142 | United States | tel +1 212 506 5000  
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