Environmental, Social and Governance

Navigating Environmental, Social & Governance to Build Long-Term Resilience
Why ESG Is a Critical Issue

Environmental, social and governance (ESG) issues remain a top focus for business leaders. Investors, regulators and other stakeholders continue to assess and analyze a company’s ESG commitments with increasing scrutiny as both risks and opportunities are evolving.

To remain competitive, comply with stakeholder expectations, drive innovation and deliver value, focusing on ESG is an organizational imperative.
Contents

1 Examples of Environmental, Social and Governance Issues
2 What Are the Major Issues Organizations Are Facing?
3 What Are the Opportunities Created by These Issues?
4 Why Is It Imperative To Act?
5 What Should Be Done Immediately?
6 What Should Organizations Be Doing Long Term?
7 ESG Is Everyone’s Responsibility
8 Further Insights
Examples of Environmental, Social and Governance Issues

Corporate Financial Performance (CFP)
A growing number of corporate studies to date show a correlation between proactively addressing ESG and improved corporate financial performance.¹

Environmental

Social

Governance

¹Source: McKinsey
What Are the Major Issues Organizations Are Facing?

Now, more than ever, resilience and growth are dependent on business leaders taking action to respond to environmental, social and governance (ESG) risks and opportunities. ESG-related challenges such as extreme weather events, supply chain disruptions and public health crises continue to bring great volatility and uncertainty to our world.

— Greg Case, Chief Executive Officer, Aon

Outlier status has the potential to increase risk of liability for the company and future profitability — and, harm reputation and value.

ESG issues pose broad and complex risks and opportunities to all businesses and investors.

Neglecting ESG expectations can negatively impact ratings, access to capital and insurance coverage.

ESG-related regulations, terminology, disclosure methodology and stakeholder expectations are fragmented and often complex.
What Are the Opportunities Created by These Issues?

**Stakeholder communication:** As organizations navigate the evolving external stakeholder landscape on ESG issues, leaders have an opportunity to engage with analog and digital solutions to drive their narrative and engagement with ESG.

**Corporate deals:** Mergers and acquisitions, spinoffs and divestments and initial public offerings (IPOs) require companies to identify and address ESG issues before a transaction to maximize value. Proactively addressing these issues, and addressing investor concerns, can help businesses to prevent overvaluing/paying for target companies, and potentially support stock price post-deal.

**Access to capital and insurance:** ESG issues can influence credit ratings and shareholder demand, while “impact” financing opens new avenues of capital and insurance in the form of green bonds, social bonds, and Key Performance Indicator (KPI) bonds.

**Reputation:** Organizations have an opportunity to address critical climate and social challenges by implementing new policies and practices. Aside from building operational sustainability, demonstrating a commitment to ESG can help to boost an organization’s brand and reputation, while staying attractive to investors and insurers. Businesses will also be in a stronger position to compete for talent, investment and market share.

**Business oversight:** Having the right oversight and governance mechanisms in place enables leaders to build and maintain long-term sustainability. Establishing and implementing good governance practices and processes, such as formalized ESG reporting structures, will improve board and management oversight of environmental and social issues. With greater transparency, leaders can make better decisions when addressing issues such as the organization’s environmental impact or commitment to diversity, equity and inclusion (DE&I).
Why Is it Imperative To Act?

Increasing awareness of climate change, the health and equity impacts of the pandemic, as well as DE&I in the workplace have led to investors and other financial market participants to increasingly scrutinize how companies address ESG issues.

With the growing interest for companies to lower their carbon footprint, there is increased scrutiny on an organization’s value chain and the need to take into account what activities it might be enabling in its supplier and customer base. From an investment perspective, ESG is a new lens to examine intangible assets.

As a result, leaders must also look outside the organization. An individual organization may have a proactive ESG strategy, but if suppliers or customers do not, then there is a risk of reputational damage by association.

ESG-based assets could exceed $53 trillion by 2025, representing more than a third of total assets under management.2

2Bloomberg
### Questions Leaders Should Ask:

<table>
<thead>
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<th>ESG Examples</th>
<th>Questions</th>
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<tr>
<td>Physical &amp; Transition Risk</td>
<td>How will evolving climate risks impact your risk strategy?</td>
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<td>How does climate risk fit into your enterprise risk management strategy?</td>
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<td>DE&amp;I</td>
<td>What steps are you taking to build and maintain diversity in your workforce?</td>
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<td>How are you communicating your DEI goals and defining success externally for all relevant stakeholders?</td>
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<td>Board Level Governance</td>
<td>How does your board stay current on ESG topics?</td>
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<td>Diversity - how are you ensuring diversity at board level?</td>
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<td>Does the board receive regular updates from management on ESG related goals?</td>
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<td>Employee Resilience</td>
<td>How are you ensuring, assessing, managing the resilience of your employees for the future?</td>
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<td>Executive Compensation</td>
<td>Do you have ESG metrics within your executive compensation programs?</td>
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<td>Have financial stakeholders asked for a stronger linkage between ESG and executive compensation?</td>
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<td>Cyber</td>
<td>Have you carried out executive vulnerability assessments on your board members?</td>
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- **Diagnose** ESG challenges and opportunities specific to your organization, with the help of data, analytics, and benchmarking.
- **Seek Advice** from ESG experts for targeted, tailored solutions to meet your ESG objectives.
- **Address** ESG risks and seize opportunities by maximizing all forms of capital.
What Should Organizations Be Doing Long Term?

Every organization is at a different phase in their ESG journey. Start by assessing where the organization stands on the ESG maturity curve, then as the business matures in its approach to addressing ESG risks over time, so too, should the adoption of innovative solutions.

Communication with relevant internal and external stakeholders is key throughout

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<th>Address</th>
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<th>Transparency</th>
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<tr>
<td>ESG Metrics tied to Executive Compensation</td>
<td>ESG Business Strategy Integration</td>
<td>Dedicated ESG Report an/or Webpage</td>
<td>Proactive Stakeholder Engagement</td>
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<td>Utilization of ESG Reporting Framework (SASB, GRI, TCFD)</td>
<td>Commitment to ESG Pledges and/or Coalitions</td>
<td>Ongoing Board Education on ESG Related Topics</td>
<td>Integrated Disclosure of ESG Strategy/Progress (Annual Report, Website)</td>
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<td>Standardized Metrics &amp; Goals to Measure &amp; Collect Data</td>
<td>Formal Board/Committee Oversight of ESG Strategy &amp; Accomplishments</td>
<td>Diversity, Equity &amp; Inclusion, Human Capital Management &amp; Supply Chain Strategies</td>
<td>ESG Dashboarding, Peer Benchmarking &amp; Initial Board Education</td>
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<td>CSR Reporting &amp; Philanthropic Initiatives</td>
<td>Engage Stakeholders &amp; Identify Material ESG Topics</td>
<td>Set Goals &amp; Track Progress</td>
<td>Communicate &amp; Disclose Progress</td>
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<td>Continually Re-Evaluate &amp; Adjust</td>
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ESG Is Everyone’s Responsibility

From the board, to finance, to risk, to human resources, marketing and beyond, leaders have a responsibility to engage with all areas of the business to encourage collaboration and communication and address ESG as an enterprise-wide issue.

Conclusion
Decisions taken now to identify and address ESG priorities will be critical to protect people and capital, and to create value in the future.
Further Insights

Further ESG Insights:

- Aon’s ESG Impact Report
- Tips for Developing a Strategy to Enhance Your ESG Ratings
- Evolving Your ESG Strategy: How to Transition From a Practical to Tactical Approach
- Harmonization of ESG Disclosure Requirements is Welcome News for Companies and Investors
- Workplace Futures: The Value of the ‘Social Contract’ in ESG
- Global Responsible Investment Survey
- Accelerating the Race to Net Zero Through Gender Equity
- Weather, Climate & Catastrophe Insight
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Aon plc (NYSE: AON) exists to shape decisions for the better—to protect and enrich the lives of people around the world. Our colleagues provide our clients in over 120 countries with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business.

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