



Unpacking ethics and compliance's role in Environmental, Social and Governance (ESG)

It's an ongoing challenge

Driving ESG accountability through Ethics & Compliance

ESG is not a new thing. Facets of what is known as “ESG” today have existed in different shapes and forms for years within organizations as they work to improve basic labor conditions and employ more sustainable business practices. As stated by a North American utility corporate sustainability leader¹: “There is a need to level set between the reality of shareholder understanding ESG to be a single ‘thing’ and how [our company] considers it internally.”

The recent popularization of ESG initiatives has heightened the importance of new frameworks to understand how organizations are operationalizing their sustainability agendas. This spans across measurement, reporting, verification, and monetization of the carbon value chain and the surrounding ecosystem.

Collaboration across targeted business functions regarding ESG is starting to emerge. This highlights the strides

organizations are making toward their objectives—either in response to the evolving dynamics of the ESG landscape (regulatory, commercial, customer, etc.) or as marketplace opportunities emerge. Alongside streamlined accountability, data integration and cultural aspects serve as the core tenets that represent advanced stages of ESG maturity. Together, these tenets help integrate and embed ESG across the organization's DNA.

Navigating the ESG data landscape is often viewed as a demanding challenge and requires a multi-faceted solution: an adaptive strategy, evolving in a phased, iterative manner. Ethics and compliance

(E&C) can help organizations drive data accuracy and bring a risk-based lens to drive prioritization of strategic data integrations required to comply with ESG commitments. End-to-end data integration streamlines enterprise-wide reporting and enables a “one organization” mindset which is critical from a cultural maturity perspective. E&C can further enhance the “one organization” mindset through advancement of organizational policies and initiatives, promoting employee engagement, and driving business outcomes.

E&C functions play a pivotal role in driving accountability, but also help advance the data and cultural facets within ESG.



Deeper look into the role of E&C across the three ESG pillars

The impact of E&C on the three pillars of ESG

Emissions reduction is a significant portion of 'environment-focused' activities



E&C's role in environment:

Where can E&C help? Within the environmental pillar of ESG, E&C functions are positioned to inform the roadmap by establishing net zero goals, helping the organization balance direct carbon reduction. This enables reporting and disclosure progress towards net-zero objectives. Engagement from E&C functions can help trigger a series of compliance-based activities across the organization to help achieve the enterprise-wide emissions reductions targets. Similar to existing regulatory reporting, E&C functions can help breakdown these regulatory and/or corporate obligations within the context of governance, risk, and compliance. Collectively, these internal compliance obligations help uphold integrity and trust to drive accuracy in disclosures. This helps assign accountability of measurement and reporting activities related to the respective methodologies and data aggregation standards across business functions.

In the past, many organizations have been penalized for greenwashing by publicizing cherry-picked, favorable data that exaggerates or inflates the degree to which an organization is driving sustainable, ethical or environmentally friendly initiatives.² With a framework for governance where oversight is layered in, business support functions like E&C are well-positioned to take an ethical lens in reviewing claims before publication. Such oversight can help mitigate organizations' instances of greenwashing and limit exposure to brand, reputational, commercial, and financial risks.

Thus, it is critical for E&C functions to drive transparency and end-to-end accountability in emissions reduction, measurement and reporting processes through governance and oversight (e.g., an enterprise-wide RACI [responsible, accountable, consulted and informed] or GOES [governance, oversight, execution and support] models) as misrepresentations may culminate in greenwashing if left unchecked.

How can E&C functions get started?

- In conjunction with corporate sustainability, develop an "ESG compliance management strategy" anchored on the organization's sustainability targets and aimed to streamline accountability and integration of underlying efforts with a compliance and risk management lens
- Align on compliance operating priorities and cadence, and develop an ESG reporting and disclosure policy
- Collaborate with Legal & Corporate Affairs to establish standards and approval processes to assess messaging and communications to drive confidence in reporting activities across the organization, both internal and external

E&C's role in social (equity):

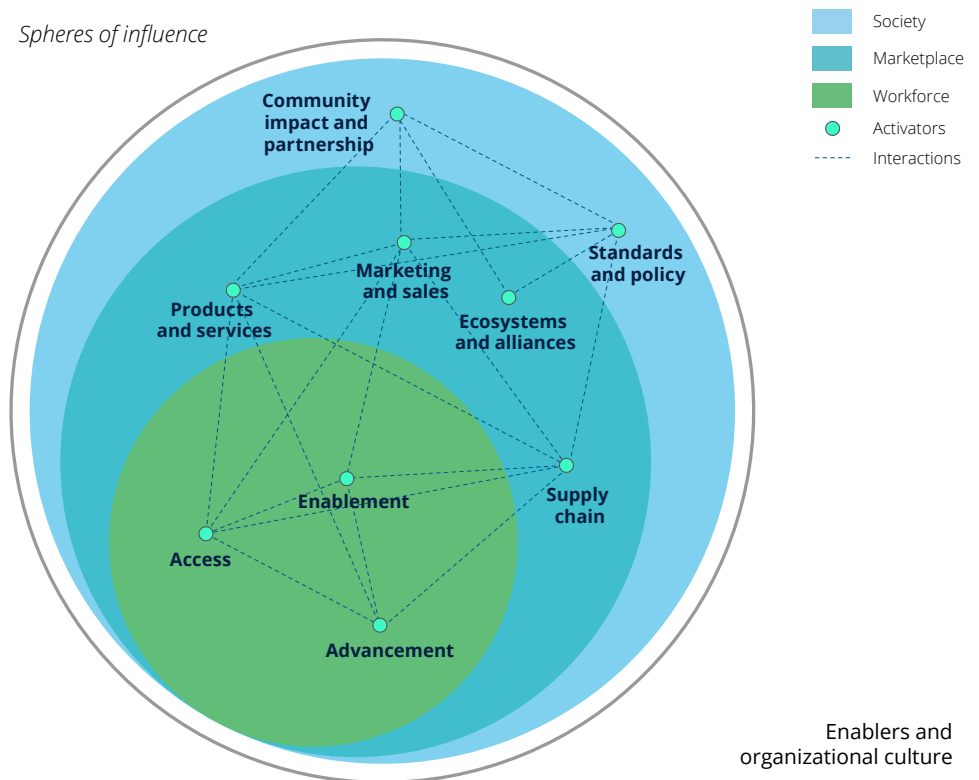
The Equity Activation Model is a systems-based view for how businesses can activate equity within and outside of their own organizations, structured around three primary spheres of influence: workforce, marketplace, and society. Each sphere, in turn, includes multiple activators—specific areas of activity and everyday choices—through which organizations can exert their influence to activate equity.

Where can E&C help? Focusing on equity, ESG is anchored firmly in the ethical and compliance practices businesses adopt, transcending traditional metrics and touching upon human rights, labor standards, community engagement, philanthropy, environmental justice, and racial equity. By integrating these elements into the organization's corporate culture, employee and customer engagement could help drive better ESG outcomes.

The Chief Compliance Officer (CCO) or Chief Ethics and Compliance Officer (CECO) serves as the moral compass of an organization and is accountable for maintaining a strong moral posture. E&C continues to play a pivotal role in helping the organization architect broad investigation processes with just outcomes and protocols that prioritize employee safety and promote diversity, equity, and inclusion (DEI) principles among many stakeholders in the workplace and the community. In its messaging, policies, and training, E&C's role is to instill a 'speak up' culture of transparency and accountability to voice concerns and help build an ethical work environment. In this vein, E&C organically plays a large role in promoting various social and equitable objectives in the organization. E&C functions, especially under the guidance of the CECO, are pivotal in the

The Equity Activation Model

Spheres of influence



operationalization and accomplishments of such social considerations within ESG. For example, in support of a supply chain/procurement function, E&C can analyze supplier diversity data. Additionally, E&C can drive DEI messaging amongst stakeholders and provide confirmation around ethical community engagement.

By actively monitoring, assessing, and revising corporate policies, the CECO and the associated functions can help drive consistent behavior throughout the organization, thereby solidifying the company's standing as a responsible and trustworthy entity in the eyes of investors, consumers, and the broader community.

How can E&C functions get started?

- Develop procurement frameworks in collaboration with supply chains that feature sustainable, equitable, and local community consideration
- Expand compliance education and messaging to suppliers and customers
- Incorporate accountability of performance evaluations and fostering open dialogues about equitable succession planning
- Administer compliance goals within the community and share more ethics-oriented policies publicly

E&C's role in (corporate) governance:

Where can E&C help? Governance, with respect to ESG, refers to the governance factors of decision-making—from policymaking to the distribution of rights and responsibilities among different participants within organizations, including leadership, managers, and other stakeholders. Good governance is core to the prosperity of an organization. It sets the tone at the top, provides directional leadership for stakeholders to follow, and ultimately provides the backbone of an organization's fundamental activities.

Sustainability reporting frameworks and ratings agencies incorporate various governance-related areas by which different

aspects of an organization's performance can be assessed. Examples of these include corporate governance, risk and crisis management, business ethics, and policy influence — four areas that are defined areas of consideration for E&C officers:

Corporate governance: E&C leaders are responsible for instilling clear and actionable governance frameworks and practices that transcend enterprise compliance issues. E&C officers often hold specific positions in risk-related committees, giving the organization a certain lens of support in reviewing the materiality and prioritization of various ESG risks.

Risk and crisis management: E&C practitioners are pivotal in the proactive business continuity measures in preparation

of significant events and equally involved in root cause analysis in the aftermath of a crisis.

Business ethics: E&C sets the tone for the organization with targeted training, communication, and cornerstone policies including codes of conduct.

Policy influence: E&C provides specific governance and oversight in the creation and maintenance of corporate policies touching many areas of the organization.

Specific to ESG and sustainability-related activities, E&C often collaborates closely with other functions like the Corporate Secretary and Legal in providing governance and oversight in the execution of sustainability reporting.



How can E&C functions get started?

- Establish and bring E&C into involvement of a disclosure committee
- Conduct benchmarking relevant to governance
- Develop policies and frameworks for standardizing intake of regulatory information to avoid eventual misalignment of obligations and ownership

In this increasingly complex regulatory and public environment for meeting sustainability standards, corporate compliance programs are well-positioned to provide structure and accountability in several ESG facets. Corporate governance, crisis management, and policy influence are just the tip of the iceberg for compliance professionals.

Compliance officers can help play a pivotal role in risk detection and management, ethically identifying and mitigating misconduct related to ESG, and promoting employee engagement and driving business outcomes. Adding a seat at the ESG table for compliance is a strategic choice that can drive integration and collaboration across business functions. This can enable organizations to progress toward ESG obligations and ambitions with a risk-based approach.



Let's talk

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Endnotes

1. Deloitte Utility CCO June 2023 Roundtable
2. [Greenwashing: Promising the earth.](#)



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