

# ESG as a Strategic Approach

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# Definitions



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# ESG Definition

Environmental, social and governance (ESG) criteria are a set of standards that classify company's operations and socially guide investors in assessing potential investments.





# Environment

**Environmental** criteria consider factors such as carbon emissions, water and waste management, raw material sourcing and climate change.



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# Social

**Social** criteria examine diversity, equity and inclusion, labor management, data privacy and security and community relations.



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# Governance

**Governance** criteria deals with a company's leadership, executive pay, audits, internal controls, board governance, business ethics, intellectual property protection and shareholder rights.



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# ESG & Investments



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# ESG & Investments

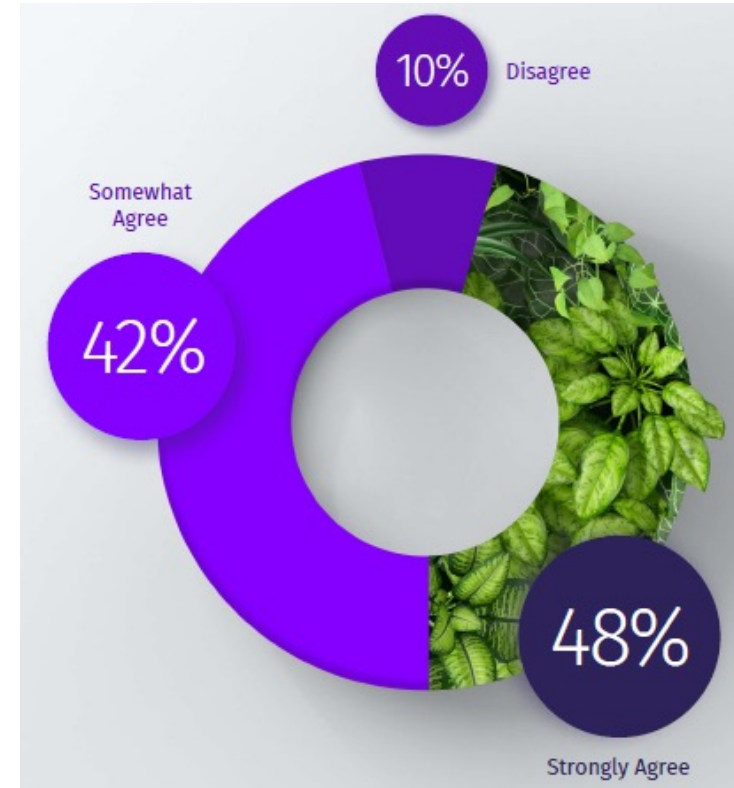
- Investments in the ESG market have gained significant traction in recent years among investors, and today, it's the talk of the town.
- Business executives agree ESG programs are key components of long-term value and business resiliency.





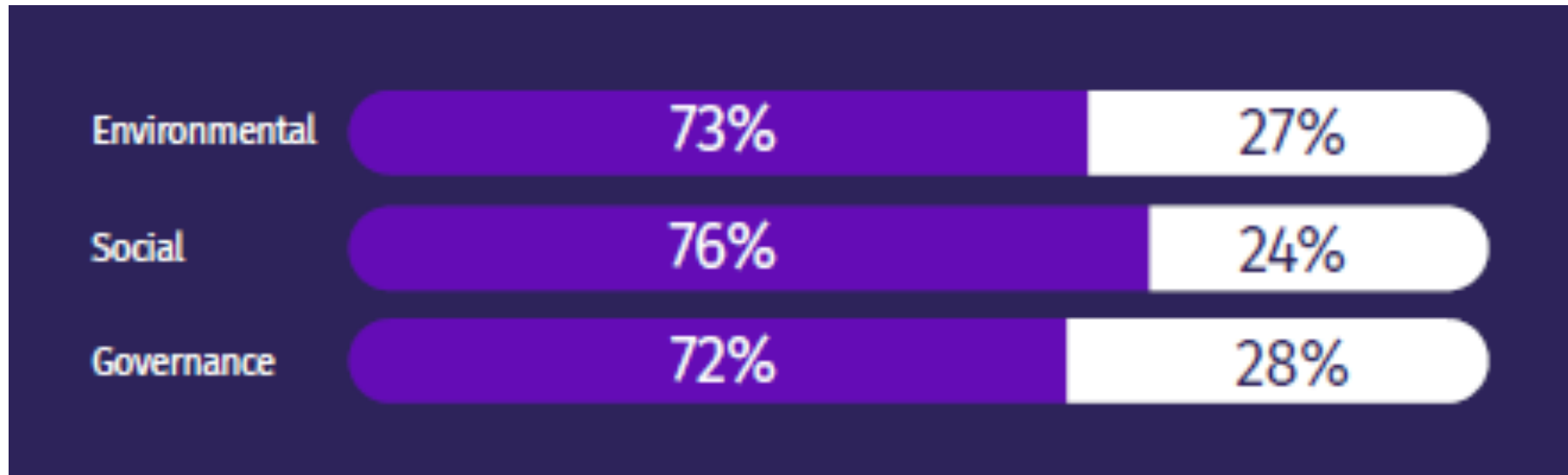
# ESG & Investments

**90%** of business executives agree that increasing investment in ESG can drive bottom-line value for the business.



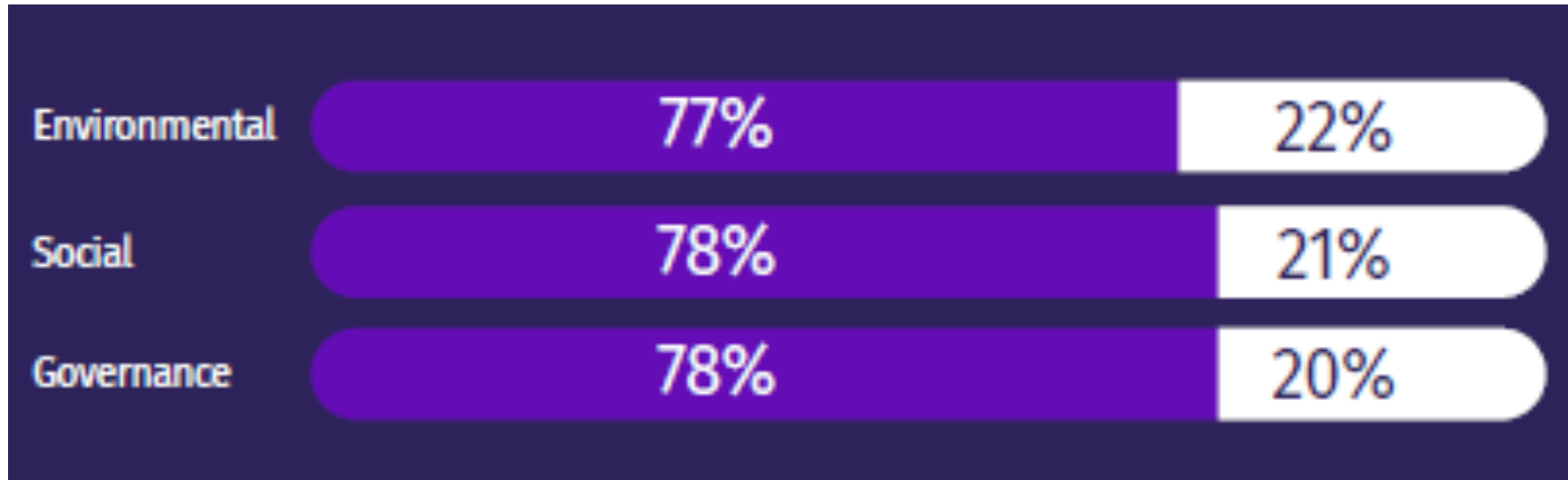
## ESG Past 2 Years

Around **75%** of stakeholders say their ESG focus has increased significantly in the past 2 years



# ESG Past 3 Years

and an even greater proportion see it increasing further in the next 3 years.



# ESG Reporting

Most stakeholders see enhanced ESG reporting is essential to drive better decision-making and risk analysis



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# Why Align ESG with ERM?



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# Why Align ESG with ERM?

- For years, many Chief Risk Officer (CROs) and Chief Sustainability Officer (CSOs) have operated in silos. But with ESG risks growing more prominent, it's time to break down these barriers, and operate as one team.
- The more closely the risk function and the ESG function work together, the better prepared the company to respond to all kinds of risks.

**Here are six reasons to integrate ESG into ERM:**



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# 1-ESG is not just a risk, but a BIG one

- ESG risks are closely linked to other enterprise risks. For example, the failure to lower carbon emissions could adversely impact a company's reputation, compliance posture, and financial health.
- These risk relationships are best understood when ESG risks are mapped to other enterprise risks.
- The result is a more nuanced risk understanding that can help companies define the scale, scope, and context of their risk management activities.





## 2-Use resources more efficiently

When ESG risks are managed as part of a centralized ERM program, companies can enrich risk data while eliminating the duplication of effort, minimizing risk gaps, and optimizing capital allocation







## 3-Strengthen first-line involvement

- Front liners are often the best-positioned to spot emerging ESG risks such as a child labor issue in the supply chain.
- These timely insights can help companies act on ESG risks and opportunities proactively.
- Therefore, it's imperative that the first line be involved in ESG risk identification and assessment.





## 4-Improve risk reporting

- ERM taxonomies use a common, consistent language to identify, assess, and report risks.
- When ESG risks are described in these terms, decision-makers can better understand how an ESG issue like unscientific waste management or a lack of employee diversity can impact corporate strategy and objectives.
- This makes it easier to secure investments for ESG initiatives





## 5-Boost compliance and resilience

- Some compliance requirements expect companies to incorporate ESG risks into ERM programs.
- Long-term corporate viability also depends on a company's ability to predict and respond to all risks and opportunities – including ESG-related ones.





## 6-Build trust

- Integrated risk management program should have ESG embedded into the company's strategy and operations.
- Green washing concerns are also eliminated when ESG is made part of an established ERM program.
- It indicates that the company is committed to doing the right thing which, in turn, strengthens credibility with shareholders.



## ERM Maturity & Market Rate

You can't claim that you have a strong Enterprise Risk Management program, unless you inherently have ESG embedded into every aspect of your company

Mature Risk Program =  25% higher market valuation

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# Are we Getting the Balance Right?



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## International Standards

- In 2023, the International Sustainability Standards Board (ISSB) issued two new standards related to sustainability disclosure and reporting (IFRS S1 & S2).
- This year also saw new Canadian legislation (Bill S-211) related to organizations' responsibility to mitigate the use of forced labour and child labour in their supply chains.
- These measures are only the beginning of what is likely to be an onslaught of ESG-related regulation and legislation in the years to come.





## Governments & Governance

- It is imperative that organizations not only be proactive in aligning with these standards, but also anticipate the environmental, social, and governance requirements around the corner.
- It's clear that ESG is not a passing trend.
- Governments are responding by drafting laws with sharper teeth, and many organizations are at risk of being caught unprepared.







## The Focus Today

- Most of the focus to date has been on the environment, and, to a lesser extent, social issues such as the indentured servitude and human trafficking.
- In time we will see more and more focus on the social and governance elements of ESG.





## Opportunities

- Organizations have an opportunity to get ahead of the conversation.
- Equity, diversity, and inclusion (EDI) is one area of focus that organizations will want to be paying attention to in the year ahead (social) — especially as it relates to representation on boards and senior leadership positions (governance).



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# ESG Implementation



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## Red Flags / Key Risk Indicators

- Lack of climate change mitigation, environment, and biodiversity strategies and detailed plans
- Weak governance architecture around emergency and incident preparedness
- Increased reports of harassment or discrimination, unwanted turnover, challenges in hiring, low/declining engagement scores
- Lack of rigorous EDI strategy (linked to corporate strategy) or failure to deliver on the strategy
- Links with suppliers or contractors involved in human rights abuses, lack of supply chain transparency
- Increased health and safety violations
- Lack of community engagement, lawsuits, public protests, negative media coverage
- Material increase in whistleblower tips (i.e., corruption and bribery)
- Lack of clarity around responsibility for fraud prevention



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# Challenges for Effective ESG Compliance

Over the past few years, various ESG issues have been at the top of the company's agenda.



## Fragmented Approach

Leaders manage ESG issues across departments using different protocols and controls



## Weak Corporate Governance

ESG efforts are siloed – not yet developed the necessary governance structures to support risk management across ESG areas and business units.



## Regulatory Inexperience

Many companies in some industries are not used to strict supervision



## Data Shortfalls

To improve transparency, regulators encourage companies to provide more detailed ESG-related data. Data availability and data quality are challenges for companies.

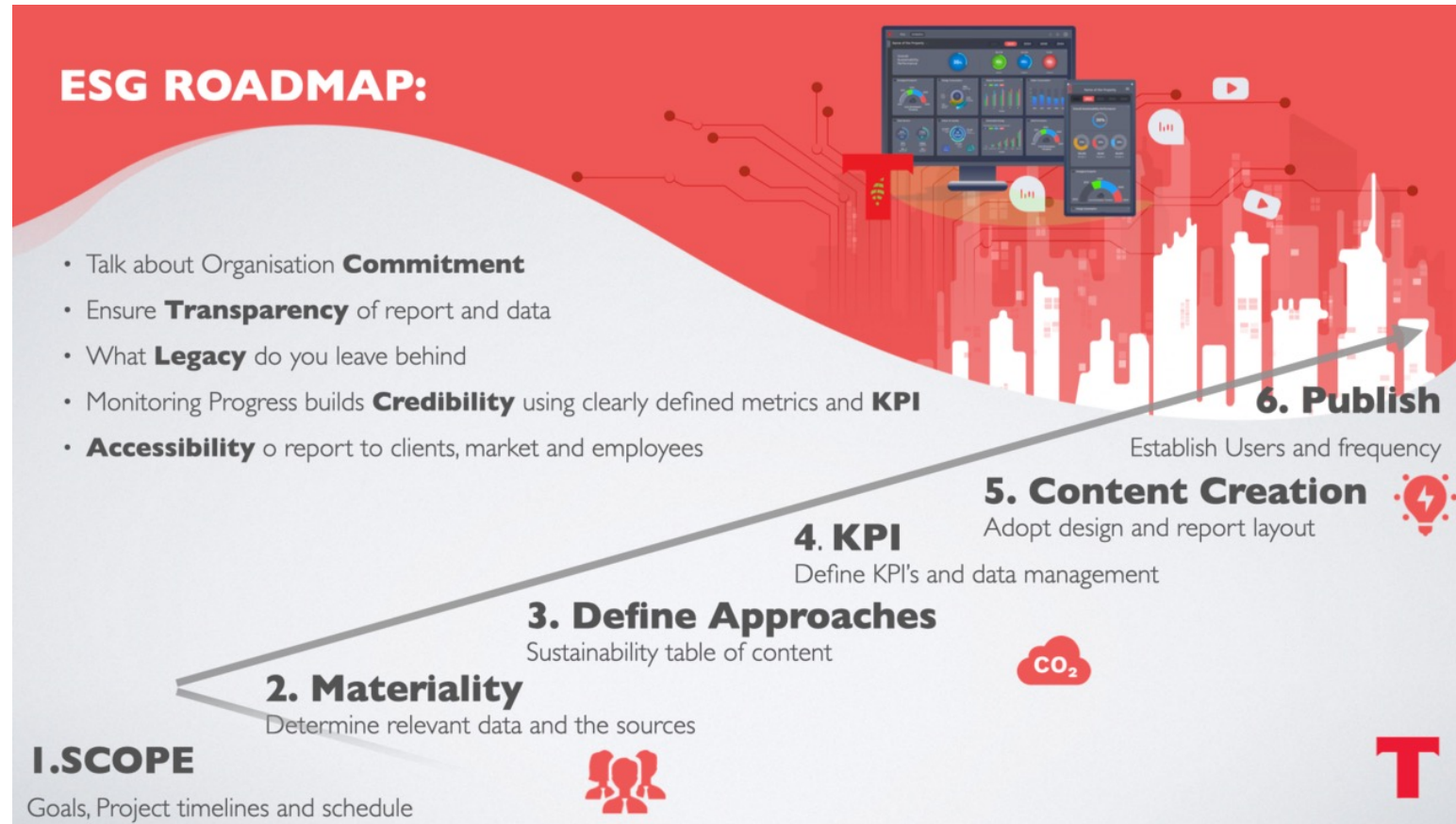


## Technology Limitations

Regulators are increasingly demanding more complete and detailed reports, requiring more sophisticated reporting capabilities – such as automation tools.



# ESG Roadmap



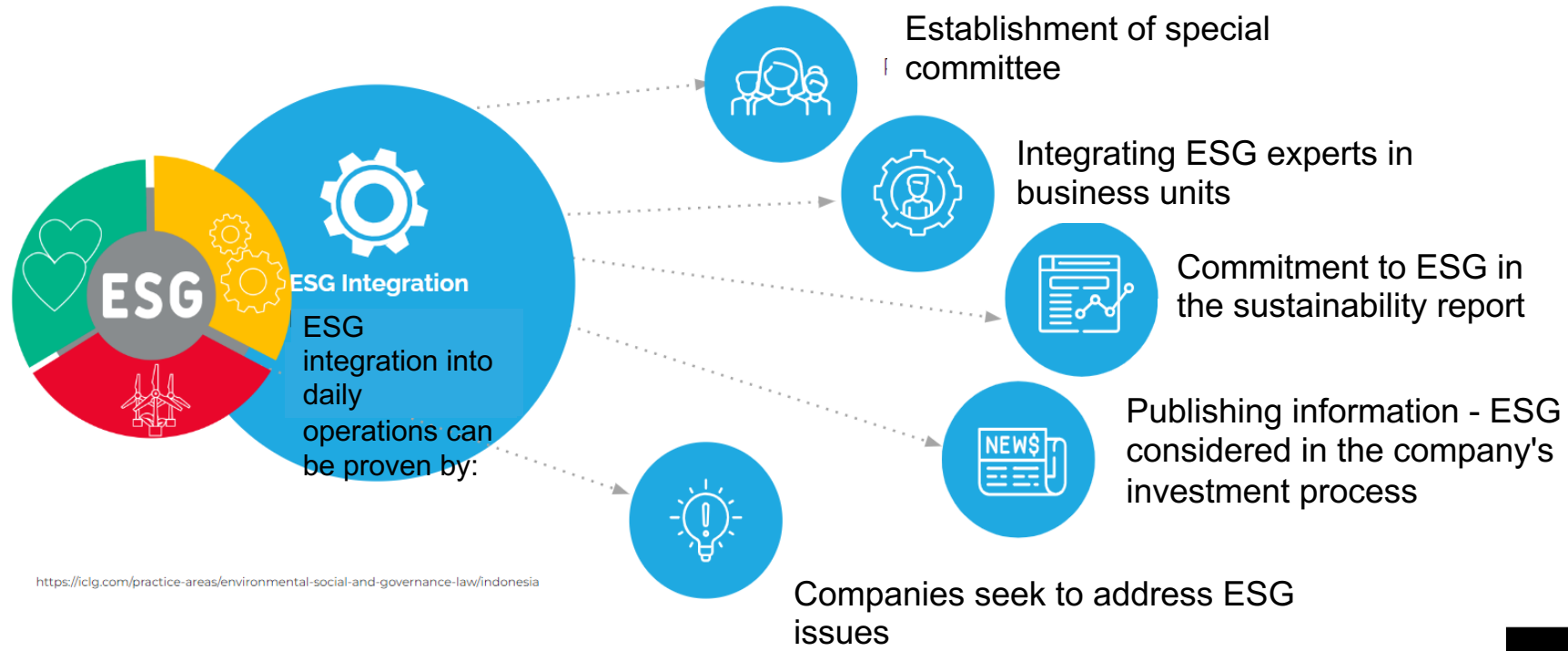
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# ESG Integration in Daily Operations

There is no one-fits-for-all approach that can demonstrate that a company has integrated ESG into its operations. Each company may take different actions according to its circumstances.





# Implement Environmental Criteria

- Using a readiness questionnaire based on objective criteria
- Perform a gap assessment to determine what is or is not in scope for your organization,
- Benchmark your gap assessment results against all relevant laws,
- Once you've determined which areas you need to improve on, browse regulatory guidance by topic from the EPA.
- Leverage best practice guidance by topic, and design and implement effective controls for mitigating your risks.







## Implement Social Criteria

- Lead by example; your initiatives should be included in board level presentations.
- Create effective policies that demonstrate your commitment to your values, and link these to effective and efficient controls
- Cultivate a culture of trust and acceptance.
- Demonstrate that you're supporting your community.
- Social criteria looks closely at your organization's business relationships
- Develop affinity groups that employees can join to create a space for open conversation
- The working conditions at your organization should contribute greatly to your social responsibility status.





## Implement Governance Criteria

- Establish an internal strategy for growing leaders within your organization
- Implement and demonstrate fair compensation structures.
- Take a risk-based approach when executing mergers and acquisitions
- Accountability is a fundamental requirement of good governance
- Corporate governance should be equitable and inclusive.



# THANK YOU



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