

ESG AND SUSTAINABILITY REPORTING: WHY AND WHY NOW

A hand holding a green leaf against a blue sky background. The leaf is held up, showing its veins. The background is a clear blue sky with a bright light source, possibly the sun, creating a lens flare effect.

A comprehensive
guide to what every
organization needs
to know

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Introduction

ESG and sustainability have recently become a C-level priority, catalyzed by investor interest in Environmental, Social and Governance-responsible companies as well as companies' acknowledgment of the need to take action. And with talks of more [ESG-related regulations](#) echoing from Wall Street to Washington, now is the time to make sure your company is not only ready to share ESG reports, but on the path to improving them.

THE FUTURE OF BUSINESS IS GREEN

ESG and sustainable practices continue to rise as a priority for organizations, investors and consumers, not only in the United States but throughout the world.

According to experts at global management consulting firm McKinsey & Company, by 2025 up to \$5 trillion will be invested in sustainability, while \$11 trillion in assets will be retired. Similar to the dawn of digital, they predict big shifts in the standards in which companies compete, with ESG and sustainability practices as one of those new foundations.

ESG REGULATIONS WILL LIKELY INCREASE

If recent trends continue, we'll see more companies proactively committing to ESG initiatives and goals, as well as increased regulatory requirements to do so. In early 2022, [the European Commission adopted a proposal](#) on corporate sustainability due diligence. And in March of that year, the [U.S. Securities and Exchange Commission](#) proposed rule changes requiring registrants to include climate-related disclosures in their registration statements and periodic reports.

More and more, companies will need to be accountable in these areas, including demonstrating how they are reducing their negative environmental impacts; how they manage their relationship with employees, suppliers, customers and community; and how the company manages itself, including through executive pay and compliance with regulations and standards.

ESG REPORTING NEEDS RELIABLE SOFTWARE

In order to meet (and eventually exceed) ESG goals, organizations must have reporting software in place to build into their systems to both track ESG metrics and implement performance initiatives. The days of spreadsheets are coming to an end, as high-stakes regulations and reporting – and the investors who will use them to make decisions – call for highly involved and thorough tracking.

In short, if your organization isn't yet tracking its Environmental, Social and Governance (ESG) data, now is the time to get started. Keep reading to understand the full picture, and how you can take action.

The ESG and sustainability landscape is rapidly evolving. Stakeholder and market pressure are driving firms to integrate ESG considerations into their business strategy and make bold public commitments. ... To keep up with evolving requirements, maintain a competitive position and meet stakeholder demands, firms will need to invest in technology to elevate their position."

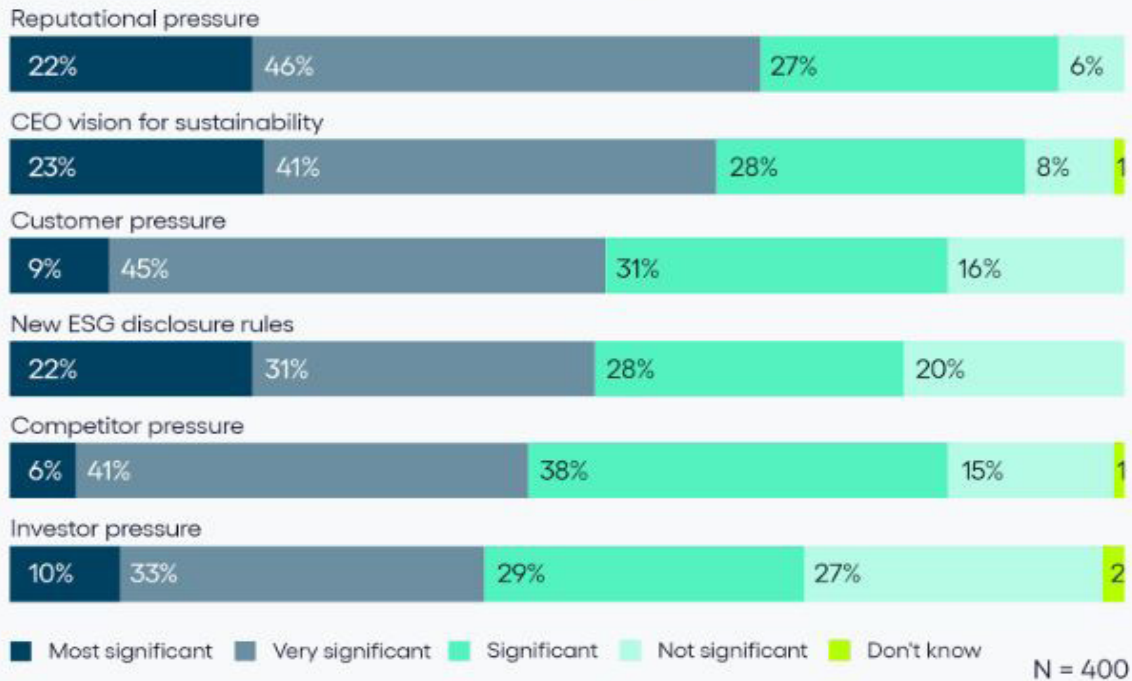
- KIM KNICKLE, RESEARCH
DIRECTOR, ESG &
SUSTAINABILITY



Chapter 1

Top 5 Reasons to Improve Your ESG Reporting Now

In the last 12 months, how significant have the following drivers been in influencing your firm's commitment to ESG and sustainability issues?



Source: Verdantix Global Corporate Survey 2022: ESG & Sustainability Budgets, Priorities and Tech Preferences
 Note: Data labels are rounded to zero decimal places and may incur rounding error.
 Labels under 5% will be shown as a number

verdantix

23%
 of the 400 sustainability leaders we interviewed said CEO vision for sustainability was the most significant driver in determining firms' ESG and sustainability commitment.

- SOURCE: ELISA MOLERO, VERDANTIX, 2022

If your organization hasn't started thinking about how to improve ESG reporting, it's time to move it to the top of your priorities. As this [Nasdaq article](#) about the importance of strong ESG practices states:

"There was a time when a public stance on ESG issues was a public relations tactic. However, in today's rapidly changing business climate, attention to ESG issues is becoming critical to long-term competitive success."

Organizations across all industries will need to continue to focus on their ESG endeavors – and proof of those efforts – to compete in today’s market. Understand why improving ESG reporting today is key to sustaining and growing your organization tomorrow:

1. STAY COMPETITIVE

As the world takes a concerted effort in areas such as countering climate change, creating a more fair work environment and increasing workplace safety, every organization should be considering how it will support ESG practices. Yet they must do more than create strategies to have a meaningful impact. Improving ESG reporting provides insights that organizations will need to be proactive and strategic in meeting competitive challenges.

A study by investment management firm [Blackrock](#) found:

“Companies with strong profiles on material sustainability issues have potential to outperform those with poor profiles. In particular, we believe companies managed with a focus on sustainability should be better positioned versus their less sustainable peers to weather adverse conditions while still benefiting from positive market environments.”

The future will be focused on improving ESG issues. Enhancing how you track your ESG reporting will keep your company on the cutting edge.

2. BUILD TRUST WITH STAKEHOLDERS

Administrators aren't the only ones who are watching ESG ratings, which measure an organization's exposure to long-term environmental, social and governance risks. Consumers and shareholders alike are also turning a keen eye to these metrics when deciding where to put their loyalty (and money). Having a strong ESG report will offer proof of your efforts and clearly showcase the work being done in line with these issues.

Additionally, a strong ESG report can counter negative attention, such as activist interventions. Companies that aren't transparent in their ESG efforts – no matter their intention – are vulnerable to accusations of “greenwashing,” or being misleading or falsifying ESG efforts. Having a strong, detailed and accurate ESG report is an easy shield against these threats and will help keep your organization positioned in a positive light.

3. ATTRACT INVESTORS

Beyond those who already believe in your brand, a strong ESG reporting system can attract new investors, too. Now more than ever, sizing up a company is about more than the bottom line, and savvy investors are taking a closer look at organizations' ethics and operations.

It's more than just aligning on values that attracts new investors. ESG indicators show how a company will grow sustainably and perform in the future – not just next quarter, but next quarter of a century – thus highlighting the odds of long-term success.

4. FIND GREAT TALENT

Employees today have ample choice in where they work, and many want to sign-on with an organization that aligns with their values. With information about companies more available than ever before, a strong ESG report for your company provides a value-add for those looking for a new job. Plus, employees who believe in the work they're supporting will be more invested in the company, and therefore stay on board longer.

5. DO MORE GOOD

Improved ESG reporting offers countless benefits to grow an organization's success – yet all of these issues stem from the need to improve the way we work to create a better future for all. Whether that means reducing the impact on climate change or pollution, supporting a more diverse and equitable work environment, or making management decisions in a more conscientious way, supporting ESG issues has a real impact. Reporting on how your organization is moving the needle is key to meeting your ESG goals and continuing to make a difference along the way.



Chapter 2

More Rules Could Be Coming for Reporting Climate Risks

With ESG standards top of mind across the globe and regulations around these issues expanding, the United States is looking to create more requirements when it comes to companies reporting climate risks.

In March 2022, the U.S. Securities and Exchange Commission (SEC) [released a proposed rule change](#) to require certain climate-related disclosures that would keep companies accountable to their environmental impacts while also giving investors an apples-to-apples comparison for making investment decisions.

If passed, the requirement would change reporting climate risks from a nice-to-have to a steadfast obligation for companies. With similar proposals popping up across the world, organizations hoping to stay competitive will have to get on board.

WHAT IS THE NEW SEC PROPOSAL?

The new SEC rule proposal, [“The Enhancement and Standardization of Climate-Related Disclosures for Investors,”](#) would make it a requirement for companies to report some climate-related disclosures, including in their periodic reports and registration statements. These compulsory updates would need to include information about climate-related risks that, according to the SEC, “are reasonably likely to have a material impact on their business, results of operations, or financial condition, and certain climate-related financial statement metrics in a note to their audited financial statements.”

Under the proposal, climate-related risks and metrics that companies will be required to report would include:

- Scope 1, 2 and 3 emissions, including greenhouse gas emissions
- Carbon offsets
- Governance of risks and management processes
- How risks are likely to create a material impact on the business and its strategy, business model and outlook
- Possible events (such as severe weather) that could impact the business and what that would mean for its finances

While other jurisdictions and independent bodies have made significant strides to provide investors and companies with a basic framework for climate-related disclosures, for too long we have left the U.S. markets to rely solely on outdated and outmoded guidance."

- SEC COMMISSIONER

WHY IS IT HAPPENING NOW?

Sustainable practices continue to rise as a priority for businesses, investors and consumers, not only in the United States but throughout the world. The SEC rule proposal, if passed, would provide a more regulated way in which businesses share their progress and plans as sustainability continues to be prioritized. According to an SEC Commissioner, these proposed rule changes are already behind the curve in what investors require:

"While other jurisdictions and independent bodies have made significant strides to provide investors and companies with a basic framework for climate-related disclosures, for too long we have left the U.S. markets to rely solely on outdated and outmoded guidance.

In that vacuum, companies and investors fend for themselves. Companies do not know which regime to follow, what information to disclose, and how best to disclose it. Investors try to figure out how to compare different regimes, how to use discordant information, and how to discern whether it's even accurate. All the while, these data have become more important than ever to investors as they make their investment and voting decisions."

The United States is not alone in creating new regulations. Similar rules are being discussed across the globe, including in the EU, United Kingdom, Hong Kong, Japan and New Zealand.

Even if the new SEC proposal isn't passed, it's fair to say all roads in the global economy are leading to a more regulated reporting process when it comes to climate-related disclosures.

WHAT DOES THIS MEAN FOR COMPANIES?

In short, the new SEC proposal would mean companies must comply with the standardized way of reporting and disclosing information and data in areas of the business that impact the climate. These climate-related risks and disclosures have been outlined and include GHG emissions, scenario analysis, climate-related targets and goals, plus much more.

Moreover, it will become critical for businesses hoping to stay competitive to not only "talk the talk" when it comes to being sustainable, but to actually showcase the steps they're

taking to get there. As investors will have a standardized way to compare these metrics across organizations, it will be clear to them which businesses are making strides in sustainability and which are falling behind.

The SEC is reviewing comments and public input related to the proposal before making a decision whether to adopt the rule. Whatever the outcome, it's clear investors are turning a discerning eye to how businesses are working toward becoming more sustainable – and companies are going to have to be accountable to these standards to stay afloat.





Chapter 3

An Overview of Scope 1, 2 and 3 Emissions and Why They Matter

With increased regulations on reporting climate risks building momentum, a big part of realizing what this means for organizations is understanding Scope 1, 2 and 3 emissions. Defined by the [Greenhouse Gas Protocol](#) – the internationally recognized standard for measuring and reporting greenhouse gas emissions – the three scopes break down the sources of emissions an organization or community produces, both directly and indirectly throughout operations and the value chain.

Scope 1, 2 and 3 emissions are becoming a larger part of the conversation for organizations, investors and governments alike around the globe, as they provide a standard for how entities calculate (and are accountable to) their own greenhouse gas emissions. Understanding Scope 1, 2 and 3 emissions has never been more important – and, in the future, the measurements of these emissions might be one of the most critical components to an organization’s success.

ABOUT GREENHOUSE GAS EMISSIONS

When looking at Scope 1, 2 and 3 emissions, it’s important to first understand greenhouse gases, or GHGs, as a whole, including where they come from and why they are a threat to our environment. In short, GHGs trap heat in the earth’s atmosphere. These gases include carbon dioxide, methane, nitrous oxide and fluorinated gases. While these gases are naturally occurring, human activity has led to their unhealthy buildup, creating an unnatural warming of the planet.

According to the [United States Environmental Protection Agency](#) (EPA), particular economic activities have led to the increases in global greenhouse gas emissions:

- **Electricity and heat production:** Accounts for 25% of global GHG emissions, including through the burning of coal, oil and natural gas.
- **Industrial:** Accounts for 21% of emissions through the burning of fossil fuels at facilities for energy.
- **Agriculture, forestry, and other land use:** Creates 24% of global GHG emissions from cultivating crops and livestock, as well as deforestation.
- **Transportation:** Makes up 14% of emissions through fossil fuels burned for transportation by air, land and sea.
- **Buildings:** Creates 6% of emissions due to energy generation and burning fuels for heat and cooking.
- **Other energy:** Accounting for 10% of global greenhouse gas emissions, these sources refer to all emissions from the energy sector that are not directly associated with electricity or heat production, such as transportation, fuel extraction, processing and refining.

Looking across the globe, in 2020 the [top emitters](#) of carbon dioxide (the most prevalent GHG) were China, the United States, India, Russia and Japan.

By the year 2050, [climate scientists](#) believe that global carbon dioxide emissions must be reduced by 85% from their year 2000 levels in order to protect our ecosystem.

While many policies and organizations have been created to fight climate change caused by GHG emissions, the [Greenhouse Gas Protocol](#) in particular was founded in 1998 to establish a standard for how the world measures and manages greenhouse gas emissions. Now as the internationally accepted standard, the GHG Protocol has accounting and reporting tools to be used in both the private and public sectors to promote a low-emissions economy worldwide. Among these standards are Scope 1, 2 and 3 emissions.

UNDERSTANDING SCOPE 1, 2 AND 3 EMISSIONS

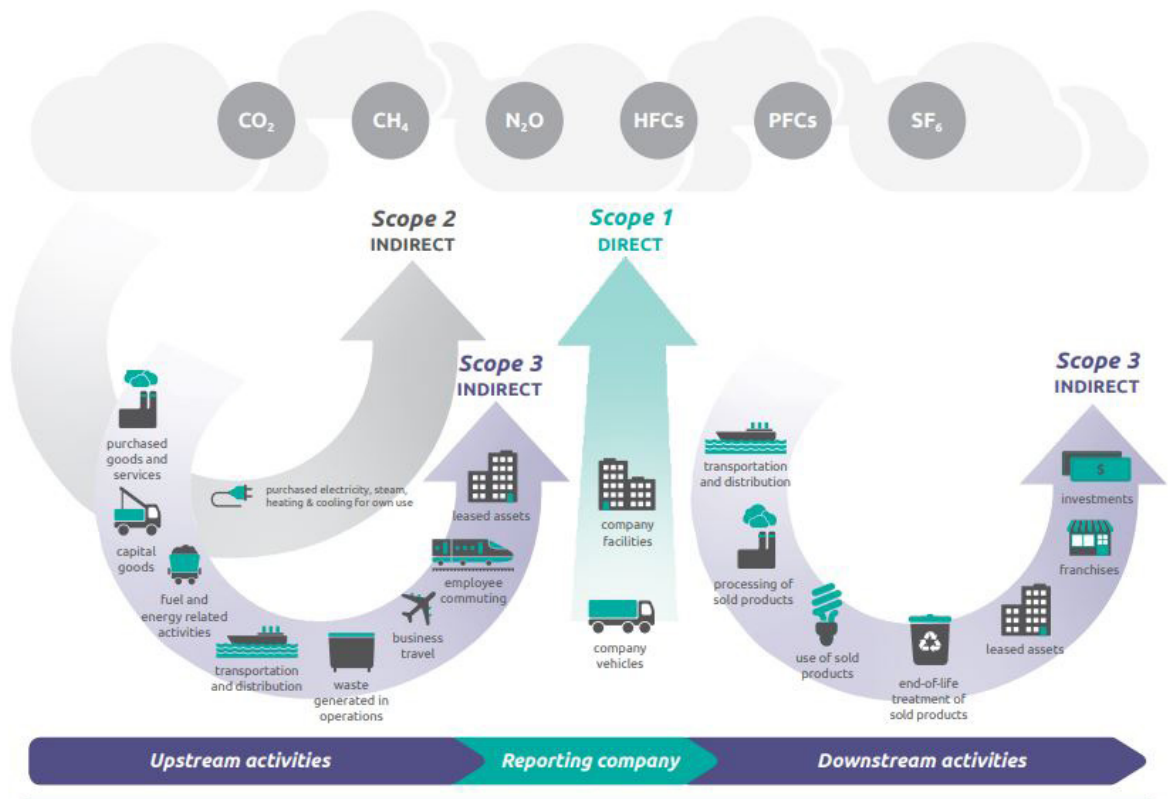
When looking at greenhouse gases, there are different types of emissions a company might be creating (directly or indirectly) that they are responsible for. These include the seven major greenhouse gases: CO₂, CH₄, N₂O, HFCs, PFCs, SF₆, and NF₃.

In order to provide organizations a way to inventory their emissions throughout their operations and value chain, the GHG Protocol created Scope 1, 2 and 3 emissions to segment the three main types that can be controlled:

Scope 1 - Direct Emissions

Scope 1 emissions are those created directly by an organization, through company-owned assets or controlled resources. These include emissions associated with running vehicles, boilers and furnaces, and factory fumes. Other less obvious examples might be the emissions created by use of a backup diesel generator used to protect a data center owned by the organization, or an unintentional leak of greenhouse gases from refrigerants in an HVAC system.

Figure [1.1] Overview of GHG Protocol scopes and emissions across the value chain



"CORPORATE VALUE CHAIN (SCOPE 3) ACCOUNTING AND REPORTING STANDARD", GHG PROTOCOL

Scope 2 - Indirect Emissions

Scope 2 emissions are emissions created from the generation of energy that is purchased by the organization. These emissions happen at sources controlled or owned by another entity but are used by an organization in its operations. These emissions are typically electricity, heat or steam.

Scope 3 - Value Chain Emissions

Scope 3 emissions account for all indirect emissions (that aren't included in Scope 2) that occur in the value chain of an organization. While these emissions are not directly controlled by the organization, the organization's value chain indirectly leads to these outputs.

Scope 3 emissions factors include:

- Upstream activities:
 - ◇ Purchased goods and services
 - ◇ Capital goods
 - ◇ Fuel and energy related activities
 - ◇ Transportation and distribution
 - ◇ Waste generated in operations
 - ◇ Business travel
 - ◇ Employee commuting
 - ◇ Leased assets

- Downstream activities
 - ◇ Transportation and distribution
 - ◇ Processing of sold products
 - ◇ Use of sold products
 - ◇ End-of-life treatment of sold products
 - ◇ Leased assets
 - ◇ Franchises
 - ◇ Investments

While often the most difficult to quantify, Scope 3 emissions often represent the majority of an organization's total GHG emissions. While they are not under the organization's control, its practices and decisions (such as which supplier or vendor to work with) can influence the results of these emissions. Learn more in the GHG Protocol's "[Corporate Value Chain \(Scope 3\) Accounting and Reporting Standard](#)."

HOW TO MEASURE EMISSIONS

Understanding Scope 1, 2 and 3 emissions is just part of the bigger picture when it comes to organizations' understanding, measuring and amending their GHG emissions. According to the EPA, there are **four key steps** for developing a GHG inventory:

1. Review accounting standards and methods, determining organizational and operational boundaries, and choosing a base year.
2. Collect data and quantify GHG emissions (using Scope 1, 2 and 3 standards).
3. Develop a GHG Inventory Management Plan to formalize data collection procedures.
4. Set a GHG emission-reduction target, and track and report progress.

The EPA has created a guide to support organizations through this process.





Chapter 4

Avoid 'Greenwashing' with ESG Accountability Support

It's hard to discuss ESG and sustainability for organizations without hearing the term "greenwashing." It's a word no one wants their organization's name tied to – and ESG accountability is key to making sure it's not.

HOW GREENWASHING FOLLOWS ESG

With the focus on ESG standards, accusations of greenwashing have followed closely behind. So what exactly is greenwashing? In short, it's a term used when an organization doesn't live up to its ESG commitments. This may include making misleading or false statements or, in some cases, trying to cover up the known damages of a product or undertaking.

As shared in this [recent article by Forbes](#), examples of greenwashing might include showcasing the recycle symbol on packages without clearly outlining which pieces can truly be recycled, or companies that claim to offset their carbon footprint by planting trees without actually trying to improve their emissions. On the other side of the spectrum, greenwashing could include organizations making false claims to improve their image or cover up the implications of an investment.

Greenwashing may not always be intentional – but whether a company means to or not, the ramifications of perceived greenwashing can hurt the brand, the reputation and the bottom line.

KEEP YOUR ORGANIZATION OUT OF THE 'GREENWASHING' HEADLINES

As governments tighten ESG standards, accusations of greenwashing continue making headlines. In this Bloomberg article, "[ESG Fund Bosses Hit by 'Reckoning' as Goldman, DWS in Crosshairs](#)," experts share how industries need to get ready for more rigorous ESG regulations.

"There's 'a reckoning' under way," says Sonali Siriwardena, partner and global head of ESG at the law firm Simmons & Simmons in London. Despite pushing through a 'tsunami' of ESG rules, it's now apparent that "regulators aren't necessarily looking at a grace period' to allow the industry to adapt."

Soon, in many countries, it appears organizations will be required to show their accountability to ESG regulations – and, in turn, also protect themselves from accusations of greenwashing.

The way to avoid the perception of greenwashing is to develop efficient and airtight tracking of ESG and sustainability metrics. This tracking and reporting can accelerate your progress toward ESG goals, so there are no questions when it comes to your ESG compliance.

Chapter 5

**Finding ESG &
Sustainability Solutions**



The future is focused on ESG and sustainability, and organizations need to understand how they can start, or continue, to grow their Environmental, Social and Governance practices. A reliable, integrated software system to capture reporting is vital – setting up a system that will not only help track the organization’s operations and outputs, but accelerate their improvement.

WHAT TO TRACK

As noted by the [EPA](#) and through the GHG Protocol, creating a high-quality, credible inventory of an organization’s greenhouse gases relies on five principles, as the data must be: relevant, complete, consistent, transparent and accurate. This is an important standard to apply across all ESG and sustainability reports.

To support this baseline, and improve ESG metrics long term, it’s critical to have reliable software to track the organization’s data. For example, measuring emissions’ sources for each scope – from purchased gases to use of electricity to employee business travel – is vital to understanding an organization’s emissions picture, and reporting on it.

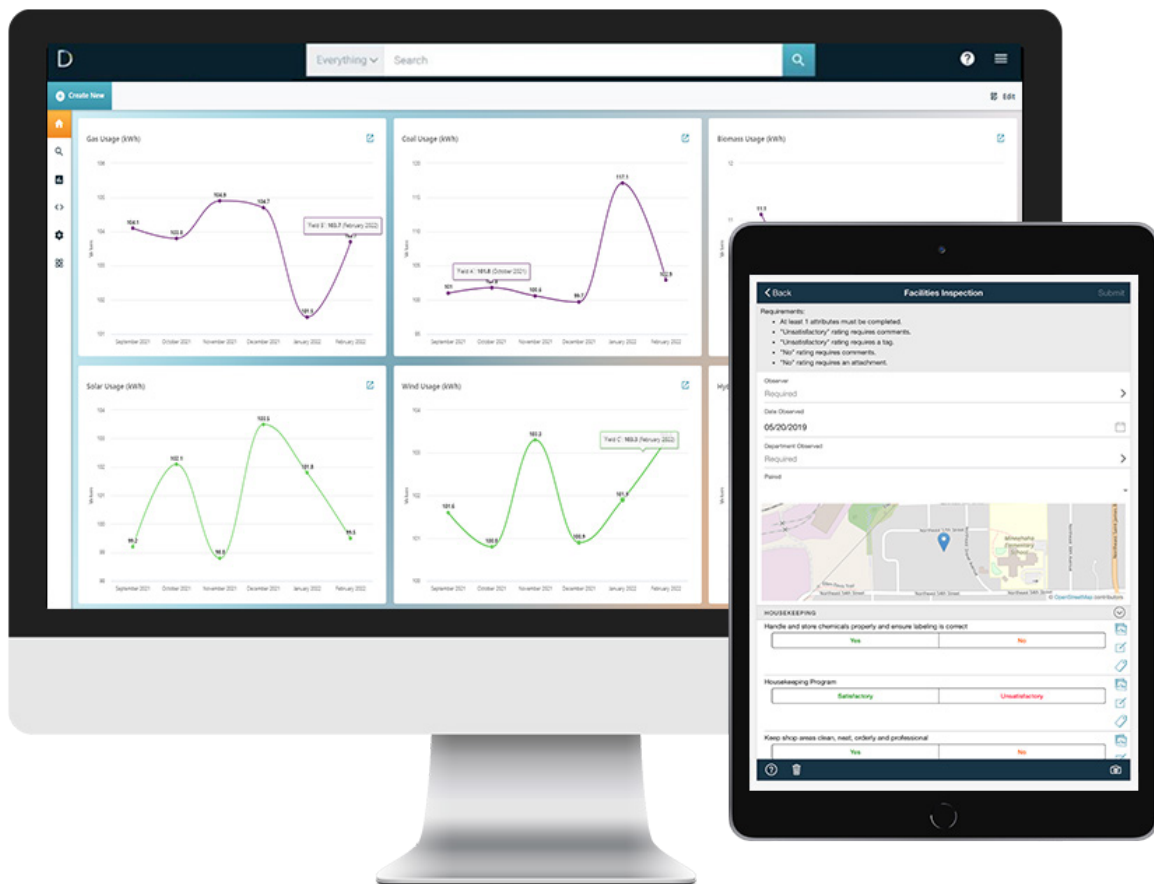
WHAT TO LOOK FOR

A strong software system should umbrella the organization's operations, to break down silos and provide both a birds-eye view of operations and outputs as well as micro data throughout. Reliable data provided by a comprehensive software suite is critical. Plus, using a controlled system of record will create succinct reporting, allowing for efficiencies and mitigating risk, as well as providing documentation to easily and quickly pass along to investors and showcase to consumers.

HOW DEVONWAY IS BUILT TO SUPPORT

DevonWay – a longtime and leading provider of Environmental Health & Safety, Asset Management, Quality Management and Workforce Management solutions to regulated industries – now offers an ESG & Sustainability Solution in its suite, enabling companies to go beyond ESG reporting and implement effective performance initiatives to achieve their ESG goals. As put by DevonWay CEO Chris Moustakas:

“Building sustainability into business models is one of the great challenges of our time. Our approach, centered around continuous improvement best practices, is designed to let customers quickly and proactively address immediate gaps in their programs and expand as needed.”



With [DevonWay ESG & Sustainability](#), companies can report on and improve any ESG metric on a unified software platform that can also run all or any subset of their safety, quality, asset and work management functions, so it doubles as a system of record for data that directly feeds ESG metrics and ratings. In addition, it securely integrates with other sources of ESG and sustainability data.

Specifically for regulated industries, DevonWay ESG & Sustainability combines DevonWay's enterprise-class Compliance Management, Metrics & KPIs, Improvement Initiatives, Enterprise Risk Management and self-service reporting and business intelligence – all on a secure, no-code platform. It offers:

- Best-of-breed continuous improvement practices that provide visibility and accountability toward meeting goals
- Usage-based pricing that includes unlimited users, so everyone can participate, even contractors
- US, EU and Canadian SOC 2 certified SaaS data centers for companies operating globally
- Compliance with ISO 9001 and ISO 27001 standards, with FedRAMP certification expected in mid-2023
- A US-support-only option for US customers under export control rules
- A REST API that securely and easily connects other systems with DevonWay software

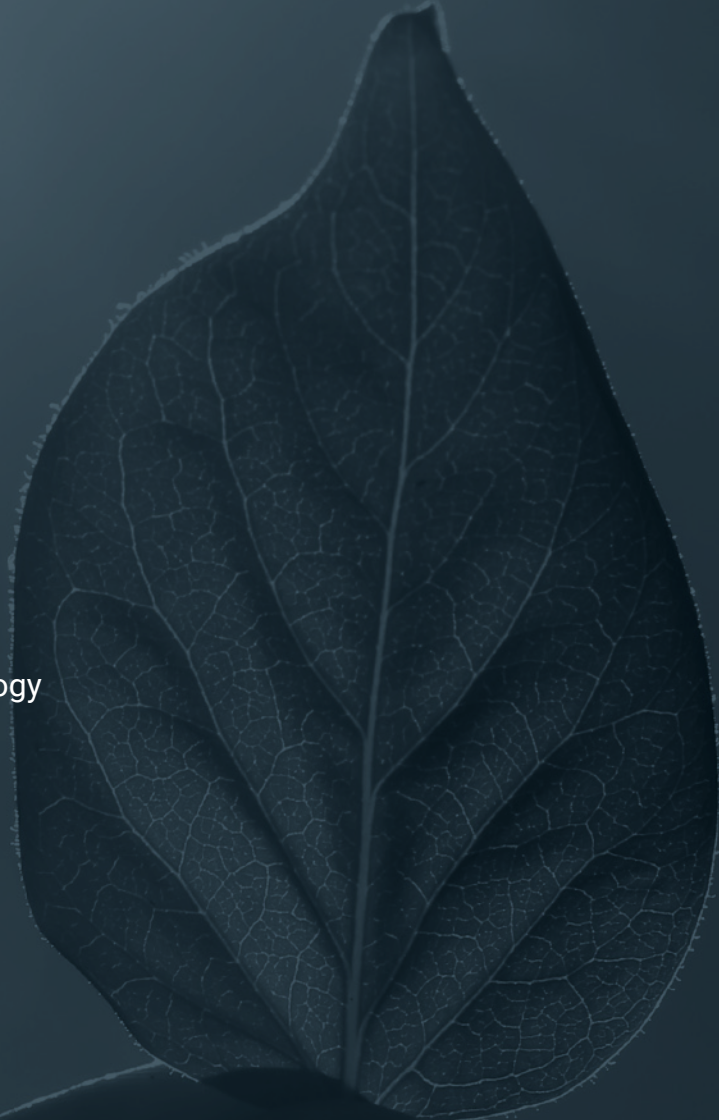
In addition, DevonWay has developed partnerships with leading ESG consulting practices for customers who need third-party expertise in performing sustainability assessments, refining their existing program, or building one from scratch.

This DevonWay solution is about more than meeting standards. We aim to help organizations accelerate their progress in meaningful ways toward meeting goals and living values they believe in. Whether that means reducing greenhouse gas (GHG) emissions to net zero, or ensuring their supply chain is socially responsible, [DevonWay products](#) can be packaged to meet each organization's unique needs, all securely integrated within your other systems to reduce silos (and potential oversights) while moving toward greater improvements.



Glossary

The Ultimate Guide to ESG Terminology



A

Absolute zero target is a goal of no greenhouse gas emissions with no offsets: No new GHG emissions are to be created by the transition away from fossil fuels.

C

Cap and trade is a carbon trading model that sets a cap, or maximum, on the total amount of certain greenhouse gases that can be emitted collectively among a group of companies. Within that cap, companies can buy or receive emissions allowances, which they can trade with each other. The [EU Emissions Trading System \(EU ETS\)](#) is the world's first and largest carbon market.

Carbon dioxide is a colorless, odorless gas produced by burning carbon and organic compounds and by respiration. It is naturally present in air (about 0.03 percent) and is absorbed by plants in photosynthesis. In the context of ESG, carbon dioxide is a Greenhouse Gas (see below).

Carbon emissions are carbon dioxide produced by ("emitted" by) planes, cars, factories, and other things into the atmosphere. The amount of carbon emissions and other greenhouse gases trapped in our atmosphere causes **global warming**.

Carbon footprint is the amount of carbon dioxide and other carbon compounds emitted due to the consumption of fossil fuels by a particular person, group, or other entity.

Carbon markets are trading systems for buying and selling units of greenhouse-gas emissions.

Carbon negative is the same as climate positive (see below).

Carbon neutral means that a company's carbon dioxide emissions are balanced by an equivalent amount removed (either physically or through purchase of offsets).

Carbon offset is an action intended to compensate for the emission of carbon dioxide into the atmosphere as a result of industrial or other human activity, especially when quantified and traded as part of a commercial program. In other words, instead of reducing your carbon footprint, you purchase offsets from companies or organizations that are reducing carbon emissions.

Carbon Trade, also known as carbon emissions trading, "is the buying and selling of credits that permit a company or other entity to emit a certain amount of carbon dioxide or other greenhouse gases. The carbon credits and the carbon trade are authorized by governments with the goal of gradually reducing overall carbon emissions and mitigating their contribution to climate change." (See [Investopedia](#))

CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

Circular economy refers to an economy that uses a systems-focused approach and involves industrial processes and economic activities that are restorative or regenerative by design, enable resources used in such processes and activities to maintain their highest value for as long as possible, and aim for the elimination of waste through the superior design of materials, products, and systems including business models. The EPA (US Environmental Protection Agency) has some [good info](#).

Clean energy is carbon-free energy from renewable sources that have little to no greenhouse gas emissions, such as solar, wind, water, geothermal, bioenergy, and nuclear power.

Climate positive means that an activity removes carbon dioxide from the atmosphere, thus having a positive effect on climate change.

Compliance Management Software improves compliance, performance, and visibility into an organization's compliance to regulations, standards, and contracts. Thus it's often a critical part of ESG and Sustainability software.

COP21, also known as the [Paris Agreement](#), is the 2015 United Nations Climate Change Conference held in Paris, France December 2015. COP stands for Conference of Parties.

COP26, also known as **Glasgow COP26**, is the 2021 United Nations Climate Change Conference held in Glasgow, Scotland, October 31 to November 13, 2021. COP stands for Conference of Parties.

CSR is short for **Corporate and Social Responsibility**, a term used to describe a company's environmental- and social-focused programs and initiatives. Related terms are Corporate Citizenship and Social and Environmental Responsibility (SER).

D

DEI stands for Diversity, Equity, and Inclusion.

DevonWay ESG & Sustainability software (SaaS) helps companies in regulated, high-risk industries to measure and improve ESG performance and achieve goals. It provides a management framework for improving any ESG metric on a unified platform that can also run your safety, quality, asset, and work management operations. It can also serve as the system of record for datasets that feed into ESG metrics and ratings. Leading ESG frameworks like GRI and SASB are built in.

E

EHS stands for Environmental Health & Safety. EHS software, like [DevonWay EHS](#), automates safety processes and regulatory compliance.

ESG stands for **Environmental, Social, and Governance**.

ESG represents how a company performs relative to each of these areas:

- Environmental is how the company behaves as a steward of nature reducing impact on climate change, pollution, and other environmental impact.
- Social represents how the company manages relationships with its employees, suppliers/vendors, customers, and communities. This area may include diversity, equity, and inclusion (DEI) and social justice.
- Governance refers to how the company manages itself, its leadership, executive pay, audits, internal controls, compliance with regulations and standards, etc.

ESG Ratings - We like this definition from the [Motley Fool website](#): “An ESG rating measures a company’s exposure to long-term environmental, social, and governance risks. These risks – involving issues such as energy efficiency, worker safety, and board independence – have financial implications. But they are often not highlighted during traditional financial reviews. Investors who use ESG ratings to supplement financial analysis can gain a broader view of a company’s long-term potential.”

EPA stands for the [US Environmental Protection Agency](#), created in 1970 to “protect human health and the environment” through developing and enforcing regulations, giving grants, studying environmental issues, partnering with organizations, teaching people about the environment, and publishing information.

EU Emissions Trading System (EU ETS) is the world's first and largest carbon market, "a cornerstone of the EU's policy to combat climate change and its key tool for reducing greenhouse gas emissions cost-effectively." It works on the "cap and trade" model: A cap, or maximum, is set on the total amount of certain greenhouse gases that can be emitted collectively. Within that cap, companies can buy or receive emissions allowances, which they can trade with each other. The cap is reduced over time so that total emissions fall.

G

Glasgow COP2 is the 2021 United Nations Climate Change Conference held in Glasgow, Scotland, October 31 to November 13, 2021. COP stands for Conference of Parties.

Global Reporting Index (GRI) Standards are a set of global standards for corporate sustainability reporting.

Global warming is a gradual increase in the overall temperature of the earth's atmosphere generally attributed to the greenhouse effect caused by increased levels of carbon dioxide, chlorofluorocarbons, and other pollutants.

Greenhouse effect is the trapping of the sun's warmth in a planet's lower atmosphere due to the greater transparency of the atmosphere to visible radiation from the sun than to infrared radiation emitted from the planet's surface. If that's confusing, check out <https://climatekids.nasa.gov/greenhouse-effect/>

GHG stands for Greenhouse Gas, a gas that contributes to

the greenhouse effect by absorbing infrared radiation. The primary greenhouse gases in the earth's atmosphere are water vapor, carbon dioxide, methane, nitrous oxide, and ozone.

GHG Emissions stands for **Greenhouse Gas Emissions**.

GHG Emissions Standards - There are different and evolving standards for reporting GHG emissions. The most common standard globally is the [GHG Protocol](#).

Green Building, according to the [US Green Building Council](#), "is a holistic concept that starts with the understanding that the built environment can have profound effects, both positive and negative, on the natural environment, as well as the people who inhabit buildings every day. Green building is an effort to amplify the positive and mitigate the negative of these effects throughout the entire life cycle of a building."

Greenhouse Gas, or GHG, is a gas that contributes to the greenhouse effect by absorbing infrared radiation. The primary greenhouse gases in the earth's atmosphere are water vapor, carbon dioxide, methane, nitrous oxide, and ozone.

GHG Protocol or **GHGP** is an internationally recognized standard for measuring and reporting GHG emissions. This standard defines three Scopes:

- **Scope 1**, direct emissions: Emissions created from company-owned assets or controlled resources, for example, the combustion of fossil fuel to run a vehicle, boiler or perhaps backup diesel generators used to protect a data center owned by the organization.
- **Scope 2**, indirect emissions: Emissions from the generation of energy that is purchased by the organization, for example, the procurement of electricity or steam to be used in an office, warehouse, manufacturing facility or data center.
- **Scope 3** upstream and downstream emissions: Accounts for all indirect emissions (not included in Scope 2) that occur in the value chain (both upstream and downstream from the organization)

GRI is the Global Reporting Index (see above).

M

Materiality in the context of ESG means the key material issues supporting an organization's ESG strategy.

Materiality assessment in the context of ESG is an exercise of identifying and prioritizing key material issues supporting an organization's

MSCI ESG Rating is a rating reflecting a company's resilience to ESG risks. MSCI is a leading provider of critical decision support tools and services for the global investment community. According to their [website](#), they “use a rules-based methodology to identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers. Our ESG Ratings range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC).”

L

LEED stands for **Leadership in Energy and Environmental Design**. It's a building rating system that provides a framework for healthy, efficient and cost-saving green buildings.

Life Cycle Assessment (LCA) measures the environmental impacts of a product or service.

N

Net-Zero carbon emissions means that an activity releases no new carbon emissions into the atmosphere or is offset by carbon removal.

Net-Zero emissions means that an activity balances all greenhouse gas (GHG) released and removed from the atmosphere.

Net-Zero Standard from the Science Based Targets Initiative “provides the guidance and tools companies need to set science-based net-zero targets.”

O

Offset in the context of ESG usually means carbon offset: an action intended to compensate for the emission of carbon dioxide into the atmosphere as a result of industrial or other human activity, especially when quantified and traded as part of a commercial program. In other words, instead of reducing your carbon footprint, you purchase offsets from companies or organizations that are reducing carbon emissions.

Ozone is a colorless unstable toxic gas with a pungent odor and powerful oxidizing properties, formed from oxygen by electrical discharges or ultraviolet light. It differs from normal oxygen (O₂) in having three atoms in its molecule (O₃).

Ozone layer is a layer in the earth's stratosphere at an altitude of about 6.2 miles (10 km) containing a high concentration of ozone, which absorbs most of the ultraviolet radiation reaching the earth from the sun.

P

The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at COP 21 in Paris, on 12 December 2015 and entered into force on 4 November 2016. Often called the Paris Accords or the Paris Climate Accords, it covers climate change mitigation, adaptation, and finance. Its goal is to limit global warming to below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

PRI stands for the United Nations Principles for Responsible Investment. See United Nations Principles for Responsible Investment below.

Purpose-driven company or organization develops programs that have environmental and/or social impact in addition to their business purpose.

R

Recycling, according to the EPA “is the process of collecting and processing materials that would otherwise be thrown away as trash and turning them into new products. Recycling can benefit your community and the environment.”

S

SASB stands for the **Sustainability Accounting Standards Board**, a non-profit organization that develops sustainability accounting standards. See below for more info.

The **Science Based Targets Initiative** is a collaboration between CDP, the United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature. Since 2015 more than 1,000 companies have joined the initiative to set a science-based climate target. (See [Wikipedia](#))

Scope 1, 2, or 3 - See [GHG Protocol](#) above.

SDGs is an acronym for the [United Nations Sustainable Development Goals](#).

SER stands for Social and Environmental Responsibility.

SICS® stands for **Sustainable Industry Classification System®**.

Social Impact Statement is a written explanation by an organization of how its activities impact the communities within which it operates.

Social Justice refers to “justice in terms of the distribution of wealth, opportunities, and privileges within a society.” (See [Wikipedia](#))

Socially responsible investing, social investment, sustainable socially conscious, “green” or ethical investing, is any investment strategy which seeks to consider both financial return and social/environmental good to bring about social change regarded as positive by proponents. (See [Wikipedia](#))

Supply Chain Sustainability is the collective, total impact of a company’s supply chain on the environment, human rights, fair labor practices, and anti-corruption policies.

Sustainability is the ability to be maintained at a certain rate or level. In the context of climate change, sustainability is the avoidance of the depletion of natural resources in order to maintain an ecological balance.

[Sustainability Accounting Standards Board \(SASB\)](#) is a non-profit organization that develops sustainability accounting standards.

Sustainable Development Goals - See United Nations Sustainable Development Goals below.

Sustainable Industry Classification System® (SICS®) is an industry classification system developed by SASB to group companies into sectors and industries that groups like companies based on their sustainability-related risks and opportunities.

T

TCFD stands for **Task Force on Climate-related Financial Disclosures**, a group created by the Financial Stability Board to improve and increase reporting of climate-related financial information.

U

United Nations Principles for Responsible Investment (PRI) is a United Nations independent entity that encourages investors to use responsible investment to enhance returns and better manage risks. Its six Principles for Responsible Investment “offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. They have attracted a global signatory base representing a majority of the world’s professionally managed investments.”

UNEP stands for the **United Nations Environment Programme**.

UNFCCC stands for the **United Nations Framework Convention on Climate Change**.

United Nations Sustainable Development Goals, also called **SDGs** or **Global Goals**, are a collection of 17 interlinked global goals designed to be a “blueprint to achieve a better and more sustainable future for all.” The SDGs were set up in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030. (See [Wikipedia](#))

