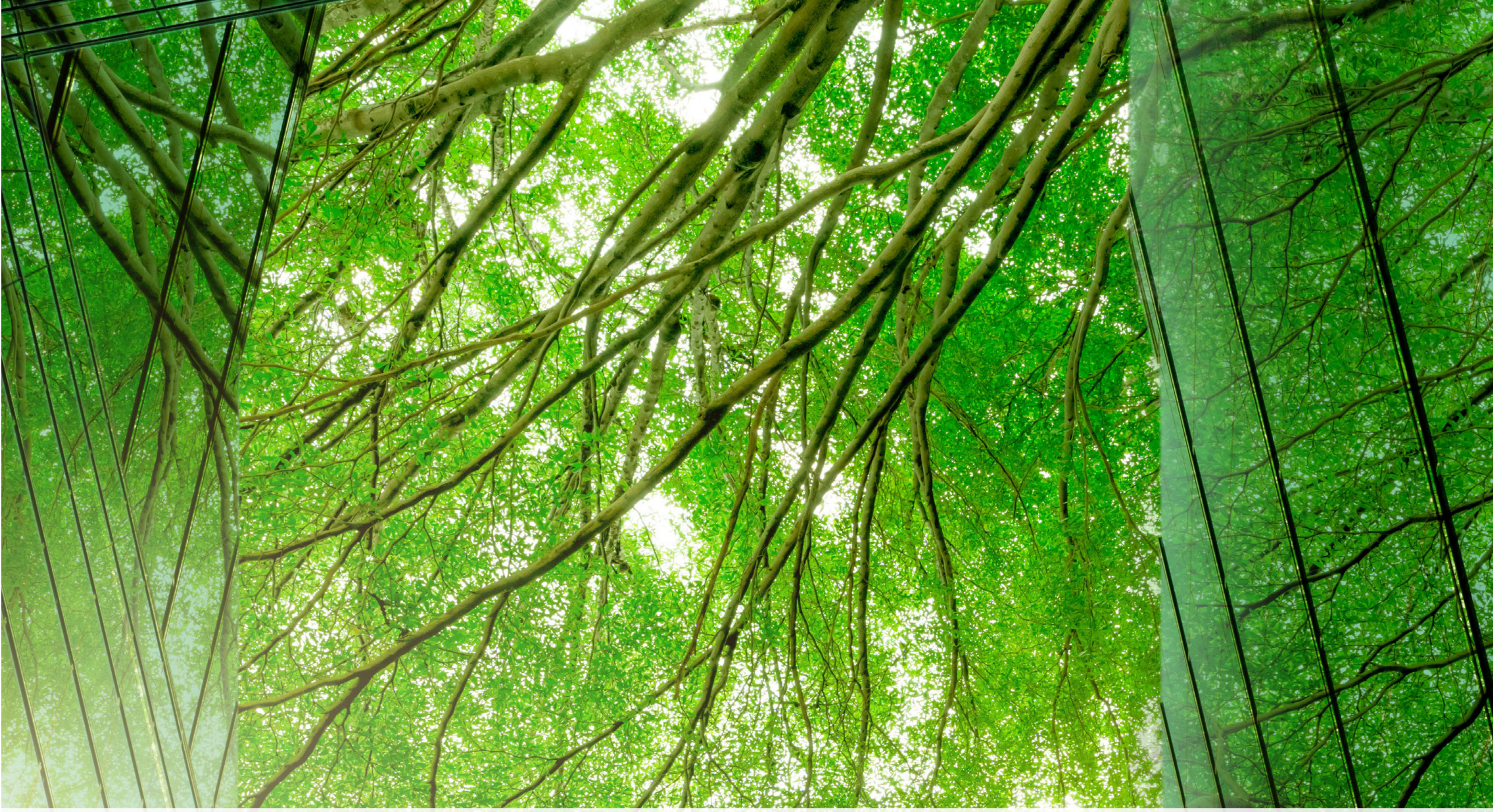

STATE OF THE INDUSTRY

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

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# ESG

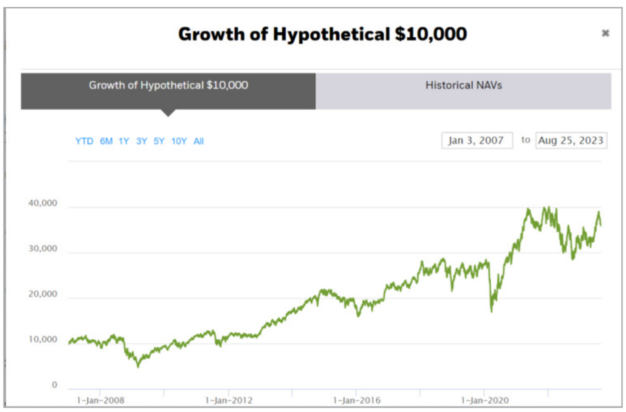
## ENVIRONMENTAL, SOCIAL AND GOVERNANCE

One of the biggest opportunities for the business community over the next 10 years comes from an unlikely source: ESG.

ESG, or Environmental, Social, and Governance, is the is the process for setting, managing and reporting on an organization's governance mechanisms, environmental and social impacts, and related policies. Stated differently, it's the way that a company considers non-financial data on its business success and stakeholder satisfaction.

The trucking industry sits as the crossroads of commerce and sustainability; using an entity's finite resources in the most efficient way to deliver the customer's product or service is core to the industry's mission.

In the US, the transportation sector accounts for 28% of Greenhouse Gas ("GHG") emissions[1]. 23% of the transportation sector's total GHG emissions can be attributed to the use of medium and heavy-duty trucks[2]. Despite this, GHG emissions peaked towards the middle of the early 2000s, and have not since reached the 2007 levels. Against the poor economic backdrop of 2007-2010 and the challenges of the COVID pandemic, this decrease in emissions would be straightforward and easy to correlate with decreased economic demand. However, as you can see, the commonly-traded transportation ETF iShares US Transportation ETF (ticker: IYT) is up ~260% in that timeframe:




During that time period, the transportation industry has prioritized a number of voluntary and mandatory initiatives that have created sustainability efficiencies while increasing shareholder value. These include the utilization of technology in route optimization, the use of analytics and machine learning to better predict supply and demand equilibrium, and modernization of equipment in order to increase fuel efficiency and enhance driver safety.

As it stands today, the industry will now embark on the next leg of its ESG journey. Why does ESG matter, which topics should the industry focus on, and where should companies start? Read on to find out.

## Why Does ESG Matter?

**Your customers care.**

As a proxy to consumer opinion on ESG and sustainability, we can look at a 2020 McKinsey US consumer sentiment survey wherein more than 60 percent of respondents said they'd pay more for a product with sustainable packaging[3]. A recent study by NielsenIQ found that 78 percent of US consumers say that a sustainable lifestyle is important to them.

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[1] https://www.epa.gov/ghgemissions/sources-greenhouse-gas-emissions
[2] https://www.epa.gov/greenvehicles/fast-facts-transportation-greenhouse-gas-emissions
[3] https://www.mckinsey.com/industries/paper-forest-products-and-packaging/our-insights/sustainability-in-packaging-inside-the-minds-of-us-consumers

Furthermore, against the backdrop of looming legislation (see the next section) both large and small companies are evaluating the potential impact to their supply chain of having to report on material Scope 3 emissions across their business.

**Regulators care.**

With the increased interest in ESG from customers and companies, regulators across the globe have proposed or enacted measures impacting almost every sector of the economy.

In the US, the SEC has proposed legislation[4] requiring companies to disclose a number of GHG emissions and water-usage metrics aligned to the Taskforce on Climate Disclosure (TCFD) beginning in fiscal-year 2023. The goal of this regulation is to standardize ESG reporting for public registrants to ensure accuracy and comparability both within and across industries. For both private and public trucking companies, the legislation looms large as a result of the inclusion of ***material*** Scope 3 emissions in a company's public reporting. As it covers both upstream and downstream activities, this is typically the largest portion of a public company's GHG emissions. Public companies are reliant upon all stakeholders in their supply chain (typically private companies) to provide adherence to policies, GHG data, and calculated emissions in some cases.

In the EU, the Corporate Sustainability Reporting Directive (CSRD) requires disclosures around a number of environmental, social, and governance standards established by EU regulators.

**It can be a differentiating factor.**

In a study published in 2023 by the Society for Human Resources Management[5], 41% of all employees considered ESG initiatives important to have. However, those numbers rose to 46% and 55% respectively when asking Gen Z and Millennials about the importance of ESG initiatives.

Furthermore, 75% of surveyed executives said that ESG initiatives helped to have a positive impact on employee engagement.

As readers of this publication know all too well, the labor shortage in the trucking industry continues to pose problems and employee retention is critical to success[6]. A formal ESG program represents one of the best ways to target initiatives towards the topics that are material to employees.

## Which ESG Topics Matter to the Trucking Industry?

The most material topics for a company are those expressed by both internal and external stakeholders. The importance of these topics should be thought about both in terms of financial and non-financial impacts. Within the trucking industry, these are some common relevant topics:

- **Environmental** – Carbon emissions reduction, carbon intensity per mile driven, avoided emissions, fleet electrification, use of biogenic and alternative fuels
- **Social** – Driver safety, diversity equity and inclusion (DEI), enhancing employee benefits, training opportunities for employees, community impact of company presence
- **Governance** – Data privacy and protection, corruption and anti-bribery training, supplier adherence to code of conduct, board leadership and independence

[4] https://www.schneiderdowns.com/environmental-social-governance-consulting
[5] https://www.shrm.org/hr-today/news/hr-news/pages/survey-esg-strategies-rank-high-with-gen-z-millennials.aspx
[6] https://www.schneiderdowns.com/UserFiles/File/OTA%20Whitepaper_rough%20road%20ahead.pdf

## Where Should Trucking Companies Start?

1. **Understand what's important to your stakeholders.**

   As discussed above, for private companies, if your company is in the supply chain of a public company looking at the impact of Scope 3, you need to engage with that customer and understand what their expectations will be of you once the regulation takes effect. For trucking companies in the supply chain of public companies, questions may be geared towards either upstream or downstream transportation and distribution.

   For private companies looking to establish a more formal ESG program, the first step is to survey your key stakeholders to determine what's material to them. This is usually accomplished by rating both financial and non-financial impacts of a list of ESG topics that are relevant to the company's business. The resulting materiality matrix allows for prioritization and subsequent action to take place.

   For public companies, the journey to creating an ESG program and associated reporting mechanism has likely already begun. Thus the focus for public companies in this stage is twofold: ensuring that your focus on past material ESG topics is still relevant and understanding which ESG regulations you are currently or will be in-scope for. The latter requires the implementation of good horizon scanning policies and subsequent review with your internal Legal and Compliance to ensure that no regulatory matters are missed and the regulatory expectations are understood upfront. In addition to the regulatory piece, public companies should take care to understand what their stakeholders' expectations are for them, and how their partners stand with regards to ESG data, adherence to responsible sourcing, and abiding by your code of conduct.

2. **Identify your intended outcome.**

   If you're a private company that is required to get ESG data, implement a sourcing policy for a public company's request, or begin to formalize your ESG program, there are a number of questions to ask yourself:

   - What do I want to convey to the customer or end-client?
   - What data is needed in order to satisfy the request?
   - Are there any calculations needed to fulfill the request?
   - Which ESG expertise do I need, and do I have that in-house?
   - Who needs to be involved at the Board or leadership level to ensure proper governance and oversight of the request?
   - Is your objective only to respond to this request? Or, Is the request a starting point for addressing your stakeholders' material ESG topics in a more formalized ESG program?
   - Public companies will want to consider all of the above in addition to these specific items:
   - Are there processes or data quality points that I feel may open our company up to greenwashing allegations?
   - Are there other jurisdictions we operate in that may require some form of this data or acknowledgment of a certain policy or procedure?

3. **Baseline what you have and what you don't.**

   When responding to a client's inquiry for ESG data, it's best to create a data process map and inventory of all systems, data points, and key people that need to be involved in order to facilitate the request.

   For companies looking to more formally establish an ESG program, a materiality matrix is an excellent place to start. The identification of material topics from key stakeholders can lead to specific goals, metrics, and eventually targets that can be associated with each. This analysis can be supplemented by the consideration of federal and state credits and incentives based on the nature of the ESG activity. These credits play a critical role in the analysis of which activities to prioritize. Upon the completion of this exercise, specific actions can be proposed to close any gaps between what currently exists and what will need to be implemented.

4. **Take steps to move towards completion.**

   During the implementation phase, companies should ask themselves the following questions:

   - Do we have the right level of expertise in-house to meet the requirements by topic?
   - What are the standards or frameworks associated with the ESG topic?
   - What tools will be used tactically and strategically to ensure data completeness and accuracy?
   - Who needs to be involved in the implementation of strategic initiatives to address gaps?
   - Which Committee or group of senior leaders is accountable for the governance and oversight of the program or client request?

The next 5-10 years will be critical for both private and public companies to chart their course in the ESG space and be recognized as industry leaders. For those companies looking to embark on this journey that need outside expertise, Schneider Downs offers a suite of ESG services including counsel on standing up an ESG program, completion of an audit of existing ESG programs, understanding credits and incentives associated with ESG activities, or ESG data quantification for client requests.

## About Schneider Downs ESG Consulting

With our industry expertise and extensive knowledge of the risk advisory landscape, the Schneider Downs team can help your organization perform a gap assessment relative to the finalized regulation, suggest areas of improvement and meet the SEC Name disclosure requirements.

Learn more about our ESG consulting services at **www.schneiderdowns.com/esg** or contact the team at **contactsd@schneiderdowns.com**.

## Ohio Trucking Association

The Ohio Trucking Association is a 100-year-old full-service trade association operating in Columbus, Ohio. With over 815 total members in the trucking, logistics, warehousing and moving industries, our promise to our members is simple: the Ohio Trucking Association will work to improve operational efficiency, profitability and relevancy for all of Ohio's transportation industry. Advocacy, professional development, networking and cost savings initiatives are the keys to carrying out this promise to our members. No matter what the cause, our industry is stronger when operating as one. We encourage you to explore more about becoming involved with the Ohio Trucking Association at **www.joinota.com**.

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## Schneider Downs Transportation and Logistics Industry Group

Established in 1956, Schneider Downs has grown to be one of the largest independent public accounting and advisory firms in Columbus, Ohio; Western Pennsylvania and Metropolitan Washington, with over 500 personnel in total, including 57 shareholders and partners.

More than 25 years ago, we established the Schneider Downs Transportation and Logistics Industry Group. The group includes assurance, tax, technology and management consulting professionals who combine their individual expertise to serve our wide range of transportation and logistics clients—from local carriers to national enterprises, including: trucking, general freight, flatbed and box, TL, LTL, tank waste brokerage, bulk commodity dump, 3PL, heavy hauling/ permitted loads, moving and warehousing. The Transportation and Logistics Industry Group meets on a regular basis to review and analyze issues central to this industry. As a result, our transportation and logistics professionals possess the most current knowledge of transportation issues, regulations and trends. We work with you to seek innovative ways to reach your strategic goals.

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For more information about this report, please visit
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