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Five Steps to a Successful ESG Stakeholder Assessment

How do you prioritize hundreds of different ESG practices in a way that makes sense for your organization? Ask your stakeholders.

Defining an environmental, social and governance (ESG) strategy can be a complex exercise. But asking stakeholders what matters to them can help organizations manage that complexity and create a strategy that is responsive to stakeholder priorities and concerns and therefore helps drive business performance.

An ESG stakeholder or materiality assessment can bring clarity to both overall strategy and next steps. Plus, when done successfully, the added focus and improved outcomes can save time and money and add to enterprise value as organizations implement their ESG strategy.

As your organization defines its ESG strategy, here are a few things that can help make its ESG stakeholder assessment a success.

1. Identify your main stakeholders.

This list won't look the same for every organization, but stakeholders that organizations might want to consider include:

• Internal stakeholders, such as employees, senior management and board members

• External stakeholders, such as customers, suppliers, investors, distributors, communities and regulators

"Employees are speaking up like never before about what they expect their employers to do. You can take a look at what your peers are doing to give you a sense of where you want to be in your industry," says Chris McClure.

2. Determine your priority stakeholders.

Stakeholder priority will depend on specific goals, structures and operating models. For some organizations, investors are a major priority—for others, it might be customers or employees. Determining priority early means when the organization receives responses from the ESG assessment, it can weigh them appropriately.

3. Decide the format of your ESG stakeholder assessment.

For some stakeholders, a questionnaire might be the best approach. For other stakeholders, such as customers and employees, it might be possible to make a direct connection through interviews. The size of the survey population also will influence the approach, since smaller groups lend themselves to personal interviews. Speaking directly with stakeholders can help capture a wider range of thoughts and opinions as well as more nuanced input—even though it can take more time to gather and measure responses. An online questionnaire can provide more comparability in responses and yield a greater opportunity for data analysis.

4. Develop questions that help guide your ESG strategy.

Relevant topics will differ to some extent by industry, geography and business. Organizations can pull together a list of relevant topics based on, among other things, what other companies have identified, conversations with key team members and regulatory requirements. Topics include:

• Diversity, equity and inclusion

• Environmental priorities

• Compliance issues (including ethics, anticorruption, data privacy and security)

• Industry-specific considerations (for example, manufacturing companies might have many supply chain-focused questions, while companies in pharmaceuticals and life sciences could have questions focused on quality of care, affordability and access)

5. Communicate the results and decide how you'll use them to define your ESG strategy.

When organizations complete an ESG stakeholder assessment for the first time, they might keep the results internal, using them solely to help further develop their ESG strategy and reporting. If reporting the results externally, organizations might only describe them narratively to help frame the discussion of their key ESG focus areas and initiatives, or they could go further and publish a materiality matrix showing the relative priority of the topics assessed. Ultimately, the best choice depends on specific ESG goals and the maturity of the ESG strategy.

While an initial ESG assessment helps define strategy, organizations should reassess stakeholder priorities at periodic intervals. Priorities might not change much in a year's time, but many organizations notice a shift in both stakeholder and society's perception of ESG priorities over two to three years.

(Source CFOLC)