**Introduction**

In times of rapid social change, progressive organizations can leverage environmental, social and governance (ESG) programs to shape corporate purpose and set goals in line with stakeholder expectations.

ESG refers to the process for setting, managing and reporting on an organization’s governance mechanisms, environmental and social impacts, and related policies.

Having a well-defined and widely communicated ESG program gives organizational leadership — including the board of directors — a platform from which to communicate key information to relevant stakeholders, and more important, a framework for understanding the long-term sustainability of their business model and revenue streams.

Five years ago, an ESG program was a nice-to-have. Now it’s a business imperative as investors, employees and regulators put pressure on organizations to make commitments and show progress. Systemic changes that will require ESG action are also on the horizon, such as new climate regulations or evolving trade standards aimed at easing supply chain pressure.

Organizations must now evolve their ESG initiatives from compliance-driven efforts to strategic programs that integrate the organization’s environmental, social and governance priorities into strategic decision making and operational execution.

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**Gartner expects broad-based ESG reporting requirements to be in place by 2025.**

Source: Gartner
Until now, most organizations have taken an ad hoc and narrow approach to ESG — for example, by establishing a disclosure process for an emergent issue. Today, as organizations formalize their approach to ESG, leaders will quickly mature from compliance-driven efforts toward a risk-driven approach — and ultimately to one that is strategy-driven.

Mature, strategy-driven ESG programs integrate the organization’s environmental, social and governance priorities into strategic decision making and operational execution. They set ESG priorities through a robust process that considers stakeholder sentiment, business opportunity and corporate capability, as well as an understanding of long-term business needs and environmental constraints.

Develop and evolve your program by leveraging four key components:

1. **Stakeholder expectations**
2. **ESG strategy and goals**
3. **Program governance**
4. **ESG narrative**

**Four Components of an Effective ESG Program**

1. **Understand Stakeholder Expectations**
   - Stakeholder Sentiment Analysis
   - Materiality Assessment
   - ESG Ratings and Frameworks Assessment

2. **Set ESG Strategy and Goals**
   - Issue Prioritization
   - Goal and Action Plan Development
   - Goals Stress-Testing

3. **Establish Program Governance**
   - Metrics Tracking
   - Board Oversight and Responsibilities
   - Internal Structure

4. **Communicate Your ESG Narrative**
   - Annual Disclosure Strategy
   - ESG Report Generation
Companies face an array of ESG-related concerns and issues. The highest-profile issues of the day — like carbon emissions; clean air; employee wellness; and diversity, equity and inclusion — may not be the most material for a given company. Nor can your organization focus on every issue it touches. You have to prioritize.

Seek to understand stakeholder expectations, perceptions and areas of concern, and match them with a clear-eyed recognition of where your organization can have an impact. This ensures you’re prioritizing the most material issues.

Gather three sources of input to document and prioritize stakeholder expectations:

- **Stakeholder sentiment analysis** identifies areas of concern based on ESG coverage in the news, investor interest/shareholder proposal trends and social media.

- **Materiality assessment** ranks ESG issues by importance to internal and external stakeholders and their impact on the long-term viability and sustainability of the business.

- **ESG ratings and frameworks assessment** reviews the landscape of ESG ratings and frameworks to identify and prioritize those with relevance to your organization or industry.
Example materiality assessment to prioritize ESG issues

**Set goals that create win-wins.** For each issue in the upper right triangle, set a goal that addresses stakeholder concerns while also having a long-term positive impact on the company's risk, growth or profit margins. The impact should be concrete, but the time horizon for payoffs can be longer.

**Create an initial action plan that pursuits those goals.** The action plan should include:
- People or committees responsible for governance
- Objective, interpretable metrics
- Next steps to gather more qualitative information

For illustrative purposes only. Not a real ranking.
Set ESG Strategy and Goals

Actionable, achievable ESG goals are a necessary element of an effective program. Programs that are in line with the organization’s larger corporate strategy, and can measurably impact it, have far greater credibility, relevance and potential for long-term survival.

To define effective ESG strategy and goals:

- **Prioritize key issues** by analyzing the benefits, impact, competitive advantage and cost of pursuing them, and choosing to emphasize the ones that align with and impact your organization’s corporate strategy.
- **Create a goal and action plan** that sets concrete, measurable, time-bound and achievable commitments for each relevant issue. Develop a corresponding action plan for realizing those goals through improvement efforts in relevant functions or processes (e.g., sourcing, capital allocation).
- **Establish mechanisms for stress-testing goals** to assess whether goals can still be realistic or achievable under periods of organizational stress, change or uncertainty. ESG goals should reflect the company’s long-term commitments and consider any significant barriers to achieving them.
Establish Program Governance

Sound governance puts in place the continuous program oversight needed to ensure that ESG considerations become institutionalized through strategic and operational processes.

The three key elements of ESG governance are:

- **Metrics** to monitor and measure progress toward ESG goals and to support related disclosures
- **Board oversight and responsibilities** for realizing and integrating ESG goals into operational processes
- **Internal structure** such as the ESG executive committee and operational ESG team tasked with managing the program, executing on ESG activities and being accountable for meeting ESG commitments
Example governance structure to sustain ESG

ESG Governance Structure
Illustrative Example

Board members may choose to arrange themselves into a single “Corporate Responsibility” committee or issue-specific committees such as compensation, sustainability, risk and governance.

- Senior leaders, led by the GC and including the CHRO and head of DEI, should define and drive the firm’s ESG strategy.
- This council can meet monthly or quarterly.

The task force should include representatives from functional areas across the organization, meet regularly and be required to make recommendations to the executive council based on their findings.

Ensure a real governance structure, with clear accountability and executive support.
Communicate Your ESG Narrative

An ESG narrative allows the organization to communicate its commitment and impact in ways that matter to the very stakeholders whose expectations influence your agenda.

The narrative elevates your ESG message above the information found in the mix of proxy statements, ESG reports and investor relations websites to share what you’re doing, why, how it matters and the impact of your investments.

Effective ESG narratives include two key elements:

- **Annual disclosures** of timely, reliable and trustworthy data and information related to your ESG goals and the public commitments you’ve made about them

- **An ESG report** that communicates rigorously sourced and high-quality information in a clear and visually compelling manner — created with the help of internal processes built to source and validate the inputs
Conclusion

Competitive, stakeholder and societal pressures are forcing organizations to define a broad-based and strategy-driven ESG program capable of influencing the organization's long-term business model and profitability.

Organizations must prepare now and have a long-term plan to meet increasing ESG expectations by continuously honing their ESG programs using the four key components: stakeholder expectations, goals, governance and narrative.

The prize for organizations that act now will be stronger engagement of ESG-oriented customers, investors and talent, and a more resilient, sustainable company.
Actionable, objective insight

Explore these additional complimentary resources and tools for legal leaders:

- **Research**
  - **Board Briefing for Building an ESG Program**
    - Deliver a clear and concise briefing on the first steps for building an ESG program.
    - **Download Template**

- **Research**
  - **General Counsel Leadership Vision for 2022**
    - Explore key actions for GCs and their teams.
    - **Download Report**

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