ESG Performance:

DEMONSTRATING PERFORMANCE AND
DRIVING BUSINESS VALUE

In an increasingly interconnected world on the cusp of positive change and, at the same time, rife with uncertainty, stakeholders want true visibility into companies' activities and impacts on the environment, people and the world around them. Gaining momentum over the last decade and particularly in the last five years, environmental, social and governance (ESG) reporting is a way for companies to share performance beyond financial results and better assess investment risks and opportunities associated with impacts and contributions on the environment, people and communities.

A growing contingent of stakeholders including investors, governments, employees and consumers demands that companies disclose a breadth of sustainability, social responsibility and risk data in addition to their regular, annual financial reporting regimen. Companies report to well-known frameworks like the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD) to share this critical nonfinancial information that could impact long-term viability. Consider, for example, the potential risk to a business if:

- Litigation occurs in response to products that cause consumer health problems.
- Disruptions to business continuity occur due to climate change events that interrupt delivery of critical supplies.
- Businesses fail to retain top talent based on inequitable hiring and promotional policies.

In an ever-changing, interconnected world that presents new responsibilities and vulnerabilities to businesses of all kinds, ESG reporting divulges key nonfinancial performance attributes that provide visibility into a company's true risks, impacts and potential.

In this white paper, we will:

- Explore critical components of ESG reporting specific to manufacturers of building materials and furnishings.
- Consider the requirements for embarking on a successful ESG reporting journey
- Understand how proactive management of your products' sustainability contributes to your ESG strategy
- Identify resources to facilitate the process

Through ESG reporting, you can take steps to achieve the kind of visibility that engenders trust among stakeholders and benefits you with a profound understanding of your business.

ESG reporting is a requirement for leading businesses

The overall value of assets under management at funds leveraging ESG data has increased significantly from **$22.9 TRILLION (USD)** in 2016 to over **$40 TRILLION (USD)** in 2020.[1]

60% OF COMPANIES plan for an increase in budget allocation to further ESG reporting capabilities.[2]

According to a survey of nearly **300 SENIOR DECISION MAKERS** at buy-side institutions from Ernst & Young,

98% OF INVESTORS evaluate nonfinancial performance based on corporate disclosures.[3]

ESG performance criteria

ESG reports select nonfinancial metrics that have clear financial relevance. Some of the aspects evaluated include health and safety policies, efficient use of resources, policies that appeal to consumers and potential employees, and supply chain diversity. Ultimately, these decisions impact a company's ability to retain business, ensure business continuity and position themselves for long-term viability in the marketplace.

ESG reporting covers a great deal of performance territory, providing a more comprehensive profile of business impacts. ESG reports cover major areas of performance, including:

Environmental

- Climate change, carbon and GHG emissions
- Air and water quality
- Biodiversity
- Deforestation
- Energy efficiency
- Sustainable material management

Social

- Data protection and privacy
- Gender and diversity
- Employee engagement
- Community relations
- Human rights
- Labor standards
- Customer satisfaction

Governance

- Board composition
- Audit committee structure
- Executive compensation tied to ESG outcomes
- Bribery and corruption policies
- Lobbying and political contributions

Stakeholders drive sustainability disclosure, while investors drive ESG reporting

Many stakeholders have a growing interest in overall corporate sustainability performance, while many of the largest institutional investors are interested in the subset of ESG issues that are more relevant to direct financial outcomes. Consider the ecosystem of players and the growing demand for nonfinancial performance metrics.

Investors

A growing number of investors are demanding ESG reporting. Companies that fail to report or who report poor performance risk divestiture.

91% of institutional investors surveyed said that nonfinancial performance has played a pivotal role in their investment decision-making.[iv]

Buyers/ retailers

Increasingly referenced in procurement guidelines, buyers and retailers are purchasing from suppliers that offer sustainability or ESG reporting and transparency.

65% of retailers in 2020 disclosed carbon reduction targets in their reporting, compared with only 46% in 2017.[v]

Regulatory requirements

A growing number of governing bodies at the federal and local levels are advancing legislation that mandates sustainability or ESG reporting.

There are approximately 600 sustainability reporting instruments in 64 countries, more than half of which are mandatory.[vi]

Operating performance

The process of evaluating key nonfinancial performance metrics often results in the identification of opportunities for operational efficiency, cost savings and/or new business models.

ESG evaluations can help combat rising operating expenses, such as raw-material costs and the true cost of water or carbon, that can affect operating profits by as much as 60%.[vii]

NGOs

Nongovernmental organizations (NGOs) are working to grow awareness around sustainability broadly and indirectly imposing pressure from consumers and other stakeholders, urging companies to adopt sustainability or ESG disclosure.

NGOs are perceived as more ethical than other institutions, including business, media and government.[viii]

Consumer choice

Consumers are voting with their purchases and demonstrating loyalty to companies that achieve superior sustainability performance.

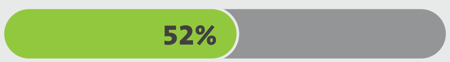
77% of consumers surveyed globally believe it's importantbt that brands are sustainable and/or environmentally responsible.[ix]

Businesses realize big benefits from ESG reporting

Regardless of the financial impetus/ environmental for ESG reporting, enterprises that have done so for several years report significant benefits. ESG reporting delivers insights and efficiency that businesses recognize as essential to their long-term success.

Businesses agree that ESG reporting generates business benefits[x]

52% reported reduced waste and costs from improved operational efficiencies



52% reported enhanced corporate reputation and brand image.

49% reported improved risk management and monitoring of long-term risks.

Consider some of the due diligence required to deliver ESG reporting and the visibility it provides into their business:

BENEFIT	SAMPLE DISCLOSURE – FURNITURE/BUILDING MATERIALS	EXPLANATION
Reduced risks	Disclose processes to manage chemicals of concern in products.	Identify and reduce use of chemicals of concern, mitigating risk of products causing harm to human health, which could trigger legal action.
Cost savings	Monitor and report on total energy consumed and percentage of renewable energy used.	By closely tracking energy use, companies can gain insights into areas where energy is being wasted and opportunities for reduced use and, therefore, cost savings.
Greater visibility/ operational insight	Monitor and report on material efficiency in product and landfill waste diversion.	Discover opportunities to design for zero waste manufacturing, reducing cost and risk.
Brand trust	Disclose percentage of eligible products that meet VOC emissions and content standards.	Earn brand trust by delivering more products that support safe, indoor environments and human health.
Improved environmental performance	Evaluate the carbon footprint associated with a product throughout its entire life cycle.	Identify opportunities to develop and deliver products with reduced environmental impact, appealing to today's buyers.
Lower cost of capital	More robust disclosure and better ESG performance can lead to higher ESG scores provided by raters like MSCI.	On average, companies with high ESG scores experience lower costs of capital compared to companies with poor ESG scores — in both developed and emerging markets — which also correlates with above market valuation and profitability.[xi]

In an age when trust is difficult to earn, ESG reporting provides credibility through transparency.

Navigating the landscape

As interest in sustainability surged, leading NGOs, alliances and businesses began to identify ways to offer meaningful insights into environmental performance. Some of these, including the Sustainability Accounting Standards Board (SASB) and the Global Reporting Initiative (GRI) are guiding companies on the best way to present data in ways that allow for an equitable comparison of performance. The UN Sustainable Development Goals (SDGs) outline bold sustainability objectives that should be considered and incorporated into government and even business ESG strategies. Other rating programs like the Carbon Disclosure Project (CDP) focus on specific disclosure domains — carbon, forestry and water — that are in turn incorporated into ESG analyses.

A multitude of ESG research and rating firms have emerged from leaders' desire to take urgent action in their spheres of influence. These organizations include players like Sustainanalytics, S&P Global, CDP and Bloomberg among others. However, harmonization efforts are underway.

The SASB standards

An estimated 228 institutional investors representing $72 trillion (USD) assets under management, support SASB and the use of SASB standards to inform their investment decision-making.[xi] The SASB standards are particularly valuable for businesses given that they outline specific accounting metrics relevant to each industry based on their business models, materials of relevance and particular sustainability challenges. As an example, product quality and safety prove much less critical to mining companies than they do to retailers who need to ensure the products they sell do not result in harm to consumers. Likewise, mining companies may have a greater focus on employee safety protocols than a financial services company. By taking into account the type of business and innate risks, SASB has identified and outlined specific sustainability criteria that are closely linked to financial performance in 11 sectors, covering 77 industries. SASB's **Materiality Map®** outlines the different criteria for each industry.

Initiating ESG reporting in your organization

Navigating the ESG landscape may seem complicated, but with some foundational knowledge, companies can embark on the journey toward streamlined ESG reporting and, as a result, greater sustainability and more secure overall business performance.

Consider some foundational components that need to be in place to position your company for success as you initiate or contribute to ESG reporting:

Digitize data

Investors are asking companies to disclose ESG metrics because they see the link between ESG performance and financial outcomes. Business leaders are well advised to treat their ESG data as they do their financial data — deploying digital technologies that also enable them to spend less time collecting, sorting and cleaning up data collected in spreadsheets from multiple functions around the company and more time on strategic analysis.

Alignment of incentives

As companies shift from a mindset of pure financial performance to overall risk, opportunity and impact, they must incentivize leaders and employees to pursue ESG reporting. This means, rather than incentivizing behaviors that are exclusively motivated to achieve superior profitability or higher revenues, companies are now adopting measures such as integrating ESG outcomes into executive compensation plans as many leading enterprises have done.

Internal collaboration

Achieving sustainability requires a team effort. Everyone in the organization must be part of the solution with cross-functional collaboration among HR, finance, procurement, supply chain, investor relations, product development, facilities, EHS and corporate counsel.

Third party evaluation

Investors and customers seek credible, decision-ready data. Third party assessment provides reliable, independent evaluation that lends credibility to the details and specifics delivered in ESG reports.

How an organization's functions contribute to ESG reporting

ESG reporting requires a collaborative effort across the entire organization to capture data and assess performance. It demands true reflection on key performance areas across the organization.

Strategy and reporting	Assess sustainability risks (disruptions due to climate change events) and opportunities (reduced carbon footprint).
Governance	Align the company's governance to support environmental and social performance goals. Consider: • Does the bonus structure incentivize these achievements? • Is the board prioritizing/holding management accountable for ESG accomplishments? • Do company policies address social issues such as gender pay gap, diversity and inclusion, responsible sourcing, and whistleblowing?
Operations	Ensure systems and processes in place enable execution throughout the entire organization at all levels. Consider: • Are systems in place that allow for data collection across the supply chain? • Are you capturing data to assess sustainability performance for the company and third parties? • Are you promoting and communicating your sustainability objectives across the company and requiring compliance? • Are you regularly assessing performance and compliance to standards across the operation?
Product and sales	Determine if products/services align with sustainability goals and commitments. Consider: • Do products offer reduced environmental and human health impacts in their design, production and distribution? • Is the company pursuing third-party certifications for objective proof of sustainability performance? • Are company sales and marketing practices honest and transparent and in accordance with U.S. Federal Trade Commission (FTC) and similar consumer protection guidelines and best practices?

The role of products in your ESG strategy

Focusing in on product sustainability, manufacturers of building materials and furnishings can aim to decarbonize the entire value chain, significantly reducing their carbon and water footprints. By expanding efforts to cut carbon, not only through operational carbon reduction (scope 1 and 2 emissions) but through a decrease in scope 3 emissions, companies can construct a more comprehensive story of their reduction of global greenhouse gas emissions.

Review the opportunities for sustainability action that manufacturers have during the different phases of the product life cycle and how UL can be of assistance.

How UL can help

As you initiate your ESG reporting strategy, we can provide you with support through advisory services when designing novel approaches to sustainability goals or striving for supply chain transparency or by providing trustworthy, science-based testing and certification to communicate sustainability accomplishments with confidence. We offer a range of solutions to support you in all phases of the ESG process.

DESIGN

- Use life cycle assessment to inform material selection and design decisions about products for better overall environmental impact data that is reflected in the EPD.
  EPDs
- Use Failure Mode and Effect Analysis (FMEA) to design longer lasting high performance products. Design product for reduced energy use, easy recycling reuse, refurbishment, overall reduced environmental impact
  Advisory services
- Manage chemicals used in products for health and safety throughout the value chain.
  WERCSmart®, compliance services

MANUFACTURE

- Track and reduce carbon emissions during supply chain selection and manufacturing process
  UL 360, Turbo Carbon™
- Reduce waste during manufacturing process or building management
  Turbo Waste, 2799 ZWTL validation
- UL helps ensure supply chain visibility to verify manufacturers' labor and environmental practices
  Advisory services, training, supply chain audits
- Ensure performance, quality, and compliance of products
  Testing and inspections
- Pursue third party certifications, validation, verification of quality, environmental attributes, and performance
  GREENGUARD Certification, UL ECOLOGO® Certification, Environmental Claim Validations, EPDs, Greenhouse Gas Verification, Environmental Claim Validations

DISTRIBUTE

- Assess supply chain environmental impact
  Turbo Carbon™
- Verify packaging safety and performance as well as environmental impact
  Packaging Testing

USE

- Provide ecolabelling on product or marketing materials that communicates VOC emissions, lifecycle impacts, or specific attributes of buyer interest
  UL SPOT® database, through retailer greener product portfolios

RENEW

- Invest in or implement recovery programs to recycle, reuse, or refurbish whole product, components, or materials
  Environmental Claim Validation for Closed Loop program or % refurbished/reused

Conclusion

In an age when trust has been eroded in an environment of uncertainty, counterfeit information and unsubstantiated claims, verified ESG data rebuilds a foundation of trust in businesses, products and services, and ecosystems. Whether you're exploring the potential for ESG reporting to attract investors or adding to your core ESG initiatives already in place, we are there to support you with science-based solutions and expertise. Managing and reporting on these key nonfinancial key performance indicators (KPIs) helps deliver greater visibility into your business and incorporates performance that can help your company thrive in an ever-changing world.

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