British Columbia

ESG CENTRE *of* Excellence

Environmental, Social and Governance (ESG) 101 Guide

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Intention of this document and overview of ESG

Introduction

This document is intended to educate you on what ESG is, why it matters and how to implement best practices.

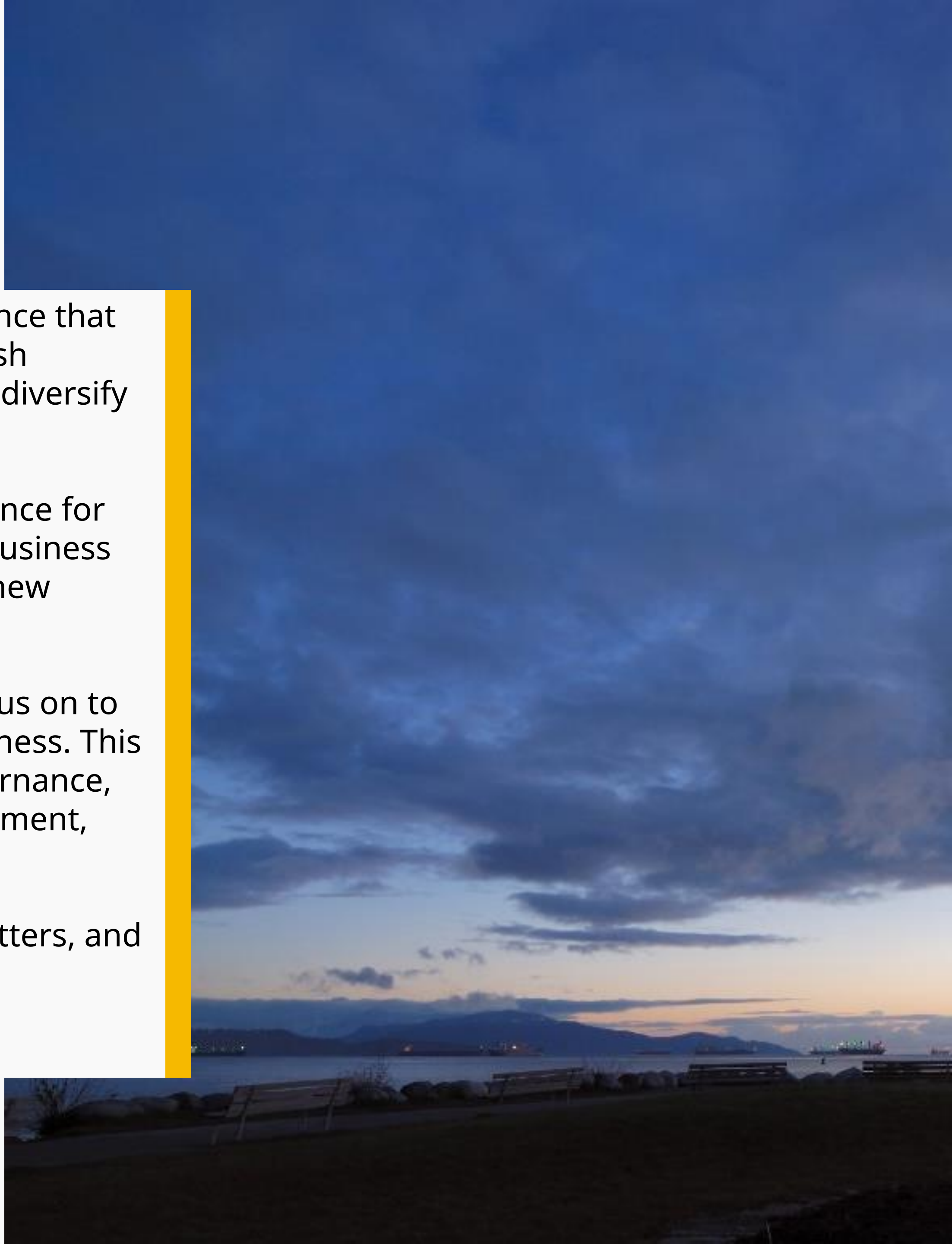
The Stronger B.C. plan includes the establishment of an ESG Centre of Excellence that will facilitate Environmental, Social and Governance (ESG) investments in British Columbia (B.C.), attract socially and environmentally conscious investors, and diversify markets for B.C.'s world-class goods and services.

In this document, we will provide you with an overview of ESG and its importance for small and medium-sized businesses. We will explore how ESG can help your business manage risks, enhance your reputation, attract and retain talent, and access new markets and opportunities.

This guide will take you through a selection of key ESG topics that you can focus on to create and maximize economic, social, and environmental value for your business. This guide will also provide you with practical steps to establish or refine ESG governance, including identifying management oversight, performing stakeholder engagement, building reporting agility, and thinking strategically.

By the end, you should have a better understanding of what ESG is, why it matters, and how to effectively implement ESG practices within your organization.

So, let's dive in and explore the world of ESG!



Defining ESG

ESG, which stands for Environmental, Social, and Governance, is a framework for evaluating a business's sustainability and ethical impact. Recent developments in this area include an increasing focus on data collection and reporting to measure and disclose ESG-related performance.

ESG represents the key **Environmental, Social, and Governance** topics that businesses manage, measure and report on to create and maximize **economic, social, and environmental value.** ESG should be regarded as a comprehensive approach to the management of businesses and includes many topics that contribute to the long-term success of an organization.

Example topics include:

Environmental

Every business uses energy and resources. Environmental considerations include the business's energy use, waste discharged, resources needed, and impact on biodiversity.

GHG emissions, fleet fuel management, water management, biodiversity, climate change risks and impacts, energy management

Social

Every business has an impact whether it be locally, globally or both. Societal considerations address the relationships businesses have with people and institutions in their organizations, communities and supply chains. Social matters are often separated into social or human capital.

Social capital: human rights, community relations and social impact, health access and inclusion, local employment and community development

Human capital: workforce health and safety, diversity equity and inclusion, talent attraction, retention and engagement, labour practices

Governance

Governance refers to the way a business is managed, including the policies, controls, and procedures to make decisions, comply with law, and meet stakeholder needs.

Business ethics, corporate governance, oversight over ESG, environmental & social impacts of supply chain

Note: Indigenous reconciliation is a topic that spans across all components of ESG and should factor into decision-making in Environmental, Social, and Governance discussions.

Why is ESG important for small and medium-sized enterprises (SMEs)?

Often, terms like CSR, ESG and sustainability, are used interchangeably, although they represent different concepts. This understanding is helpful for small and medium-sized businesses who want to learn why ESG is important for them to consider.

CSR (Corporate Social Responsibility)

A business's **voluntary actions** to improve its impact on society and the environment, which are most often not tracked.

ESG (Environmental, Social, and Governance)

A set of criteria used to evaluate a business's performance in these three areas, to allow for continuous **monitoring and reporting** on progress.

Sustainability

The ability to meet the needs of the present without compromising the ability of future generations to meet their own needs. Sustainability is a **long-term goal** that can be reached through ESG and CSR initiatives.

Why should SMEs consider ESG?

Small businesses make up 98% of all businesses in B.C.. Many of these businesses contribute to the supply chains of larger businesses that are likely required to report and disclose on their ESG progress, including supply chain partners. By beginning to think about ESG, SMEs can prepare to respond to upcoming requests about their ESG progress.

Additionally, ESG can provide many benefits to small and medium-sized businesses as it helps them manage risks, enhance their reputation, attract and retain talent, and access new markets and opportunities.

Note: Small businesses are defined by the B.C. Government as businesses with fewer than 50 employees.

Why is ESG important for small and medium-sized businesses?

Businesses are facing increasing pressure to take action and report on ESG matters, which has been driven by regulations, reputational concerns and more.

External drivers

We are part of a value chain where our suppliers/customers are required to comply with regulatory ESG reporting requirements.

Rating agencies are seeking ESG information from our business as part of the rating process.

We are subject to industry specific ESG reporting requirements and/or an industry oversight body is seeking ESG information from our business.

We are entering a sustainability linked loan and/or our financers require information on our ESG strategy to assess business risk.

Our business is considering going public soon and we need to start aligning with regulatory ESG reporting requirements for listed companies.

Internal drivers

To attract a workforce that increasingly values sustainable employers, we want to communicate our actions in this area transparently.

Our business is committed to Indigenous reconciliation and wants to communicate actions taken to build meaningful relationships with Indigenous partners.

We want to attract new customers and partners who value sustainability.

We want to communicate how we differentiate our business through our ESG initiatives and commitments.

How B.C. business sectors and supply chains are impacted by ESG

ESG is impacting all of B.C.'s sectors in varying ways, requiring businesses to think about how they choose to operate in a responsible and sustainable manner. Examples of sectors that are being impacted include Agriculture, Forestry, Mining and Technology.

URGENCIES ACROSS SECTORS

Many SMEs participate in the supply chains of larger businesses both domestically and internationally. Being aware of your sector's impact on ESG and the reporting requirements of your business partners is an important step in your ESG journey.

WHAT DOES THIS MEAN FOR SMES?

By taking proactive steps to understand and address ESG issues, SMEs can meet the expectations of business partners, improve their own sustainability practices, maintain positive community relationships and ensure reporting compliance.

SECTOR-SPECIFIC TOOLS

There are different ESG reporting frameworks and standards that exist across sectors. The Sustainability Accounting Standards Board (SASB) and Global Reporting Initiative (GRI) provide sector-specific guidance *(see page 19 for more information).*

Example impacts of supply chains on B.C. business sectors.

Agriculture
Sustainable agriculture practices that minimize environmental impact are on the rise, such as limiting pesticide use, conserving water, and protecting biodiversity. This places a renewed focus on responsible sourcing and business practices for the sector.

Forestry
British Columbia businesses, including those in the forestry industry, have a responsibility of effectively integrating the rights of Indigenous peoples. By doing so, they can promote social and economic development through local procurement and supply chains.

Mining
Mining can have significant impacts on air, land, water and wildlife. It is important that businesses consider best practices when it comes to environmental management to ensure a healthy upstream and downstream supply chain.

Technology
A lack of representation is a common issue within the technology sector, and ESG investors are increasingly focused on businesses that prioritize diversity and inclusion. This is informing the selection of partnerships in both domestic and international supply chains.

ESG is impacting B.C.'s key sectors and the supply chains that service them as stakeholders are increasingly looking for greater transparency and accountability, in addition to the implementation of sustainable practices and social responsibility initiatives.

Setting your business's ESG direction

There are three elements that your business may consider to enable goal setting, integration with business priorities and processes, and continuous improvement.

Core elements to set your ESG direction

1. STRATEGY

Determining your business's social purpose and level of ESG ambition, and then creating goals and targets to focus your ongoing business activities.

2. GOVERNANCE AND REPORTING

Governance of ESG requires clear accountabilities and responsibilities. Key Performance Indicators (KPIs) and data are critical for measuring and tracking your performance against objectives set through strategy efforts.

3. ESG AND CHANGE MANAGEMENT

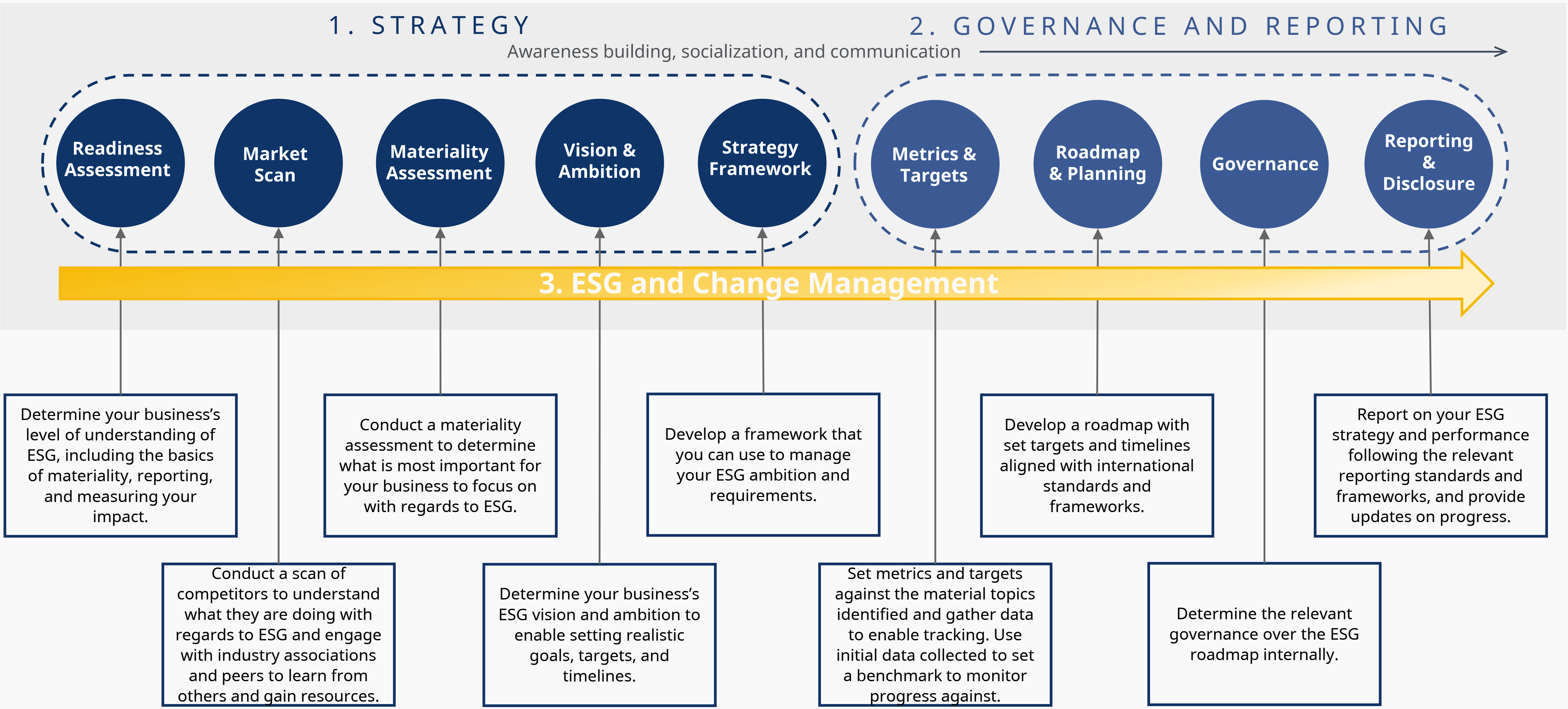
ESG management considers your business's programs and initiatives, systems, broader engagement and culture of your employees. By including change management processes, businesses can minimize the disruption caused by the implementation of ESG initiatives whilst maximizing stakeholder engagement.

- Programs and initiatives (e.g., supplier requirements, environmental requirements)
- Systems and processes (e.g., risk management, technology and innovation, supply chain sustainability)
- Engagement and change management (e.g., culture change, stakeholder engagement, leadership commitment)

The ESG journey

Welcome to the ESG journey

Many businesses are already operating in an environmentally or socially conscious way, and the ESG journey can help them to communicate their advantages using a globally recognized ESG lens.



ESG materiality

Where should I start my ESG journey?

Materiality is the starting point of a business's ESG journey, as it enables them to identify and prioritize ESG issues by engaging key stakeholders.

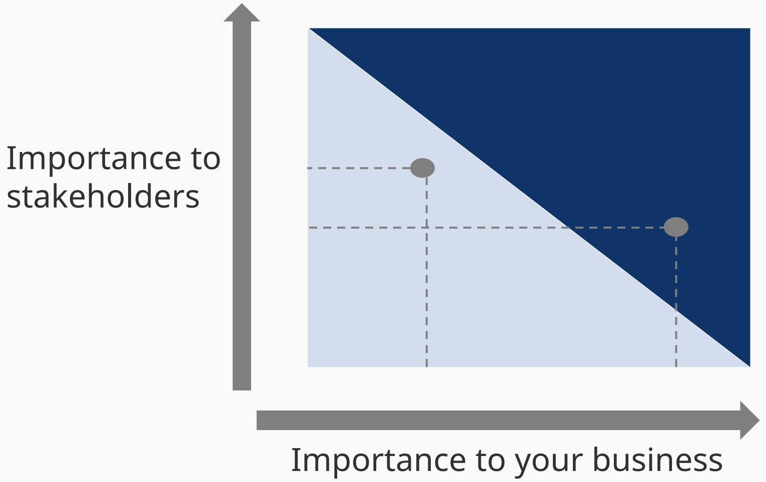
First, lets cover some key definitions:

What is materiality?
The level of significance or relevance of Environmental, Social, and Governance factors to a business's operations and its stakeholders.

What are material topics?
The specific ESG issues that are relevant to a particular business, often used to determine what information should be included in ESG reporting (e.g., GHG emissions, employee diversity, equity and inclusion, etc.).

A materiality assessment involves using feedback from internal and external stakeholders to help identify the most important ESG topics for your business.

Materiality matrices are used to help prioritize ESG topics:



Identifying material topics will enable your business to:

- Understand topics that could affect your business **financially, operationally, or in terms of risk.**
- Report on topics that stakeholders care about in a way that is **consistent, comparable, and reliable**.
- Provide the foundation to create an **informed ESG strategy and plan.**

Developing an ESG strategy based on your materiality assessment

Once material topics have been identified, businesses can use a materiality matrix as shown below to identify the priority ESG topics and where they can make the most impact.

The output of a materiality assessment is prioritized matrix of topics, with the most important topics guiding a business's strategic focus. It is important for businesses to engage the right people in materiality discussions to enable accurate results for prioritization.

Based on **sustainability reporting frameworks**, the **following material ESG topics could be considered relevant to SMEs:**

- Employee engagement, diversity and inclusion
- Health and safety
- Management of relationships with suppliers
- Rights of Indigenous peoples
- Ethical business practices
- Fuel and hydro costs
- Greenhouse gas emissions
- Water management
- Climate change adaption
- Ecological impacts

Illustrative example of a materiality matrix for a small B.C. business

Based on the materiality matrix, this small B.C. business should focus its ESG efforts on employee engagement, diversity and inclusion, health and safety, rights of Indigenous peoples, and ethical business practices.

Measuring your ESG impact

Building your ESG report: how to measure progress on prioritized material topics

Creating a data collection process helps to set measurable ESG targets and make data-driven decisions to track your progress.

Component	Definition	Examples
Material Topic	Key issue that reflects a business's significant economic, environmental, and social impacts; or influences the decisions of stakeholders.	Energy management
Aspiration(s)	Long term desired outcomes. While these may be broad and ambitious, they should also be clear, realistic, and reflect broader corporate strategy/commitments.	Reduce energy use in operations to minimize our environmental impact and promote a culture of sustainability
Target(s)	Defined level of performance that enables the measurable evaluation of objective achievement using indicators.	• Reduce energy consumption by 30% by 2025 • Reduce fuel consumption by 20% by 2025
KPI(s)	Tangible measures used to express the level of performance.	• % of energy consumption reduced • % of fuel consumption reduced
Data collection methodology	Defined process for collecting data efficiently to enable setting measurable targets informed by tangible KPIs.	• Excel based system • Data management system

Setting SMART targets to improve progress tracking

Establishing ESG targets that are Specific, Measurable, Achievable, Relevant, and Time-bound means that targets will be aligned with business ESG capabilities and aspirations, allowing for effective progress tracking.

S – **specific:** The target should be clear and specific, with a well-defined outcome.

M – **measurable:** The target should be quantifiable, so progress can be tracked and measured.

A – **achievable:** The target should be realistic and attainable, given the resources and constraints of the situation.

R – **relevant:** The target should be relevant and aligned with the overall objectives of the organization.

T – **time-bound:** The target should have a specific deadline or timeline for completion, to create a sense of urgency and accountability.

Examples of ESG targets that meet SMART criteria:

1. Reduce our business's carbon emissions by 20% within 3 years by implementing energy-efficient practices, and using renewable energy sources.
2. Increase the diversity of our workforce by hiring 25% more employees from underrepresented groups within 2 years by implementing inclusive hiring practices.
3. Increase employee engagement with ESG initiatives by 25% within 1 year by creating educational material and hosting workshops and events.

Note: SMART goals were originally published in George T. Doran's article, "There is a S.M.A.R.T. way to write management's goals and objectives", in the November 1981 issue of Management Review.

ESG reporting

What is ESG reporting?

Various ESG reporting standards and frameworks exist to guide businesses on what to report and how to do so. These standards and frameworks are largely voluntary. The reporting landscape is evolving as new mandatory, harmonized ESG reporting standards and regulations are starting to emerge.

Examples of voluntary standards and frameworks

ISSB: Example of an emerging mandatory standard

The International Sustainability Standards Board (ISSB)

**The ISSB was formed as a result of the consolidation of the Value Reporting Foundation (which houses SASB and the Integrated Reporting Framework) and the Climate Disclosure Standards Board.*

Which businesses should report on their ESG progress?

ESG reporting requirements can vary depending on a business's size, sector, and partners. For instance, businesses with limited operations, few external stakeholders, and a small environmental impact may not require ESG reporting. However, businesses that aim to export goods may soon be required to provide ESG reporting to their supply chain partners.

Despite not being mandatory for all SMEs, there are benefits to reporting and disclosing in line with ESG standards and frameworks. Reporting enables businesses to monitor their progress towards ESG targets, which can then be communicated to stakeholders. This can help businesses manage risks, enhance their reputation, and attract and retain talent.

What is ESG reporting? (cont'd)

Following the identification of your most material ESG topics you can begin to consider what you will publicly disclose or report on. Below are examples of ESG topics that businesses generally disclose using the standards and frameworks included in the prior page.

When we think of ESG, many people think about climate, but it is more than that.

This diagram illustrates the breadth of topics that ESG covers. These topics interact with all aspects of a business and how it operates.

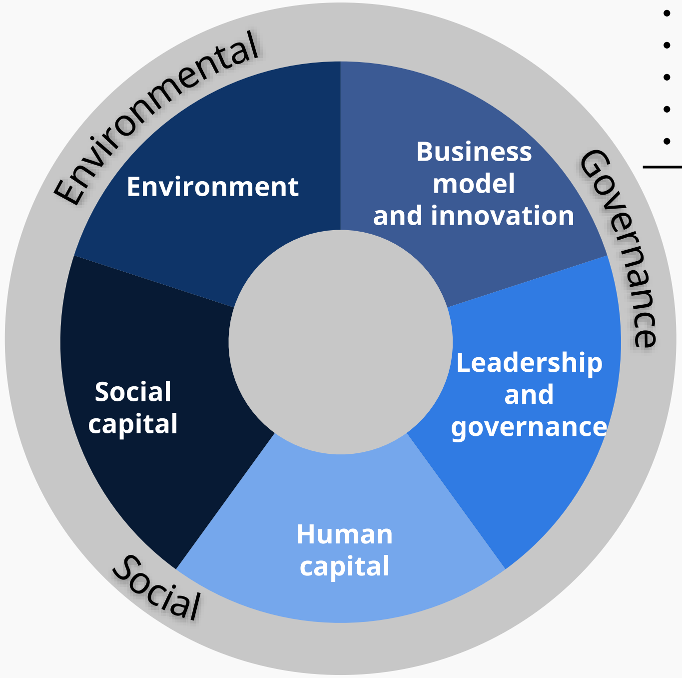
A business would only report on the ESG topics and KPIs that are material to the business and with consideration given to what is typically considered material in its industry.

Environment

- Greenhouse gas (GHG) emissions
- Air quality
- Energy management
- Water and waste management
- Waste and hazardous materials management
- Ecological impacts

Social capital

- Human rights and community relations
- Customer privacy
- Data security
- Access and affordability
- Product quality and safety
- Customer welfare
- Selling practices and product labelling



Business model and innovation

- Product design and lifecycle management
- Business model resilience
- Materials sourcing and efficiency
- Supply chain management
- Physical impacts of climate change

Leadership and governance

- Business ethics
- Competitive behavior
- Management of legal and regulatory environment
- Critical incident risk management
- Systemic risk management

Human capital

- Labor practices
- Employee health and safety
- Employee engagement, diversity, and inclusion

Source: SASB Materiality Map

Final thoughts

Final thoughts

Below are a few final thoughts to consider as your business starts its ESG journey.

1 Establish or refine ESG governance

- Identify management oversight on ESG and define clear roles and responsibilities.

2 Include the right people

- Perform stakeholder engagement, including education on ESG-related risks, data collection, and target setting.

3 Build reporting agility

- Enhance data quality, timeliness, automation, and relevance by standardizing governance and controls to prepare for disclosure and reporting.

4 Think strategically

- Understand disclosure requirements for ESG targets, preparing for transparency on progress and transition plans.

Contact the ESG Centre next to access the Self-Assessment to determine your business's ESG maturity and continue on your ESG journey!

Glossary of terms

Below is a glossary of common terms used when discussing ESG (Environmental, Social, Governance).

Word	Definition
Climate Disclosures Standards Board (CDSB)	An international organization that provides a framework for businesses to disclose environmental information in their financial reports.
Disclosure	Transparent reporting and communication of a business's ESG practices and impacts.
ESG	ESG, or Environmental, Social, and Governance, refers to a set of criteria used to evaluate a business's impact on the environment, society, and its management practices.
Framework	A structured approach or set of guidelines used to assess, measure and report on a business's ESG performance.
Global Reporting Initiative (GRI)	An international organization that promotes sustainability reporting standards and provides guidelines for businesses to disclose their economic, environmental, and social impacts.
Greenhouse gas emissions	The release of gases such as carbon dioxide and methane that contribute to climate change.
Integrated Reporting Framework (IR Framework)	A global framework that provides guidance for businesses to communicate how their strategy, governance, performance, and prospects lead to the creation of value over time.
International Sustainability Standards Board (ISSB)	A proposed global standard-setting board that aims to develop sustainability reporting standards for businesses.
Materiality	The level of significance or relevance of Environmental, Social, and Governance factors to a business's operations and its stakeholders.
Reporting	The process of collecting, analyzing, and communicating information about a business's ESG performance and impacts.
Standard	A set of guidelines or criteria that businesses follow to ensure their practices meet certain ESG expectations.
Sustainability	Meeting the needs of the present without compromising the ability of future generations to meet their own needs, often encompassing environmental, social, and economic considerations.
Sustainability Accounting Standards Board (SASB)	A non-profit organization that develops industry-specific standards for the disclosure of financially material sustainability information in corporate filings to the SEC.
Taskforce on Climate-related Financial Disclosures (TCFD)	A framework for businesses to disclose climate-related risks and opportunities in their financial reporting.
United Nations Sustainable Development Goals (UN SDGs)	A set of 17 global goals to achieve a sustainable future for all.
Value Reporting Foundation (VRF)	A global organization that aims to advance sustainability and corporate reporting standards.