



# Environmental, Social and Governance (ESG)

Why It Matters!

## Our Panel



**Mary Tressel**  
*Director, San Ramon, CA*  
[mary.tressel@armaninollp.com](mailto:mary.tressel@armaninollp.com)

Mary is a Director in Armanino's Environmental, Social, Governance Services practice and is located in San Ramon, California. She successfully led Armanino's B Corporation certification journey.



**Bianca Sarrach**  
**MBA, CIA, CFE, CFSA, CRMA**  
**Partner, Atlanta, GA**  
[bianca.sarrach@armaninollp.com](mailto:bianca.sarrach@armaninollp.com)

Bianca is a Partner in Armanino's Risk Advisory and Assurance Services practice and is located in Atlanta, Georgia. She has over 16 years of experience in third-party compliance, risk management, sustainability, internal controls assessments and implementation, process analysis, and assurance services.



**Kris Russell**  
*Senior Manager, Dallas, TX*  
[kris.russell@armaninollp.com](mailto:kris.russell@armaninollp.com)

Kris is a Senior Manager in Armanino's Environmental, Social, Governance Services practice and is located in Dallas, Texas. Kris has over 25 years of experience in leading sustainability programs.



**Tamika Mitchell**  
**MBA, MHA, CIA, CFE**  
**Manager, St. Louis, MO**  
[tamika.mitchell@armaninollp.com](mailto:tamika.mitchell@armaninollp.com)

Tamika is a Manager in Armanino's Risk Advisory and Assurance Services practice and is located in St. Louis, MO. Tamika is a DEI Expert in Residence for St. Louis University and has 16 years of experience providing internal audit, consulting, and compliance services.

ARMANINO

# Agenda

The E, The S, The G – Explained

Good Business: Understanding ESG's  
Opportunity to Drive Value

The Financial Executive's Role in ESG

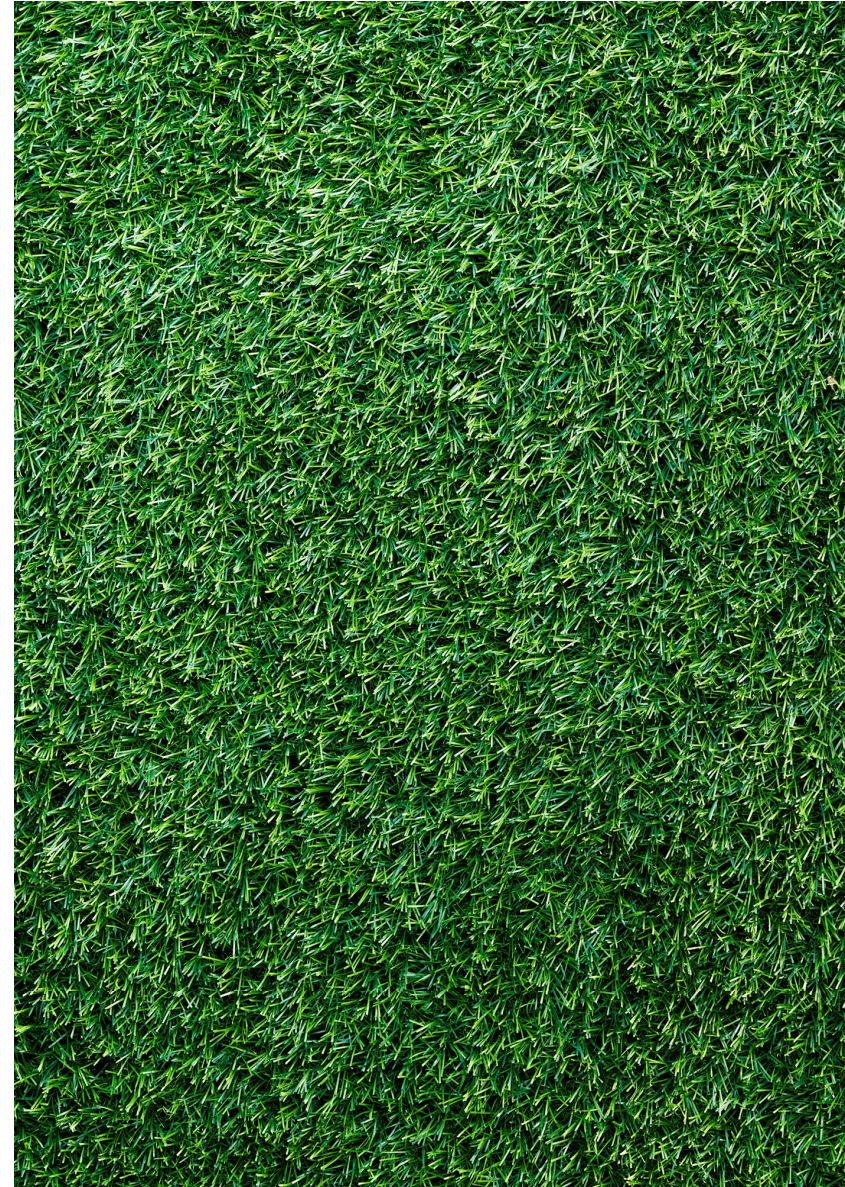
# The E, The S, The G - Explained



# What is ESG?

**ESG is an acronym for Environmental, Social, and Governance Criteria, Standards, and Performance**

- Represents key environmental and social issues for sustainable growth
- Businesses and investors that have embraced ESG are actively looking for ways to reduce their environmental footprint, improve their governance structure, and respond to social issues
- Research shows a positive relationship between ESG performance and financial performance



KEY ESG ISSUES IN 2022

## What are the top 3?

### ENVIRONMENTAL

#### Climate Change

Disclosure of annual carbon footprint

Net Zero-aligned Business Plan

Reduction Targets for Scope 1 and Scope 2 Emissions

### SOCIAL

#### Diversity, Equity, Inclusion

Disclosure of Workforce and Leadership Diversity

Employee Engagement

Pay Equity

### GOVERNANCE

#### Board Oversight and Composition

Disclosure of Board Diversity

Full Board or Committee Oversight Responsibility

Expertise on Business-relevant ESG Issues

# The Case for E = Environment



Energy Trends 2006 - 2020

## Dallas Fort-Worth Airport - Environment

**-50%**

Energy Cost (\$)

**-10%**

Total Consumption

**+76%**

Renewables

NOTE: Includes electricity, transportation fuels, heating fuels, and fire training fuels

# The Case for S = Social

## Lenovo

### Situation:

- Conducted a global survey of 5,000 in China, the U.S., the UK and Germany
- Instituted several DEI programs:
  - Management Diversity Assessments
  - Leadership Development Programs for Women
  - New Employee Training on DEI Commitment
  - Global Awareness Tool
  - Supplier Diversity Program
  - Product Diversity Office

### Results:

In 2020, as diversity in Corporate America decreased, Lenovo increased

- Women in executive roles – 21% (3% gain)
- Traditionally underrepresented racial and ethnic groups in executive roles in the US – 29% (2% gain)

Lenovo's workforce = 63,000



# The Case for G = Governance



## **Situation:**

- Victim of worst cyber espionage case in history that infiltrated government clients, including Department of Defense, Homeland Security and the State Department.
- SolarWinds created a patch and added security contacts for customers – team members who were on “speed dial” 24/7 to ensure immediate assistance.

## **Result:**

In the first three-month period after the attack was detected, the company’s revenues grew to \$256.9M, a 4% year-over-year increase

Good Business:  
Understanding ESG's  
Importance to Drive  
Value



# Why understanding ESG risk and performance matters?

## Who?

Peabody Energy Corporation 2011 → stock price soaring to more than \$1,000/share

## What happened?

- Global imperative to limit greenhouse gas emissions
- Reduction of the use of coal by electric utilities
- Utilities shifted to cleaner fuels, such as natural gas and expanded use of renewable energy sources

## Outcome?

By spring 2016, Peabody's stock was trading at around \$2, and the company filed for bankruptcy → the speed and magnitude of Peabody's fall caught many by surprise



WHY

## ROI of ESG



### Investor Relations

**\$39B**

invested in sustainable funds in 2021



### Market Share

**69%**

of consumers are willing to pay a premium for transparency regarding product materials



### Operating Saving

**60%**

decrease attributed to effective ESG strategies according to McKinsey study

# Investor Expectations

## Edelman Trust Barometer 2021 | Special Report: Institutional Investors

**01** | **Building ESG trust with investors is an uphill battle.**  
86% of U.S. investors believe that companies frequently overstate or exaggerate their ESG progress when disclosing results, and 72% of investors globally don't believe companies will achieve their ESG or DEI commitments.

**02** | **Investors expect a rise in ESG-related litigation.**  
94% of U.S. investors anticipate more litigation as a result of companies not delivering on ESG promises.

**03** | **Investors are pushing for climate action.**  
94% of U.S. investors expect companies to establish and communicate a net zero plan – however, 92% of U.S. investors are concerned companies are not effectively executing on these pledges.

**04** | **Investors believe that employee activism signals a healthy workplace culture.**  
86% of U.S. investors say a workplace culture that fosters employee empowerment is important for building trust. 74% of global investors believe employee activism is indicative of a healthy workplace culture.

**05** | **Investors hold the Board accountable for company culture.**  
71% of U.S. investors think it is important for the Board of Directors to be held accountable for maintaining a positive company culture.

**06** | **Investors believe aggressive measures of activism lead to change.**  
95% of U.S. investors are interested in taking an activist approach to investing, and 74% indicate they would take aggressive activist measures. 94% of U.S. investors proactively approach activists with ideas for effecting change.

**07** | **Environment and board structure are top activist issues in the U.S.**  
Over 75% of U.S. investors are likely to engage shareholder activism on eco efficiency of a company's operations, environmental impact of supply chain, and greenhouse emissions. 81% are likely to engage on board structure.

**08** | **Retail investors are emerging as the next disruptor.**  
87% of U.S. investors agree that conversations taking place within online communities influence investment decisions and 89% of U.S. investors believe 'Meme Stocks' represent a targeted attack against institutional investors.



# ESG's Importance in Risk Management



# The Financial Executive's Role in ESG



# Strategic Management & Governance

Assist	Assist in building the ESG governance structure → finance knows data on sales, supply chain, customers, etc. that helps assess ESG performance
Embed	Embed ESG in strategic decisions → finance works across functions and business units, and is in a position to lead an organization's ESG reporting and data management programs
Provide	Provide ESG related financial information to board, senior management, task forces and committees
Provide	Provide investor insights/demands/questions to board, senior management, task forces and committees



# Reporting

Increase focus on ESG related risks by stakeholders



Introduction of non-financial disclosures



Investor demand for non-financial information





# Questions?

For more information and resources visit us at  
<https://www.armaninollp.com/services/advisory/environmental-social-governance/>

# Thank you!