

THE ABCS OF ESG

by Lisa Kreinces

Environmental, Social and (Corporate) Governance — or ESG — is a relatively new concept that is being embraced by corporations as they plan their futures. According to Forbes’ Betsy Adkins, “ESG issues were first mentioned in the 2006 United Nation’s Principles for Responsible Investment (PRI) report” with the intent of holding companies responsible for further developing sustainable investments. In practice, it represents a more stakeholder-centric approach to doing business and considers the impact a company can have on its employees, customers and the communities in which it operates.

What is ESG and why it matters

ESG encompasses three broad categories for what is termed a “socially responsible investment” or a “socially responsible company.” Environmental considers how a company performs as a steward of nature. Social assesses how a company manages its relationships with employees, suppliers, customers and the community. Governance covers how a company is administered.

A company’s approach to doing business is no longer just to make a profit, but to positively impact all stakeholders — employees, customers, suppliers, communities, investors and the environment. Conducting business in today’s marketplace is no longer strictly about optimizing for risk and return to drive financial performance. Rather, it is about optimizing for risk, return and impact. ESG naturally requires a more holistic and long-term view of the world — frame it as thinking about the next quarter-century vs. the next quarter.

Companies with solid ESG practices can realize numerous benefits, including opening new markets and expanding existing ones. Executing ESG effectively can also help reduce operating expenses (e.g., increased operational efficiency, lower employee costs and turnover). It builds

business resilience (lowers risk) and stability. And, significantly, people increasingly want to buy from, work for and invest in good corporate citizens.

Major corporations are moving to carbon-neutral strategies as stakeholders are being emergently vocal about environmental concerns. In May 2021, Royal Dutch Shell was ordered by a Dutch court to significantly reduce emissions beyond its original plan — a case which was brought by a local environmental group MilieuDefensie. On the same day, an activist shareholder of Exxon Mobil won their proxy fight with the company, gaining two seats on the company’s board in an attempt to accelerate the energy giant’s carbon footprint reduction.

ESG investors are on the rise. According to US SIF (The Forum for Sustainable and Responsible Investment, a US-based membership association), the total US-domiciled assets under management using sustainable investing strategies grew from US\$12.0 trillion at the start of 2018 to US\$17.1 trillion at the start of 2020, an increase of 42 percent. Companies with strong ESG programs seek to create long-term value for all stakeholders, usually with a desire to attract like-minded investors.

ESG in the performance plastics industry

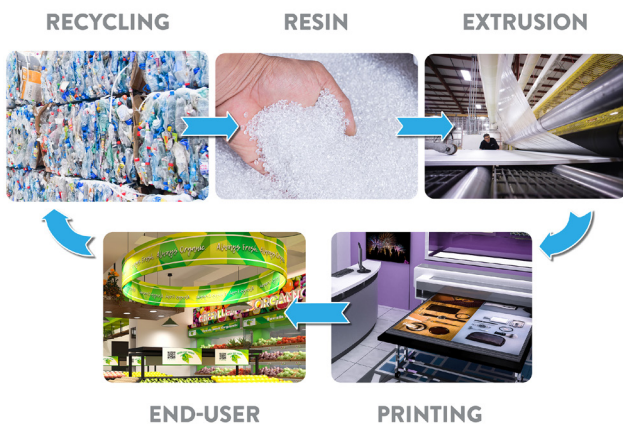
The performance plastics industry is in a unique position to use ESG as a business advantage as several components of ESG are inherent in how we do business. Take, for example, the social element: the performance plastics industry is already in collaborative relationships with manufacturers, distributors, customers and end users, as each is co-dependent to achieve a common goal. Maintaining strong bonds with partners is a win-win-win for everyone.

The most meaningful impact the plastics industry can have is in the environment segment by accelerating the use of recycled material. According to the Ellen MacArthur Foundation, only 20–30 percent of construction and demolition waste is recycled or reused. We need to use less and reuse more. In a circular economy, plastics will be recycled again and again, thus, eliminating waste and enabling the continual use of resources. The circularity chain is not complete if these materials end up in a landfill or incinerators.

Forward-looking companies are making ESG a core part of their mission and strategy. Best-in-class companies have material ESG topics identified and integrated into a cohesive narrative linked to a company’s purpose, a clear sense of key stakeholders and engagement channels, multi-year objectives to achieve improvements and demonstrated accountability through the linking of ESG objectives to executive or leadership compensation.

Starting an ESG function

To gain some perspective on starting an ESG function, we spoke with Amanda Cimaglia, vice president, ESG, The AZEK Company, an affiliate of Vycom. Cimaglia joined The AZEK Company in January 2021, bringing with her 10 years of experience with ESG and investor relations programs, and



Vycom’s PVC Recycling Program model for the sign and graphics industry.

Figure 1: Illustrative ESG program model

ESG Governance	ESG Policies	Measuring Performance (ongoing)	Setting Short-term and/ or Long-term Goals	Communicating Progress (ongoing)
Establish formal oversight by the company's Board of Directors and/or Executive Leadership	Business Code of Conduct & Ethics	Corporate-wide Carbon Footprint Inventory	Setting carbon reduction goals in alignment with climate science	Annual ESG Report
Establish internal cross functional ESG Steering Committee comprised of leaders from across the organization	Supplier Code of Conduct	Workplace Safety	Safety goals established annually	Dedicated ESG webpage
Tying executive compensation to ESG goals	Environmental, Health & Safety Policy	Product Lifecycle Assessments	Diversity and community engagement goals	Quarterly / Annual updates to investors and other stakeholders
	Human Rights Policy	Workplace Diversity		

was recently named to the 2021 class of “30 under 40” by the National Investor Relations Institute. Cimaglia shared her insight on the challenges and opportunities in creating an ESG program.

“I like to describe ESG as a journey and not a destination. There will always be room for improvement; starting an ESG program does not need to be overwhelming,” said Cimaglia.

Creating a model

Before starting on an ESG program journey, buy-in from the top is a must. It’s paramount that executives and board members share a similar view on the importance of integrating ESG strategy into traditional business strategy and are committed to understanding it is a vital part of driving long-term value creation.

According to Cimaglia, establishing an internal cross functional ESG Steering Committee is often a good starting point, as it provides the opportunity for key leaders from all functional departments including communications, operations, marketing, human relations, legal, environmental/health/safety, supply chain, etc., to come together with their respective expertise to help set and implement a holistic ESG strategy appropriate for their company. Figure 1 displays a model that can be used to plan out an ESG program.

Engaging with stakeholders

“Cultivating relationships, building trust and loyalty and increasing transparency should be some of the key goals of stakeholder engagement,” said Cimaglia. Here are some of her ideas regarding engaging with specific stakeholder groups:

- Employees: communicating core values and a code of conduct, holding frequent “town hall” style meetings, offering training programs and ensuring adherence to safety policies and procedures.
- Customers: customer service interactions, training programs and educational programs through webinars, events, conferences, etc.
- Suppliers: supplier code of conduct, supplier ESG surveys and annual reviews.
- The community: strategic community involvement plans, donations or community outreach, partnerships and sponsorships.
- For publicly traded companies: investor engagement includes quarterly earnings calls, annual and quarterly financial disclosure materials, attending key industry conferences and events and interacting directly with shareholders.

“My goal is to engage and inspire our stakeholders both internally and

externally, to join us on this journey because we can’t make a difference in the world without those partnerships,” said Cimaglia. “I am fortunate to have been able to join a purpose-driven company. I truly believe in our ability to make a difference in the world, keeping millions of pounds of waste out of landfills and revolutionizing the industry to create a more sustainable future.”

The future of ESG

“To build a sustainable future, it takes reimagining current products to find ways to make them better and innovating to bring new products to market with lower environmental impacts,” said Cimaglia. “As an industry, we must continue to push the boundaries of our recycling capabilities and innovations.”

At the end of their useful lives — typically many years longer than wood and other traditional materials — performance plastics are still valuable resources that can be transformed into new feedstock, reducing reliance on petroleum-based raw materials by reusing existing products.

The world needs responsible companies to lead the way by making sustainability a core part of their mission, process and products. State-of-the-art recycling facilities, working in concert with partners to capture and return material and innovative material process technologies can revolutionize our industry and help protect our planet. The future is dependent upon the commitment the performance plastics industry makes to sustain our natural environment and better use our precious resources.

The importance of starting now

Most companies find that they’re already engaging in ESG practices when they take an initial inventory of ESG activities. While perhaps not thinking of these activities in terms of a formal ESG program, much of the work has started and it’s now time to document it and tell their story.

“At the end of the day, ESG is becoming table stakes for public and private companies alike — this is a vital part of long-term success and value creation,” said Cimaglia. “Moreover, if a business is looking to attract and retain top talent, it must be actively committed to sustainability and social responsibility through demonstrated ambition and action.”

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