ESG MADE EASY

ESG - Frequently Asked Questions

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ESG Frequently Asked Questions

Following a recent webinar hosted by Barbour EHS, we collated some of the most frequently asked questions around ESG. Below, VinciWorks' experts, Nick Henderson-Mayo and Alona Stern, answer those questions.

We will continue to update this document as we field more questions on ESG.

1. What is ESG?

ESG – Environmental, Social and Governance – is the hottest acronym in the business world. The term is crowding out the old CSR (Corporate Social Responsibility) approach in favour of a more holistic view that considers a broader set of topics and KPIs ranging from a company's carbon footprint to their health & safety data, diversity metrics and more.

2. What is an ESG gap analysis?

An ESG gap analysis is VinciWorks' tech-enabled tool that helps a company understand their current ESG efforts and compare them to its goals. Conducting an analysis like this on a regular basis can help identify key risks, what efforts are working well and where you should invest more time and resources.

When conducted alongside standard ESG reporting and disclosure requirements, the gap analysis is a powerful tool to help refine your planning and develop your blueprint for the future.

3. How do you get started on ESG?

Start by putting together an ESG committee. Spend some time making sure you have the right people around the table, that you have board buy-in, and have a clearly defined output such as annual report pages or a specific ESG report. Then start looking at the data you do have. Identify missing policies and procedures you should have in place. Figure out your social commitments and diversity measures, and decide how you are going to track and report on all this. It might start with a spreadsheet, but things will soon get more complicated and at that point, it would be time to think about a system like our ESG reporting and tracking tool which can track and report on all this data for you.

4. What is an ESG materiality assessment?

Materiality means that a particular ESG factor has a significant (or material) impact on a particular company. Some ESG issues might be material for companies in a specific industry (e.g. water stress can disrupt the operations of mining or beverages companies, which rely heavily on clean water in their production processes), but not for other sectors (e.g. water stress has little impact on media or financial companies).

Companies and investors perform materiality assessments as a technique for distinguishing between important ESG factors and non-important ones.

5. What do ESG reports look like?

ESG reports typically take one of two forms. Some ESG reports look quite similar to annual corporate reports. Glossy, picture-laden reports, beginning with a letter from the CEO, that taut various ESG initiatives.

6. What's the key difference between the ESG field and the Sustainability field? How can ESG investing impact the way an organisation runs their EHS processes/activities?

Sustainability is one part of ESG – the environmental side. ESG weights the environmental, social and governance sides somewhat equally, meaning a company's social efforts are as important as their governance efforts, and as important as their environmental or sustainability efforts.

It depends on the type of ESG investing. Large institutional investors are weighing up ESG factors in order to better protect their investments, meaning companies with more progress on an ESG programme will be a sounder investment because they are better protected from ESG risks.

There's also the side of internal ESG investment, which is when an organisation spends money on its own ESG programmes and initiatives. Health and safety is one part of the social side of ESG and requires focus, investment and effort in order to meet regulatory guidelines, but also demonstrate how the organisation is going above and beyond to protect the health and safety of their employees.

7. What effect will an increased focus on ESG have on offshore operations for an oil and gas operating company?

Oil and gas have a large environmental impact, so we would recommend a robust carbon emissions programme, alongside strong targets towards net zero. In addition, health and safety and strong governance procedures are also important, or material, in the oil and gas sector. Strong bribery processes are important, as are whistleblowing measures and a laser-like focus on health and safety at all levels. An accident on an offshore operation is likely to significantly impact an oil and gas business, therefore health and safety, alongside the environmental issues, are rightly key for that industry.

8. What does the panel think the new Prime Minister needs to do within the first month of their election to get the UK back on track? And ensure it (we!) has a robust ESG policy?

We've been members of and are following the discussions of the UK's All Party Parliamentary Group (APPG) on ESG. The APPG recently came out with a number of recommendations to standardise ESG reporting for businesses. This is a sensible way forward in order to have more consistent ESG data by implementing standardised ways to report on ESG information such as carbon emissions or health and safety data, in the same way gender pay gap reporting has been standardised.

9. What are the challenges the Pharma industry is facing to implement ESG?

The pharmaceutical industry likely has a strong interest in health and safety issues, as well as supply chain issues. The health and safety of workers as well as patients and test subjects is likely the most material ESG issue facing the pharmaceutical industry. The supply chain should also be properly investigated to make sure there are no issues of potential human rights abuses, and also any raw materials are sourced from sustainable places.

10. Some are suggesting ESG is broken (Economist) and that a new single focus should be emissions (i.e., carbon) – which is both a limited and flawed approach. What are your thoughts?

ESG is, by nature, a comprehensive approach to the environmental, social and governance factors which can impact a business. The reason ESG is taken together is because an environmental failure can have just as much of an impact on a business as a health and safety violation or compliance failure like a fine for bribery.

The ultimate purpose of ESG is risk mitigation; reviewing potential risk areas for a business, then taking steps to mitigate those risks through improved procedures.

The difference between ESG and standard risk management is that in ESG, these risk mitigation initiatives can be published and even scored between different companies, showing which business is the safer investment.

11. How can we explain the risks of ESG failure to employees, management and the board?

Training is important from the first instance. Ensure everyone is coming from a shared understanding of what ESG is within the context of your business and industry. Then take things a level down; explore the key issues for your business within the environmental, social and governance areas. For example, how would a serious health and safety failure impact on your business? Look at ESG issues from a risk mitigation perspective and consider which are the important areas for your business.

12. My question is how to link EHS with ESG and how to develop your personal skills in ESG as an HSE person?

Health and safety is one part of a wider ESG programme which encompasses governance, environmental and social issues. A robust health and safety programme contributes to a strong social side of ESG which in turn demonstrates the organisation's ESG commitments.

As a health and safety professional, broadening your skills around ESG means looking at the other issues which make up ESG, such as emissions, human resources, and governance compliance.

13. Is there any special certification for ESG professionals?

There are different ESG certification opportunities available, alongside different ESG frameworks which may have their own kinds of certification processes. There is no one-standard ESG system or certification system universally accepted, so whatever kinds of ESG certification someone wishes to undertake would only provide them with the skills offered in that course, not any kind of universal or accredited certificate.

14. How do SMEs stay compliant?

Even if there is no particular requirement on your business to undertake much to do with ESG, for example you are too small to report your gender pay gap, it can still be a good idea to begin an ESG programme.

The first thing to do is set up an ESG committee. Bring together key leads across D&I, H&S, procurement, operations, and ensure there is a board-level commitment to ESG. Then review your organisation's gaps and record achievements.

Once that is complete, you will have the outline of an ESG management programme to focus on addressing the gaps and mitigating ESG risks through initiatives to improve your ESG efforts.

15. How are smaller companies, and very "lean management" companies, supposed to cope with an ever-growing set of demands from large companies for data to support their sustainability and governance requirements?

Especially when the data required by large companies is frequently different between companies, as they all seem to be using different platforms to record data.

This is where having a comprehensive ESG programme will be helpful – and even if you are a small business, pulling together an ESG committee to manage the process will be helpful. Look at the key data you are frequently being asked to provide and use a single system or tool to manage that data. For instance, emissions data, ISO certifications, or policy compliance. Then you will have a single source of truth for the information and can more quickly respond to tenders.

16. I work in Technology Risk Management and we have an ESG program at my company. I am looking for environmental risks and current intelligence data for risk data to support risk analysis and reporting. Does this tool provide real-time industry data?

The tool focuses on your own ESG achievements and initiatives and doesn't offer industry data as yet. However, this may be a feature which is added in the future.

17. Which government department / regulator conducted the investigation into Dairy Crest?

It was the Environment Agency.

18. What is considered a large company? Is it based on turnover or staffing levels?

Companies and LLPs qualifying as large under the Companies Act 2006 are those that meet at least two of the following criteria: (1) Turnover of more than £36m; (2) Balance sheet total of more than £18m; (3) More than 250 employees.

19. How can ESG be used in assessing material risk and putting in place multi-actioning mitigation, bearing in mind that cultures evolve?

An ESG programme will look at all areas of the business, environmental, social and governance factors. If a root cause of an issue is cultural like in Dairy Crest case, a robust ESG programme should be able to identify those cultural issues and have mitigation measures in place to counter that. Whistleblowing for instance, training, human resources, staff engagement surveys. This is why it is important to consider ESG issues in the round and not focus on one narrow area in isolation.

20. Are we going to see some "real-world" consequences for misstatement /misrepresentation of ESG disclosures?

I think we already are, in terms of the £27m in fines levied by the Environment Agency. The issue is partly that there are few accepted standards as yet. However, the US Securities and Exchange Commission is looking at putting some in place, and certain stock exchanges have already done so as a condition of their listing. It is piecemeal, but there are growing consequences for misrepresenting ESG disclosures, and these are likely to be increasingly severe over time.

21. Did the HSE not have ongoing involvement with Greenfeeds after their first fatality in 2006?

I'm not sure of the details of the original case, or why Greenfeeds did not learn from the 2006 case. As far as I understand, however, this is why they engaged with a health and safety consultant (who left the business after a year or so).

22. Did the directors of the pub company just restart under a different name?

I'm not sure if they did or not. They have not been prosecuted or banned from being a director so they may have started a new enterprise. If this is the case, then it would be pertinent for investors to understand the reasons for the MacMerry300 insolvency and have proper ESG measures in place to prevent a repeat.

23. How can a company be transparent when there is a risk of fines, etc. if they have not achieved a target? Surely transparency with an explanation is better than not reporting what you say you will? Targets are not always achieved, but some progress is better than none.

I'm not aware of specific fines for failing to achieve specific targets. ESG targets are generally self-set, unless related to something like an emissions reduction plan which is backed by the government or another entity. The important thing is to be honest and have valid data when reporting on ESG progress, and not making up data. Certainly, progress towards a target is better than no progress at all.

24. What platform do you use for staying on top of the ESG plan?

We recommend using the VinciWorks ESG tool to stay on top of your ESG programme. This allows you to track metrics against your ESG initiatives, record achievements, and prepare for making ESG disclosures.

25. What are the main challenges today that we are facing globally? And future challenges?

Around ESG, the main challenges continue to be the lack of consistency of disclosure requirements. There is no one way to report ESG information or a single system for tracking, comparing or managing ESG information. There are over 600 ESG frameworks which all offer or suggest different ways of managing ESG data. This may become more streamlined in the future, but there is no set out timeline for that to happen. That's why it is best to start with ESG from an internal perspective. Consider what your business wants to do and why.

If I am a company going out to tender, how would I distinguish between potential vendors' ESG strategies?

You could ask them a series of questions such as: do they have an ESG programme? Do they have an ESG committee? Have they published an ESG report? And from there, understand their ESG maturity and what efforts they are making, or have made, or plan to do in the future.

26.What is the difference between ESG and CSR?

Social responsibility initiatives are not only good for the community, they build brand equity and reputation, and enhance client satisfaction. In the last few years, the term 'ESG' (environmental, social and governance) has somewhat eclipsed corporate social responsibility (CSR). This doesn't mean CSR is gone or no longer useful, but it can be helpful to consider CSR in the context of ESG.

Corporate social responsibility (CSR) tends to be about specific, discrete projects that a business undertakes within a community or socially. This might be donating to charities or running development programmes.

ESG is about assessing a company's total net positive impact in the world and taking concerted, defined and measurable action to improve it. It reflects a company's obligations to themselves, the world, and their customers. It impacts the way that a company looks at itself, and the way that others look at the company. And it is about a company's resilience to adapt to changing circumstances with minimal risk.

27. Are there any ESG regulations in force?

The US is going to be announcing their own standards in 2022, and the UK is already mandating the TCFD framework for large businesses. In the EU, there's the sustainable finance disclosure regime as well. But those are regulations mainly around climate, they don't really fit the wider picture of ESG.

You can of course just do what is legally required, only reporting on the emissions you are asked for. ESG is, at the moment at least, not a regulated or required thing for most business. You don't necessarily need to do anything around ESG if you don't want to.

But the reason to do something around ESG is that it demonstrates the positive impact your business can have. It shows stakeholders, particularly clients and employees, that your business is a leader, and it makes you more attractive to the market and to investors. ESG began as an investment tool. It was about large financial houses finding the best investment and reducing their risk. An investment firm like BlackRock looks at two businesses, one that is doing something on ESG and one that isn't. The business with the ESG programme is almost always a better bet because they are understanding the environmental, social and governance risks that can impact their bottom line, and they are taking steps to mitigate the impact with clear commitments. It also marks your business as a leader and to show that your business can attract the best people to work for you.

28. As an employee, how can I get my company to be more ESG aware?

The first step for most companies is to set up an ESG committee if they don't have one. You can encourage them to set up an ESG committee, and volunteer to sit on it or help with ESG initiatives.
The next thing is to encourage training. Training all staff on ESG will help deliver a baseline of information that staff understand. You can also encourage the development of staff reference groups on particular ESG issues such as recycling, diversity, or community involvement.

29. How do you share your good work, avoiding greenwashing?

A specific ESG report can be published which shows progress towards ESG targets, alongside achievements and initiatives the business is undertaking. Alternatively, pages within an annual report can be given over to ESG progress.
Avoiding greenwashing means being honest about the environment. Honest about your organisation's environmental impact, its energy use, its total emissions, and what the plan is to tackle these and make the business more sustainable.

30. Does 'Social' include anything concerning health and safety? How should the site HSE monthly reports look now?

Health and safety would fall under the social side of ESG. I'm not aware of any ESG requirements from the HSE, as ESG is relatively undefined. You may want to report publicly the information you send to the HSE, such as accident statistics, or aggregate these into an annual report.

31. Who is responsible for generating an ESG Report?

Usually the ESG lead, but an ESG consultant can also produce an ESG report or the ESG committee might put it together or feed it up to the annual report lead.

32. Is training employees on environmental sustainability a legal requirement? Or will it be?

I'm not aware of sustainability training being a legal requirement. It is certainly a worthwhile endeavour, and more training around environmental issues may become more expected in the future. It's a good idea to consider sourcing environmental and ESG training or understanding if this is offered by your current training provider.

33. What counts as "social" in ESG?

Social includes things like health and safety, equality and diversity, the gender pay gap, anti-harassment, mental health, workplace ethics, human rights, promoting trade unions, fighting modern slavery, volunteering, charity work, donations, and involvement in the local community.

The social data you might want to track and report on is the same. Accident statistics, your gender pay gap, diversity data, number of volunteering hours staff undertake, how much your business donates to the local community, partnerships with voluntary organisations, things like that. But also, do you have a code of ethics? Is everyone trained on the code? Do you have a human rights programme? Do you promote human rights in your supply chain? Do you promote and encourage staff to join a union? Do you have good relations with the union? Social is essentially about being a good employer and being a good corporate citizen.

34. What is ESG investing?

ESG investing is when investors, institutional or individual investors, make investment decisions based on ESG factors. They are allocating their portfolio based on companies that are rated higher on ESG than others. Those in the S&P ESG 500 index, for example, or those who publish an ESG report alongside their annual report. This is where ESG ratings come in.

ESG ratings are scores given by ratings agencies like Bloomberg or S&P. The ratings agency reviews a company's ESG performance across all the areas we've been talking about, emissions, accidents, unions, diversity, governance, and provides an overall score which is designed to help investors make more informed ESG decisions.

35. How do we demonstrate our ESG compliance to our customers and wider prospects?

Probably the best way is to publish an ESG report. This would really be a summary of what you're doing around ESG, achievements you've already made and initiatives you might have set. Also, any targets you've set, and your progress towards those targets.

An annual or six-monthly ESG report is a great way to get a picture of what you're doing around ESG. Let's say you had a target to get to 40% women on the board within three years. You can regularly then report on how well it's going to identify potential candidates, put them through a training course for instance, invite more women for board interviews, have an all-female shortlist – whatever it is you're doing to get there.

36. Who do I need to prove our ESG activities to?

Nobody, at least at the moment. For the vast majority of companies, ESG is largely voluntary. But that is changing, and we're seeing more and more regulation. For example, modern slavery statements are mandatory for companies with over £36m in turnover, pay gap reporting is mandatory for many organisations, emissions data is required for larger businesses. Bribery compliance and sanctions compliance should be undertaken by every business because of the severe risks in fines and prosecutions if there are no adequate procedures to prevent bribery or if sanctioned entities attempt to do business with you. This is all part of a comprehensive ESG programme, and it is worthwhile exercise to show investors, staff, and other stakeholders.

37. What would you say are the key topics in ESG? There seem to be hundreds and I'm getting a bit lost in it. It seems there is so much to start with at once.

It's true there are hundreds. Some of the ESG frameworks like GRI have over 500 data points they expect disclosures on. That's why we've reviewed everything that ESG could possibly cover and divided it into 41 goals which will fit across industries. We think this is much more manageable, but also a bit more detailed than just the handful of issues which are discussed by the

UN sustainable development goals, for instance. We wanted to strike a balance between the breadth of ESG, but also what is manageable and achievable for companies. Plus, we wouldn't expect any business to take on all 41 goals at once. That's why we keep the number to about a dozen, fifteen or so, and identify achievements and initiatives underneath those particular goals to keep things manageable and not overwhelming.

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39. Where can professional services firms have the biggest ESG impact?

I think it is easy for professional services to get bogged down in what are relatively small amounts of emissions. The bigger impact they can have is in the social sphere. Pro bono and volunteering hours. Giving advice to charities or to people who need it and otherwise can't afford it. Redirecting some of your spending towards ethical enterprises and investments. Something as simple as using recycled office furniture or donating equipment that you don't need to people who need it can be a great social impact. Also, in hiring and recruitment, actively going out to underrepresented communities. Building links with local schools and colleges, offering work placements and training opportunities to those who would otherwise not have them. Those are really attractive social initiatives because they demonstrate to stakeholders the positive good your business is having on the world. And you can be creative in these things – as long as the data is measurable. For example, you offer three work placements to a local college one year, five the next, and 10 the third year. Or have a five-year goal of 10,000 hours of pro bono work.

For professional services and for smaller or medium-sized enterprises, use the influence that you do have to make a difference.

40. How can you create consistency in compliance when the legislative/good practice landscape is changing at such a pace?

We recommend aiming for standards above the basic requirements of any regulation. Let's take modern slavery for an example. Companies with a turnover above £36m are required to publish a statement, but we would recommend all businesses do so. Same reason why a company might decide to sign up to a living wage pledge. They might be able to only pay the national minimum wage, but ensuring all workers are paid at least the living wage, then extending that out by requiring all your suppliers to affirm to paying the living wage as well, gets to the heart of what ESG is all about. It's about showing the business as a force for good in the world, not a race to the bottom.

41. ESG in Human Resource Management - what are we responsible for?

Human resources are likely responsible for a lot on the social and governance sides of ESG. Policy compliance for one, making sure the business has all the correct policies in place. But also making sure everyone has access to those policies. You might use a policy tracker, for example, to ensure everyone reads and signs it once a year. Making sure everyone has a contract, everyone's aware of their basic rights, that people get paid correctly and on time. These are some of the critical areas to make sure you're getting right first of all.

Then it's all about what you want to do to stand out from the crowd. Are you going to be the first in your industry to commit to a living wage, for example? Or are you going to commit to greater diversity across the business? Or you might work on providing more benefits to more employees, undertake engagement surveys, form an employee representative council if there isn't a union. There's a lot that human resources can contribute to in the area of ESG, but start with ensuring the basics are covered, and then you can think about how to go beyond that.

42. Can you recommend any introductory courses that all SHEQ professionals should take to give them a basic understanding of/introduction to ESG?

We have various training courses on ESG. We also have courses on climate change, and code of ethics as well which cover a lot of the ESG topics in more detail. You can go to vinciworks.com/esg and preview all of our training courses there.

43. What metrics can professional service firms use to meaningfully report on environmental impact?

There's plenty within just how the business operates to consider. Lighting, waste, recycling, cycle-to-work schemes, renewable energy, carbon offset travel, there are plenty of initiatives there that even an office-based firm can reduce their environmental impact. It's about looking through it from your own perspective and understanding where your business is and what to do next.

44. What does ESG stand for, how did it start and what does it cover?

ESG stands for Environmental, Social and Governance, and in essence covers all of the potential risk areas for a business. It deliberately combines rather diverse issues like carbon emissions, labour relations and corporate governance programmes to demonstrate that a business is a sound financial investment, and isn't going to be waylaid by a scandal or poor business practices.

ESG was pioneered by institutional investors creating a set of standards to help stakeholders understand how an organization is managing their risks and opportunities related to these criteria. For investors, ESG has significant implications. Let's compare two extreme scenarios just to illustrate. For example, two mining companies: the first does nothing when it comes to sustainability or protecting the environment. It also has poor working practices, with employees frequently striking, and it has even been investigated for bribery cases.

The second mining company has sustainability weaved into and throughout their business. It ensures its workers have the highest levels of health and safety protection, and it has a world-class corporate governance programme that goes above and beyond the legal minimum in every country it operates in.

If you're an institutional investor, then it's clear which company is the sounder long term investment. Even if the first company in the mining example has a higher profit margin, it only takes one incident, one investigation or one unresolved strike for that first business to be hit with a massive fine, chased out of a crucial location or even face insolvency. Poor ESG practices won't just affect the reputation of a company, they can even lead to a business being wound up.

Many of us are familiar with CSR - Corporate Social Responsibility. ESG is different and more expansive than CSR, covering environmental tracking and target setting, policies and procedures, the makeup of your workforce, your board structure and more.

Another crucial element of ESG is understanding companies' supply chain, through the lens of managing risks - such as disruptions to your supply chain. In the mining example, if you purchase from the mining company with terrible environmental, social and governance practices, that can present increased risk for your business. If your supply chain gets interrupted because the supplier is facing another strike, investigation or even environmental catastrophe, that has real implications for your production line as well as your bottom line.

45. What has sparked the growth of ESG?

It's not just investor pressure that has sparked the growth of ESG. Companies that are getting ready for an IPO want to make sure they can demonstrate they will be a sound investment. Businesses want to highlight their positive impact on the world for current and potential employees, and to stand out from the competition. Tenders and supply chains are already expecting businesses to have some insight into their carbon emissions and corporate governance.

Although legislation is playing catch up, there are varying pieces of regulation coming through the pipeline which will force businesses to report on ESG matters, and there's talk of increased legislation coming. In the EU, companies will need to have 40% women on their boards within the next few years, and a new corporate due diligence and accountability directive will require businesses to identify the ESG issues in their supply chain. In the UK, the largest companies already have to align to what's the TCFD framework, that's the task force on climate related financial disclosures, meaning they have to measure and report on their carbon emissions and environmental risks. US companies will soon be required to align with a set of ESG reporting standards developed by the Securities and Exchange Commission.

46. Is it mostly large multinational companies that benefit from ESG?

No—aside from the benefits in terms of proactively preparing for coming regulation, making a concerted effort to get started with any kind of ESG programme has tangible benefits for a business of any size and any stage. It's a way to consider your strengths across environmental, social and governance factors, and to do a gap analysis, i.e., to start to think about where some critical gaps are, and what kind of things you should be doing to improve and strengthen the business overall.

A gap analysis not only surfaces areas you need to work on; it can also uncover achievements that you can share with key stakeholders such as employees, customers and suppliers.

When it comes to sharing data, listed companies are increasingly being expected to publish their carbon emissions data - what's called Scope 1, 2 and 3. Additionally, larger UK companies are required to disclose their Modern Slavery statement and their gender pay gap.

47. What does ESG include in terms of emissions?

Going back to emissions, Scope 1 includes emissions from things your business directly owns such as furnaces, machinery, emissions from your owned vehicles. Scope 2 encompasses indirect emissions from purchased electricity, steam, heat and cooling. Scope 3 is the most challenging to calculate as it covers indirect emissions from organization activities, occurring from sources you do not own or control. This includes purchased goods and services, business travel, employee commuting, distribution and more.

Creating a plan to collect and calculate emissions across these 3 scopes should be on your radar whatever your plan is for a broader ESG programme. Start by creating a baseline and then you can think about setting targets to reduce them. Sometimes estimation is good enough.

Even if your emissions are low, it doesn't mean your ESG journey is over. Emissions is one part of ESG that is as broad as recycling, diversity, human rights, compliance and board composition. And you have probably heard materiality referenced when it comes to ESG - which essentially refers to whether or not a piece of information is relevant and important to a company's environmental, social, and governance reporting.

48. ESG seems big and overwhelming. What's a good way to start?

It helps to prioritise which topics to focus on. For example, if you deal with a lot of data, then cyber security and data protection are going to be highly material topics to your business. The time and attention you should spend on getting that part right will likely be far greater than the time you would spend on land-use risks or trade-union representation. Conversely if you're a mining company, environmental issues and labor rights are going to be much higher on your materiality agenda.

It's worth spending a bit of time focusing in on which particular parts of ESG are most important for you. We'd recommend convening an ESG committee to bring expertise from across the business together to sit down and map out what is most important, and where to focus your energy on. The trick with ESG is there's so much to do it can feel overwhelming, but actually breaking it down and going priority by priority is the best way to tackle it.

Because ESG is generally so undefined, it actually provides some great opportunities for companies to choose the areas that are important to them, and start tracking metrics and even reporting on achievements and initiatives. The important thing though, is all ESG data should be verifiable, trackable and measurable. But the lifecycle of an ESG disclosure doesn't need to be complex. Just as an example, you might start by saying in year one, you're going to begin tracking diversity data across the business. Year two, you'll report on those results and set targets. Year three, you'll implement recruitment initiatives to improve the diversity spread across under served parts of the business. Year four, measure if you have met those targets for improving diversity measures.

Regardless of the topic it's critical to demonstrate you're taking active steps to baseline and track your improvements. And this is relevant for any category of ESG data be it carbon emissions, bribery compliance, recycling or staff benefits. Find your baseline, define the targets you want to reach, track those metrics, implement initiatives to meet those targets and goals, and then report on that data whether within a standalone ESG report, or a section in your annual report. Ideally you are storing all this information all in one centralised system so you have easy access when responding to RFQs or to share with stakeholders

49. How is the 'S' in ESG measured today?

Each of these categories can be divided down a bit further and then see what is relevant for your organisation. So for Social, most organisations will need to look at the side of their human resources, including employees, turnover etc, equality and diversity, training, health and safety, community involvement, policies, ethics and human rights. Then you can go down another level to understand what to measure. So you're measuring yourself against these things and then setting commitments to improve.

50. Where can a company be rated for ESG by an external provider?

ESG ratings are similar to credit ratings - the way these scores are calculated is proprietary to each ratings agency and are based on what companies disclose - a combination of publicly available information such as a company's ESG report, and human analysis. There are six ratings agencies that have emerged as market leaders, such as Bloomberg, and S&P. Each of these companies uses different methodologies to determine a company's ESG score.

51. When should you hire an ESG consultant and what do they do?

ESG consultants help companies determine what actions they should take to improve and build on their ESG efforts. They can undertake risk assessments, due diligence and impact assessments, as well as help prepare reports and measure impacts.

But hiring an ESG consultant is not enough in and of itself. An ESG consultant who does not have the executive team's backing or does not have significant authority or resources to operate will not be successful. Indeed, hiring an ESG consultant but doing nothing else to embed sustainability into the organisation could be a sign of "greenwashing," where companies spend time and energy in order to market themselves as sustainable but do nothing to actually change their practices.

ESG consultants are supposed to help your organisation understand ESG, and crucially, work towards an end goal, which usually will be disclosures in an annual report.

52. Some are suggesting ESG is broken and that a new single focus should be emissions (i.e., carbon). What are your thoughts?

ESG is, by nature, a comprehensive approach to the environmental, social and governance factors which can impact a business. A failure in any of the categories can have an impact on the business - not just environmental failures, although much of the attention is being placed on that, but the other categories also present risks - such as health and safety violations or compliance failures such as fines for bribery.

ESG is about risk mitigation; reviewing the potential risk areas for a business, prioritising those risks, then taking steps to mitigate those risks through improved procedures.

The difference between ESG and standard risk management is that in ESG, these risk-mitigation initiatives can be published and even scored between different companies, showing which business is the safer investment.

53. What is a B corp and is it necessary for ESG?

A B Corp is a business that legally commits to profit alongside a material positive effect on society and the environment. B Corps have been quite popular with law firms. They undertake the process with a commitment that is written into the firm's partnership agreement and reported against as the core measure of success for the firm, as opposed to profits per equity partner.

B Corps began in the US around 2006, and have grown to over 4,000 members in 77 countries, with over 500 B Corps in the UK. Famously, the clothing company Patagonia is a B corp.

Bates Wells was the first law firm in the UK to become a B Corp in 2015, followed by Radiant Law and Mischon de Reya.

Becoming a B Corp is not a simple process. A company must be audited. Accreditation as a B Corp must be re-sought every two years. The B Corp audit considers factors such as social enterprise and public interest clients, pro bono work, good employment practices and strong environmental procedures such as ISO 14001 certification.

Becoming a B Corp is not required for a strong ESG programme. It may not be appropriate, either, but it can be worth investing in to demonstrate a strong commitment to making a better world.

54. Should professional services measure and report on Scope 4 emissions?

Scope 4 emissions are different from 1, 2 and 3. 1 refers to anything owned, 2 is electricity etc, and 3 refers to the supply chain. Scope 4 is supposed to be this additional layer of reporting covering the clients, i.e., what is your clients' carbon footprint and what are you as their lawyer or accountant doing to help them reduce that?

This is actually where professional services firms can potentially have the greatest ESG impact. For example, a law firm considering whether to take on a polluting client could either say, 'no, we're not going to take them on,' or it could say 'we'll take them on but we're going to advise them on shifting to a lower carbon footprint' and then measure and report on the fact they have had an impact to reduce a client's emissions. There are some law firms who have told us they are actually turning down clients for not meeting their due diligence, a bold but brave step that can be taken. Proactively encouraging clients to consider ESG issues, sustainability and the environment is where professional services firms can have the largest impact. It may feel awkward in some respects, but clients engage professional services firms to keep them on the right side of the regulatory agenda.

Sooner or later, no business will be able to operate without a carbon reduction plan or a commitment to net zero. Professional services firms can take a proactive step to share skills and experience to support clients to make the necessary shift towards ESG.

55. If I am a company going out to tender, how would I distinguish between potential vendors' ESG strategies?

You could ask them a series of questions such as: do they have an ESG programme? Do they have an ESG committee? Have they published an ESG report? And from there, understand their ESG maturity and what efforts they are making, or have made, or plan to do in the future.
Thats at a simple level, and a more advanced level you can do an ESG due diligence process, and really get into the details of what and how the potential vendor is doing on ESG. That's where having your ESG data readily available is going to be very useful and makes the tendering process a lot less painful.

56. Which is the best ESG framework to use?

So actually there are hundreds, and what's best will depend on what kind of business you are and what you want to do. Unless you're a very large organisation, you probably don't need to align to a framework just yet, but I would say a good one to look at for most firms is TCFD, the task force on climate related financial disclosures. Once you've done that you can also undertake a CDP assessment, that's the carbon disclosure project, and it will give you a public score on your sustainability efforts. GRI is a very comprehensive framework which is particularly useful for large multinationals or those involved in some kind of product, and SASB is another good one for professional service firms or those in the services sector. We have a dedicated guide to each of the frameworks that you can download and read and have a look at which is best for you.

57. What is the GRI frameworks?

Yes. GRI started out with a focus on environmental issues but has expanded to cover governance, human rights and social issues since it was first launched in 2000. It's actually got a lot of useful information companies can use to benchmark themselves against because it has over 63,000 reports available from companies who have reported against GRI. So there's a lot to compare yourself to.

58. Who is GRI good for as a framework?

Really any size business in any industry. It's also a good starting point, because you can see what is relevant to your business. Although it is hefty and it does take a lot of work and actually needs quite a bit of data to make some progress, so it's not necessarily the quickest or easiest undertaking, but it is probably the most comprehensive.

59. What would a GRI disclosure look like?

It could be a broad response, such as, "Provide a statement from the CEO about the relevance of sustainability" or it could be something more specific such as "Report the gender breakdown of employees by their earnings". Those are a couple of examples of general disclosures.

GRI includes a lot, actually, and we have incorporated GRI and other frameworks into the VinciWorks ESG solution.

60. How do we begin creating an ESG policy?

So we actually have an ESG policy on our website you can download and customise right now and put that in place. A policy is just a document that sets out your strategy, so if you aren't sure what you're wanting to do on ESG or what you want to achieve, having a strategy session is a good place to start. For many businesses getting an ESG committee in place and then just reviewing the kinds of data you have easily available, like diversity data, HR data, emissions data perhaps, is a good place to start. Have a think about materiality, what's important to you as a business, then also what kind of achievements you've already accomplished on ESG, as most businesses are already doing more than they think, and then consider what times of initiatives you want to have in place. This is where our gap analysis process can help as we conduct a number of interviews with your key stakeholders and deliver an unbiased, independent report with dozens of achievements that you can disclose, and potential initiatives you could consider implementing.

60. How regularly should organisations review their ESG policies? For organisations such as a small charity, this is actually a considerable task.

It depends on what you are reviewing your policies for. At minimum, having a look at it annually is probably reasonable for a smaller organisation. But you do want your policy to reflect your practice. So if you start to make disclosures when you weren't before, or you begin aligning to a framework or do something else more significant, it might be worth reviewing the policy and making sure it is aligned with your practice.

VinciWorks' ESG resources

Guides

» ESG – What businesses need to know
» Implementing an ESG programme

Policy templates

» ESG policy template

ESG products

» ESG gap analysis
» ESG End-to-End Solution

Barbour's ESG resources

Training modules

Health & Safety | Environment & Energy | Mental Health & Wellbeing | Fire & Security | eLearning | Estates & Facilities Management | International

Free downloads

- Safety Culture Directors Briefing
- Your Carbon Footprint Toolbox Talk
- Stress in the Workplace Directors Briefing