

The background of the entire page is a photograph of a person's hands typing on a laptop keyboard. Overlaid on this image are several semi-transparent green squares, each containing a white icon representing a different ESG (Environmental, Social, and Governance) concept. The icons include: a globe with a leaf, a factory with a leaf, a group of people around a globe, a classical building, a lightbulb, a cloud with 'CO2' and arrows, a recycling symbol, a target with an arrow, and a hand holding a leaf. The letters 'ESG' are also prominently displayed in white on one of the green squares. In the bottom left corner, the title 'ESG Materiality' is written in large, bold, white letters, followed by the subtitle 'A Guide for EHS Leaders' in a slightly smaller, bold, white font.

ESG
Materiality
A Guide for EHS Leaders

ESG Materiality

A Guide for EHS Leaders

Investor focus on environmental, social and governance (ESG) is growing, with 92% of S&P 500 companies publishing ESG reports according to the [Governance and Accountability Institute](#).⁽¹⁾

At the same time, many organizations are still new to sustainability reporting, raising questions around what to report and how to collect and present the data.

One concept that consistently comes up in any discussion of ESG reporting is materiality. In other words, what aspects of a company's operations are relevant to ESG performance and therefore should be included in the sustainability report?

As EHS leaders take an increasing role in ESG reporting efforts, understanding what materiality means and how it is determined is vital to choosing the right metrics. In this eBook we examine the basics of materiality, what companies need to report and how environmental, health and safety (EHS) software can help with baseline reporting.



Continuous Improvement from ESG disclosure



What is Materiality in ESG?

ESG materiality refers to which environmental, societal or governance issues are relevant to a company. Material issues are those that matter the most, both to the company and investors making decisions based on ESG risks. Determining materiality is an important preliminary step in setting ESG objectives and metrics for reporting.

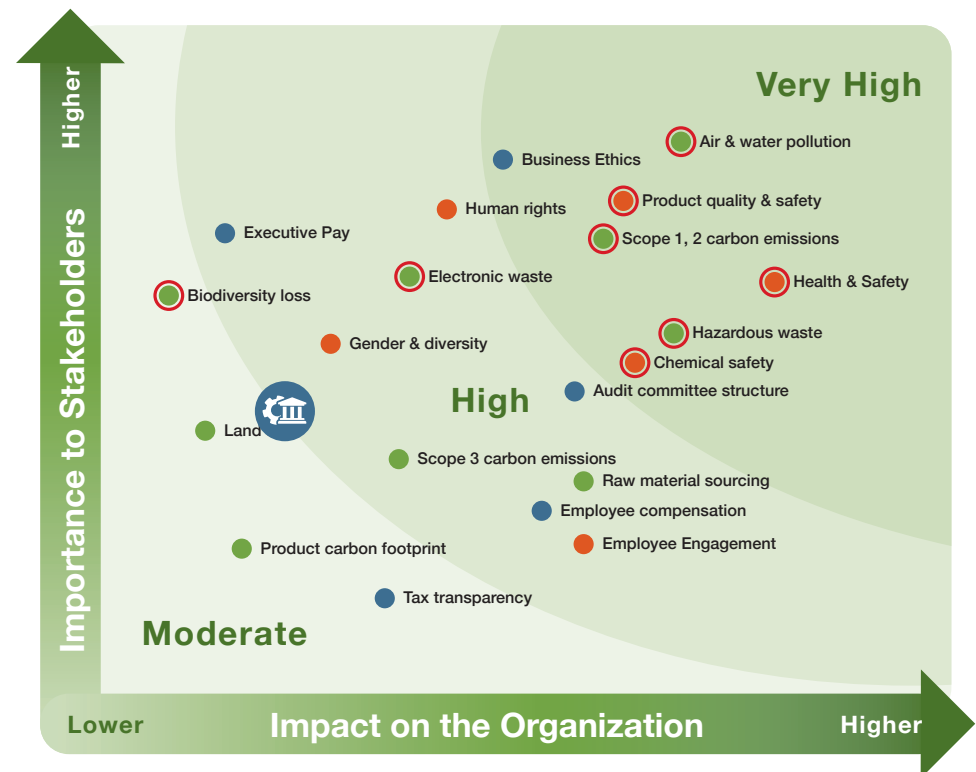
Determining Material Issues for ESG Reporting

Global reporting frameworks such as the [Global Reporting Initiative](#)⁽²⁾ (GRI) have published guidance on assessing materiality. The most recent version of the GRI standard focuses on two dimensions for assessing materiality:

- 1.) **The significance of impacts in terms of the economy, environment, and society**
- 2.) **How those impacts influence stakeholders and their decisions**

Materiality can be broken down into financial materiality and impact materiality. Financial materiality refers to effects on internal financial performance, while impact materiality accounts for external effects on the environment and the wider community. Some issues affect both, which is termed double materiality.

Ex: ESG Materiality Assessment



 **Environmental**

 **Social**

 **Governance**

 **EHS-related risks**

For example, water scarcity is a material issue for many beverage manufacturers, and is directly related to operating costs. Stakeholders may also have concerns around water scarcity, such as if the local community relies on the same water supply for drinking water. In this case, the issue of water scarcity has double materiality.

EHS-related risks often have direct overlap with ESG risks. For instance, employee safety, hazardous waste management, and Scope 1 emissions are programs that are typically managed and measured by EHS leaders. For organizations with heavy operational footprints, especially those in high-risk industries such as chemical, Oil & Gas, and Metals & Mining, those factors tend to be in the higher quadrants of the ESG materiality risk matrix.

Setting Objectives and Targets

Companies certified to **ISO 14001** or **ISO 45001** will recognize the similarity between ESG materiality assessments and ISO requirements for identifying internal and external issues. In similar fashion, the next step after identifying your organization's material ESG issues is using them to set your objectives and targets.

First, let's take a quick look at the difference between the two:

-  **Objectives** are goals you want to achieve, such as reducing energy consumption and associated costs.
-  **Targets** are the quantitative goals you want to achieve, for example reducing energy consumption and associated costs by 20%.



EHS departments generate a significant proportion of the data used in ESG disclosures, including: ⁽³⁾

- Water and energy consumption
- Air emissions data
- Greenhouse gas (GHG) emissions and carbon footprint
- Hazardous waste, wastewater, and recycling metrics
- Worker health and safety data
- Supply chain performance

The result is that organizations with EHS performance tracking measures in place have already done much of the heavy lifting when it comes to ESG disclosures. What's more, EHS leaders have growing influence as ESG reporting becomes more prevalent.



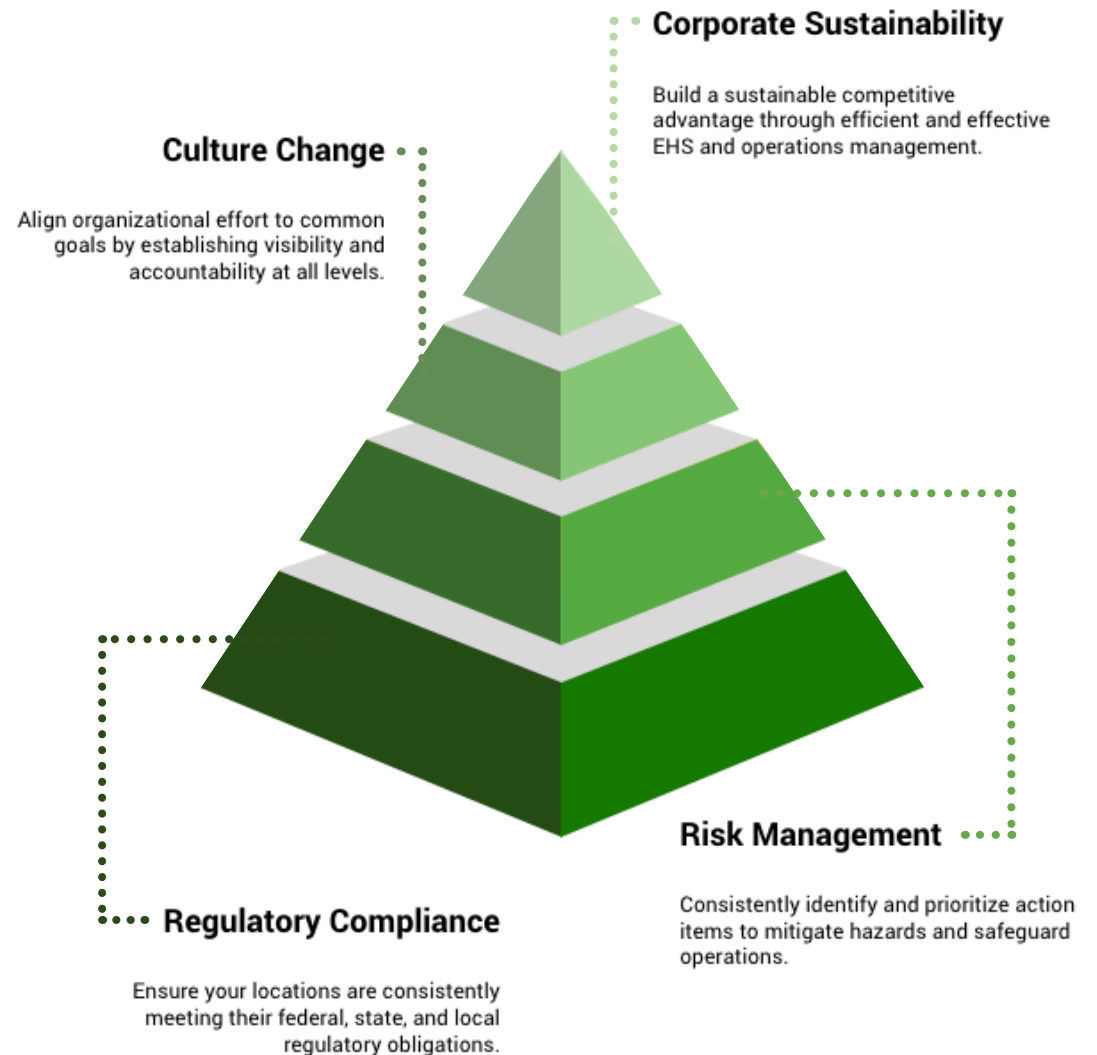
While ESG reporting is still relatively new for many companies, tracking EHS data that overlaps with ESG reporting requirements is not. In fact, many EHS departments have long collected data that can play a critical role in ESG disclosures.

Below, we look at two key tools that EHS leaders can leverage to contribute to their company's [ESG reporting](#) efforts. The first is using regulatory registers for tracking EHS compliance, and the second is EHS metrics tools for streamlining ESG reporting.

The EHS Regulatory Register as a Baseline for Reporting

The EHS regulatory register is a foundational element of any EHS management system, identifying all regulatory requirements that apply to a company. The regulatory register supports ESG reporting by serving as the basis for creating and managing compliance assurance programs, reducing risks and incidents that factor into ESG performance metrics. Companies can also use the regulatory register to identify potentially material issues, such as recent regulatory changes or compliance gaps.

Hierarchy of Sustainability



EHS software, like Dakota Software's ProActivity Suite, provides a significant advantage when it comes to leveraging regulatory registers in ESG performance and reporting. Dakota Profiler, for example, allows users to:

- ✓ Create compliance calendars that link requirements to tasks with automatic notifications to keep action items on track
- ✓ Map requirements to controls to identify any gaps that could lead to compliance issues
- ✓ Get automatic regulatory updates with citation links and plain-language guidance on action-forcing changes
- ✓ Manage compliance obligations across multiple sites

Applicable regulatory requirements can also be linked to Dakota Auditor to verify compliance across all the organization's sites.

Dakota's proactive solutions have helped us remain committed to our corporate sustainability policy of "People, Planet, and Performance."

***- Director of Environmental Compliance
Veolia Environmental Services North America***



ProActivity Suite®
by DAKOTA SOFTWARE



Tracking EHS Metrics for ESG Reporting

Metrics are the backbone of sustainability reporting and ESG disclosures. The good news is that many EHS departments already collect data that can be used in ESG disclosures, including metrics on water usage, GHG emissions, waste handling, safety performance and more.

ESG software tools like **Dakota Metrics**, also part of the ProActivity Suite, make it simple to track progress towards sustainability objectives and targets, simplifying the ESG reporting process by:

- ✓ Compiling environmental data in a centralized location for faster reporting to third parties
- ✓ Minimizing manual calculations and errors with updated emissions factors and the ability to normalize data by intensity metrics
- ✓ Providing interactive dashboards for monitoring targets and outliers
- ✓ Enabling companies to combine narrative descriptions, charts, and images within storyboards to share stories of sustainability projects and progress

For employee safety data, Dakota Scout allows companies to report and track safety incidents, combined with analytics and closed-loop corrective action tools to help reduce incidence rates.

Investor-Grade ESG Data Should Be...



Timely

The more recent the indicator, the more reflective it is of the current state of the data



Accurate

Data includes safeguards common in public company reports



Complete

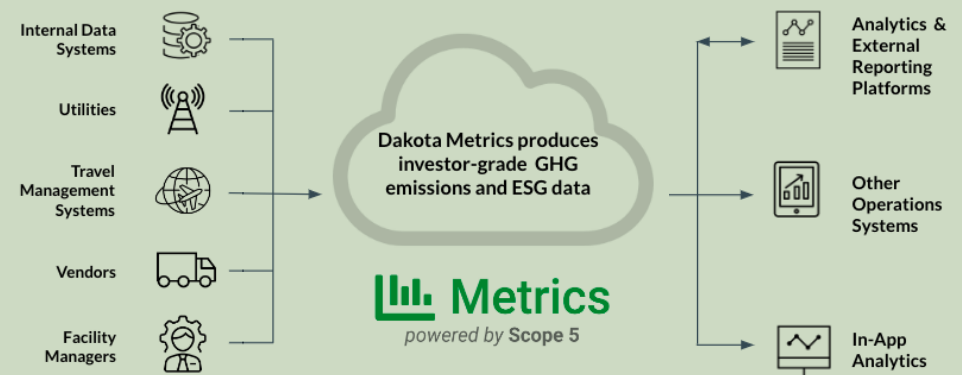
Data collection is automated and drawn from sources or systems of record



Auditable

Data collection processes have a consistent paper trail and can be verified by a third party

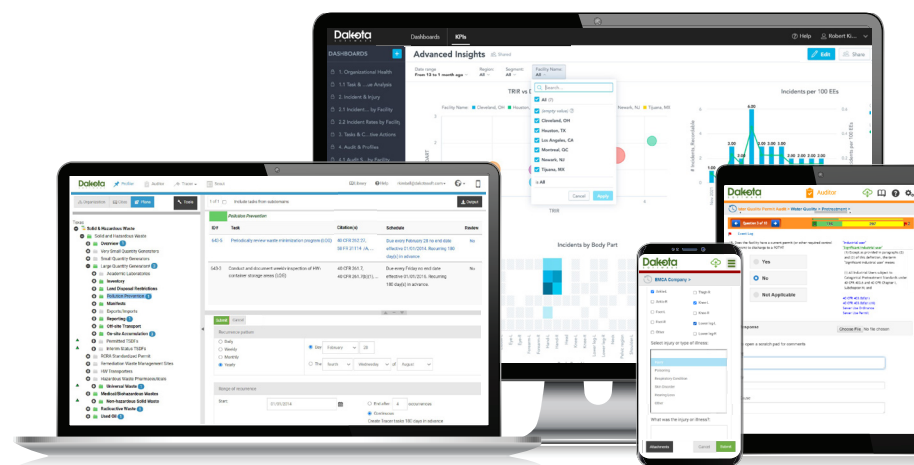
Quantify Your Baseline GHG Footprint (Scopes 1, 2, & 3)



Conclusion

As ESG performance tracking continues to grow in importance, it has [empowered EHS leaders](#)⁽⁴⁾ by giving them a greater stake in value creation for their companies. EHS management software plays a crucial role, providing a repository of information critical to materiality assessments and sustainability reports. More importantly, it is a lever for progress, driving the organization toward its goals while protecting the business, its employees, and sustainability as a whole.

REQUEST A DEMO



Sources

- (1) **Governance & Accountability Institute (G&A) 2021 Sustainability Reporting In Focus**
www.ga-institute.com/research/ga-research-directory/sustainability-reporting-trends/2021-sustainability-reporting-in-focus.html
- (2) **Global Reporting Initiative (GRI)**
www.globalreporting.org/
- (3) **ESG Reporting: Tracking Your Critical Metrics**
www.dakotasoft.com/blog/2021/08/25/esg-reporting-tracking-your-critical-metrics
- (4) **How ESG Performance Tracking Has Empowered EHS Leaders**
www.dakotasoft.com/blog/2022/02/22/how-esg-performance-tracking-has-empowered-ehs-leaders

About Dakota Software

Dakota Software introduced the first-ever EHS compliance software. Originally designed to automate the environmental auditing process, we envisioned the need for preventative solutions and pioneered the proactive EHS compliance movement. Dakota remains dedicated to delivering the crucial information that helps our clients create a strong foundation of compliance for their ESG and Corporate Sustainability programs.

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