

ESG Cross Functional Teams 5 Tips for More Effective ESG Efforts

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ESG (Environmental, Social and Governance) is a hot topic. Investors want more reporting and transparency. Non-financial reporting frameworks expect transparency on issues from climate change to forced labor. The Board has questions. And nobody expects it to fade any time soon.

It's often "all hands on deck." But increased activity doesn't always translate into effectiveness or efficiency. Even companies that created Chief Sustainability Officer positions years ago are overwhelmed by new requirements, risks and demands. One poll of over 300 Internal Audit professionals revealed that ESG "lives" in Environmental, Compliance, Investor Relations, or other departments. There is no consensus on the right home. Who should lead ESG? What does "good" look like? And how will things get done efficiently, effectively, and aligned with business objectives?

Cross Functional Teams: The Secret Weapon

Cross functional teams can identify risks, accelerate program development, identify opportunities, and improve third party risk management. Without strong leadership, they can be like the party planning committee for a typical homeowner association.

DHC offers five tips for a Powerhouse ESG Cross-Functional Team.



1. **Recognize the breadth and applicability of the topic.** Any list of ESG issues includes dozens of topics. Many apply directly to your company; others – not so much. Companies must look beyond what they control and consider *what they can influence*, throughout the entire life cycle of products and services. This expansive view is necessary to identify requirements and priorities.
2. **Differentiate between strategy and tactics.** Risk management typically considers short, medium, and long-term impacts. ESG / Sustainability reporting frameworks – notably TCFD¹ - include this approach. Business strategies and planning occurs at senior levels. Development, implementation and monitoring ESG programs occur at other organizational levels. Consider two cross-functional teams, such as a steering committee, and an ESG Action Team.
3. **Involve the right people.** Invite people who understand relevant laws, regulations, and risks. Include people who understand context. Individuals with a single favorite issue - especially one not

¹ Task Force on Climate Change Related Financial Disclosures; see www.fsb-tcf.org



relevant to the business – can divert precious time and attention from managing risks and seizing opportunities. A team with people at different organizational levels can be a mechanism for mentoring – in both directions! Above all, tap into people with credibility in their core functional roles.

4. **Invest in independent leadership.** The cross functional team is an excellent mechanism to “break down silo walls.” People specialize in Human Resources, Environmental, IT, or Law for a reason - and they’re good at it. Still, it can make for “ESG myopia”. They understand only the issues most relevant to them – often from a reactive, compliance perspective. The ESG challenges of the 2020s simply cannot be managed that way. Invest in an independent Cross-Functional Team Leader to optimize strategic focus, planning, facilitation, accountability, discussion, and reporting.



5. **Reward contributors. Reward success.** ESG is an inherent business risk. It also presents opportunities. The capital markets demand ESG reporting and performance. So do business partners, employees and other stakeholders. Nobody should say, “Participation in an ESG Steering Committee is 20% of my job – the part between 120% and 140%.” Enable meaningful contributions. Identify and celebrate successes, both organizational and personal.

Case Study DHC led a cross-functional team at a technology company challenged by a new US regulation. The regulation required engagement with suppliers and customers, new compliance and risk programs, and external reporting to business partners and the public. The regulation was like nothing before it, with compliance deadlines fast approaching. DHC helped engage the right functional groups, develop project plans, steered design, and assisted with program implementation. DHC helped establish reporting mechanisms and meet the expectations of key stakeholders. DHC experience and credentials in compliance, auditing and external reporting were indispensable.

DHC helps Clients understand ESG baselines, gaps, risks and opportunities, program development and auditing. We also help with ESG reporting strategies, content compilation and review, and preparation.

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