



From Data to Decisions:

Unlocking ESG Value

with Assurance Services

WHITE PAPER

What is ESG and Why Is It Important?

ESG refers to a set of metrics that can significantly impact a company's sustainability and long-term performance.

The acronym ESG stands for the three key components related to the impact that a company has on the environment, social standards, and good corporate governance.

A 2022 report by the Intergovernmental Panel on Climate Change (IPCC) paints a clear picture of the effects of climate change and

the actions that are needed to counteract it. Global warming leads to heat waves, precipitation, and droughts that are increasingly intense and more and more frequent.

According to the IPCC, the goal set in the 2015 Paris Agreement for all nations to reduce greenhouse emissions (to keep global warming below 1.5° C by 2100) is unlikely to be met, as this threshold is already expected to be exceeded by 2030.

Sustainability and Cybersecurity

Climate change and the need for efficient use of resources are also driving digitalization. But the more we depend on data-driven processes, the more advanced protection is needed against cyber criminals. Businesses are now also being called upon to include information-security measures in their sustainability strategies. It is important to ensure the availability, integrity, and confidentiality of sensitive data — not only in emergencies, but also to improve the resilience of regular operations.

Sustainable Health Promotion

Negative outcomes in health care and employee well-being should also be considered as sustainability risks. In light of the recent pandemic, many people are now suffering from social and health burdens. High sickness rates and critical staff shortages are the result

Similarly, negative world events, such as terrorism, war, and natural disasters, can increase anxiety among the workforce . By addressing the mental health needs of their employees, companies can strengthen the resilience of the organization and its ability to respond successfully to crises — and even emerge stronger from them.

Increasing Pressure to Act: The ESG Revolution

The introduction of standards for sustainable and future-proof business is more important than ever. This guide discusses the basics involved in implementing the three ESG dimensions (environment, society, and governance), as well as the potential of tried-and-tested standards.

CSR vs. ESG

Corporate Social Responsibility (CSR) strategies focus primarily on companies' social engagement and working conditions in the supply chain, whereas ESG activities go deeper. In response to the desire for strategic reinvention, they intervene in operational processes in order to adapt the core business to changing ecological and social ecosystems.

Overview of the Three ESG Areas

Environmental (E)

Focus on environmental risks with a direct impact on the business model

- ▶ Local extreme events due to heatwaves, floods, storms, forest fires
- ▶ Water scarcity, resource scarcity, supply bottlenecks due to crop failures, drought, etc.
- ▶ Air pollution, toxins, lack of biodiversity
- ▶ Inadequate recycling (metal fires caused by used electrical appliances, etc.)

Strategic Approaches

- ▶ Reduce carbon emissions (in production, in energy purchasing, in the supply chain)
- ▶ Limit use of hazardous chemicals and restrict land use in the supply chain
- ▶ Use renewable energy sources
- ▶ Reduce waste

Social (S)

Focus on social risks through networked action among stakeholders

- ▶ Working conditions that do not meet the criterion of ethical responsibility
- ▶ Lack of occupational health and safety measures
- ▶ Non-sustainable incentives
- ▶ Reputation/image crises due to misconduct by internal or external stakeholders

Strategic Approaches

- ▶ Selecting suppliers and partners who comply with social standards
- ▶ Avoiding products manufactured under questionable working conditions
- ▶ Supporting stakeholders who promote diversity and anti-discrimination

Governance (G)

Focus on quality standards, leadership culture, transparent decision-making

- ▶ More stringent requirements for ESG reporting, against "greenwashing"
- ▶ Information and IT security as tools against cyberattacks
- ▶ Weaknesses in quality management and risk management
- ▶ More stringent customer requirements with regard to compliance, sustainability, and occupational health and safety

Strategic Approaches

- ▶ Use of management systems to increase quality, energy efficiency, environmental performance, mental health, etc.
- ▶ Reporting of ESG activities and analysis of environmental impact
- ▶ Trustworthy key figures (i.e. carbon accounting) and information as result of certification



1. A Revolution in Business Priorities

In the not-too-distant past, many organizations saw ESG measures as a distraction from their core businesses, but stakeholder requirements are undergoing a major shift. Reducing greenhouse gas emissions, using clean and safe energy, protecting the environment, and showing social responsibility are all now factor into the organizational priorities of any savvy company.

2. Corporate Governance: Decisions for Greater Sustainability

Large companies and original equipment manufacturers (OEMs) are leading the way on higher sustainability standards, and they are passing these requirements on to their upstream and downstream supply chain. A local event can trigger regulation, which can, in turn, have a domino effect on an entire global supply chain including that region. Companies that have not yet incorporated the three ESG dimensions into their business model will find it more difficult to adapt quickly — and may lose their competitive edge.

Currently, most risk environments are undergoing major changes, moving from a view that focuses on short-term performance to one that favors long-term resilience. Consumers, investors, regulators, ESG-rating agencies, and financial institutions are increasingly questioning the misleading practice of “greenwashing” (marketing polluting technologies as green or sustainable), and are attaching greater value to companies that are demonstrably improving the ecological, social, and transparency aspects of their core processes.

An ESG strategy can be implemented only in stages, given its complexity and direct impact on supply chains. It is important for organizations to be aware of their own strengths and of the industry or customer requirements in order to return the respective focus of the ESG levels to the core processes.

ESG in Stages

How can companies strengthen their resilience to climate change and other threats?

A prerequisite is an analysis of which ESG measures lend themselves to the business model, and which weaknesses in the organization and supply chain might prevent this.

III. Integration and Impact

Synchronize ESG activities with relevant core processes

II. Commitment

Verifiable ESG projects lay the foundations for an ESG strategy

I. Risk Awareness

Listing and preventing environmental hazards and sustainability risks

I. Risk Awareness

Gaining an awareness of sustainability risks is the first stage of the ESG process. Operational processes can be made more resilient by developing skills to identify and understand environmental, social, and economic risks in the supply chain. The risk analyses of proven management-system standards can help. Most standards require lists of critical processes to be developed. These provide a basis for decision-making on the extent to which ESG activities can be used to enhance core processes and competencies. It is important to minimize the impact on the business model and certainly not to endanger it economically. Stabilizing the core processes avoids the necessity of making hasty, ad hoc decisions.

- ▶ Anticipate external risk factors and opportunities
- ▶ Consider industry trends aimed at increasing sustainability
- ▶ Identify financial and staff resources for ESG projects
- ▶ Define the minimum standards in your company

II. Commitment

In Stage II , the organization starts to promote — and identify with — internal and external sustainability projects. At this stage, most initiatives will still be outside the core business. The requirements get introduced into the organization as new benchmarks in order to build up the necessary knowledge and resources.

- ▶ Identify sustainability trends that impact business operations
- ▶ Define sustainability targets that are above industry standards
- ▶ Identify strengths which have particular potential for improving sustainability
- ▶ Formulate sustainability policy, and promote it to stakeholders

III. Integration and Impact

In this stage, the focus areas (environmental protection, social standards, good corporate governance) will be applied to the relevant processes of the core business. The company's products and services should have a positive impact on all three areas. Customers and suppliers will often inquire about this. This will, in turn, raise the sustainability level of the industry as a whole.

- ▶ ESG activities take place in all areas of the company
- ▶ Investment decisions and resource allocation meet sustainability criteria
- ▶ ESG activities are verifiable based on performance indicators
- ▶ Incentive programs for employees and partners in the supply chain

3. Quality Management Best Practices

The well-known PDCA cycle (Plan, Do, Check and Act) used in many management systems has also proven effective in implementing ESG goals in operational processes. The quality management principle of continual improvement is especially suitable for long-term quality improvement projects. By making regular improvements to ESG performance, companies can respond more flexibly to rapidly changing environmental conditions and regulatory environments.

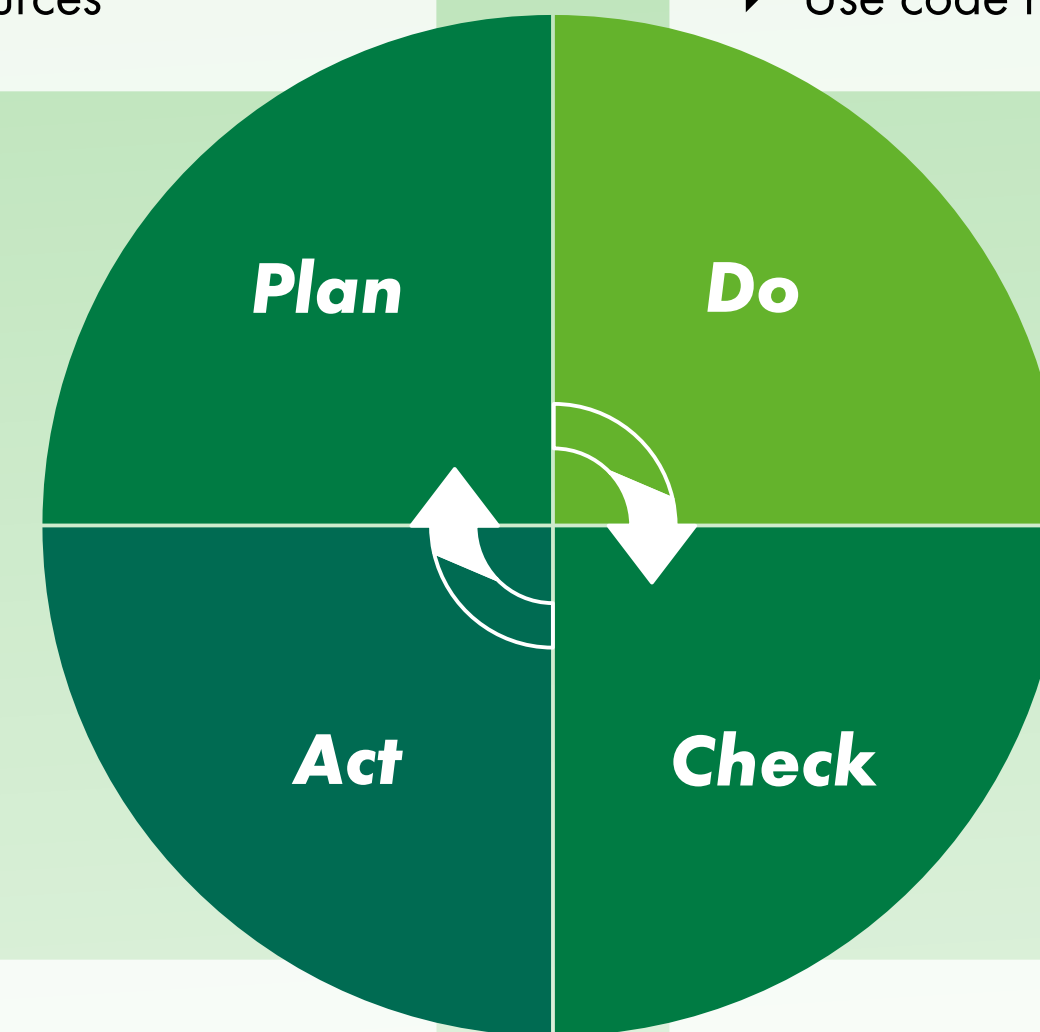
After proactively deciding on a package of ESG measures and identifying the most beneficial areas for the company (e.g., lower carbon consumption by the vehicle fleet, use of renewable energy sources, packaging made from sustainable sources, transparent reporting), iterative execution of the PDCA cycle is recommended. This is continually readjusted until the sustainably defined core process has become the operational standard (and part of a more robust business model).

Practical Tip

- ▶ Set meaningful KPIs that are linked to the business model
- ▶ Use scientifically proven KPIs and data analytics to assess progress
- ▶ Also set short-term milestones to enable rapid adjustments to the PDCA cycle

- ▶ ESG requirements of all stakeholders (internal/external)
- ▶ Evaluate industry standards/benchmarks
- ▶ Determine resources

- ▶ Determination of ESG level
- ▶ Which areas benefit most?
- ▶ Pilot project for core processes
- ▶ Use code numbers



- ▶ Is the ESG process suitable for use as a standard?
- ▶ Verifiable improvement?
- ▶ Communicate lessons-learned to stakeholders

- ▶ Analysis and measurement of effectiveness
- ▶ Adjustment of ESG targets
- ▶ Integration of further processes, if necessary



4. Management Systems for Implementing ESG

Stable core processes are a prerequisite for companies becoming more agile. At the same time, the processes need to be continuously improved and capable of being adapted to the dynamic market environment at any time.

Management system standards can help. They set the basic course for doing business with a view toward risk management. They can also improve cost efficiency because they focus on the quality of essential operational processes. This can allow companies to lay the foundations for an effective sustainability strategy at the same time.

→ Management systems can help solve the apparent dilemma of reconciling business success with sustainability. Management systems provide agility and process orientation in helping companies to implement their own goals.

Management systems, such as **quality (ISO 9001)**, **energy (ISO 50001)**, **environment (ISO 14001)**, **occupational health and safety (ISO 45001)**, and **information security (ISO 27001)**, lend themselves particularly well to establishing a sustainability strategy. The inherent structured approach, tailored to the needs of the company, helps maintain a high-level view of the dynamic risk environment and to implement changes in a consistent manner. This significantly reduces the amount of coordination needed to realign the processes and to measure and evaluate the results.

***Best Practices:* Demonstrating Assurance of Global Management Systems With DEKRA**

DHL

The international logistics and shipping company DHL Freight had its global management system certified to ISO 9001 (quality management), ISO 14001 (environmental management), and ISO 50001 (energy management). Then, DHL set an ambitious goal in their 2020 Freight Strategy: zero emissions in logistics.

In 2020, integrating a requirement like this with their ISO 50001 energy management system certification was still relatively rare in the logistics industry. The CEO of DHL Freight, Uwe Brinks, remarked, "This shows that DHL is in compliance both with the EU Energy Efficiency Directive and the self-imposed goals of the groupwide Go Green environmental protection program and the mission of achieving zero-emissions logistics by 2050." The combined global management systems enabled DHL to meet its sustainability and quality targets.

Hilton

Hilton recently became the first global hospitality business to achieve portfolio-wide energy management system certification to ISO 50001, according to company representatives. The certification, achieved following a comprehensive upgrade to LightStay, the company's corporate responsibility performance measurement platform, complemented its existing ISO 9001 and ISO 14001 management systems.

With its three portfolio-wide ISO certifications, Hilton is a striking example of how businesses can use ISO standards to manage their operations in an effective and sustainable way.

Creating Risk-Oriented Management Systems Through Intermeshing

Around 300,000 companies and organizations of all sizes and from all industries are certified to the ISO 14001 environmental management system standard worldwide. The uniform High-Level Structure (HLS) of ISO standards (including ISO 14001) allows companies to combine a number of different management systems, simplifying how they can work together.

Environmental

▶ **Energy Management ISO 50001:**

An energy management system based on ISO 50001 allows companies to place energy efficiency at the heart of their business activities. Before the technical implementation takes place, it is important to define the main consumers of energy, the principle energy performance indicators, and the starting energy baselines. The standard also includes provisions for relevant partner companies and their energy management system requirements.

▶ **Environmental Management ISO 14001:**

The aim of this standard is not to reduce energy consumption, but to improve overall environmental performance. This takes into account all environmental impacts (raw materials, waste generation, carbon emissions, ecological impact, etc.). The key components of an ISO 14001-compliant management system are: defining environmental goals, implementing measures to meet these goals, reviewing results against the environmental policy, and making continual improvements at both the operational and product level. Companies can benefit from lower raw material costs, new KPIs for managing environmental performance, and risk-management procedures.

▶ **Greenhouse Gas Protocol and ISO 14064:**

Global climate-protection agreements to reduce greenhouse gas emissions require measuring the corporate carbon footprint, including greenhouse gas emissions in the supply chain. This requires correct delineation and accounting of direct and indirect emission sources. Here, the Greenhouse Gas (GHG) Protocol uses the criteria of relevance, completeness, consistency, transparency, and accuracy,



all based on appropriate accounting standards. The three parts of the ISO 14064 International Standard on Greenhouse Gases provide clear guidance and requirements for quantifying and verifying greenhouse gas emissions in a GHG inventory at both the organizational and project levels. ISO 14064-1 is the basis for accounting for a company's greenhouse gas emissions, i.e., for establishing its Corporate Carbon Footprint (CCF). Businesses can use it as the basis for their own climate policy and for making energy savings.

Social

▶ **Occupational Health and Safety Management ISO 45001 and ISO 45003:**

These standards improve organizational resilience and strengthen the underlying values that create a positive working environment. The number of work-related accidents has been declining; however, mental health hazards in the workplace are increasing. To ensure that mental health risks

are managed at all levels of the organization, the new ISO 45003 standard supports employers by providing guidance on how to identify and manage the psychosocial risks faced by their employees. ISO 45003 is not a certifiable standard; however, compliance can be independently assessed (either on its own or in combination with ISO 45001 certification).

Governance

▶ **Quality Management ISO 9001:**

ISO 9001 is the basis of all quality management system (QMS) standards by consistently ensuring a high quality of products and services. At the heart of the standard are economic, sustainable, and user-friendly operational processes. One of the key features is a risk-based approach, which identifies opportunities and potential threats, develops appropriate measures, and evaluates their effectiveness.

► **Information Security ISO 27001:**

An integrated information security management system (ISMS) is the foundation for the secure handling of data and information in an organization. Most information security standards are now derived from this international standard.

If businesses have introduced a QMS based on ISO 9001, and the critical processes and components for handling data are already being monitored, there is already a good basis for an integrated information security management system in accordance with ISO 27001. This involves understanding and documenting relevant business processes, as well as an inventory of all equipment and system components that are related to data or information processing.

► **TISAX® (Trusted Information Security Assessment Exchange):**

The TISAX assessment and exchange mechanism, founded in 2017, is based on the information security assessment requirements of the German Association of the Automotive Industry (VDA), which is largely based on the ISO 27001 standard. The platform offers members across the value chain standardized assessment of their information security status, which they can then share with partners throughout the automotive industry.

TISAX distinguishes between three different protection classes and assessment levels. These levels depend on the information security needs of the application. DEKRA is a certified provider for carrying out assessments and issuing test certificates in accordance with TISAX. Our audits are recognized by international manufacturers, suppliers, and service providers throughout the global automotive value chain.



Conclusion

- ▶ Ecological, social, and economic crises around the world, paired with new reporting and compliance requirements, are increasing the pressure on companies to introduce standards for doing business sustainably.
- ▶ The first priority is to identify an organization's own risks and strengths, as well as industry and customer requirements with regard to the three ESG dimensions: environmental, social, and governance.
- ▶ ESG measures have a lasting effect if the key factors and risks in a company's business model are recognized and understood.
- ▶ Given the direct impact on the upstream and downstream supply chain, it is most effective if the ESG strategy is implemented in stages: (1) risk awareness, (2) decision to adopt ESG measures in pilot projects, and (3) integration into the business model.
- ▶ A regular improvement process (PDCA cycle) allows businesses to react more flexibly to rapidly changing environmental conditions and stricter regulations.
- ▶ Management systems based on internationally-proven standards are a strong foundation for risk management and sustainable governance. Suitable management systems upon which to build sustainability strategy include quality (ISO 9001), energy (ISO 50001), environment (ISO 14001), occupational health and safety (ISO 45001), and information security (ISO 27001).
- ▶ Accredited verification or certification provides a high level of assurance to stakeholders and allows organizations to confidently promote their ESG best practices.

Do you want to learn more about sustainable management systems and how they can support your sustainability strategy?



For more information, visit

 dekra.us/audit