Professional Perspective

Climate Change Resilience & ESG Strategy

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Climate change and other environmental risks remain major concerns for companies around the world, both in terms of their likelihood and impact. Contemporaneously, environmental, social, and governance (ESG) has become a primary topic on many organizations’ agendas, driven by expectations of stakeholders, including investors, regulators, ratings agencies, employees, customers, and clients.

Set against a backdrop of continued flooding, wildfires, and heatwaves around the globe, many companies are feeling increased pressure to reevaluate their emergency preparedness measures and develop and deploy ESG programs across their organizations. The process of implementing those programs can be a transformative one for companies and often raises questions ranging from how to set the organization’s goals to who needs to be involved in the effort and even whether an ESG program is necessary.

Regardless of where a business is on its ESG journey, some key questions include:

- Is an ESG program needed?
- How would an ESG program differ from the corporate social responsibility (CSR), sustainability, or environmental, health, and safety (EHS) management program that is already in place?
- Who needs to be involved to gain an understanding of, and address, climate or extreme weather event risks as part of an ESG program?
- What are the potential benefits from completing an ESG program?

This article explores these questions and what companies may want to consider when implementing ESG programs in response to climate change and extreme weather events.

Why an ESG Program Might be Needed

ESG is an evaluation of an organization’s collective conscientiousness for social and environmental factors. An ESG program typically yields a rating or score that is compiled from data collected regarding specific metrics related to intangible assets within the enterprise. Regardless of whether a company is just starting to consider ESG or has long-standing corporate programs that cover ESG factors, the question of “why” is a primary one.

An organization might need an ESG program to better identify and address risks. One of those risks is litigation—ESG-related litigation is becoming more common with plaintiffs successfully bringing claims alleging ‘materially misleading’ statements by companies. This trend is likely to increase as the U.S. Securities and Exchange Commission continues to provide guidance and promulgate regulations requiring disclosures on climate as well as diversity, equity, and inclusion performance.

A potentially more important risk is the environmental impact of extreme weather events. Following Hurricane Ida’s path through the Northeast in September 2021, officials reevaluated their climate crisis resiliency plans and anticipated further changes that will require regulated entities to adjust their operations. Ida's record rainfall overwhelmed stormwater infrastructure in the Northeast and caused approximately 50 deaths in New Jersey, New York, Pennsylvania, and Connecticut, in addition to those in the Southeast.

While no major pollution events were identified as a result of Ida, that may just have been a matter of luck. Though severe weather and climate change preparedness plans and performance are not generally required as part of ESG ratings, the development of an ESG program can, ideally, integrate resilience and emergency preparedness measures that help mitigate an enterprise’s environmental risks.

Setting aside risk, a company might want an ESG program because it can create benefits such as access to wider pools of investors or to new markets, therefore providing greater resilience to market disruption caused by climate change. Though local, state, and federal governments have made some efforts to plan for the increasing effects of climate change over the past several years, Hurricane Ida has spurred an increased sense of urgency on the East Coast.
The infrastructure bill making its way through Congress could fund water sector programs, and states and local governments are considering zoning changes and new regulations. Implementing an ESG program can both better prepare organizations for anticipated regulatory developments and better position companies to take advantage of both shorter- and longer-term incentives and funding opportunities.

### ESG vs. Other Compliance Programs

While it is not uncommon for ESG to be characterized as a re-branding of environment, health, and safety (EHS) management systems or sustainability programs or corporate social responsibility (CSR) frameworks, there are some key differences. One is that ESG is more focused on the comprehensive integration of environmental, social, and governance issues into an organization. Historically, EHS metrics and risks tended to be delegated to an organization's EHS professionals.

In contrast, ESG requires communication and coordination between multiple business units and stakeholders. Additionally, because of anticipated regulatory developments, ESG may begin to cover certain disclosures—e.g. disclosures related to climate, supply chain, human trafficking, bribery, and discrimination—that were not previously mandated.

For startup companies or those that are considering programs touching on the elements of ESG for the first time, as the saying goes, “the best time to plant a tree was 20 years ago, the second-best time is now.” If an organization has no programs addressing social, governance, or environmental issues, an ESG program that integrates these areas decreases the risk of running afoul of regulatory requirements and provides a better foundation for ensuring that a company's marketing claims are supported by its actual performance.

Companies who have some EHS, CSR, or sustainability programs but are in the process of developing an ESG program stand to benefit from heightened coordinate among various programs and business units. That coordination can lead to simpler programmatic roll-out and more efficient changes to company culture.

### Climate Change Impacts & Resilience

One of the fundamentals to keep in mind when developing an effective ESG strategy is that climate change is based in science. Just like a successful extreme weather preparedness plan, a successful ESG program that adequately evaluates climate crisis impacts—from or to a business—is best developed by a cross-disciplinary team, including counsel, C-suite, human resources, marketing, and scientists and engineers.

Within an organization, it may be tempting for lawyers or marketing personnel to make statements about climate change targets or performance, but organizations would do well to consider the scientific basis for the organization's goals, whether those goals are realistic, how those goals will be measured, and how the organization can clearly communicate both the goals and achievements to the public and any relevant regulatory bodies. Importantly, when it comes to adaptation and resilience, those scientists and engineers will already be integrated into the process, potentially facilitating more efficient emergency preparedness planning and response.

Some industries, including manufacturing, are exposed to more obvious potential environmental risks. Those industries already consider measures such as enhancing secondary containment as part of their emergency preparedness and environmental risk management plans. Still, the climate crisis, increased market pressures related to ESG, and the breadth of ESG as a concept, mean that companies in many, if not all, industries should at least internally consider their performance across the ESG factors.

To illustrate how climate change can factor into ESG analysis for non-industrial companies, consider greenhouse gas (GHG) emissions. The U.S. Environmental Protection Agency's Center for Corporate Climate Leadership provides GHG inventory guidance aligned with The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard developed by the World Resources Institute and the World Business Council for Sustainable Development.


Per that guidance, emissions are classified as scope 1, 2, or 3, where scope 3 emissions are the result of activities from assets not owned or controlled by the reporting organization, but that the organization indirectly impacts in its value chain. Scope 3 emissions include all sources not within an organization's scope 1 and 2 boundary. The scope 3 emissions for one
organization are the scope 1 and 2 emissions of another organization. Scope 3 emissions include emissions both upstream and downstream of the organization’s activities and often represent the majority of an organization’s total GHG emissions.

According to the GHG Corporate Protocol, all organizations should quantify scope 1 and 2 emissions when reporting and disclosing GHG emissions, but scope 3 emissions quantification is not required. However, because scope 3 emission sources may represent most of the organization’s GHG emissions, they often offer emissions reduction opportunities. Accordingly, more organizations are reaching into their value chain to understand the full GHG impact of their operations; it is likely that trend will only continue as a result of stakeholder pressure and regulatory interest in ESG and the climate crisis.

**ESG Program: Done. Now What?**

It is important to note that there is no final or complete ESG program. The concepts covered by ESG programs are iterative and will necessarily shift and evolve over time. Internally, an ESG program, like most corporate management systems, benefits from clear metrics that a company tracks to evaluate efficacy in deployment and reevaluates and adjusts depending on the results, company goals, and regulatory requirements.

Externally, ESG lacks uniformity; the plethora of ratings and frameworks create a complexity that is further exacerbated by global deployment and cross-border regulatory developments. Still, while a single company cannot standardize the entire ESG landscape, the bespoke nature of ESG programs means that businesses do have the ability to add an additional variable to their own programs to assess their capacity to effectively recover, adapt, and grow in the face of extreme weather events: resilience.